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Results

The York Timber Organisation Limited

(Registration number 1916/004890/06)

Share code: YRK

ISIN: ZAE000008108

("York" or "the Company" or "the Group")

INTEGRATION OF ACQUISITION BOOSTS YORK'S RESULTS HIGHLIGHTS

- Revenue up 136% to R929 million
- EBITDA up 267% to R152,7 million (2006: R41,6 million)
- Operating profit up 540% to R270.6 million (2006: R42.3 million)
- Log and lumber prices substantially up in long term SA timber shortage
- Fair value adjustment to plantations of R239.9 million
- Fully diluted headline earnings per share up 20% to 323,4c (2006: 268.5c)
- Cash generated by operations grew 654% to R60.4 million (2006: R8 million)
- Global Forest Products acquisition completed in July 2007, making York the largest integrated forestry and sawmilling company in South Africa
- BEE ownership increased to 27%

Forestry products group York has produced robust results for the 12-month interim period to December 2007, despite rapidly escalating raw material (saw log) prices and a modest slowdown in the demand for timber finished products (lumber). During the period, the integration of Global Forest Products (GFP) was completed and revenue rose 136% to R929 million (2006: R394 million), while profit from operations grew 540% to R270.6 million (2006: R42.3 million). Headline earnings per share were 335c, up 25% over 2006 (268.5c). After accounting for the fully convertible preference shares issued in two BEE transactions in February 2007, fully diluted headline earnings per share improved by 20% to 323,4c (2006: 268.5c). In the period, York's plantations were revalued by R239 million, based on the standing value method.

As a result of the severe plantation fires experienced in 2007, York's uninsured losses amounted to R106 million, comprising fire damage to plantations, fire fighting costs and damage to stock. Gearing increased to 44,1% from 10.7% in December 2006, due to finance raised to make the GFP acquisition. This finance expense will reduce as the balance sheet degears. Commenting on the results, York CEO Lance Cooper says, "York's acquisition of GFP has significantly changed the size and nature of the company and has resulted in significant increases in revenue and operating profit. We now own sufficient forestry resources to satisfy at least 65% of our own timber requirements. A single, solid platform to manage 60 000ha of plantations, eight sawmills, a plywood mill and a national warehousing network has been built and, with integration complete, we are focused on improving efficiencies and unlocking operational synergies, with major gains expected to be achieved in the next three years."

Market conditions

Turning to market conditions, Cooper says, "The slowdown in domestic construction has impacted the lumber market, with the value of residential building plans passed for 2007 rising by only 5.3% over the previous year. However, home improvements showed strong growth at 11%. In the period, South African lumber output declined by 2.5% as a result of reduced raw material supplies, which partially compensated for slowing market demand. Demand for plywood is increasing as the construction of stadiums, bridges, hotels and power stations gains momentum."

From now until 2036, industry analysts Crickmay and Associates have forecast annual lumber shortages ranging between 20% and 50% per year. Cooper says these shortages have been compounded by the fire destruction of large plantation areas during 2007. In the period, Komatiland Forests (KLF) continued to close the gap between long term contract saw log prices and spot market prices by raising long term prices

by 20% in April and a further 14% in September. The long term domestic shortage of lumber will mean that South Africa will need to import a large portion of its requirements. "Local prices are expected to rise until import parity is reached and thereafter to track exchange rates and international lumber prices," says Cooper. "Import parity on sawn timber is estimated to be 20% above current prices at an exchange rate of R7.80 to the US dollar. By April 2008, long-term prices will be 36% below spot prices. While the closure of the gap between long term and spot prices is expected to result in import parity being achieved, any further weakening of the rand will raise import parity levels further and result in further timber price increases."

Strategy and prospects

Cooper says that with the GFP acquisition York has achieved its vision of securing a sustainable resource supply. "The inherent value of the plantations provides good investment underpin, with the short to medium term outlook for investment growth positive as log prices rise and processing efficiencies and synergies are unlocked. During the period, York completed a R350 million rights offer to fund the GFP acquisition and a R203 million issue of shares for cash to finance working capital for the merged group. As a consequence, the number of ordinary shares in issue increased from some 11 million to some 78 million and liquidity improved dramatically. Cooper says that in response to market demand, York intends to take measures to further increase liquidity in the future. On acquisitions, he says, "York has the scope and capacity to acquire additional plantations to further reduce its dependence on third parties for resources and will continue to seek such acquisitions. A medium term goal is the acquisition of complementary international companies in order to import York's requirements in the substantial shortfall of timber predicted for South Africa." In conclusion, Cooper says that the prospects for the second half of the year are positive and York expects to maintain its current growth rate as operational efficiencies improve and saw log prices continue to rise.

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