Interim Review 2019

ArborGen HOLDINGS

Dear Shareholder

This Report outlines our performance for the interim six-month period to 30 September 2019. During this period our focus has been tightly on advancing the key initiatives critical to lifting the earnings and cash flow performance of your Company over the next immediate period. We are confident that as these initiatives bear fruit, our earnings and cash flow will lift as a result.

Our commentary for the period is outlined below.

Refined Portfolio

Following the portfolio change which saw the sale of Tenon and the 100% acquisition of the US-based ArborGen business, ArborGen has become Rubicon's sole operating activity. Consistent with this refined business structure and also with our 'One Company' approach, we announced in September of this year that Rubicon Limited would be renamed ArborGen Holdings Limited. Our shares continue to trade on the NZX but now under a new ticker – ARB, and of course also by our new name.

Given our much tighter business focus now, it is appropriate to remind shareholders of ArborGen's business and strategy. In summary -

- *We are the largest global commercial supplier of tree seedlings, specialising in loblolly (US and Brazil), radiata (NZ), and eucalyptus (Brazil and Australia) plantation forestry species.*
- *We are the leading provider of advanced genetics for the forest industry in these regions, operating across the entire technology spectrum offering high-value products that significantly improve the productivity of a given acre of forestry land by enabling our customers to grow trees that –*
  - *Yield more wood (particularly saw-timber) per acre,*
  - *Demonstrate greater consistency, uniformity and quality,*
  - *Grow in a shorter period of time, and*
  - *Are more resilient and disease resistant.*
- *By employing state-of-the-art technology (we spend US$4+m million annually on R&D), we are –*
  - *Developing and expanding ArborGen's pipeline of industry leading advanced genetics, including building a future supply of our high-value premium MCP products in the US, and*
  - *Transitioning our customers from OP genetics to advanced MCP and varietal genetics in the US (our single largest market) which is also where we believe our largest earnings uplift will come from in the future.*
- *Our MCP seedling production is projected to grow significantly as our large, younger and more advanced seed orchards approach their maximum seed yielding years - the direct result of investments made in expanding our MCP orchard capacity 5-10 years ago –*
  - *ArborGen's MCP seed production is projected to more than triple from the current 90 million up to ~300 million seedling equivalents by 2025,*
  - *Allowing us to meet the growing demand for these products (we are currently supply constrained),*
  - *… and build sufficient buffer inventory to counter any adverse weather events.*
- *Our production assets are located across the US Southern forestry region, NZ, Brazil and Australia comprising:–*
  - *17 seedling production nurseries (8 in the US, 6 in NZ, 2 in Brazil and 1 in Australia), and*
  - *9 seed producing orchards (6 in the US and 3 in NZ)*
  - *… with an overall production capacity of circa 400 million seedlings in the US-South, 25 million in ANZ and 90 million in Brazil (including outsourced production in Brazil and the US).*
- *We have extensive field trials throughout the US demonstrating the performance of our advanced genetic products, which have been developed using unique intellectual property from a proprietary genetics database representing the combined forestry genetic history of our three predecessor companies – Fletcher Challenge, International Paper and WestRock.*
- *We service over 1,000 customers each year across a range of market segments, including selling to the large industrial and diversified private markets.*

Achieving Goals

With the core building blocks for ArborGen firmly in place, our focus is now on progressing the critical strategic, operational and financial goals we have set for the business –

- Expanding our footprint in a capital-light manner in our core growth regions,
- Continuing to invest in developing and expanding our portfolio of proprietary advanced genetics,
- Improving cash flows by streamlining operations and improving asset utilisation, and
- Mitigating the financial impact of adverse climatic events.

Expanding Our Footprint

United States

In our largest and most critical market segment – the US, sales orders are at record levels this year, and we are already sold out in many product categories. Subject to the normal weather caveats, we expect to report record total seedling volumes and revenue for the current fiscal year.

These higher sales have been enabled by expansion in our US nursery capacity. You will recall that last year we entered into an agreement with TexMark Timber Treasury ("TTT") to lease and operate TTT's 30 million seedling nursery in Texas (with the right to acquire the properties in 2023) along with an exclusive multi-year agreement to supply TTT an estimated 15 million seedlings per annum this fiscal year. This followed the execution of a long-term lease for the 30 million unit Taylor nursery from the state of South Carolina in the prior year. Beyond their respective production capacity additions, both these nurseries have also facilitated new sales through integration of the customers these nurseries were servicing into our system, as well as by expanding our market reach in these regions.

Converting customers to our higher value advanced genetics is where the material future earnings growth will come from in this region. In this respect, due to the extensive education activities we have undertaken over the past five years or so, our industrial customers are now well aware of the increased value our advanced genetics offer to them in terms of the economic returns delivered to their forest estates, and we will be working to leverage that understanding into increased conversion. We are now extending our conversion activities into the large private segment (i.e. non-industrial landowners), which comprises more than 50% of the total US seedling market. Our private landowner effort is underpinned by our ABCD strategy – Acquire, Build confidence, Convert, and Defend - which acknowledges that the conversion of private landowners to advanced genetics is a process not an event, and that the very first step is to acquire new customers and gain market share in order to achieve our advanced genetics sales' targets.

Australasia

We are pleased to report that there has been substantial growth in both the New Zealand and Australian markets, as anticipated. With the selling season over in both of these countries for the current fiscal year, we expect to report record unit sales, revenue and profits for the fiscal year ending March 2020. The growth in NZ has been driven by a combination of increased harvesting and reforestation efforts due to the maturing of forestry estates planted in the early 1990s, and the Government's 'One Billion Trees' programme. In Australia, reforestation has increased as the market recovers from the collapse of the Management Investment Schemes earlier in the decade.

Brazil

In Brazil, our sales have increased materially over the prior year as reforestation rates have increased in line with the recovery of the Brazilian economy and as the value of our proprietary products become increasingly clear. Specifically, reforestation rates are increasing substantially in Brazil as increased production of charcoal (for pig iron and steel) and pulp are increasing the eucalyptus harvest levels.

The strategic steps we have taken to build the Brazil business have positioned us well to take advantage of this growth. More recently, these have included –

- The execution of an exclusive eucalyptus genetics license and commercialisation agreement with Gerdau Acos Longos SA (announced in November of last year) which has expanded our eucalyptus product offerings to include Gerdau's high wood density and high yield clones ideally suited for the charcoal and energy markets.
- The lease of a 15 million eucalyptus nursery in Minas Gerais from Brotale (announced in October of this year) which has further expanded our customer base and increased our market reach, especially in the state of Minas Gerais, the largest charcoal producing state in Brazil.

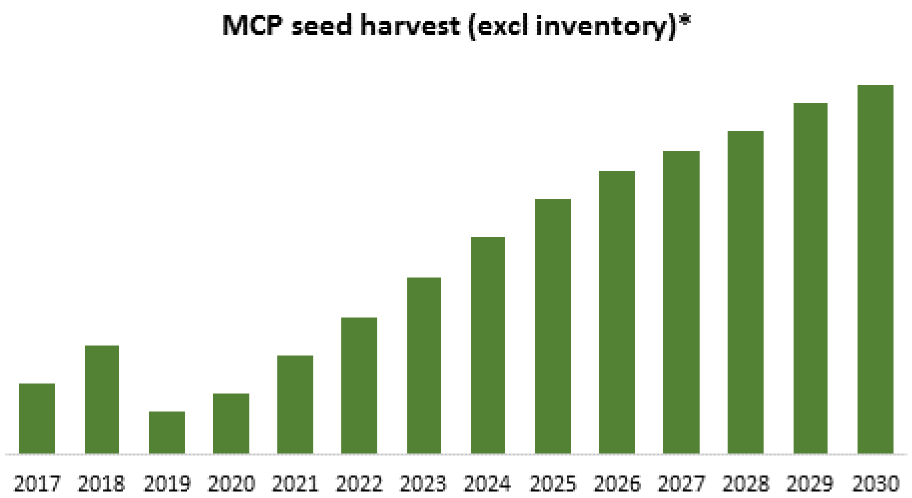
Our pine programme in Brazil also continues to grow albeit from a lower base, and we project double digit growth in volume.

Continuing to Expand our Portfolio of Proprietary Genetics

As noted above, demand for our MCP products in the US has been especially strong this year, demonstrating that more and more landowners are beginning to understand the value that MCP based seedlings offer. This is extremely encouraging, and supports the strong growth in MCP seedling sales we expect to see in future periods as our MCP seedling supply (i.e. production) recovers from the impact of Hurricane Michael.

The effect of Hurricane Michael last year, together with freeze damage experienced in the prior year, have unfortunately constrained our near-term MCP seed supply to a level well below our current demand for these products. However, beyond this immediate timeframe our MCP seed supply will grow dramatically as our large, younger and more advanced seed orchards approach their maximum seed yielding years. This growth in supply is a result of strategic decisions made 5+ years ago to expand our productive base of MCP seed, and which will shortly begin to bear fruit.

The chart below graphically shows our forecast growth in MCP seed supply to support the growing demand trends for our advanced genetics products.



** Years shown are the year of seed harvest, which relates to seedling production in the following fiscal year*

In addition to the volumetric growth in MCP seed supply that this chart shows, at the same time as volume grows, we are also investing heavily in improving the underlying genetics of the MCP seed being produced. We already have three broad performance categories of MCP products, which customers can use to move up the MCP value chain, and over time the genetics within each of these 'good-better-best' categories will also lift as we introduce yet higher-value versions of these advanced genetics products.

Improving Cash Flow

We constantly strive to increase the cash generation performance of our business. In that regard, we continue to work to reduce overhead cost and any non-operational cash expenditures. By way of example, in August of this year we acquired the US property where ArborGen Inc.'s Ridgeville South Carolina headquarters are located. This move has allowed us to immediately decrease our annual cost for this facility by accessing a financing cost lower than the prior annual lease rate. In addition, we made the decision to consolidate our presence at the site and generate some further cash flow by leasing out surplus floor space to a third party hemp company that is establishing a processing plant to take advantage of the growing industrial hemp market in the US southeast. We project that these actions will improve ArborGen Holdings net earnings and cash flow by approximately $1 million on an annualised basis moving forward.

Mitigating Adverse Climatic Events

We are acutely aware that we are an agricultural / biological based business, and that climatic events can adversely impact our performance and that of our customers. Unfortunately, it appears that climate change has increased the frequency of these events, and we are very conscious that we need to be able to mitigate the worst of them. This is nothing new for us, however the recent extreme weather events have heightened the importance of the issue once again. In short, we have in place a four-pronged approach to mitigate these adverse events over the long term, by –

- Spreading the geographic location of our production assets,
- Diversifying our customer base by geography and market segment,
- Growing our seed supply to generate buffer inventory, and
- Modifying our production standard operating procedures to reduce seedling losses.

We will report more on these in subsequent reports to you.

Financial Performance – Current and Outlook

In October of this year we reported as follows in relation to our fiscal 2020 full year performance –

"As a result of market share expansion, as well as continued general market recovery in all of its core markets, this year's unit seedling sales and revenue will be materially higher than prior fiscal year. However, consistent with earlier statements, the severe weather events in the US from last year and earlier this year will unfortunately result in constrained advanced genetics sales this fiscal year (i.e. circa 5% lower than prior year), as well as lower than normal unit seedling margins as these higher weather-related costs are expensed. These weather-related stress events have also resulted in extremely unusual widespread seedling survival issues throughout the US South-eastern region in relation to last year's seedlings, including across some of our customer sites. While we don't believe this mortality issue can be attributed to our seedling quality, the industry has agreed to share the cost of this loss, and accordingly we will have an abnormal expense of approximately US$1 million in the current fiscal year. Having said all of that, we continue to believe ArborGen's US-GAAP underlying earnings will be circa 20% higher[1] than prior year's US$6.1 million result (subject to any uncontrollable factors). And in terms of future performance, we believe we will be reporting double-digit US-GAAP EBITDA next fiscal year, with earnings increasing materially each year in line with our projected MCP seed supply growth."

In terms of the financial period covered by this Review (i.e. the six-month period to 30 September), revenue was up 46%, from $9.7 million in the prior period to $14.2 million. As noted in previous reports, our interim period revenue is not reflective of ArborGen's annual forecast revenue as it does not include the crop lifting and selling season in its largest market (the US), which only occurs in the last quarter of our fiscal year.

For the period we reported an IFRS Net Loss of $3.0 million, inclusive of the full accrual for $2.8 million of abnormal items - i.e. ~ break-even result excluding abnormal items, which included –

- Higher than normal seed costs being expensed in the period due to the severe weather events in the US last year which will result in lower unit seedling margins,
- Cost of seedlings provided to customers this year for seedling losses (see below), and
- Residual ArborGen acquisition costs.

However, as we move forward to the second half of our fiscal year, our focus is now on delivering the full year's results (outlined above in italics). To do so, we will be lifting and delivering a record volume of seedlings to our customers in the US. In that regard, our sales continue to reflect the strength of our product portfolio as well as our strong customer relationships. It is in this context that we chose, on this particular occasion, to assist our customers who suffered excessive seedling mortality losses in the fiscal year 2019 planting season. This decision has significantly improved our already strong customer relationships, and we believe this will serve us in good stead in the years to come.

In Brazil we are focused on integrating the new, leased nursery into our production platform and continuing to work with current and new customers to help them understand the value of proprietary eucalyptus and pine products.

With *Australia / New Zealand's* current year results largely in hand, we are focusing on the production and sale of our next year's crop.

Despite the weather events that have adversely impacted us this year, we still believe we are on track to meet our fiscal 2020 earnings guidance.

As usual, I would like to thank all of our stakeholders for their continued support – it is very much appreciated. I look forward to reporting to you next at the successful conclusion of our fiscal year.

Dave Knott Jr
Chairman

1. *US GAAP underlying earnings is a non-GAAP earnings measure which does not have a prescribed meaning by GAAP, and may not be comparable to similar financial information presented by other entities. Please refer to Note 12 of the 30 September 2019 Interim Review.*
2. *Please refer Note 12 of the 30 September 2019 Interim Review.*

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Income Statement

For the six months ended 30 September 2019

	Notes	6 Months Sep 2019 US$m	Year ended Mar 2019 US$m	6 Months Sep 2018 US$m
Revenue		14.2	49.1	9.7
Cost of sales		(11.2)	(32.0)	(8.1)
Gross profit		**3.0**	**17.1**	**1.6**
Change in fair value of biological assets	4	6.5	0.8	6.7
Administration expense		(8.9)	(16.8)	(8.4)
Operating earnings (loss) excluding items below		0.6	1.1	(0.1)
Inventory provision and extreme weather event related expenses	5	(2.6)	-	-
Restructuring and transaction-related expenses	5	(0.2)	(4.1)	(2.0)
Gain on sale		-	0.5	0.5
Operating earnings (loss) before financing expense		**(2.2)**	**(2.5)**	**(1.6)**
Financing expense		(1.2)	(2.2)	(1.1)
Earnings (loss) before taxation		**(3.4)**	**(4.7)**	**(2.7)**
Tax benefit		0.4	0.5	0.5
Net earnings (loss) after taxation from continuing operations		(3.0)	(4.2)	(2.2)
Net earnings after taxation from discontinued operations		-	(0.1)	(0.2)
Net Earnings / (loss)		**(3.0)**	**(4.3)**	**(2.4)**

Basic/diluted earnings (loss) per share information (cents per share)	(0.6)	(0.9)	(0.5)
Continuing operations	(0.6)	(0.8)	(0.5)
Weighted average number of shares outstanding (millions of shares)	498.6	496.9	488.0

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2019

		6 Months Sep 2019 US$m	Year ended Mar 2019 US$m	6 Months Sep 2018 US$m
Net Earnings		(3.0)	(4.3)	(2.4)
Items that may be reclassified to the Consolidated Income Statement:				
Movement in currency translation reserve	9	(1.2)	(0.8)	(1.0)
Other comprehensive income (net of tax)		(1.2)	(0.8)	(1.0)
Total comprehensive income / (expense)		(4.2)	(5.1)	(3.4)

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Statement of Changes in Equity

For the six months ended 30 September 2019

	Notes	6 Months Sep 2019 US$m	Year ended Mar 2019 US$m	6 Months Sep 2018 US$m
Total comprehensive income		(4.2)	(5.1)	(3.4)
Movement in ArborGen Holdings shareholders' equity:				
Movement in issued capital	8	1.3	-	-
Movement in share based payment reserve		(1.2)	1.3	-
Total movement in shareholder equity		(4.1)	(3.8)	(3.4)
Opening Group equity		147.6	151.4	151.4
Closing Group Equity		143.5	147.6	148.0

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the six months ended 30 September 2019

	Notes	6 Months Sep 2019 US$m	Year ended Mar 2019 US$m	6 Months Sep 2018 US$m
Cash was provided from operating activities				
Receipts from customers		22.5	51.4	20.6
Cash provided from operating activities		22.5	51.4	20.6
Payments to suppliers, employees and other		(24.9)	(47.3)	(23.9)
Cash (used in) operating activities		(24.9)	(47.3)	(23.9)
Net cash from (used in) operating activities		**(2.4)**	**4.1**	**(3.3)**
Sale of assets		-	0.8	0.8
Investment in fixed assets	10	(15.4)	(2.7)	(1.1)
Deferred settlement		-	(10.0)	(10.0)
Investment in intellectual property		(1.9)	(4.7)	(2.3)
Net cash from (used in) investing activities		**(17.3)**	**(16.6)**	**(12.6)**
Debt drawdowns		22.5	9.0	5.4
Debt repayment		(1.4)	(18.9)	(7.0)
Interest paid		(1.1)	(2.1)	(1.1)
Net cash from (used in) financing activities		**20.0**	**(12.0)**	**(2.7)**
Net cash from discontinued operations		-	2.4	2.4
Net movement in cash		**0.3**	**(22.1)**	**(16.2)**
Opening cash, liquid deposits and restricted cash		7.2	29.0	29.0
Effect of exchange rate changes on net cash		(0.1)	0.3	-
Closing Cash, Liquid Deposits and restricted cash		**7.4**	**7.2**	**12.8**
Net Earnings		(3.0)	(4.3)	(2.4)
Adjustment for:				
Financing expense		1.2	2.1	1.1
Depreciation and amortisations		4.3	8.7	3.8
Taxation		(0.4)	(0.5)	(0.4)
Foreign exchange		(0.3)	(0.5)	(0.4)
Change in fair value of biological assets		(6.5)	(0.8)	(6.7)
Other non cash items		(0.1)	0.5	-
Cash flow from operations before net working capital movement		(4.8)	5.2	(5.0)
Trade and other receivables		4.2	(1.4)	4.3
Inventory		(2.8)	(3.7)	(5.9)
Trade and other payables		1.0	4.0	3.3
Net working capital movement		2.4	(1.1)	1.7
Net cash from operating activities		**(2.4)**	**4.1**	**(3.3)**

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet

As at 30 September 2019

	Notes	Sep 2019 US$m	Mar 2019 US$m	Sep 2018 US$m
Current assets				
Cash and liquid deposits		5.4	3.2	8.8
Trade and other receivables		5.0	9.1	3.4
Inventory		39.5	29.4	37.2
Total current assets		**49.9**	**41.7**	**49.4**
Non current assets				
Restricted cash		2.0	4.0	4.0
Fixed assets		49.8	42.7	42.3
Intellectual property		104.6	105.6	106.1
Total non current assets		**156.4**	**152.3**	**152.4**
Total assets		**206.3**	**194.0**	**201.8**
Current liabilities				
Trade, other payables and provisions		(15.7)	(14.5)	(14.0)
Current lease obligation		(1.1)	(0.8)	(0.8)
Current debt	6	(15.1)	(0.5)	(3.1)
Total current liabilities		**(31.9)**	**(15.8)**	**(17.9)**
Term liabilities				
Term debt	6	(23.9)	(16.5)	(21.5)
Finance lease obligation		(4.5)	(11.2)	(11.4)
Deferred taxation liability		(2.5)	(2.9)	(3.0)
Total term liabilities		**(30.9)**	**(30.6)**	**(35.9)**
Total liabilities		**(62.8)**	**(46.4)**	**(53.8)**
Net Assets		**143.5**	**147.6**	**148.0**
Equity				
Share capital	8	202.3	201.0	201.0
Reserves	9	(58.8)	(53.4)	(53.0)
Total Group Equity		**143.5**	**147.6**	**148.0**

Net Asset Backing	US 29 cps	US 30 cps	US 31 cps

Dave Knott Jr
Chairman of the Board

Paul Smart
Audit Committee Chairman

26 November 2019

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

1 BASIS OF PRESENTATION

The financial statements presented are those of ArborGen Holdings Limited and Subsidiaries (the Group) for the six months from 1 April 2019 to 30 September 2019. The financial statements have been prepared in accordance with New Zealand International Accounting Standard 34, and because they are interim statements they do not include all of the information required to be disclosed for full annual financial statements.

On the 30th of September 2019 Rubicon Limited formally changed its name to ArborGen Holdings Limited and also changed its NZX listing ticker to be ARB on that date. Any historical references to ArborGen Holdings refer also to Rubicon Limited.

These financial statements should be read in conjunction with the audited financial statements for the periods ended 31 March 2019 and 31 March 2018, which have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

ArborGen Holdings Limited is registered in New Zealand under the Companies Act 1993, is listed on the New Zealand Stock Exchange, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The presentation currency used in the preparation of these financial statements is United States dollars (US$), rounded to the nearest hundred thousand dollars. Consequently all financial numbers are in US$ unless otherwise stated.

Accounting Policies

With the exception of the adoption of NZ IFRS 16 Leases (as described below), the accounting policies applied are consistent with those applied in the annual financial statements for the period ended 31 March 2019.

NZ IFRS 16 Leases

The new standard replacing the previous guidance in NZ IAS 17 Leases, and is effective for annual periods beginning on or after 1 January 2019 and deals with the recognition, measurement, presentation and disclosure of leases. The new standard introduces a single model for lessees, removing the previous distinction between operating and finance leases, and recognises all leases on the balance sheet through an asset representing the rights to use the leased asset and a liability for the obligation to make lease payments. The new standard aims to provide users of the financial statements relevant information to assess the effect that leases have on the balance sheet, income statement and cash flows of the reporting entity.

The Group reviewed leases where it is the lessee and these leases primarily relate to leases for properties, nursery/orchard land, motor vehicles and plant and equipment.

The Group has used the NZ IFRS 16 modified retrospective approach, with the right-of-use (ROU) asset being equal to the lease liability as at commencement date for all existing leases at 1 April 2019. The Group has made use of the practical expedients available on transition to NZ IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with NZ IAS 17 will continue to be applied to those leases entered or modified before 1 April 2019. Comparative numbers have not been restated.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

The ROU assets are subsequently depreciated using the straight line method over the shorter of the estimated useful lives of the ROU assets or the remaining estimated lease term. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within property, plant and equipment. An additional depreciation expense of $0.4 million has been recognised in relation to the adoption of NZ IFRS 16. The lease liabilities are initially measured at the present value of the unpaid lease payments at commencement date, discounted using a discount rate. Under NZ IFRS 16, ROU assets are tested for impairment in accordance with NZ IAS 36 Impairment of Assets, replacing the previous requirements to recognise a provision for onerous lease contracts.

Key judgment areas in applying the new standards are the discount rate and assessment of whether options to extend or terminate a lease will be exercised. The discount rates used are the Group's incremental borrowing rates (IBR), which reflects the borrowing rates that could be obtained from financial institutions as if the Group had purchased the leased asset, with the term of the borrowing similar to the lease term. The weighted average rate applied was 5.3%.

As noted, the Group has applied the practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17, using a single discount rate for a portfolio of similar leases and not recognising short-term (less than 12 months) or low-value assets as ROU assets and liabilities. For short-term and low-value assets leases, the Group has opted to recognise a lease expense on a straight-line basis as is permitted by NZ IFRS 16. This expense is presented within cost of sales or administration expense in the income statement.

Reconciliation of lease commitment to opening lease liability as at 1 April 2019:

Operating lease commitments as at 31 March 2019	(4.5)
Effect of discounting using incremental borrowing rates at 1 April 2019	0.9
Recognition exemption for:	
- short-term leases	0.3
- leases of low-value assets	0.1
Extension and termination options reasonably certain to be exercised	(2.2)
Lease liabilities recognised at 1 April 2019	(5.4)

Under NZ IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, for the 6 months to 30 September 2019, the net cash generated by operating activities has increased by $0.6 million and net cash used in financing activities increased by the same amount. Comparative numbers have not been restated. The adoption of NZ IFRS 16 did not have an impact on net cash flows.

2 APPROVAL OF ACCOUNTS

These financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 26 November 2019.

3 USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (refer March 2019 statutory report, note 4, for greater detail). Actual results could differ from those estimates.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

4 FAIR VALUE ADJUSTMENT ON BIOLOGICAL ASSET

	6 Months Sep 2019	Year ended Mar 2019	6 Months Sep 18
Opening balance	1.5	0.7	0.7
Change in fair value of biological assets recognised in income statement			
Fair value change for crop to be lifted in the coming period	8.0	1.5	7.4
Reversal of prior period fair value change	(1.5)	(0.7)	(0.7)
Change in fair value of biological assets recognised in income statement	**6.5**	**0.8**	**6.7**
Closing fair value uplift biological asset	**8.0**	**1.5**	**7.4**

At 30 September only the US crop (which will be lifted prior to year-end, being 31 March the following year) are established and fair valued. This fair value will reverse at year end in March upon sale of the crop. At 31 March 2019, only the Australasian crops was established and fair valued. The Australasian crops are primarily lifted from late May through to September each year.

5 INVENTORY PROVISION, EXTREME WEATHER EVENT, RESTRUCTURING AND TRANSACTION RELATED ESPENSES

In the current period a provision has been recognised to expense an abnormally high seed cost of $1.6 million. This higher than normal seed cost was due to weather events affecting last years' US seed harvest. The weather events had the effect of lowering seed production volume and resulted in an abnormally high average cost per seed produced. This provision returns the seed cost to a normal production cost, or standard cost, per seed.

The extremely unusual and widespread seedling survival issues occurring throughout the US South-eastern region, affected the survival of some of last year’s seedlings, including across some of our customer sites. While we don’t believe this mortality issue can be attributed to our seedling quality, the industry has agreed to share the cost of this loss, and accordingly we will have recorded $1 million as an expense in the current fiscal year to assist customers to replace lost inventory.

The transaction related cost of $0.2 million in the current period, is the final expense under the ArborGen retention plan put in place when ArborGen was acquired in June 2017. The final $1.0 million cash payment (under the retention) plan was paid in July 2019. Prior periods include costs relating to the retention plan together with severance expenses under the One-Company programme (March 2019: $1.0 million for retention plan and $3.1 million severance, September 2018: $0.5 million for retention plan and $1.5 million of severance).

6 CURRENT DEBT AND TERM DEBT

At 30 September 2019 the Group had debt facilities with the following banks: Synovus Financial Corporation (Synovus) and AgSouth Farm Credit (AgSouth) in the United States and Westpac New Zealand Limited (Westpac) in New Zealand. In addition the Group has subordinated promissory notes (Notes) (issued to Directors, shareholders and senior management in August 2019) to facilitate the US Ridgeville headquarters property purchase.

ArborGen has a non-revolving promissory note issued to AgSouth for $10.5 million bearing interest at 4.95%, with a maturity date of 1 May 2036, which is secured against ArborGen's US real estate properties. Annual principal repayments of $0.6 million are due 1 May each year.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

ArborGen's revolving facility agreement with Synovus is a $17 million letter of credit (LOC) facility, which is classified as current debt as at 30 September 2019, was favourably amended in October 2019. The amendment extended the expiry from 31 August 2020 to 31 August 2021 and increased the annual 60-day (continuous) pay down maximum borrowing limit (between 1 March and 31 August) to $7.5 million (previously $6 million). In addition, Synovus requires ArborGen to maintain a certificate of deposit (restricted cash) of $2 million (2019; $4 million). The remaining $2 million of restricted cash will be released in August 2020, if ArborGen achieves EBITDA of $8 million for the March 2020 fiscal year (which is unlikely to be met this year). The LOC bears interest at the 30 day LIBOR base rate plus 2.75%, subject to a minimum annual rate of 4.75%, and is collateralised by all the of ArborGen Inc.'s United States assets not otherwise pledged under the AgSouth agreement.

The credit agreements with both Synovus and AgSouth include covenants which require ArborGen to maintain a minimum net worth of $27 million and $24 million respectively.

ArborGen New Zealand Unlimited (ArborGen NZ) has a NZ$1.5 million line of credit facility, which is subject to renewal on an annual basis and was increased to $2 million in November 2019.

As part of the acquisition of the US Ridgeville headquarters premises the Group has two new financing facilities. The first is represented by the Notes issued by ArborGen Inc to related parties (being Directors, shareholders and senior management) for $2.88 million. The Notes are fully subordinated to all bank debt, repayable at maturity (August 2022), and due to their subordinated nature attract a 7% per annum interest rate, payable six monthly in arrears. Independent advice at the time of issuance has confirmed that the interest rate and terms were reasonable to the Company (refer to note 11).

The second new facility, drawn through Rubicon Industries USA LLC (RIUSA), is a $11.5 million mortgage from Synovus, which is secured by headquarters land and buildings. The mortgage is a seven-year term facility, based on a 20-year amortising loan, incurring interest at the 30-day LIBOR base rate plus 2% (currently 4.04%). The Group has entered into a seven-year interest rate swap, with terms that match that of the mortgage, at a fixed rate of 3.52%. The mortgage requires RIUSA to maintain a debt service coverage ratio of not less than 1.25:1 for the trailing 12 months.

At 30 September 2019 the Group held cash and liquid deposits of $7.4 million (including restricted cash of $2 million on deposit with Synovus) (2018: $12.8 million, including restricted cash of $4 million) and had debt of $38.9 million and lease liability of $5.6 million (being predominantly leases formerly classified as operating) (2018: $24.6 million of debt plus $12.2 million of lease obligations).

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

7 SEGMENTAL INFORMATION SUMMARY

The Group has only one reportable segment, being 'forestry genetics'. Each of the primary statements reflects the full segmental operations, with discontinued operations disclosed separately in both the income statement and statement of cash flow.

Forestry genetics	**6 Months Sep 2019 US$m**	**Year ended Mar 2019 US$m**	**6 Months Sep 18 US$m**
Operating revenue	14.2	49.1	9.7
Net earnings (loss) after taxation from continuing operations	(2.2)	(0.2)	(0.5)
Total assets	206.1	192.1	195.7
Liabilities	(62.4)	(45.9)	(52.7)
Reconciliation			
Discontinued operations			
Net earnings after taxation	-	(0.1)	(0.2)
Total assets - discontinued	0.1	0.1	-
Corporate			
Net earnings after taxation	(0.8)	(4.0)	(1.7)
Total assets	0.1	1.8	6.1
Liabilities	(0.4)	(0.5)	(1.1)
Total Group			
Operating revenue from continuing operations	14.2	49.1	9.7
Net earnings (loss) after taxation from continuing operations	(3.0)	(4.2)	(2.2)
Net earnings after taxation from discontinued operations	-	(0.1)	(0.2)
Total assets	206.3	194.0	201.8
Liabilities	(62.8)	(46.4)	(53.8)

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

8 CAPITAL

Share capital	Refer to note	Sep 2019 US$m	Mar 2019 US$m	Sep 2018 US$m
Share capital at the beginning of the period		201.0	201.0	201.0
Issue of shares (1)	9	1.2	-	-
Vesting of shares - non executive directors share plan (2)	9	0.1	-	-
Share capital		202.3	201.0	201.0

Number of shares		Sep 2019	Mar 2019	Sep 2018
Opening shares on issue		489,574,393	487,908,343	487,908,343
Issue of shares (1)	9	9,000,000	-	-
Issue of shares (2) (3)	9	820,998	1,666,050	1,666,050
Closing shares on issue		499,395,391	489,574,393	489,574,393

Treasury stock		Sep 2019	Mar 2019	Sep 2018
Opening shares on issue		1,666,050	-	-
Issue of shares (2) (3)	9	820,998	1,666,050	1,666,050
Vesting of shares (2)		(555,348)	-	-
Closing treasury stock shares on issue		1,931,700	1,666,050	1,666,050

(1) Pursuant to the settlement agreed with the former CEO and CFO on 29 March 2019, ArborGen Holdings allotted and issued nine million new ordinary shares in two tranches, four million on 1 April 2019 and five million on 30 May 2019.

(2) In accordance with the shareholders resolution passed at the ArborGen Holdings Annual Shareholders' meeting held on 17 September 2018, on 18 September 2018 ArborGen Holdings issued 1,666,050 new shares to the Rubicon Non-Executive Directors Share Plan (the Trust). The Trust holds the shares on behalf of the three Directors (Tom Avery, Ozey Horton, and Paul Smart, equally) until the vesting terms are met. The shares vest, to each Director, in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2018), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holdings shares of NZ27.01 cents per share, for a total value of NZ$450,000. These shares are accounted for as treasury stock until vesting, and the share based transactions are recorded in the share based payment reserve. On 18 September 2019 the first tranche of 555,348 shares vested to the three Directors (185,116 each) (refer to notes 9 for share based payment information).

(3) In accordance with the shareholders resolution passed at ArborGen Holdings Annual Shareholders' meeting held on 17 September 2019, on 18 September 2019 ArborGen Holdings issued 820,998 new shares to the 2019 Rubicon Non-Executive Director Share Plan (the 2019 Trust). The 2019 Trust will hold the shares on behalf of the newly appointed Director (George Adams) until the vesting terms are met. The shares will vest in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2019), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holding shares of NZ18.27 cents per share, for a total value of NZ$150,000. The share based transactions are recorded in the share based payment reserve. These shares are accounted for as treasury stock until vesting (refer to note 9 for share based payment information).

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

9 RESERVES

Retained earnings	Refer to note	Sep 2019 US$m	Mar 2019 US$m	Sep 2018 US$m
Opening balance		(53.8)	(49.5)	(49.5)
Net earnings		(3.0)	(4.3)	(2.4)
Closing balance		(56.8)	(53.8)	(51.9)
Share based payments reserve				
Opening balance		1.3	-	-
Non-executive Directors share plan	8 (2) & 8 (3)	0.1	0.1	-
Non-executive Directors share plan shares vested	8 (2)	(0.1)		
Executive settlement share plan shares vested	8 (1)	(1.2)	1.2	-
Closing balance		0.1	1.3	-
Currency translation reserve				
Opening balance		(0.9)	(0.1)	(0.1)
Translation of independent foreign operations		(1.2)	(0.8)	(1.0)
Closing balance		(2.1)	(0.9)	(1.1)
Total reserves		(58.8)	(53.4)	(53.0)

10 HEADQUARTERS' PREMISES ACQUISITION

In August 2019 the Group acquired the ArborGen US headquarters' premises in Ridgeville South Carolina, for $14.4 million. Prior to acquisition these premises were recognised on the Group balance sheet as a finance lease asset of $10.3 million and as a lease obligation totalling $11.1 million. The acquisition of the premises means that neither the lease asset nor lease obligation are recognised on the Group balance sheet, this de-recognition is non-cash and not shown in the Group cash flow.

11 RELATED PARTY TRANSACTIONS

As part of the acquisition of the US Ridgeville headquarters' premises the Group issued subordinated promissory notes (Notes) to related parties (being Directors, shareholders and senior management) for $2.88 million. The Notes are fully subordinated to all bank debt, repayable at maturity (August 2022), and due to their subordinated nature attracts a 7% per annum interest rate, payable six monthly in arrears.

12 EARNINGS - NON-GAAP MEASURE

ArborGen Holdings shareholders and users of the financial statements are very interested in ArborGen Inc.'s underlying earnings performance under US-GAAP (as well as under IFRS), as that is the result that ArborGen Inc. would report in a US ‘listing’ situation. ArborGen Holdings believes 'US-GAAP underlying earnings' provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by different depreciation policies and debt:equity structures.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2019

In contrast with US-GAAP, IFRS requires the capitalisation of ArborGen's development spend, the amortisation of intellectual property, the accrual of the change in fair value of biological assets on the seedling crop each year prior to its sale, and the capitalisation of operating leases. Because of these differences, US-GAAP results, and in particular 'US-GAAP underlying earnings' cannot be easily derived from reported IFRS numbers. For these reasons and in order to provide users with relevant and understandable information we provide the reconciliation below.

EBITDA, US-GAAP EBITDA and US-GAAP underlying earnings are all non-GAAP financial measure and are not recognised under NZ IFRS. As they are not necessarily uniformly defined or utilised and these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation or considered as a substitute for measures reported in accordance with GAAP. The following table provides users useful ArborGen Inc. information for year-on-year comparison and reconciles net earnings to 'US-GAAP underlying earnings'.

ArborGen Inc.	Refer to note	**6 Months Sep 2019 US$m**	**Year ended Mar 2019 US$m**	**6 Months Sep 2018 US$m**
Revenue	7	14.2	49.1	9.7
Cost of sales		(11.2)	(32.0)	(8.1)
Gross profit		3.0	17.1	1.6
Net earnings (loss) after taxation from continuing operations	7	(2.2)	(0.2)	(0.5)
less Tax benefit		(0.4)	(0.5)	(0.5)
plus Financing expense		1.2	2.2	1.1
Operation earnings (loss) before financing expense		(1.4)	1.5	0.1
plus Depreciation and amortisations		4.3	8.7	3.8
EBITDA (NZ IFRS)		2.9	10.2	3.9
Add back NZ IFRS adjustments				
Investment in intellectual property		(1.9)	(4.7)	(2.3)
Change in fair value of biological assets		(6.5)	(0.8)	(6.7)
Other IFRS adjustments (including IFRS 16 adjustment)		(0.3)	0.3	0.3
US-GAAP EBITDA (loss)		(5.8)	5.0	(4.8)
Add back significant non-recurring items				
Inventory provision and extreme weather event related expenses	5	2.6	-	-
Transaction-related costs		0.2	1.0	0.5
Restructuring costs		-	0.6	0.6
Less Gain on sale		-	(0.5)	(0.5)
US-GAAP underlying earnings (loss)		**(3.0)**	**6.1**	**(4.2)**

Investor Information

INVESTOR ENQUIRIES/REGISTERED OFFICE

Suite 7, 100 Parnell Road, Auckland
PO Box 68 249, Wellesley St,
Auckland 1141, New Zealand

Telephone: 64 9 356 9800
Email: info@arborgenholdings.com
Website: www.arborgenholdings.com

STOCK EXCHANGE LISTING

The Company's shares (ARB) are listed on the NZSX.

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about share transactions or changes of address should contact the Share Registrar:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
Private Bag 92 119,
Auckland 1142, New Zealand

Telephone: 64 9 488 8777
Facsimile: 64 9 488 8787
Email: enquiry@computershare.co.nz

There are statements in this Report that are 'forward looking statements.' As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to the Group, many of which are beyond our control.

In particular, ArborGen's operations and results are significantly influenced by the general level of economic activity in the various sectors of the economies in which it competes, particularly in the United States, Brazil, New Zealand and Australia.

Fluctuations in industrial output and the impact that has on global demand for wood fibre and hence harvest and reforestation levels, government environmental and regional development policies, capital availability, relative exchange rates, interest rates, the profitability of our customers, can each have a substantial impact on our operations and financial condition.

ArborGen-specific risks and uncertainties include (in addition to those broad economic factors noted above) the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, the rate of customer adoption of advanced seedling products, the success of its research and development activities, weather conditions, cone and seed inventory, biological matters, and the fact that ArborGen's annual crops and seed orchards are not the subject of insurance cover.

As a result of the foregoing; actual results, conditions and conclusions may differ materially from those expressed or implied by such statements.

ELECTRONIC COMMUNICATIONS

You can elect to receive your shareholder communications electronically.

To register, visit www.investorcentre.com/nz. To initially access this website, you will need your CSN or Holder Number and FIN. You will be guided through a series of steps to register your account, including setting up a new user ID and password for on-going use of the website. Once logged in, click on "My Profile". In the Communication preferences panel, click "update".

Alternatively send your name, address and CSN or holder number to ecomms@computershare.co.nz advising you wish to receive your ArborGen Holdings shareholder communications by email.