



ArborGen
— HOLDINGS —

Annual Report 2020

Table of Contents

Chairman's Letter	1
Financial Statements	7
Auditor's Report	37
Governance	40
Board of Directors	51
Investor information	IBC

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.

All references to currencies in this document are in US dollars (US\$) unless otherwise stated.



Dear Shareholder

In our Interim Review, we highlighted our continued focus on advancing the key initiatives critical to lifting the earnings and cash flow performance of your Company. Needless to say, the global Covid-19 environment that we operate in today only solidifies our need to be extremely diligent and streamlined in ensuring we achieve our core objectives.

This Report outlines our performance for the twelve month period to 31 March 2020, and our longer-term assessment for the Company.

Financial Performance

The Group reported an IFRS net loss of \$2.7 million for the period, inclusive of \$3.9 million of abnormal items (explained below), or a net profit result of \$1.2 million excluding abnormal items, (compared with the prior period loss of \$0.6 million). Pleasingly, Group revenue increased 16% from \$49.1 million in the prior period to \$56.9 million in the period.

Cash from operating activities was \$4.8 million, compared with the prior period \$4.1 million.

In our Interim Result, we reported \$2.8 million of abnormal items. The final quantum of abnormal items confirmed and expensed in the period is \$3.9 million, the majority of which are non-cash current year costs caused by prior year weather events. Specifically, the \$3.9 million of abnormal items relate to –

- A \$2.3 million seed adjustment that arose due to a combination of abnormal weather events and unusual biological factors that materially reduced seed harvest yields in the prior year. This resulted in higher than normal seed costs impacting cost of goods sold in the current period by \$1.1 million, and closing seed inventory costs (seed for future use) by \$1.2 million;

- \$1.0 million of seedling credits provided to customers in the period in respect of seedlings sold in the prior period (2019 fiscal year) to address seedling survival claims;
- \$0.4 million relating to varietal yield losses representing circa 30% of total inventory for sale in the 2021 fiscal year; and
- The final expensing of the ArborGen acquisition transaction costs (\$0.2 million).

ArborGen Inc (ArborGen) recorded US-GAAP underlying earnings of \$9.3 million⁽¹⁾. This result is in line with the updated guidance we provided to the market in early April of “at least 40% higher than the prior year’s (FY2019) \$6.1 million comparative.”

Regarding the single largest abnormal item recorded in the period, while we had identified at the ASM last year higher than normal seed costs impacting margins in the current period and subsequently recorded a \$1.6 million charge in our Interim Result, we have since quantified the full cost of the adjustment at \$2.3 million inclusive of seed inventory still on-hand for next period’s seedlings. By way of background, the seed harvest in fall/autumn 2018 (i.e. the 2019 fiscal year) was impacted by a number of abnormal weather events and unusual biological outcomes including a lower than normal flower count and a freeze event in 2017 impacting several of our orchards, followed by the impact of Hurricane Michael which hit the Florida Gulf coast in late 2018 destroying portions of our orchard in Bellamy, Florida. As shareholders may be aware, the seed production cycle of pine species is a relatively extended one involving a two-year process commencing from flower production and pollination activity in early spring of year one, to cone formation, fertilisation and maturation before cones are finally harvested in the fall/autumn of the following year (year two). Harvested seed is then sown in the spring of the subsequent year (year three) to produce seedling crop, or held in inventory for future periods.



While ArborGen typically uses historical weighted averages to estimate seed and equivalent seedling costs, the extremely challenging conditions impacting the 2018 seed harvest resulted in much higher seed costs in the period under review, impacting both cost of goods sold and closing seed inventory.

In respect of the seedling credits, the weather-related stress events that lowered ArborGen’s US seedling sales in the final months of the 2019 fiscal year, also resulted in extremely unusual widespread seedling survival issues throughout the US South-Eastern region affecting seedlings sold in that period, including across several of ArborGen’s customer sites. Recognising the extremely challenging events in early 2019 and consistent with the approach taken by some of our competitors, we chose to assist our customers who suffered excessive seedling mortality losses by offering replacement seedlings in the period under review. While we don’t believe this mortality issue can be attributed to our seedling quality, we are confident 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. However, we are fully cognisant of the cost to our business and given the uncharacteristic nature of the events, we have taken the opportunity to implement new severe weather event standard operating procedures for all our nurseries, and updated our terms and conditions of sale, to further reinforce that where seedling quality is not the sole cause for mortality ArborGen is not required to provide compensation.

Turning then to seedling sales performance in the 12 month period to 31 March 2020, we are pleased to report that we lifted and delivered a record volume of seedlings to our customers. ArborGen sold 437 million seedlings globally – 333 million seedlings in the US (including 300 million loblolly pine seedlings of which 30% were mass control pollinated (MCP) and varietal seedlings), 39 million seedlings in Australasia, and 65 million seedlings in Brazil.

In the US, unit seedling sales increased by circa 20% to 333 million units in the period, from 280 million seedling units in the prior period. This increase was due to the integration of the TexMark Timber Treasury (TTT) nursery in Texas into our seedling production platform, incremental uplift from the Taylor nursery in South Carolina as well as our continued emphasis on the private, non-industrial land owners’ segment, which comprise more than 50% of the total US loblolly pine seedling market. While MCP seed supply constraints resulted in flattish advanced genetics seedling unit sales year over year, we were sold out of MCP and varietal products very early in the sales season. Importantly this confirms that our Acquire, Build Confidence, and Convert (ABC) strategy is working, and that the demand for our MCP products is solid and growing, and hence as our MCP seed supply constraints start to ease particularly from fiscal year 2022 onwards, we will reap the benefits of our investments to date.

Similarly, our New Zealand business had a very strong year and we were able to fully leverage our extensive nursery footprint and achieve an over 80% increase in unit seedling sales, and revenue growth of 51%, over the prior year, with our pre-eminent position allowing us to play a key role in the NZ Government’s one billion tree planting programme which was a large contributor to this growth.

In Brazil, our sales increased over the prior year as reforestation rates began to improve in line with the recovery of the Brazilian economy, and as the value of our proprietary products become increasingly clear. The integration of the Brotale eucalyptus nursery leased late last year, combined with a general recovery of Brazilian eucalyptus markets, as well as the continued expansion of our pine sales, resulted in an overall 30% increase in unit seedling sales over the prior year.



Our business at a glance

Refined Portfolio

As outlined in our Interim Review, following the portfolio change which saw the sale of Tenon and the 100% acquisition of the US-based ArborGen business, ArborGen has become the Group's sole operating activity. Given the significant changes over prior years to your Company, below is a helpful recap of who we are today –

- 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 continue to invest millions of dollars in R&D each year), 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 open pollinated (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:-
 - 18 seedling production nurseries (8 in the US, 6 in NZ, 3 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 over 400 million seedlings in the US-South, 40 million in ANZ and 100 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.

Outlook

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 –

- First among equals is improving cash flow generation,
- 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, and
- Mitigating the financial impact of adverse climatic events.

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, and improve asset utilisation. By way of example, in August, we acquired the US property where ArborGen's headquarters in Ridgeville, South Carolina is located. This move has allowed us to immediately decrease our annual occupancy cash cost for this facility by accessing a financing cost lower than the prior annual lease rate. We have also consolidated our operations at the site, allowing us to lease out resulting surplus floor space to a third party. We project that these actions will improve ArborGen Holdings' net earnings and cash flow by approximately \$1 million on an annualised basis moving forward.

Expanding Our Footprint

United States

In our largest and most critical market segment – the US, as noted above, we achieved record total seedling volumes and were sold out of our advanced genetic seedling products very early in the year. These record sales were enabled by the –

- Expansion of our US nursery capacity with the full integration of the TTT 30 million seedling nursery in Texas, and the 30 million seedling Taylor nursery in South Carolina into our production platform. Beyond their respective production capacity additions, these nurseries have also facilitated incremental sales through integration of the customers that these nurseries were servicing into our system, thereby expanding our market reach in these regions; and

- Increased success with the private landowner segment, which comprises more than 50% of the US seedling market. Our primary goal with this segment is to drive increased rates of conversion to advanced genetics through our ABC strategy which acknowledges that the conversion of private landowners to advanced genetics is a process not an event, and that the very first step to achieving our advanced genetics sales targets in this segment is to gain market share.

With constrained advanced genetics supply, our focus is on ArborGen's superior seedling quality, customer service and logistics and technical knowledge, allowing us to capture market share.

Australasia

After several challenging years due to weak market conditions in both New Zealand and Australia, our Australasian operations reported record seedling sales, revenue and profits for the fiscal year ending March 2020. In New Zealand, the Government's billion trees programme, combined with increased harvesting and reforestation efforts due to the maturing of forestry estates planted in the early 1990s led to a significant expansion of the New Zealand seedling market. In Australia, reforestation has increased as the market recovered from the collapse of the Management Investment Schemes earlier in the decade. Following expansion of our container facility in Victoria in 2019, we are now effectively sold out for the next several years.

The market increases in both countries have allowed us to fully leverage our nursery production capability.

Brazil

In Brazil, we systematically executed our strategy to grow our Brazilian business by leasing two nurseries with a total capacity of over 25 million seedlings from Brotale. In October, we announced the lease of the nursery in the state of Minas Gerais, giving us an immediate presence in the state with the largest eucalyptus market in Brazil. This was followed by the lease of a second nursery in the state of Mato Grosso do Sul – the most rapidly growing eucalyptus market in the country.

We are now focused on integrating these two new, leased nurseries 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.

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 an increasing proportion of landowners understand the value that MCP based seedlings offer. Continued education of our expanded customer base, and the maturing of operational stands validating the MCP value proposition will further accelerate market acceptance and drive strong growth in MCP seedling sales in future periods as our MCP seedling supply expands. In this respect, we have begun to see the projected increase in supply as our younger orchards reached an age where productivity is now increasing rapidly. Based on our most recent inventory counts, we are projecting a major increase in the MCP seed we will harvest in the fall of this year, which will be available for seedling sales in fiscal year 2022. In March this year, we set a record for MCP pollination activity, supporting another strong seed harvest in the fall of next year (subject to the normal weather caveats).

In addition to the volumetric growth in MCP seed supply, our continued investments in improving the underlying genetics of our MCP products is resulting in continued expansion of our portfolio, allowing us to offer even higher value products to our customers. We already have three broad performance categories of MCP products, which customers can use to move up the MCP value chain, and last year we introduced a new class of MCP to the market – MCP 2.0, which has even better performance outcomes than our MCP-Elite product, and are increasing its production this year. Our investments in genomics technology are also beginning to bear fruit, as genomic selected products are now in the early stages of production, which will further extend the scope of our product offerings. As we rebuild the Bellamy orchards lost to Hurricane Michael, we are using only the most advanced parents, which in the intermediate term will further strengthen our position as a technology and product leader.

In Brazil, we continue to expand our portfolio of eucalyptus products. In November 2018 we executed a eucalyptus genetic and license agreement with Gerdau Acos Longos SA, giving us access to products especially suited to Minas Gerais. We also continue to invest in R&D developing our own eucalyptus tree improvement programme and have identified several advanced genetic products that we are beginning to commercialise. Our pine programme in Brazil also

continues to grow albeit from a lower base, and we project double digit growth in volume and margins as the value of our proprietary products becomes clear from field trial performance data across various sites in Brazil.

Mitigating Adverse Climatic Events

In our Interim Review we stated that we are actively developing and implementing plans to further mitigate the effects of adverse weather events that can impact our performance and that of our customers. This has always been a key element of our operation, however global climate change has made this increasingly important. Recent actions to address this issue include –

- Implementation of a multi-year plan to improve the drainage of our nurseries to reduce potential losses due to heavy rain;
- Installation of fencing at our nurseries to reduce the impact of heavy winds early in the season; and
- Revisions to our seed processing and allocation procedures to improve seed and nursery yields and give us greater flexibility to respond to early season losses.

In addition, our new Texas and South Carolina nurseries have improved our production planning options, allowing us to better diversify our production to mitigate the impact of adverse weather events, and our growing MCP seed supply (discussed above) will allow us to generate much needed buffer inventory for our advanced genetic products.

Fiscal Year 2021

Needless to say, the world we currently operate in is materially different to what it was just three months ago. That said, and reiterating what we said in April in our press release(s), we expect ArborGen's fiscal year 2021 US-GAAP underlying earnings⁽¹⁾ to be higher again than the \$9.3 million reported in the period under review (subject to uncontrollable factors including any impact from Covid-19). In short, we continue to believe ArborGen should achieve double digit US-GAAP underlying earnings this year, absent any disruptions that may present themselves as a result of Covid-19, particularly as we have recognised certain costs (i.e. the seed adjustment and varietal yield loss) in fiscal year 2020 as abnormal items.

Covid-19

In the **United States**, as previously reported, the US Department of Homeland Security has defined the forestry industry as an “essential critical infrastructure workforce”. As such, our operations across all nurseries and orchards continue to progress with all typical activities continuing as planned, while ensuring compliance with all appropriate state specific regulations and requirements. Customers continue to indicate they are committed to their planned 2020-2021 planting programmes. However, given the rapidly evolving market conditions surrounding the impact of Covid-19, we are pro-actively taking additional steps including reducing discretionary costs and capital spend to mitigate any downside risk. In this respect, we announced earlier this month that ArborGen had received \$2.35 million from the US Small Business Administration (SBA) under the Paycheck Protection Program (PPP). The PPP funding is essential to ensuring ArborGen can weather any disruptions that arise as a result of Covid-19. ArborGen has not laid-off any employees as a result of Covid-19 and fully expects to meet the requirements to have the loan forgiven based on SBA’s criteria that at least 75% of the forgiven amount must have been used for payroll costs.

In **New Zealand**, while seedling unit sales will be lower than prior year due to lower OP seedling sales for the Government’s billion tree programme, we continue to focus on being the leading supplier of high value radiata seedlings to the NZ forestry industry, as well as progressing the development of our horticultural service offering for high-value species such as blueberries, hops, apples, strawberries and raspberries. This includes quarantine services, true to typing and nucleus stock multiplication and management, tissue culture and plant production for nursery owners and orchardists. In **Australia**, following the expansion of our container facility in 2019, we are effectively sold out until 2024, with demand projected to be strong over the next few years given the need for estate owners to progressively

re-stock their forests after the 2019 fires. ArborGen also received NZ\$0.4 million of wage subsidies in NZ and A\$0.1 million of business stimulus funding in Australia, meeting the requisite eligibility criteria in each of these regions.

In **Brazil**, while the vast majority of ArborGen’s customers are continuing with their 2020 planting programmes, planting rates have slowed somewhat as planting crews adjust to new health and safety measures in the current Covid-19 environment. However, with pulp and paper being the primary end-market for forestry in Brazil, projected planting demand should pick-up again in the second half of the year. We will focus on leveraging our two newly leased nurseries (which give us combined internal and outsourced eucalyptus and pine production capacity of approximately 100 million seedlings), and our advanced proprietary products, to grow our market share.

As always, we would like to thank all of our stakeholders for their continued support – it is very much appreciated.



Dave Knott

Chairman (on behalf of the Board)

27 May 2020

(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 30.

ArborGen Holdings Limited and Subsidiaries

Consolidated Income Statement

For the year ended 31 March 2020

	Notes	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Revenue	24	56.9	49.1
Cost of sales	7	(37.2)	(32.0)
Gross profit		19.7	17.1
Change in fair value of biological assets	11	(0.6)	0.8
Other income		0.3	–
Administration expense		(17.0)	(16.8)
Operating earnings excluding items below		2.4	1.1
Inventory adjustment and extreme weather event related expenses	7	(3.7)	–
Restructuring and transaction-related expenses	7	(0.2)	(4.1)
Gain on sale		–	0.5
Operating loss before financing expense		(1.5)	(2.5)
Financing expense	22	(2.3)	(2.2)
Loss before taxation		(3.8)	(4.7)
Tax benefit	8	1.1	0.5
Net loss after taxation from continuing operations		(2.7)	(4.2)
Net earnings after taxation from discontinued operations	31	–	(0.1)
Net loss		(2.7)	(4.3)
Basic/diluted earnings per share information (cents per share)		(0.5)	(0.9)
Continuing operations		(0.5)	(0.8)
Weighted average number of shares outstanding (millions of shares)		497.8	496.9

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 year ended 31 March 2020

	Notes	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Net Loss		(2.7)	(4.3)
Items that may be reclassified to the Consolidated Income Statement:			
Movement in currency translation reserve	20	(2.5)	(0.8)
Movement in hedge reserve	20	(0.7)	–
Other comprehensive loss (net of tax)		(3.2)	(0.8)
Total comprehensive loss		(5.9)	(5.1)

ArborGen Holdings Limited and Subsidiaries

Statement in Changes in Equity

For the year ended 31 March 2020

	Notes	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Total comprehensive loss		(5.9)	(5.1)
Movement in ArborGen Holdings shareholders' equity:			
Movement in issued capital	19	1.3	–
Movement in share based payment reserve	20	(1.1)	1.3
Total movement in shareholder equity		(5.7)	(3.8)
Opening Group equity		147.6	151.4
Closing Group Equity		141.9	147.6

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 year ended 31 March 2020

	Notes	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Cash was provided from operating activities			
Receipts from customers		55.7	51.4
Cash provided from operating activities		55.7	51.4
Payments to suppliers, employees and other		(50.9)	(47.3)
Cash (used in) operating activities		(50.9)	(47.3)
Net cash from (used in) operating activities		4.8	4.1
Sale of assets		0.1	0.8
Investment in fixed assets	13	(5.3)	(2.7)
Deferred settlement		–	(10.0)
Investment in intellectual property	15	(4.1)	(4.7)
Net cash from (used in) investing activities		(9.3)	(16.6)
Debt drawdowns		25.2	9.0
Repayment of lease liabilities		(12.6)	(0.9)
Debt repayment		(4.7)	(18.0)
Interest paid		(2.5)	(2.1)
Net cash from (used in) financing activities		5.4	(12.0)
Net cash from discontinued operations	31	–	2.4
Net movement in cash		0.9	(22.1)
Opening cash, liquid deposits and restricted cash		7.2	29.0
Effect of exchange rate changes on net cash		(0.2)	0.3
Closing Cash, Liquid Deposits and Restricted Cash		7.9	7.2
Net Loss		(2.7)	(4.3)
Adjustment for:			
Financing expense		2.5	2.1
Depreciation and amortisations	7	9.5	8.7
Taxation		(1.1)	(0.5)
Foreign exchange		(0.8)	(0.5)
Change in fair value of biological assets		0.6	(0.8)
Other non cash items		0.2	0.5
Cash flow from operations before net working capital movement		8.2	5.2
Trade and other receivables		(1.4)	(1.4)
Inventory		(0.5)	(3.7)
Trade and other payables		(1.5)	4.0
Net working capital movement		(3.4)	(1.1)
Net cash from operating activities		4.8	4.1

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 31 March 2020

	Notes	March 2020 US\$m	March 2019 US\$m
Current assets			
Cash and liquid deposits	9	5.9	3.2
Trade and other receivables	10	10.5	9.1
Inventory	11	29.3	29.4
Total current assets		45.7	41.7
Non current assets			
Restricted cash	9 & 18	2.0	4.0
Fixed assets	13	43.5	42.7
Right-of-use assets	14	5.7	–
Intellectual property	15 & 16	103.8	105.6
Total non current assets		155.0	152.3
Total assets		200.7	194.0
Current liabilities			
Trade, other payables and provisions	17	(13.1)	(14.5)
Current lease obligation	22	(1.2)	(0.8)
Current debt	18	(6.3)	(0.5)
Total current liabilities		(20.6)	(15.8)
Term liabilities			
Term debt	18	(31.2)	(16.5)
Derivative financial instruments	5 & 27	(0.7)	–
Lease obligation	22	(4.5)	(11.2)
Deferred taxation liability	12	(1.8)	(2.9)
Total term liabilities		(38.2)	(30.6)
Total liabilities		(58.8)	(46.4)
Net Assets		141.9	147.6
Equity			
Share capital	19	202.3	201.0
Reserves	20	(60.4)	(53.4)
Total Group Equity		141.9	147.6

Net Asset Backing

29 US 29 cps US 30 cps



Dave Knott Jr
Chairman of the Board

27 May 2020



Paul Smart
Audit Committee Chairman

Both of the above signatories certifies that these financial statements comply with generally accepted accounting standards and present a true and fair view of the financial affairs of the ArborGen Holdings Group.

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

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

1 General Information

ArborGen Holdings Limited (ArborGen Holdings) is an international forestry business. ArborGen Holdings, a limited liability company incorporated and domiciled in New Zealand, is listed on the New Zealand stock exchange (NZX). As at 31 March 2020 ArborGen Holdings had one investment ArborGen Inc (95% economic interest (with 5% warrants outstanding relating to ArborGen's acquisition of Cellfor), and 100% voting interest and ownership of common stock).

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.

2 Approval of Accounts

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 27 May 2020.

3 Basis of Presentation

The financial statements presented are those of ArborGen Holdings Limited (the Company) and Subsidiaries (the Group).

Basis of preparation

The Company is a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and 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.

Statement of compliance

The financial statements have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards. The financial statements are in compliance with International Financial Reporting Standards (IFRS). The Group has designated itself as a profit-oriented entity for the purposes of compliance with NZ IFRS.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993 and comply with generally accepted accounting practice in New Zealand (NZ GAAP).

Chief operating decision-makers

The 'chief operating decision-makers' are the Board of Directors who jointly make strategic decisions for ArborGen Holdings.

Covid-19

The US has defined the forestry industry as an 'essential critical infrastructure workforce' and as such, our operations across all nurseries and orchards continue to progress with all typical activities continuing as planned, while ensuring compliance with all appropriate state specific regulations and requirements. Customers continue to indicate they are committed to their planned 2020-2021 planting programmes. However, given the rapidly evolving market conditions surrounding the impact of Covid-19, we are pro-actively taking additional steps including reducing discretionary costs and capital spend to mitigate any downside risk.

In New Zealand, seedling unit sales will be lower than prior year due to lower OP seedling sales for the Government's billion tree programme. We continue to focus on being the leading supplier of high value radiata seedlings to the NZ forestry industry, as well as progressing the development of our horticultural service offering for high-value species such as blueberries, hops, apples, strawberries and raspberries. This includes quarantine services, true to typing and nucleus stock multiplication and management, tissue culture and plant production for nursery owners and orchardists. In Australia, following the expansion of our container facility in 2019, we are effectively 'sold out' until 2024, with demand projected to be strong over the next few years given the need for estate owners to progressively re-stock their forests after the 2019 fires.

In Brazil, while the vast majority of ArborGen's customers are continuing with their 2020 planting programmes, planting rates have slowed somewhat as planting crews adjust to new health and safety measures in the current Covid-19 environment. However, with pulp and paper being the primary end-market for forestry in Brazil, projected planting demand should pick-up again in the second half of the year.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

4 Significant Accounting Policies

Accounting Policies

All significant accounting policies are set out on the following pages. Other than the first time adoption of NZ IFRS 16 Leases (NZ IFRS 16) there have been no changes made to accounting policies during the year.

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.

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 fixed assets. An additional depreciation expense of \$0.9 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. For leases that were classified as finance leases applying NZ IAS 17, the carrying amount of the finance leased assets and finance lease obligations measured applying NZ IAS 17 immediately before the date of initial application is reclassified to ROU assets and lease liabilities respectively without any adjustments. ROU assets and the lease liability are accounted for applying NZ IFRS 16 from 1 April 2019. 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.

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. Actual results could differ from those estimates. The principal areas of judgement in preparing these financial statements are:

Right-of-use Assets (note 14)

Key judgment areas in applying NZ IFRS 16 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:	US\$ million
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)

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

Under NZ IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, for the 12 months to 31 March 2020, the net cash generated by operating activities has increased by \$1.0 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.

Investment Impairment (note 16)

The carrying value of investments is assessed at least annually to ensure there is no impairment. Performing these assessments generally requires management to estimate future cash flows to be generated by the investment, which entails making judgements about the expected future performance and cash flows of the investment and the appropriate discount rate to apply when valuing future cash flows. The carrying value of assets acquired are also affected by the estimates and judgements applied to capitalisation of developmental expenditure and the adopted amortisation policy.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. Control exists when the Parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. ArborGen Inc is a subsidiary of ArborGen Holdings Limited.

Transactions and balances between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation.

Functional Currency

Foreign operations

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated financial statements are presented in US\$ (the presentation currency).

The assets and liabilities of all of the Group companies that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to the presentation currency at foreign exchange rates ruling at balance date. All exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve.

Transactions

Transactions in currencies other than the functional currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency at balance date are translated to the functional currency at the foreign exchange rate ruling at that date, with foreign exchange differences arising on translation being recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a currency other than the functional currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value in a currency other than the functional currency are translated using the exchange rate ruling at the date the fair value was determined.

Valuation of Assets

Land, buildings, plant and equipment

Land, buildings, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Land is not depreciated. Depreciation on other fixed assets is calculated using the straight-line method. Expected useful lives are:

Buildings	25 years
Plant and equipment	3 to 15 years

Inventory

Trading inventory, raw materials and work in progress are valued at the lower of cost or net realisable value. Cost includes direct costs and overheads at normal operating levels, and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

Biological assets (such as seedlings or treestocks) are measured at the end of each reporting period at their fair value less costs to sell. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

Intellectual property

Intellectual property is amortised over the useful life of the assets. Intellectual property relates primarily to output from ArborGen Inc's research and development activities and is reviewed at least annually for impairment, and otherwise is amortised (on average) over 20 years. The useful life is reviewed each balance date and adjusted if appropriate.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit losses.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables as they all display the same risk profile. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. The Company considers an event of default as occurring when information obtained (internally and externally) indicates a debtor is unlikely to pay its creditors including the Company. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information relating to the debtor and general economic conditions of the debtors. As for the exposure at default, this is represented by the assets' gross carrying amount at the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprises, cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Assets held for sale and discontinued operations

Assets held for sale are assets whose carrying value will be recovered principally through sale rather than through continuing use. Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised while they are classified as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Impairment

The carrying amounts of the Group's assets are reviewed regularly, including at each reporting date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, an impairment loss is recognised. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, and then to reduce the carrying amount of other assets in the cash-generating unit on a pro-rata basis.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. With the exception of goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Valuation of Liabilities

Trade and other payables

Trade and other payables are stated at amortised cost.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Group's best estimate of the expenditure required to settle the present obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Deferred income tax

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The measurement of deferred taxation assets and liabilities reflects the tax consequences that would follow from the manner that the Group expects, at balance date, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of cash flow hedges. Interest rate swaps hedging interest rate exposure on issued debt and hedges of foreign exchange risk on firm commitments are both accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the Group applies a hedge ratio of 1 : 1.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Items carried at fair value

The items which are carried at fair value include derivative financial instruments. These items are classified into the following levels in the fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Income Determination

Revenue recognition

Revenue is measured based on consideration specified in a contract with a customer and is recognised when control over a good or service transfers to a customer. Revenue excludes amounts collected on behalf of third parties and is net of any value added tax, rebates, returns and discounts, and after eliminating sales within the Group.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

The Group's revenues are earned from the sale of seedlings or treestocks and logistics services to some customers. Seedling or Treestock revenue is recognised, either when the goods are dispatched or when goods have reached their destination, depending on the terms and agreements with customers and when documentary evidence supports the customer taking ownership and control of the product. Logistics and other services revenue is recognised over the period the service is provided.

Goods sold

Revenue from the sale of goods is recognised in the income statement when control over a good or service transfers to a customer. Products are generally sold with volume discounts and customers have a right to return faulty product. Sales are recorded based on the price negotiated with the customer, net of estimated volume discounts and returns. Historical experience is used to estimate the level of returns likely and volume rebates are calculated on a preset formula.

Investment income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Finance expense

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within fixed assets. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

The ROU assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a ROU asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the ROU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

Research and development costs

All research costs are recognised as an expense when incurred. When a project reaches the stage where it is reasonably certain that further expenditure can be recovered through the processes or products produced, development expenditure is recognised as a development asset under intellectual property. The asset is amortised from the commencement of commercial production of the product to which it relates, over the period of expected benefit.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance date, and any adjustment to tax payable in respect of previous years.

Employee Benefits

Share-based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The Group has one reportable segment, being forestry genetics. The Group's geographical segments are based on both the location of customers and primary location of assets (refer to note 24 segmental information summary).

Goods and Services Tax (GST)

The income statement, statement of comprehensive income and statement of cash flow have been presented exclusive of GST. All items in the balance sheet are stated net of GST, except for receivables and payables, which include GST invoiced.

Comparatives

Changes in prior year disclosure comparatives have been made to align with the current year presentation.

Future NZ IFRS Pronouncements

Standards or interpretations issued but not yet effective and relevant to the Group.

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements, none of these have been early adopted. The Group expects to adopt these standards when they become mandatory. None are expected to materially impact the Group's financial statements although may result in changes in disclosure.

5 Financial Risks

This note presents information about the Group's potential exposure to financial risks that the Group has identified; the Group's objectives, policies and processes for managing those risks; the estimation of fair values of financial instruments; and the Group's management of capital. Quantitative disclosures of some of the key financial risks are made below.

5.1 Foreign exchange risk

Both ArborGen Holdings and ArborGen Inc are US functional currency, operating in three geographies – the United States, Brazil and Australasia. Generally there are limited cash flows between Australasia and the US, and the foreign exchange risk in Australasia is limited to the translation effect on its net earnings and balance sheet from movements in the USD against the NZD and AUD. Similarly, the Brazil operations are to a large degree internally self-sufficient from a funding perspective, which limits the effect of relative currency movements to the net earnings and balance sheet translation impacts. There are no transactions in the US operations in a currency other than the USD.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

5.2 Credit risk

The Group is at risk of customer default on payment for treestocks at the conclusion of a growing season. This risk is mitigated by dealing with a wide-range of customers in multiple markets and by securing up-front deposits from selected customers for the treestocks it grows each year. The nature of nursery activity is such that its customers tend to require yearly repeat business, and historically customer payment defaults have not been material to the business. However, in the US market (the Group's largest market), as treestock orders are not considered to be unconditional until late in the season each year, there remains the risk that orders cancelled prior to collection may not be able to be sold to other customers during the remaining season.

5.3 Liquidity risk

The Group has four banking facilities (in total \$40 million (2019: \$28 million)) three are with two banks in the United States; a \$10.5 million reducing loan, matures in May 2036, a \$17 million revolver which expires in August 2021 and a \$11.3 million seven year mortgage, and a NZ\$2 million line of credit with a New Zealand bank. In addition to these bank facilities the Group has a \$2.88 million Note issued to related parties. These facilities are used to fund the Group's working capital and capital expenditure needs. If any of these facilities were not to be renewed then the Group may need to obtain similar facilities from other banks, or an equivalent amount of funding may need to be provided through a capital raising event.

Liquidity risk management requires the maintenance of available cash combined with the availability of funding to meet the Company's needs as they develop. Forecasts are prepared of cash requirements to ensure there are financial resources in place to meet its day-to-day operating and investment needs. The Group believes it has sufficient resources to meet its funding needs through to 31 May 2021.

5.4 Interest rate risk

The Group has facilities that are either fixed or floating depending on their nature and use. Fixed interest rate facilities include; the \$10.5 million reducing loan facility, the \$11.3 million mortgage facility fixed via an interest rate swap and \$2.88 million Note. Floating rate facilities are the US revolver facility and the New Zealand Line of Credit (when drawn).

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The Group adopts a policy of ensuring that between 50% and 80% of its interest rate risk exposure is at a fixed rate. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

As at 31 March 2020, the Group had one interest rate swap totalling \$11.3 million (2019: nil), covering the US head office property mortgage facility. The swap, entered into in August 2019 and expires in August 2026, receives a floating rate of 2% above 30-day LIBOR and pays a fixed interest rate of 3.52%. This swap is designated a cash flow hedge, is fully effective with the counterparty being Synovus the issuing bank.

5.5 Capital risk

ArborGen Holdings capital includes share capital, reserves and retained earnings, and ArborGen Holdings manages capital in such a manner as to maintain stakeholder confidence and safeguard ArborGen Holdings' ability to continue as a going concern, whilst also maximising the return for shareholders and sustaining resources for the future development of the business. In order to maintain or adjust the capital structure ArborGen Holdings may, pay dividends or return capital or issue new shares or sell assets.

6 Reporting Currency

The Group reports in United States dollars (US\$), consequently all financial numbers are in US\$ unless otherwise stated.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

7 Operating Expenses Include

	Refer to Note	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Depreciation and amortisations included in:			
Cost of sales expense		(2.5)	(1.7)
Administration expense: intellectual property	15	(5.9)	(5.8)
Administration expense: G&A		(1.1)	(1.2)
Total depreciation and amortisations		(9.5)	(8.7)
Cost of inventory expensed in cost of sales		(37.2)	(32.0)
Employee related expenses (excluding restructuring and transaction-related expenses)		(17.3)	(18.7)
Seedling mortality customer assistance ⁽¹⁾		(1.0)	-
Seed inventory cost adjustment ⁽²⁾		(2.3)	-
Varietal inventory cost adjustment ⁽³⁾		(0.4)	-
Inventory adjustment and extreme weather event related expenses		(3.7)	-
Transaction-related expenses incurred by ArborGen Inc in relation to the acquisition by ArborGen Holdings	23	(0.2)	(1.0)
Restructuring expense	19, 20, 23 & 25	-	(3.1)
Restructuring expense and transaction-related expenses ⁽⁴⁾		(0.2)	(4.1)

- (1) 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 seedlings.
- (2) A series of extreme weather events had the effect of lowering seed production volumes (yield) for the 2018/2019 seed harvest. This lower yield resulted in an abnormally high average cost per pound of seed produced. This adjustment returns the seed costs to a normal production cost, or standard cost, per seed.
- (3) In the current period circa one million of bareroot varietal seedlings, for sale in fiscal year 2021, were lost and this varietal inventory cost adjustment recognises the write-down from those losses.
- (4) The transaction related cost of \$0.2 million in the current period, is the final expense under the ArborGen Inc retention plan put in place when ArborGen Inc was acquired in June 2017. The final \$1.0 million cash payment (under the retention plan) was paid in July 2019. The year to March 2019 includes costs relating to the retention plan of \$1.0 million, and severance expenses under the One-Company programme of \$3.1 million.

Expenses incurred also includes payments made and accrued for:

- Directors fees for non-executive Directors of ArborGen Holdings for the current period of \$265,939 (paid in NZ\$413,105) (2019: \$250,000 (paid in NZ\$367,250)). In addition non-executive Directors participate in Directors share plans, \$235,369 was accrued in relation to these share plans (NZ\$364,379) (2019: \$148,344 (NZ\$218,156)). In September 2019, 555,348 shares vested to Directors under the 2018 Non-Executive Directors Share Plan together with cash tax payments of \$33,994 (NZ\$53,065) (refer to notes 19, 20 and 25).
- The statutory audit of the annual financial statements in the current period; for ArborGen Holdings \$59,000 (2019: \$61,000) and ArborGen Inc \$180,000 (2019: \$150,000).
- Other services provided by the auditors for ArborGen Holdings in the current period were less than \$13,000 (2019: \$27,000), which include attendance at the annual meetings, procedures relating to the interim financial statements and corporate finance assistance with respect to the reasonableness of the proposed interest rate on the subordinated debt issued to related parties (refer to notes 18 & 25).
- Refer to Reporting and Disclosure and Auditors in the Corporate Governance section of the Annual Report for commentary on the Audit Committee process in managing the relationship with the Auditor and confirming their independence.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

8 Income Tax Expense

	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Earnings (loss) before taxation	(3.8)	(4.7)
Taxation at 28%	1.1	1.3
Adjusted for:		
Change in deferred tax liability	1.1	0.6
Net taxation losses not recognised	(1.8)	(1.4)
Recognition of previously unrecognised benefits ⁽¹⁾	0.7	–
Taxation (expense) / benefit	1.1	0.5

(1) Reflects the utilisation of previously unrecognised tax losses (refer to note 12).

9 Cash, Liquid Deposits and Restricted Cash

At 31 March the Group held total cash, liquid deposits and restricted cash of \$7.9 million (2019: \$7.2 million) comprising cash held by: ArborGen Holdings \$0.7 million (2019: \$1.7 million), restricted cash of \$2.0 million on deposit with Synovus to secure the ArborGen Inc debt facility (2019: \$4.0 million) (refer to note 18) and ArborGen Inc \$5.2 million (2019: \$1.5 million).

10 Trade and Other Receivables

	March 2020 US\$m	March 2019 US\$m
Trade debtors	8.2	7.7
Prepayments	1.9	1.2
Other receivables	0.4	0.2
Trade and other receivables	10.5	9.1

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

11 Inventory

	March 2020 US\$m	March 2019 US\$m
Finished goods - seedlings	0.7	1.0
Work in progress - seedlings ⁽¹⁾⁽⁴⁾	7.3	7.3
Finished goods - seed	13.4	13.4
Work in progress - seed ⁽²⁾	7.0	6.2
Fair value on biological assets ⁽³⁾⁽⁴⁾	0.9	1.5
Inventory	29.3	29.4

- (1) Work in progress - seedlings, is principally growing seedling crop.
(2) Work in progress - seed, is principally harvesting seed to be sown as a future crop.
(3) Fair value adjustment on biological assets reflects the change in fair value less costs to sell of biological assets (seedlings) as at balance date.
(4) Seedlings in progress are treated as biological assets for financial reporting purposes and are recognised at fair value less costs to sell, \$8.2 million (2019: \$8.8 million). Biological assets will be transferred to finished goods seedlings at lifting, for dispatch to customers and sale.

Fair value adjustment on biological asset	March 2020 US\$m	March 2019 US\$m
Opening balance	1.5	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	0.9	1.5
Reversal of prior period fair value change	(1.5)	(0.7)
Change in fair value of biological assets recognised in income statement	(0.6)	0.8
Closing fair value uplift biological asset	0.9	1.5

At both 31 March 2020 and 31 March 2019, only the Australasian crops are established and fair valued. The Australasian crops are primarily lifted from late May through until September of each year.

12 Taxation

Deferred taxation (liability)	Refer to Note	March 2020 US\$m	March 2019 US\$m
Opening provision for deferred taxation		(2.9)	(3.4)
Taxation (expense) / benefit in the income statement	8	1.1	0.5
Deferred taxation (liability)		(1.8)	(2.9)

In June 2017 when ArborGen Inc. became a consolidated subsidiary of the Company, a deferred tax liability was recognised on the intellectual property asset as a result of the fair value exercise undertaken for the acquired assets and liabilities. The current year balance is \$1.8 million (2019: \$2.9 million).

NZ IFRS only allows the recognition of taxation assets when utilisation is considered probable, which is subject to the future earnings of the Group and on meeting shareholder continuity and loss carry forward expiry dates. The Group had taxation losses (gross after valuation adjustments) at 31 March 2020 of \$84.5 million, predominately in the United States (2019: \$86.2 million). Following the ArborGen Holdings acquisition of ArborGen Inc, tax loss utilisation in ArborGen, of its unrecognised losses of \$29.5 million, is limited to \$1.4 million per annum (gross) on pre-acquisition losses of \$26.9 million. The Group has unrecognised tax losses in New Zealand of \$31.9 million after the utilisation of \$0.6 million (2019: \$33.4 million) and in the US of \$23.1 million, after the utilisation of \$0.2 million in the current period (2019: \$23.3 million) (refer to note 8). The Group's unrecognised US losses will be utilised against future earnings from the Group's ownership of the Ridgeville head office facility. ArborGen Holdings also has imputation credits available to its shareholders of \$2.4 million (2019: \$2.7 million).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

13 Fixed Assets

	March 2020 US\$m	March 2019 US\$m
Cost		
Land	15.3	15.3
Buildings	24.7	11.1
Plant and equipment	6.3	7.0
Finance lease assets	–	13.4
Total cost	46.3	46.8
Accumulated depreciation		
Buildings	(2.0)	(1.2)
Plant and equipment	(0.8)	(1.0)
Finance lease assets	–	(1.9)
Total accumulated depreciation	(2.8)	(4.1)
Net book value		
Land	15.3	15.3
Buildings	22.7	9.9
Plant and equipment	5.5	6.0
Finance lease assets	–	11.5
Fixed assets net book value	43.5	42.7
Domicile of fixed assets		
Australasia	8.7	9.7
United States	34.8	33.0
Fixed assets net book value	43.5	42.7

Fixed assets net book value	Land US\$m	Buildings US\$m	Plant and equipment US\$m	Finance lease assets US\$m	Total US\$m
Refer to Note					
31 March 2019					
Opening net book value	15.7	10.2	5.2	12.2	43.3
Exchange differences	(0.2)	(0.2)	(0.2)	–	(0.6)
Additions	–	0.7	2.0	0.4	3.1
Dispositions	(0.2)	–	–	–	(0.2)
Depreciation charge	–	(0.8)	(1.0)	(1.1)	(2.9)
Fixed assets net book value as at 31 March 2019	15.3	9.9	6.0	11.5	42.7
31 March 2020					
Opening net book value	15.3	9.9	6.0	11.5	42.7
Transfer of right-of-use assets	–	–	–	(11.5)	(11.5)
Exchange differences	(0.6)	(0.3)	(0.5)	–	(1.4)
Additions	–	4.3	1.0	–	5.3
Transfer of leased assets ⁽¹⁾	0.6	9.7	–	–	10.3
Dispositions	–	–	(0.1)	–	(0.1)
Depreciation charge	–	(0.9)	(0.9)	–	(1.8)
Fixed assets net book value as at 31 March 2020	15.3	22.7	5.5	–	43.5

- (1) In August 2019 the Group acquired the ArborGen US headquarters' premises in Ridgeville South Carolina, for \$14.5 million (including costs of \$0.1 million). Prior to acquisition these premises were recognised on the Group balance sheet as a finance lease asset and as a lease obligation. The value of the leased asset transferred at acquisition was \$10.3 million (refer to notes 14 and 22).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

14 Right-of-use Assets

Right-of-use assets net book value	Refer to Note	Land & Buildings US\$m	Plant & Equipment US\$m	Total US\$m
31 March 2020				
Opening net book value		–	–	–
Transfer from finance lease assets	13	10.7	0.8	11.5
Assets recognised under IFRS 16 ⁽¹⁾		4.0	1.4	5.4
Additions		0.2	0.6	0.8
Other transfers ⁽²⁾		(10.3)	–	(10.3)
Depreciation charge		(0.4)	(1.3)	(1.7)
Right-of-use assets net book value as at 31 March 2020		4.2	1.5	5.7

(1) This is initial recognition of the right-of-use assets existing at 1 April 2019 representing assets held under operating leases (refer to note 4).

(2) In August 2019 the Group acquired the ArborGen US headquarters' premises in Ridgeville South Carolina, for \$14.5 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 (refer to notes 13 and 22).

15 Intellectual Property

	Refer to Note	March 2020 US\$m	March 2019 US\$m
Opening balance		105.6	106.7
Capitalisation during period		4.1	4.7
Amortisation during period	7	(5.9)	(5.8)
Intellectual property		103.8	105.6

16 ArborGen Investment and Impairment

We regularly review the carrying value of the ArborGen cash generating unit to determine whether there has been a subsequent change in circumstances or conditions that requires an impairment to be taken through earnings. Our impairment review is undertaken on a 'Value-in-use' (VIU) basis, which is the estimated value to be derived from our continued ownership and operation of the ArborGen business.

In the prior year (31 March 2019 fiscal year), our approach was to utilise a set of cash flow assumptions that had already been sensitised for more conservative outcomes, particularly in the largest and most material market for ArborGen – the US, for impairment testing purposes (2019 Case). We have applied the same approach this year, utilising a set of cash flow assumptions reflective of more conservative outcomes particularly for the US, (which implicitly takes into account potential downsides), for impairment testing (2020 Case).

Consistent with the approach taken in the prior year, our impairment analysis utilises a 10-year plus terminal DCF valuation model. We use a 10-year period rather than a shorter time period because ArborGen's advanced genetic products, in the US market (the largest and most material market) are in the early stages of supply availability and adoption, and hence this period of time is deemed appropriate to adequately capture the scale-up of advanced genetics supply and adoption in the US. The same holds true for ArborGen's Brazil position where projected growth in advanced genetics sales, market share expansion and continued recovery in the forestry sector from its current depressed state, necessitate the use of a 10-year model. We use a DCF methodology because ArborGen's advanced products adoption profile does not lend itself to the application of short-term market multiple metrics to determine valuation, given the relatively early-stage of ArborGen's revenue, earnings and cash profile. With time these metrics will become directly applicable, but for now the Board believes a 10-year DCF approach is the most appropriate to use to assess impairment.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

Our DCF impairment model values only the projected cash flows from the existing core markets (i.e. Australia, New Zealand, United States and Brazil), with growth market opportunities outside of the core excluded from the analysis. Separate demand projections are determined for each geography and end-use market. The total addressable seedling market for each geography is then estimated, as is seedling type, production technology employed, production cost and sales price.

To highlight the assumptions that have been utilised to derive the 2020 Case cash flows, the model assumes -

- Minimal organic growth in ArborGen's US loblolly market share outside of recent acquisitive growth – i.e. the growth that is assumed is derived primarily from recent acquisition activity already undertaken and in place – i.e. the Jasper nursery in Texas, and the Taylor nursery in Edgefield, South Carolina;
- Modest recovery in the overall US loblolly market, with no assumed growth from the replanting of extensive timberland estates in the US South damaged by recent hurricanes;
- Minimal 'real' price increases for individual US seedling products despite the projected recovery in US saw timber prices supported by continued projected growth in US South saw timber demand and continued US R&D investment of circa \$4 million per annum rising to over \$5 million per annum over the next 10 years;
- That in the terminal year ArborGen's total advanced genetics seedlings sales in the US represent 57% (primarily mass control pollinated (MCP) adoption) of its total US loblolly sales. This adoption rate is significantly lower than ArborGen's projected US MCP seed supply as younger seed orchards mature and near-term supply constraints are overcome, and compares with a NZ adoption rate of over 80% of sales in recent years;
- Increasing overall OP and MCP weighted average prices reflecting an increasing proportion of higher value sub-category products;
- Limited recovery in the overall Brazilian eucalyptus forestry markets from current recessionary levels;
- Continued growth in Brazil following the recent expansion of ArborGen's internal production capabilities in Minas Gerais, Mato Grosso do Sul and Sao Paulo;
- Continued expansion of ArborGen's eucalyptus offering leveraging licensed International Paper and Gerdau's eucalyptus clones, and ArborGen's own eucalyptus advanced products; and
- ArborGen's advanced genetics sales as a percentage of its total eucalyptus in Brazil approaching 78% in the terminal year.

These cash flows are then discounted at a cost of capital that reflects the underlying risk inherent in the cash flow assumptions. Specifically, the discount rate applied to the DCF analysis was calculated using a derived weighted average cost of capital (WACC), with the cost of equity calculated using the Capital Asset Price Model and the cost of debt based on the risk-free rate plus the option adjusted spread for BBB rated bonds. Specifically, cash flows from each market that forms the ArborGen cash generating unit are discounted at separate WACC rates, or an overall weighted average derived nominal post-tax WACC of 11.0%.

The table below shows the assumptions and sensitivities for the critical US loblolly market compared with those used in last year's assessment. As an added sensitivity to test impairment, a change in discount rate is the simplest sensitivity to apply particularly given the DCF model assumes inputs at the conservative end of the spectrum of outcomes. In this instance, the post-tax WACC applied to the DCF model would need to increase to 16.4% before an impairment would arise, which we do not believe is within a reasonable range given the sector ArborGen operates in, and the relatively conservative inputs that underlie the longer term cash flows for the US loblolly market. The uptake of advanced genetics seedlings sales in the US loblolly market (primarily MCP adoption) is a key assumption in the model. This uptake progressively increases throughout the forecast period to the terminal year where it is assumed this uptake reaches 57%. However, keeping all other elements constant and excluding ANZ and Brazil from the valuation, even if the uptake reached 41% by the terminal year, this would not result in an impairment.

Given the headroom in the model and the sensitivity analysis that's been performed on the key assumptions including market size and market share, we consider it is not likely that the Covid-19 pandemic would result in an impairment.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

US\$ millions	2020 Case	2019 Case
US Loblolly Market - terminal year assumptions		
Loblolly market size - millions	900	905
ArborGen market share %	37.8%	40.7%
ArborGen unit sales - millions	340	368
% advanced genetics MCP	55%	53%
% advanced genetics Varietal	2%	2%
% traditional genetics	43%	45%
Total ArborGen valuation		
US inflation rate	3.0%	3.0%
Terminal Growth Rate (TGR) ⁽¹⁾	3.0%	3.0%
Nominal post-tax discount rate	11.0%	11.4%
ArborGen implied enterprise valuation ⁽²⁾	\$290.4	\$258.7
less net debt	\$29.6	\$23.5
ArborGen equity valuation	\$260.8	\$235.2
Discount Rate Sensitivity		
Nominal post-tax discount rate	16.4%	15.4%
ArborGen equity valuation	\$126.7	\$131.2
ArborGen Holdings carrying value of ArborGen	\$126.7	\$131.2
Terminal year sensitivities equity value impact (increase / decrease)	Equity value change by	
Total market size - 25 million	+/- \$4.2	+/- \$5.4
Market share by 1%	+/- \$4.0	+/- \$4.8
Advanced genetics adoption by 1%	+/- \$1.8	+/- \$2.3
Real MCP price by 5%	+/- \$8.6	+/- \$10.0

(1) A TGR of 3% in a 3% inflation environment equates to a 0% real TGR assumption.

(2) This represents the total ArborGen valuation and not just the US market.

17 Trade, Other Payables and Provisions

	March 2020 US\$m	March 2019 US\$m
Trade creditors	(6.6)	(6.6)
Accrued employee benefits ⁽¹⁾	(2.4)	(3.8)
Other payables	(1.3)	(0.4)
Seedling mortality	(0.2)	(0.1)
Seedling deposits from customers ⁽²⁾	(2.6)	(3.6)
Trade, other payables and provisions	(13.1)	(14.5)

(1) Includes accrued expense relating to options issued to ArborGen Inc Senior management in respect of 4.5% of ArborGen Inc's issued share capital (refer note 25).

(2) The deposits from customers will be recognised as revenue within 12 months as the seedlings are transferred to the customer.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

18 Term and Current Debt

Summary of repayment terms	March 2020 US\$m	March 2019 US\$m
Due for repayment:		
Less than one year	(6.3)	(0.5)
between one and two years	(8.5)	(6.6)
between two and three years	(3.9)	(0.6)
between three and four years	(1.0)	(0.6)
between four and five years	(1.0)	(0.6)
after five years	(16.8)	(8.1)
Total term and current debt	(37.5)	(17.0)

Summary of interest rates by repayment period	March 2020	March 2019
Due for repayment:		
Less than one year	4.98%	5.05%
between one and two years	4.96%	5.06%
between two and three years	4.80%	4.95%
between three and four years	4.38%	4.95%
between four and five years	4.38%	4.95%
after five years	4.13%	4.94%
Current debt - weighted average interest rate	4.98%	5.05%
Term debt - weighted average interest rate	4.44%	4.95%

The weighted average interest rates reflect the effective interest rate, inclusive of fee amortisations.

At 31 March 2020 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, however AgSouth have agreed to defer the 2020 principal repayment (and interest payments) until 1 August 2020.

ArborGen's revolving facility agreement with Synovus is a \$17 million letter of credit (LOC) facility, was favourably amended in October 2019 extending the expiry from 31 August 2020 to 31 August 2021 and increasing the annual 60-day (continuous) pay down maximum borrowing limit (between 1 March and 31 August) to \$7.5 million (previously \$6 million). Synovus has agreed to reduce the pay down period for this year to only a 30-day period rather than the usual 60-day period. In addition, Synovus requires ArborGen to maintain a certificate of deposit (restricted cash) of \$2 million (2019; \$4 million). 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 \$25 million respectively.

ArborGen New Zealand Unlimited (ArborGen NZ) has a NZ\$2 million line of credit facility, which is subject to renewal on an annual basis.

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 25).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

The second new facility, drawn through Rubicon Industries USA LLC (RIUSA), was a \$11.5 million mortgage from Synovus (currently \$11.3 million outstanding), 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 2.94%). 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 31 March 2020 the Group held cash and liquid deposits of \$7.9 million (including restricted cash of \$2 million on deposit with Synovus) (2019: \$7.2 million, including restricted cash of \$4 million) and had debt of \$37.5 million and lease liability of \$5.7 million (being predominantly leases formerly classified as operating) (2019: \$17.0 million of debt plus \$12.0 million of lease obligations).

19 Capital

Share capital	March 2020 US\$m	March 2019 US\$m
Share capital at the beginning of the period	201.0	201.0
Issue of shares - transfer from share based payment reserve ^{(1) (3)}	1.2	–
Vesting of interest - Non-Executive Directors' Share Plan ⁽²⁾	0.1	–
Share capital	202.3	201.0

Number of shares	March 2020	March 2019
Opening shares on issue	489,574,393	487,908,343
Issue of shares ⁽¹⁾	9,000,000	–
Issue of shares ^{(2) (3)}	820,998	1,666,050
Number of shares on issue	499,395,391	489,574,393
Unissued shares ⁽¹⁾	–	9,000,000
	499,395,391	498,574,393

Treasury stock	March 2020	March 2019
Opening shares on issue	1,666,050	–
Issue of shares ^{(2) (3)}	820,998	1,666,050
Vesting of shares ⁽²⁾	(555,348)	–
Number of shares on issue	1,931,700	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 NZ\$27.01 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 note 20 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 NZ\$18.27 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 20 for share based payment information).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

20 Reserves

	March 2020 US\$m	March 2019 US\$m
Retained earnings		
Opening balance	(53.8)	(49.5)
Net loss	(2.7)	(4.3)
Closing balance	(56.5)	(53.8)
Cash flow hedge reserve ⁽¹⁾		
Opening balance	-	-
Fair value gains / (losses) for the year	(0.7)	-
Closing balance	(0.7)	-
Share based payments reserve		
Opening balance	1.3	-
Non-Executive Directors' Share Plan ⁽²⁾	0.2	0.1
Non-Executive Directors' Share Plan shares vested ⁽³⁾	(0.1)	-
Executive settlement share plan shares vested ⁽⁴⁾	(1.2)	1.2
Closing balance	0.2	1.3
Currency translation reserve		
Opening balance	(0.9)	(0.1)
Translation of independent foreign operations	(2.5)	(0.8)
Closing balance	(3.4)	(0.9)
Total reserves	(60.4)	(53.4)

(1) The cash flow hedging reserve records the net movement of cash flow hedging instruments, being interest rate swaps (refer to notes 4, 5, 18 & 27).

(2) Under the two Rubicon Non-Executive Directors' Share Plans in the current period \$157,697 was accrued in relation to the cost of the share plan (NZ\$244,132) (2019: \$99,487 (NZ\$146,164)).

(3) Under the 2018 Rubicon Non-Executive Directors' Share Plan, in the current period, 555,348 shares vested and the relevant portion of the reserve transferred to share capital (refer to notes 19).

(4) Pursuant to the settlement agreed with the former CEO and CFO on 29 March 2019, ArborGen Holdings issued nine million new ordinary shares with the relative portion of the reserve being transferred to share capital (refer to notes 19).

21 Capital Expenditure Commitments

In November 2018 ArborGen entered into agreements with TexMark Timber Treasury, L.P. (TTT) initially to manage and then from 1 April 2019 lease TTT's nursery and seed orchard facility located in Texas. ArborGen has the right to acquire the leased properties for \$2.5 million, payable upon the expiration of the five-year lease period. It is ArborGen's current intention to exercise this option and the present value of this amount is recorded as a liability in term lease obligation (refer to note 22).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

22 Lease Obligations

The expected future minimum rental payments required under leases (including capitalised finance leases) that have initial or remaining non-cancellable lease terms in excess of one year at 31 March 2020 are as follows:

	Refer to Note	March 2020 US\$m	March 2019 US\$m
Lease obligations are reconciled as follows:			
Current lease obligations	27	(1.2)	(0.8)
Term lease obligations	27	(4.5)	(11.2)
Total lease obligation		(5.7)	(12.0)

Financing expense includes interest payments relating to lease obligations of \$0.7 million (2019: \$1.0 million).

The lease expense for short-term leases was \$300,000 and low value leases \$40,000.

In November 2018 ArborGen entered into a management agreements with TTT, which converted to a lease agreement from 31 March 2019. The terminal payment (or deferred settlement) is the \$2.5 million purchase price, payable at expiration of the lease (refer to note 21).

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 (2019: \$12.0 million). An additional consequence of this acquisition is that the Group no longer has any obligations under the original lease guarantee given by the then partners to the landlord nor the guarantees given to the former partners (International Paper and WestRock) when the Group moved to full ownership of ArborGen Inc.

23 Remuneration

Key management compensation

	Refer to Note	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Salaries and other short-term employee benefits		2.8	2.8
Termination benefits	7	–	1.8
Share based payments (executive settlement share plan) ⁽¹⁾	7, 19, 20 & 25	–	1.2
Other payments ⁽²⁾	7	1.0	1.0
		3.8	6.8

Key management compensation excludes Directors remuneration which is disclosed in notes 7 and 25.

(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) Upon the 100% acquisition of ArborGen Inc a plan was put in place to retain ArborGen senior management, split across ten individuals. The benefit under this plan totalled \$2.0 million, with payments made by ArborGen Inc of \$1.0 million in July 2018 and the final \$1.0 million in June 2019.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

24 Segmental Information Summary

The Group has one reportable segment and the analysis is as follows:

	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Forestry genetics		
Operating revenue	56.9	49.1
Financing expense	(2.3)	(2.2)
Tax (expense) / benefit	1.1	0.5
Net loss after taxation from continuing operations	(1.1)	(0.2)
Total assets	200.4	192.1
Liabilities	(58.3)	(45.9)
Capital expenditure	(9.4)	(7.4)
Depreciation and amortisation	(9.5)	(8.7)
Reconciliation		
Net earnings after taxation from discontinued operations	-	(0.1)
Total assets - discontinued	-	0.1
Corporate		
Net earnings loss after taxation from continuing operations	(1.6)	(4.0)
Total assets	0.3	1.8
Liabilities	(0.5)	(0.5)
Total Group		
Total revenue	56.9	49.1
Financing expense	(2.3)	(2.2)
Tax (expense) / benefit	1.1	0.5
Net loss after taxation from continuing operations	(2.7)	(4.2)
Net earnings after taxation from discontinued operations	-	(0.1)
Total assets - per balance sheet	200.7	194.0
Total assets - discontinued	-	0.1
Total assets - continuing	200.7	193.9
Total liabilities	(58.8)	(46.4)
Capital expenditure	(9.4)	(7.4)
Depreciation and amortisation	(9.5)	(8.7)

The Group's geographical analysis is as follows:

Australasia		
Operating revenue	10.3	7.0
Non current assets	8.9	9.7
South America		
Operating revenue	7.9	6.1
Non current assets	0.3	0.4
North America		
Operating revenue	38.7	36.0
Non current assets	145.8	142.2
Total Group		
Operating revenue ⁽¹⁾	56.9	49.1
Non current assets	155.0	152.3

(1) The Group's revenue represents sales of seedlings and treestock of \$55.6 million (2019: \$47.9 million) and the provision of logistic services \$1.2 million (2019: \$1.2 million).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

25 Related Party Transactions and Balances

	Refer to Note	March 2020 US\$m	March 2019 US\$m
Income Statement			
Non-Executive Directors' Share Plan ⁽¹⁾	7, 19 & 20	(0.2)	(0.1)
Directors remuneration (excluding Non-Executive Directors' Share Plan)	7	(0.3)	(0.3)
Executive settlement share plan	7, 19, 20 & 23	–	(1.2)
ArborGen senior management share option scheme ⁽²⁾		(0.3)	(0.3)
Management fees from Tenon Clearwood Limited Partnership (TCLP) ⁽³⁾		–	0.3
Interest on subordinated notes ⁽⁴⁾	18	(0.1)	–
Balance sheet			
ArborGen senior management share option scheme ⁽²⁾	17	(0.1)	(0.6)
Subordinated notes ⁽⁴⁾	18	(2.9)	–

(1) On 17 September 2018 (at the Annual Shareholders' meeting) shareholders passed a resolution approving the Rubicon Non-Executive Directors' Share Plan. Under the share plan, 1,666,050 new shares were issued to the Trust on 18 September 2018. The Trust will hold the shares on behalf of the three Directors (Tom Avery, Ozey Horton, and Paul Smart, equally) until the vesting terms are met. The shares will 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.

On 17 September 2019 (at the Annual Shareholders' meeting) shareholders passed a resolution approving the 2019 Rubicon Non-Executive Directors' Share Plan. Under the share plan, 820,998 new shares were issued to the 2019 Trust. The 2019 Trust will hold the shares on behalf of the 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 (refer to notes 7, 19 & 20).

(2) ArborGen Inc senior executive team hold options in respect of 4.5% of ArborGen's issued share capital. These options are fully vested and can be exercised (subject to service conditions) by the holders, at \$423 per share (5,640 options on issue), upon an IPO of ArborGen Inc, a sale of substantially all of the assets of ArborGen Inc, or upon a sale or restructuring event (including the issuance of new share capital to a third party) where following such event ArborGen Holdings holds less than a 50.01% ownership position.

(3) ArborGen (Rubicon Clearwood GP Limited) remained the general partner for its former subsidiary TCLP until 31 March 2019, following the sale of Group's 44.88% interest in January 2018. The Group received a management fee for services provided of \$250,000 per annum.

(4) As part of the acquisition of the US Ridgeville headquarters premises subordinated Notes were 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 18).

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

26 Principal Operations

ArborGen Holdings Limited (a New Zealand incorporated limited liability company) is the holding company of the ArborGen Group. The principal subsidiaries, as at 31 March 2020, were:

	Country of Domicile	Interest % March 2020	Interest % March 2019	Balance Date	Principal Activity
Principal subsidiaries					
Rubicon Forests Holdings Limited	NZ	100	100	31 March	Holding company
Rubicon Clearwood GP Limited ⁽¹⁾	NZ	100	100	31 March	Former General Partner to TCLP
Rubicon Industries USA LLC	USA	100	100	31 March	Holds ArborGen, Inc investment
ArborGen Inc ⁽²⁾	USA	100	100	31 March	Forestry genetics
<i>ArborGen Inc subsidiaries</i>					
ArborGen Comercio de Produtos Florestal Importacao e Exportacao LTDA	Brazil	100	100	31 March	Forestry genetics
ArborGen Tecnologia Florestal LTDA	Brazil	100	100	31 March	Holding company
ArborGen New Zealand Holding LLC	USA	100	100	31 March	Holding company
ArborGen New Zealand Unlimited	NZ	100	100	31 March	Forestry genetics
ArborGen Australia Holdings Pty Ltd	Australia	100	100	31 March	Holding company
ArborGen Australia Pty Ltd	Australia	100	100	31 March	Forestry genetics

(1) Rubicon Clearwood GP Limited retired as the general partner of TCLP on 31 March 2019. On 1 April 2020 Rubicon Clearwood GP limited was amalgamated into its parent Rubicon Forests Holdings Limited.

(2) ArborGen Holdings owns 100% of ArborGen Inc's issued share capital, or 95% by economic interest (given the 5% of outstanding warrants). These warrants arose out of ArborGen Inc's purchase of Cellfor in 2012, and represent part-consideration for that acquisition. The warrants are automatically exercised, for no payment, upon an IPO of ArborGen Inc, or alternatively at any time if 66.67% of the warrant holders so elect. The warrants can also be exercised by ArborGen Inc, upon either a sale of substantially all of the ArborGen Inc business or of a sale of 50.01% or more of ArborGen Inc's share capital.

27 Financial Instruments

(a) Market risk

(i) Exposure to currency risk

The functional currency of the Group is the US\$ and the risk to the Group's equity and earnings are from assets, liabilities, revenues and costs in currencies denominated in currencies other than US\$. The Group's exposure to foreign currency risks on financial instruments is shown in the following:

in US\$m	March 2020		March 2019	
	US\$	Non US\$	US\$	Non US\$
Cash, liquid deposits and restricted cash	5.7	2.2	6.1	1.1
Trade debtors and other receivables	7.4	1.2	7.0	0.9
Trade creditors and other payables	(8.5)	(4.6)	(9.5)	(5.0)
Current debt	(6.3)	–	(0.5)	–
Non current debt	(31.2)	–	(16.5)	–
Lease obligation	(5.5)	(0.2)	(12.0)	–
Gross balance sheet exposure		(1.0)		(3.0)

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

(c) Liquidity risk

The following are contractual maturities of financial liabilities and net settled derivatives. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying value US\$m	Total cash flows US\$m	0-6 months US\$m	6-12 months US\$m	1-2 years US\$m	2-5 years US\$m	Over 5 years US\$m
Financial liabilities							
31 March 2019							
Non derivative financial liabilities							
Trade and other payables	(10.4)	(10.4)	(9.3)	(0.2)	(0.3)	(0.6)	–
Debt	(17.0)	(20.4)	(0.5)	–	(6.9)	(2.2)	(10.8)
Lease obligation	(12.0)	(18.6)	(0.8)	(0.8)	(1.6)	(4.4)	(11.0)
Financial liabilities as at 31 March 2019	(39.4)	(49.4)	(10.6)	(1.0)	(8.8)	(7.2)	(21.8)
31 March 2020							
Non derivative financial liabilities							
Trade and other payables	(9.0)	(9.0)	(8.1)	–	–	(0.9)	–
Debt	(37.5)	(50.9)	(0.8)	(5.6)	(14.4)	(6.8)	(23.3)
Lease obligation	(5.7)	(6.5)	(0.6)	(0.6)	(1.1)	(3.2)	(1.0)
Financial liabilities as at 31 March 2020	(52.2)	(66.4)	(9.5)	(6.2)	(15.5)	(10.9)	(24.3)

28 Contingent Liabilities

There are no known contingent liabilities in the Group as at 31 March 2020 (2019: nil).

29 Asset Backing - Non-GAAP Measure

At 31 March 2020 the net asset backing was 29 cents per share (cps) (NZ\$48 cps), (2019: 30 cps, NZ\$44 cps); and net tangible asset backing was 8 cps (NZ\$13 cps) (2019: 8 cps, NZ\$12 cps), calculated on the basis of shares on issue at 31 March 2020 (excluding treasury stock) 497,463,691 (2019: 496,908,343).

30 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.

In contrast with US-GAAP, IFRS requires the capitalisation of ArborGen Inc's development spend, the amortisation of intellectual property, and the accrual of the change in fair value of biological assets on the seedling crop each year prior to its sale. Because of these differences, US-GAAP results, and in particular US-GAAP underlying earnings' cannot be easily derived from reported IFRS numbers.

EBITDA, US-GAAP EBITDA and US-GAAP underlying earnings are all non-GAAP financial measures 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.

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

The following table provides users useful pro-forma ArborGen information for year-on-year comparison and reconciles net earnings to 'US-GAAP underlying earnings'.

ArborGen	Refer to Note	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Revenue	24	56.9	49.1
Cost of sales	24	(37.2)	(32.0)
Gross profit		19.7	17.1
Net loss after taxation from continuing operations	24	(1.1)	(0.2)
less Tax benefit	24	(1.1)	(0.5)
plus Financing expense	24	2.3	2.2
Operating loss before financing expense		0.1	1.5
plus Depreciation and amortisations	7	9.5	8.7
EBITDA (NZ IFRS)		9.6	10.2
Add back NZ IFRS adjustments			
Investment in intellectual property	15	(4.1)	(4.7)
Change in fair value of biological assets	11	0.6	(0.8)
Other IFRS adjustments (including IFRS 16 adjustment)		(0.7)	0.3
US-GAAP EBITDA		5.4	5.0
Add back significant items			
Inventory adjustment and extreme weather event related expenses	7	3.7	–
Transaction-related costs	7	0.2	1.0
Restructuring costs	7	–	0.6
Less Gain on sale		–	(0.5)
US-GAAP underlying earnings		9.3	6.1

31 Discontinued Operations

In the prior period, the Group disposed of its interest in TCLP, and Tenon went into voluntary liquidation. Both of these operations are classified as discontinued in these financial statements.

Income Statement for the period ended	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Loss on disposal	–	(0.1)
Net profit (loss) after taxation from discontinued operations	–	(0.1)

Statement of cash flows for the period ended	Year ended March 2020 US\$m	Year ended March 2019 US\$m
Net cash from:		
Investing activities	–	2.4
Net cash from discontinued operations	–	2.4

ArborGen Holdings Limited and Subsidiaries

Notes to the Consolidated Financial Statements

For the period ended 31 March 2020

32 Subsequent Events

In April 2020 ArborGen Brazil finalised agreements with Brotale to lease a eucalyptus nursery in Ribas do Rio Pardo, in the Brazilian state of Mato Grosso do Sul. The nursery will initially be producing 12 million eucalyptus seedlings, including genetically improved clonal material, and plans to increase its production to 15 million seedlings by 2021.

On 5 May 2020 ArborGen Inc received US\$2.35 million from the US Small Business Administration (SBA) under the Paycheck Protection Program (PPP). The PPP is a loan designed to provide a direct incentive for businesses with fewer than 500 employees in the US to keep their workers on the payroll due to the uncertainties caused by Covid-19. SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll costs, rent, mortgage interest, or utilities payments over the 8 weeks after receiving the loan. At least 75% of the forgiven amount must have been used for payroll costs which includes employee salaries, hourly wages, sick or medical leave, and group health insurance premiums. ArborGen Inc expects to meet the requirements to have the loan forgiven.

Our New Zealand subsidiary met the eligibility criteria for the New Zealand Government wage subsidy and after applying in March 2020 received NZ\$391k in April. This amount has been recorded as a receivable and liability in the 31 March 2020 accounts.

Our Australian subsidiary has received Jobkeeper payments from the Australian Government in April of AU\$26k and expect to continue to receive monthly payments (approximately AU\$10k per month) through until September 2020.

The Board has determined to establish a new long term incentive plan, conditional upon the cancellation of the existing management options described in note 25 above. The terms of the new long term incentive plan will (once finalised) be outlined in the governance section of the annual report, to be released in June 2020. Refer to page 45.



Independent Auditor's Report

To the Shareholders of ArborGen Holdings Limited

Opinion

We have audited the consolidated financial statements of ArborGen Holdings Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2020, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 7 to 36, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of corporate finance advice, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be US\$2m.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
------------------	--

Intangible assets – impairment assessment

As set out in note 15 of the financial statements the Group has US\$103.8m of intellectual property recorded on its balance sheet relating to the ArborGen business.

The impairment assessment in relation to the ArborGen business, or Cash Generating Unit (CGU) is considered to be a key audit matter as a result of the significance of the intellectual property asset to the Group, and the level of judgement required when determining the value in use of ArborGen.

The value in use of ArborGen is determined by undertaking a discounted cash flow analysis which involves management making a number of assumptions in relation to forecast future cash flows, determining an appropriate weighted average cost of capital (WACC) and terminal value (TV) growth rate. Each of these inputs requires judgement to be applied.

In performing our audit procedures in this area we:

- assessed the appropriateness of the valuation methodology applied by management;
- examined the robustness of the financial model used by management to calculate ArborGen’s value in use;
- tested the key assumptions driving the forecast future cash flow. Of particular importance are;
 - changes in market share;
 - average selling prices and gross margin linked to the projected uptake of Mass Controlled Pollinated (MCP) product primarily in the US market;
- undertook sensitivity analysis on key assumptions to assess the impact on the carrying value of ArborGen;
- tested the calculation of the WACC and TV growth rate, including obtaining input from our valuation specialists;
- assessed management’s consideration of COVID-19 with respect to the impairment model; and
- ensured the disclosures in the financial statements properly reflect the judgements and estimates made by management.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Chairman’s letter that accompanies the consolidated financial statements and the audit report, and the Annual Report, which is expected to be made available to us after the date of the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors’ responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



**Auditor's responsibilities
for the audit of the
consolidated financial
statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

**Peter Gulliver, Partner
for Deloitte Limited**

Auckland, New Zealand

27 May, 2020

Corporate Governance

This section describes how ArborGen's business practices reflect corporate governance best practice.

This Annual Report was approved by the Board on 16 June 2020.



Dave Knott Jr
Chairman of the Board



Paul Smart
Audit Committee Chairman

All references to \$ is to US\$ unless otherwise stated.

Ethical Standards

Directors set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards throughout the organisation.

The Company's Code of Conduct and Ethics, Board Charter and other documents related to corporate governance, collectively and individually encourage high standards of ethical and responsible behaviour.

The Code of Conduct and Ethics sets out clear expectations for ethical decision-making and personal behaviour by Directors and employees in relation to situations where their or ArborGen's integrity could be compromised. These include conflicts of interest, proper use of company property and information, fair dealings with employees and other stakeholders, compliance with laws and regulations, reporting of unethical decision making and dishonest behaviour, and related matters.

Included in the Code of Conduct and Ethics are mechanisms for dealing with breaches of the Code. The Code of Conduct and Ethics has been communicated to all Directors and employees of the Company, and is also published on our corporate website www.arborgenholdings.com.

ArborGen Holdings' Security Trading Policy sets out restrictions on its personnel buying and selling financial products when in possession of material information. The policy employs "black-out" periods to restrict persons covered by the policy who are likely to have inside information from trading. This group of personnel must also obtain the written consent of the General Counsel prior to any transaction involving ArborGen Holdings' securities. ArborGen Holdings' Securities Trading Policy is published on our corporate website.

Board Composition and Performance

There is a balance of independence, skills, knowledge, experience, and perspectives among Directors that allows the Board to work effectively.

The Board's primary role and obligation is to protect and enhance the value of the assets of the Company and to act in the best interests of the Company. The Board has statutory responsibility for the activities of the Company, which in practice is partially exercised through delegation to the three Board standing committees (Audit, Remuneration and Nominations).

The Board Charter outlines a number of key roles and responsibilities of the Board, including:

- the review and approval of appropriate corporate strategies and objectives, transactions relating to acquisitions and divestments, capital expenditures above delegated authority limits, financial and capital structure policies, financial statements and reports to shareholders;
- the review of performance against strategic objectives; and
- ensuring that appropriate systems and processes are in place so that the Group is managed in an honest, ethical, responsible and safe manner.

The Board Charter is published on our corporate website.

The roles of, and duties associated with the Board and management are separate at ArborGen Holdings. The Chairman's role is to foster a constructive corporate governance structure, manage the Board effectively, provide leadership to the Board, chair shareholders meetings and to interface with senior management.

The non-executive Directors' principal role is to provide independent judgement. This includes bringing outside experience and objectivity on all issues which come before the Board, having a detailed knowledge of the Company's business activities and on-going performance, so they can make informed decisions.

Board Composition

The Company's Constitution requires a minimum of three Directors and provides for a maximum of nine.

As at 31 March 2020 the Directors were:

DM Knott/DM Knott Jr (Chairman)⁽¹⁾ THG Adams TA Avery OK Horton Jr PR Smart R Tandon

(1) In February 2017, Mr DM Knott appointed Mr DM Knott Jr by notice in writing as his alternate Director. The remaining Directors unanimously approved the appointment of Mr DM Knott Jr in that role.

During the 12-month period ended 31 March 2020, HA Fletcher (on 14 September 2019) resigned as a Director.

THG Adams was appointed to the Board on 12 August 2019.

Of the six Directors, two are ordinarily resident in New Zealand. In addition, the Board has identified four of the Directors as being Independent Directors. As at 31 March 2020, the Independent Directors and non-Independent Directors of the Board were:

Independent Directors:

THG Adams TA Avery OK Horton Jr PR Smart

Non-Independent Directors:

DM Knott/DM Knott Jr⁽¹⁾ R Tandon⁽¹⁾

(1) Messrs Knott, Knott Jr and Tandon are Substantial Product Holders, as defined by the Financial Markets Conduct Act 2013 in ArborGen Holdings shares.

The Company's Board represents a balance of independence, skills, knowledge, experience and perspectives (refer Board biographies for details), thereby ensuring the effectiveness of the Board in guiding the strategic direction of the Company and overseeing management.

Each new Director receives a letter outlining the key terms of their appointment, including the Company's expectations for the role of the Director, that is required to be countersigned to confirm agreement.

Directors receive comprehensive information on the Company's operations and have access to any additional information they consider necessary for informed decision-making. The Company is committed to ensuring its Directors have the knowledge and information to discharge their responsibilities effectively.

Board Committees

The Board uses committees where this enhances its effectiveness in key areas while retaining Board responsibility.

The Board has three permanent committees, being the Audit Committee, the Remuneration Committee and the Nominations Committee. Committees enhance the effectiveness of the Board through closer examination of issues and more efficient decision making. The committees assist the Board in the conduct of its responsibilities and report to the full Board on all material matters and issues requiring Board decisions. All Board Directors receive copies of all committee minutes and papers and can attend the committee meetings.

Each permanent committee has adopted a formal Charter addressing purpose, constitution and membership, authority, reporting procedures and evaluation of the committee. These Charters are published on our corporate website.

Audit Committee Members:

PR Smart (Chairman) THG Adams TA Avery OK Horton Jr

The Audit Committee is comprised solely of non-executive Directors of the Company and is chaired by an Independent Director. It has been determined by the Board that several members of the Audit Committee have an adequate accounting or financial background as defined in the NZX Listing Rules. The majority of the members of the Audit Committee are Independent Directors. Management may only attend Audit Committee meetings at the invitation of the Committee.

Further information on the Audit Committee is included under the following Reporting and Disclosure section.

Remuneration Committee Members:

TA Avery (Chairman) OK Horton Jr DM Knott Jr R Tandon

The Remuneration Committee is responsible for evaluating the performances of the senior executives of the Company, setting the remuneration packages for senior executives, and recommending to the Board the remuneration of the senior executives and non-executive Directors. The chairman of the Remuneration Committee is an Independent Director as are half of the members. Management may only attend Remuneration Committee meetings at the invitation of the Committee.

Nominations Committee Members:

DM Knott Jr (Chairman) TA Avery OK Horton Jr PR Smart R Tandon

The Nominations Committee is responsible for making recommendations on Director appointments. The majority of the members of the Nomination Committee are Independent Directors.

In addition to the three permanent committees noted above, the Board establishes committees on an “as required” basis to address specific issues that arise. The Board believes this enhances its effectiveness through closer scrutiny of specific issues. Currently there are no such committees operating.

In the event of a takeover, the Board’s protocols require the immediate formation of a subcommittee (the Takeovers Committee), comprised of non-interested non-executive Directors, which will have the authority to make binding decisions in respect of the takeover, including:

- retaining independent legal and financial advisers;
- appointing an independent adviser for the purposes of the Takeovers Code;
- negotiating with the bidder;
- ensuring strict process separation and independence from interested Directors; and
- approving any announcements or communications relating to the potential transaction.

Attendance at Board and Committee Meetings

The table below shows Directors’ attendance at the Board and committee meetings during the year ended 31 March 2020.

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings held	9	2	2	3
Dave Knott	9	n/a	2	3
George Adams ⁽¹⁾⁽³⁾	7	n/a	n/a	n/a
Tom Avery	9	2	2	3
Hugh Fletcher ⁽²⁾	4	1	2	1
Ozey Horton	9	2	2	3
Paul Smart	9	2	2	3
Ranjan Tandon ⁽⁴⁾	9	2	2	3

(1) Appointed as a member of the Board effective 12 August 2019.

(2) Ceased to be Director effective 14 September 2019.

(3) Appointed as a member of the Audit Committee effective 13 December 2019.

(4) Resigned as a member of the Audit Committee effective 13 December 2019.

Reporting and Disclosure

The Board demands integrity both in financial and non-financial reporting and in the timeliness of material disclosures of entity affairs.

The Board is ultimately responsible for ensuring the quality and integrity of the Company’s financial reports. To achieve this, the Company has in place a structure to independently verify and safeguard the integrity of the Group’s reporting. The Audit Committee constitutes a key component of this structure.

The Audit Committee is well resourced and operates under a formal written Charter. The Audit Committee’s terms of reference include the following duties and responsibilities:

- To review the effectiveness of the internal control framework across the ArborGen Group with management and the independent Auditor;
- To review the Group's accounting policies, financial reporting practices, and auditing practices;
- To ensure that the Board is properly and regularly informed and updated on corporate financial matters;
- To review all financial statements of the Group and advise all Directors whether these financial statements comply with the appropriate laws and regulations;
- To confirm the integrity of the Group's financial statements in terms of relevance, reliability, comparability and timeliness;
- To monitor and review the Group's compliance with regulatory and statutory requirements and obligations;
- To maintain direct communication with the independent Auditor;
- To make recommendations to the Board as to the appointment and discharge of the independent Auditor and to ensure that the independent Auditor or lead audit partner is changed at least every five years;
- To pre-approve non-audit services; and
- To confirm the independence of the independent Auditor.

Diversity

The Group is committed to providing equal employment opportunities and believes it is in compliance with this commitment. The Company ensures its selection processes for recruitment and employee development opportunities are free from bias and are based on merit and the Board has practices in place to ensure diversity and fairness within the organisation. The Company has a flexible working programme that permits work/life balance. ArborGen has a formal Diversity and Inclusion Policy which sets out how ArborGen will set measurable objectives for achieving and maintaining diversity and inclusion, and how it will assess its progress towards achieving these objectives. ArborGen's Diversity and Inclusion Policy is published on our corporate website.

As at 31 March 2020, five of the ArborGen Group's senior executives were female, being the Company Secretary & Performance Optimisation Director (ArborGen), the General Manager of ArborGen Brazil, VP Finance and Accounting (ArborGen Inc), Varietal Manufacturing Director (ArborGen Inc) and the Finance Manager of ArborGen Australasia.

The following table shows the gender split for ArborGen Holdings only as at 31 March 2020 as compared to the split for the previous period ending 31 March 2019:

	March 2020		March 2019	
	Women	Men	Women	Men
Board of Directors	0	6	0	6
Officers	1	2	1	1

Director and Management Shareholdings, Remuneration

The remuneration of Directors and executives is transparent, fair, and reasonable.

Director Equity Holdings

The Company believes it is appropriate to have Directors' and executives' remuneration aligned with the performance of the Company, and that the ownership of ArborGen Holdings' shares is a good way of achieving this goal. Consistent with this policy, on 17 September 2018 (at the 2018 Annual Shareholders' Meeting) shareholders passed a resolution approving the Non-Executive Directors Share Plan (2018 Share Plan). Under the 2018 Share Plan, 1,666,050 new shares in the Company were issued to a trustee to be held on behalf of the three independent Directors elected to the Board at that Shareholders' meeting (TA Avery, OK Horton, and PR 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 (being 18 September 2018), provided that the Director remains a Director of the Company on the relevant anniversary date (refer to notes 19 and 25 to the Financial Statements for more detail). The requisite vesting terms for the first tranche were met on 18 September 2019, and the corresponding ArborGen Holdings' shares were transferred to each of TA Avery, OK Horton and PR Smart, equally.

On 17 September 2019 (at the 2019 Annual Shareholders' Meeting) shareholders passed resolutions electing THG Adams as an independent Director of ArborGen Holdings and approving the issuance of NZ\$150,000 of new shares to THG Adams under the 2019 Non-Executive Directors Share Plan (2019 Share Plan). Under the 2019 Share Plan, 820,998 shares were issued to a trustee to be held on behalf of THG Adams. These shares will vest to THG Adams in three equal tranches on the first, second and third anniversaries following the date of issue (being 18 September 2019), provided THG Adams remains a Director of the Company on the relevant anniversary date (refer to notes 19 and 25 to the Financial Statements for more detail).

At 31 March 2020, Directors of the Company held the following relevant interests (as defined in the Financial Markets Conduct Act 2013) in ArborGen shares:

Name	Position	Number of Shares
DM Knott / DM Knott Jr	Chairman and Non-executive Director	137,663,111
R Tandon	Non-executive Director	86,108,419
TA Avery	Non-executive Director ⁽¹⁾	553,350 (185,116 vested)
OK Horton	Non-executive Director ⁽¹⁾	553,350 (185,116 vested)
PR Smart	Non-executive Director ⁽¹⁾	553,350 (185,116 vested)
THG Adams	Non-executive Director ⁽²⁾	820,998

(1) Shares issued in relation to the 2018 Share Plan. For each of TA Avery, OK Horton, and PR Smart, 368,234 of their 553,350 shares are held in trust until the vesting terms are met by that Director (refer notes 19 and 25 to the Financial Statements for more detail).

(2) Shares issued in relation to the 2019 Share Plan, held in trust until the vesting terms are met for Director THG Adams (refer notes 19 and 25 to the Financial Statements for more detail).

The Company's remuneration policies aim to attract and retain talented and motivated Directors and executives who will contribute to enhancing the performance of the Company.

Non-Executive Director Remuneration

The Company's remuneration policy for Directors is to remunerate Directors at levels that are fair and reasonable in a competitive market environment taking into account the skills, knowledge and experience required by the Company.

The remuneration earned, prior to any taxation liability, by non-executive Directors of ArborGen for services in their capacity as Directors during the twelve-month period ended 31 March 2020 was:

	Directors Fees NZ\$	Shares Vested NZ\$	Cash Tax Payment NZ\$	Total Remuneration NZ\$
DM Knott	33,250			33,250
DM Knott Jr (Chairman) ⁽¹⁾	33,250			33,250
HA Fletcher (retired) ⁽²⁾	28,363			28,363
R Tandon	62,500			62,500
TA Avery ⁽⁶⁾	62,500	50,000	17,688	130,188
OK Horton Jr ⁽⁶⁾	62,500	50,000	17,688	130,188
PR Smart ⁽³⁾⁽⁶⁾	91,000	50,000	17,688	158,688
THG Adams ⁽⁴⁾⁽⁵⁾	39,742			39,742
Total	413,105	150,000	53,064	616,169

(1) Mr Knott's fee was reduced by \$28,500 from 1 April 2019. From 1 April 2020 until 30 September 2020, Mr Knott further reduced his fee to NZ \$1.

(2) Retired on 14 September 2019.

(3) Mr Smart received an additional fee of NZ\$28,500 as Chairman of the Audit Committee.

(4) Appointed on 12 August 2019.

(5) Does not include any amounts in relation to the 2019 Non-Executive Directors Share Plan.

(6) Under the terms of the 2018 Rubicon Non-Executive Directors Share Plan on 18 September 2019 the first tranche of 555,348 shares vested to the three Directors (185,116 each) together with the cash tax payments.

Non-executive Directors are not entitled to receive retirement payments.

Executive Director and Employee Remuneration

The Group's Remuneration Policy aims to attract, retain and incentivise employees in order to drive and enhance Company performance. Performance incentive payments are determined by the Remuneration Committee and are calculated by measuring actual performance outputs against target individual and/or Company objectives.

In accordance with Section 211 of the Companies Act, remuneration and other benefits (including performance benefits and all redundancy payments) which in total exceeded NZ\$100,000 per annum received by employees of ArborGen and its subsidiaries (i.e. including ArborGen Inc. and its respective subsidiaries) in the period ended 31 March 2020 is summarised in the following table:

NZ\$000		Number of Employees		NZ\$000		Number of Employees	
100	to	110	9	230	to	240	1
110	to	120	10	240	to	250	2
120	to	130	12	250	to	260	3
130	to	140	13	260	to	270	1
140	to	150	2	270	to	280	1
150	to	160	5	350	to	360	1
160	to	170	3	360	to	370	2
170	to	180	1	380	to	390	1
180	to	190	1	420	to	430	1
190	to	200	5	640	to	650	1
200	to	210	3	710	to	720	1
210	to	220	1	1,320	to	1,330	1
220	to	230	1				

2021 LTI Plan

In September 2019, the Board established a new share-based incentive scheme named the Rubicon Limited 2019 Omnibus Incentive Scheme (the Omnibus Incentive Scheme) permitting the Board or the Remuneration Committee to grant various equity-based awards (including stock options, stock appreciation rights, restricted stock units and other types of equity and cash awards) to officers, employees and directors of the ArborGen Group. The Omnibus Incentive Scheme aims to align the interests of the Groups' officers, employees and directors with those of the Company's shareholders over the longer term.

In accordance with the terms of the Omnibus Incentive Scheme, in May 2020, the Remuneration Committee approved the FY2021 Long Term Incentive Plan (2021 LTI Plan) allowing certain employees of the Company and its subsidiaries (Participants) to participate in the 2021 LTI Plan via the ArborGen Conditional Restricted Share Unit Agreement with Associated Cash Payments (the RSU Agreement). Entry into a RSU Agreement is conditional on the cancellation of all incentive stock options granted to any Participant pursuant to the ArborGen Inc. 2010 Stock Option and Incentive Plan (as amended and restated on 3 August 2016).

ArborGen is currently preparing to enter into RSU Agreements (and corresponding option cancellation agreements, where applicable) with 10 employees. In accordance with those RSU Agreements, if certain financial performance targets are met by the ArborGen Group during the fiscal year ending 31 March 2021, restricted share units (RSUs) and conditional cash awards will be granted to the Participants at no cost to the Participants. The number of RSUs and cash awards to be granted to each Participant will depend on the relevant business unit's achievement of the performance targets, which relate to free cash flow before expansion, revenue and EBITDA.

Provided Participants remain employed by the ArborGen Group on the relevant vesting dates, RSUs will vest in Participants as ordinary shares in the Company (on a one-to-one ratio) and the cash awards will be transferred to Participants as follows:

- one third of the RSUs will vest and one-third of the cash awards will be paid, on the Performance Approval Date (being the date on which the Remuneration Committee determines the extent to which the FY2021 performance targets have been met, and the number of RSUs and cash awards to be granted);
- one third of the RSUs will vest and one-third of the cash awards will be paid on the first anniversary of Performance Approval Date; and
- one third of the RSUs will vest and one-third of the cash awards will be paid on the second anniversary of Performance Approval Date.

The maximum number of RSUs that may be issued to Participants under the 2021 LTI Plan is 5,551,668. Based on the market price of the Company's shares on 27 May 2020, the maximum total value of the overall 2021 LTI Plan is \$897,000 (NZ\$1.45 million) of which approximately 71% will be in RSU awards and 29% in cash awards.

CEO Remuneration

The base salary of ArborGen's CEO, Andrew Baum, in the period was \$392,016 (NZ\$653,360) plus other medical and superannuation benefits of \$30,000 (NZ\$50,000). During the period, Mr Baum also received a retention payment totaling \$375,000 (NZ\$625,000) which related to a Long Term Incentive and Retention Agreement and General Release of Claims executed in June 2017. This incentive and retention arrangement was in connection with the acquisition of the respective holdings of International Paper Company and MeadWestvaco LLC in ArborGen Inc. Pursuant to that agreement, Mr Baum was entitled to \$750,000 payable in two equal instalments on 1 July 2018 and 1 July 2019.

Mr. Baum will also enter into an RSU Agreement with the Company to participate in the 2021 LTI Plan. Mr Baum is entitled to receive a maximum of 1,831,663 RSUs under the 2021 LTI Plan. Based on the market price of the Company's shares on the NZX Main Board on 27 May 2020, the maximum total value of Mr Baum's entitlement under the 2021 LTI Plan, subject to satisfaction of the conditions, is \$261,300 (NZ\$435,500) (of which 80% will be RSUs and 20% will be in cash awards). In exchange for participation in the 2021 LTI Plan, Mr Baum has agreed to surrender his option to purchase 3,761 shares of ArborGen Inc. pursuant to the ArborGen Inc. 2010 Stock Option and Incentive Plan.

Risk Management

The Board has a sound understanding of the material risks faced by the Group and how to manage them. The Board regularly verifies that ArborGen has appropriate processes that identify and manage potential material risks.

The Audit Committee carries out a robust risk assessment process which includes reviews with management and the independent Auditor of significant risks and exposures of the Group, and assessments of risk mitigation steps taken by management to minimise such risks. The Board receives regular reports of the material, emerging and existing risks from management.

Health and Safety

The health and safety of our employees, customers and suppliers is critical and essential for our success. We are committed to delivering a safe workplace, and safety training is integral to our zero-harm goal. We monitor health and safety results, and measure senior management against our zero-harm expectation. We operate safety education programmes and have other continuous programme initiatives in place to keep our people safe at work. At our secure containment facilities, we have procedures designed to ensure compliance with regulatory requirements in each of the jurisdictions in which we operate, including procedures to ensure employee safety at those facilities.

Total Case Incident Rate (TCIR) for all ArborGen facilities in all geographies was 2.68. TCIR is defined as total number of recordable injuries and illness cases per 100 full-time employees that a site has experienced in a given time frame.

Auditors

The Board ensures the quality and independence of the external audit process.

The Company's external Auditor is Deloitte. Consistent with best practice the audit partner is rotated at no greater than five yearly intervals. A formal engagement letter with Deloitte clearly sets out the responsibilities of Deloitte in relation to the external audit of the Group's financial statements and financial systems. As part of the external audit process, Deloitte provide feedback on internal processes and functions. The Board facilitates full and frank communication between the Audit Committee, Deloitte and management. Deloitte attends all Audit Committee meetings and has sessions, at least semi-annually, with the Audit Committee without management in attendance.

The Audit Committee is satisfied that the independence of Deloitte is not compromised by any relationship between Deloitte and ArborGen or any related party or as a result of any non-audit services provided by Deloitte, and has obtained confirmation from Deloitte to this effect.

The Audit Committee, together with the Company's management, monitor the performance of Deloitte to ensure that the services being provided to the Company are of the highest standard, relevant, timely and cost effective. Please refer to page 41 for details on the structure and role of the Audit Committee.

Representatives from Deloitte attend the annual meeting each year where they are available to answer questions from shareholders.

Shareholder Relations

The Board respects the rights of shareholders and fosters constructive relationships with shareholders that encourage them to engage with the Company.

The Board is committed to promoting good relations with the shareholders through:

- communicating effectively with them;
- giving them ready access to information about the Company, its goals, strategies, governance and performance through its website; and
- facilitating participation at shareholder meetings.

The Company has a formal continuous disclosure policy in place and the Company regularly communicates to the market to ensure compliance with the NZX Rules on continuous disclosure.

The Company's website (www.arborgenholdings.com) includes the following information:

- Annual and Interim Reports;
- Disclosures made to the stock exchange;
- Press releases; and
- Corporate governance documents.

Stakeholder Interests

The Board respects the interests of stakeholders within the context of the Company's ownership type and its fundamental purpose.

ArborGen is strongly committed to meeting its legal and other obligations to stakeholders such as employees, shareholders, and suppliers.

Corporate Governance

The Group's corporate governance framework is guided by the principles and recommendations of the NZX Corporate Governance Code. ArborGen Holdings considers it has followed these recommendations in all material respects during FY20, and as at 16 June 2020. In addition, the corporate governance principles followed by the Company do not materially differ from the Corporate Governance Principles and Guidelines issued by the Financial Markets Authority.

Interests Register

Directors' certificates to cover entries in the Interests Register made during the twelve-month period ended 31 March 2020 in respect of remuneration, dealing in the Company's securities, insurance and other interests have been separately disclosed as required by the New Zealand Companies Act 1993.

Directors' Interests

The following are particulars of general disclosures of interest given by the Directors of the Company as at the date of this report pursuant to section 140(2) of the Companies Act 1993:

	Relationship
DM Knott	
Knott Partners, LP	Managing Member
Knott Family Foundation	President
DM Knott Jr	
Knott Partners, LP	CEO and Chief Investment Manager and Executive Managing Member
DRS Holdings, LLC	Board Member
The HiGro Group, LLC	Advisory Board
Knott Family Foundation	Secretary
Tenon Clearwood Limited Partnership	Advisory Board Member
THG Adams	
Apollo Foods Limited	Executive Chairman and shareholder
Cavalier Corporation Limited	Deputy Chairman
Competenz	Director
Insightful Mobility Limited	Chairman and shareholder
Mix Global Holdings Limited	Chairman
Netlogix Group Holdings	Chairman
Tegel Group Holdings Limited	Director
TA Avery	
CRA International Inc	Director and shareholder
KIPP Metro Atlanta	Director
Razorhorse Capital	Advisory Board Member
Southeast Pet Inc	Advisory Board Member
OK Horton Jr	
Al Dabbagh Group	Director
Louisiana-Pacific Corporation	Director and shareholder
Worthington Industries, Inc	Director and shareholder
Spoletto Festival, USA	Board member
MUSC Hollings Cancer Center	Advisory Board Member
PR Smart	
Argus Fire Systems Service Limited	Director
Bellbird Trust	Trustee
Geo40 Limited	Director and Chair Audit Committee
Mercer Group Limited	Director and Chair Audit Committee
Saddleback Trust	Trustee and beneficiary
SolarCity Limited	Director
Sunrise Consulting Limited	Director
R Tandon	
Libra Advisors LLC	Founder and Managing Member
Vostok Emerging Finance Ltd	Director
NYU Tandon Engineering School	Director
Tenon Clearwood Limited Partnership	Advisory Board Member

During the twelve-month period ended 31 March 2020 Directors advised the following resignations:

	Relationship
PR Smart	
Intercity Holdings Limited	Director and Chair Audit Committee

Dealings in Company Securities

Other than the vesting of shares under the Rubicon Non-Executive Directors' Share Plan there has been no trading in ArborGen Holdings' shares by Directors and Senior Officers during the twelve-month period ended 31 March 2020 other than:

- 555,348 shares vested to TA Avery, OK Horton and PR Smart (in equal shares) pursuant to the Non-Executive Directors Share Plan, as detailed in Notes 19 and 25 of this Annual Report; and
- The issue of 820,998 shares to a trustee to be held in trust for THG Adams pursuant to the 2019 Non-Executive Directors' Share Plan, as detailed in notes 19 and 25 of this Annual Report.

Directors' and Officers' Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, the Company has given indemnities to, and has effected insurance for, Directors and executives of ArborGen and its related companies which indemnify and insure Directors and executives against monetary losses as a result of actions or omissions by them in the course of their duties. The Company shall maintain insurance cover for the Directors and executives for a period of seven years following the date the Director or executive has ceased to be a Director or executive of the Company. Excluded from the indemnity are actions of criminal liability or breach of the Director's duty to act in what they believe to be the best interests of the Company.

Donations

During the twelve-month period ended 31 March 2020, the total amount of donations made by ArborGen and its subsidiaries was nil.

Credit Rating

ArborGen has not sought a credit rating.

Subsidiary Company Directors

Section 211(2) of the Companies Act 1993 requires the Company to disclose in relation to directors and former directors of its subsidiaries, amongst other things, the total remuneration and value of other benefits received by them, and particulars of interest register entries made by them during the twelve-month period ended 31 March 2020. No employee of an ArborGen Group company appointed as a director of any wholly-owned subsidiary receives any remuneration or other benefits in that role. The remuneration and other benefits of employees are disclosed elsewhere in this Annual Report. No director of any subsidiary receives any remuneration or other benefits as a director. The following persons held office as directors of subsidiary companies as at 31 March 2020, or in the case of those persons with the letter (R) after their name, ceased to hold office during the period.

Rubicon Forests Holdings Limited	DM Knott Jr, PR Smart
Rubicon Industries USA LLC	DM Knott, DM Knott Jr, R Tandon, HA Fletcher (R)
Rubicon Clearwood GP Limited	DM Knott Jr, PR Smart, SK Ludher-Chandra
Rubicon Clearwood Holdings Limited	DM Knott Jr, PR Smart
ArborGen Inc	AM Baum, DM Knott Jr, R Tandon, TA Avery, OK Horton, PR Smart, THG Adams, HA Fletcher (R)
ArborGen Comercio de Produtos Florestais Importacao e Exportacao LTDA	G Bassa
ArborGen Tecnologia Florestal LTDA	G Bassa
ArborGen New Zealand Holdings, LLC	AM Baum
ArborGen New Zealand Unlimited	AM Baum, G Mann
ArborGen Australia Holdings Pty Ltd	AM Baum, G Mann, A Frees
ArborGen Australia Pty Ltd	AM Baum, G Mann, A Frees

Shareholder Information

The Company's shares are listed on the Main Board of NZX Limited. The 20 shareholders of record with the largest holdings of shares at 30 April 2020 were:

	Number of shares	% of shares
New Zealand Central Securities Depository Limited	361,661,949	72.42
JBWere (NZ) Nominees Limited	25,000,000	5.01
Sky Hill Limited	10,000,000	2.00
Fletcher Brothers Limited	5,649,731	1.13
S Moriarty	5,320,000	1.07
The Tai Shan Foundation – F Pearson & S Pearson	4,190,539	0.84
M Taylor	3,680,000	0.74
Moriarty Superannuation Fund – S & D Moriarty	2,710,124	0.54
The So Proud a/c – S Godfrey, D Toothill & M Godfrey	2,639,027	0.53
Y Chiam & S Boey	2,241,937	0.45
A Brown (as Trustee of Rubicon Non-executive Directors Share Plan) ⁽¹⁾	1,931,700	0.39
P Bradfield	1,700,000	0.34
G Simms	1,555,000	0.31
Wallace Family a/c – S Wallace & Offen Advisors Trustees Limited	1,250,000	0.25
M Teulon & E Quigley	1,140,467	0.23
Taylor Superannuation Fund – M & L Taylor	1,093,234	0.22
Circada Limited	1,000,000	0.20
B Tyler	1,000,000	0.20
Custodial Services Limited	886,215	0.18
C Flood	857,240	0.17
Total	435,507,163	87.22

(1) Shares issued in relation to the 2018 Non-Executive Directors Share Plan (1,110,702) and the 2019 Non-Executive Director Share Plan (820,998), both held in trust until the vesting terms are met (refer notes 19 and 25 to the Financial Statements for more detail).

New Zealand Central Securities Depository Limited provides a custodial depository service, which allows electronic trading of securities to its members, and does not have a beneficial interest in these shares. Its holders of ArborGen shares at 30 April 2020 were:

Name	Number of shares	% of shares
HSBC Nominees (New Zealand) Limited	201,970,322	40.44
Citibank Nominees (New Zealand) Limited	117,834,334	23.60
Accident Compensation Corporation	31,120,777	6.23
New Zealand Permanent Trustees Limited	5,000,000	1.00
BNP Paribas Nominees (NZ) Limited	2,593,613	0.52
National Nominees New Zealand Limited	2,318,631	0.46
JPMorgan Chase Bank NA NZ Branch - Segregated Clients	824,272	0.17
Total	361,661,949	72.42

Distribution of Shareholders and Holdings as at 30 April 2020

Size of holding	Number of shareholders		Number of shares	
	Number	%	Number	%
1–999	1,871	32.33%	1,246,039	0.25
1,000–9,999	3,209	55.45%	8,442,891	1.69
10,000–49,999	450	7.78%	9,059,645	1.82
50,000–99,999	84	1.45%	5,757,697	1.15
100,000 and over	173	2.99%	474,889,119	95.09
Total⁽¹⁾	5,787	100.00%	499,395,391	100.00

Domicile of Shareholders and Holdings as at 30 April 2020

	Number of shareholders		Number of shares	
	Number	%	Number	%
New Zealand	4,767	82.36	481,380,726	96.4
Australia	632	10.94	2,314,524	0.46
United Kingdom	150	2.59	10,560,634	2.11
United States of America	138	2.38	2,435,358	0.49
Other	100	1.73	2,704,149	0.54
Total ⁽¹⁾	5,787	100.00	499,395,391	100.00

(1) Includes shares issued under the Non-Executive Directors Share Plan.

Substantial Product Holders

According to notices that have been provided under the Financial Markets Conduct Act 2013, as at 31 March 2020 the following were substantial product holders in the Company. In terms of the Act, the number of shares and percentages shown below are as last advised by the substantial product holder and may not be their current holdings.

Substantial product holder	Number of voting securities	% of voting securities	Date of notice
David Knott ^(a)	115,583,162	28.256	23 August 2016 ⁽²⁾
Libra Fund LP / Ranjan Tandon	86,108,419	17.648	3 July 2017 ⁽¹⁾
Perry Corporation / Richard Perry	34,337,307	7.038	20 July 2018 ⁽¹⁾
Accident Compensation Corporation	32,221,000	6.604	4 January 2018 ⁽¹⁾
Irvin Kessler	25,000,000	5.124	3 January 2018 ⁽¹⁾
Bank of New Zealand ^(b)	25,000,000	5.124	8 January 2018 ⁽¹⁾

The following substantial product holder notices have been received (which are included in the substantial product holder notices disclosed above):

Substantial product holder	Number of voting securities	% of issued ArborGen securities	Date of notice
(a) Mr Knott has disclosed he holds a relevant interest in ArborGen shares held by:			
Dorset Management Corporation	105,679,657	25.835	23 August 2016 ⁽²⁾
Knott Partners, L.P. (i)	82,511,226	20.171	13 June 2014 ⁽²⁾

(i) Dorset Management Corporation has entered into an investment management agreement with Knott Partners, L.P. pursuant to which Dorset Management Corporation has discretion over the acquisition, disposition and voting of the securities held by Knott Partners, L.P. David Knott is the sole shareholder, Co-Director and Co-President of Dorset Management Corporation. David Knott Jr is a Co-Director and Co-President of Dorset Management Corporation.

(b) In their substantial product holder notice the Bank of New Zealand stated "Conditional power to control the disposal of the financial product. The relevant interest only arises from the powers of investment contained in an investment management contract for Bank of New Zealand's portfolio execution service."

The total number of issued voting securities at 31 March 2020 was 499,395,391. All of the references to voting securities in this section are to the Company's ordinary shares.

(1) The total number of shares on issue at date substantial product holder notice was received was 487,908,343.

(2) The total number of shares on issue at date substantial product holder notice was received was 409,051,378.

NZX Waivers

No NZX waivers were granted to the Company by NZX, or otherwise relied upon by the Company, under the NZX Listing Rules during the period from 1 April 2019 to 31 March 2020.



Board of Directors

David Knott

Director

BA University of Pennsylvania; MBA Wharton School of the University of Pennsylvania

David is the Managing Member of Knott Partners who, with associated entities, is ArborGen's largest shareholder. He has served as Chief Investment Manager of Knott Partners since 1987, and prior to this he was a General Partner and analyst at Mandrakos Associates.

David Knott Jr*

Alternate Director*

BA University of North Carolina at Chapel Hill

David is the CEO and Chief Investment Manager and Executive Managing Member of Knott Partners who, with associated entities, is ArborGen's largest shareholder. He has served as Co-Chief Investment Manager of Knott Partners since March 2017. David is a board member of DRS Holdings LLC, on the Advisory Board of The HiGro Group, LLC and the Tenon Clearwood Limited Partnership Advisory Board.

George Adams

Independent Director

FCA (Fellow of the Institute of Chartered Accountants in Ireland), CMIInstD (Chartered Member of the Institute of Directors), Diploma in Company Direction, University of Ulster

George, who is based in New Zealand, brings broad industry knowledge to the Board. His previous management positions include Managing Director of Coca-Cola Amatil in New Zealand, Finance Director of British Telecom Northern Ireland and Group Finance Director of Molino Beverages based in Dublin. He is currently a director of Competenz and Tegel Group Holdings, deputy chairman of Cavalier and chairman of Netlogix and Mix Cosmetics. In addition, Mr Adams is the executive chairman and co-founder of Apollo Foods Limited (a Hawke's Bay lifestyle beverage company) and Insightful Mobility (a tech start up focusing on delivering market leading sales force solutions). George also chaired the Independent Forestry Safety Review in 2014.

Thomas Avery

Independent Director

MBA Harvard Business School; BSc Georgia Institute of Technology

Tom has nearly 40 years of investment banking and venture capital experience. He has served on numerous private company boards throughout his career, advising companies on the successful financing, planning and execution of growth strategies.

As an investment banker, Tom worked primarily with middle market growth companies in executing mergers and acquisitions, initial public offerings, and private placements of equity and debt. He served as a Managing Director at Raymond James & Associates from 2000-2014, which involved the management of the technology investment banking group and the financial sponsors' efforts. Prior to that, Tom's career saw him act as the head of the investment banking group at Interstate/Johnson-Lane, be a general partner at Summit Partners and at Noro-Moseley Partners, and work as a Senior Vice President at The Robinson-Humphrey Company.

He currently has directorships at CRA International Inc and KIPP Metro Atlanta.

Board of Directors

Ozey Horton Jr

Independent Director

MBA Harvard Business School; BSE Duke University

Ozey has extensive experience in global operations, strategic planning, merger and acquisition integration and change management. He has been a Director Emeritus of McKinsey & Co., a business consulting organisation, since 2011 when he retired after nearly 30 years with the firm. At McKinsey, Ozey led various practice areas around the globe, including Pulp, Paper and Packaging, Industrial, Change Management, Global Operations in Energy and Materials, and Basic Materials. His McKinsey client service and practice leadership provided for considerable experience working in Europe, South America, India, and Asia. He is a faculty member for McKinsey's leadership development program and also serves as an independent business advisor.

He currently serves on the Boards of Worthington Industries, Al Dabbagh Group, and Louisiana-Pacific Corp. He also serves on the Board of Spoleto Festival, USA and the Advisory Board of the MUSC Hollings Cancer Center.

Paul Smart

Independent Director

BBS, Finance Massey University; Chartered Accountant (CA); Chartered Member Institute of Directors (CMInstD)

Paul brings more than 30 years' experience as a senior financial executive and professional director in local and international markets, including listings on the NZX, ASX and NASDAQ.

As an executive, Paul's key experiences were as CFO of NZ's largest energy company, Meridian Energy and prior to that, founding CFO of Sky Television which during his tenure went on to become a top 10 listed company on the NZX.

As a professional director Paul has variously acted as a director, audit and finance chair and board chair for a broad range of companies including listed, venture capital, high-net-worth family, and large private companies. These roles have included businesses in the energy, manufacturing, venture capital, transport and tourism and automation sectors in NZ, USA, Australia, Thailand, India, and Spain. He is currently a non-executive director of Geo40, Mercer Group, Argus Fire Systems Service and SolarCity.

Ranjan Tandon

Director

MBA Harvard Business School; B Tech Indian Institute of Technology

Ranjan is Founder and Managing Member of Libra Advisors LLC (Libra), which holds a 17.2% interest in ArborGen. Libra had assets of \$2.5 billion and invested in domestic and emerging market equities prior to conversion to a family office in 2012. He previously served as Sr Management Trainee with DCM in India, CFO of an LBO, InterMarine Incorporated, Houston and as a VP with Merrill Lynch prior to establishing Libra in 1990.

Ranjan is also a Board Member of the NYU Tandon Engineering School and has endowed Faculty Chairs at the Harvard Business School and Yale University. He is also a director of a listed Stockholm Company, Vostok Emerging Finance, which invests in early and growth stage fintech companies across emerging markets. He is also a member of the Tenon Clearwood Limited Partnership Advisory Board.



Investor Information

INVESTOR ENQUIRIES / REGISTERED OFFICE

Suite 107, 100 Parnell Road, Auckland 1052

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

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 shareholder communications by email.

www.arborgenholdings.com