Luke Moriarty - CEO's address

Good afternoon ladies and gentlemen.

Let me begin today with a discussion of **Tenon**.

And given very recent events at Tenon, our review today will be somewhat shorter than usual.

As you know, Tenon has been subject to a full Strategic Review process. The underlying purpose of that Review was to find the most appropriate risk-adjusted path to close the value-gap that had been evident in the Tenon share price for some time. The obvious follow-on logic was, that, if we could close that gap, then that should also help in fixing the disappointing share price performance that Rubicon's shares have displayed – more on that topic later from our Chairman.

The Strategic Review was separated into two processes – one in respect of Tenon's USA operating business, and another in relation to its NZ-based Clearwood operation. The USA review ran ahead of the Clearwood review, and a week ago the outcome was a sale of the USA business for US$110 million in cash. Tenon has now repaid all its debt, and is currently in the process of returning US$70 million to its shareholders by way of pro-rata capital return.

Rubicon is one of those shareholders – and we will receive US$42 million of that capital return later this month. After repayment of all our bank debt and subordinated debt notes, that will leave Rubicon with approximately US$15 million in cash. As you know, Rubicon hasn't been in a net cash position for almost 10 years, so it will be a good feeling for sure. I'll come back to the use of this cash later on.

Tenon has yet to conclude its second Review, in relation to its Clearwood operations, but we are expecting an announcement some time over the next couple of months. Whether or not this results in a sale of that business remains to be seen. Regardless, Clearwood is a great business. Last year it earned US$11.5 million in EBITDA*. It has just completed a US$7 million capital upgrade, and apart from US$2.5 million in kiln cost should it choose to expand production to a 4th shift in future, all major capex is now behind it. It has the leading clear wood position in the European and US markets, and has the benefit of a 5-year take-or-pay contract with the new owners of Tenon's USA operation, in relation to supply volumes into Lowe's. It is strongly positioned for growth. We would happily continue to maintain a shareholding position in Tenon in order to receive the future earnings and cash flow from the Clearwood operation … but we will keep an open mind, and await the final outcome of the Tenon Strategic Review of this asset.

Before we leave the Tenon discussion, it's worth pausing for a moment and reviewing our investment from a 'big picture' standpoint. As you will recall, Tenon's share price hit a low of 49-50 cents per share during the housing crisis and GFC. At the time, we had scores of people telling us to sell Tenon for whatever we could get for it … before the company went under. In fairness to that view, many industry players did go under. However, we chose not to sell to Tenon – we were convinced that we could 'fix' the company, and that its future value path would be much higher than 50 cents per share. To be honest, it was a monumental task. We had to completely pull the company apart and put it back together again. We changed management, cut cost, refined and expanded product offerings, introduced new systems, expanded margin through better procurement practises, and when others were in survival mode we invested in and grew the company … such that it became the leading specialty millwork provider in the US. We then set about fixing the share price, by introducing an on-market share buy-back program, commencing the payment of dividends, and (finally) initiating the Strategic Review process that I have just discussed. The bottom line here is that '50-something' cents per share has become $2.50+ per share today – some 5x the value that some had been earlier telling us to sell at.

To round the discussion out, let me show you two slides from the Tenon ASM just a week or so ago. This first one shows the US dollar performance of Tenon over the past 18 months compared with its listed US competitors – you can see quite clearly that the company has outperformed both against individual stocks and against the various sub-sectors within the wider industry. And this next slide shows Tenon's performance against the various stock market indices around the world. Again, you can see that Tenon has been somewhat of a 'star' in comparison. It's important that we all acknowledge that this hasn't just happened by chance. Rather, it has come about as a result of a lot of hard work and an intense focus on that one investment ... as well as a strong desire to prove the sceptics wrong. We believe we have done that.

And with the Tenon process winding to a close, our focus will turn to **ArborGen.**

And a critical difference here is that, unlike Tenon, we do not unilaterally control ArborGen. It is a 3-way partnership, with decision making reflecting consensus or majority views. In this respect, our partners' ownership rationales have changed significantly over time as their own company strategies have evolved and been refined. By way of example, we have had one partner who was one of the largest corporate owners of forest estate exit their entire US forest landholdings, while the other merged in a public market transaction to become a much larger global entity which is now in direct business competition with their fellow ArborGen partner. In addition, ArborGen has become a lesser focus for the partners as they have built their core businesses into materially larger operations – one of our partners now has a US$13 billion market capitalisation, and the other US$21 billion. So it's an interesting and changing dynamic for sure … and it is also one that unfortunately we do not control.

And with that introduction, let's recap now on what happened at ArborGen in fiscal '16.

As you know, each year ArborGen sets targets which we can use to measure performance and chart progress. This slide categorises those milestones for the past year into five 'buckets.' Let's deal with each of these ...

And I'm very pleased to begin by saying that the year saw the conclusion of the ArborGen employee litigation. There were a lot of unnecessary 'swings and roundabouts' along the way, but in the end the Court dismissed the litigation and vacated in its entirety its prior order. A confidential settlement was reached with the plaintiffs, at immaterial cost to Rubicon. And that's the end of the matter.

In relation to the balance sheet, ArborGen undertook some 'tidy-ups' during the period, including the completion of non-core land sales and the reassessment of its patent activity. More importantly however, ArborGen's bank lines were expanded, with a new 20-year US$13 million facility put in place with Ag South in April. This, together with a US$15 million working capital facility from NBSC, and an existing NZ$4.5 million facility covering the Australasian operations, mean ArborGen has US$30 million of bank facilities now available to it.

In relation to product development, ArborGen received approval from CTN-Bio – the decision-making regulatory authority in Brazil - to trial a new eucalyptus herbicide tolerant 'GE' product there. Weed competition is a core 'killer' of young eucalyptus seedlings, so the ability to spray with weed killer without also killing the seedling would be a major plus for the industry. As you know, ArborGen only pursues GE-developed products where –

- Trait performance is relatively certain
- Product performance can be proven early in a tree's life
- Market demand is clearly evident, and
- The product cannot be developed through non-GE biotech techniques.

The herbicide tolerance trait meets these requirements.

In terms of production and sales performance for the fiscal 16 year –

- Total production was up 5% to 324 million. We were hoping for a higher volume in the year, but the number was negatively impacted by severe US weather conditions, which result in serious flooding and wash-outs
- The high point for the year was Brazil –
  - Varietal eucalyptus volume was up 300% y-o-y, from 6m to 25m seedlings
  - Loblolly pine sales were 5m, up from nil in the prior year
  - So, over 2-3 years years, Brazil has gone from zero to 30m seedlings sales
  - … and that platform is now well-established, with Brazil firmly now a core geography for ArborGen moving forward
- Advanced genetics sales in the US continued to improve – moving up to 25% of all loblolly pine sales in fiscal 16
- … And the percentage of total Australasian sales in advanced genetics form remained firmly in the 85% range
- Gross margin from commercial sales activity increased 20% y-o-y, to US$12 million

- This year, ArborGen is forecasting EBITDA (before R&D expense) of US$6 million
- And, including those costs, their forecast is for EBITDA to meet the break-even target.

As ArborGen moves to EBITDA positive, funding demands will primarily be in relation to growth capital – either to meet working capital needs as volumes expand in the US and Brazil, or, to be in a position to 'trigger' growth options as they arise – e.g. 'bolt-on' acquisitions that allow it to more quickly expand the addressable market for its advanced genetics product offerings. Absent any acquisitions, the current ArborGen projection is that the need for partner funding in the next fiscal year should only be around US$2-3 million per partner.

While to date, ArborGen has taken longer than we would have liked to build its earnings profile, that is, unfortunately, often the nature of technology companies. Having said that, there can be no argument that ArborGen has built, the leading technology and global commercialisation platform in the industry. It is now producing more than 325 million seedlings, per annum, globally. It has also largely passed through the heavy product development spend phase … and past EBITDA losses - which peaked at US$(18) million – are also behind it, with ArborGen forecasting a breakeven result this year, and moving to profit from here on.

Accordingly, we do still believe in the fundamental ArborGen story, and we remain convinced of ArborGen's underlying value proposition – however, just like Tenon we will have to prove it out. And unlike Tenon, where we did not have the financial resources to apply to its growth (we had to make do with internal cash generation), after we have received our share of the Tenon capital return from Tenon's US business sale we will be in a position to apply capital to ArborGen opportunities.

And this is an appropriate point for me to stop and hand back to our Chairman, to pick up the story from here.

Thank you.

Non-GAAP Measures

* *We used EBITDA when discussing financial performance. EBITDA (i.e. Earnings before interest, taxation, depreciation and amortisation) is a non-GAAP financial measure that is not recognised within IFRS. As it is not uniformly define or utilised this measure may not be comparable with similarly title 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 IFRS. Management believes that EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparable company performance purposes, as the measure removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures.*