Rubicon Group Annual Review - 2007

RUBICON

The 2007 year saw us advance the operational and strategic initiatives for each of our investment activities according to the business plans we have previously outlined to Shareholders.

In the period since we last reported to Shareholders, we have been delighted with the strides towards full commercialisation that our international biotechnology venture – **ArborGen** – has made. While the review below outlines in specific detail some of the key developments in the period, one of the most significant events was undoubtedly the recent announcement that ArborGen would be acquiring the tree improvement businesses of International Paper, MeadWestvaco and Rubicon (i.e. our Horizon2 business) in a US$60 million deal. This transaction (which is subject to approval of the New Zealand Overseas Investment Office ("OIO")) fundamentally repositions ArborGen from a business in development to an established commercial entity, operating on a truly global scale. In one move, ArborGen has been transformed into a company producing and selling, to thousands of established customers, over 300 million treestocks annually in the United States, Brazilian, New Zealand, and Australian markets. It will make ArborGen the world's largest producer of tree planting stock for landowners and the forest products industry. This is a very exciting development for ArborGen – one which significantly advances its business model, and which will allow it to bring forward value for its customers and shareholders accordingly.

At Horizon2, we moved to 100% ownership by acquiring (subject to OIO consent) from Carter Holt Harvey ("CHH") the 50% interest we did not already own, thereby allowing us to contribute the complete Horizon2 business into ArborGen (as noted above). Simultaneous with this acquisition, the previous Horizon2 strategic relationship agreement with CHH was terminated and replaced with two new exclusive, long-term supply agreements with Hancock Natural Resources Group ("HNRG"), the new owner and manager of the former CHH estate. We are very pleased with the total outcome.

For our investment in **Tenon,** progress was achieved amidst extremely difficult external market conditions. The combination of a very high NZ dollar against our US dollar functional currency, the much-publicised collapse of the sub-prime mortgage market in Tenon's core US market, and the worst US housing market in nearly 20 years, produced a "perfect storm" for Tenon in terms of operating conditions. Despite the macro-environment not being conducive to Tenon reporting a strong earnings performance, and in an environment where many of its competitors recorded significant losses, it was positive to see Tenon record earnings of US$20 million at the EBITDA (i.e. earnings before interest, tax, depreciation and amortisations) level – a reflection of the value of the restructuring initiatives that have been put in place over the past 12 - 18 months.

Consistent with our previously announced position, we exited our 50% investment in Forestadora Tapebicua for a cash payment of US$5 million. The sale of this problematic investment in a "clean" deal allows us to focus on bringing value to our much larger and more significant ArborGen and Tenon activities.

Our 2007 performance and achievements against our goals, are discussed in greater detail below.

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Further information on Rubicon Limited can be viewed at the Rubicon web site, at http://www.rubicon-nz.com.

ARBORGEN and HORIZON2

Since our last Annual Review, the progress at ArborGen has been dramatic. It has been a period of tremendous accomplishments – some of which were reported in our Interim Report to Shareholders. The year's list of achievements includes:

- The expansion of ArborGen's mandate and business model to include the biofuels arena.

  Subsequent to that decision, ArborGen was named as a partner in the US Government-funded US$125 million Bioenergy Research Centre. Other partners include the Oak Ridge National Laboratory and leading cellulosic ethanol companies Verenium Corporation and Mascoma. The purpose of the Centre is to provide the transformational science needed for bioenergy breakthroughs that will allow the US to meet its goal of making cellulosic ethanol cost-competitive with fossil fuels by 2012, and to advance its objective of reducing the country's dependence on gasoline by 20% within a decade. In this regard, purpose grown trees, of the type that ArborGen has been developing for commercialisation, will play a key role in any future bio-based economy seeking a source of renewal energy;

- Approval from the US regulatory authority – the Animal and Plant Health Inspection Service ("APHIS–BRS") – for ArborGen to proceed to a full rotation field trial of its cold-tolerant variety of eucalyptus. Following a thorough review of ArborGen's permit application and analysis of all points made during an open public comment period, APHIS-BRS made the determination that there will be no significant environmental impact from the trial. This approval represents a significant milestone for ArborGen in the commercialisation of this tree variety. As well as offering a new source of hardwood trees for the US South pulp and paper industry, the new variety also offers significant potential as a resource for the production of clean-burning and renewable ethanol in the future;

- Approval by Brazil's regulatory authority – CTN-Bio – for ArborGen to proceed with its second full-rotation field trial of its improved-pulping eucalyptus product. This is expected to be ArborGen's first "next-generation" treestock product to be commercialised;

- The announcement of two important initiatives that will advance ArborGen's "discovery" platforms:

  - ArborGen has become a partner in an international project led by the US Department of Energy's Joint Genome Institute and will unite some two dozen institutions world-wide. The objective of the project is to decode the entire genome of eucalyptus in order to maximise its potential in the burgeoning bioenergy market. ArborGen and Rubicon together, will provide access to their private collection of more than 240,000 eucalyptus gene sequences, and ArborGen will undertake work to enable functional genomics in the model eucalyptus clone that will be the source of the genomic sequences. Another partner in the project will be Genolyptus, a Brazilian eucalyptus research network, which will contribute more than 120,000 gene sequences; and

  - ArborGen has signed a new collaboration with Scion in New Zealand. The collaboration is a discovery venture designed to evaluate those genes responsible for wood quality development in pine and eucalyptus. The collaboration is integral to ArborGen's short rotation pine and hardwood products. Both ArborGen and Rubicon have licensed their respective EST databases to the venture as part of the collaboration;

- The very successful initial trialling of ArborGen's cold-tolerant eucalyptus product in the US South. Tests to date have shown that under extreme conditions – i.e. 24-hour temperature swings of greater than 20 degrees Celsius – even relatively juvenile cold tolerant product has been able to survive. These field trials are compared with ArborGen's cold chamber trials, which have shown absolute tolerance to minus 8 degrees Celsius. As we noted at the half year, the excellent results of the best performers from the field trials suggests that the level of cold tolerance can be extended even further, thus offering a broader geographic market for this new hardwood product than originally anticipated. Success to date, combined with the APHIS-BRS regulatory approval noted above, have allowed ArborGen to move forward one year its target commercial launch date for this product;

- Further refinement of ArborGen's product portfolio with the addition of "stacked" products into its product pipeline. In essence, this "stacking" involves taking ArborGen's first-round next-generation products and adding further performance enhancement to them. Examples of this might be a fast-rotation improved pulping eucalyptus product or a fast-rotation cold-tolerant eucalyptus product;
- The decision to extend ArborGen's mandate to include varietal products (or what are more commonly referred to as clonal products in New Zealand). These products represent the selection of the very best naturally occurring trees, to which biotechnology techniques are applied to replicate them many millions of times in treestock form. Whilst their cost to produce is much higher than traditional seedling planting stock, so too is the value that they can deliver to the forest grower, and hence the price at which ArborGen can sell them into the market. ArborGen is currently in the process of manufacturing initial volumes of Loblolly pine varietals for third party commercial sale this year. These volumes have already been pre-sold to selected customers in North and South America. From 2008 on, volumes of varietals are targeted to grow considerably;
- Continued progress on improved efficiencies in mass-production. The focus here is on increased automation in embryo harvesting and transfer, to increase efficiencies. Streamlining this critical engineering process offers potential for a significant reduction in production costs for both ArborGen's varietal and "next-generation" products;
- The expansion of ArborGen's Loblolly pine varietal Testing Service ("ATS"). The importance of the ATS to ArborGen is that it ensures access to the very best varietal germplasm available in the market, which ArborGen can then use to develop its "next-generation" products. The ATS now has well over 3,000 Loblolly pine varietals in trials, planted across 35 distinct geographic sites in the US – by far the most extensive trial database of its type in North America. In addition to International Paper, MeadWestvaco and Weyerhaeuser, participation in the ATS has now grown to include integrated forestry companies, specialist forestry investors (e.g. REITS and TIMOS), and universities;

  Varietal pine testing has also been established in Brazil, and now includes the participation of seven key customers over multiple testing sites;
- The advancement of cost-sharing customer relationship agreements with key players in the Brazilian marketplace. Under these relationships future customers agree to share in the costs of product development today in return for ensuring access to ArborGen's next-generation products in the future at agreed value-sharing ratios. These are very much win:win agreements for ArborGen and customer alike;
- The continuation of ArborGen's intellectual property protection strategy. During the period further provisional patents were filed, covering aspects such as mass embryo harvesting, cell signalling, wood and cell wall modification; and
- The achievement of all science, product development, regulatory and commercial milestones set for the business - ahead of time and under budget - allowing for each of ArborGen's near term products to remain on track for commercialisation.

Clearly these are all very important milestones for ArborGen along the path to commercialisation. However, perhaps the most significant development that has occurred since our last Annual Review was the announcement, last week, that ArborGen had entered into a series of agreements to acquire the respective tree improvement operations of its three partners – International Paper, MeadWestvaco and Rubicon (i.e. our Horizon2 business). As already noted in the overview to this Report, the acquisition of these businesses fundamentally repositions ArborGen overnight, from a business in development to an established commercial entity. The combination of these three leading operations into ArborGen's existing activities will transform the company, by:

- Providing ArborGen with an immediate and large presence in the sizeable North American marketplace. The combined International Paper and MeadWestvaco businesses being acquired had sales of over 300 million treestocks last year, which represented well over a third of the entire pine treestock market in the US South and almost 15% of the hardwood market in that same geography;

- Providing ArborGen with immediate cash flow, with sales revenue in excess of US$25 million per annum;
- Delivering a treestock manufacturing and product distribution capability that ArborGen does not possess today, and which it would otherwise have had to develop at some considerable cost and over an extended period of time;
- Giving it ownership of International Paper's and MeadWestvaco's superior pine and hardwood germplasm (i.e. genetics) for the important US market, and Rubicon's germplasm for the Australasian market;
- Allowing its customers access to treestocks from an expanded product pool, extending across the full genetic spectrum of traditional, varietal, and advanced next-generation treestocks;
- Expanding ArborGen's product development program - by way of example, ArborGen's current database of 3,000 Loblolly pine varietals in trial in the US (noted above) will, following these acquisitions, expand to well over 7,000 varietals in trial - the most extensive trial database of its type anywhere in the world. The combination of businesses brings together over 50 years of international tree improvement know-how; and
- Giving it immediate operational scale, by having operations in 20 locations, spanning 4 countries (the US, Brazil, New Zealand and Australia) and employing over 185 staff.

By accessing these important customer sales and distribution networks now, and by filling the manufacturing capability gap that has previously existed, ArborGen's business model is now advanced significantly. This should enable ArborGen to bring forward value accordingly.

The overall transaction has been structured to ensure each Partner maintains its 33.3% ownership interest in ArborGen following the acquisitions. To enable this to occur, Rubicon has acquired from CHH (for $10 million) the 50% interest in Horizon2 that Rubicon did not already own. In addition, all outstanding Horizon2 issues with CHH in relation to the sale of the CHH forest estate have also been settled. As part of this, Horizon2 has signed long-term, exclusive treestock supply agreements with HNRG (the new owner and manager of the ex-CHH forest estate). The closing of Rubicon's 50% Horizon2 acquisition is conditional upon the receipt of OIO approval. The total ArborGen transactions are, in turn, dependent upon Rubicon's Horizon2 transaction with CHH closing and OIO approval being received for ArborGen to then acquire 100% of Horizon2 from Rubicon. We will make an announcement to the market when the transactions close, which is expected in quarter-four of this calendar year.

TENON

As already noted in the overview, macro market conditions during the period were extremely unfavourable to Tenon, with the two key drivers of performance – the US:NZ exchange rate and the level of activity in the US housing market – being very adverse. The US:NZ cross rate averaged well in excess of 70 cents for the second half of the financial year. Unfortunately, the negative impact of this NZ dollar currency strength was also more than matched by the collapse of the sub-prime mortgage market in the US, and the flow-on impact that has had on global credit concerns. This has had an immediate and direct effect on the ability of people to finance their home purchases in Tenon's core US market.

While new home starts in the US fell 20% in the period to 1.47 million on a seasonally adjusted basis (which is down on the peak of over 2 million starts 18 months ago), it is actually the rate of turn of existing homes that is most important to Tenon. This is because Tenon's market exposure is far greater to the renovation and remodelling market than it is to the new home sector – approximately 70:30 in relative weighting terms. Unfortunately, the sub-prime mortgage collapse has affected new and existing homebuyers alike. Perhaps the most telling statistic in this regard is the marked slowdown in sales of existing homes in the US, which is reflected in the inventory of existing homes on hand for sale which is now extending out to just under 9 months supply, compared with an historical average of 4.5 – 5 months. The relevance of this is that homeowners tend to renovate immediately before selling and after acquiring their homes, and any slowing in existing housing sales will directly impact the remodelling sector accordingly.

Whilst distracting from an operating perspective, these unfavourable market conditions did not stop Tenon advancing its strategic re-positioning. Highlights since our last Annual Report to Shareholders have included:

- The complete exit from Tenon's underperforming 50% investment in American Wood Mouldings;
- The acquisition of 100% of Ornamental Mouldings ("OMI") – a leading manufacturer and distributor of decorative mouldings, with operations located in North Carolina (US) and Ontario (Canada);
- The acquisition of an additional 25% interest in Southwest Mouldings for US$7.8 million, taking Tenon's ownership interest to 75.5%, and thereby strengthening its market positioning in the large Texas-based pro-dealer market;
- Establishment of the One-Company platform – a series of initiatives designed to extract the full synergies that will come from operating Tenon as one integrated company rather than as a series of stand-alone business operations. Two major initiatives have already been put in place, with the completion of a group-wide procurement review and (from 1 July 2007) the integration of the Kok's Woodgoods manufacturing operation into OMI. Further value-increments will follow in 2008;
- The expansion of Tenon's proprietary and innovative primed and treated outdoor finishing products – Lifespan and Armourwood;
- The establishment of a new supply agreement with BlueLinx – a leading US building products distributor servicing over 11,000 customers across the US, including dealers, industrial manufacturers, manufactured house producers, and home improvement retailers. Under this agreement, BlueLinx will distribute and support Tenon's Lifespan product, beginning first with the large Californian market and then extending to a nation wide roll-out over the next 6 - 12 months;
- The successful refinancing of the Tenon group, with the establishment of a US$100 million, 5-year bank facility, with sufficient flexibility to support the Company's operational and strategic needs moving forward. That this refinancing, which was led by JP Morgan Chase and which includes all the banks who previously had banking relationships with Tenon, was able to be put in place at a time when international financial markets are problematic, is a reflection of the market positioning of Tenon and the strong relationships it has with the banks who have financed the Company over many years; and
- Despite the extremely difficult market environment, the reporting of EBITDA of US$20 million for the year to 30 June 2007 – flat year-on-year, and in line with market expectations.

Tenon's net cash flow from operations (prior to working capital changes) for the financial year was US$16 million, up on the US$12 million reported in the 2006 financial year. Capital expenditure made during the period under review was largely dominated by expenditure on the acquisition of OMI and the additional ownership interest in Southwest Mouldings (the latter occurring after balance date). Net bank borrowings after the acquisition of the additional Southwest position were approximately US$80 million – well within the newly negotiated US$100 million facility.

In terms of the immediate outlook, Tenon sees 2008 as being a recovery year, with earnings forecast to be higher than in 2007, but with the weighting being far greater to the second half of the new financial year. This is based on the assumption that the key drivers – NZ:US exchange rate and the US housing sector – will become progressively more favourable as the year progresses. The One-Company initiatives being put in place should ensure some earnings lift quite apart from any anticipated market improvement. However, as the two macro factors mentioned above are not controllable by Tenon, the business focus will continue to be on positioning the Company to be ready for the market recovery as it occurs, by ensuring it continues to be the leader in the speciality product niche position that it currently occupies.

Beyond 2008, Tenon sees a return to mid-cycle macro-conditions, which, given the considerable repositioning the Company has already undergone and will continue to undergo over the next 12 months, should prove to be extremely favourable to Tenon's earnings performance in future years.

FORESTADORA TAPEBICUA (FTSA)

Our Interim Report wrote the closing chapter for our investment in FTSA. There is no new information on this subject to report to Shareholders - other than to say there have been no events or change in circumstances in the intervening period that would suggest we should have taken a different path with this investment. For the record, the satisfactory conclusion to this "inherited" investment, which was achieved last November and reported to you in our Interim Report, is repeated below in the interest of completeness.

As Shareholders know, we had been very clear for some time that our decision around FTSA was either to own 100% of the investment (thereby ridding ourselves of an extremely difficult partner) or to exit the investment entirely. Given the choice, our preference was to exit, as amongst other things we had concerns about the long-term stability of the Argentine economy, inflationary cost pressures that were building in the business, and the lack of progress around a debt restructure agreement which was desperately needed to put the Company on a sound footing.

As events turned out, in the course of negotiating a debt restructure agreement with the new owner of FTSA's debt, we were able to convince all parties that the best path forward was for the new debt-owner to acquire 100% of the business. So, consistent with our "either get in or get out" philosophy, we chose to exit our 50% investment in FTSA.

This sale, which was completed in late November, saw Rubicon receive NZ$8 million (US$5 million) in cash for its 50% shareholding. We believe this to be a good outcome to what has been a very difficult investment, and which has occupied a considerable amount of management time. We received more than our book value for a business that made a loss during the period, and which had some US$7 million of gross debt on its balance sheet. The sale also achieved a price well in excess of equity market expectations, given the market had appeared to totally write off this investment prior to our sale announcement.

While not changing the economic path of Rubicon greatly, with the transaction now behind us it allows us to focus our efforts on bringing value to Rubicon's more substantial activities – Tenon and ArborGen.

GOVERNANCE

Shareholders are well aware that we believe the best way to ensure alignment of goals between Shareholders and the Company is to ensure that the Directors and Management of Rubicon have a direct investment in Rubicon beyond merely their employment with the Company. Accordingly, on 23 March 2007, the Company announced that it had put in place a new Equity Plan for its employees. The purpose of the Plan is to align Management with Shareholders, and to incentivise the quick and effective achievement of Rubicon's business goals. Under the terms of the Plan, the senior employees of Rubicon received a payment from the Company equivalent to their next 24 months base salary, which (net) they immediately reinvested in cash in Rubicon shares. The Company has issued them Rubicon shares (at 93 cents per share, being 2 cents above the closing market price on 22 March 2007) equivalent to the net value of those salaries foregone. They will not receive any base salary payments for the two-year period up to 31 March 2009. 1.5 million shares (0.60% of the Company's issued share capital) were issued under this new Plan. These shares cannot be sold or otherwise disposed of before the expiration of two years from their issuance, and there are provisions under the Plan for the return of shares (and distributions on those shares) to the Company should an employee leave prior to 31 March 2009. The Company will not be issuing any further shares under the Plan. Following a full review of the proposed Plan, the NZX granted the Company a waiver from the need to seek shareholder approval for its implementation.

In addition to aligning our senior executives with Shareholders, the Plan has the effect of completely eliminating the Company's cash obligations in respect of all base salary payments to its senior executives over the two-year period. In essence, fixed base salaries have been "converted" into Rubicon equity, with a consequential cash-saving to the Company.

In addition to the new shares issued, the Plan also required Rubicon's senior employees to purchase Rubicon shares on-market to the value of NZ$450,000 (in the aggregate). These additional shares were acquired by employees in March and April 2007. The willingness of our employees to invest in Rubicon shares should indicate to the market the potential value they see in this Company. In this regard, it is worth noting that the Directors and Management of Rubicon have now invested significantly in Rubicon shares – holding, in aggregate, 6.5 million shares, or approximately 2.6% of the Company's outstanding shares on issue. We all now share in the risks and rewards of ownership in just the same way as all other Rubicon shareholders do.

During the period, we continued with our on-market share buyback programme, purchasing 5.1 million shares. All of this occurred in the first six months of the year, with the Company's increased share liquidity in the second half of the year negating the need for the Company to participate in the buying of its shares in the market. Since we began our on-market buy-back programme we have acquired over 36 million shares at an average price of 90 cents per share – well below our current share price. We currently have approximately 2% of our stock to repurchase in order to complete the 5% buyback programme. This programme, which was originally to have been completed by 17 March 2007, has now been extended out to 28 February 2008 (or when the buyback is complete, if that is sooner). The shares to be acquired are ordinary Rubicon shares, and the maximum number of shares to be acquired (i.e. the shares remaining to complete the previously announced 5% buyback, as at the date of this report) is 5.8 million.

As a result of the buyback and shareholder movements during the year, our share register has continued to consolidate. The ten largest Rubicon shareholders now own almost 80% of our total share register. This consolidation is a reflection of both the unique nature of our ArborGen investment and the faith that these Shareholders have in the eventual value pay-off for Rubicon from ArborGen and Tenon. Having said that, we still have approximately 10,000 retail Shareholders who are very important to the Company – many who have been with Rubicon from the start, and who have declined to participate in the buyback and small shareholder plans, preferring to wait for the value-outcomes in both our ArborGen and Tenon investments. We acknowledge the support of all our continuing Shareholders.

The 2007 Annual Shareholders' Meeting is to be held on Monday, 3 December 2007. The opening and closing dates for the nomination of directors are 3 September and 5 October 2007 respectively.

FINANCIAL

The chart below gives a "snap shot" view of Rubicon's consolidated earnings performance for the year.

	Summary Operating Earnings	**US$m**
	Tenon	20
(2)	Tree biotechnology	(3)
(3)	Corporate	(2)
	Total	15

(1) Pre-depreciation
(2) The tree-improvement and biotechnology operations of Horizon2 and ArborGen
(3) Before interest income

The positive result of US$15 million is after the expensing of ArborGen's annual research-related activities. As we have noted many times however, an earnings analysis does not show the full value picture for Rubicon, as ArborGen in particular is still a developing business and its true value is not captured in its earnings contribution – in time we believe it will be.

As Shareholders are aware, our investing activities are limited purely to the Rubicon Group's existing businesses. At balance date and following the disposal of our FTSA investment, these activities were Tenon, ArborGen and Horizon2. During the period, investment in these three operations comprised:

Capital Expenditure	US$m
Investment in ArborGen	5
Purchase of Rubicon shares on-market	3
Acquisition of Ornamental Mouldings	20
Investment in Tenon's existing facilities	4
Purchase of Tenon shares on-market	1

At the end of the period our consolidated net debt position (including deferred settlements of US$16 million relating to the put option in Southwest Mouldings) was US$77 million. This is made up of US$88 million of net debt on Tenon's balance sheet (as Tenon is 57% owned by Rubicon, the Tenon balance sheet is included in Rubicon's consolidated balance sheet) and a cash balance of US$11 million on Rubicon Limited's balance sheet (Rubicon Limited itself has no debt). Although Tenon's on-balance sheet net debt increased by some US$16 million during the period as a result of the acquisition of OMI, on a "look-through" basis the acquisition has actually reduced Tenon's net debt exposure, because it also sold its AWM operation (a 50% non-consolidated investment) during the period which carried debt of approximately US$40 million (US$20 million Tenon's share) on its own balance sheet.

OUTLOOK

Shareholders are well aware that we have a goal of achieving an annualised Shareholder return of 17% per annum. Whilst this is obviously a very aggressive target, we are pleased to be able to say that we have been able to meet this target over the life of the Company to date – a creditable achievement. Of course, in achieving that feat, we have had some years where we have exceeded the target return and some years where we have fallen short. While in 2007 we recorded a 12% return – the shortfall against our target being due largely to the adverse market conditions in which Tenon was operating – we remain confident that we will continue to meet our 17% Shareholder return target over the life of the Company.

We stand by our view that there is considerably more value in Rubicon yet to be extracted and recognised in our share price. While some of that value will be delivered by changes in macro-conditions over time to more favourable "settings" – in particular the NZ:US exchange rate and the US housing market are important to the value of Tenon - much of the value-extraction rests in our own hands.

Accordingly, the focus for us in the next immediate period will be as follows:

ArborGen

In our Interim Report we listed the following objectives – each of which remains highly relevant today for ArborGen:

- Expanding trials and trial data in ArborGen's two products closest to commercialisation – cold tolerant eucalyptus and improved-pulping eucalyptus;
- Extending further the existing (and developing new) "cost and value-sharing" relationships for ArborGen's initial biotech products with its customers;
- Putting in place the appropriate collaborations with complementary organisations to enable ArborGen to meet its biofuels objectives; and
- Setting milestones for the venture that will establish a clear value timeline for its Partners.

To these of course, must now be added:

- Closing the acquisition (subject to OIO approval) of ArborGen's three-Partners' tree improvement businesses; and
- Successfully integrating those businesses with ArborGen's existing product development activities, to extract the synergies of operating the leading global treestock company.

Horizon2

- Closing the acquisition from CHH of the remaining 50% interest in Horizon2;
- Then (as noted above) closing the subsequent sale of Horizon2 into ArborGen; and
- Encouraging the Government to finally announce, and put in place, the specific forest planting initiatives that the forest industry in New Zealand has been waiting for.

Tenon

- Driving earnings performance, by:
  - Extracting operational synergies from Tenon's One-Company initiatives;
  - Advancing Tenon's outdoor programme, through the roll-out of the Lifespan and Armourwood products to both the independent distributors and Lowe's respectively;
  - Strengthening the specialty product niche position that Tenon currently occupies, through value-enhancing product extension and channel expansion; and
- Positioning Tenon for a return to mid-cycle conditions post-2008.

Thank you for your support in 2007. We will keep Shareholders up to date on the Company's progress as we proceed through 2008, and we look forward to reporting again to you at our Annual Shareholders' Meeting later in the calendar year.

Stephen Kasnet
Chairman

Luke Moriarty
Chief Executive Officer

29 August 2007

Our previous Annual and Interim Reports, along with this Report, are all available on our website – www.rubicon-nz.com. In addition to our Shareholder reports, from time to time we also make announcements to the New Zealand Exchange. These can be viewed by Shareholders either on the NZX website or on Rubicon's own website.