RUBICON

2014

STATUTORY REPORT

This Report contains the Audited Financial Statements, Governance and Statutory Information for the Rubicon Group. A separate report is also available on request – the Rubicon Annual Review – which details the strategic and operating highlights for Rubicon for 2014.

Our Interim Review for 2014 and our Annual Review for 2013 are each available on our website – www.rubicon-nz.com. In addition to our shareholder reports, from time to time we make announcements to the New Zealand Exchange. These can be viewed either on the NZX website or on Rubicon's own website, where a complete history of our market releases is maintained.

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 Rubicon, and our Tenon and ArborGen investments, some of which are beyond our control. As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. Tenon's risks and uncertainties include - that its operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes, particularly in North America. Fluctuations in industrial output, foreign exchange changes, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repair and remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. ArborGen's risks and uncertainties include (in addition to those of Tenon) - the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, customer adoption of advanced seedling products, the success of ArborGen's research and development activities, weather conditions and biological matters. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.

Rubicon's functional currency is the US dollar, and accordingly, unless otherwise stated, all references to dollars in this Statutory Report are references to US dollars.

RUBICON

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Consolidated Income Statement

For the year ended 30 June 2014

RUBICON LIMITED				RUBICON GROUP	
Year ended June 2013 US$m	Year ended June 2014 US$m		Notes	Year ended June 2014 US$m	Year ended June 2013 US$m
–	–	Revenue		396	364
–	–	Cost of sales		(304)	(281)
–	–	**Gross earnings**		**92**	**83**
–	–	Distribution expense		(71)	(69)
(1)	(2)	Administration expense		(17)	(15)
(1)	(2)	**Operating earnings before financing expense**	7	**4**	**(1)**
(1)	(1)	Financing expense	8	(5)	(5)
(2)	(3)	**Earnings before taxation**		**(1)**	**(6)**
–	–	Income tax expense	9	(1)	–
(2)	(3)	**Net Earnings**		**(2)**	**(6)**
		Attributable to:			
(2)	(3)	Rubicon shareholders		(3)	(5)
–	–	Minority shareholders		1	(1)
(2)	(3)	**Net Earnings**		**(2)**	**(6)**

Basic/diluted earnings per share information (cents per share)	(0.8)	(1.3)
Weighted average number of shares outstanding (millions of shares)	391	378

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

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

RUBICON LIMITED			RUBICON GROUP	
Year ended June 2013 US$m	Year ended June 2014 US$m		Year ended June 2014 US$m	Year ended June 2013 US$m
(2)	(3)	**Net Earnings**	**(2)**	**(6)**
		Items that may be reclassified to the Consolidated Income Statement:		
–	–	Movement in currency translation reserve	1	–
–	–	Movement in hedge reserve	1	(1)
–	–	**Other comprehensive income (net of tax)**	**2**	**(1)**
(2)	(3)	**Total comprehensive income**	**–**	**(7)**
		Total comprehensive income attributable to:		
(2)	(3)	Rubicon shareholders	(1)	(6)
–	–	Minority shareholders	1	(1)
(2)	(3)	**Total comprehensive income**	**–**	**(7)**

Statement of Changes in Equity

For the year ended 30 June 2014

RUBICON LIMITED				RUBICON GROUP	
Year ended June 2013 US$m	Year ended June 2014 US$m		Notes	Year ended June 2014 US$m	Year ended June 2013 US$m
(2)	(3)	**Total comprehensive income**		**–**	**(7)**
		Movement in Rubicon shareholders' equity:			
15	10	Issue of shares	19	10	15
		Total movement in shareholder equity attributable to:			
13	7	Rubicon shareholders' equity		9	9
–	–	Minority shareholders' equity		1	(1)
		Opening equity attributable to:			
150	163	Rubicon shareholders		150	141
–	–	Minority shareholders		49	50
150	163	Opening total Group equity		199	191
		Closing equity attributable to:			
163	170	Rubicon shareholders		159	150
–	–	Minority shareholders	21	50	49
163	170	**Closing Total Group Equity**		**209**	**199**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

RUBICON LIMITED				RUBICON GROUP	
Year ended June 2013 US$m	Year ended June 2014 US$m		Notes	Year ended June 2014 US$m	Year ended June 2013 US$m
		Cash was provided from operating activities			
–	–	Receipts from customers		398	360
–	–	Cash provided from operating activities		398	360
(1)	(2)	Payments to suppliers, employees and other		(393)	(370)
–	–	Income tax received/(paid)		(1)	–
(1)	(2)	Cash (used in) operating activities		(394)	(370)
(1)	(2)	**Net cash from operating activities**		**4**	**(10)**
–	–	Sale of fixed assets		–	3
–	–	Investment in fixed assets	13	(2)	(2)
–	–	Investment in associate	15	(5)	(4)
(5)	(5)	Movement in advances to subsidiaries		–	–
(5)	(5)	**Net cash from (used in) investing activities**		**(7)**	**(3)**
7	8	Debt drawdowns		63	22
(15)	(10)	Debt repayment		(63)	(21)
(1)	(1)	Interest paid		(6)	(4)
15	10	Issue of shares		10	15
6	7	**Net cash from (used in) financing activities**		**4**	**12**
–	–	**Net movement in cash**		**1**	**(1)**
–	–	Opening cash, liquid deposits and overdrafts		(2)	(1)
–	–	**Closing Cash, Liquid Deposits and Overdrafts**		**(1)**	**(2)**
(2)	(3)	Net earnings		(2)	(6)
		Adjustment for:			
1	1	Financing expense	8	5	5
–	–	Depreciation	7	4	4
–	–	Forest assets		1	–
–	–	Other		–	(2)
(1)	(2)	Cash flow from operations before net working capital movement		8	1
–	–	Trade and other receivables		2	(4)
–	–	Inventory		5	(19)
–	–	Trade and other payables		(11)	12
–	–	Net working capital movement		(4)	(11)
(1)	(2)	**Net cash from operating activities**		**4**	**(10)**

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

Consolidated Balance Sheet

As at 30 June 2014

RUBICON LIMITED				RUBICON GROUP	
June 2013 US$m	June 2014 US$m		Notes	June 2014 US$m	June 2013 US$m
		Current assets			
–	–	Trade and other receivables	10	35	34
–	–	Inventory	11	67	72
–	–	**Total current assets**		**102**	**106**
		Non current assets			
–	–	Fixed assets	13	21	23
–	–	Forest assets	14	3	4
–	–	Investment in associate	15	81	76
–	–	Goodwill	16	85	85
–	–	Deferred taxation asset	12	12	11
176	181	Investment in and advances to subsidiaries	25 & 28	–	–
176	181	**Total non current assets**		**202**	**199**
176	181	**Total assets**		**304**	**305**
		Current liabilities			
–	–	Bank overdrafts		(1)	(2)
(1)	(1)	Trade, other payables and provisions	17	(35)	(44)
–	–	Derivatives		–	(1)
–	–	Current debt	18	(1)	(1)
(1)	(1)	**Total current liabilities**		**(37)**	**(48)**
		Term liabilities			
(12)	(10)	Term debt	18	(58)	(58)
(12)	(10)	**Total term liabilities**		**(58)**	**(58)**
(13)	(11)	**Total liabilities**		**(95)**	**(106)**
163	170	**Net Assets**		**209**	**199**
		Equity			
178	188	Share capital	19	188	178
(15)	(18)	Reserves	20	(29)	(28)
163	170	**Equity attributable to Rubicon shareholders**		**159**	**150**
–	–	Equity attributable to minority shareholders	21	50	49
163	170	**Total Group Equity**		**209**	**199**
		Net Asset Backing		US 39 cps	US 40 cps

Steve Kasnet
Chairman

Luke Moriarty
Chief Executive Officer & Director

Mark Taylor
Chief Financial Officer

22 August 2014

Each 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 Rubicon Group.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

1 GENERAL INFORMATION

Rubicon Limited is an active international investor in forestry related industries. Rubicon, a limited liability company, incorporated and domiciled in New Zealand, is listed on the New Zealand stock exchange. As at 30 June 2014 Rubicon had two core investments; Tenon Limited (59.23%) and ArborGen Inc (31.67%).

The financial statements presented are for the year from 1 July 2013 to 30 June 2014, with the comparative period being the year ended 30 June 2013.

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 22 August 2014.

3 BASIS OF PRESENTATION

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

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 accounting policies are consistent with those used in the June 2013 consolidated financial statements. The significant accounting policies are set out below.

Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The presentation currency used in the preparation of these financial statements is United States dollars (US$), rounded to the nearest million dollars.

Chief operating decision-makers

Rubicon's 'chief operating decision-makers' are the Rubicon Board and the Chief Executive Officer, who jointly make strategic decisions.

4 SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Policy

There have been no changes in accounting policies during the year.

New and amended standards adopted by the Group.

There were no new standards or amendments to standards adopted by the Group in the current year that had a material impact on the Group.

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:

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

Financial, commercial and environmental risks (note 5)

Rubicon, Tenon Limited and ArborGen Inc are subject to a number of risks and uncertainties, the principal ones of which are summarised in note 5.

Forest assets (note 14)

The carrying values of forest assets are assessed at least annually to ensure they are not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by the forest estate, which entails making judgements about the expected future performance and cash flows of the forest and the appropriate discount rate to apply when valuing future cash flows.

Investments and valuation of goodwill (notes 15 and 16)

The carrying value of goodwill and investments are assessed at least annually to ensure they are not impaired. Performing this assessment 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 investments are also effected by the estimates and judgements applied to capitalisation of developmental expenditure and the the adopted amortisation policy.

Deferred taxation (note 12)

NZ IFRS allows the recognition of taxation assets when utilisation is considered probable. This requires an estimation of the future earnings of the Group. These calculations are based upon annual financial budgets and average exchange rate assumptions.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent 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. Tenon Limited is a subsidiary of Rubicon Limited.

Business combinations

For acquisitions before 30 June 2009, the following purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is the fair value for the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are recorded at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

There have been no acquisitions in the current year, but if there had been the Group would have applied the acquisition method of accounting as described above, modified by NZ IFRS 3 (Amendment) 'Business Combinations'. The most significant change to the purchase method of accounting brought about by the adoption of NZ IFRS 3 is that all costs relating to a business combination must be expensed and not capitalised to the cost of the acquisition. In addition subsequent remeasurement of the business combination would be required to be put through the income statement.

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

Associates

Associates are entities in which the Parent Company, either directly or indirectly, has a significant but not controlling interest. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

the date that significant influence commences until the date that significant influence ceases. Associates are initially recognised at cost. ArborGen Inc is an associate of Rubicon Limited.

Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 April 2004 (being the Group's opening NZ IFRS balance sheet), goodwill represents the difference between the cost of the acquisition and the Group's share of the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its carrying value at transition date recorded under previous NZ GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is assessed at least annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

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 assets and liabilities of all of the Group companies (none of which has a currency of a hyper-inflationary economy) 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, which are regularly reviewed, are:

Buildings	30 years
Plant and equipment	3 to 13 years.

Inventory

Trading inventory, raw materials and work in progress are valued at the lower of cost or net realisable value and are determined principally on the first-in-first-out basis. Cost includes direct manufacturing costs and manufacturing 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.

Forest assets

Forest assets are valued at their fair value. All the costs necessary to maintain the forest assets are included in the income statement together with the change in fair value for each accounting period. The value is based on discounted forestry cash flow models where the fair value is calculated using cash flows based on sustainable forest management plans. The fair value is measured as the present value of cash flows from one growth cycle on leased forest land, taking into consideration environmental, operational and market restrictions.

Trade and other receivables

Trade receivables are carried at cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise 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 pre-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 cost.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

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.

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 substantially 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. 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.

Derivative financial instruments

The Group uses derivative financial instruments for the purpose of managing its exposure to adverse fluctuations in interest rates, foreign currency exchange rates and commodity prices. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged.

The Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes. Derivatives that do not qualify for hedge accounting are classified as financial assets and are initially recognised at fair value at the date the contract is entered into. The subsequent gains or losses arising from changes in the fair value of financial assets are recognised immediately in the income statement.

However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedge

For cash flow hedge transactions in which the Group is hedging the variability of future cash flows related to a variable-rate asset, liability or a forecasted transaction, the effective portion of the changes in the fair value of the derivative instrument are reported in the statement of comprehensive income. The gains and losses on the derivative instrument that are reported in the statement of comprehensive income are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

The ineffective portion of all hedges is recognised in current period earnings.

The net interest received or paid on the contracts is reflected as interest income or expense of the related hedged position. Gains and losses resulting from the termination of contracts are recognised over the original period hedged as long as the underlying cash flows are still probable of occurring. If the hedged positions are sold, or the underlying cash flows are no longer probable of occurring, any unrealised gains or losses are recognised in the current period.

Fair value hedges

Changes in the fair value of derivatives which are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

Income Determination

Revenue recognition

Revenue comprises the fair value of the consideration received for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. Revenue is shown net of any value added tax, returns, rebates and discounts and after eliminating sales within the Group.

Goods sold

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. 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. Dividend income is recognised in the income statement on the date the Group's right to receive payment is established.

Finance expense

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and the amount payable in relation to the supply chain financing programme.

Leasing commitments

The Group leases certain plant, equipment, land and buildings. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement in the periods of expected benefit.

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset, leased under a finance lease, is accounted for in accordance with the accounting policy applicable to that asset.

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. 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

Other employee benefits

Long service leave vests to certain employees after varying periods of service. The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

Share-based payments

The fair value of any liability under any cash settled, share-based compensation plan is recorded at each reporting date, with any changes in fair value recognised in the income statement for the period.

Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The Group has two reportable segments, which are the Group's strategic business assets; being Tenon (appearance and wood products) and ArborGen (forestry genetics), which offer different products and services. The Group's geographical segments are based on both the location of customers and primary location of assets (refer to note 27 segmental information summary).

Goods and Services Tax

The income statement and statement of cash flow have been prepared exclusive of goods and services taxation.

Comparatives

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

New NZ IFRS Standards

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2013 but have had no material impact on the consolidated financial statements:

- NZ IFRS 7 Financial Instruments Disclosure effective for annual periods beginning on or after 1 January 2013.
- NZ IFRS 10 Consolidated Financial Statements effective for annual periods beginning on or after 1 January 2013.
- NZ IFRS 11 Joint Arrangements effective for annual periods beginning on or after 1 January 2013.
- NZ IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2013.
- NZ IFRS 13 Fair Value Measurement effective for annual periods beginning on or after 1 January 2013.
- NZ IAS 27 Consolidated and Separate Financial Statements effective from 1 January 2013.
- NZ IAS 28 Investments in Associates and Joint Ventures (2011) effective for annual periods beginning on or after 1 January 2013.

Future NZ IFRS Pronouncements

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2014 or later periods. The Group has identified the following standards as relevant and note that adoption will not have a material effect on the Group's accounts, but will require additional disclosure or format changes:

- NZ IFRS 9 Financial Instruments effective for annual periods beginning on or after 1 January 2015.
- NZ IFRS 15 Revenue from contracts with customers effective for periods on or after 1 January 2017.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).

5 FINANCIAL, COMMERCIAL AND ENVIRONMENTAL RISKS

As the Group's principal assets are investments in Tenon Limited 59.23% (2013: 58.99%) and ArborGen, Inc 31.67% (2013: 31.67%) it is considered appropriate to disclose separately the financial risk management applicable to each of these investments.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

This note presents information about the Group's potential exposure to financial, commercial and environmental 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 in note 29.

5.1 ArborGen

ArborGen has exposure to financial risks which are actively assessed and managed by the ArborGen board and management team.

5.1(a) Commercial risk

ArborGen sells 265 million treestocks annually into forestry markets in North America and Australasia. ArborGen's financial results are exposed to any downturn or reduction of sales in these markets, with the greatest exposure being to the North American market. This market has been at cyclical lows for several years, although it is now improving as the US housing market has begun to recover (refer 5.2(e) on page 17). ArborGen manages this market volume risk by ensuring it has a wide spread of customers in this market including specialist forest investment companies (TIMOs), farm/land owners, integrated forestry/pulp and paper companies (both private and public). In addition, ArborGen's strategic drive is to ensure that its treestock offerings represent the highest-value genetics available. By developing product offerings that its competitors do not have, ArborGen believes this element of market risk can be considerably mitigated. As well as being geographically diversified, ArborGen's end-use markets are also diversified into the large forestry and growing bioenergy markets. This provides market and product use risk mitigation.

ArborGen mitigates technology risk by operating across the full spectrum of genetic technologies – from traditional breeding through to genetic engineering (GE). Although ArborGen utilises advanced biotechnology techniques to develop and produce its high genetic value treestocks, it is only its GE treestocks that require regulatory approval. ArborGen is actively employing advanced genomic selection as a way of integrating modern genetic and genomic techniques with conventional breeding programmes, to accelerate genetic improvement, which does not involve GE. By drawing upon genomics and gene discovery, the regulatory risks associated with GE products can be avoided. ArborGen limits the development of its GE products to those situations and traits that cannot be achieved through non-GE techniques. GE treestocks require ArborGen to receive approval from the regulatory authority in each of the markets in which ArborGen operates before any of these products can be commercialised. Accordingly, ArborGen is exposed to the risk that these products may not achieve regulatory approval or that regulatory approval takes longer than ArborGen expects. ArborGen mitigates this risk by (amongst other measures) adhering strictly to all operable regulatory requirements, and engaging fully and early with regulatory authorities in public submission processes.

There is the risk that even if ArborGen's products deliver the value-gains targeted, there may still be a lack of customer acceptance of ArborGen's products, due to the techniques it employs to produce them. For example, the Forestry Stewardship Council (FSC) does not currently approve the commercial use of GE trees in its certified forests. ArborGen mitigates this particular risk by operating in many jurisdictions across a wide-range of potential customers, thereby limiting the impact of the decision of any one market or customer. In addition, ArborGen engages in public forums designed to educate on both the risks and benefits of genetically modified trees, as well as ArborGen-specific issues. To advance customer adoption of its GE products ArborGen works in product development partnerships with potential future customers, in order to reduce any customer and public concerns and issues as they arise through the product development process.

5.1(b) Credit risk

ArborGen is at risk of customer default on payment for treestocks at the conclusion of a growing season. ArborGen mitigates this risk by (as previously noted) dealing with a wide-range of customers in multiple markets, by securing up-front deposits from customers for the treestocks it grows each year, and by retaining title to product until final customer payments have been made. The nature of ArborGen's activity is that its customers tend to require yearly repeat business, and historically customer payment defaults have not been material to ArborGen's business.

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5.1(c) Liquidity risk

ArborGen has a $26 million banking facility with a regional bank in the United States, which expires on 31 August 2015, which is used to fund ArborGen's working capital and capital expenditure needs in its US treestock sales activities. In addition ArborGen also has a NZ$4.5 million NZ-based bank facility, to fund its Australasian commercial tree operations, which has an expiry date of 30 November 2015. If either of these were not to be renewed then ArborGen would need to obtain similar facilities from other banks, or an equivalent amount of funding would need to be supplied by the three ArborGen partners, or through an ArborGen capital raising event. Neither of these ArborGen bank facilities has recourse to Rubicon Limited.

In order to meet the product development programme for its traditional non-biotech products, and also to commercialise its biotech products, ArborGen currently requires funding of approximately $10-15 million per annum. Absent any further increase in bank funding, this must be met either from the existing partners or from some form of capital raising for ArborGen.

5.1(d) Other risk

A small group of ArborGen's present and former employees have taken a lawsuit against ArborGen, its partner companies and its (current and former) directors and officers, in relation to possible incentive payments to be made upon an IPO or sale of ArborGen (or a sale of all or substantially all of its assets). Whilst ArborGen and its partners are vigorously defending this action, the legal outcome is unknown and is likely to remain unknown for some time.

5.2 Tenon

5.2(a) Key financial risks and approach to risk management

Tenon actively operates a risk management programme, designed to minimise potential adverse effects on the Tenon group's financial performance. The Tenon risk management programme identifies and analyses the risks faced by the Tenon group, sets appropriate risk limits and controls, and monitors risks and adherence to those limits. Tenon uses an intra-group web-based risk management system for standardised risk assessment and reporting. Management reports to the Tenon board on the outputs of the annual risk reviews. The Tenon board establishes formal written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. The Tenon board may waive or modify the application of such policies where particular circumstances make it appropriate to do so.

Tenon's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases, cash and short-term deposits and derivatives.

Tenon manages its exposure to the key financial risks - market risk (including commodity price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk - in accordance with the policies set down by the Tenon board. Tenon enters into derivative transactions (principally interest rate swaps and forward currency contracts) to manage interest rate and currency risks.

5.2(b) Market risk

Tenon is exposed to changes in market demand, prices, foreign exchange rates and interest rates that affect its earnings or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns. Tenon enters into derivative transactions in order to manage market risks. All such transactions are carried out within the guidelines set by the Tenon board. Tenon does not use derivative financial instruments for trading or speculative purposes.

5.2(b) (i) Price risk (input and output)

Tenon operates in a competitive environment and takes all commercial actions necessary to minimise the risk of increasing input prices including operating procurement programmes to ensure raw materials are sourced on a competitive basis and the fostering of relationships with customers that allow the re-negotiation of selling prices in response to input/source price changes as appropriate.

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Product prices, particularly in the US market, can be cyclical and volatile. Prices for Tenon's products are influenced by North American housing inventory levels (new and existing), house price movement, housing construction levels, remodelling and renovation expenditure levels and other factors, such as employment levels and interest rates that effect consumer demand, such as employment levels and interest rates. Prices are also influenced by product availability, which can be a function of interest and foreign exchange variation, seasonal factors or supply availability and competition from a number of countries that supply products into the North American market, particularly New Zealand, North and South America and China.

Sawlogs are the key raw material for Tenon's New Zealand based solid wood processing operations. A failure to secure wood supply could have a material adverse affect on the New Zealand production. To mitigate this risk, Tenon maintains specialist in-house procurement expertise. Tenon also purchases sawlogs under term supply arrangements and on the spot market. Tenon estimate a movement in the average cost of logs of NZ$1/tonne would affect operating earnings before financing expense and equity by approximately $0.3 million assuming up to 300,000 tonnes of logs are processed at current operating capacity on an annual basis.

In addition, should existing third party suppliers of sawlogs fail to maintain FSC certification, or an equivalent certification and Tenon is unable to source replacement certified volume, this might result in the loss of some contracts to supply US customers who require that the wood they purchase comes from forests that are managed according to internationally agreed social and environmental principles and criteria. Tenon considers it currently has sufficient FSC certified volume available, but it is actively managing this risk, for example, by offering its customers the option of taking non-FSC products in certain product categories to minimise this risk.

Tenon relies on international shipping being available at competitive prices for the distribution of its products, particularly those manufactured in New Zealand. Shipping contracts are typically one year in duration, with fixed container rates in US$'s for the contract period, subject only to fluctuations in fuel prices.

Tenon had previously entered into an electricity commodity contract which provided an economic hedge against approximately 33% (previously 75%) of electricity costs incurred at the Taupo site, when operating at full capacity. The contract expired on 31 December 2013 and has not been replaced. The contracts had been determined as an effective hedge under NZ IAS39 (Financial Instruments: Recognition and Measurement), with the 2013 mark-to-market valuation adjustment taken to the hedging reserve in Group equity.

Other than the above electricity commodity contract, during the first six months of the 2014 fiscal year, Tenon did not use any commodity price swaps, futures or options to manage the market price risk of any commodities.

5.2(b) (ii) Foreign exchange risk

Tenon operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NZ$. Tenon's functional currency is the US$. Accordingly, strengthening or weakening in the NZ$ against the US$ has had, and could have in the future, a material impact on Tenon's financial condition or results of operations. Approximately 20% of Tenon's costs and approximately 6% of revenues are incurred in NZ dollars, 2% of revenues are received in Euros, and approximately 1% of costs and 1% of revenues are incurred in Australian dollars. In addition, pruned log costs in New Zealand are linked to the NZ$:US$ exchange rate, typically moving, after some delay, partially in correlation with NZ$ export returns from logs or procured wood products. However, recent weakening in the US$ and relative strengthening in the NZ$, combined with strong pruned log demand out of China, to meet China domestic needs, has caused this historic correlation to weaken. The currencies of Tenon's key non-New Zealand manufacturer competitors could also have a material impact on Tenon's financial condition or results of operations. Such movements would be partially offset to the extent Tenon's North American operations can leverage lower purchase prices from lower (in US$'s) cost countries. A one cent change in the value of the NZ$ against the US$ is estimated to have an impact on Tenon's operating earnings before financing expense and equity of approximately $0.65 million at current operating capacity, assuming key pricing variables remain constant.

Tenon uses forward contracts to manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency.

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Tenon's policy is to manage currency exchange rate exposure to limit the impact that any adverse changes in foreign exchange rates might have on Tenon's financial position, profitability or cash flow. Non-monetary assets are recorded in their functional currency, as determined by the dominant currency of cash flows, sales prices, sales markets, expenses and debt structure. The currency denomination and quantum of debt outstanding are managed so that economic risk exposure to currency movements on the aggregate of balance sheet and revenue items is offset within policy-defined limits. Where the proportion of the underlying debt in any currency does not equate to the required proportion of total debt, derivative financial instruments may be entered into to manage the exposure within formal board policies as discussed above.

5.2(b) (iii) Interest rate risk

Tenon's debt facility comprises a mixture of long-term debt and short-term LIBOR loans. Interest on both types of debt is based on LIBOR rates and can be for a term of one, two, three or six months, and borrowings issued at these short-term variable rates expose Tenon to market interest rate risk. Interest is also paid on a supply chain financing programme sponsored by the Bank of America based on LIBOR rates. Tenon's policy is to manage its interest position depending upon underlying interest rate exposures and economic conditions. Tenon manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Borrowings issued at fixed rates expose Tenon to fair value interest rate risk. Tenon raises long-term borrowings at floating rates and when appropriate swaps them into fixed rates that are lower than those available if it borrowed at fixed rates directly. Under the interest rate swaps, Tenon agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts (refer to note 29 (a) (iii) - exposure to interest rate risk).

5.2(c) Credit risk

Credit risk is the risk of financial loss to Tenon if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from receivables from customers and financial derivatives it has entered into.

5.2(c) (i) Trade and other receivables

Tenon's exposure to credit risk is influenced by the individual characteristics of each customer or counterparty. Credit arrangements are entered into in accordance with limits set forth by the Tenon group as to credit rating and dollar limits. It is Tenon's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. In the US, Tenon has entered into credit insurance arrangements for approximately 30% of trade receivables (excluding national retail accounts), thereby reducing the credit risk exposure. The total amount of policy cover is approximately $6 million and is subject to certain blanket deductibles per Tenon entity and specific cover limits and deductibles for individual customers. Tenon maintains a provision for doubtful debts based upon an estimate of losses expected in respect of trade and other receivables (refer to note 29 (b) (i) exposure to credit risk, for analysis of accounts receivable and note 5.2 (e) commercial risk, for customer concentration risk). Tenon's largest customer is Lowe's, the second largest retail home store operator in the US. Whilst there is a degree of customer concentration with Lowe's its credit rating has remained strong throughout the US housing down-cycle and global credit crisis. Tenon has minimised the commercial credit risk with Lowe's by entering into the supply chain financing programme (refer note 5.2 (d) liquidity risk) in respect of most of its receivables exposure with this customer. In addition, Tenon is actively growing pro-dealer business to provide greater diversity of revenue and earnings streams.

5.2(c) (ii) Financial derivatives

Tenon is exposed to counterparty risk in respect of potential default of a counterparty to a financial instrument, with the maximum exposure equal to the carrying amount of those instruments. Financial instruments are able to be spread amongst a number of financial institutions to minimise the risk of default of counterparties. Authorised counterparties for financial instruments (apart from the expired electricity price hedge arrangements) are restricted to those financial institutions that form part of Tenon's syndicated debt facility.

5.2(d) Liquidity risk

Tenon's treasury policy aims to maintain flexibility in funding by keeping committed credit lines available.

On 5 September 2013 Tenon announced that it had signed a new long-term $70 million syndicated debt financing facility, replacing the previous $54 million facility (refer to note 18 term and current debt). The new facility comprises a $59 million revolver line and an $11 million amortising term loan. The facility is for a period of five years, expiring in September 2018. The new facility is led by PNC Bank National Association, and the Syndicate also includes two existing lenders from the previous facility, the Bank of New Zealand and Comerica.

The amount available for drawdown at any one time is determined by the value of the Tenon group's inventory and receivables collateral, as reported to the Agent on a monthly basis, and is subject to certain prescribed exclusions, reserves and deductions. The borrowing base calculations are subject to periodic examination by the Agent during the remaining life of the credit facility.

Tenon's banking facility requires a minimum "availability" of $7.5 million. At 30 June 2014, availability was $20.5 million (June 2013: $17.5 million). The facility contained a short-term minimum EBITDA covenant for the period to 31 December 2013, at which time it was replaced by a standard quarterly fixed charge covenant (FCCR being ((EBITDA - capital expenditure - cash tax paid) / (interest + amortising term loan payments + distributions paid)) of 1.1 times commencing in March 2014. Should the FCCR fall below 1.1 times, this would result in a default under the terms of the banking facility giving the banks the right to impose certain restrictions on Tenon's access to and use of its funds including the demanding repayment of the amount borrowed (refer to note 18 term and current debt).

The terms of the facility also include certain negative covenants in relation to acquisitions and dividends, each of which are limited to $5 million per calendar year (without bank approval) and each subject to a minimum availability of $12.5 million existing immediately before and after the acquisition or the payment of the dividend. In addition, the facility has an annual excess cash flow recapture provision of up to $1 million to be applied against the balance of the term loan owing at the end of the relevant fiscal year. Tenon is also limited in the amount of third party borrowing, which cannot exceed $5 million.

The Tenon syndicated bank facility does not have any recourse to Rubicon Limited.

Tenon was in compliance with the financial covenants included in its facilities throughout the 2014 fiscal year.

Tenon also has a supply chain financing programme (announced on 16 June 2008) sponsored by the Bank of America, which allows Tenon the opportunity to receive payment from the Bank of America for a large portion of its receivables in advance of normal customer credit payment terms.

5.2(e) Commercial risk

The geographical nature of Tenon's operations and history give Tenon exposure to market demand risks.

Over 90% of Tenon's earnings are sourced from the North American market. Material changes in market conditions have had, and will have, a material consequential effect on Tenon's business. Tenon has been materially adversely impacted by the prolonged economic downturn in this key market that has prevailed over the past 5-6 years. Negative factors affecting the housing sector in North America over this period were tight credit market conditions, falling house prices, higher levels of housing inventory and reduced mortgage availability. These each had a material negative effect on the total consumption of building products and therefore Tenon's level of revenue, earnings and cash flow over this period. These conditions have since improved, with 2014 recording an increase in new house construction activity and house prices.

Tenon experiences strong competition in its global market. Radiata pine mouldings from Chile and other New Zealand suppliers and pine mouldings from the US and Brazil compete with Tenon's New Zealand manufactured radiata pine mouldings in the North American market. Radiata pine lumber from Chile and other New Zealand suppliers and other lumber species from Canada and the US compete with Tenon's appearance grade lumber products. Increasing product supply from China also competes with Tenon's products manufactured in North America. Tenon purchases products from third parties to supplement products manufactured in-house, particularly where it is more cost effective to do so.

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Some of Tenon's manufactured products are subject to competition from products, which perform the same or similar functions. These include alternative wood types and non-wood products, such as plastic composites. Changes in consumer preference in favour of these alternative products, comparative pricing levels of the competing products and technological advances of these products could all materially affect Tenon's financial performance. Tenon continues to explore new channels where there is opportunity for new products and as such changes in the market occur, it will look to satisfy customer demand for new products. In addition, Tenon is materially dependent on certain major customers for a significant portion of its revenues. The loss of one or more of these customers, or a material loss of some of this business to a competitor, or a material reduction in the margin earned on product sales to these customers, would have a material affect on Tenon's financial performance. Tenon's strategy is to continue to improve its product and service offerings to these customers to ensure Tenon remains the most competitive and innovative supply partner in specific categories. Revenues of approximately $156 million (2013: $149 million) are derived from a single external North American customer.

5.2(f) Environmental risk

Tenon considers that its activities currently comply in all material respects with applicable environmental laws and regulations. Failure to comply with these laws and regulations may result in orders being issued that could cause certain of Tenon's activities to cease or be curtailed or may require installation of additional equipment at substantial cost. Violators may be required to compensate those suffering loss or damage by reason of violations and may be fined if convicted of an offence under such legislation.

Environmental due diligence is part of the investigative process for any acquisition of a business by Tenon. Tenon has historically been a party to a number of disposals of businesses and assets, which included potential associated environmental exposures. An entity that created an environmental liability may continue to retain liability for the environmental exposure, notwithstanding any change of ownership. In addition, the New Zealand operations include historical environmental risks, which are being monitored and managed by Tenon. The costs of environmental compliance and remedial work are generally included in the normal cost of conducting business.

Tenon has no reason to believe that these costs vary significantly from similar costs incurred by other companies engaged in similar businesses. Based on the current environmental laws, regulations and practice, Tenon considers that its environmental compliance and remedial costs are not likely to have a material adverse effect on its relative competitive position or its financial position or results of operations. The precise cost of any future compliance and remedial work will depend on, among other things, the nature and extent of the current and future environmental laws and regulations, the timing and nature of any required remedial work, the extent of any contamination, the technology available to meet the required standards, the determination of any liability in proportion to that of other parties and the extent to which any costs are recoverable from third parties.

5.2(g) Fletcher Challenge separation risk

Following the separation of the Fletcher Challenge Group, which was completed in March 2001, Tenon Limited remains as the continuing business of Fletcher Challenge Limited, the former ultimate parent company of the Fletcher Challenge Group. As some of the Fletcher Challenge Limited assets and liabilities were difficult to isolate or to transfer, prior to separation, the new owners of the former Fletcher Challenge divisions entered into an agreement with Tenon Limited (the Amended and Restated Deed Relating to Assets and Liabilities- "Deed") under which the economic benefits and risks of these assets and liabilities were assumed by the division to which they were properly attributed. Following separation, any claims made on Tenon Limited that are properly attributed to one or more of the other three divisions requires Tenon to exercise its rights under the Deed to require payment from the relevant division or its successor or purchaser. Tenon is exposed to the risk that, in these circumstances, the relevant division (or its new owners) will not, or cannot, make the required payment. In the thirteen years since separation only one claim has been made on Tenon that has required Tenon to exercise its rights under the Deed. Under the terms of the Deed, Tenon attributed this claim to the relevant division and its purchaser, and it was settled by the purchaser with no material impact to Tenon.

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5.2(h) Capital management

The Tenon board's objectives when managing capital are to maximise the return for the Tenon group shareholders and safeguard Tenon's ability to continue as a going concern. In order to maintain or adjust the capital structure Tenon may pay dividends, return capital, issue new shares or sell assets to reduce debt, subject to the terms of Tenon's syndicated debt facility.

5.2(i) Fair value estimation

Financial instruments are recorded in the balance sheet at an estimated fair value. In the 2014 and 2013 years, foreign exchange contracts, interest rate swaps and the electricity contract for difference are treated as effective hedges under NZ IAS 39 (refer note 4 significant accounting policies, valuation of liabilities). The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The quoted market price used for financial assets held by Tenon is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Externally sourced valuations are used to value interest rate swaps and foreign exchange contracts held at balance date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The carrying amount of cash and liquid deposits and bank overdrafts is equivalent to the fair value. Long-term financial liabilities and other receivables are held at fair value. It is not practicable to estimate fair values of unlisted investments in subsidiaries and associates as there are no quoted market prices for those or similar investments. The carrying value of forest assets is equivalent to their fair value less estimated costs to sell. Tenon has no unlisted investments in other companies.

5.2(j) Tenon share price

At 30 June 2014 the Tenon share price (as listed on the NZX) was NZ$1.52 (2013: $1.11).

5.3 Rubicon Limited

Rubicon's capital includes share capital, reserves, retained earnings and minority interest, and Rubicon manages capital in such a manner as to maintain stakeholder confidence and safeguard Rubicon's 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 Rubicon may, subject to the terms of its debt facility, pay dividends or return capital, or issue new shares or sell assets to reduce debt.

Liquidity risk management requires the maintenance of available cash combined with the availability of funding through an adequate amount of committed credit facilities sufficient to meet the Company's needs as they develop. Rubicon prepares forecasts of its cash requirements and ensures it has facilities in place to meet its day-to-day operating and investment needs.

In addition to the Financial Risks applicable to its two principal investments (outlined above) Rubicon is exposed to financial risk with respect to its cash, short-term deposits and bank term loans. At balance date Rubicon Limited had borrowings of $10 million and no cash (2013: debt $12 million, cash nil).

Rubicon has a $20 million ANZ bank facility, that expires on 1 July 2015, which is not conditional upon any financial covenants, and which the company believes will be sufficient to meet its funding needs through to that date.

On 12 February 2014 Rubicon announced the completion of the placement of 29.3 million new shares to Libra Fund II (Luxembourg), at NZ$0.4129 per share, raising NZ$12 million (US$10 million) in new capital. The capital raised was used to repay debt.

6 REPORTING CURRENCY

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

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7 OPERATING EXPENSES INCLUDE

RUBICON LIMITED			RUBICON GROUP	
Year ended June 2013 US$m	Year ended June 2014 US$m		Year ended June 2014 US$m	Year ended June 2013 US$m
		Depreciation – plant, equipment and buildings:		
–	–	Cost of sales expenses	(3)	(3)
–	–	Distribution expense	(1)	(1)
–	–	Total depreciation	(4)	(4)
–	–	Net foregin exchange (loss)/gain	1	–
(1)	(2)	Employee related expenses	(59)	(57)

Operating expenses also include payments made and accrued for:

- Directors fees paid to non-executive Directors of Rubicon for the current period of $0.4 million (paid in NZ$0.5 million), (2013: $0.4 million (paid in NZ$0.5 million)) and an accrual for the non-executive Directors long-term incentive plan of $0.2 million (2013: nil), refer to note 26 for greater detail.
- The statutory audit of the annual financial statements and review of the interim financial statements: in the current period for Rubicon; $0.1 million (2013: $0.1 million) and in the current period for Tenon $0.5 million (2013: $0.5 million).
- Taxation services to KPMG, for Rubicon in the current period of $0.1 million (2013: $0.1 million).
- Other services provided by the auditors, for Rubicon in the current period were less than $0.1 million (2013: less than $0.1 million) and for Tenon in the current period $0.1 million (2013: $0.1 million). These other services include payroll services, attendance at the annual meetings and extended assurance work.
- Rubicon's auditors for all periods were KPMG, Tenon auditors in the current period were KPMG and for the prior year were PricewaterhouseCoopers.
- Refer to page 45 (Reporting and Disclosure) and page 49 (Auditors) of the Corporate Governance section for commentary on the Audit Committee process in managing the relationship with the Auditor and confirming their independence.

8 FINANCING EXPENSE

RUBICON LIMITED			RUBICON GROUP	
Year ended June 2013 US$m	Year ended June 2014 US$m		Year ended June 2014 US$m	Year ended June 2013 US$m
(1)	(1)	Interest expense (1)	(4)	(3)
–	–	Interest paid on supply chain financing (2)	–	(1)
–	–	Amortisation of refinancing fees (2) (3)	(1)	(1)
(1)	**(1)**	**Financing expense**	**(5)**	**(5)**

(1) The Rubicon Group expense includes $0.3 million for the cost of cancelling the Tenon interest rate swaps related to Tenon's previous debt facility (2013: nil).

(2) Relates solely to the Tenon group.

(3) Includes the write-off of refinancing fees on Tenon's previous facility of $0.8 million (2013: $0.3 million) and $0.3 million amortisation of Tenon's new facility refinancing fees (2013: nil).

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9 INCOME TAX EXPENSE

RUBICON LIMITED Year ended June 2013 US$m	Year ended June 2014 US$m		RUBICON GROUP Year ended June 2014 US$m	Year ended June 2013 US$m
		Earnings before taxation		
(2)	(3)	New Zealand and Australia	(1)	(4)
–	–	United States	–	(2)
(2)	(3)	Earnings before taxation	(1)	(6)
1	1	Taxation at 28%	–	2
		Adjusted for:		
–	–	Permanent differences	1	(1)
–		Tax losses written off (refer to note 12) (1)	(1)	–
(1)	(1)	Net taxation losses not recognised by Rubicon Group	(1)	(1)
–	**–**	**Taxation (expense)/benefit**	**(1)**	**–**
		Current taxation		
–	–	United States	(1)	–
–	**–**	**Taxation (expense)/benefit**	**(1)**	**–**

(1) In June 2014, Tenon had previously recognised US tax losses that expired during the year of $1 million (2013: nil)

		Rubicon shareholder imputation credit account		
–	–	Imputation credits at the beginning of the period	3	3
–	–	Imputation credits available to Rubicon shareholders at balance date	3	3

10 TRADE AND OTHER RECEIVABLES

RUBICON LIMITED June 2013 US$m	June 2014 US$m		RUBICON GROUP June 2014 US$m	June 2013 US$m
–	–	Trade debtors	29	29
–	–	Prepayments	4	3
–	–	Other receivables	2	2
–	**–**	**Trade and other receivables**	**35**	**34**

11 INVENTORY

RUBICON LIMITED June 2013 US$m	June 2014 US$m		RUBICON GROUP June 2014 US$m	June 2013 US$m
–	–	Raw materials and work in progress	6	6
–	–	Finished goods	61	66
–	**–**	**Inventory**	**67**	**72**

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12 TAXATION

Current taxation (liability)

RUBICON LIMITED June 2013 US$m	RUBICON LIMITED June 2014 US$m		RUBICON GROUP June 2014 US$m	RUBICON GROUP June 2013 US$m
–	–	Opening provision for current taxation	–	–
–	–	Current taxation (expense)/benefit in the income statement (refer to note 9)	(1)	–
–	–	Deferred taxation movement in period	–	–
–	–	Net taxation payments/ (refunds)	1	–
–	–	**Current taxation (liability)**	**–**	**–**

Deferred taxation asset

RUBICON LIMITED June 2013 US$m	RUBICON LIMITED June 2014 US$m		RUBICON GROUP June 2014 US$m	RUBICON GROUP June 2013 US$m
		The gross movement on the deferred taxation asset is as follows:		
–	–	Opening provision for deferred taxation	11	11
–	–	Effect of currency translation	1	–
–	–	**Deferred taxation asset**	**12**	**11**
		Deferred taxation asset		
–	–	Deferred taxation on assets	10	10
–	–	Deferred taxation on liabilities	2	1
–	–	**Deferred taxation asset**	**12**	**11**

Deferred taxation asset

RUBICON GROUP

	Depreciation US$m	Forestry Rights US$m	Provisions US$m	Tax losses [2] US$m	Current assets US$m	Total US$m
30 June 2013						
Opening provision for deferred taxation	(3)	(1)	1	14	–	11
Movement in deferred taxation	–	–	–	1	(1)	–
Deferred taxation asset as at 30 June 2013	**(3)**	**(1)**	**1**	**15**	**(1)**	**11**
30 June 2014						
Opening provision for deferred taxation	(3)	(1)	1	15	(1)	11
Effect of currency translation	–	–	–	1	–	1
Tax losses written off [1]	–	–	–	(1)	–	(1)
Movement in deferred taxation	–	–	1	–	–	1
Deferred taxation asset as at 30 June 2014	**(3)**	**(1)**	**2**	**15**	**(1)**	**12**

(1) In June 2014, Tenon had previously recognised US tax losses that expired during the year of $1 million (2013: nil).

(2) Tenon's recognised tax losses include $7.4 million of tax effected NZ tax losses (2013: $6.8 million), that do not expire, subject to shareholder continuity provisions, and $7.9 million (2013: $7.7 million) of US tax losses which have expiry dates as detailed below.

12 TAXATION continued

Tenon recognised US tax losses	Expiry Dates		
	2021	Beyond 2021	Total
	US$m	US$m	US$m
Gross value	5.1	18.4	23.5
Tax effected value	1.7	6.2	7.9

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 shareholder continuity. The Group had taxation losses (gross) in excess of the amount that can be recognised, at 30 June 2014 of $83 million (NZ: $57 million, US: $26 million) (2013: $75 million (NZ: $50 million, US: $25 million)).

13 FIXED ASSETS

RUBICON LIMITED			RUBICON GROUP	
June 2013 US$m	June 2014 US$m		June 2014 US$m	June 2013 US$m
		Cost		
–	–	Land	6	6
–	–	Buildings	14	14
–	–	Plant and equipment	40	43
–	–	Total cost	60	63
		Accumulated depreciation		
–	–	Buildings	(5)	(5)
–	–	Plant and equipment	(34)	(35)
–	–	Total accumulated depreciation	(39)	(40)
		Net book value		
–	–	Land	6	6
–	–	Buildings	9	9
–	–	Plant and equipment	6	8
–	–	**Fixed assets net book value**	**21**	**23**

		Domicile of fixed assets		
–	–	New Zealand	11	12
–	–	United States	10	11
–	–	**Fixed assets net book value**	**21**	**23**

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For the year ended 30 June 2014

13 FIXED ASSETS continued

Fixed assets net book value	RUBICON GROUP Land US$m	Buildings US$m	Plant and Equipment US$m	Total US$m
30 June 2013				
Opening net book value	6	10	9	25
Additions	–	–	2	2
Depreciation charge	–	(1)	(3)	(4)
as at 30 June 2013	**6**	**9**	**8**	**23**
30 June 2014				
Opening net book value	6	9	8	23
Additions	–	–	2	2
Depreciation charge	–	–	(4)	(4)
as at 30 June 2014	**6**	**9**	**6**	**21**

14 FOREST ASSETS

RUBICON LIMITED June 2013 US$m	June 2014 US$m		RUBICON GROUP June 2014 US$m	June 2013 US$m
–	–	Opening balance	4	3
–	–	Current year movement (1)	(1)	1
–	–	**Forest assets**	**3**	**4**

(1) The current year movement of the forests assets comprises several items: fair value expensed on sales of $1.7 million (included in cost of sales in the income statement) (2013: $0.3 million), costs associated with maintaining the forests of $0.1 million (2013: $0.2 million), a fair value uplift due to improved log prices and forest growth of $0.3 million (included in cost of sales in the income statement) (2013: $0.3 million).

Tenon has an interest in a forest asset growing on leased forest land, 299.7 stocked area hectares (2013: 359 hectares) and the forestry rights to several forest assets growing on other forest land, 89.7 stocked area hectares (2013: 57.6 hectares). The lease on the forest land expires in 2075 and the forestry rights expire between 2022 and 2046. The forest assets comprise a combination of clearwood (pruned) and framing (unpruned) stands in four separate locations. The forest assets form part of the security supporting Tenon's global credit facility. The forests were residual assets remaining after the sale of the majority of Tenon's forest assets in 2004 and are valued under IAS 41 "Biological Assets" and presented in the accounts as forest assets.

Harvesting of some of the forests continued during the period and external revenues of $4 million (2013: $1 million) and internal log consumption of $0.4 million (2013: nil) were recorded representing 133.4 ha of forest harvested (2013: 17.5 ha). The realised gain on this harvesting was $0.3 million (2013: $0.3 million), over and above the fair value of the crop harvested and is included in the gross earnings.

Valuation

The carrying value of Tenon's forest assets in these financial statements is their fair value of $2.5 million (2013: $3.6 million). This is derived from an independent forest valuation, as at 30 June 2014. The independent valuation assumes; a post-tax cash flow, an historical 12 quarter average pricing series to March 2014, and a transaction derived discount rate of 7% (real after-tax). Although Tenon is entitled to replant the land once harvesting is complete, the valuation only assumed a single rotation. Harvesting of the first stand began in 2013. As Tenon does not own the forest land, carbon tax credits were not assumed.

As noted above, Tenon intends to hold the forest crop through to harvest. As Tenon currently has sufficient carried forward New Zealand tax losses to offset the forecast assessable net income earned upon harvest, it is unlikely that tax will need to be paid on

14 FOREST ASSETS continued

the positive net cash flows generated from the forest assets. On current discount rate, taxation and cash flow assumptions, Tenon expects that the discounted net cash flows from the forest assets will exceed the carrying value and the independent valuation.

Sensitivities

The fair value estimate is sensitive to changes in the log price at mill or wharf gate log price and to changes in the discount rate. A 10% change in log prices is estimated to change the fair value of the forest asset as at 30 June 2014 by $0.3 million (2013: $0.3 million). A 1% change in the discount rate is estimated to change the fair value of the forest asset as at 30 June 2014 by $0.1 million (2013: $0.2 million).

Risk mitigation

As Tenon operates a sawmill in Taupo in New Zealand that processes logs (total purchases of logs processed by the sawmill in the June 2014 year was $44 million (2013: $44 million)), there is a partial natural hedge where decreases/increases in the forest valuation, due to log price changes, are partially offset with increases or decreases in the cost of raw materials used by the Taupo sawmill.

15 INVESTMENT IN ASSOCIATE

	RUBICON GROUP	
	June 2014 US$m	**June 2013 US$m**
Carrying value of associate		
Balance at the beginning of the period	76	72
Capital contributions during period	5	4
Earnings of associate	–	–
Balance at the end of the period	**81**	**76**
Earnings relating to associate (1)		
Revenue	30	30
Operating earnings from commercial tree operations	8	8
Operating expense and research costs expensed	(4)	(5)
Interest and depreciation	(1)	(1)
Patent related costs	(2)	(2)
Earnings from associate	**1**	**–**
Group's share of earnings relating to associate	**–**	**–**
Associate balance sheet (1)		
Current assets	22	20
Term assets		
Fixed assets	44	39
Intellectual property and product development	230	223
Total assets	296	282
Current liabilities	(10)	(7)
Bank debt	(18)	(21)
Term liabilities	(13)	(14)
Total liabilities	(41)	(42)
Net assets	255	240
Interests held by third parties	(174)	(164)
Investment in associate	**81**	**76**

(1) ArborGen Inc (Rubicon's associate) has a balance date of 31 March; the earnings relating to associate are for the year to 31 March 2014 and the balance sheet is as at 31 March 2014.

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15 INVESTMENT IN ASSOCIATE continued

The recoverable amount of the investment in ArborGen is determined based on value-in use calculations. These calculations use a discounted cash flow (DCF) model projection, over a ten year period inclusive of a terminal value. Separate demand projections are determined for each geography and end-use market. ArborGen's addressable market for each is estimated, as is seedling type (e.g. softwood or hardwood, species, and production technology employed (e.g. traditional, MCP, varietal, GE)), and sales price and cost by product for each market. Each of these is discounted at a cost of capital reflective of the risk applicable to it. Discount rates employed range from 16% real pre-tax (for the US core business) to 28.5% real pre-tax for the less proven ArborGen segments. The average discount rate (i.e. the composite rate) employed is 21.5% real pre-tax. Terminal growth rates are determined on a market by market basis and range from 1.5% for the US core business, to 9% for the ArborGen emerging high-growth market opportunities.

Early consolidated revenue in the DCF model is driven by the US Core segment, where recovery of the US housing market drives harvesting and replanting assumptions. These US market recovery assumptions are consistent with those employed in the Tenon goodwill impairment assessment outlined in note 16 below.

The most sensitive assumption employed in the DCF model is the discount rate employed. By way of sensitivity, even if the composite discount rate were doubled (i.e. from 21.5% real pre-tax to 43%) there would still be no impairment of the ArborGen associate carrying value.

16 GOODWILL

All goodwill relates to Rubicon's subsidiary Tenon.

The recoverable amount of the goodwill is determined based on value-in-use calculations. These calculations use DCF projections over a five year period, inclusive of a terminal value, and assume the recovery in market conditions experienced in 2014 continues going forward, such that by year five of the projections (i.e. the terminal year) Tenon's operating earnings before financing expense, depreciation and amortisations (i.e. EBITDA) is projected to be $45 million (2013: five year projection $44 million). For the purposes of the value-in-use calculations, longer-term annual sales growth rates of between 10% and 15% (2013: 5% to 10%) are assumed for the next four years, and then flat thereafter, consistent with assuming stronger rate of growth in the new homes and remodelling markets early in the cyclical recovery and then flattening out as mid-cycle conditions are approached. Growth in market share is not assumed. In the June 2013 value-in-use calculation, long-term annual sales growth rates of between 5% and 10% were assumed for the following five years, consistent with the assumption of long-term growth in the new homes and remodelling markets moving up from the bottom of the economic cycle and growth in market share from new products. Gross margin percentages were assumed to be similar to the current year's percentage for the next five years (i.e. +/- 2%) (2013: +/- 2%). A discount rate of 8.5% real, pre-tax (2013: 8.25%), which is representative of Tenon's weighted average cost of capital (WACC), was applied. The terminal growth rate applied was 1% (2013: 1%), which is consistent with assuming a low long-term annual growth rate in the new home and remodelling markets beyond year five of the projections.

Sensitivity analyses were applied to determine whether under realistic scenarios there may be an impairment in goodwill. Even after applying these sensitivities (doubling the discount rate, halving the compound sales growth rate, increasing the NZ$ to parity with the US$ or having nil terminal value growth), the value-in-use calculations shows excess value greater than the carrying value of the goodwill.

17 TRADE, OTHER PAYABLES AND PROVISIONS

RUBICON LIMITED			RUBICON GROUP	
June 2013 US$m	June 2014 US$m		June 2014 US$m	June 2013 US$m
(1)	–	Trade creditors	(21)	(32)
–	(1)	Accrued employee benefits	(6)	(4)
–	–	Other payables	(3)	(3)
–	–	Accruals	(5)	(5)
(1)	(1)	**Trade, other payables and provisions**	**(35)**	**(44)**

18 TERM AND CURRENT DEBT

RUBICON LIMITED			RUBICON GROUP	
June 2013 US$m	June 2014 US$m	**Summary of repayment terms**	June 2014 US$m	June 2013 US$m
		Due for repayment:		
–	–	Less than one year	(1)	(1)
(12)	(10)	Between one and two years	(12)	(13)
–	–	Between two and three years	(2)	(45)
–	–	Between three and four years	(3)	–
–	–	Between four and five years	(41)	–
(12)	(10)	**Total term and current debt**	**(59)**	**(59)**

RUBICON LIMITED			RUBICON GROUP	
June 2013 %	June 2014 %	**Summary of interest rates by repayment period**	June 2014 %	June 2013 %
		Due for repayment:		
–	–	Less than one year	6.23%	4.82%
6.13%	7.74%	Between one and two years	7.50%	6.03%
–	–	Between two and three years	6.32%	5.14%
–	–	Between three and four years	6.32%	–
–	–	Between four and five years	5.35%	–
–	–	**Current debt – weighted average interest rate**	**6.23%**	**4.82%**
6.13%	7.74%	**Term debt – weighted average interest rate**	**5.88%**	**5.33%**

The weighted average interest rates reflect the effective interest rate, inclusive of fee amortisations, any applicable interest rate swaps and facility fees.

The interest rate swaps, partially hedge the term loan and LIBOR contracts and the swap interest cost has been included in calculating the interest rate on the term loans and LIBOR contracts due for repayment in 2018 (2013: due for repayment in 2016).

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18 TERM AND CURRENT DEBT continued

	Tenon Group [1]			Rubicon Limited [3]	RUBICON GROUP
Debt facilities available	**Term [2] US$m**	**Revolver US$m**	**Total US$m**	**US$m**	**Total US$m**
June 2014	10.17	59.00	69.17	20.00	89.17
June 2015	9.07	59.00	68.07	20.00	88.07
June 2016	6.97	59.00	65.97	–	65.97
June 2017	4.87	59.00	63.87	–	63.87
June 2018	2.77	59.00	61.77	–	61.77
Sept 2018	–	–	–	–	–

(1) On 5 September 2013 Tenon announced that it had signed a new long-term $70 million syndicated debt financing facility, replacing the previous $54 million facility. The new facility comprises a $59 million revolver line and a $11 million amortising term loan. The facility is for a period of five years, expiring in September 2018. The new facility is led by PNC Bank National Association, and the syndicate also includes two lenders from the previous facility, the BNZ and Comerica. The new facility is a typical US lending facility, where the underlying assets and working capital of the Tenon group secure the obligations to the syndicate. The facility contained a short-term minimum EBITDA covenant for the period to 31 December 2013, at which time it was replaced by a standard quarterly fixed charge covenant (FCCR) being ((EBITDA - capital expenditure - cash tax paid) / (interest + amortising term loan payments + distributions paid)) of 1.1 times commencing in March 2014. (refer to note 5.2 (d)).

The revolver facility is currently subject to a $7.5 million “block” reserve deducted from the eligible collateral. The block is permanently released (resulting in availability increasing by up to $7.5 million, depending on the amount of total eligible collateral available), when Tenon has met four successive quarters of 1.50x FCCR coverage and $15 million surplus availability (measured before deducting the block), and subject to the existing term loan balance being paid down to $7.5 million or less at the date of the release of the block.

The revolver facility is classified as non-current, reflecting the syndicate’s commitment to Tenon for the life of the facility. Under the facility Tenon can exercise its unconditional right to drawdown or repay borrowings from time-to-time up to the amount of the facility, subject to Tenon remaining in compliance with certain facility covenants (refer to note 5.2 (d)). As at 30 June 2014 Tenon was in compliance with the FCCR covenant, accordingly the amount of debt drawn under the revolver facility is classified non-current. Tenon has been compliant with all covenants throughout the year and believes it will continue to be so in the future.

(2) Tenon’s syndicated bank credit facility reduces as a result of the scheduled amortisation of the term loan and the payment of an annual excess cash flow recapture provision of up to $1 million. The assumption in the notes to the financial statements has been made that commencing in September 2015, the maximum $1 million repayment will be made under the excess cash flow provision of the facility.

(3) In May 2014 the ANZ agreed to further extend the expiry date of the $20 million facility to 1 July 2015, which is not conditional upon any financial covenants, and which the company believes will be sufficient to meet its funding needs through to that date.

All term debt and current debt are denominated in US$.

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19 CAPITAL

RUBICON LIMITED June 2013 US$m	June 2014 US$m		RUBICON GROUP June 2014 US$m	June 2013 US$m
163	178	Share capital at the begining of the period	178	163
15	10	Issue of shares (1)	10	15
178	188	**Share capital**	**188**	**178**

June 2013	June 2014		June 2014	June 2013
284,788,155	379,719,975	Opening shares on issue	379,719,975	284,788,155
94,931,820	29,331,403	Issue of shares (1)	29,331,403	94,931,820
379,719,975	409,051,378	**Number of shares on issue**	**409,051,378**	**379,719,975**

(1) In February 2014 Rubicon placed 29.3 million new shares with Libra Fund II (Luxembourg), raising $10 million in new capital. On 5 July 2012 an underwritten pro-rata entitlement of 1 share for every 3 shares held closed, which resulted in the issue of 94.9 million new shares.

20 RESERVES

RUBICON LIMITED June 2013 US$m	June 2014 US$m	**Retained earnings**	RUBICON GROUP June 2014 US$m	June 2013 US$m
(13)	(15)	Opening balance	(28)	(23)
(2)	(3)	Net earnings	(3)	(5)
(15)	(18)	**Closing balance**	**(31)**	**(28)**
		Revaluation reserve (1)		
–	–	Opening balance	1	1
–	–	**Closing balance**	**1**	**1**
		Hedging reserve (2)		
–	–	Opening balance	(1)	–
–	–	Fair value gains/(losses) in year	3	(1)
–	–	Hedge gains transferred to earnings in the period	(2)	–
–	–	**Closing balance**	**–**	**(1)**
		Currency translation reserve		
–	–	Opening balance	–	–
–	–	Translation of independent foreign operations	1	–
–	–	**Closing balance**	**1**	**–**
(15)	(18)	**Total reserves**	**(29)**	**(28)**

(1) The revaluation reserve relates to Tenon's share of Ornamental Mouldings pre-consolidation reserves.

(2) The hedging reserve records the movement of cash flow hedging instruments, which comprises foreign exchange contracts and interest rate swaps.

Notes to the Consolidated Financial Statements

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21 EQUITY ATTRIBUTABLE TO MINORITY SHAREHOLDERS

	RUBICON GROUP	
	June 2014 US$m	June 2013 US$m
Opening balance	49	50
Net earnings	1	(1)
Equity attributable to minority shareholders	**50**	**49**

22 CAPITAL EXPENDITURE COMMITMENTS

At 30 June 2014 Rubicon is committed to contribute $3 million to ArborGen for the period 1 July 2014 to 31 March 2015 (2013: $3 million) and Tenon's committed capital expenditure was nil (2013: nil).

23 OPERATING LEASE COMMITMENTS

The expected future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 30 June 2014 are as follows:

	RUBICON GROUP	
	June 2014 US$m	June 2013 US$m
Operating lease commitments are as follows		
Within one year	7	6
two years	6	6
three years	5	5
four years	3	3
five years	2	2
After five years	6	7
Total operating lease commitments	**29**	**29**

Operating lease commitments relate mainly to occupancy leases of buildings and vehicles. There are no options to purchase in respect to any asset held under operating leases. Total lease costs for the year were $9.8 million (2013: $9.4 million).

24 CONTINGENT LIABILITIES

There are no material contingent liabilities as at 30 June 2014 (2013: nil). Refer to note 5, specifically notes; 5.1(d), 5.2(f) and 5.2(g), which discuss other risks.

25 RELATED PARTY TRANSACTIONS

Services are negotiated with related parties based upon competitive market rates charged to unaffiliated customers for similar goods and services.

RUBICON LIMITED			RUBICON GROUP	
June 2013 US$m	**June 2014 US$m**		**June 2014 US$m**	**June 2013 US$m**
–	–	Capital contributions to ArborGen	(5)	(4)
176	181	Intercompany advances (1)	–	–
–	–	Tenon Limited (2)	–	–

(1) These advances (to Rubicon Forests Holdings Limited) are for no fixed term, they are not expected to be called in the next 12 months and no interest is charged.

(2) Tenon's NZ corporate office subleases office space from Rubicon. In addition the directors fees associated with the Rubicon CEO serving as chairman of Tenon are paid to Rubicon for Rubicon's account. Recovery of office and administrative costs and directors fees from Tenon were $0.2 million (2013: $0.2 million).

Rubicon Limited incurs costs on behalf of subsidiaries during the year, which are recovered through intercompany recharges.

Rubicon Limited is the holding company of the Rubicon Group. Rubicon Limited has a relationship with its subsidiaries and associates. A list of the principle subsidiaries and associates of the Group is included in note 28. Other than noted above there were no other transactions with related parties.

26 EMPLOYEE REMUNERATION

Key management compensation

Salaries and other short-term employee benefits paid during the current period were $4 million (2013: $4 million).

Rubicon non-executive Director incentive plan

The Rubicon non-executive Directors' total shareholder return incentive plan (the "Director TSR Plan") was put in place in April 2013. The Director TSR Plan provided for a taxable payment to be made to Rubicon's non-executive Directors depending upon the progress achieved with the Company's Tenon and ArborGen investments, as reflected in the Rubicon share price at the end of the 2014 financial year.

The maximum payment under the Director TSR Plan required the Rubicon share price to be at least NZ$0.64, which was a 113% increase (i.e. more than doubling) over the share price at 30 June 2013 of NZ$0.30. The Director TSR Plan included a target payment level based on a Rubicon share price of NZ$0.48 (a 60% increase from the share price at 30 June 2013). The minimum share price below which no payment would be made was set at NZ$0.40 (i.e. a 33% increase from the share price at 30 June 2013). At the minimum share price hurdle, non-executive Directors would have been entitled to a taxable payment of 50% of their annual Director's fees. The maximum taxable payment, had the share price been at least NZ$0.64, was two times annual Director's fees. If Rubicon's share price was between the minimum and maximum share price hurdles, then the relevant payment entitlement would be determined on a graduated basis. If non-executive Directors became entitled to any payment under the Director TSR Plan, 50% would be payable immediately and the remaining 50% would be payable 12 months later. At 30 June 2014 the minimum share price was met, which entitled the non-executive Directors to a payment in July 2014 of NZ$122,625 (in aggregate for the five non-executive Directors), with a corresponding amount payable in 12 months. This plan has now terminated, and there is now no non-executive Director long-term incentive plan in existence.

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26 EMPLOYEE REMUNERATION continued

Rubicon executive incentive plan

The Rubicon executive total shareholder return incentive plan (the "Executive TSR Plan") was put in place in April 2013. The Executive TSR Plan provided for a taxable payment to be made to the three senior executives of Rubicon, based upon the progress achieved with the Company's Tenon and ArborGen investments, as reflected in the Rubicon share price at the end of the 2014 financial year. The Executive TSR Plan replicated the share price hurdles and timeframe of the Director TSR Plan outlined above. At the minimum share price hurdle participants would have been entitled to a taxable payment representing 50% of their base salary, and at the maximum hurdle a taxable payment representing two times their base salary. At 30 June 2014 the minimum share price was met, which entitled the executives to a payment in July of NZ$329,750 (in aggregate), with a corresponding amount payable in 12 months. This plan has now terminated, and there is now no executive long-term incentive plan in existence.

The income statement includes a $0.7 million charge in respect of the Director TSR and Executive TSR plans (2013: $0.1 million).

27 SEGMENTAL INFORMATION SUMMARY

The Group has two reportable segments and their analysis is as follows:

	RUBICON GROUP	
Appearance and wood products	**Year ended June 2014 US$m**	**Year ended June 2013 US$m**
Operating revenue	396	364
Financing expense	(4)	(4)
Income tax expense	(1)	–
Earnings after taxation	2	(3)
Total assets	223	229
Liabilities	(83)	(93)
Capital expenditure	(2)	(2)
Depreciation	(4)	(4)
Forestry genetics		
Share of (loss)/profit from associate	–	–
Earnings after taxation	–	–
Total assets	81	76
Investment in associates	81	76
Capital expenditure (1)	(5)	(4)
Corporate		
Financing expense	(1)	(1)
Earnings after taxation	(4)	(3)
Total assets	–	–
Liabilities	(12)	(13)

(1) Includes contributions to ArborGen.

27 SEGMENTAL INFORMATION SUMMARY continued

Total Group	RUBICON GROUP Year ended June 2014 US$m	Year ended June 2013 US$m
Operating revenue	396	364
Share of (loss)/profit from associate	–	–
Financing expense	(5)	(5)
Income tax expense	(1)	–
Earnings after taxation	(2)	(6)
Total assets	304	305
Investment in associate	81	76
Liabilities	(95)	(106)
Capital expenditure	(7)	(6)
Depreciation	(4)	(4)

The Group's geographical analysis is as follows:

	RUBICON GROUP Year ended June 2014 US$m	Year ended June 2013 US$m
New Zealand and other		
Operating revenue	50	47
Non current assets (2)	14	16
Capital expenditure	–	–
North and South America		
Operating revenue	346	317
Non current assets (2)	176	172
Capital expenditure (1)	(7)	(6)
Total Group		
Operating revenue	396	364
Non current assets (2)	190	188
Capital expenditure	(7)	(6)

(1) Includes contributions to ArborGen.

(2) Excludes deferred taxation asset and financial instruments.

Notes to the Consolidated Financial Statements

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28 PRINCIPAL OPERATIONS

Rubicon Limited (a New Zealand incorporated limited liability company) is the holding company of the Rubicon Group.
The principal subsidiaries and associate, as at 30 June 2014, were:

	Country of Domicile	% Interest June 2014	% Interest June 2013	Balance Date	Principal Activity
Principal subsidiaries					
Rubicon Forests Holdings Limited	NZ	100	100	30 June	Holds 59.23% interest in Tenon
Rubicon Industries USA LLC	USA	100	100	30 June	Holds ArborGen, Inc investment
Tenon Limited (1)	NZ	59.23	58.99	30 June	Wood products
Tenon Limited subsidiaries					
Tenon Industries Limited	NZ	100	100	30 June	Funding
Tenon Manufacturing Limited	NZ	100	100	30 June	Processing
Fletcher Wood Solutions, Inc	USA	100	100	30 June	Distribution
The Empire Company, LLC	USA	100	100	30 June	Distribution
Southwest Mouldings Co, LP	USA	100	100	30 June	Distribution
Ornamental Mouldings LLC	USA	100	100	30 June	Processing
Ornamental Products LLC	USA	100	100	30 June	Processing
Creative Stairparts LLC	USA	100	100	30 June	Distribution
Ornamental Mouldings Company	Canada	100	100	30 June	Distribution
Associate					
ArborGen, Inc	USA	31.67	31.67	31 March	Forestry genetics

(1) On 4 December 2013, Tenon announced a small shareholder share plan, being a compulsory acquisition of minimum shareholdings and a limited share buyback. The share buyback is for up to 450,000 shares to be acquired at the discretion of the Tenon board in the 12 months ending December 2014. As at 30 June 2014, 271,557 shares had been acquired at a total cost of $0.4 million. Rubicon has not participated in the share buyback and consequently its percentage ownership of Tenon has increased accordingly.

29 FINANCIAL INSTRUMENTS

(a) Market risk

(i) Exposure to price risk

In December 2010 Tenon entered into a three year electricity commodity contract for the purposes of providing an economic hedge against New Zealand electricity costs. This three year contract expired in December 2013 and has not been replaced.

(ii) 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 based on the following:

	RUBICON GROUP			
in US$m	**June 2014**		**June 2013**	
	US$	**NZ$**	**US$**	**NZ$**
Trade debtors	26	3	27	2
Bank overdraft	–	(1)	(1)	(1)
Trade creditors	(15)	(6)	(27)	(5)
Current debt	(1)	–	(1)	–
Non current debt	(58)	–	(58)	–
Gross balance sheet exposure		(4)		(4)

29 FINANCIAL INSTRUMENTS continued

The following exchange rates applied during the year:

	Average rate (1)		Spot rate	
	2014	2013	June 2014	June 2013
NZ$:US$	0.8304	0.8168	0.8767	0.7790

(1) These are merely arithmetical averages not hedged rates.

Sensitivity analysis - gross balance sheet exposure

Given the small size of the gross balance sheet exposure shown above, any movement in the NZ$:US$ exchange rate is unlikely to be material.

Sensitivity Analysis - financial instruments

As at 30 June 2014, Tenon had foreign exchange contracts selling US$11 million into NZ$12 million at an average rate of 0.8478. All the contracts are due for settlement within the 3 months to 30 September 2014. As at 30 June 2013, Tenon had foreign exchange contracts selling US$21 million into NZ$26 million at an average rate of 0.7935. All the contracts were due for settlement within the 6 months to 31 December 2013.

As at 30 June 2014 the mark-to-market (MTM) valuation adjustment on the contracts was a loss of $0.3 million (2013: loss of $0.6 million) and was included in the cash flow hedging reserve. If the exchange rate changes by 1c before the contracts are settled, the MTM valuation adjustment in Equity would change by $0.1 million (2013: less than $0.3 million).

(iii) Exposure to interest rate risk

Rubicon's debt of $10 million (2013: $12 million) is drawn with a floating interest rate.

Tenon's interest rate policy is for interest to be a mixture of fixed rate and floating rate debt within an established ratio. Loans are drawn with floating interest rates and Tenon enters into floating to fixed interest rate hedges to comply with Tenon's risk management policy. Tenon pays a fixed rate and receives a floating rate based upon the US$ LIBOR rate.

As at 30 June 2014, Tenon had two interest rate swaps totalling $11 million, covering 23% of total debt. Both swaps were entered into in September 2013 and expire in September 2018. Both swaps receive a floating rate of 1.51%. One swap is for $6 million and pays a fixed interest rate of 2.05%, this swaps interest costs are included in calculating the interest rate on the LIBOR loans, due for repayment in 2018. The other swap is an amortising swap with a balance of $5.1 million (the initial amount was $6 million) and Tenon pays a fixed interest rate of 1.828% on this swap, which reduces by $45,833 per month and hedges the term loan that also amortises. This swaps interest cost are included in calculating the interest rate on the term loan, which will be fully repaid by 2018.

As at 30 June 2013, Tenon had two interest rate swaps totalling $15 million, covering 32% of total Debt. Both swaps were for $7.5 million each and were entered into in July 2011. The swaps were cancelled as part of the refinancing process that occurred in the first quarter of the June 2014 fiscal year. The break costs related to cancelling the swaps were $0.3 million and have been included in the June 2014 financing costs in the consolidated income statement. Tenon paid a fixed interest rate of 1.575% on one swap and 1.53% on the other. For both swaps Tenon received a rate based on the US$ LIBOR floating rate, which at 30 June 2013 was 0.195% on one swap and 0.1925% on the other. The swap interest cost were included in calculating the interest rate on the LIBOR loans.

Swaps are settled monthly on a net basis. Interest rate swaps are treated as hedging instruments and the effective portion of the change in the fair value of swaps is taken to the hedging reserve in equity. The ineffective portions of any swaps are taken to earnings. The interest rate swaps were 100% effective as at 30 June 2014 and 30 June 2013 and the net fair value of the interest rate swaps as at 30 June 2014 was a liability of $0.3 million (2013: liability of $0.4 million) and is included in other payables and the hedging reserve in equity.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

29 FINANCIAL INSTRUMENTS continued

(iii) Exposure to interest rate risk continued

The following table sets out the weighted average interest rate of borrowings and interest rate hedges:

	RUBICON GROUP			
	June 2014		June 2013	
	US$m	%	US$m	%
Interest rate repriced: (including average interest rate)				
Debt within one year	(1)	6.23%	(1)	4.82%
between one and two years	(12)	7.50%	(13)	6.03%
between two and three years	(2)	6.32%	(45)	5.14%
between three and four years	(3)	6.32%	–	–
between four and five years	(41)	5.35%	–	–
Gross balance sheet exposure	(59)		(59)	

Sensitivity analysis

As at 30 June 2014, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated $0.5 million reduction in profit before taxation and a 1% decrease would have increased profit before taxation by an estimated $0.6 million. The 2014 earnings impact was calculated on the actual debt drawn as at 30 June 2014, for a full 12 months and assuming; 23% of the Tenon debt was subject to the two interest rate swaps in existence as at 30 June 2014 and the swaps were for the entire year. As effective hedges, the change in fair value of the swaps are included in equity. The supply chain financing interest cost is also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2014 a 1% change in the floating LIBOR interest rates on the level of debtors de-recognised as a result of supply chain financing programme ($16 million) would have had an estimated $0.2 million impact on profit before taxation.

A 1% increase in interest rates would have no impact on equity, because the reduction in the fair value liability of the interest rate swaps is offset by the after tax increase in total interest costs. A 1% reduction in interest rates would have increased equity by $0.2 million, being the after tax reduction in interest costs being more than offset by an increase in the fair value liability of the interest rate swaps.

As at 30 June 2013, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated $0.3 million reduction in profit before taxation and a 1% decrease would have increased profit before taxation by an estimated $0.4 million. The 2013 earnings impact was calculated on the actual debt drawn as at 30 June 2013, for a full 12 months and assuming; 32% of the Tenon debt was subject to the two interest rate swaps in existence as at 30 June 2013 and the swaps were for the entire year. As effective hedges, the change in fair value of the swaps are included in equity. The supply chain financing interest cost is also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2013 a 1% change in the floating LIBOR interest rates on the level of debtors de-recognised as a result of supply chain financing programme ($16.7 million) would have had an estimated $0.2 million impact on profit before taxation.

A 1% increase in interest rates would have no impact on equity, because the reduction in the fair value liability of the interest rate swaps is offset by the after tax increase in total interest costs. A 1% reduction in interest rates would have increased equity by $0.1 million, being the after tax reduction in interest costs partially offset by an increase in the fair value liability of the interest rate swaps.

29 FINANCIAL INSTRUMENTS continued

(b) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure which at 30 June 2014 was $35 million of trade and other receivables (2013: $34 million).

Cash and liquid deposits are only held with banks that are part of the Group's banking consortiums; ANZ for Rubicon and PNC Bank (previously JPMorgan Chase Bank, N.A.) for Tenon. In the event of default, cash balances may be set off against obligations owing by the Group to its lenders. Moody's credit ratings of the counterparties for cash and liquid deposits are rated as P-1, which designates them as "Issuers who have a superior ability to repay short-term debt obligations".

The status of trade debtors, which all relate to the Tenon group, is as follows:

RUBICON LIMITED			RUBICON GROUP	
June 2013 US$m	June 2014 US$m		June 2014 US$m	June 2013 US$m
–	–	Neither past due or impaired	26	25
–	–	Past due (1-2 month) but not impaired	3	4
–	–	Impaired	–	–
–	–		29	29
–	–	Less provision for doubtful debts	–	–
–	–	Net Trade Debtors (1)	29	29

(1) Tenon has an excellent history of trade debtor collections and there is no reason to believe that the $29 million (2013: $29 million) of "neither past due or impaired and past due but not impaired" debtors will not be collected, taking into account the payment history of our customers, the share of total trade debtors owed by the National Accounts (both retail and pro-dealer), and the existence of credit insurance for a significant portion of the US based pro-dealer customers.

(c) Liquidity risk

The following are contractual maturities of financial liabilities and net settled derivatives (excluding estimated interest payments). The amounts disclosed are the contractual undiscounted cash flows.

RUBICON GROUP

Financial liabilities	Carrying value US$m	Fair value US$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
30 June 2013							
Non derivative financial liabilities							
Bank overdraft	(2)	(2)	(2)	–	–	–	–
Trade and other payables	(44)	(44)	(41)	(3)	–	–	–
Debt	(59)	(59)	–	(1)	(13)	(45)	–
Interest	–	–	(1)	(2)	(2)	(2)	–
Derivative financial liabilities							
Interest rate swaps (1)	–	–	–	–	–	–	–
Forward exchange contracts	(1)	(1)	(1)	–	–	–	–
Financial liabilities as at 30 June 2013	(106)	(106)	(45)	(6)	(15)	(47)	–

(1) Interest rate swaps are $0.2 million per annum for 4 years (2013: $0.2 million for 2 years).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

29 FINANCIAL INSTRUMENTS continued

(c) Liquidity risk continued

	RUBICON GROUP						
Financial liabilities	**Carrying value US$m**	**Fair value US$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**
30 June 2014							
Non derivative financial liabilities							
Bank overdraft	(1)	(1)	(1)	–	–	–	–
Trade and other payables	(35)	(35)	(31)	(2)	(2)	–	–
Debt	(59)	(59)	–	(1)	(12)	(46)	–
Interest	–	–	(1)	(1)	(3)	(4)	–
Derivative financial liabilities							
Interest rate swaps (1)	–	–	–	–	–	–	–
Forward exchange contracts	–	–	–	–	–	–	–
Financial liabilities as at 30 June 2014	(95)	(95)	(33)	(4)	(17)	(50)	–

(1) Interest rate swaps are $0.2 million per annum for 4 years (2013: $0.2 million for 2 years).

(i) Interest rate swap cash flows

As at 30 June 2014 the future gross cash flows of the interest rate swaps (refer 29(a)(iii) Exposure to interest rate risk) are $0.9 million cash outflow (being fixed interest paid). The swaps are settled on a net basis monthly. Of the net cash outflow (based on the prevailing floating interest rates as at 30 June 2014) of $0.8 million, $0.1 million is expected to occur in the six months to December 2014 and $0.1 million in the six months to June 2015, with a further $0.2 million outflow in the 2016, 2017 and 2018 years.

As at 30 June 2013 the future gross cash flows of the interest rate swaps (refer 29(a)(iii) Exposure to interest rate risk) was $0.5 million cash outflow (being fixed interest paid). The swaps were settled on a net basis monthly. Of the net cash outflow (based on the prevailing floating interest rates as at 30 June 2013) of $0.4 million, $0.1 million was expected to occur in the six months to December 2013 and $0.1 million in the six months to June 2014, with a further $0.2 million outflow in 2015. The swaps were cancelled as part of the refinancing process in the first quarter of fiscal 2014 and $0.4 million was paid in interest and break costs in the three months to 30 September 2013.

(ii) Fair values

The estimated fair values of the Group's financial assets and liabilities do not differ materially from the carrying values. The basis for determining fair values is disclosed in note 5.

The following table presents financial assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in an active market 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).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

29 FINANCIAL INSTRUMENTS continued

(c) Liquidity risk continued

Net fair value (in US$m)	**level 1 (1)**	**level 2 (2)**	**level 3 (3)**	**Total**
30 June 2013				
Liabilities				
Derivatives used for hedging				
- Forward exchange contracts	–	(1)	–	(1)
Net fair value as at 30 June 2013	–	(1)	–	(1)
30 June 2014				
Liabilities				
Derivatives used for hedging				
- Forward exchange contracts	–	–	–	–
Net fair value as at 30 June 2014	–	–	–	–

There have been no transfers between levels 1, 2 and 3 in the reporting period.

(1) The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and whose prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The Group has no instruments in level 1.

(2) The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Tenon has interest rate swaps and forward exchange contracts that are classified as Level 2 instruments, however neither are above disclosure levels for 2014.

(3) If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Tenon's electricity contract expired in December 2013 and therefore has no fair value as at 30 June 2014. For 30 June 2013, the electricity contract was classified as a level 3 derivative due to the lack of market data, however the fair value was less than $0.1 million.

Specific valuation techniques used to value financial instruments include:

- Quoted Market prices or dealer quotes for similar instruments.
- The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows based on observable yield curves. The valuation is performed by an external source.
- The fair value of forward foreign exchange contracts are determined using forward exchange rates at balance date, with the resulting value discounted back to the present value. The valuations are performed by external sources.
- The fair value of the electricity hedge is determined the closing bid price quoted at balance date.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

29 FINANCIAL INSTRUMENTS continued

(iii) Financial instruments by category

Cash and liquid deposits, trade and other receivables and intercompany advances are classified as loans and receivables. Bank overdraft, trade and other payables, current debt, non-current debt and intercompany advances are classified as financial liabilities at amortised cost. The electricity hedge and interest rate swap are classified as derivatives used for hedging.

30 ASSET BACKING PER SHARE

At 30 June 2014 the net assets backing was 39 cents per share (cps) (NZ: 44 cps), (2013: 40 cps, NZ 51 cps); and net tangible asset backing was 25 cps (NZ 29 cps) (2013: 24 cps, NZ 31 cps).

31 NON-GAAP MEASURES

Rubicon uses EBITDA when discussing financial performance. This is a non-GAAP financial measure and is not recognised within IFRS. As it is not uniformly defined or utilised this measure may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with GAAP. 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 comparative company performance purposes, as the measure removes distortions caused by differences in asset age, depreciation policies and debt:equity structures. The following tables reconcile Net Earnings to operating earnings before financing expense and to EBITDA for Tenon and the total Rubicon Group.

	Year ended June 2014 US$m	Year ended June 2013 US$m
Tenon		
Net Earnings [1]	2	(3)
plus Income tax expense	1	–
plus Financing expense	4	4
Operating earnings before financing expense	7	1
plus Depreciation and amortisations	4	4
EBITDA	11	5

Total Rubicon Group		
Net Earnings [1]	(2)	(6)
plus Income tax expense	1	–
plus Financing expense	5	5
Operating earnings before financing expenses	4	(1)
plus Depreciation and amortisations	4	4
EBITDA	8	3

(1) June 2013 includes pre-tax business re-engineering and restructuring costs of $1 million.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

32 SUBSEQUENT EVENTS

The Tenon board have approved the decision to invest (circa) $5 million in a "state-of-the-art" optimisation project at the Taupo manufacturing site in New Zealand. In August 2014, financing of the project was approved with Tenon's banking syndicate which will be provided from an increase in term loan borrowings of $3.2 million with the balance of the project to be funded from the existing revolver facility. There is a 12 month lead-time from manufacture to installation, and discussions are currently underway with potential suppliers. As at the date of issuing these consolidated financial statements, a contract had not been committed to or signed in relation to the supply of this optimisation equipment.

Independent Auditor's Report

KPMG

To the shareholders of Rubicon Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Rubicon Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 2 to 41. The financial statements comprise the statements of financial position as at 30 June 2014, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Our firm has also provided other services to the company and group in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 2 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Rubicon Limited as far as appears from our examination of those records.

22 August 2014

Auckland

CORPORATE GOVERNANCE

The Rubicon Board is committed to the highest standards of behaviour and accountability.

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

This Statutory Report was approved by the Board on 15 September 2014.

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

ETHICAL STANDARDS

Directors observe and foster high ethical standards.

Rubicon'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.

Rubicon's 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 Rubicon'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. Rubicon's Code of Conduct and Ethics has been communicated to all Directors and employees of the Company, and is also 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) and through delegation to the CEO who is charged with the day-to-day leadership and management of the Company. The CEO also has special responsibility to manage the interfaces between the Company, its shareholders and the public.

The Board Charter reserves a number of roles and responsibilities to the Board. These include:

- 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.

In practice, most matters that the Board has reserved to itself are developed and formulated by management and presented to the Board for its deliberation. The CEO is a member of the Board and attends all meetings where such matters are presented to the Board for discussion.

The roles of Chairman and CEO are separate at Rubicon. 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 the CEO.

Governance

Board Composition

Rubicon's Constitution requires a minimum of three Directors and provides for a maximum of nine. Of Rubicon's 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 30 June 2014, the Independent Directors and non-Independent Directors of the Board were:

Independent Directors:

SG Kasnet (Chairman)	HA Fletcher	G Karaplis	WA Hasler

Non-Independent Directors:

SL Moriarty (1)	DM Knott (2)

(1) Mr Moriarty is an executive of the Company.

(2) Mr Knott is a Substantial Security Holder.

At each Annual Shareholders' Meeting (ASM), one-third of the total number of Directors must retire from office by rotation. The Directors who retire are those who have been in office longest since last elected. In addition, all Directors appointed to the Board since the last ASM must also stand for election.

The Company's Board represents a balance of independence, skills, knowledge, experience and perspectives (refer Board biographies on page 58 for details), thereby ensuring the effectiveness of the Board in guiding the strategic direction of the Company and overseeing management.

The Board has implemented a process for the evaluation of the Board, its Committees and Directors.

Rubicon is committed to ensuring its Directors have the knowledge and information to discharge their responsibilities effectively.

Directors receive comprehensive information on the Company's operations and have access to any additional information they consider necessary for informed decision-making.

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. Rubicon's 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, with the exception of the Tenon and Rubicon Share Committees where Messrs Kasnet, Karaplis, and Moriarty do not receive the Committee's papers or minutes and they do not participate in Committee discussions.

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

Audit Committee Members:

HA Fletcher (Chairman)	WA Hasler	SG Kasnet

The Audit Committee is comprised solely of non-executive Directors of the Company. 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 NZSX Listing Rules. The Chairman of the Audit Committee is an Independent Director who is not the Chairman of the Board.

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

Remuneration Committee Members:

SG Kasnet (Chairman)	HA Fletcher

The Remuneration Committee is responsible for evaluating the performances of the CEO and senior executives of the Company, setting the remuneration packages for senior executives, and recommending to the Board the remuneration of the CEO and non-executive Directors.

Nominations Committee Members:

SG Kasnet (Chairman)	HA Fletcher	WA Hasler	G Karaplis	DM Knott	SL Moriarty

The Nominations Committee is responsible for making recommendations of Director appointments to the Board. A majority of the members of the Nominations 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 the three additional committees are the Tenon Share Committee, the Rubicon Share Committee and the Due Diligence Committee.

Tenon Share Committee Members:

HA Fletcher (Chairman)	WA Hasler	DM Knott

The Tenon Share Committee is responsible for decisions by the Group to deal in Tenon shares. Its membership does not include Messrs Kasnet, Karaplis or Moriarty, as they are Directors of Tenon.

Rubicon Share Committee Members:

HA Fletcher (Chairman)	WA Hasler	DM Knott

The Rubicon Share Committee is responsible for decisions by the Group to deal in Rubicon shares.

Due Diligence Committee Members:

HA Fletcher (Chairman)	SG Kasnet

The Rubicon Due Diligence Committee is responsible for undertaking due diligence investigations as appropriate from time to time.

REPORTING AND DISCLOSURE

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosures on 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 Rubicon 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;

Governance

- 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.

In accordance with best practice requirements the CEO is not a member of the Audit Committee.

DIRECTOR AND MANAGEMENT SHAREHOLDINGS, REMUNERATION

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

Director and Senior Executives' Equity Holdings

Rubicon believes it is appropriate to have Directors' and executives' remuneration aligned with the performance of the Company, and that having Directors and executives own Rubicon shares is a good way of achieving this goal. With this in mind, all non-executive Directors (other than George Karaplis, who was appointed to the Board in December 2011) and senior executives have a relevant interest in at least 600,000 Rubicon shares, and all Rubicon employees own Rubicon shares.

At 30 June 2014, Directors and Senior Executives of the Company held the following relevant interests in Rubicon shares:

Name	Position	Number of Shares
SG Kasnet	Chairman and non-executive director	653,265
HA Fletcher	Non-executive director	5,655,286
WA Hasler	Non-executive director	823,804
DM Knott	Non-executive director	114,536,402(1)
SL Moriarty	Director and Chief Executive Officer	3,495,476
BG Burton	Vice President	633,460
MA Taylor	CFO and Company Secretary	1,093,234

(1) Subsequent to 30 June 2014, Mr Knott acquired further shares in the Company. As at 15 September 2014, he held a relevant interest in 115,665,447 shares.

Governance

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 total remuneration paid, prior to any taxation liability, to non-executive Directors of Rubicon for the year ended 30 June 2014 was:

	NZ$
SG Kasnet (Chairman)	147,000
HA Fletcher (1)	91,500
WA Hasler	84,000
G Karaplis	84,000
DM Knott	84,000

Mr Moriarty, as CEO and an executive Director, does not receive any Director fees.

(1) The additional $7,500 reflects the additional workload undertaken by Mr Fletcher as Chair of the Audit and Due Diligence Committees.

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

Rubicon had a total shareholder return incentive plan for its non-executive Directors, the key terms of and amounts payable, under the plan, are outlined in note 26 to the Financial Statements. At 30 June 2014 the minimum share price was met, which entitled the non-executive Directors to a payment in July 2014 of NZ$122,625 (in aggregate for the five non-executive Directors), with a corresponding amount payable in 12 months. This Plan has terminated, and there is now no non-executive Director incentive plan in existence. Mr Moriarty, as an executive Director, did not participate in the non-executive Directors' total shareholder return incentive plan.

Executive Director and Employee Remuneration

Rubicon's remuneration policy aims to attract, retain and incentivise employees in order to drive and enhance Company performance. Base salaries are 'benchmarked' against competitor information. Annual performance incentive payments are determined by the Board and Remuneration Committee, and are calculated by measuring actual performance outputs against target individual and Company objectives.

Rubicon had a total shareholder return incentive plan for its senior executives, the key terms of and amounts payable, under the plan, are outlined in note 26 to the Financial Statements. At 30 June 2014 the minimum share price was met, which entitled the senior executives to a payment in July 2014 of NZ$329,750 (in aggregate), with a corresponding amount payable in 12 months. The Plan has terminated, and there is now no executive long-term incentive plan in existence.

Governance

In accordance with Section 211 of the Companies Act, remuneration and other benefits (including performance benefits and redundancy payments) which in total exceeded NZ$100,000 per annum received by employees of Rubicon and its subsidiaries in the 2014 financial year is summarised in the following table:

NZ$000			Number of Employees US-based Business	NZ-based Business
$100	to	$110	10	5
$110	to	$120	7	1
$120	to	$130	4	4
$130	to	$140	9	–
$140	to	$150	6	2
$150	to	$160	5	2
$160	to	$170	2	2
$170	to	$180	3	1
$180	to	$190	2	–
$190	to	$200	3	1
$200	to	$210	5	–
$220	to	$230	1	1
$230	to	$240	2	–
$240	to	$250	–	1
$250	to	$260	3	–
$280	to	$290	1	–
$290	to	$300	1	1
$300	to	$310	–	1
$310	to	$320	1	–
$320	to	$330	1	–
$350	to	$360	1	1
$390	to	$400	–	1
$400	to	$410	1	1
$410	to	$420	1	–
$450	to	$460	1	–
$510	to	$520	1	–
$530	to	$540	1	–
$580	to	$590	1	–
$670	to	$680	1	–

In analysing this table, it should be noted that:

- It is a consolidation of data for Tenon (and its subsidiaries) and Rubicon employees. However as Rubicon has only three employees in the chart the data is dominated by Tenon data.
- Of the total data points shown, over 70% are US-based residents (given Tenon's core market is the United States).
- The results include former employees who have been made redundant during the year. The redundancy benefits have been included in the numbers in the chart.

The base salary paid to Rubicon CEO's in the financial year ended 30 June 2014 was NZ$490,000, which has remained unchanged since 1 July 2002. He was not paid a performance incentive in the 2014 financial year, and nor did he receive any Director fees for his services as a director of Rubicon, or for his Chairmanship of Tenon Limited, or for his directorship of ArborGen Inc. The public company director fees relating to him serving as Chairman of Tenon (NZ$130,000 in the period) were payable directly to Rubicon for Rubicon's account. Rubicon's CEO received during the period a pre-taxation retention payment of NZ$71,834.

Rubicon is committed to providing equal employment opportunities and ensures its selection processes for recruitment and employee development opportunities are free from bias and are based on merit. The Company also has a flexible working program that permits work/life balance.

As at 30 June 2014, one of Rubicon's four staff members (all of whom are officers of the company) are female (2013: two of five). Rubicon has five non-executive directors (2013: five) and an executive director (who is the CEO), none of whom are female. For Tenon, as at 30 June 2014, 23% of executive management team are female, (2013: 20%) and none of their five directors are female (2013: none of six).

RISK MANAGEMENT

The Board regularly verifies that Rubicon has appropriate processes that identify and manage potential and relevant risks.

The Audit Committee reviews with management and the independent Auditor significant risks and exposures of the Group, and assesses risk mitigation steps taken by management to minimise such risks.

AUDITORS

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

The Company's external Auditor, KPMG, has been the external Auditor since 2001. Consistent with best practice the audit partner is rotated at no greater than five yearly intervals. A formal engagement letter with KPMG clearly sets out the responsibilities of KPMG in relation to the external audit of the Group's financial statements and financial systems. The Board facilitates full and frank communication between the Audit Committee, KPMG and management. KPMG attends all Audit Committee meetings and has sessions, at least semi-annually, with the Audit Committee with management not in attendance.

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

The Audit Committee, together with the Company's management, monitor the performance of KPMG to ensure that the services being provided to the Company are of the highest standard, relevant, timely and cost effective.

Following a full review of its requirements for audit services, on 7 November 2013 Tenon appointed KPMG as its Auditor pursuant to section 196(4) of the New Zealand Companies Act 1993. This change was outlined to Tenon shareholders at Tenon's ASM in December 2013.

Governance

SHAREHOLDER RELATIONS

The Board fosters constructive relationships with shareholders that encourage them to engage with the Company.

The Board is committed to promoting good relations between Rubicon and its shareholders through:

- communicating effectively with them;
- giving them ready access to information about the Company, its goals, strategies and performance; and
- facilitating participation at shareholder meetings, the location of which is rotated annually.

The Company's website includes the following information:

- Annual Reviews, Statutory and Interim Reports;
- Disclosures made to the stock exchange;
- Press releases; and
- Key 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.

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

The corporate governance principles followed by Rubicon do not materially differ from the Corporate Governance Best Practice Code issued by NZX and the Financial Markets Authority.

RUBICON INTERESTS REGISTER

Directors' certificates to cover entries in the Interests Register in respect of remuneration, dealing in the Company's securities, insurance and other interests have been 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 pursuant to section 140(2) of the Companies Act 1993:

	Relationship
SG Kasnet	
Governors Academy	Trustee
Calypso Management LLC	CEO
Columbia Labs, Inc	Chairman
Tenon Limited	Director
Ocean Manchester Corporation	President
The Kasnet Family Foundation	Trustee
First Ipswich Bank	Director
Two Harbors Investment Corp	Lead Director and Chair of Audit Committee
Stephen G Kasnet 2012 Grantor Retained Annuity Trust	Trustee and beneficiary
Silver Bay Realty Trust Corp	Director and Chair of Audit Committee

Governance

	Relationship
HA Fletcher	
Asia Pacific Committee of the Trilateral Commission	Member
IAG (New Zealand) Holdings Limited	Chairman
IAG (New Zealand) Limited	Chairman
The University of Auckland Foundation	Trustee
Vector Limited	Director
Dilworth Trust	Trustee
Insurance Australia Group Limited	Director
The New Zealand Portrait Gallery	Trustee
The Fletcher Trust	Trustee
Advisory Committee of the Knox Investment Partners Fund IV	Member
Advisory Board of Gravida National Centre for Growth and Development (1)	Member
WA Hasler	
Aviat Networks	Director
BoardVantage	Director
Inside Track, Inc	Director
GlobalStar Inc	Director
ETwater Inc	Director
G Karaplis	
Tenon Limited	Director
DM Knott	
Paramount Resources	Director
Ligand Pharmaceuticals	Director
Boy's and Girl's Harbor	Director
Say Yes to Education	Director
Undergraduate Financial Aid at the University of Pennsylvania	Director
Knott Partners	CEO, Chief Investment Manager and Managing Partner
SL Moriarty	
Tenon Limited	Chairman
ArborGen Inc	Director
Moriarty Family Trust	Trustee and beneficiary
Moriarty Superannuation Fund	Trustee and sole beneficiary
Reserve Bank of New Zealand	Monetary Policy Advisor to the Governor of the Reserve Bank of New Zealand

(1) Directors' interests disclosed to the Company during the year ended 30 June 2014.

Governance

During the year ended 30 June 2014 Directors advised the following resignations:

	Relationship
G Karaplis	
Netia Sa	Deputy Chairman
WA Hasler	
Schwab Funds	Trustee

Dealings in Company Securities

Directors have disclosed that they acquired the following relevant interest in Rubicon shares since 1 July 2013:

	Number of shares acquired	Consideration paid NZ$
DM Knott		
30 May to 16 June 2014	7,048,192	2,807,913
HA Fletcher		
16 and 17 October 2013	500,000	175,890
26 November 2013	1,000,000	350,000
28 and 29 May 2014	5,555	1,830

Directors' Remuneration

Refer page 47.

Directors' Holdings of Rubicon Equity Securities at 30 June 2014

Refer page 46.

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 Rubicon and its related companies which, except for specific matters expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions or omissions by them in the course of their duties. Specifically excluded from the indemnity are actions of criminal liability or breach of the Director's duty to act in good faith and in what the Director believes to be the best interests of the Company.

On 1 July 2014, the Company renewed its Directors' and Officers' liability and statutory liability insurance policies.

Donations

During the period Tenon made donations of $4,865.

Credit Rating

Neither Rubicon nor Tenon have sought a credit rating.

TENON INTERESTS REGISTER

Section 211(2) of the Companies Act 1993 requires details of entries in the interests register of subsidiaries to be included in the annual report. The following are entries made to the Tenon interests register during the year ended 30 June 2014.

Directors' Interests

Tenon directors have advised the following changes in their interests:

MJ Andrews [1]		
Orion NZ Limited	Resigned	Director
MK Eglinton		
NDA Group	Initial Disclosure	Director
Snapper Rock Limited	Initial Disclosure	Director
Young Enterprise Trust	Initial Disclosure	Trustee
RH Fisher		
Port Lyttleton	Resigned	Chairman
The First Management Group Limited	Resigned	Member of Advisory Board
Property Group Limited	Appointed	Chairman
Ports of Auckland	Appointed	Director
G Karaplis		
Netia Sa	Resigned	Deputy Chairman

(1) MJ Andrews retired from the Tenon board on 4 December 2013.

Tenon Directors' Remuneration

Non-executive Tenon directors' base remuneration is NZ$72,500 per annum per director – increased from NZ$67,500 on 24 October 2013, with the Chairman receiving NZ$130,000 [1]. The Chairman of the Audit Committee receives an additional NZ$6,500 per annum and the Chairman of the Remuneration Committee receives an additional NZ$6,500 per annum – increased from NZ$4,500 on 24 October 2013.

The aggregate amount of fees paid by Tenon to non-executive directors for services in their capacity as directors during the year ended 30 June 2014 was NZ$454,260.

Fees, prior to any taxation liability, paid to individual non-executive directors in the year ended 30 June 2014 were:

	NZ$
MJ Andrews [2]	29,764
MK Eglinton [3]	42,292
RH Fisher	77,250
G Karaplis	71,250
SG Kasnet	71,250
SL Moriarty (Chairman) [1]	130,000
MC Walls [2]	32,454
Total	454,260

(1) Total directors' fees in relation to services provided by SL Moriarty are paid directly to Rubicon for Rubicon's account.
(2) Retired 4 December 2013.
(3) Appointed 4 December 2013.

Governance

Directors' and Officers' Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of Tenon, Tenon has given indemnities to, and has effected insurance for, directors and executives of Tenon and its related companies which, except for specific matters which are expressly excluded, indemnify and insure directors and executives against monetary losses as a result of actions or omissions by them in the course of their duties. Specifically excluded from the indemnity are actions for criminal liability or breach of the director's duty to act in good faith and in what the director believes to be the best interests of the company.

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 year ended 30 June 2014. No employee of a Rubicon Group company appointed as a director of any Rubicon subsidiary receives any remuneration or other benefits in that role, other than SL Moriarty, whose Tenon director fees are paid to Rubicon. The remuneration and other benefits of employees are disclosed elsewhere in this Annual Report. Except where shown below, no other director of any Rubicon subsidiary receives any remuneration or other benefits as a director. The following persons held office as directors of subsidiary companies as at 30 June 2014, 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	SL Moriarty, MA Taylor
Tenon Limited	MJ Andrews (R) (NZ$29,764), MK Eglinton (NZ$42,292) RG Fisher (NZ$77,250), SG Kasnet (NZ$71,250), G Karaplis (NZ$71,250), SL Moriarty (1), MC Walls (R) (NZ$32,454)
Tenon Holdings Limited	PM Gillard, JE Paice, AS White, AT Johnson
Tenon Industries Limited	PM Gillard, JE Paice, AS White, AT Johnston
Tenon Manufacturing Limited	PM Gillard, JE Paice, AS White, AT Johnston
Tenon Retirement Plan Nominees Limited	PM Gillard, JE Paice, AS White, AT Johnston
Tenon Employee Educational Fund Limited	PM Gillard, AC Grinter, J McDonald
Tenon Welfare Fund Nominees Limited	PM Gillard, GD Niccol, MR Taylor
Tenon USA Holding Company	PM Gillard, AS White, AT Johnston
Tenon Supply, LLC	PM Gillard, AS White, AT Johnston
Tenon Custodians Limited	PM Gillard, JE Paice, AS White, AT Johnston
AWM Acquisitions Corporation	PM Gillard, AS White, AT Johnston
Comanche Investments, LLC	PM Gillard, AS White, AT Johnston
CNI Forest Nominees Limited	PM Gillard, JE Paice, AS White, AT Johnston
Creative Stair Parts, LLC	PM Gillard, AS White, AT Johnston
Fairfield Road, LLC	PM Gillard, AS White, AT Johnston
Fletcher Challenge Forests Finance Limited	PM Gillard, JE Paice, AS White, AT Johnston
Fletcher Challenge Limited	PM Gillard, JE Paice, AS White, AT Johnston
Fletcher Wood Solutions, Inc.	PM Gillard, AS White, AT Johnston
Forest Corporation of New Zealand Limited	PM Gillard
Kaingaroa Holdings Limited	PM Gillard
NACS USA Inc	PM Gillard, AS White, AT Johnston
Ornamental Mouldings, LLC	PM Gillard, AS White, AT Johnston
Ornamental Mouldings Company	PM Gillard, AS White, AT Johnston
Ornamental Investments, LLC	PM Gillard, AS White, AT Johnston
Ornamental Products, LLC	PM Gillard, AS White, AT Johnston
Southwest Moulding Co. LP	PM Gillard, AS White, D Bell, AT Johnston, TH Highley (R)
The Empire Company LLC	PM Gillard, AS White, AT Johnston
The Empire Canada Company Limited	PM Gillard, AS White, AT Johnston, C Rogers (R)

(1) SL Moriarty's Tenon chairman's fees of NZ$130,000 for the year to 30 June 2014 were payable to Rubicon for Rubicon's account.

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 31 July 2014 were:

Name	Number of shares	% of shares
New Zealand Central Securities Depository Limited	357,851,590	87.48
Fletcher Brothers Limited	5,649,731	1.38
Moriarty Superannuation Fund - Luke & Diana Moriarty	2,710,124	0.66
Taylor Superannuation Fund - Mark & Lesley Taylor	1,093,234	0.27
Brian Tyler	999,999	0.24
Peter Bradfield	831,800	0.20
William Hasler	823,804	0.20
Moriarty Family Trust - Luke Moriarty, Diana Moriarty & Aida Harris	785,352	0.19
Leveraged Equities Finance Limited	735,992	0.18
Burton Superannuation Fund – Bruce & Sarah Burton	633,460	0.16
Ying Wang	631,608	0.16
Michael Andrews	612,746	0.15
Christopher Flood	600,000	0.15
Tenon Employee Educational Fund Limited	589,072	0.14
Victor Bedford	450,692	0.11
FNZ Custodians Limited	403,858	0.10
Stephen Kasnet	380,383	0.09
Sky Hill Limited	370,000	0.09
Martin Teulon & Eileen Quigley	363,834	0.09
Clinton Bird and John Jackson	307,430	0.08
Total	376,824,709	92.12

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 Rubicon shares at 31 July 2014 were:

Name	Number of shares	% of shares
HSBC Nominees (New Zealand) Limited	191,904,965	46.92
JP Morgan Chase Bank NA	77,711,200	19.00
Citibank Nominees (New Zealand) Limited	69,227,199	16.92
Accident Compensation Corporation	15,948,085	3.90
National Nominees New Zealand Limited	2,983,059	0.73
HSBC Nominees (New Zealand) Limited A/C State Street	58,526	0.01
BNP Paribas Nominees (New Zealand) Limited	16,375	0.00
Private Nominees Limited	2,181	0.00
Total	357,851,590	87.48

Governance

DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS AS AT 31 JULY 2014

	Number of shareholders		Number of shares	
Size of holding	Number	%	Number	%
1–999	2,155	31.90	1,444,753	0.35
1,000–9,999	3,991	59.08	10,776,998	2.64
10,000–49,999	494	7.31	9,450,504	2.31
50,000–99,999	53	0.79	3,599,324	0.88
100,000 and over	62	0.92	383,779,799	93.82
Total	6,755	100.00	409,051,378	100.00

DOMICILE OF SHAREHOLDERS AND HOLDINGS AS AT 31 JULY 2014

	Number of shareholders		Number of shares	
	Number	%	Number	%
New Zealand	5,664	83.85	403,570,150	98.66
Australia	675	9.99	1,853,381	0.45
United Kingdom	156	2.31	361,539	0.09
United States of America	140	2.07	2,150,679	0.53
Other	120	1.78	1,115,629	0.27
Total	6,755	100.00	409,051,378	100.00

SUBSTANTIAL SECURITY HOLDERS

According to notices given to the Company under the Securities Markets Act 1988, as at 15 September 2014 the following were substantial security holders in the Company. In terms of the Act, the number of shares and percentages shown below are as last advised to Rubicon by the substantial security holder and may not be their current holding.

Substantial security holder	Number of voting securities	% of issued Rubicon securities	Date of notice
David Knott [(a)]	113,036,402	27.634	13 June 2014 [(1)]
Third Avenue Management LLC	63,503,934	15.525	18 August 2014 [(1)]
JP Morgan Clearing Corp [(b)]	58,090,606	14.201	11 February 2014 [(1)]
Perry Corporation / Richard Perry	39,337,307	10.360	1 November 2013 [(2)]
Sandell Asset Management Corp [(c)]	36,570,919	8.940	16 June 2014 [(1)]
Libra Fund (Luxembourg) S.a.r.l. / Ranjan Tandon	29,331,403	7.170	10 February 2014 [(1)]
Sophrosyne Capital, LLC	27,629,412	6.754	12 February 2014 [(1)]

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

Substantial security holder	Number of voting securities	% of issued Rubicon securities	Date of notice
(a) Mr Knott has disclosed he holds a relevant interest in Rubicon shares held by:			
Dorset Management Corporation	97,502,420	25.677	23 July 2012 [(2)]
Knott Partners, L.P. [(i)]	82,511,226	20.171	13 June 2014 [(1)]

(i) Dorset Management Corporation has entered into an investment management agreement with Knott Partners, L.P. and Shoshone 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. and Shoshone Partners L.P. David Knott is the sole shareholder, Director and President of Dorset Management Corporation.

(b) In their substantial security notice JP Morgan Clearing Corp stated that the nature of their relevant interest was as a "Prime broker with a conditional power to acquire or dispose of shares under the terms of a Prime Brokerage Agreement".

(c) Keswick Master, Ltd has disclosed it has a beneficial interest in the following shares for which Sandell Asset Management Corp. has the power to control the disposition of and voting for:

	31,749,059	7.762	16 June 2014 [(1)]

The total number of issued voting securities at 15 September 2014 was 409,051,378. All of the references to voting securities in this section are to the Company's ordinary shares.

(1) Shares on issue at date substantial security holder notice was received was 409,051,378
(2) Shares on issue at date substantial security holder notice was received was 379,719,975

NZX WAIVERS

No waivers were granted to the Company by NZX under the NZSX Listing Rules during the 12 month period ending 15 September 2014.

Board of Directors

Steve Kasnet
Director and Chairman
BA University of Pennsylvania (Philadelphia)

Steve is CEO of Calypso Management LLC, Chairman of Directors of Columbia Labs, Inc, Trustee of Governors Academy, President of Ocean Manchester Corporation and a Director of Tenon Limited, First Ipswich Bank, Two Harbors Investment Corp and Silver Bay Realty Trust Corp.

He is a former President and CEO of Raymond Property Company and Dartmouth Street Capital, which are real estate companies engaged in the acquisition, development, renovation, ownership and management of residential and commercial real estate in the Boston area. Prior to this he was President and CEO of Harbor Global Company Limited, which maintained the largest real estate investment fund in Russia and owned and managed one of Russia's leading asset management and mutual fund complexes.

Bill Hasler
Director
MBA Harvard; BA Pomona College (California), CPA

Bill is former Vice Chairman and Board Director of KPMG Peat Marwick, a position he held from 1984–1991 after being responsible for KPMG's western US operations from 1984–1986, and subsequently heading their worldwide management consulting practice from 1986–1991.

Upon leaving KPMG, Bill became Dean and Departmental Chair of the Haas School of Business at the University of California in Berkeley. He held this position from 1991–1998, and continues today as Dean Emeritus.

In addition, Bill is a Director of Globalstar Inc, Inside Track Inc, Aviat Networks, BoardVantage and ETwater. He is also a consultant to, and investor in several private technology companies.

Hugh Fletcher
Director
MBA Stanford University; MCom (Hons) and BSc University of Auckland

Hugh is Chairman of IAG (New Zealand) Holdings Limited and IAG (New Zealand) Limited, and a Director of Vector Limited and Insurance Australia Group Limited.

He is also a Trustee of The University of Auckland Foundation, the Dilworth Trust, the Fletcher Trust and The New Zealand Portrait Gallery, and a member of the Asia Pacific Committee of the Trilateral Commission, the Advisory Committee of the Knox Investment Partners Fund IV and the Advisory Board of Gravida National Centre for Growth and Development.

Hugh has broad pastoral farming interests. His executive experience includes six years as Managing Director and Chief Operating Officer of Fletcher Challenge Limited, before he became CEO from 1987–1997.

George Karaplis
Director
BEng and MBA McGill University

George has over 35 years of experience building and growing shareholder value and has a proven track record in high growth companies.

He is a Director of Tenon Limited, and he has previously led France Telecom's Global One business in Greece as Managing Director and was Deputy Chairman of Netia, a Polish integrated telecom services and media solutions' company. He also acted as Chief Financial Officer and General Manager of International Investments for the Hellenic Telecommunications Organisation.

Prior to that George held a number of management positions in Canada and Europe. He has relevant experience in the forestry and wood products industry including with Domtar, a Canadian Paper and Forest Product producer.

Board of Directors

David Knott
Director
BA University of Pennsylvania; MBA Wharton School of the University of Pennsylvania

David is the Chief Executive Officer, Chief Investment Manager and Managing Partner of Knott Partners who, with associated entities, is Rubicon'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 currently serves on the board of Directors of Paramount Resources and Ligand Pharmaceuticals, Inc. He is also a Director of Boy's and Girl's Harbor and Say Yes to Education, and the Undergraduate Financial Aid at the University of Pennsylvania.

Luke Moriarty
Chief Executive Officer and Director
MS Stanford University; LLB (Hons) and BCA Victoria University

Luke has a strong background in business and commercial transactions, both in New Zealand and North America. His financial experience has included extensive international business valuation, acquisition, divestment and joint venture analysis and negotiation, and structuring and execution in multi-billion dollar transactions – ranging from minority buyouts to trade sales and IPOs.

He joined the Fletcher Challenge Executive Office in 1999, and in 2000 was instrumental in the structuring of the financial separation of the Fletcher Challenge Group, including the establishment of Tenon (then Fletcher Challenge Forests) and the formation of Rubicon in 2001.

Luke is a Director and the CEO of Rubicon, the Chairman of Tenon Limited, and a Director of ArborGen Inc. He is also a Monetary Policy Advisor to the Governor of the Reserve Bank of New Zealand.

Directory

Investor Enquiries/Registered Office

Level 1, 7-9 Fanshawe Street, Auckland

PO Box 68 249, Newton,

Auckland 1145, New Zealand

Telephone: 64 9 356 9800

Facsimile: 64 9 356 9801

Email: information@rubicon-nz.com

Website: www.rubicon-nz.com

Stock Exchange Listing

The Company's shares (RBC) 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.

You will need your CSN or holder number and FIN to access this service. Select 'View Portfolio' and log in. Then select 'Update My Details' and 'Communication Options'.

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

www.rubicon-nz.com