

# Rubicon Annual Shareholders' Meeting - 5 December 2008

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## Luke Moriarty – CEO Presentation

Welcome to you all – and as Steve said, it is a pleasure to be holding this Annual Meeting in New York for the first time.

As you know, Rubicon has, quite transparently, only ever been about value for its shareholders. In this objective, we are all aligned. Management and Board have a considerable equity investment in this Company – for example, I own around 1% of Rubicon, and in total, Board and management own some 7 million shares – or just under 3% of the Company. For management, some of this exposure has come from the fact that for the two-year period up to March 2009 we will have received no base salary whatsoever, opting instead to be “paid” in Rubicon shares issued at 93 cents – and the rest has come from on-market acquisitions.

In addition, management's long-term incentive is based on us meeting a 20% per annum compound share price return, off a starting share price of 93 cents per share. The Board has a similarly priced incentive, with the directors' entry fee into the incentive plan in 2008 being in excess of \$100,000.

So, you should be in no doubt that we believe in the future performance of this Company, and that we are all appropriately incentivised to deliver the very best outcome for shareholders.

And it's fair to say that our incentive structures have worked quite satisfactorily in the past. Despite chaotic current market conditions that significantly distort historical performance measures, over the life of the Company to date, Rubicon has still shown compound share price appreciation that exceeds the total return on the NZX50 almost twice-over, and a return well in excess of that recorded by the Dow Jones, NASDAQ and S&P indices over the same period.

However as you know, our goal is to return to shareholders 17% pa compounding over the life of the company, and as the chart shows we are clearly short of this goal now. We actually were meeting this target until very recently, when global credit market events took hold, negatively impacting all equity market prices – Rubicon was no exception. Whilst in relative performance terms we still significantly outperformed in 2008, we take no comfort from that at all. Our focus is on absolute positive returns for shareholders rather than relative returns in a down-market. In this respect, we are comfortable reiterating today that we do still intend to meet our target return over the full life of Rubicon.

So much for past performance – what about the future?

Let's begin today, with our investment in **Tenon**.

Although it represents only 10% by value of the total Rubicon share price, or NZ8 cents per Rubicon share, we still believe there to be a value prize with Tenon... even in current market conditions. Hopefully this next chart will help explain why.

The extremely difficult US housing market conditions that were evident in fiscal 2008, would, under a typical housing cycle, have implied an industry positioned somewhere around here. Even in that poor operating environment, with the key value drivers as shown, Tenon's market positioning still allowed it to record EBITDA of USD16 million. However, under mid-cycle conditions – again, as outlined here - Tenon believes it is capable of generating EBITDA around twice that level – certainly well in excess of USD30 million. On a 7.0 times multiple, adjusting for net debt of around \$50 million, this implies a Tenon share price of more than \$4.00 per share – some 7+ times Tenon's current price (which would equate to an additional NZ50 cents onto the Rubicon share price) ... so we are quite comfortable that the future value is there.

And under normal circumstances we might be inclined to simply “wait it out” until mid-cycle conditions returned, and this value uplift occurred. However, the world is not currently in a position where normal circumstances prevail. In fact, it is possible that the current housing cycle will not resemble the wave pattern as drawn here, but instead it may prove to be more like this. On that basis, 2009 will be the most demanding year on record for Tenon – representing the very bottom of the extremely difficult market conditions the industry will face in this cycle.

In our Annual Report we outlined Tenon’s key value drivers and sensitivities, as well as some of the earnings and balance sheet initiatives we have put in place to lift bottom-of-the-cycle performance ... so I won’t slavishly repeat them again today. Needless to say, all avenues for profit improvement are being extremely aggressively pursued.

However, in today’s very restrictive environment, operating the business hard is a necessary but not sufficient condition for success.

Industry rationalisation and m&a activity will be increasingly evident in the next calendar year, and we would like to see Tenon participate in this process. Through synergy extraction, cost-reduction, and complementary strategic positioning, this activity has the potential to create considerable value at the bottom of the cycle ... bridging some of the value gap that exists between today’s Tenon share price and its mid-cycle valuation, while we all wait for more favourable market conditions to return and lift earnings.

In order to take advantage of these rationalisation opportunities as they arise, Tenon may need to establish a more flexible bank funding facility. Assuming it can do this, then it will be well placed to participate in industry consolidation activity.

Three key reasons for this belief.

First - Tenon has built an enviable strategic position. As this slide shows, Tenon operates from wholesale manufacturing and distribution, through to full service distribution, and specialty manufacturing and customized distribution. However more importantly, you can see that in most cases in its chosen categories, Tenon occupies the #1 or #2 vendor / market position.

Second - with the exception of limited volumes sold into the mouldings & better lumber market, Tenon is almost exclusively a niche, specialty player – with its exposure being to high-value, high-margin products used primarily in the remodeling and renovation markets.

Third - and it may seem strange to talk about this at this point of the cycle, but it does go to the heart of the valuation question, is that Tenon has a strong long-term growth profile. By way of example, this chart shows the store count growth that Empire, Tenon’s full service distribution business, has achieved with Lowe’s over the past three years. Through Empire, Tenon is now present in over 50% of Lowe’s total store locations in the United States and Canada. Despite current market conditions, Lowe’s is still anticipating further new-store growth – albeit at a reduced pace. As long as Empire continues to provide the high level of service and commitment that Lowe’s requires, then it should participate accordingly in Lowe’s organic growth.

This market access is not limited to Empire. Ornamental Mouldings’ offerings are also represented in some 1,200 Lowe’s stores, and across the Group Tenon’s products are also sold into well over 700 Home Depot stores. So clearly Tenon is well “wired” into future recovery in the two largest renovation and remodeling channels in this market.

Quite aside from that organic growth, is the growth that product and category expansion through these powerful channels can offer. As you know, Tenon has now moved into the “outdoor” product space, with the launch of the Armour Wood® and LIFESPAN® brands. By the end of the fiscal year, Armour Wood® will be present in more than 300 Lowe’s stores. And with LIFESPAN®, a national distribution arrangement with BlueLinx offers Tenon access to BlueLinx’s 20,000 plus customer base.

The overall importance and relevance of the outdoor example is that the exterior trim and sidings market is some ten times the size of Tenon's traditional interior mouldings category, and wood-based products have only scratched the surface of this opportunity. It will be the introduction of new wood modification technology that will allow much higher growth of wood products into this segment in future. To help bring the impact of this technology to life for you, here are two shots of the Sneek Bridge project in Holland, which used Radiata pine from Tenon's manufacturing facilities in Taupo. This is exactly the same fibre Tenon currently uses for internal applications like mouldings and boards – here, after modification, being used in a bridge. The modification process significantly enhances the stability and durability properties of wood, and these pictures represent a showcase for this technology. Tenon will be taking a leadership role in developments in this sector. More on this at a later date ...

So, to repeat, we believe these three factors – Tenon's leading market position, its specialty product focus, and its strong growth profile – will make it an attractive and natural participant in industry rationalisation and consolidation activity.

Now turning to **ArborGen** ... which, I am happy to report, has continued to progress down its commercial development path, to plan, and relatively unscathed by the market turmoil around it.

We are quite excited about ArborGen, an investment we freely characterise as a "once-in-a-lifetime" opportunity. ArborGen is a commercial forestry biotechnology company, whose development we have unashamedly based on the extremely successful business model that has been applied to the agriculture arena by Monsanto and others.

Although ArborGen currently sells more than 300 million treestocks annually, its true value will only begin to be recognised as it approaches the commercialisation of its first-generation biotech products. Our Annual Report canvasses ArborGen's progress towards that goal in great detail ... so I won't repeat that here today, other than to summarise by saying that we are confident that the ArborGen "tree machine" has now well and truly been built. And by that we mean the ability of ArborGen to operate a complete "end-to-end" business model - from gene sequencing and discovery, to high throughput screening, model plant testing, field trials, the provision of efficacy and regulatory data, and the attainment of regulatory approvals, right through to final commercial scale-up.

Whilst there may be participants who operate at various niche points on this continuum, there is, quite simply, no other global player who has ArborGen's complete competency set. It has taken the resources of three leading partners in this field, and some 60 combined years of research and development to build this business ... not to forget the USD150 million plus that has been invested to date, and the bringing together of a seasoned, highly-experienced management team. We believe these efforts have entrenched ArborGen not only as the first-mover in this arena, but also as the undisputed leader.

Forestry represents a huge market space. Like pharmaceuticals, the numbers are very large, the value that can be created for customers is often extreme, and importantly, customers are recurring, year-after-year. It is quite possible for a business operating in this type of landscape to generate extraordinary value numbers quite quickly.

To show this, let's work through a new biotech product ArborGen is currently developing – short rotation eucalyptus, destined for the Brazil market.

In Brazil, eucalyptus grown for pulp production typically has a rotation length of approximately 7 years. ArborGen is currently in the early stages of developing a eucalyptus product that targets a considerably shorter rotation – only 4.5 years. In essence, ArborGen is increasing the annual growth rate of the tree by more than 50%, such that age 7 yields can be achieved 2.5 years earlier. Whilst this is of course a considerable scientific achievement, our interest is a clinically financial one. For our purposes, the real question is: What might the value of such a product be to ArborGen?

As you know, time is a renowned destroyer of value in business - it is a word that encompasses the full spectrum of risk. In forestry, where timelines are often long, the greatest cost is the cost of time. If a tree can be made to grow faster, with no degradation in wood quality produced, then that massively increases value to the forest owner – and of course also to the provider of such a treestock.

In particular, the underlying value of a short rotation eucalyptus product comes from several sources:

- First, the measurable cash benefit that accrues from managing and operating the forest estate for a shorter period of time.
- Second, the receipt of cashflows at harvest some 2.5 years earlier, with the measurable NPV benefit that reduction of timeline brings.
- Third, the significant land option value that is created. This comes from the fact that land will be available to be released for alternative uses far earlier than would normally be the case. Another way of thinking about this is, that a shorter rotation means less land is needed in order to generate the same biomass out-turn over time. Given land is often the limiting resource – and this will increasingly be the case as the demand for land for food increases in the future - the option value created by a short rotation product is financially quite significant.
- And finally, the gains derived from more favourable logistics. To explain this last point, as the shorter rotation would allow the same biomass (or fibre) to be generated from a third less land, then that land situated furthest from the processing activities would be available to be released for other uses, and land closer to production sites retained. As a result, the average transport distance from the forest estate to the production activity (whatever that may be) could be significantly reduced, with a consequent reduction in transport costs.

In Brazil, the value gain achieved by planting a 4.5-year rotation eucalyptus tree over the baseline 7-year rotation tree, is well in excess of USD1.50 per treestock ... and this figure only accounts for the first two benefits I have just noted. It excludes totally the option value that arises from early release or reduced use of land and also the gain from improved logistics ... both of which are significantly additive in value terms, given we are in effect talking about a pulp producer being able to grow fibre for its mill on a third less land than is currently the case.

So, USD1.50 in value is a conservative assumption. Even if ArborGen were to receive, say, only one third of the USD1.50 value-increment shown in the previous chart, leaving the bulk of the value-creation accruing to the forestry grower or pulp producer, then this would still equate to 50 cents of value-capture to ArborGen for each treestock sold.

On the basis of a 400 million annual eucalyptus treestock market in Brazil for pulp & paper purposes, and an assumption that at full adoption ArborGen captures only 35% of this market, then the value of one year's sales, at full adoption, would correspond to annual pretax earnings of USD70 million (*i.e.* 140 million treestocks x 50 cent per treestock sold), or approximately USD46 million after tax (assuming a 35% tax rate).

Repeating this level of sales year after year would translate into a value to ArborGen, for this one product alone, of almost USD600 million post-tax. For those of you wanting to do the numbers, the calculation is simply USD46 million capitalised at the forest industry's discount rate of 8% after-tax per annum ... and this number does not assume any growth in market share, or use of this product in other geographies or other market applications. And to that point, the use of this eucalyptus product in the charcoal market could significantly increase the potential annual treestock market-size (and value) used in this example.

Even without that "secondary" use, USD600 million is still an extremely large value number, for just this one product from ArborGen's portfolio. Of course, this value does assume future successful commercial sales, at a constant 35% market adoption, and a 33% value-sharing rate. And as this is one of ArborGen's further-dated products in its development pipeline it is natural that the equity market will discount its value aggressively for both risk and time. And I should at this point also issue the "health warning" that the example discussed here is of course subject to a number of significant assumptions and estimates that can affect value – accordingly actual future outcomes could differ markedly.

However, we have now given data on four biotech products ArborGen is actively working on. At full adoption, and on the assumptions given, a combined capitalised value for these four products alone of some USD2 billion can be derived - and these examples represent only a few of the products in the current ArborGen product pipeline.

We could, of course, debate for a long time the assumptions, timelines, and discount rates, used to derive those product valuations. **However the real point in talking to these products, is not to be prescriptive or precise as to individual product trait values, but rather to show the “big picture” value potential that can be generated by ArborGen’s business model.** By way of illustration ... once these initial products are commercialised, it is possible to develop second-generation products with “stacked” biotech-traits. For example, from the short rotation eucalyptus product we have discussed today, ArborGen can move on to create a short rotation low-lignin eucalyptus product, and a fast-growth cold-tolerant eucalyptus product ... and so on. In this way, the business model can be used to take a single biotech product and develop multiple second-generation products of increased value – all for relatively low marginal cost.

As this next slide shows, the ultimate objective is for ArborGen to have a suite of treestock products, designed for specific end-use applications, in distinct geographies. In this respect, ArborGen’s future development path is already quite well-established.

So, although we do tend to talk about individual products, we do so only by way of example of the power of ArborGen’s business model. The reality is that ArborGen should not be valued on a product-by-product basis at all. Its true value is its value as a complete business. Ultimately the question is a simple one – what should you pay for a business that is operating in an extremely large market space across many geographies, utilizing disruptive proprietary technology, to develop products that create a step-change in industry value and which are actively sought by customers for use in multiple applications. Where the business-model adopted replicates the already proven and extremely successful agricultural experience, where the business has locked-down first-mover advantage for itself and there is no global competitor, and where the channels to market are in place?

That’s for you to decide, but we would suggest the answer might be multiples of the ArborGen value that is implied in Rubicon’s share price today.

That brings my formal comments to a close. I would like to thank you for your attendance today and for your support over this past year. It is very much appreciated.

Thank you.

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