

## Statement of Financial Performance

For the year ended 31 March 2003

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000	NOTES	\$000	\$000
19,714	25,727	Operating Revenue	15,915	73,881
(26,240)	(4,060)	Operating Expenses	(12,566)	(32,917)
(916)	(56)	Earnings Relating to Associates	10,764	(10,600)
(7,442)	21,611	<b>Operating Earnings / (Deficit)</b>	14,113	30,364
		Taxation Expense		
(7,442)	21,611	<b>Net Earnings / (Deficit)</b>	14,113	30,364

## Statement of Movements in Equity

For the year ended 31 March 2003

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000	NOTES	\$000	\$000
(7,442)	21,611	Net Earnings / (Deficit)	14,113	30,364
	(127)	Translation Differences	(9,532)	(22,306)
(7,442)	21,484	<b>Total Recognised Revenue and Expenses</b>	4,581	8,058
299,634		Capital Contributions		299,634
(60,256)		Return of Capital to Shareholders by way of Share Buyback		(60,256)
	231,936	Opening Equity	247,436	
231,936	253,420	<b>Closing Equity</b>	252,017	247,436

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

## Statement of Cash Flows

For the year ended 31 March 2003

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
3,295	5,786	Receipts from Customers	11,478	6,566
19,665	19,652	Interest Received	3,392	3,614
22,960	25,438	Cash Provided from Operating Activities	14,870	10,180
(2,756)	(5,235)	Cash Applied to Operating Activities	(13,675)	(5,348)
20,204	20,203	<b>Net Cash From Operating Activities</b>	1,195	4,832
7,630		Sale of Investments		116,819
(539)	(97)	Purchase of Fixed Assets	(367)	(10,559)
(30,000)		Purchase of Investments	(26,678)	(283,676)
(170,182)	(45,758)	Advances to Subsidiaries		
(193,091)	(45,855)	<b>Net Cash Used in Investing Activities</b>	(27,045)	(177,416)
299,634		Capital Contributions		299,634
(60,256)		Return of Capital to Shareholders by way of Share Buyback		(60,256)
239,378		<b>Net Cash From Financing Activities</b>		239,378
66,491	(25,652)	<b>Net Movement in Cash</b>	(25,850)	66,794
	66,491	Opening Cash & Liquid Deposits	66,794	
	(132)	Effect of Exchange Rate Changes on Net Cash	(144)	
66,491	40,707	<b>Closing Cash &amp; Liquid Deposits</b>	40,800	66,794
(7,442)	21,611	Net Earnings / (Deficit)	14,113	30,364
		Adjustment for Items not involving Cash:		
70	95	Depreciation, Amortisations and Revaluation of treestocks	1,871	1,887
		Earnings Relating to Associates	(12,504)	5,461
	(3,397)	Movement in Provisions	(6,202)	1,000
		Revaluation of Investments	3,223	22,471
22,370		Less (Gain) / Loss on Disposal of Investments		(63,153)
14,998	18,309	Cash Flow from Operations Before Net Working Capital Movement	501	(1,970)
5,206	1,894	Net Working Capital Movement	694	6,802
20,204	20,203	<b>Net Cash from Operating Activities</b>	1,195	4,832

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

## Statement of Financial Position

As at 31 March 2003

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000	NOTES	\$000	\$000
		<b>Current Assets</b>		
66,491	40,707	Cash and Liquid Deposits	40,800	66,794
		Inventory	7	4,005
17	366	Debtors	8	1,070
66,508	41,073	<b>Total Current Assets</b>	45,875	70,760
		<b>Current Liabilities</b>		
(5,223)	(4,065)	Creditors	9	(5,547)
(5,223)	(4,065)	<b>Total Current Liabilities</b>	(5,547)	(10,759)
		<b>Non Current Assets</b>		
469	471	Fixed Assets	10	8,444
		Investments	11	203,245
170,182	215,941	Advances to Subsidiaries		
170,651	216,412	<b>Total Non Current Assets</b>	211,689	187,435
231,936	253,420	<b>Net Assets</b>	252,017	247,436
		<b>Equity</b>		
239,378	239,378	Share Capital	12	239,378
(7,442)	14,042	Reserves	13	12,639
231,936	253,420	<b>Total Shareholder Funds</b>	252,017	247,436



Michael Andrews  
CHAIRMAN



Luke Moriarty  
CHIEF EXECUTIVE OFFICER

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

# Notes to the Financial Statements

For the year ended 31 March 2003

## 1. REPORTING PERIOD

The financial statements presented are for the year 1 April 2002 to 31 March 2003. The comparatives are for the period from incorporation (22 January 2001) to 31 March 2002.

## 2. STATEMENT OF ACCOUNTING POLICIES

### Reporting Entity

The financial statements presented are those of Rubicon Limited (the 'Company') and its subsidiaries (together the 'Group'). Rubicon Limited is a company domiciled in New Zealand and is registered under the Companies Act 1993. The financial statements are presented in accordance with the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993.

### Accounting Convention

The financial statements are based on the general principles of historical cost accounting with the exception of inventory and investments as noted below. These financial statements comply with generally accepted accounting practice in New Zealand (GAAP).

### Estimates

The preparation of financial statements in conformity with GAAP requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

### Basis of Consolidation

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interest in associates, partnerships and joint ventures. Inter-company transactions are eliminated in preparing the consolidated financial statements. Subsidiaries are those entities that are controlled, either directly or indirectly, by the Company and are consolidated in the financial statements using the purchase method of consolidation. The equity method has been used for associates over which the Group has the capacity to exercise significant influence. Equity earnings are included in the Group's net earnings before taxation. Subsidiaries and associates are not included in the consolidated financial statements if, by the earlier of three months after the date that control or significant influence is obtained or the date when the annual financial statements are approved, the Company has entered into a binding agreement to relinquish control of the subsidiary or significant influence of the associate within one year from the date that control or significant influence is obtained.

### Goodwill on Acquisition

Fair values are assigned to the identifiable assets and liabilities of subsidiaries and associates of the Group at the date they are acquired. After assigning fair values to the identifiable assets and liabilities of subsidiaries and associates acquired, goodwill may arise when comparing the purchase cost to the fair value assigned. Goodwill arises to the extent that the fair value is determined to be less than the purchase cost and this goodwill is amortised to earnings on a systematic basis over the period it is believed benefits will arise. The period of amortisation will generally be ten years or less, however in individual cases may be up to 20 years. The period of amortisation of any goodwill is regularly reviewed and, if it is believed that the amount remaining to be amortised will not be recovered by future benefits to be realised, the unrecoverable amount is written off to earnings and the balance amortised over the period it is believed benefits will be realised. A surplus on acquisition arises to the extent the fair value is determined to exceed the purchase cost. This surplus is applied to reduce the book value of non-monetary assets acquired and, to the extent there are insufficient non-monetary assets, taken to earnings. In relation to associates, where a surplus on acquisition is applied to reduce the book value of the non-monetary assets, the resulting depreciation recognised by Rubicon will be lower than is recorded in the associates' financial statements. This means that the equity accounted earnings of the associate will be greater than Rubicon's share of the associates' reported earnings.

**Currency Translation**

Statements of Financial Position of independent foreign operations are translated into New Zealand currency at the rates of exchange ruling at balance date. Earnings of independent foreign operations are translated using an average exchange rate reflecting an approximation of the appropriate transaction rates. Exchange variances arising from these translations are included in the Currency Translation Reserve. Foreign currency transactions or monetary assets and liabilities are recorded at the exchange rates ruling at the date of the transaction and translated at the rates of exchange ruling at balance date, with exchange rate variances arising being recorded in earnings.

**STATEMENT OF FINANCIAL PERFORMANCE****Revenue Recognition**

Revenue is recognised in accordance with the terms of sale when the benefits of ownership and risk of loss passes to the customer.

**Investment Revenue**

Interest income is taken to earnings when received or accrued in respect of the period for which it was earned. Dividends and Distributions are taken to earnings when received or accrued where declared in respect of the period prior to balance date.

**Depreciation**

Depreciation of fixed assets is calculated on a straight-line basis over the expected useful life of the asset, less estimated residual value. Estimates of useful life are reviewed on a regular basis.

**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, then further 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.

**Taxation**

Taxation expense is the estimated liability in respect of current earnings after allowance for permanent differences between reported earnings and assessable earnings. The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless recovery is considered virtually certain.

## STATEMENT OF FINANCIAL POSITION

### Cash

Cash and Liquid Deposits comprise cash and demand deposits with banks or other financial institutions and highly liquid investments that are readily convertible to cash.

### Debtors

Debtors are valued at estimated net realisable value. The valuation is net of a provision maintained for doubtful debts. All known losses are written off to earnings in the period in which it becomes apparent that the debts are not collectable.

### Inventory

Plantation forest estate and nursery stock are referred to as treestock. Treestock is revalued to the Directors' estimate of market valuation based on net present value. Net present value of treestock is determined by applying a discount rate estimating the overall real return from the treestock, to the excess of future (after tax) cash inflows from the treestock, over future (after tax) cash outflows of harvesting, transporting and marketing. Only cash flows in respect of current crops are included. No account is taken for the revenues or costs of crops not yet planted, irrespective of any intention to replant areas following harvest, or holdings of unplanted land. Other inventory is stated at the lower of cost or net realisable value. Cost is determined principally on the first-in-first-out basis and in the case of manufactured goods, includes direct materials, labour and production overheads.

### Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. The estimated useful lives of fixed assets are as follows:

Land	indefinite
Buildings	40 – 100 years
Plant and machinery	5 – 15 years
Fixtures and equipment	3 – 15 years

### Investments

Investments in equity securities, not consolidated or equity accounted, which have a readily determinable market value are valued at market value with unrealised gains and losses included in Earnings.

Investments which do not have a readily determinable fair value are valued at historical cost. Impairments in value are written off to earnings as they arise.

### Impairment

Permanent Impairment is deemed to occur when the recoverable amount falls below the book value of the asset. The recoverable amount is determined as the greater of the net market value of the asset and the present value of the net future cash flows obtainable from the assets continuing use and ultimate disposal.

### Taxation

The provision for current tax is the estimated amount due for payment in the next 12 months. The provision for deferred tax is the liability for taxation that has been deferred because of timing differences less taxation benefits, which will offset the deferred liability as it arises. The provision for deferred taxation has been calculated by applying the liability method.

The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless recovery is considered virtually certain.

### Changes in Accounting Policies

There were no changes in accounting policies during the period.

**3. OPERATING REVENUE COMPRISES:**

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		Trading sales	6,494	7,064
		Gain on disposal of:		
		Subsidiaries <sup>1</sup>		53,000
		Investment <sup>2</sup>		10,153
	6,065	Receipt from FCF <sup>3</sup>	6,065	
3,657	3,347	Interest on cash and liquid deposits	3,356	3,664
16,057	16,315	Intercompany Interest and administration fees		
<b>19,714</b>	<b>25,727</b>	<b>Total Operating Revenue</b>	<b>15,915</b>	<b>73,881</b>

1 The gain on sale of subsidiaries in 2002 relates to the sale of the Brisbane fuels terminal and the Challenge petrol retailing network.

2 The gain on sale of investment in 2002 relates to the sale of Capstone shares.

3 Rubicon and FCF reached an agreement, which releases FCF from any further financial obligation in respect of the transfer of the legal title of certain assets that were to be transferred to Rubicon by FCF upon the separation of Fletcher Challenge Limited, but which could not be transferred. As part of this agreement FCF paid Rubicon US\$3 million.

**4. OPERATING EXPENSES INCLUDE:**

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		Depreciation:		
		Buildings	(226)	(224)
(70)	(95)	Plant, equipment, fixtures and fittings	(652)	(581)
		Revaluation of market listed securities:		
		Genesis Research and Development <sup>1</sup>	(1,062)	(815)
		FCF <sup>2</sup>		(21,656)
(524)	(515)	Directors' fees (refer note 9)	(515)	(524)
	(95)	Donations	(95)	
		Maintenance and repairs	(47)	(48)
(238)	(282)	Operating lease expense	(282)	(238)
(22,370)		Loss on internal sale of subsidiary		
		Auditors' fees and expenses payable for:		
(60)	(89)	Statutory audit <sup>3</sup>	(89)	(60)
(40)	(66)	Other services <sup>4</sup>	(66)	(40)
		Costs associated with the unsuccessful FCF / CITIC transaction <sup>5</sup>	(3,586)	
	3,295	Provision release <sup>6</sup>	7,600	
		Brazilian office closure costs <sup>7</sup>	(625)	
	(2,118)	Accelerated tracking unit costs <sup>8</sup>	(2,118)	
	(837)	Costs associated with the GPG / Perry Litigation <sup>9</sup>	(837)	
		Revaluation of investment <sup>10</sup>	(2,161)	

1 Revaluation of investment in Genesis Research and Development Corporation to market value.

2 In the current year FCF became an associate of Rubicon and is now equity accounted (see note 11 for further detail).

3 The increase in Audit fee year on year results from fees billed in 2003 relating to transactions undertaken in 2002.

4 This relates primarily to tax advice in relation to compliance issues.

5 The Group incurred costs of \$3.6 million in respect of the proposal to dispose of the majority of its shareholding in FCF and acquire the Tahorakuri forest estate. Because FCF shareholders voted against the proposal the transaction did not proceed. These costs, which are predominately related to the close-out of a foreign currency hedge, have been written off through earnings.

6 Release of provisions no longer required, partly relating to transactions completed in the 2002 financial year.

7 One-off closure costs for Brazilian office.

8 As a result of the unsuccessful GPG Forests partial takeover offer for Rubicon, the holders of various executive incentive tracking units have the right to 'trigger' the payment of any benefit under units they hold. This resulted in an accelerated liability and expense of \$2.1 million being recorded.

9 Costs incurred by Rubicon in relation to court proceedings between GPG and Perry Corporation.

10 Writedown of investment in Health Innovations Holdings Limited to nil carrying value.

## 5. EARNINGS RELATING TO ASSOCIATES COMPRISE:

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		Earnings of associates <sup>1</sup>	12,504	(5,461)
		Amortisation of intangibles	(1,466)	(1,744)
(916)	(56)	Costs relating to associates	(274)	(3,395)
(916)	(56)	<b>Total Earnings Relating To Associates</b>	<b>10,764</b>	<b>(10,600)</b>
		<i>1 Earnings of associates comprise:</i>		
		FCF	17,500	
		ArborGen LLC	(4,398)	(3,366)
		FTSA	(9)	(2,095)
		Health Innovations Holdings Limited	(589)	
			12,504	(5,461)

## 6. TAXATION

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
(7,442)	21,611	<b>Taxation Expense</b>		
		Earnings before taxation:	14,113	30,364
		Adjusted for:		
		Amortisation of intangibles	1,466	1,744
		Gain on disposal of:		
		Subsidiaries		(53,000)
		Investments		(10,153)
		Revaluation of market listed securities	1,062	22,471
		Revaluation of investment	2,161	
		Equity accounted earnings	(16,902)	2,095
	(10,859)	Other permanent differences	(13,665)	
7,442	(10,752)	Intra Group offset		
		Losses not recognised	11,765	6,479
-	-	<b>Taxable Income</b>	<b>-</b>	<b>-</b>
		<b>Unrecognised taxation losses</b>		
		New Zealand	10,015	2,670
		United States of America	15,116	9,390
		Total unrecognised taxation losses	25,131	12,060

The recognition of these unrecognised losses in future periods is dependent on the Group having assessable income of \$10.0 million in New Zealand and \$15.1 million in the USA.

		<b>Shareholder Tax Credits</b>		
		<b>Imputation credit account</b>		
		Imputation credits at the beginning of the period	3,940	
		Imputation credits attached to dividends received <sup>1</sup>		3,940
-	-		3,940	3,940
		Imputation credits directly and indirectly available to Shareholders at balance date are:		
		Parent Company	3,940	3,940
		Subsidiaries	3,940	3,940
-	-		3,940	3,940

<sup>1</sup> Dividend received is included in gain on disposal of subsidiaries (refer note 3).

## 7. INVENTORY

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		Treestock and seed stock	3,862	3,217
		Consumable stores	143	112
-	-	<b>Total Inventory</b>	<b>4,005</b>	<b>3,329</b>

## 8. DEBTORS

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
17	22	Trade debtors	160	96
		Less provision for doubtful debts		
17	22	Owing by ArborGen LLC (refer note 11)	160	96
		Owing by FCF <sup>1</sup>	367	356
	344	Owing by GPG Forests Limited <sup>2</sup>	199	185
<b>17</b>	<b>366</b>	<b>Total Debtors</b>	<b>1,070</b>	<b>637</b>

1 Outstanding product development payment.

2 Costs incurred by Rubicon in relation to the unsuccessful GPG Forests partial takeover offer, which are to be reimbursed by GPG Forests under the Takeovers Code, but which were still outstanding at balance date.

## 9. CREDITORS

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
(373)	(440)	Trade creditors	(1,070)	(1,291)
(771)	(675)	Accrued employee benefits <sup>1</sup>	(906)	(1,105)
(260)	(1,658)	Provision for executive tracking units <sup>2</sup>	(1,658)	(260)
(524)	(1,039)	Accrued Directors fees <sup>3</sup>	(1,039)	(524)
(3,295)	(253)	Other liabilities <sup>4</sup>	(874)	(7,579)
<b>(5,223)</b>	<b>(4,065)</b>	<b>Total Creditors</b>	<b>(5,547)</b>	<b>(10,759)</b>

1 Accrued employee benefits includes amounts for bonuses, holiday pay, PAYE and long service leave.

2 The provision for executive tracking Units is summarised below:

	(260)	Opening provision	(260)	
	(522)	Cash contributions received from executives	(522)	
	162	Units exercised	162	
	(2,118)	Accelerated tracking unit cost (refer note 4)	(2,118)	
(260)	1,080	Impact of escalating exercise price and lower closing share price	1,080	(260)
(260)	(1,658)	Closing provision	(1,658)	(260)

The closing provision is equal to (the number of tracking Units outstanding) x (Rubicon's share price at balance date less the current Unit exercise price less the Unit fee to be paid by executives).

3 For the year ended 31 March 2002 the non-executive Directors of Rubicon have agreed to receive their (after tax) directors fees in the form of 5,017,022 options over Rubicon shares, under the '2001 Non-Executive Directors' Option Scheme'. This scheme was outlined in the Rubicon Investment Statement & Prospectus dated January 2001. These options have not yet been issued. Shareholders will be asked to approve the issuance of these options at the Company's ASM this year. A full discussion of the proposal will be included in the Company's Notice of Meeting.

For the year ended 31 March 2003 the non-executive Directors have agreed to receive their directors fees in cash and reinvest that money in Rubicon shares acquired 'on-market'.

4 Other liabilities in 2002 included provisions relating to transactions completed in 2002.

## 10. FIXED ASSETS

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		Cost		
		Land	1,876	1,876
		Buildings	3,046	3,013
539	636	Plant, equipment, fixtures and fittings	5,713	5,613
539	636	Total Cost	10,635	10,502
		Accumulated depreciation		
		Buildings	(576)	(287)
(70)	(165)	Plant, equipment, fixtures and fittings	(1,615)	(812)
(70)	(165)	Total Accumulated Depreciation	(2,191)	(1,099)
		Net book value		
		Land	1,876	1,876
		Buildings	2,470	2,726
469	471	Plant, equipment, fixtures and fittings	4,098	4,801
<b>469</b>	<b>471</b>	<b>Net Book Value Fixed Assets</b>	<b>8,444</b>	<b>9,403</b>

## 11. INVESTMENTS COMPRISE

			GROUP	
			2003	2002
			\$000	\$000
	MARKET PRICE	NO. OF SHARES		
Shares in FCF <sup>1</sup>			164,850	132,880
Shares in Genesis Research and Development Corporation Limited <sup>2</sup>	\$1.20	727,273	873	1,935
Investment in ArborGen LLC <sup>3,6</sup>			31,575	35,587
Investment in FTSA <sup>4,6</sup>			5,947	7,630
Investment in Health Innovations Holdings Limited <sup>5,6</sup>				
<b>Total Investments</b>			<b>203,245</b>	<b>178,032</b>
<i>1 The investment in FCF comprises:</i>				
<i>Percentage Ownership</i>			19.9%	17.6%
<i>Carrying Value 1 April 2002</i>			132,880	154,536
<i>Revaluation of listed securities</i>				(21,656)
<i>Additional share acquisition<sup>a</sup></i>			14,470	
<i>Share of operating surplus<sup>b</sup></i>			17,500	
<i>Carrying Value 31 March 2003</i>			164,850	132,880

<sup>a</sup> Rubicon acquired an additional 13.1 million shares in mid February 2003, taking its ownership interest in FCF to 19.9%.

<sup>b</sup> During the financial year FCF became an associate of Rubicon as defined in Financial Reporting Standard (FRS) 38, 'Accounting for Investments in Associates'. Consequently, we are now equity accounting our investment in FCF in our financial statements. This has resulted in \$17.5 million of equity earnings (net of tax expense of \$8.1 million) relating to FCF being recorded in our financial statements for the 12 months to 31 March 2003. FRS 38 requires the carrying value of the investment to reflect that value which would have resulted had we accounted for our investment in FCF as an associate from 'day-one' of our ownership. Accordingly, the earnings figure of \$17.5 million comprises \$21.0 million in respect of FCF's reported 12 months ended 31 December 2002 (the last six months' period being unaudited), less an earnings loss of (\$3.5) million from the date of acquisition of our investment in FCF through to 31 December 2001. Our equity accounted FCF results are based on FCF's published earnings announcements.

The closing price for FCF shares traded on the NZSE on 31 March 2003 was \$1.05.

Rubicon's shareholding at March 2003 (March 2002 restated to account for 5 for 1 share consolidation) comprised:

Preference shares	96,100	83,430
Ordinary shares	15,429	15,000
Total Shares	111,529	98,430
Average carrying value per share	1.48	1.35

## 11. INVESTMENTS COMPRISE

	GROUP	
	2003	2002
	\$000	\$000

2 The investment in Genesis Research and Development Corporation Limited represents 2.81% of the issued capital of the company.

3 The Group holds a 31.67% interest in ArborGen LLC, a US partnership that also includes International Paper Company and MeadWestvaco Corporation as equal partners. ArborGen, a leading forestry biotechnology venture, is in the business of developing, testing, producing and marketing bio-engineered trees for forestry companies around the world. The business is targeting those products that can create step-changes in performance, to benefit both forestry companies and their customers, and in turn help make forestry a more sustainable industry.

Carrying Value 1 April 2002	35,587	35,000
Capital contributions during the period	9,458	7,728
Share of operating surplus / (deficit)	(4,398)	(3,366)
Amortisation of initial cost of acquisition	(1,466)	(1,744)
Difference arising on translation of independent foreign operation	(7,606)	(2,031)
Carrying Value 31 March 2003	31,575	35,587

Rubicon, (together with its equal partners International Paper and MeadWestvaco) has a commitment through to 2005 to fund ArborGen. Rubicon's remaining financial commitment is US\$8.4 million at 31 March 2003, (US\$12.9 million at 31 March 2002).

4 The Group has an interest in 50% of FTSA, an Argentine forestry and processing operation.

Carrying Value 1 April 2002	7,630	30,000
Share of operating surplus / (deficit)	(9)	(2,095)
Difference arising on translation of independent foreign operation	(1,674)	(20,275)
Carrying Value 31 March 2003	5,947	7,630

5 The Group holds a 32.5% interest in Health Innovations Holdings Limited, a New Zealand health sector service provider.

Capital contributions during the period	2,750	
Share of operating surplus / (deficit)	(589)	
Impairment	(2,161)	
Carrying Value 31 March 2003	-	

6 Unaudited results have been used to equity account ArborGen LLC, FTSA and Health Innovations Holdings Limited.

## 12. CAPITAL

PARENT			GROUP	
2002	2003		2003	2002
000	000		000	000
		<b>Number of Shares<sup>1</sup></b>		
	279,021	Shares at the beginning of the period	279,021	
352,867		Issue of shares		352,867
(73,846)		Shares repurchased and cancelled		(73,846)
279,021	279,021		279,021	279,021
		<b>Reported Capital</b>		
\$000	\$000	Reported capital at the beginning of the period	\$000	\$000
	239,378	Issue of shares	239,378	
299,634		Shares repurchased and cancelled		299,634
(60,256)				(60,256)
<b>239,378</b>	<b>239,378</b>	<b>Reported Capital</b>	<b>239,378</b>	<b>239,378</b>

<sup>1</sup> On the 14 March 2003 the High Court delivered its judgment in relation to the GPG/Perry Corporation litigation. Amongst other remedies, that decision ruled that Perry Corporation was to forfeit 12 million of the ordinary shares it holds in Rubicon. Perry Corporation has appealed the decision and a hearing in the Court of Appeal took place in early June 2003. At the date of this report the Court of Appeal had not delivered its decision, and as a stay of proceedings was granted, no shares have been forfeited/cancelled at this stage. Accordingly no adjustment has been made to the number of ordinary shares on issue.

## 13. RESERVE BALANCES

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
(7,442)	14,169	Retained earnings	44,477	30,364
	(127)	Currency translation reserve (refer note 14)	(31,838)	(22,306)
<b>(7,442)</b>	<b>14,042</b>	<b>Total Reserves</b>	<b>12,639</b>	<b>8,058</b>

## 14. RESERVE MOVEMENTS

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		<b>Currency Translation Reserve</b>		
		Opening Balance	(22,306)	
	(127)	Currency translation differences	(127)	
		Translation of independent foreign operations	(9,405)	(22,306)
-	(127)	Closing Balance	(31,838)	(22,306)

## 15. FINANCIAL INSTRUMENTS

Exposures to currency, interest rate, credit, liquidity and market risks arise in the normal course of the Group's business. To manage and limit the effects of these financial risks the Group operates within the following policies and utilises the following financial instruments:

### Foreign currency risk

Foreign currency risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of transactions being denominated in foreign currencies. Such transactions include export sales, imported purchases and offshore investments. Forward currency contracts are entered into, where appropriate, to manage foreign currency exposure. The Group has no such contracts outstanding at balance date.

The Group maintains its investments in offshore companies in the currency of the investment. This exposes the Group's equity in these investments to movements in the foreign currency relative to the New Zealand dollar. The Group's investments in Forestadora Tapebicua and ArborGen are exposed to risk of movement in the Argentine peso and US dollar relative to the New Zealand dollar.

### Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its cash balances and this risk is managed by entering appropriate fixed interest rate arrangements.

### Repricing risk

The following table identifies the effective interest rates of financial assets of the Group and their maturity periods.

	GROUP	
	2003	2002
Bank Bills		
Less than 90 days	40,800	66,794
Effective interest rate	5.82%	5.53%

### Credit risk

To the extent the Group has a receivable from another party there is a credit risk in the event of non-performance by that counterparty. At balance date there were no significant concentrations of credit risks in respect of trade receivables. With respect to cash and liquid deposits, funds were held with three major banks all with Standard and Poors credit ratings of AA- or higher.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty raising funds at short notice to meet its financial commitments as they fall due. Given the significant cash and liquid deposits on hand the Group faces no exposure to liquidity risk.

### Fair value

There are no significant differences between the fair value and carrying value of financial instruments.

## 16. CAPITAL EXPENDITURE COMMITMENTS

At 31 March 2003 Rubicon has committed to contribute US\$8.4 million to ArborGen in the period to 31 December 2005, and \$1.25 million to Health Innovations (if certain milestones are met).

## 17. SEGMENTAL INFORMATION

	GROUP	
	2003	2002
	\$000	\$000
<b>Operating Revenue</b>		
<b>Geographic</b>		
New Zealand	15,915	73,881
North & South America		
<b>Operating Revenue</b>	<b>15,915</b>	<b>73,881</b>
<b>Industry</b>		
Forestry		
Biotechnology	6,494	7,064
Corporate & Other	9,421	3,664
Energy		63,153
<b>Operating Revenue</b>	<b>15,915</b>	<b>73,881</b>
<b>Net Earnings</b>		
<b>Geographic</b>		
New Zealand	20,693	40,964
North & South America	(6,580)	(10,600)
<b>Net Earnings</b>	<b>14,113</b>	<b>30,364</b>
<b>Industry</b>		
Forestry	13,159	(26,587)
Biotechnology	(6,554)	(5,995)
Corporate & Other	7,508	(207)
Energy		63,153
<b>Net Earnings</b>	<b>14,113</b>	<b>30,364</b>
<b>Total Assets</b>		
<b>Geographic</b>		
New Zealand	220,042	214,978
North & South America	37,522	43,217
<b>Total Assets</b>	<b>257,564</b>	<b>258,195</b>
<b>Industry</b>		
Forestry	170,797	140,510
Biotechnology	45,134	50,149
Corporate & Other	41,633	67,536
<b>Total Assets</b>	<b>257,564</b>	<b>258,195</b>

## 18. RELATED PARTY TRANSACTIONS

PARENT			GROUP	
2002	2003		2003	2002
\$000	\$000		\$000	\$000
		Income from ArborGen relating to the provision of scientific services	1,456	1,338
	6,065	Income from FCF relating to transfer of legal title of assets (refer note 3)	6,065	
		Income from FCF for sale of treestocks and provision of clonal product development services	1,431	1,657
16,057	16,269	Intercompany interest <sup>1</sup>		
	46	Intercompany administration fee		
170,182	215,941	Intercompany advances <sup>2</sup>		
		Amount owing by ArborGen LLC (refer note 8)	367	356
		Amount owing by FCF (refer note 8)	199	185

1 Rubicon Limited received interest income from subsidiaries on net advances owing from subsidiary companies.

2 These advances are for no fixed term and bear interest at a margin over the Group funding rate.

Although not a 'related party' transaction under accounting standards, Rubicon incurred costs of \$343,602 relating to the unsuccessful GPG Forests partial takeover offer in September 2002. Under the Takeovers Code these costs are to be reimbursed by GPG Forests, but have not yet been received.

## 19. ASSETS YET TO BE TRANSFERRED BY FCF

On 23 March 2001 Rubicon acquired from FCF its interest in ArborGen LLC, its shares in Genesis Research and Development Corporation and the assets of T&T, together with all the intellectual property related to these assets. FCF has not yet been able to transfer legal title in respect to its interest in FTSA.

## 20. PRINCIPAL OPERATIONS

Rubicon Limited is the holding company of the Rubicon Group. The principal subsidiaries and associates, as at 31 March 2003, were:

	COUNTRY OF DOMICILE	% INTEREST	BALANCE DATE	PRINCIPAL ACTIVITY
<b>Principal subsidiaries</b>				
Rubicon Investments Limited	NZ	100	31 March	Holding company
Rubicon Energy Holdings Limited	NZ	100	31 March	Holding company
Rubicon Forests Holdings Limited	NZ	100	31 March	Holds 17.65% interest in FCF
Rubicon Tahorakuri Forest Limited <sup>1</sup>	NZ	100	31 March	Holding company
Rubicon IP Limited	NZ	100	31 March	Holding company
Trees & Technology Limited	NZ	100	31 March	Treestock sales and development company
Rubicon Industries USA Inc	USA	100	31 March	Holding company
Healthcare Investments Limited <sup>2</sup>	NZ	100	31 March	Holding company
Rubicon Forests Investments Limited <sup>2</sup>	NZ	100	31 March	Holds 2.34% interest in FCF
<b>Associates</b>				
FCF	NZ	19.9	30 June	Forestry and processing operation
ArborGen LLC	USA	31.7	31 December	Forestry biotechnology
Forestadora Tapebicua <sup>3</sup>	Arg	50	30 June	Forestry and processing operation
Health Innovations Holdings Limited <sup>4</sup>	NZ	32.5	30 June	Healthcare service provider

1 Name changed from Rubicon Technologies Limited on 29 May 2002.

2 New subsidiaries incorporated since 31 March 2002.

3 Aldanor SA, the owner of 50% of the ordinary shares in FTSA, has not yet given approval to the transfer of FCF's 50% interest in FTSA to Rubicon.

4 The investment in Health Innovations Holdings Limited was entered into in July 2002.

## Auditors' Report



### TO THE SHAREHOLDERS OF RUBICON LIMITED

We have audited the financial statements on pages 26 to 40. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 31 March 2003. This information is stated in accordance with the accounting policies set out on pages 29 to 31.

#### Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2003 and the results of their operations and cash flows for the year ended on that date.

#### Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

#### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carries out other assignments for the Company and certain of its subsidiaries in the area of taxation compliance advice and payroll administration. These matters have not impaired our independence as auditors of the Company and Group. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

#### Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records;
- the financial statements on pages 26 to 40:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 31 March 2003 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 27 May 2003 and our unqualified opinion is expressed as at that date.

AUCKLAND

## Governance

The Board of Rubicon is committed to the highest standards of behaviour and accountability, and has adopted the following policies and procedures:

### ROLE OF THE BOARD

The Board has statutory responsibility for the activities of the Company, which in practice is exercised through delegation to the Company's Chief Executive Officer (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, and to act as the principal representative for the Company.

The Board has the obligation to protect and enhance the value of the assets of the Company and act in the interests of the Company. It exercises this through the approval of appropriate corporate strategies, with particular regard to portfolio composition and return expectations, including the approval of transactions relating to acquisitions and divestments and capital expenditures above delegated authority limits, financial and capital structure policy and the review of performance against strategic objectives.

In addition to the formal governance role, the Board operates in partnership with management of the Company acting as an advisory body to management.

The Board supports the concept of the separation of the role of Chairman from that of the CEO. The Chairman's role is to manage the Board effectively, to provide leadership to the Board, and to interface with the CEO.

### BOARD COMMITTEES

Upon listing, the Board established two permanent Committees, being the Audit Committee and the People Committee. These 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. Each permanent Committee has adopted a Charter addressing purpose, membership, authority and reporting procedures.

In September 2001 the Board established a third Committee, the Forests Share Sub-Committee. In September 2002 the Board established two further Committees – the Litigation Response Committee and the Bid Response Committee.

Meetings of all five committees are held on an 'as required' basis throughout the year.

#### Audit Committee Members:

HA Fletcher (Chairman)	MJ Andrews
AI Gibbs	WA Hasler
SG Kasnet	JW Villiger
JK Virta	GH Weiss

The Audit Committee reviews the Group's accounting policies, procedures and practices, financial reporting and audit activities. It reviews the draft Interim and Annual Financial Statements. All work undertaken by the Group's Auditors is to be prior approved by the Chairman of the Audit Committee. In accordance with best practice requirements, Mr Moriarty, as CEO, is not a member of the Audit Committee.

#### People Committee Members:

MJ Andrews (Chairman)	JW Villiger
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The People Committee reviews remuneration policies and their implementation, human capital requirements and recruitment policies and practices of the Group. It evaluates the performance of the CEO and his direct reports. In accordance with best practice, the CEO is not a member of the People Committee.

#### Forests Share Sub-Committee Members:

HA Fletcher (Chairman)	WA Hasler
SG Kasnet	JW Villiger
JK Virta	

The Forests Share Sub-Committee is responsible for decisions by the Group to deal in FCF shares, and therefore its membership does not include either Mr Andrews or Mr Moriarty as they are Directors of both Rubicon and FCF.

**Litigation Response Committee Members:**

MJ Andrews (Chairman)	HA Fletcher
WA Hasler	SG Kasnet
SL Moriarty	JW Villiger
JK Virta	

The Litigation Response Committee undertakes all actions required to be taken by the Company in connection with the court action between ITHACA (Custodians) Limited and Guinness Peat Group PLC, and Perry Corporation and Richard C Perry. Under these proceedings, Rubicon Limited was, for technical reasons only, named as a third defendant. The Chairman's letter provides further details on the current status of the proceedings. Mr Gibbs and Dr Weiss, as directors of Guinness Peat Group, declared their interest and were excluded from the Committee.

**Bid Response Committee Members:**

MJ Andrews (Chairman)	HA Fletcher
WA Hasler	SG Kasnet
SL Moriarty	JW Villiger
JK Virta	

The Bid Response Committee undertook all actions required to be taken by the Company in connection with the partial takeover offer for Rubicon made by GPG Forests Limited. Mr Gibbs and Dr Weiss, as directors of Guinness Peat Group, declared their interest and were excluded from the Committee.

## DIRECTOR AND EXECUTIVE REMUNERATION

### Non-Executive Directors' Remuneration and Other Benefits

The remuneration, prior to any taxation liability, accrued to Directors during the year ended 31 March 2003 is shown below.

	NZ\$000
MJ Andrews	98
JF Evans <sup>1</sup>	0
HA Fletcher	65
AI Gibbs <sup>2</sup>	46
WA Hasler	65
SG Kasnet	65
JW Villiger	65
JK Virta	65
GH Weiss <sup>2</sup>	46

<sup>1</sup> Dr Evans resigned from the Board in July 2002, and did not receive Director fees in relation to the 2003 financial year.

<sup>2</sup> Mr Gibbs and Dr Weiss joined the Board in July 2002.

Mr Moriarty, as CEO and an executive Director, does not receive any Director fees (for a description of his remuneration, please see below). The Directors' remuneration shown above reflects the full amounts accruing to Directors. Unlike many companies, Rubicon does not provide meeting fees or any additional compensation to Directors for serving on Board Committees (including as Chair of Committees), serving as Directors of subsidiary companies, or acting as advisory members on internal project teams.

Rubicon believes it is appropriate to have Directors' rewards dependent upon the performance of the Company, and that having Directors own 'equity' in Rubicon is a good way of achieving this goal. With this in mind, with the exception of Mr Gibbs<sup>3</sup> and Dr Weiss<sup>3</sup>, all non-executive Directors have agreed to invest all of their (after-tax) Director fees in relation to

<sup>3</sup> Mr Gibbs and Dr Weiss Directors' fees are to be paid to GPG. Given GPG currently holds 19.997% of Rubicon's issued shares, GPG will be unable to reinvest the Directors' fees it receives from Rubicon in Rubicon shares, as if it was to do so it would breach the 20% ownership threshold included in the Takeovers Code.

the 2003 financial year in Rubicon shares. These shares will be acquired 'on-market' by Directors, rather than issued as new shares to them by the Company. In so doing, Directors will only be allowed to acquire shares in compliance with the Company's Code of Conduct for Securities Trading by Directors and Executives. Compliance with this Code ensures that decisions by Directors to acquire shares during certain trading 'windows' are not made on the basis of inside information. Outside of these 'windows' Directors will be subject to the general prohibition included in the Securities Market Act in relation to trading Rubicon shares while in possession of inside information. While these restrictions will limit the times at which Directors can buy Rubicon shares on-market, it is hoped that each Director will have achieved the requisite investment in Rubicon shares within 12 months of receipt of their Director fees. The Directors have not yet received their Directors' fees in relation to the 2003 financial year.

Directors have also not yet received their Director's fees in relation to the 2002 financial year. As outlined in Rubicon's Investment Statement and Prospectus and in its 2002 Annual Report, and consistent with Rubicon's philosophy that Directors should be exposed to the financial performance of the Company, Directors' fees (net of tax) for the 2002 year were to be reinvested in Rubicon options granted under a Non-Executive Directors' Option Scheme. These options have not yet been issued to Directors because the Board has determined that it is appropriate that the matter be put to the Company's shareholders at the upcoming ASM for their approval. Full details will be included in the Company's Notice of Meeting which will be sent to all shareholders separately from this Annual Report. The 5,017,022 options that are proposed to be issued in respect of the March 2002 financial year (and which will not be exercisable until 1 April 2004), have been fully valued by an independent external specialist using the Black Scholes methodology, adjusting for portfolio diversification and liquidity characteristics. Their initial exercise price of 63.7 cents is based on the share price at valuation date (determined as the weighted average market price of Rubicon shares traded on the NZSE for the 20 trading days following the initial listing of Rubicon shares) escalated annually by the cost of equity of Rubicon less the dividend yield. The cost of equity used in this calculation is 10.5% real after tax per annum for the first two years (i.e. until 1 April 2003), and 17% real after tax per annum every year thereafter. The purpose of the escalator is to ensure that the option holder does not share in any upside unless shareholder return requirements have first been met. At the time of writing this report, the Rubicon share price was 68 cents per share, which implies an 'in the money' value of the options proposed to be granted to each Director of less than the dollar amount of fees that each will have been required to reinvest in the Company.

Rubicon believes that the combined effect of the options proposed to be issued in respect of the 2002 year and the requirement to reinvest in shares in respect of fees received for the 2003 year, should ensure that Directors' rewards are based on the future performance of the Company – just as shareholders rewards are.

#### **Chief Executive Officer's Remuneration**

The CEO's remuneration in respect of the financial year ended 31 March 2003 comprised a base salary of \$430,000 and a performance incentive of \$183,750. The performance incentive was paid to Mr Moriarty in June 2003. Consistent with the Company's philosophy of having remuneration 'at risk' and dependent upon the future performance of Rubicon, Mr Moriarty has agreed to reinvest his 2003 performance incentive (after-tax) in Rubicon shares, to be acquired 'on market'. As noted above in relation to investment of Directors' fees, Mr Moriarty will be required to comply with the Securities Market Act and the Company's Code of Conduct for Securities Trading by Directors and Executives and, thereby, will be limited to certain periods in which he can acquire Rubicon shares. However it is hoped that he will have made the requisite reinvestment in Rubicon shares within 12 months of receipt of his performance incentive.

It was agreed that whilst the CEO was a director of FCF his base salary from Rubicon would be reduced by the amount of the director fees he receives from FCF, currently \$50,000. The \$430,000 referred to in the preceding paragraph reflects this reduction.

The CEO's incentive remuneration in respect of the financial year ended 31 March 2002 of \$421,875 (\$257,344 post-tax) was paid to him in July 2002. Mr Moriarty immediately reinvested \$205,875 (the maximum allowable figure) of this back into the Company by acquiring 2,941,071 tracking units (refer Employee Incentive Schemes). Mr Moriarty paid this sum to the Company in cash in July 2002.

### Employee Remuneration

Employee remuneration consists of base salary plus an annual performance incentive. Base salaries are regularly 'benchmarked' against competitor information, as supplied by independent advisors. The annual performance incentive is made up of two equally-weighted components. The first component is for achieving a target share price performance level, and the second component is for performance around certain personal objectives set for each executive at the beginning of the year. The actual payment made can fall short of, or exceed, the target level, depending both on actual share price performance and personal objective outcomes.

In accordance with section 211(1)(g) of the Companies Act, remuneration and other benefits (including performance incentives as noted above) which in total exceed \$100,000, relating to employees of Rubicon and its subsidiaries worldwide (not being Directors of the Company), is summarised in the tables below:

REMUNERATION RANGE	NO OF EMPLOYEES
NZ\$	2003
\$420,000 to \$430,000	1
\$350,000 to \$360,000 <sup>1</sup>	2
\$210,000 to \$220,000	1
\$180,000 to \$190,000 <sup>2</sup>	1
\$160,000 to \$170,000	1
\$140,000 to \$150,000	1
	7

The total remuneration of the 7 highest earning employees in 2003 and 2002 comprised:

	2003	2002
Base Salary	1,457	1,518
Incentive Remuneration	394	615
	1,851	2,133

In addition, one executive exercised 800,000 tracking Units (refer below for description of tracking Unit schemes) during 2003, for a net gain of \$105,700<sup>1</sup> (being \$161,700 gross receipt less related Unit fee of \$56,000), and another received a redundancy payment of \$120,000<sup>2</sup>.

### Employee Incentive Schemes

Rubicon has in place an Executive Share Option Scheme (details of which were disclosed in our 2001 Investment Statement and Prospectus and in our 2002 Annual Report) which provided for the issuance of up to 20 million options to executives.

In addition, Rubicon has two tracking Unit incentive schemes (the Establishment Unit Scheme, and the Incentive Tracking Unit Scheme) that replicate the Executive Share Option Scheme, with the exception that instead of shares being issued upon exercise of the Units, the tracking Unit incentive is paid out in cash. Tracking Units are considered to be preferable to pure options because they do not involve share dilution to existing shareholders from the issuance of shares upon exercise, as is the case with option schemes. They do however retain the key feature of options – linking remuneration to share price performance, and thereby aligning management incentives with increases in shareholder value. This is the reason Rubicon has adopted tracking Units.

The Board has determined that the combined number of Options and tracking Units on issue at any one time will not exceed the 20 million figure outlined above. There are currently 18,222,223 Units on issue (all issued in 2001/2), and no Options on issue. Units / Options will not be issued in relation to the 2003 financial year.

The key terms of the tracking Units issued in 2001/2 under both the Establishment Unit Scheme and the Incentive Tracking Unit Scheme, are summarised below.

- To ensure management is focused on continued value creation for shareholders, it has been a condition of employment that certain executives had to reinvest a percentage of their after-tax performance incentive for 2002 in Incentive tracking Units. That percentage ranged from a minimum of 20% to a maximum of 100% of target performance incentive. In the case of the CEO these minimum and maximum percentages were 50% and 100% of his target performance incentive.
- The issue price for the Units was calculated as the weighted average market price of Rubicon shares sold on the NZSE for the 20 trading days following the initial listing of Rubicon shares. That average price was 44.6 cents, the same price that any shareholder could have freely bought and sold Rubicon shares for over this period.
- The Units have a cost, or Unit fee, which must be paid in cash to the Company by executives. An independent expert using the Black Scholes option pricing methodology calculated the Unit fee. The independent expert calculated the fee at 7 cents per Unit. In the case of the Incentive tracking Units issued, this Unit fee has already been paid to the Company in cash by the executives. The total after-tax cash amount that has been paid to the Company by executives is \$521,743. The fee for the Establishment Units will be paid by executives upon exercise of the Units.
- Unlike many option schemes, the Unit exercise prices are not static. Instead the exercise prices escalate quarterly at Rubicon's cost of equity. The cost of equity will be reviewed by the Board from time to time, but was initially set at 10.5% per annum real after-tax until 1 April 2003, at which time it increased to 17% per annum real after-tax. These are very aggressive escalator provisions – 17% real after-tax equates to around 30% nominal pre-tax. The escalator provision means that unless these shareholder return on investment requirements are met by the Company, then the value to the executives of their Units will be nil.
- Upon their issue, the Units had a set exercise schedule. In the case of the Establishment Units, 2/3 were not exercisable before March 2003, and the other 1/3 were not exercisable before March 2004. In the case of the Incentive tracking Units, none were exercisable before March 2004. However, under the terms of both schemes, the GPG partial takeover offer for Rubicon has 'triggered' the Units and now allows all Units to be exercised today were the holders to elect to do so. At the time of writing this report, only 800,000 units had been exercised by one executive. While they are not exercised, the Unit exercise prices will continue to escalate.
- The total number of Units outstanding and their last exercise dates are summarised in the chart below.

	UNITS ON ISSUE	FINAL EXERCISE DATE
Establishment Units	11,568,750	23 March 2008
Incentive Tracking Units	6,653,473	1 April 2009

Further Tracking Units will not be issued for performance incentives paid in relation to the 2003 financial year.

The CEO has not exercised any of his Units. He currently holds 4,500,000 Establishment Units and 2,941,071 Incentive tracking Units. In July 2002 he paid a Unit fee of \$205,875 after-tax in cash to the Company (\$337,500 pre-tax) to acquire the Incentive tracking Units. He will also be required to pay a further cash Unit fee of \$315,000 after-tax (\$516,393 pre-tax) to the Company when he exercises his Establishment Units in the future.

At a share price of 68 cents (the share price at the time this report was written) and assuming all the Units were exercised on 1 July 2003, the net pre-tax value of all Units issued to employees is \$794,000, and is spread over eight executives.

Despite this current position, the Market Surveillance Panel of the NZSE took the view that because the tracking Units are not capped in terms of their upside, should Rubicon's share price perform beyond the aggressive 17% cost of equity escalator requirement it is possible that the remuneration paid to the CEO in any one year may exceed 0.5% of the lesser of Rubicon's shareholders' funds or average market capitalisation – and hence breaches Listing Rule 9.2.2. The NZSE issued a statement to this effect on 13 December 2002 requesting that the Company put this matter to shareholders at its next meeting. A resolution will be put to shareholders at the ASM addressing this point, and full details (including an independent appraisal report) will be included in the Notice of Meeting to be sent to all shareholders separately from this Annual Report.

## DONATIONS

During the financial year Rubicon made charitable donations of \$70,000 to the Child Poverty in Action Group Inc, \$20,000 to the New Zealand LAM Charitable Trust, and \$5,000 to the Child Cancer Foundation.

## INTERESTS REGISTER

### Directors' Interests

In accordance with section 140(2) of the Companies Act, certain Directors have provided a general notice to be entered into the interests register of changes to their interests. As required by section 211(1)(e) of the Companies Act the following are the entries that have been made to the interests register in this regard during the year ended 31 March 2003.

	RELATIONSHIP
<b>MJ Andrews</b>	
Trade New Zealand	Appointed Director
Establishment Board for the Trade NZ and Industry NZ merger	Appointed Director
NZ Wool Board Implementation Project Team	Resigned as Chairman and Director
Industry New Zealand	Resigned as Director
Trade New Zealand	Resigned as Director
<b>HA Fletcher</b>	
Reserve Bank of New Zealand	Appointed Director
Investment Committee of No. 8 Ventures	Appointed Chairman
Investment Committee of No. 8 Ventures 2002 Fund	Appointed Chairman
Tertiary Education Advisory Commission	Resigned as Member
Infrastructure Auckland	Resigned as Director
Ports of Auckland Limited	Appointed Director
<b>AI Gibbs</b>	
Tower Limited	Appointed Director
<b>WA Hasler</b>	
DMC Stratex	Appointed Director
Pantellos Corporation	Resigned as Director
Solectron Corporation	Appointed Chairman of Directors
<b>SG Kasnet</b>	
PioGlobal Investment Fund	Appointed Chairman of Directors
PioGlobal First Russia	Appointed Chairman of Directors
FTD Inc	Appointed Director
Warren Bancorp and Warren Five Cents Savings Bank	Resigned as Chairman and Director
Bank North, Massachusetts	Appointed Director
<b>JW Villiger</b>	
Uniservices Limited	Appointed Director
<b>JK Virta</b>	
Sylvan Capital Partners	Resigned as Director
<b>GH Weiss</b>	
Tower Limited	Appointed Director

### Dealing in Company Securities

During the year ended 31 March 2003, there were no disclosures made by a Director of the acquisition or disposition of a relevant interest in Rubicon shares, in accordance with section 148(2) of the Companies Act.

At 31 March 2003, Directors held the following Relevant Interests in Ordinary Shares:

MJ Andrews <sup>1</sup>	84,337
HA Fletcher <sup>2</sup>	1,433,897
AI Gibbs <sup>3</sup>	55,797,224
SL Moriarty <sup>4</sup>	519,979
GH Weiss <sup>5</sup>	55,797,224

*1 Shares held by the Andrews Family Trust of whom MJ Andrews is a trustee.*

*2 354,485 held jointly by HA and SS Fletcher, and 1,079,412 held by Fletcher Brothers of whom HA Fletcher is a director and beneficiary.*

*3 Shares held by GPG Forests Limited of whom AI Gibbs is the sole director. GPG Forests is a wholly owned subsidiary of Guinness Peat Group plc of whom AI Gibbs is an Executive Director.*

*4 507,879 held by SL Moriarty and 12,100 held by the Moriarty Family Trust of whom SL Moriarty is a trustee and beneficiary.*

*5 Shares held by GPG Forests Limited, a wholly owned subsidiary of Guinness Peat Group plc of whom GH Weiss is an Executive Director.*

In addition, as noted in the Non-Executive Directors' Remuneration and Other Benefits section above, it is proposed that 5,017,022 options will be issued to non-executive Directors in relation to their Director fees for the 2002 financial year. Full details will be included in the Company's Notice of Meeting which will be sent to all shareholders separately from this Annual Report.

The Company's Code of Conduct for Securities Trading by Directors and Executives supplements the New Zealand legislation contained in the Securities Markets Act. That legislation and the Code of Conduct prevent short-term trading and dealing in the Company's securities by directors and senior executives on the basis of non-public material and relevant information. The Company supplements this by requiring that anyone designated as having the opportunity to access price sensitive information can transact in the Company's securities only with the prior approval of the Company Secretary.

### 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 Limited 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.

### Directors' Remuneration

In accordance with Section 161(2) on 18 July 2002 the Board authorised, and entered into the interests register, particulars relating to the total remuneration for non-executive Directors for the year ended 31 March 2002, the CEO's incentive remuneration for the year ended 31 March 2002 and his base salary effective from 1 July 2002. The CEO's total remuneration (including incentives) in relation to the 2003 financial year is outlined in the Remuneration sections above.

### Information used by Directors

The Board has passed a resolution under Section 145(2) of the Companies Act prohibiting Directors from disclosing information to:

- a person whose interests the Director represents; or
- a person in accordance with whose directions or instructions the Director may be required or is accustomed to act in relation to that Director's powers and duties.

## SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by directors and former directors, and particulars of entries made in the interests registers made during the year ended 31 March 2003. No Director or employee of Rubicon appointed as a director of any Rubicon subsidiary receives any remuneration or other benefits in that role. The remuneration and other benefits of such Directors and employees, are disclosed elsewhere in this Annual Report. The following persons held office as directors of subsidiary companies as at 31 March 2003.

Healthcare Investments Limited	SL Moriarty, MA Taylor
Rubicon Energy Holdings Limited	SL Moriarty, MA Taylor
Rubicon Forests Holdings Limited	HA Fletcher, JW Villiger, WA Hasler, SL Moriarty, MA Taylor
Rubicon Forests Investments Limited	HA Fletcher, JW Villiger, SKR Aimer
Rubicon Industries USA Inc	WA Hasler, MA Taylor, RA Johnson
Rubicon Investments Limited	SL Moriarty, MA Taylor
Rubicon IP Limited	SL Moriarty, MA Taylor
Rubicon Tahorakuri Forest Limited <sup>1</sup>	SL Moriarty, MA Taylor, AI Gibbs
Trees & Technology Limited	SL Moriarty, MA Taylor

<sup>1</sup> Name changed from Rubicon Technologies Limited during the year.

## SHAREHOLDER INFORMATION

The Company's shares are listed on the New Zealand Stock Market. The listing on the Australian Stock Exchange was terminated on 1 July 2002.

### Twenty largest shareholders as at 30 April 2003:

NAME	NO. OF SHARES	% OF SHARES
New Zealand Central Securities Depository Limited	149,128,455	53.45
GPG Forests Limited	55,797,224	19.99
Leveraged Equities Custodians Limited	2,902,199	1.04
Fletcher Brothers Limited	1,079,412	0.39
Graeme Easton McKenzie	1,052,000	0.38
Tecity Management Pte Limited	1,000,000	0.36
ASB Nominees Limited – A/C 127956	612,884	0.22
Simon Luke Moriarty	507,879	0.18
Fair Finance Limited	505,142	0.18
Hirschfeld Custodian Nominees Limited	500,000	0.18
Tyrannus Holdings Limited	479,385	0.17
Victor Hugo Bedford	450,692	0.16
Peter Hanbury Masfen & Joanna Alison Masfen	400,000	0.14
Fletcher Challenge Forests Trust Nominees Limited	386,578	0.14
Macquarie Equities Limited	355,000	0.13
HA & SS Fletcher	354,485	0.13
ASB Nominees Limited – A/C 373685 ML	350,000	0.13
Mark Spehn	320,951	0.12
Investment Custodial Services Limited	308,970	0.11
Marion Nita Webster	299,110	0.10
<b>Total</b>	<b>216,790,366</b>	<b>77.70</b>

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 major holders of Rubicon shares at 30 April 2003 were:

NAME	NO. OF SHARES	% OF SHARES
ANZ Nominees Limited	63,096,063	22.61
Citibank Nominees (New Zealand) Limited	31,196,598	11.18
NZGT Nominees Limited – AMP Investments Strategic Equity Growth Fund	12,600,091	4.52
National Nominees New Zealand Limited	9,889,831	3.54
Custody and Investment Nominees Limited	9,143,645	3.28
AMP Life Limited	6,501,903	2.33
NZGT Nominees Limited – AIF Equity Fund	5,223,556	1.87
Accident Compensation Corporation	3,174,156	1.14
Cogent Nominees Limited	2,620,300	0.94
AMP Superannuation Tracker Fund	1,565,043	0.56
<b>Total</b>	<b>145,011,186</b>	<b>51.97</b>

**DISTRIBUTION OF SHAREHOLDER AND HOLDINGS AS AT 30 APRIL 2003**

SIZE OF HOLDING	SHAREHOLDERS		NO. OF SHARES	
	NO.	%		%
1-999	9,739	48.83	4,127,213	1.48
1,000-9,999	8,776	44.01	23,200,851	8.31
10,000-49,999	1,245	6.24	21,566,615	7.73
50,000-99,999	104	0.52	6,436,430	2.31
100,000 and over	79	0.40	223,690,061	80.17
<b>Total</b>	<b>19,943</b>	<b>100.00</b>	<b>279,021,170</b>	<b>100.00</b>

**DOMICILE OF SHAREHOLDERS AND HOLDINGS AS AT 30 APRIL 2003**

	SHAREHOLDERS		NO. OF SHARES	
	NO.	%		%
New Zealand	17,819	89.35	272,548,437	97.68
Australia	1,235	6.19	2,181,777	0.78
United Kingdom	340	1.71	714,217	0.26
United States of America	278	1.39	1,224,035	0.44
Other	271	1.36	2,352,704	0.84
<b>Total</b>	<b>19,943</b>	<b>100.00</b>	<b>279,021,170</b>	<b>100.00</b>

**SUBSTANTIAL SECURITY HOLDERS**

According to notices given to the Company under the Securities Markets Act, as at 15 June 2003 the following were substantial security holders in the Company:

SUBSTANTIAL SECURITY HOLDER	NO. OF VOTING SECURITIES	% OF ISSUED RUBICON SECURITIES	DATE OF NOTICE
Guinness Peat Group PLC	55,797,224	19.99	28 November 2002
Perry Corporation	55,276,862	19.81	28 January 2003
AMP Henderson Global Investors (New Zealand) Limited	30,837,981	11.05	2 December 2002
Tower Asset Management Limited	17,025,864	6.10	11 February 2003
Castlerigg Master Investments Limited	17,000,000	6.09	2 December 2002

The total number of issued voting securities at 15 June 2003 was 279,021,170.

## Board of Directors



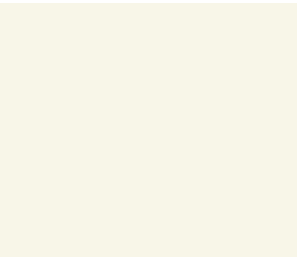
MICHAEL ANDREWS



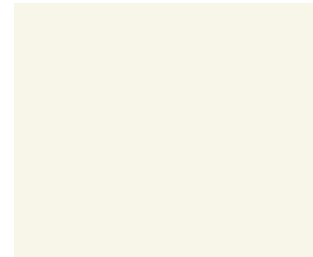
JOHN VILLIGER



LUKE MORIARTY



BILL HASLER



### **MICHAEL ANDREWS** CHAIRMAN MNZIF

Michael was the CEO of Fletcher Challenge Limited from 1997 to 2001 and oversaw the complex separation of the Fletcher Challenge Group, which saw the establishment of Rubicon, Fletcher Challenge Forests and Fletcher Building as stand-alone separately listed public entities.

Prior to this Michael had lead the Building Materials, Energy and Paper sector operations of Fletcher Challenge Limited. He then lead the forestry businesses where he was responsible for the reinvention of Fletcher Challenge Forests, including the move into forestry genetics from which ArborGen evolved.

As well as being the Chairman of Rubicon, Michael is also a Director of the Establishment Board for the Trade NZ and Industry NZ merger, a Director of the National Centre for Advanced Bio-Protection Technologies, and a Director of Fletcher Challenge Forests Limited.

### **DR JOHN VILLIGER** DIRECTOR PhD University of Otago and University of Florida

John is currently Head of Product Development Worldwide, and Managing Director NZ of The Medicines Company, a Boston based company which listed on the Nasdaq in August 2000 and which has grown from four staff and US\$2 million seed capital, to a publicly listed company with 75 staff and a capitalisation of US\$1.1 billion. The Medicines Company acquires, develops and commercialises biopharmaceutical products in late stages of development. The company's lead product, Angiomax, directly blocks the actions of a key component in the formation and growth of blood clots and is currently marketed in New Zealand and the US.

John had previously held various positions in product development at Hoffmann-La Roche, including Head of Global Project Management and International Project Director. He was responsible for overseeing the development of Hoffmann-La Roche's global pharmaceutical portfolio, with management responsibility for over 50 development programmes. John is also a Director of Uniservices Limited.

### **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. Concurrent with his role at Haas, Bill is also Co-CEO of Apton Corporation, a public-listed biopharmaceuticals company based in San Francisco and listed on the Nasdaq National Board.

In addition, Bill is an active director on many boards, including being a Trustee of Schwab Funds. He is also a consultant to, and investor and Director in, several private technology companies.

### **LUKE MORIARTY** CHIEF EXECUTIVE OFFICER MS Stanford University; LLB (Hons) and BCA Victoria University

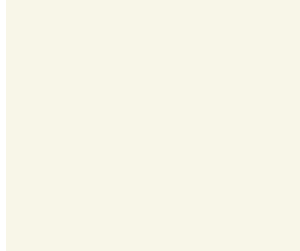
Luke is a Director and the CEO of Rubicon. He is also a Director of Fletcher Challenge Forests Limited.

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 spent several years in North America, and while there led the financial restructuring of Fletcher Challenge Canada, with the sale of TimberWest Forests and Blandin Paper Company. 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 formation of Rubicon.



HUGH FLETCHER



STEPHEN KASNET



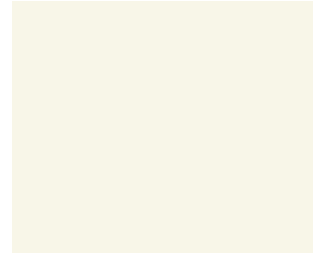
GARY WEISS



TONY GIBBS



JOUKO VIRTA

**HUGH FLETCHER**

DIRECTOR  
MBA Stanford University;  
MCom (Hons), BSc  
University of Auckland

Hugh is Chairman of CGNU Australia Holdings Limited and New Zealand Insurance Limited, a Director of The Reserve Bank of New Zealand, Ports of Auckland and Fletcher Building.

He is also a member of the Council of the University of Auckland, the Asia Pacific Advisory Committee of the New York Stock Exchange, the Business Advisory Council of the United Nations Office for Project Services and the Asia Pacific Committee of the Trilateral Commission.

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.

**STEPHEN KASNET**

DIRECTOR  
BA University of Pennsylvania  
(Philadelphia)

Steve is currently the President and CEO of Boston-headquartered Harbor Global Company Limited, a prime asset of which until recently was a timber harvesting and sales operation in eastern Russia covering over 3 million acres of concession area. Harbor Global also maintains interests in two venture capital partnerships, which have invested in 10 privately held companies engaged in manufacturing and distribution of a wide range of products.

Steve was previously Executive Vice President of the Pioneer Group Inc in the US. He is Chairman of Directors of PioGlobal Investment Fund, PioGlobal First Russia, FTD Inc and Bank North, Massachusetts, and Trustee and Vice President of the Board of Governor Dummer Academy.

**JOUKO VIRTA**

DIRECTOR  
LLM and MSc (Forestry)  
University of Helsinki;  
MSc (Forest Economics)  
University of California (Berkeley)

Jouko has had 30 years of experience in the international forestry industry. For the 10 years prior to his retirement he has been based in London as Chief Executive of the Consulting Network of Jaakko Pöyry – a leading global forest industry consulting firm.

Investment planning assignments and business opportunity analyses for almost all major global forest industry enterprises have given Jouko a unique understanding of global forest products marketing and business development. In addition, he is familiar with the environmental, social and technological issues related to sustainable resource development. Jouko's experience includes forestry projects covering a wide range of strategic and operational issues, carried out in New Zealand, Asia, South and North America, and Europe. Jouko, who is based in Helsinki, is a Director of the Foundation for the promotion of the Finnish Export Trade.

**GARY WEISS**

DIRECTOR  
PhD Cornell University;  
LLB(Hons), LLM Victoria University

Gary has a broad range of commercial experience.

He is currently Chairman of Ariadne Australia Limited, and a Director of Guinness Peat Group plc, Aurora Gold Ltd, Canberra Investment Corporation Limited, Tag Pacific Limited, Westfield Management Limited, Major Events Board, the Premiers Department (NSW) and Tower Limited.

**TONY GIBBS**  
DIRECTOR

Tony has been involved with public company Boards for many years. His experience includes mergers, acquisition and divestments.

He is currently Chairman of Turners & Growers Limited, Turners Auctions Limited and Staveley Inc, and a Director of Staveley Industries plc, Tower Limited and Guinness Peat Group plc.

