

RUBICON

INTERIM REPORT

SEPTEMBER 2003

Dear Shareholder,

Business Focus

The past six months has seen a continuation of our focus on two critical aspects of our activities –

- Bringing value to our Fletcher Challenge Forests (FCF) shareholding; and
- Advancing our biotechnology businesses.

This interim report discusses both of these.

FCF SHAREHOLDING

Extracting value from our FCF shareholding remains our number one priority.

In our 2003 Annual Report, we outlined Rubicon's view as to the most appropriate path forward for FCF – i.e. for FCF to seek alternative ownership for its poorly performing forest estate by attracting in one of the large international long-term forestry investment funds that has a lower cost of capital than FCF, and in so doing achieve a value for the forest estate much higher than was being reflected in FCF's share price (under \$1.00 per share at the time). Such a move would facilitate the release of a significant amount of capital to all FCF shareholders (including to Rubicon as FCF's cornerstone shareholder). FCF would then be able to focus on growing and building its residual processing and in-market distribution activities to ensure that they were also brought to full value for shareholders.

Since then, of course, FCF has announced that it has attracted two international bidders for its forest estate – The Campbell Group (which offered \$685 million in cash) and, subsequently, Kiwi Forests Group (which has offered \$725 million in cash) – and that if it is successful in this process it intends to return \$1.00 per FCF share in cash to its shareholders. At the time of writing this report FCF was negotiating with Kiwi to close a transaction. Although FCF has not yet announced specific timing on a closure, we would anticipate it to occur early in the first quarter of calendar 2004.

At the Kiwi offer price of \$725 million, the implied value of FCF is around \$1.50 per share, which compares very favourably with the \$1.00 per share level prior to FCF proceeding down this path – a 50% increment.

Assuming settlement of a forest sale transaction, FCF will still have much to do to ensure value is both created and recognised in its share price for the stand-alone processing operations. At FCF's book value, the retained entity (assuming no debt) will represent around \$55 million in value to Rubicon shareholders, so we will still need to ensure that we extract value for you from our cornerstone shareholding in this processing and market-focused business.

Our share price has not responded to the FCF forest sale announcement as well as it should have, however this is likely due to a lack of public information on FCF's progress in its negotiations with Kiwi. When FCF is able to make an announcement firming up a final transaction, we would expect the Rubicon share price to respond accordingly. To put some numbers around this, prior to the announcement of either the Campbell or Kiwi offers, FCF was trading at \$1.00 per share and Rubicon was at 68 cents per share. Every 10 cent increase in FCF's share price equates to a 4 cent theoretical increase in Rubicon's share price. So, all other things being equal, if FCF were to trade at the implied Kiwi offer price of \$1.50 per FCF share, then Rubicon would be expected to trade at 88 cents per share.

Regardless of these theoretical relationships, our share price should soon adjust upwards, as following the cash receipt from FCF upon completion of a forest sale transaction the bulk of Rubicon's value will be in cash – and clearly, cash is very easy for the market to value.

Of course, our share price will also be influenced by our use of the cash we receive from FCF. We have previously said that upon resolution of our FCF shareholding we would return surplus capital to Rubicon shareholders. Following the completion of the forest sale transaction we will be able to announce the mechanism by which we will be doing this.

FORESTRY BIOTECHNOLOGY ACTIVITIES

Our second priority is to achieve value from our forestry biotechnology activities, as represented by Trees & Technology and ArborGen.

Specific achievements in T&T and ArborGen during the six-month period included:

Trees & Technology (T&T)

- The sale of 10.0 million treestocks (9.3 million radiata, 0.5 million douglas fir and 0.2 million of acacia, redwood and other species);
- Clonal radiata sales of 1.4 million, up 65% on the corresponding period last year, but slightly below forecast due to the residual impact of the adverse climatic conditions experienced in the 2002 / 2003 season (the Bay of Plenty experienced its driest growing season in over 40 years) and the timing of some sales to FCF which should fall into the second half of the year;
- Reported Earnings before Interest, Tax and Depreciation (i.e. EBITD) of \$0.9 million;
- Plantings for 2004 / 2005 of some 10 million treestocks, including 2.5 million clonal radiata treestocks;
- Agreement reached with the Receiver of the CNIFP to supply treestocks for the next two planting seasons; and
- Achievement of all ArborGen-related science projects (T&T is an important science provider to ArborGen's eucalyptus programme), and the receipt of \$0.7 million in revenue from ArborGen for services provided.

ArborGen

- All product milestones were met during the period;
- Two new eucalyptus field trials were established in the US. These are in addition to ArborGen's 53 existing field trials over pine and populus species that are already in place. The improved eucalypts used in these field trials were supplied from the T&T facility in New Zealand;
- Significant advances were made in the ability to bioengineer eucalyptus. ArborGen now has the capability for gene testing and product development in:
 - Eucalyptus species and hybrids
 - Pinus taeda and pinus radiata
 - Populus
 - Sweetgum

- A step-change improvement in somatic embryogenesis (SE) production capability was also achieved (SE is one of the clonal propagation technologies that allows ArborGen to produce millions of genetically identical copies of a particular tree);
- A number of licensing agreements were concluded during the period. These will allow ArborGen to lock in place technology critical to its product development portfolio – particularly in the areas of lignin modification and flowering / reproductive control;
- Genomics discovery work continued with the focus increasingly on wood development, growth and flowering control. When performing this work ArborGen accesses the Rubicon-Genesis jointly owned EST database – a database which holds in excess of 600,000 ESTs (short strings of DNA) for pine and eucalyptus species, and which is by far the largest of its type in existence today.

Forestadora Tapebicua (FTSA)

Weak US and Asian markets resulted in declining export market sales, however the Argentine economy began to show some signs of recovery impacting positively on domestic sales. In this environment, FTSA recorded an operational break-even result for the six-months, compared with a loss of \$0.2 million for the immediately preceding six-month period. Net of our costs relating to transfer (see below) and partner issues, an overall after-tax loss of \$0.2 million was recorded.

Progress on non-operational issues has not been as we would have liked. FTSA has yet to renegotiate its loan with its principal bank, and pending that, loan and interest payments have not been made (although interest is fully expensed in the financial statements). Transfer of FCF's 50% interest in FTSA to Rubicon has still not been agreed to by Aldanor, the 50% partner. Despite the fact that we believe Aldanor's refusal to consent to the transfer is "unreasonable," we have determined not to transfer legal title to Rubicon pending resolution of this and other issues we have with Aldanor. It is likely that we will be seeking relief from Aldanor's behaviour either through the arbitration avenue provided for under the partnership agreement or through the Argentine courts. Although both mechanisms may be slow, we cannot let the current state of affairs continue.

GOVERNANCE / SHAREHOLDER ISSUES

At the Annual Shareholders' Meeting held in September, Shareholders passed resolutions approving:

- The CEO's remuneration terms and conditions;
- The issuance of Options to non-executive Directors in relation to the 2002 year;
- The re-appointment of Messers Hasler and Villiger to the Board; and
- The appointment of Messers Gibbs and Weiss to the Board, as representatives of GPG, our largest shareholder.

We had a particularly high shareholder vote for the resolutions put to the Meeting, with some 65% of the Company's shares being voted either at the Meeting itself or by postal votes. This "turn-out" is close to double that normally experienced by New Zealand listed companies. All resolutions were passed with a majority of 80%, a figure which does show alignment of interests amongst our shareholders in relation to the path we are taking the Company down. This is clearly very pleasing to us.

On November 4, the Court of Appeal unanimously over-turned the High Court's decision in the GPG v Perry litigation. This means that the previous High Court orders requiring Perry Corporation to dispose of 24 million Rubicon shares 'on-market' and forfeit 12 million shares has been set aside. GPG has filed an application in the Court of Appeal to seek leave to appeal to the Privy Council.

Looking Forward

Our priorities remain as we stated them in our Annual Report:

- Value release from the FCF forest sales process;
- Ensuring value is created and recognised in FCF's residual processing and in-market distribution activities;
- Bringing value to our forestry biotechnology activities – T&T and ArborGen; and
- Addressing the shareholder-related issues we have with FTSA.



Michael Andrews

CHAIRMAN

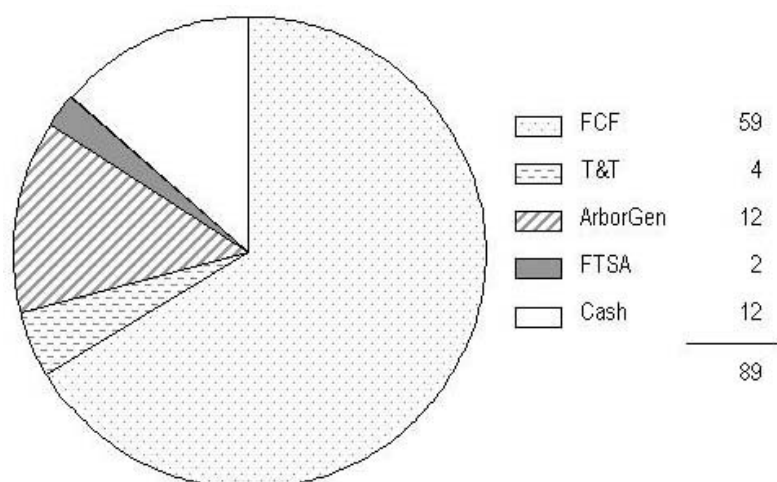
FINANCIAL

For the six months to 30 September 2003, Rubicon recorded net earnings of \$1.1 million. This is less than the \$9.4 million recorded in the corresponding period last year, a period that included positive non-recurring / non-operating items of \$7.5 million.

The current period earnings figure is reconciled below:

	\$m
FCF	5.5
ArborGen	(2.4)
FTSA & Other	(0.5)
Total Equity Earnings	2.6
Associate Investment Write-downs	(0.4)
Earnings from Associate Activities	2.2
Write-down in Genesis Research & Development	(0.1)
Net Earnings From Investments	2.1
T&T Operating Earnings (EBITD)	0.9
GPG v Perry Litigation Costs	(0.2)
Corporate	(1.3)
EBITDA	1.5
Depreciation	(0.4)
Net Earnings	1.1

Rubicon Net Asset Backing Per Share



Rubicon remains in a very strong financial position with excellent liquidity. At 30 September 2003, the Group had \$34.6 million in cash and liquid deposits, and had no debt obligations. The asset base of the Company is shown in the chart above.

We utilised some \$6.2 million of cash reserves in the period, all on investment in existing activities, the majority (\$5.5 million) relating to our on-going ArborGen funding commitments and intellectual property protection expenditure (i.e. patent costs).

We currently have 279 million Rubicon shares on issue and Total Shareholders Funds of \$248 million – resulting in a net asset backing of 89 cents per Rubicon share.