RUBICON
INTERIM REPORT
DECEMBER 2006

2006 INTERIM REPORT

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FORWARD-LOOKING STATEMENTS

There are forward-looking statements in this document which include, but are not limited to, statements included in the Six-Month Review. As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Rubicon, its operations, the markets in which it competes and other factors (some of which are beyond the control of Rubicon). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular Rubicon's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes. Fluctuations in industrial output, housing activity, relative exchange rates, employment rates, and interests rates, can have a substantial impact on Rubicon's results of operations and financial condition. Other risks include competitor product development and pricing, and customer concentration risk.

Six-Month Review

This is an interim report for the first six months of the Company's 2007 fiscal year, addressing in summary the significant issues and highlights for the period in each of Rubicon's business activities. (Our full report for the fiscal 2006 year is available on our website – www.rubicon-nz.com. In addition to our shareholder reports, from time to time we also make announcements to the New Zealand Exchange. These can be viewed by Shareholders either on the NZX website or on Rubicon's own website.)

TENON

Tenon undertook a series of significant transactions during the period, designed to further improve the competitiveness of its business model. Two major transactions were announced in November 2006 – Tenon exited its 50% investment in American Wood Mouldings (AWM) and simultaneously acquired a 100% investment in Ornamental Mouldings (OMI). OMI is a leading manufacturer and distributor of decorative mouldings, with operations located in North Carolina, USA and Ontario, Canada.

The impact of this "business swap" is twofold. Firstly, it is significantly value-enhancing to Tenon from an earnings perspective. OMI's earnings before interest, tax and depreciation (EBITDA) were more than US$7 million last year. By comparison, AWM's earnings for the same period were only US$2 million, and at the time of its sale in November it was operating below a break-even earnings level, so the earnings upside from these transactions is obvious. Secondly, from a management perspective, all Tenon's businesses and operations are now either 100% owned, or (as is the case with its Southwest Mouldings investment) a clear path to 100% ownership is laid out. This was not the case with its 50% investment in AWM, where Tenon's partner in AWM effectively held the management contract over that business.

With full control of all its activities Tenon now has the ability to extract the full synergies that can come from operating as one integrated company. This is now the immediate focus for Tenon, and will include specific projects to:

- Extract costs from procurement (both strategic and non-strategic);
- Integrate Kok's Woodgoods' manufacturing operation into OMI;
- Achieve logistics cost-out; and
- Reduce working capital (as a percentage of sales).

These one-company initiatives are potentially high-earnings projects, which integrate well into Tenon's new product (eg Armourwood™/Lifespan) and market-segment (eg outdoor) growth programmes.

Although Tenon is now far better positioned than it has ever been, its earnings in the period did not reflect this improvement. What they did reflect was the sudden down-turn in the US housing market, which saw new housing starts down 22% period-on-period and renovation spend remain flat.

That Tenon was, in this very difficult market environment, able to report EBITDA for the six months of US$9 million – up 50% on the comparative period – is a reflection of the benefits of the restructuring that the company has undertaken over the past 12-18 months. Absent any market changes, these restructuring benefits, together with Tenon's natural seasonal weighting towards the second half of its financial year, should see the company report higher earnings in this next six months.

In terms of customer and product growth, Tenon has recently announced a new supply agreement with BlueLinx – a leading US building products distributor servicing 11,500 customers across the US, including dealers, industrial manufacturers, manufactured housing producers, and home improvement retailers. Under this agreement, BlueLinx will distribute and support Tenon's Lifespan outdoor trim products – beginning first with the large California market and extending to a nationwide roll-out by calendar year-end. This is an excellent development, and indicative of the opportunities for Tenon's innovative products in the large US market.

ARBORGEN AND HORIZON2

Progress at ArborGen during the period was once again excellent, with too many developments to comment upon in detail. In summary, these included:

- The decision to extend ArborGen's mandate to include varietal products (or what are more commonly referred to as clonal products in New Zealand). ArborGen is currently in the process of manufacturing initial volumes of loblolly pine varietals for third party commercial sale this year. These volumes have already been pre-sold to selected customers in North and South America;
- Continued progress on improved efficiencies in mass-production. The focus here is on increased automation in embryo harvesting and transfer, to increase efficiencies and to reduce costs;
- The further expansion of ArborGen's loblolly pine varietal Testing Service (ATS). In addition to International Paper, MeadWestvaco and Weyerhaeuser, participation has grown to fifteen participants including integrated forestry companies, specialist forestry investors (eg REITS and TIMOS), and universities. The ATS now has well over 3,000 varietals in trials, planted across 35 distinct geographic sites in the US – by far the most extensive trial database of its type in North America;
- The receipt of approval from Brazil's regulatory authority for ArborGen to run its improved pulping eucalyptus (IPE) trials to full rotation;
- The decision to add a short rotation "stacked" eucalyptus product to ArborGen's current business portfolio;
- The advancement of cost-sharing customer relationship agreements with key players in the Brazil marketplace;
- The establishment of varietal pine testing in Brazil, which now includes the participation of seven key customers over multiple testing sites;

- The successful trialing of ArborGen's cold tolerant eucalyptus (CTE) product in the US South. Testing has now shown that under extreme conditions – ie 24 hour temperature swings of greater than 20 degrees Celsius – even relatively juvenile cold tolerant product has been able to survive. ArborGen's cold chamber trials have shown absolute tolerance to minus 8 degrees Celsius. The excellent results of the best performers from the field trials suggests that the level of cold tolerance can be extended even further, thus offering a broader geographic market for this new hardwood product than originally anticipated.

  Success to date has allowed ArborGen to move forward one year its target commercial launch date for this product;
- The signing of a collaboration with Scion in New Zealand. The collaboration is a "discovery" venture designed to evaluate those genes responsible for wood quality development in pine and eucalyptus. The collaboration is integral to ArborGen's short rotation pine and hardwood products. Both ArborGen and Rubicon have licensed their respective EST databases to the venture as part of the collaboration;
- The expansion of ArborGen's business model to include the biofuels arena;
- The continuation of ArborGen's intellectual property protection strategy. During the period further provisional patents were filed, covering aspects such as mass embryo harvesting, cell signaling, wood and cell wall modification; and
- The achievement of all set science, product development, regulatory and commercial milestones ahead of time and under budget, allowing for each of ArborGen's near term products to remain on track for commercialisation.

These all represent the very successful completion of internal milestones that were set for the business to achieve in fiscal 2007.

We are often asked to give a view of the future value of ArborGen. As you can imagine this is very difficult to do, given the nature of the ArborGen undertaking. However to assist shareholders in the valuation task we have, at our last Annual Shareholder Meetings, given extensive hypothetical examples of the potential value that may accrue from the successful launch of just two products from ArborGen's portfolio – improved pulping eucalyptus, and cold-tolerant eucalyptus. The data encompassed in those examples is too voluminous to repeat here, however Shareholders should take the time to review this information on Rubicon's website – www.rubicon-nz.com – as (although the assumptions and outcomes will change) we believe it gives extremely valuable information for anyone undertaking a review of ArborGen's potential.

Of course, it is difficult to address ArborGen without also considering Horizon2. While Horizon2's commercial focus excludes bio-engineered treestock products, its science capability is still used to advance ArborGen, in that it undertakes specific science services for ArborGen.

For example, during the period Horizon2 dispatched two shipments of hybrid eucalyptus to ArborGen, which were used in the establishment of ArborGen's cold tolerant eucalyptus trials. In fiscal 2007, Horizon2 is budgeted to receive more than NZ$1 million for services of this type provided to ArborGen.

In terms of its Australasian operations, the two recent acquisitions Horizon2 has made – the Puha nursery in Gisborne, and the Treecorp operation in Australia – have now been fully integrated into Horizon2. Indeed, as the chart below shows, Horizon2's sales profile by region for 2006 now strongly supports the premise for the two purchases.

Treestock Sales	**millions**
Puha	5
Other NZ	11
Total NZ	16
Australia	11
Total Horizon2	27

Horizon2 is New Zealand's largest nursery and tree improvement business, producing approximately 50% of the NZ radiata treestock market requirements, and some 20% of the Australian softwood treestock market requirements. The current total NZ treestock demand of around 34 million treestocks is, however, down considerably on the 100 million plus market demand of ten years ago. As we noted in our 2006 Full Year Report, this low-harvest / low-replant situation is not expected to continue long term, and the Government's announced commitment to the introduction of sustainable land-management policies that will acknowledge (and hence incentivise) the positive impact that forestry can produce in terms of climate change metrics should ultimately lift the domestic market for Horizon2. The frustration for Horizon2 to date has been that despite extensive discussion with the Government on this matter, the obvious climate change benefits that would result from increased forest plantings, and the setting aside of NZ$100 million last May by the Government for 2006/7 climate change related initiatives, the industry has still not been provided with any specific forestry-based initiatives for use of the money set aside. Looking for wide input before making the decision on what it will do, the Government is currently seeking submissions on its Sustainable Land Management and Climate Change discussion document that sets out some alternative options. Our belief is that any incentivisation of forestry planting should have a focus on the industry value that can be created from the use of treestocks with advanced genetic specifications, to ensure that New Zealand achieves the twin benefits of assisting in achieving climate change goals as well as creating a more profitable and competitive NZ forest industry.

In Australia, the desire to see the scale of the forest industry continue to expand was recently reaffirmed with the Government announcing that it will maintain a supportive tax arrangement for plantation investment. This, together with the replanting requirements following the recent fires there, should see the demand for treestocks in Australia continue to increase.

A current issue for Horizon2 is the settlement of all issues surrounding the CHH sale of its forest estate to Hancock Resources Group (HRG) in December 2006. HRG is a long-term specialist forest owner of this estate, and is keen to work with Horizon2 moving forward. However, there are some important related issues that need to be resolved with CHH as a result of the forest sale, but which have not yet been adequately addressed. We will be working to ensure that they are addressed, and in a way that ensures Horizon2 is kept "whole" – ie in accordance with the terms of the long-term contractual arrangements that were in place between Horizon2 and CHH at the time of the formation of the venture in April 2004.

FORESTADORA TAPEBICUÁ (FTSA)

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

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

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

While not changing the economic path of Rubicon greatly, with the transaction now behind us it allows us to focus our efforts on bringing value to Rubicon's more substantial remaining activities – Tenon, ArborGen and Horizon2.

GOVERNANCE

We continued with our on-market share buyback programme, purchasing 5.1 million shares during the period. We currently have approximately 2% of our stock to repurchase in order to complete the 5% buyback programme. This programme, which was originally to have been completed by 17 March 2007, has, in accordance with NZX Listing Rule 7.6, now been extended out to 28 February 2008 (or when the buyback is complete, if that is sooner). The shares to be acquired are ordinary Rubicon shares, and the maximum number of shares to be acquired (ie the shares remaining to complete the previously announced 5% buyback, as at the date of this report) is 5.8 million.

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

On 23 March, the Company announced that it had put in place a new Equity Plan for its employees. The purpose of the Plan is to align management with shareholders, and to incentivise the quick and effective achievement of Rubicon's business goals. Under the terms of the Plan, the senior employees of Rubicon received a payment* from the Company equivalent to their next 24 months base salary (US$1.6 million pre-tax), which (net) they immediately reinvested in cash in Rubicon shares. The Company has issued them Rubicon shares (at 93 cents per share, being 2 cents above the closing market price on 22 March 2007) equivalent to the net value of those salaries foregone. They will not receive any base salary payments for the next 24 months. 1.5 million shares (0.60% of the Company's issued share capital) were issued under this new Plan. These shares cannot be sold or otherwise disposed of before the expiration of 24 months, and there are provisions under the Plan for the return of shares (and distributions on those shares) to the Company should an employee leave within the next 24 months. The Company will not be issuing any further shares under the Plan.

* The payment from the Company to each participating employee of an amount equivalent to each of their 24 months' base salary constitutes or may constitute a form of financial assistance which requires certain disclosures to be made to shareholders under section 80 of the Companies Act. The information set out above satisfies this notification requirement.

In addition to aligning our three executives (Luke Moriarty, Bruce Burton and Mark Taylor) with shareholders, the Plan has the effect of completely eliminating the Company's cash obligations in respect of all base salary payments to its senior employees over the next two years. In essence, fixed base salaries have been "converted" into Rubicon equity.

In addition to the new shares issued, the Plan also requires Rubicon's senior employees to purchase Rubicon shares on-market to the value of NZ$450,000 (in the aggregate). The willingness of our employees to invest considerably in Rubicon shares should indicate to the market the potential value they see in this Company. Our senior employees will now share in the risks and rewards of ownership in just the same way as all other Rubicon shareholders do.

Following a review of the proposed Plan, the NZX granted the Company a waiver from the need to seek shareholder approval for its implementation.

FINANCIAL

The Rubicon Group's investing activities are limited purely to its existing businesses – Tenon, ArborGen and Horizon2. During the period this comprised:

Capital Expenditure	US$m
Investment in ArborGen	3
Buyback of Rubicon shares on-market	3
Acquisition of Ornamental Mouldings	20
Investment in Tenon's existing facilities	2
Buyback of Tenon shares on-market	1

At the end of the period our consolidated net debt position (including deferred settlements of US$20 million relating to the put option in Southwest Mouldings) was US$80 million. This is made up of US$94 million of net debt on Tenon's balance sheet (as Tenon is 57% owned by Rubicon, the Tenon balance sheet is included in Rubicon's consolidated balance sheet) and a cash balance of US$14 million on Rubicon Limited's balance sheet (Rubicon Limited itself has no debt). Although Tenon's on-balance sheet net debt increased by some US$20 million during the period as a result of the acquisition of Ornamental, on a "look-through" basis the acquisition has not actually increased Tenon's net debt exposure because it also sold its AWM operation (a 50% non-consolidated investment) during the period which carried debt of approximately US$40 million (US$20 million Tenon's share) on its own balance sheet.

In terms of earnings in the period, the chart below gives a "snap shot" view of Rubicon's consolidated performance for the six months.

(1) Summary Operating Earnings	US$m
Tenon	9
(2) Tree biotechnology	(1)
(3) Corporate	(1)
Total	7

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

The positive result of US$7 million is after the expensing of ArborGen's annual research-related activities. As we have noted many times however, an earnings analysis does not show the full value picture for Rubicon, as ArborGen in particular is still a developing business and its true value is not captured in its earnings contribution – in time we believe it will be.

OUTLOOK

The focus for the next immediate period will be on:

Tenon

- Integrating Ornamental into the Tenon group;
- Extracting operational synergies from Tenon's "one-company" initiatives;
- Advancing Tenon's outdoor programme, through the roll-out of the Lifespan and Armourwood^{TM} products to BlueLinx and Lowe's respectively; and
- Driving earnings performance.

ArborGen

- Expanding trials in ArborGen's two products closest to commercialisation – CTE and IPE;
- Expanding existing (and developing new) "cost and value-sharing" relationships for ArborGen's initial biotech products with its customers;
- Advancing the manufacturing processes needed to meet the forecast future volumes of many millions of treestocks;

- Putting in place the appropriate collaborations with complementary organisations to enable ArborGen to meet its biofuels objectives; and
- Setting milestones for the venture that will establish a clear value timeline for its Partners.

Horizon2

- Resolving the outstanding CHH-Horizon2 issues;
- Encouraging the Government to put in place specific forest planting initiatives in New Zealand;
- Growing the market for clonal forestry in New Zealand and Australia; and
- Putting in place further asset rationalisation and cost-reduction initiatives.

Most of these goals are largely within our own control, and as such we are acutely focused on the benefits that will flow from their achievement. There are, however, other major factors outside our control, which are large influencers on value – these are the NZ:US exchange rate and the US housing market. As we cannot influence their outcome, we need to manage our activities aggressively on the basis that status quo prevails. However, if these factors were to become more favourable to us, the value-upside implications to Rubicon would be significant.

Stephen Kasnet
Chairman

Luke Moriarty
Chief Executive Officer

23 March 2007

Consolidated Income Statement

For the six months ended 31 December 2006

	6 months Dec 06 NZ$m	**6 months Dec 06 US$m**	**12 months Jun 06 US$m**	**6 months Dec 05 US$m**
Revenue	277	196	370	167
Cost of sales	(205)	(144)	(274)	(127)
Gross profit	72	**52**	**96**	**40**
Dividend income	–	–	–	2
Earnings from associates	(1)	(1)	(1)	(2)
Distribution expense	(51)	(36)	(67)	(30)
Administration expense	(11)	(8)	(13)	(7)
Earnings before interest, depreciation and impairment charge (EBITDA)	9	**7**	**15**	**3**
Depreciation	(4)	(3)	(5)	(2)
Impairment charge	–	–	(1)	(1)
Operating profit before financing costs	5	**4**	**9**	**–**
Financial income	–	–	2	2
Financial expense	(4)	(3)	(3)	(1)
Profit before taxation	1	**1**	**8**	**1**
Income tax expense	(1)	(1)	(3)	–
Net Profit	–	**–**	**5**	**1**
Attributable to:				
Equity holders of the parent	(1)	(1)	1	–
Minority interest	1	1	4	1
Net Profit	–	**–**	**5**	**1**

Basic/diluted earnings per share information:			
Continuing operations	(0.4)	0.4	–
Weighted average number of shares outstanding (millions of shares)	249	272	283

Consolidated Statement of Recognised Income and Expenses

For the six months ended 31 December 2006

	6 months Dec 06 NZ$m	**6 months Dec 06 US$m**	**12 months Jun 06 US$m**	**6 months Dec 05 US$m**
Net earnings attributable to:				
Rubicon shareholders	(1)	(1)	1	–
Minority shareholders	1	1	4	1
Net Profit	–	–	5	1
Translation differences attributable to:				
Rubicon shareholders	6	4	(3)	(1)
Revaluation reserve on acquisition:				
Rubicon shareholders	1	1	–	–
Minority shareholders	1	1	–	–
Total recognised revenue and expenses	8	**6**	**2**	**–**
Movement in Rubicon shareholders' equity:				
Return of capital by way of share buyback	(4)	(3)	(19)	(4)
Movement in minority shareholders' equity relating to:				
Acquisition of Tenon shares by Rubicon	–	–	(6)	(5)
Return of capital by way of share buyback	(1)	(1)	(6)	–
Total movement in shareholder equity	3	**2**	**(29)**	**(9)**
Movement in:				
Rubicon shareholders' equity	2	1	(21)	(5)
Minority shareholders' equity	1	1	(8)	(4)
Opening equity attributable to:				
Rubicon shareholders	204	144	165	165
Minority shareholders	75	53	61	61
Opening total Group equity	279	197	226	226
Closing equity attributable to:				
Rubicon shareholders	206	145	144	160
Minority shareholders	76	54	53	57
Closing Total Group Equity	282	**199**	**197**	**217**

Consolidated Statement of Cash Flow

For the six months ended 31 December 2006

	6 months Dec 06 NZ$m	**6 months Dec 06 US$m**	**12 months Jun 06 US$m**	**6 months Dec 05 US$m**
Cash was provided from operating activities				
Receipts from customers	282	199	367	177
Dividend received	–	–	2	2
Cash provided from operating activities	282	199	369	179
Payments to suppliers, employees and other	(275)	(194)	(377)	(181)
Income tax paid	(2)	(1)	(7)	(4)
Cash (used in) operating activities	(277)	(195)	(384)	(185)
Net cash from (used in) operating activities	5	**4**	**(15)**	**(6)**
Sale of investments	7	5	–	–
Investment in fixed assets	(3)	(2)	(5)	(3)
Investment in associates and other	(4)	(3)	(6)	(3)
Investment in subsidiaries	(28)	(20)	(55)	(54)
Cash in subsidiaries acquired	4	3	–	–
Net cash from (used in) investing activities	(24)	**(17)**	**(66)**	**(60)**
Debt drawdowns	68	48	42	22
Interest received	–	–	2	2
Debt repayment	(44)	(31)	–	–
Interest paid	(3)	(2)	(1)	–
Capital return by way of cancellation or buyback				
Returned to Tenon minority shareholders	(1)	(1)	(6)	–
Returned to Rubicon shareholders	(4)	(3)	(19)	(4)
Net cash from (used in) financing activities	16	**11**	**18**	**20**
Net cash from (used in) discontinued operations	(1)	**(1)**	**(2)**	**(1)**
Net movement in cash	(4)	**(3)**	**(65)**	**(47)**
Opening cash and liquid deposits	28	20	86	86
Effect of exchange rate changes on net cash	–	–	(1)	–
Closing Cash and Liquid Deposits	24	**17**	**20**	**39**

Net earnings from continuing operations	–	–	5	1
Add back net financing expense (revenue)	4	3	1	(1)
Adjustment for items not involving cash:				
Depreciation	4	3	5	2
Taxation	–	–	(4)	(4)
Earnings from associates	1	1	3	2
Cash flow from operations before net working capital movement	9	7	10	–
Net working capital movement	(4)	(3)	(25)	(6)
Net cash from (used in) operating activities	5	**4**	**(15)**	**(6)**

Consolidated Balance Sheet

As at 31 December 2006

	Dec 06 NZ$m	**Dec 06 US$m**	**Jun 06 US$m**	**Dec 05 US$m**
Current assets				
Cash and liquid deposits	24	17	20	39
Trade and other receivables	60	42	40	29
Inventory	115	81	68	64
Current assets – discontinued operations	1	1	1	1
Total current assets	200	**141**	**129**	**133**
Current liabilities				
Trade and other payables	(37)	(26)	(25)	(27)
Current debt	(104)	(73)	(19)	–
Current taxation liability	(1)	(1)	(1)	(1)
Current liabilities – discontinued operations	(3)	(2)	(2)	(3)
Total current liabilities	(145)	**(102)**	**(47)**	**(31)**
Non current assets				
Fixed assets	61	43	33	36
Investments in associates	57	40	61	60
Goodwill	133	94	72	68
Deferred taxation asset	11	8	6	7
Total non current assets	262	**185**	**172**	**171**
Term liabilities				
Provisions	(1)	(1)	(1)	(1)
Deferred settlement	(28)	(20)	(20)	(20)
Term debt	(6)	(4)	(36)	(35)
Total term liabilities	(35)	**(25)**	**(57)**	**(56)**
Net Assets	282	**199**	**197**	**217**
Equity				
Share capital	210	148	151	166
Reserves	(4)	(3)	(7)	(6)
Equity attributable to Rubicon shareholders	206	**145**	**144**	**160**
Equity attributable to minority shareholders	76	54	53	57
Total Group Equity	282	**199**	**197**	**217**

Net Asset Backing NZ 84 cps

Notes to the Consolidated Financial Statements

For the six months ended 31 December 2006

BASIS OF PRESENTATION

The financial statements presented are those of Rubicon Limited and Subsidiaries (the Group) for the six months from 1 July 2006 to 31 December 2006.

The interim financial statements have been prepared in accordance with New Zealand International Accounting Standard (NZ IAS) 34, Interim Financial Reporting.

The interim financial statements do not include all of the information required to be disclosed for full annual financial statements.

APPROVAL OF ACCOUNTS

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 28 February 2007.

CHANGE IN ACCOUNTING POLICY

There have been no changes in accounting policies during the period. However certain comparatives have been restated to conform with the current period's presentation. Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2006 or later periods. The Group believes that adoption of these will not have a material effect on the Group's accounts, but will require additional disclosure.

FUNCTIONAL CURRENCY

From 1 July 2005 the Group moved to the US dollar (US$) as its functional currency, reflecting the economic reality that the underlying driver currency of almost all of our operations and investments is the US$. By way of example, this now means that all Rubicon's cash is now held in US$, as is the underlying cost base of its major investments – including its ownership interest in Tenon (which has also changed to a US$ functional currency).

Please note all financial numbers are in US$ unless otherwise stated.

CURRENCY OF CONVENIENCE

The consolidated financial statements are expressed in US$, the amounts pertaining to the most recent financial period are translated to New Zealand dollars, the latter being supplemental information presented solely for convenience and converted from US$ (as a matter of arithmetical computation only) at the closing rate on 31 December 2006 of NZ$1.00:US$0.7050.

Notes to the Consolidated Financial Statements continued

For the six months ended 31 December 2006

1 ACQUISITION AND DISPOSAL OF ASSOCIATES AND SUBSIDIARIES

On 27 October 2006 Rubicon announced its sale of its 50% interest in Forestadora Tapebicuá for $5 million.

On 3 November 2006, Tenon announced that it had exited its 50% investment in American Wood Mouldings (AWM) and acquired 100% of Ornamental Mouldings Limited (OMI) (refer note 2 acquisition of subsidiaries disclosure). Tenon's 50% share of AWM's loss, $0.6 million ($1.2 million 100%) for the period up to the date of the sale, is included in the earnings from associates.

Tenon also sold its 50% investment in American Moulding S. de R.L. de C.V. (AWM Mexico) to Manhattan Holdings, LLC in return for a promissory note of $0.5 million (receivable in March 2009). The gain on sale of AWM Mexico, $0.6 million, has been included in the earnings from associates.

Accordingly, the AWM Group's net contribution to the Group earnings in the period was nil.

2 ACQUISITION OF SUBSIDIARIES

	Dec 06 US$m	Jun 06 US$m	Dec 05 US$m
Cash and liquid deposits	3	–	–
Inventory	7	13	13
Trade and other receivables	8	6	6
Total current assets	**18**	**19**	**19**
Trade and other payables	(4)	(5)	(4)
Total current liabilities	**(4)**	**(5)**	**(4)**
Fixed assets	11	4	6
Total non current assets	**11**	**4**	**6**
Term debt	(5)	(5)	(5)
Total term liabilities	**(5)**	**(5)**	**(5)**
Net assets acquired	**20**	**13**	**16**
Cash outflow of acquisition of subsidiaries	20	17	17
Investment in AWM	22	–	–
Deferred settlement	–	18	18
Consideration	**42**	**35**	**35**
Goodwill arising on acquisition	**22**	**22**	**19**

Until November 2006, Tenon owned 50% of AWM, and AWM in turn owned 50% of the OMI group of companies. On 3 November, Tenon announced that it had sold its 50% interest in AWM in return for the transfer of ownership of 50% of OMI to Tenon. Tenon simultaneously acquired the remaining 50% interest in OMI for $18.75 million. The OMI group contributed $1.6 million to net profit before taxation of the Tenon group in the period since acquisition. The determination of the fair value of the OMI assets acquired was not complete at December 2006 and the asset values used to determine estimated goodwill at acquisition, for the December 2006 interim financial statements, are the book values at the date of acquisition. The estimated goodwill of $22 million is attributable to the level of profitability of OMI and the synergies expected to accrue across the wider Tenon group from its acquisition.

In November 2005, Tenon purchased a 51% share of Southwest Moulding Co. The determination of the fair value of the Southwest assets acquired was not completed until June 2006.

Notes to the Consolidated Financial Statements continued

For the six months ended 31 December 2006

3 CAPITAL

	Dec 06 US$m	Jun 06 US$m	Dec 05 US$m
Share capital			
Share capital at the beginning of the period	151	160	160
Movement in presentation currency(1)	–	10	10
	151	170	170
Return of capital by way of share buyback(2)	(3)	(19)	(4)
Share capital	**148**	**151**	**166**

	Dec 06	Jun 05	Dec 05
Number of shares			
Opening shares on issue	252,739,600	283,631,406	283,631,406
Shares repurchased and cancelled by way of share buyback(2)	(5,061,504)	(30,891,806)	(6,018,673)
Closing shares on issue	**247,678,096**	**252,739,600**	**277,612,733**

(1) Due to the change in Rubicon's functional currency to US$, historical results have had to be restated into US$. The "Movement in presentation currency" line represents the difference between translating our historic reported capital (for presentation purposes) at US$0.6608: NZ$1.00 on 1 April 2004 and the exchange rate of US$0.7007: NZ$1.00 as at 1 July 2005, being the effective date of our adoption of the US$ as our functional currency.

(2) On 14 March 2006 Rubicon announced its intention to buy back up to 5% of its issued share capital or 14,180,000 shares. By 31 December 2006, 8,373,310 shares had been acquired at a total cost of $5 million. In the current period 5,061,504 shares had been acquired at a cost of $3 million.

4 SEGMENTAL INFORMATION SUMMARY

The Group's primary segment is by function and is shown in the following table:

Appearance and wood products	6 months Dec 06 US$m	12 months Jun 06 US$m	6 months Dec 05 US$m
Operating revenue	196	370	167
Segment result	6	14	3
Biotechnology and other			
Operating revenue	–	–	–
Segment result	(2)	(5)	(3)
Total Group			
Operating revenue	196	370	167
Segment result	4	9	–

For the six months ended 31 December 2006

5 DISCONTINUED OPERATIONS

The following information details balance sheet and cash flows of the discontinued operations of Tenon relating to the structural business sale in April 2005 and the forestry activities disposed of during 2004. These operations were previously disclosed as structural and the forests and supply segment. There were no earnings for the periods disclosed.

Balance Sheet as at	**Dec 06 US$m**	**Jun 06 US$m**	**Dec 05 US$m**
Assets			
Forest assets held for sale	1	1	1
Total discontinued assets	**1**	**1**	**1**
Liabilities			
Provisions	(2)	(2)	(3)
Total discontinued liabilities	**(2)**	**(2)**	**(3)**

Statement of Cash Flows for period ended	**Dec 06 US$m**	**Jun 06 US$m**	**Dec 05 US$m**
Net cash from (used in) operating activities	(1)	(2)	–
Net cash from (used in) investing activities	–	–	(1)
Net cash from (used in) discontinued operations	**(1)**	**(2)**	**(1)**

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Stock Exchange Listing

The Company's shares are listed on the NZSX (RBC).

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