



RUBICON INTERIM REPORT
SEPTEMBER 2004



CHAIRMAN'S REVIEW

The six-month period has been an active one for Rubicon, where significant progress has been made on some critical value items for the Company. We are pleased this progress has been reflected in the Rubicon share price during the period, which has moved up from a 31 March 2004 price of 80 cents per share to a 30 September 2004 closing price of 98 cents per share - and up further again to \$1.05 per share at the date of this report - an increase of 30% over the past eight months.

The key events which have contributed to this positive performance are discussed below.

TENON

On 8 April 2004 we announced our intention to make a partial takeover offer for Tenon, and on 5 May we made our formal offer to Tenon shareholders. By the time the offer closed on 3 June, we had been successful in our objective, increasing our ownership position in Tenon from 19.99% to 50.01%, at a price of \$1.95 per Tenon share. In the end we received acceptances that would have taken us close to 60% of Tenon's issued shares. However as our offer was only for that number of shares needed to take our holding to 50.01%, acceptances were required to be scaled back to that level.

We are confident that time will show \$1.95 per share to be an attractive acquisition price for us. It already compares favourably to the \$2.15 per share Tenon share price prevailing at the date of this report.

We sought our 50.01% ownership stake in Tenon in order to give us effective control of the future direction of that company. We have immediately moved to effect changes. These changes have included:

- A restructuring of the Tenon Board, with two Tenon directors resigning and Tony Gibbs (from the Rubicon Board) being added as Chairman;
- A renewed strategic focus for Tenon, including opening up clearwood pine Appearance opportunities in Europe; and
- A strategic review of Tenon's Structural Solutions business.

On this latter point, following our offer, Rubicon was approached by several credible parties expressing interest in acquiring Tenon's Structural Solutions business. Although we had not sought to dispose of Tenon's Structural

business, we felt it in the best interests of both Tenon and Rubicon shareholders that the opportunity be explored, given the interest expressed by these parties. So, on 10 September 2004, Tenon announced that it would undertake a strategic review *“to determine whether we can create more value for Tenon shareholders from continued ownership and operation of the Structural business than we can achieve from a sale to a third party.”* Although no timetable has been given, we would expect an outcome of this review to be announced later this calendar year, and for it to be discussed (along with the second capital return) at Tenon’s Annual Shareholders’ meeting on 22 December 2004.

The Structural business comprises mills at Kawerau, Rainbow Mountain (near Rotorua), and Mt Maunganui. It does not include the company’s Appearance operations at Taupo, its distribution activities in the United States, or its developing activities in Europe – each of which Rubicon considers to be core to Tenon’s future.

As we have moved to a 50.01% ownership position in Tenon, we are now required to consolidate Tenon’s results in our financial statements. This six-month period is a little confusing as it includes a mix of equity earnings (for the period up until the date we moved to 50.01%), and consolidated earnings (from that date onwards). In addition, the carrying value in our books of the Tenon shares we acquired (\$1.99 per share including takeover costs) is higher than the written-down historic cost value in Tenon’s books (\$1.69).

Quite apart from these accounting issues, the Tenon results included in our statements reflect a very poor six-month period for Tenon, as they include a \$5.6 million loss from Tenon’s discontinued activities (relating to the forest estate now sold). The numbers are further muddied by the change in our ownership interest that occurred only part way through the period (refer page 8 for an explanation). Looking forward, beyond the accounting and corporate takeover issues that dominated the last six months, it will be far easier for you to analyse the performance of our Tenon investment, as Rubicon’s future financial results will reflect 50.01% of Tenon’s actual EBITDA achieved, adjusted only for depreciation charge differences.



Tenon reinvested \$7 million of capital into its operations during the six months. In future periods, earnings benefits will begin to accrue from past capital expenditure decisions – including from Tenon's increased ownership in Empire, increased kiln capacity at both the Taupo and Rainbow Mountain sites, the installation of the optimising trim saw at the Taupo sawmill in January this year, and a number of other smaller projects.

The \$11 million front-end processing system upgrade at Kawerau is a good example of the benefits that can flow from reinvestment in the business. The upgrade, which is targeted for commissioning in December / January, will allow the Kawerau sawmill to process larger diameter logs and increase the rate of conversion from log to sawn lumber. The financial benefits from the upgrade are expected to be in the order of \$5 million of additional EBITDA per annum.

We anticipate that Tenon will continue to reinvest in its business, in both its Structural and Appearance operations, to enhance the efficiency of existing production, expand the product range, improve the supply chain, and to increase its in-market distribution presence closer to the customer.

Tenon's activities are explained fully in its annual report that has just been released to shareholders. Rather than repeat that detail here, that report can be viewed on the Tenon website at www.tenon.co.nz.

TREES & TECHNOLOGY / HORIZON2

Trees & Technology was subject to three major events during the period.

The first event was the formation of Horizon2 (effective 1 April 2004, and as discussed in our Annual Report) – an equal partnership arising out of the merger of our 100%-owned Trees & Technology operation with Carter Holt Harvey's Forest Genetics business. Although there is a significant amount of work needed to be completed in order to merge these two businesses from a day-to-day operational perspective, the gains to both Horizon2 and its customers should prove to be very real. However, it will take some time to achieve this desired outcome, and in the interim Horizon2's financial results will not reflect the longer-term gains we ultimately see accruing. For example, over the immediate period additional merger costs will be incurred, as the new entity is restructured to capture the synergy gains ultimately available to the business.

The second event was the severe flooding that the Bay of Plenty region suffered in July 2004. Over a two-day period in early July, the region recorded the equivalent of over three month's average rainfall – a one in 100-year event. Fortunately, most of the current season's treestocks had already been lifted from the Te Teko nursery and delivered to customers. However, some of next year's crop which had only just been set into the nursery beds was destroyed. Unfortunately, these "natural" events, or acts of God, are not able to be insured against. Horizon2 has no choice other than to alter its practices to minimise the effects of such events on its operations. As we have commented previously, containerisation of treestocks may help reduce the impact of environmental events such as the floods and droughts the region has suffered in recent years. In addition, the portfolio of nurseries that the merger of Horizon2 has established (the joint venture now operates nurseries in Kaikohe, Tokoroa, Te Teko and Nelson in New Zealand, and a further nursery in Australia) allows the business to spread risk by growing customer treestock requirements across multiple nursery sites.

During the six months, Rubicon's share of one-off costs relating to the combined impacts of the merger and the flood amounted to some \$0.75 million.

The third event was the change in the forest ownership landscape that has begun to emerge in New Zealand. With both the Tenon forest estate and the former CNIFP (Central North Island Forest Partnership) estate now changing hands, a new type of forest owner has emerged in New Zealand – specialist forest managers, supported by large pension, insurance or endowment funds. Ontario Teachers, Prudential and Harvard are now names that are very significant in New Zealand's forestry ownership. Carter Holt Harvey's announced intention to divest some of its forest estate may well bring in further new names. Against this background, the issue for Horizon2 is that we are yet to fully understand the forestry regime (i.e. species, harvesting plan, annual treestock requirements, and attitude towards clonal forestry) that some of these new owners will pursue. Although this change, combined with the much lower new planting and replanting levels that the New Zealand industry is currently undertaking (estimated to be in the low-40 millions per annum level currently, which compares with 55 million only three years ago, and in excess of 100 million per annum in the early 1990s), provide a degree of uncertainty and may affect Horizon2's financial results in the shorter-term, we do not believe it changes the longer-term value proposition for Horizon2.



ARBORGEN

ArborGen continues to proceed to plan. All science and product milestones were met during the period – and met on budget.

The focus is now moving to the commercialisation phase of ArborGen's existing product concepts (rather than the pure science phase, which has been the case for the first five years of ArborGen's life). There are three themes to this focus - regulatory and public acceptance, customer acquisition, and settling upon the most cost-effective method of producing the many hundreds of millions of treestocks per annum that will be necessary to meet the demand ArborGen predicts for its products in the future.

Good progress is being made on each of these. By way of example, in terms of customer acquisition, Brazil is likely to be ArborGen's most important geography. Given this, a Brazilian office has now been established, with a resident Director appointed during the period. It is significant that ArborGen has recently been granted permission to establish field trials in Brazil on customer land – an important hurdle in both the regulatory and customer acceptance processes. These trials will begin in early 2005.

In addition to progressing its existing products, ArborGen is also introducing new product concepts into its product pipeline. For example, a cold tolerant Eucalyptus product was added to the portfolio earlier this year, in an attempt to address the US South's emerging hardwood shortage (for pulp and paper usage). Eucalyptus has a very short rotation time and high quality fibre, and thus should be a "natural choice" for hardwood replacement in the region, apart from one problem - Eucalyptus is not tolerant to extremes of cold – particularly the sudden cold snaps that occur in the region. ArborGen is investigating the insertion of cold tolerant traits into Eucalyptus to relieve this commercial constraint on the use of the species in the US South. It has already achieved some success in engineering in cold tolerant genes into Eucalyptus, and full field-testing is now planned to be established in 2005.

The focus for the higher value solid wood products, whether for structural or appearance applications, is on the development of faster rotation / improved wood quality pine products (i.e. those that combine higher yield and improved stiffness through a focus on juvenile wood reduction with shorter rotation length). Evaluations of several genes (both in-licensed, and generated from ArborGen's own gene discovery program) have shown impressive increases in the growth of loblolly pine.

ArborGen's strategy has now been refined to provide the commercialisation path to market for those companies that have genes with potential applications in forestry. While ArborGen continues to maintain its own in-house genomics discovery programme, it is also looking to augment this program with external collaborations with world class discovery companies, thereby bringing new technology to the forestry market in the most cost effective and efficient way possible.

FTSA

We have said before that we are not prepared to negotiate indefinitely with an intransigent partner over shareholder issues that are impediments to unlocking value in the company. Continuation of the status quo is no longer an option for us. Our goal now is either to achieve an ownership position in the company that gives us clear control, or to exit totally. To be sure of an outcome, we intend to pursue both of these paths in parallel. Of course, ultimately, both paths require us to settle the key differences we have with our partner. Unless these can be agreed between us quickly, they will be resolved by a determination from the International Court of Arbitration – a process that has now been set in motion. Arbitration is binding on the parties, is conducted outside of Argentina, and may (depending on the actions of the 50% partner) take more than 12 months to be determined.

While these matters are distracting, the business continues to improve operationally. Sales grew during the period to average around 3.5 million pesos per month, with domestic sales increasing to represent some 75% of the total, as the Argentine economy began to show signs of improvement. FTSA also remained cash positive at the operating level. While FTSA reported a positive earnings contribution of 0.6 million pesos in the period, in Rubicon's reported earnings this is more than offset, by legal and other costs relating to the upcoming Arbitration.



GOVERNANCE

In June this year, we took the decision to reduce the size of the Rubicon Board, not only in order to address the on-going public company costs we are required to incur, but also to "right size" the Board for Rubicon's needs. Michael Andrews, Gary Weiss, John Villiger and Jouko Virta each stood down, reducing the Board to a total of five directors. The Company would like to acknowledge their contribution over the past three years, particularly Michael Andrews who has acted as Chairman since Rubicon's inception.

At our Annual Shareholders' Meeting in August 2004, Hugh Fletcher and Luke Moriarty were reappointed to the Board, and changes were approved to the Company's constitution in order for it to comply with changes in the NZX Listing Rules. All resolutions were passed with a 99% majority, and with over 70% of the company's shares being voted – a continuance of Rubicon's high voter turn-out statistics.

The Company's capital structure has now been simplified, with all employee tracking units and director options being exercised during the period. Pleasingly, the equivalent of 90% of the net gain realised from these units and options was reinvested in Rubicon shares acquired "on-market" by the participants. This as an indication of the value that Board and management saw in Rubicon moving forward.

FINANCIAL

The following table shows the earnings analysis by each of our investments. As we have noted previously, an earnings analysis does not show the full value picture for Rubicon, as ArborGen and Horizon2 are still developing businesses, and therefore their true value is not yet captured in their annual earnings contribution. With time, it will be.

For the six months to 30 September 2004, Rubicon recorded earnings of \$0.1 million from on-going operations. Against this, were one-off items of \$7.0 million (as detailed below). It is worth noting that \$5.6 million of these "one-offs" related to the loss that arose from Tenon's now discontinued activities – i.e. its unprofitable tree ownership and log marketing business. We were, of course, aware of this loss at the time we made our offer for Tenon, so this result is no surprise to us. In any case, as that particular business does not form part of Tenon's activities moving forward, this will not be repeated in future periods.

Six months to	Sept 04 \$m	March 04 \$m	Sept 03 \$m
Tenon	3.0	0.1	5.5
ArborGen	(1.9)	(2.0)	(2.4)
FTSA & other	(0.3)	(0.3)	(0.5)
Horizon2	0.2	0.1	0.5
Corporate	(0.9)	(1.6)	(1.3)
Earnings from ongoing operations	0.1	(3.7)	1.8
Investment writedowns	(0.1)	(0.6)	(0.5)
Tenon discontinued	(5.6)		
Horizon2 merger and flood costs	(0.7)		
Tracking unit expense	(0.7)	(0.6)	
SRA termination payment		5.0	
Litigation costs			(0.2)
"One-off" items	(7.0)	4.4	(0.2)
Earnings before funding costs	(7.0)	0.1	1.1
Funding costs	(2.1)		
Net Earnings	(9.1)	0.1	1.1

Shareholders will be aware that we achieved our increased ownership position in Tenon on 3 June this year. While you would imagine that our earnings statement would include 19.99% of Tenon's earnings for two months of the period (April and May), and 50.01% for the remaining four months of the period (i.e. June, July, August and September), the requirements of the accounting standards have meant that our reported numbers only include one month at 50.01%, and 5 months at 19.99%. This is because we are required to report Rubicon's results to you on the basis of Tenon's published results, and as Tenon has a June balance date it means that we are required to report a lagging six months Tenon's results to you (i.e. in this period our 30 September results are based on Tenon's six months results ending 30 June, consistent with previous reporting periods). Hence we are required to equity account the first five of these months and consolidate only one month in the period – June, the month our takeover was completed. While this will all even itself out in the next six month period, it is worth noting that our earnings results in this period reflect a full interest cost on the acquisition of our additional 30% interest in Tenon for four months, but we have only recorded earnings in relation to that additional interest for one month.

This is the first period in which we have reported debt on our balance sheet. This debt (and the related funding costs of \$2.1 million incurred in the period) relates to the acquisition of our additional shareholding interest in Tenon. Part of the monies to be received from Tenon's scheduled second capital return (\$1.15 per Tenon share is expected to be paid to Tenon shareholders in the first quarter of calendar 2005) is earmarked to repay our outstanding loan to HSBC (which is estimated to be around \$85 million at that point in time). This will leave Rubicon with a strong balance sheet, with no debt (apart from Tenon's debt which will be consolidated onto our balance sheet) and some \$75 million in cash.

During the period, our investment expenditure – which totalled \$173 million - related solely to our existing activities. We expended \$167 million acquiring our increased ownership position in Tenon, \$3 million as our initial investment into Horizon2, and \$3 million as our share of partner contributions to ArborGen.



STEPHEN KASNET

CHAIRMAN

30 November 2004

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	Notes	Six Months Sep 2004 \$m	Year Ended Mar 2004 \$m	Six Months Sep 2003 \$m
Operating Revenue	3	68	13	6
Operating Expenses	3	(66)	(12)	(7)
Earnings Relating to Associates;				
Continuing Operations		0	0	2
Discontinued Operations	4	(6)	0	0
Operating Earnings		(4)	1	1
Funding Costs		(2)	0	0
Earnings Before Tax		(6)	1	1
Taxation Expense		(1)	0	0
Earnings After Tax		(7)	1	1
Minority Interest		(2)	0	0
Net Earnings		(9)	1	1
Basic Earnings Per Share (EPS)		(3.2) cents	0.4 cents	0.4 cents

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

	Six Months Sep 2004 \$m	Year Ended Mar 2004 \$m	Six Months Sep 2003 \$m
Net Earnings Attributable to Rubicon Shareholders	(9)	1	1
Translation Differences	0	(10)	(5)
Total Recognised Revenue and Expenses	(9)	(9)	(4)
Capital Contributions - Exercise of Options	3	0	0
Movement in Rubicon Shareholder Equity	(6)	(9)	(4)
Net Earnings Attributable to Minority	2	0	0
Minority Interest Arising from Acquisition of Tenon	261	0	0
Movement in Minority Shareholder Equity	263	0	0
Opening Equity Attributable to:			
Rubicon Shareholders	243	252	252
Minority Shareholders	0	0	0
Opening Total Group Equity	243	252	252
Closing Equity Attributable to:			
Rubicon Shareholders	237	243	248
Minority Shareholders	263	0	0
Closing Total Group Equity	500	243	248

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Sep 2004 \$m	Year Ended Mar 2004 \$m	Six Months Sep 2003 \$m
Cash Provided from Operating Activities	64	14	7
Cash Applied to Operating Activities	(72)	(13)	(7)
Net Cash from (used in) Operating Activities	(8)	1	0
Capital Return	0	70	0
Investment in Fixed Assets and Intellectual Property	(2)	(1)	0
Investment in Associates	(6)	(9)	(6)
Investment in Subsidiary	(167)	0	0
Cash in Subsidiaries Acquired	2	0	0
Net Cash from (used in) Investing Activities	(173)	60	(6)
Debt Drawdowns	74	0	0
Debt Repayment	(34)	0	0
Capital Contributions	3	0	0
Net Cash from Financing Activities	43	0	0
Net Cash from Discontinued Operations	178	0	0
Net Movement in Cash	40	61	(6)
Opening Cash and Liquid Deposits	102	41	41
Closing Cash and Liquid Deposits	142	102	35
Net Earnings	(9)	1	1
Adjustment for items not Involving Cash:			
Depreciation, Amortisations and Revaluation of Treestocks	2	1	1
Taxation	(4)	0	0
Earnings and Amortisations Relating to Associates	4	(1)	(3)
Revaluation of Investments	0	1	0
Minority Interest in Earnings of Subsidiary	2	0	0
Cash Flow from Operations Before Net Working Capital Movement	(5)	2	(1)
Net Working Capital Movement	(3)	(1)	1
Net Cash from (used in) Operating Activities	(8)	1	0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at Sep 2004 \$m	As at Mar 2004 \$m	As at Sep 2003 \$m
Cash and Liquid Deposits	142	102	35
Inventory	83	5	3
Debtors	80	0	0
Current Assets - Discontinued Operations	133	0	0
Total Current Assets	438	107	38
Creditors	(75)	(5)	(4)
Bank Loan	(74)	0	0
Current Tax Provision	(1)	0	0
Current Liabilities - Discontinued Operations	(17)	0	0
Total Current Liabilities	(167)	(5)	(4)
Fixed Assets	118	8	8
Investments	84	133	206
Goodwill	39	0	0
Deferred Taxation	22	0	0
Total Non Current Assets	263	141	214
Term Debt	(34)	0	0
Total Term Liabilities	(34)	0	0
Net Assets	500	243	248
Share Capital	243	240	240
Retained Earnings	37	46	45
Currency Translation Reserve	(43)	(43)	(37)
Equity Attributable to Rubicon Shareholders	237	243	248
Equity Attributable to Minority Shareholders	263	0	0
Total Group Equity	500	243	248

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS ON WHICH INTERIM STATEMENTS ARE PREPARED

These financial statements are prepared under Financial Reporting Standard 24 "Interim Financial Statements" and should be read in conjunction with the 2004 Annual Report of Rubicon. This is the first period in which Rubicon's financial statements are reported in millions of dollars. This change has been made because Tenon, Rubicon's main operating subsidiary, reports only in millions of dollars and Rubicon's previously reported statements in thousands of dollars lose relevance when consolidated with Tenon's results.

2. ACCOUNTING POLICIES

There were no changes in accounting policies during the period.

3. OPERATING REVENUE AND EXPENSES

Operating revenue and expenses include Tenon's consolidated operating revenue and expenses for June 2004. Operating revenue includes \$2 million of interest income (\$1 million in Rubicon and \$1 million in Tenon).

4. NET EARNINGS FROM DISCONTINUED OPERATIONS

This represents Rubicon's equity accounted earnings of Tenon's discontinued tree ownership and log marketing operations.

5. ACQUISITION OF SUBSIDIARY AND FAIR VALUE OF ASSETS ACQUIRED

On 3 June 2004 Rubicon acquired a further 30.013% interest in Tenon Limited, giving Rubicon a 50.01% controlling interest in Tenon. The acquisition had the following effect on the Rubicon consolidated financial position as at that date:

	\$m
Cash and Liquid Deposits	2
Inventory	84
Debtors	77
Current Assets - Discontinued Operations	310
Total Current Assets	473
Creditors	(71)
Current Tax Provision	(5)
Current Liabilities - Discontinued Operations	(17)
Total Current Liabilities	(93)
Fixed Assets	116
Investments	33
Goodwill	12
Deferred Taxation	22
Total Non Current Assets	183
Term Debt	(68)
Total Term Liabilities	(68)
Net Assets	495
Minority Interest Arising from Acquisition of Tenon	(261)
Investment in Tenon Prior to Acquisition	(94)
Net Assets Acquired	140
Cost of Acquisition	167
Goodwill Arising on Acquisition	27

The determination of the fair value of the Tenon assets and liabilities acquired, as required by Financial Reporting Standard 36 "Accounting for acquisitions resulting in the combinations of entities or operations" has not been completed at the date of these interim financial statements. Prior to 31 March 2005, Rubicon will complete the fair value exercise, and reflect the resulting fair value in the financial statements for the year ending 31 March 2005. Because the fair value exercise has not yet been completed, goodwill recognised in these interim financial statements represents the difference between the purchase price and the book value of the net assets of Tenon.

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