ANNUAL REVIEW

YEAR ENDED 30 JUNE 2015

(released 28 August 2015)

RUBICON

There are statements in this Review that are 'forward looking statements.' As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Rubicon, and our Tenon and ArborGen investments, some of which are beyond our control. As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. Tenon's risks and uncertainties include - that its operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repair and remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. Other Tenon risks include competitor product development and demand and pricing and customer concentration risk. ArborGen's risks and uncertainties include (in addition to those of Tenon) - the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, customer adoption of advanced seedling products, the success of ArborGen's research and development activities, weather conditions and biological matters. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.

All references in this document to $ or "dollars" are references to United States dollars unless otherwise stated.

Tenon Highlights - 2015

Tenon Shareholder Value Announcements

- **Tenon share price increased 32%**[6]
  - Outperformed the NZX50 index, which was up only 10%, and also the ASX50 and Dow Jones indices which were down -3% and -2% respectively
  - Considerable future value upside remains – Edison Research (Mar '15) valued Tenon at NZ$3.75 - NZ$4.99 per share

- **Formal Tenon Strategic Review initiated**
  - Purpose is to determine best value path forward for Tenon shareholders
  - Deutsche Craigs and Deutsche Bank have been appointed as Tenon's exclusive advisors
  - Shareholders will be kept up to date on progress

- **Dividend payments to begin immediately**
  - First dividend of NZ5.0 cps declared in respect of fiscal '15 – payment in Nov '15
  - Intention is to make two dividend payments per year
  - Next dividend[3] to be in relation to the 2016 Interim Result period – payment in April '16
  - Future dividend rates (i.e. cents per share) yet to be determined[3]
  - Future payments will also be subject to[3] the outcome of Strategic Review

Tenon Macro-Conditions Improving

- **US economy continues on recovery path**
  - 2.9 million jobs created in FY '15
  - Unemployment rate fell to 5.3% (June)

- **US housing gains further strength, with last quarter's (i.e. June qtr) data showing -**
  - 1.06 million new housing starts in FY'15, up on the 953,000 in 2014
  - New home sales reached a 7-year high
  - Building permits reached an 8-year high
  - Builders confidence index at a 9-year high
  - Existing home sales (annualised) of 5.48 million recorded (June), an 8-year high
  - Pending home sales reached a 6-year high

- **US new home construction is forecast**[7,8] **to grow strongly over the next 2-3 years -**
  - Industry forecasts ≈ 11% growth y-o-y in calendar '15 (CY)
  - Even that increased level is still half a million homes <u>p.a.</u> short of mid-cycle estimates
  - Tenon has increased its exposure to the new home construction market recovery
    - ≈ 55% of US distribution revenue in FY '15
    - … up from approx 35% at the same point in the previous cycle

Tenon 2015 Financial Results

- **Revenue[1] of $406 million reported** (2014: $396[1] million)
    - New home construction market now represents ≈ 55% of US distribution revenues

- **Net profit after tax trebled to $6 million** (2014: $2 million)

- **Gross margin % expanded** in all US distribution activities

- **EBITDA[2] of $13 million** (up 18% on 2014), including –
    - $3 million extensive upgrade program to 500 retail stores (≈ 200 remaining)
    - Sales lost from the US West coast port strike
    - Earnings foregone from severe US winter storms
    - Costs associated with the now completed US distribution business restructuring
    - An average effective NZ$:US$ exchange rate of 79 cents (2014: 80 cents)

- **New business won, territories expanded** – benefit to be realised in FY '16

- **Taupo (NZ) manufacturing capital projects are well-advanced, and proceeding to plan**
    - The $5 million optimising edger is to be commissioned in Q3 of CY '15
    - The $2 million ripline project is to be commissioned in Q1 of CY '16
    - Financial metrics are very favourable
        - Projects have an ≈ 18 months payback
        - Full benefit of optimising edger will not be realised until ripline project is completed

- **Senior management roles realigned according to customer channels**
    - Objective is to maximise the profitability and opportunity of each channel
    - Strong growth mandate exists for each

- **Expanded Syndicated Bank Facility, and improved terms**
    - Facility extended out to May 2020 (i.e. 5 years)
    - Facility size increased to $75 million
    - More favourable funding rates agreed
    - Elimination of fixed charge covenant unless availability[5] falls below minimum limits
    - Increased flexibility in relation to shareholder distributions (i.e. dividends and buyback)

- **Closing debt (net of cash) of $58 million** (2014: $50 million), reflecting -
    - Expenditure on the two Taupo manufacturing projects
    - Working capital growth to meet the recovering US housing market
    - Absent any acquisitions, FY'16 closing debt level projected to be ≈ $50 million[3].

Tenon 2016 Outlook

- **EBITDA[2] and Net Earnings targeted to materially improve**[3] (refer Macro Conditions above)
  - FY '16[9] internal earnings target is for EBITDA[2] to exceed $20 million (excluding FX gains and losses, and assuming continued market recovery and current FX rates)
  - Mid-cycle[4] EBITDA[2] guidance of ≈ $50 million

ArborGen Highlights - 2015

- **2015 Production and Sales**

▪ All production and sales targets were met during the period	**Target**
▪ *Worldwide*	
✓ Total sales volumes were 309 million seedling, up 17% y-o-y	10%
✓ Revenue increased 17%, to $35 million	15-20%
▪ *In the US*	
✓ Volumes increased 15%, to 282 million	10%
✓ Advanced genetics ≈ 22% of (higher 2015) loblolly volumes	20%
✓ Customer term contracts signed over ≈ 30% of 2015 loblolly volumes	30%
▪ *In Australasia*	
✓ Sales volumes rose 13%, to 21 million seedlings	
✓ Revenue lifted 21% y-o-y	
✓ NZ revenue for advanced genetics pine ≈ 85% of NZ pine revenue	85%
▪ *In Brazil*	
✓ 6 million Eucalyptus seedlings sold	5 – 10m
✓ Current order book is sold out	
✓ Follow-on pine operational strategy in late development stage	

- **On track to meet EBITDA positive 'run rate' objective**
- **MCP value proven with 16-year Berkley 'Pidgeon Pond' study result**
- **Blended production technique proceeding to plan**, with twin goals to -
  - Increase the supply of commercial quantities of advanced products
  - Produce at lower cost
- **China 'step-out' remains under active review**
- **Introduction of genomics into the product development / technology platform**
- **Focus remains on critical commercial milestones for financing / liquidity event**

TENON – OPERATIONAL REVIEW

Tenon's financial performance in 2015 continued the momentum that began in the prior year, with **Net Profit after Tax trebling year-on-year** (y-o-y). Two of the key drivers of Tenon's performance – the US housing market activity and the NZ$:US$ cross rate – both improved noticeably in the last quarter of the fiscal year. Although neither materially impacted Tenon from an earnings perspective in 2015 (the improvement in the US housing market occurred later into the fiscal year, and the benefit of the weakening NZ currency was not felt due to expiring FX cover taken earlier in the year), both of these will be significant positives to Tenon's earnings in the new fiscal '16 year.

In relation to FX, Tenon has covered the first four months of the new fiscal '16 year at circa 68 cents (NZ$:US$), but it is unhedged beyond that horizon and will then be the full beneficiary of the lower currency level y-o-y now prevailing.

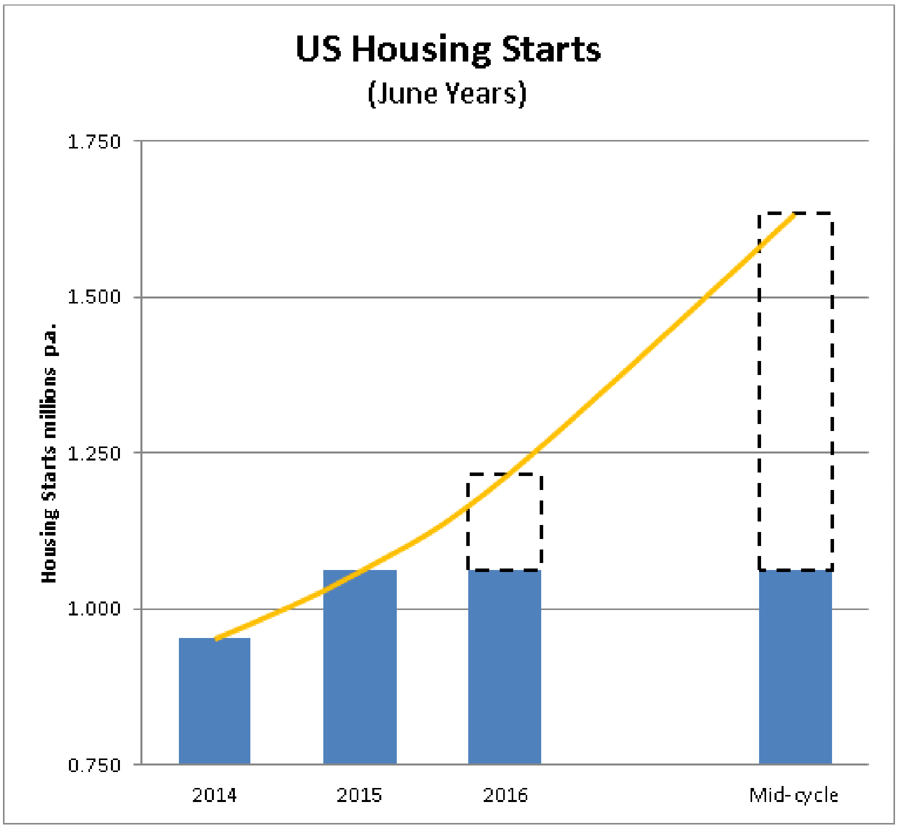
To give an understanding of the extent to which the US housing market improved towards the end of the year, data for the June quarter period showed –

- New home permits at an 8-year high
- New home sales at a 7-year high
- Existing home sales at an 8-year high
- Pending home sales at a 6-year high
- Builder's confidence index at a 9-year high

Tenon is leveraged to recovery in both the new home construction (i.e. pro-dealer) and DIY (i.e. retail) markets in the US. These markets share some common drivers – job security and job growth, real wage growth, credit availability, home prices, affordability, homes available for sale, and existing house sales levels, are all key to both markets. Almost all of these drivers are now supportive of a continued recovery in new home construction and in improved retail activity.

By way of further explanation of the current macro housing situation, this next chart (which we have shown before) succinctly summarises the upside that currently exists in the first of these markets – new home construction. As can be seen, the 'gap' that exists between current new home construction activity and what is generally accepted[8] as being the next mid-cycle housing level, is very large. Moving forward, as the market continues to recover, Tenon's earnings profile will reflect the closing of this gap, and the considerably higher activity levels that mid-cycle will represent.

As noted above, the noticeable improvement in housing data recently observed is indicative of much stronger future activity levels rather than a reflection of those that were present in fiscal '15. For example, the increase in new home construction permits and pending house sales are lead indicators of future activity, rather than being indicative of past conditions. In that respect, the chart below shows the y-o-y improvement now projected[7] in new home construction activity in 2016 – a growth rate of circa 14% p.a. Similarly, DIY and remodelling spend is projected to grow circa 5% p.a. supported by increased existing home sales activity.



Although 2015 was still early in the US housing cyclical recovery, the period under review saw **Revenue[1] increase to $406 million**. Revenues from Tenon's pro-dealer customers (i.e. new home construction market) were up 8% y-o-y, and gains were made in all of the territories Tenon services. By year end, exposure to the recovering new home construction cycle represented approximately 55% of Tenon's total US distribution revenues – up considerably on the 35% at this point in the previous cycle, and also up on the 50% of last year. This is a reflection not only of the faster recovery of this market relative to the DIY / retail market that has occurred to date, but also of the strong organic growth initiatives Tenon had put in place to grow its pro-dealer activities, which have been focused primarily on product expansion and territorial growth. Tenon believes a 60% weighting to new home construction is the right customer target mix for it through this next stage of the cycle, given the strong recovery path forecast for this market, and given Tenon operates in US States that represent approximately 60% of all housing permits issued annually.

Tenon's retail-based revenues were up only slightly y-o-y – a reflection not only of the fact that recovery in DIY / retail has lagged new home construction, but also of the first four bulleted EBITDA factors noted below. In particular, the 700 store major upgrade program that is currently being undertaken was a negative impact on financial performance, as foot traffic in the store aisles was adversely impacted by this activity during the period. Major retail store refurbishments of this nature are rare, so the expenditure Tenon has incurred on them ($3 million expensed in 2015, and $1 million to be expended in 2016) is quite atypical and should not recur any time soon. The positive side of the major store refurbishment program is that customer traffic and store 'comp' performance should increase post store completion, and this should in turn feed directly into Tenon's revenue performance in 2016 and beyond.

Gross margin % improved in each of Tenon's US distribution businesses – both in the pro-dealer and DIY / retail markets. This was a direct result of the outputs of the operational review of the North American activities that was outlined at Tenon's ASM it was undertaking in 2015. This review was extensive, covering logistics, support, consolidation opportunities, and procurement, amongst other things. A core objective of the review was to align our activities around the two key customer channels Tenon participates in, and to reinforce our best-in-class service and product delivery processes in each – thereby further strengthening the platforms for profit growth in existing activities and organic growth in future opportunities. The financial benefits of these review initiatives will be reflected in 2016, although some of the larger initiatives (e.g. procurement) will phase in progressively as the new fiscal year proceeds.

EBITDA[2] rose 18% y-o-y to $13 million. As noted in the Highlights section of this Review, this result included –

- $3 million in an extensive upgrade program to c500 US retail stores (c200 remaining)
- The negative impact of the US West coast port strike
- Earnings foregone from severe US winter storms
- Costs associated with the now completed US distribution business restructuring
- An average effective NZ$:US$ exchange rate of 79 cents

The decline in the NZ$:US$ cross rate towards more 'normal' levels (currently around 65 cents) has been long awaited, and Tenon will be a direct beneficiary of this in 2016 (refer Looking Ahead, below). However, due to the run-off of FX hedging cover previously taken, this decline had limited impact on the 2015 results, as the effective exchange rate for Tenon in the period was 79 cents – very much in line with 80 cents reported in 2014.

During the year Tenon expanded its product range in both markets, as **new customers were acquired and new business won**. Examples of this were the introduction of a new pre-finished mouldings range, a broader integrated stairparts program, and a new door shop program. Most of this new business occurred towards year end, and will be reflected in fiscal '16.

The two clearwood optimisation projects at Taupo (NZ) are proceeding to plan. These two exciting projects, which have a combined cost of $7 million and a payback of circa 18 months upon full commissioning, are critical to Taupo expanding its supply of high-value clearwood products – particularly clear pine boards, where market demand today significantly exceeds Tenon's ability to supply. The first project is currently in its commissioning phase, and will be fully operational by the end of next month. The second project will be commissioned in Q1 of calendar'16. The equipment being installed is proven industry technology, and no start-up issues are envisaged. The full benefits of these capital upgrades will not be realised until the second project is completed early next calendar year.

In April, **Tenon expanded the size and improved the terms of its syndicated bank facility,** in order to allow for the Taupo capex upgrades, to meet working capital demands as cyclical recovery continues, and also to provide us greater flexibility as to future shareholder distributions. The facility was increased in size to $75 million, the end-date extended out to 2020, and more favourable borrowing rates obtained.

Tenon's debt (net of cash) at year end was $58 million, up $8 million in the year. This increase was primarily a result of expenditure on the Taupo capex projects outlined above ($4 million), and cyclical working capital expansion. Working capital expanded further than normal in the last quarter in order to meet the initial inventory stocking levels required for new programs and organic growth, however these initial levels are expected to quickly reduce in the new fiscal year as normalised inventory turns are met on this business. In the absence of any acquisitive growth moves, Tenon's expectation is that its net debt at end of fiscal'16 will be lower, particularly as its positive cash flow and earnings expand. Beyond the two major Taupo projects discussed above, our manufacturing assets are in excellent shape and require little in the way of ongoing expenditure. Indeed, Tenon's annual capex requirements are limited primarily to IT expenditure to support its logistics and customer delivery platforms.

ARBORGEN

In our recent Reviews we have outlined ArborGen's current focus as being –

- Move customers up the genetic value ladder – e.g. to MCP products
- Participate in increased industry sales that occur as the US housing cycle recovers
- Turning EBITDA positive
- Developing 'blended' production method to increase supply of advanced products
- Expanding existing positions – e.g. Australasia
- Investing in new geographic growth – e.g. Brazil
- Building on new business opportunities
- Investigating completely new 'step-out' opportunities

It is now timely to review each of these, in order to benchmark ArborGen's progress, to ensure the company remains on track to fulfil its business goals.

In our Interim Review we expanded on the first two of these bullets, by providing guidance as to the targets for ArborGen's sales performance for the fiscal year (now just completed), as well as commenting on the wider manufacturing, production, and sales objectives.

The targets discussed were to –

1. *World-wide -*
    a. Lift total sales volumes world-wide by 10% y-o-y
    b. Increase revenue 15-20% y-o-y
2. *In the US –*
    a. Increase volume 10% y-o-y
    b. Produce 270+ million seedlings
    c. Deliver ≈ 20% of loblolly volumes in advanced genetics sales in the US, on these higher overall volumes
    d. Implement 'blended' advanced genetics production technique
    e. ≈ 30% of 2015 loblolly pine volumes under term contracts
3. *In Australasia –*
    a. Lift revenue 15-20% y-o-y
    b. NZ revenue for advanced genetics pine ≈ 85% of NZ pine revenue
4. *In Brazil –*
    a. Sell 5-10 million in first 24 months
    b. Sell-out current year order book
    c. Advance a 'follow-on' loblolly pine strategy
5. *Financial -*
    a. Be on-track to meet EBITDA positive run-rate by end of CY'15

The short summary of ArborGen's actual results for 2015 compared with these specific objectives is that all targets set were met. This was an excellent achievement. More specifically, looking at each, and borrowing directly from the Highlights section at the beginning of this Review, the year's outcomes against each targeted objective can be summarised as follows (number references are to the above targets) –

Worldwide –

✓ Total sales volumes were 309 million seedling, up 17% y-o-y	1a
✓ Revenue increased 17% to $35 million	1b

In the US –

✓ Volumes increased 15%, to 282 million	2a + 2b
✓ Advanced genetics ≈ 22% of US loblolly volumes	2c
✓ Blended production technique proceeding to plan (refer below)	2d
✓ Customer term contracts (≈ 30%) in place (refer below)	2e

In Australasia

✓ Revenue lifted 21%	3a
✓ NZ revenue for advanced genetics pine ≈ 85% of NZ pine revenue	3b

In Brazil

✓ 6 million Eucalyptus seedlings were sold	4a
✓ Current order book is sold out	4b
✓ Follow-on pine operational strategy in late development stage	4c

These are each strong 'on-target' outcomes, setting the company up well for its objective of **being at a projected EBITDA positive 'run-rate' as it enters calendar'16.**

In addition to these immediate production and sales goals, ArborGen also set itself strategic milestones that would ensure the long-term value of the company continues to build and grow. In order to give comfort to potential investors as to the on-going customer move to higher value genetics and as to continued growth in market share, ArborGen set out to '**lock in' in a percentage of its customers under long-term contract. The target was 30% of 2015 US loblolly pine sales volumes, and by year-end this important milestone was met**. Again, another impressive achievement, supporting the company's underlying business model.

As previously discussed, while ArborGen forecasts that it will have sufficient product supply to meet demand for its advanced loblolly pine products in the US, in the immediate next few years that is not the case, and demand will likely outstrip ArborGen's ability to supply. Whilst this is better than it being the other way around, we would prefer ArborGen were in a position to take full advantage of market demand for its highest value products – and achieve the related earnings benefits. The current situation has arisen because of a poor MCP seed out-turn from ArborGen's orchards last season (a result of poor pollination conditions that prevailed) and a strong lift in market demand for these products.

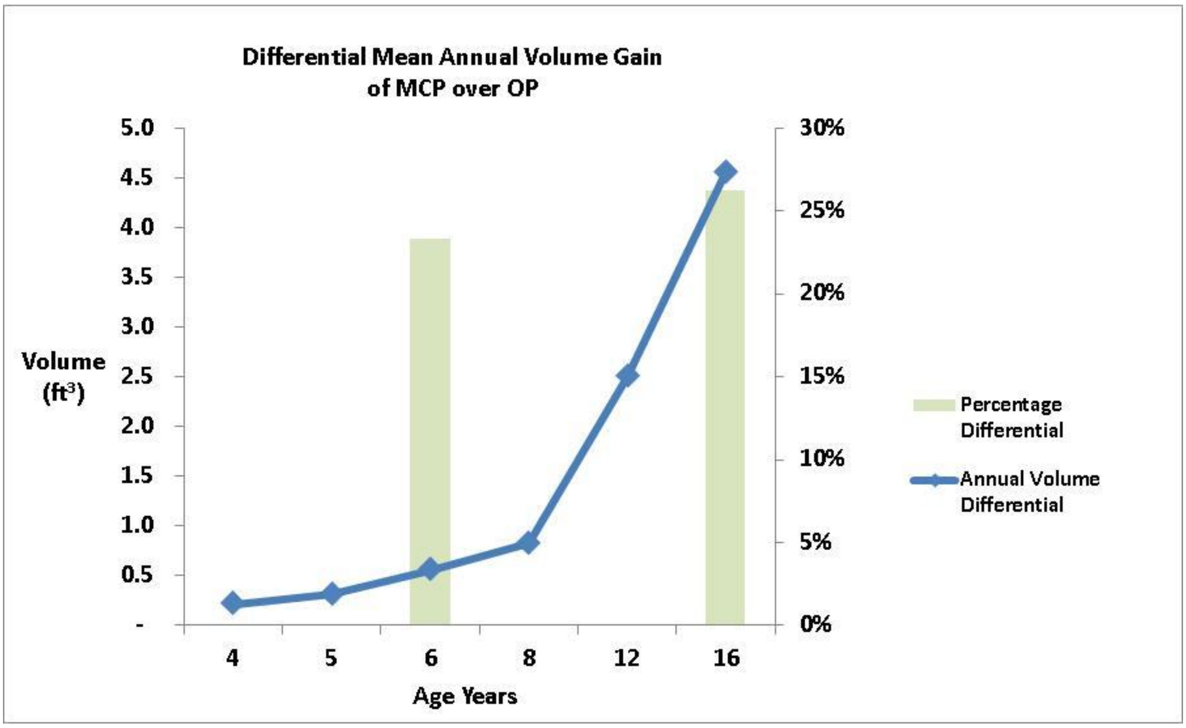
To help address this, in addition to traditional seed orchard expansion, ArborGen has also been trialling in initial commercial volumes of MCP and varietal seedlings, a 'blend' of traditional propagation and production methods with ArborGen's proprietary advanced biotechnology techniques. The goal here is not only to expand ArborGen's advanced genetics supply position, but also to lower the cost of production of its highest value varietal products. Progress to date has been good, and **ArborGen now believes that over a two-year period it will be able to build production to a level commensurate with market demand for these products. In addition, trials to date indicate a significantly lower production cost for varietals can be achieved** under the blended technique than is currently the case under a pure biotechnology technique.

ArborGen built on its existing geographies in 2015, with the **acquisition of the Edendale operation in New Zealand, and with further production expansion in Brazil**. The Edendale opportunity is to sell higher value genetics to existing traditional genetics customers. In Brazil, the target for this new fiscal year is to produce and sell more than 15 million seedlings (a 250% increases y-o-y), and in the subsequent year to acquire further internal nursery capacity to grow this volume even further.

In terms of step-out opportunities, and as foreshadowed in the Interim Review, **China remains under active investigation**. We summarized the position succinctly in the Interim Review when we said (quoting) that China represents a massive annual planting market opportunity for both loblolly and eucalyptus, and it has a need for advanced genetics to lift performance above the low commodity seedling genetic base that prevails today. To advance its due diligence, ArborGen has been in discussions with large end-users and provincial governments in selected provinces in China, to determine whether a low-risk, low-capital entry point to the China opportunity can be created.

In this respect, ArborGen needs to be realistic about the resource (people and dollars) involved in order to be successful there, and the risk to growth of the core business from diverting capability away from existing markets. The ArborGen Board will ultimately weigh up all of this and make the decision as to how best to address the China opportunity, whilst still ensuring success in its existing markets (including growth in Brazil).

In our Interim Review Outlook we commented that we would provide some data in this Review as to the **value gains that can be delivered from the adoption of higher value genetics**. In this respect, ArborGen recently completed a review of an MCP trial that has been 'in the ground' for 16 years in Berkley County, South Carolina. This trial site provides a great illustration of what is achievable with MCP genetics. The first point the data showed was that the MCP growth rate started out ahead of the OP 'control' block and continued like that right through to today. The comparable performance is shown in the graph below, and the importance of this is not only the circa 25% absolute growth rate gain per se, but also that the increased growth rates seen at year 6 (typically the age at which genetic selection takes place) continued on through the tree's life to date (i.e. year 16), and likely through to maturity and eventual harvest.



The second point that presents itself from the Berkley trial is that, based on continued growth through to forest maturity, the MCP site would deliver 60% more revenue at harvest than would be generated from the OP seedling alternative, and more importantly ≈ 150% higher BLV (BLV is an economic return metric, representing the net present value of a perpetual forest rotation). This BLV increase would more than double the land-owner's return on MCP plantings, for an initial cost of (say) $0.20 for the MCP seedling compared with $0.065 for the OP seedling. This is compelling economics for the landowner / forest grower.

FINANCIAL

As Rubicon's functional currency is the US dollar, our financial statements generally refer to US dollars unless otherwise stated. All numbers are rounded to the nearest million. As Rubicon has majority ownership (59.8%) of Tenon, NZ International Reporting Standards (IFRS) require Tenon's Income, Cash Flows and Balance Sheet financial statements to be consolidated into Rubicon's statements. This is the basis upon which our financial statements are presented in this Review.

Rubicon returned to a bottom line profit, recording a $3 million net earnings result. This is a notable improvement on the loss of $2 million in the prior year. Operating earnings before financing expense improved to a profit of $8 million (2014: $4 million). This was largely due to a recovery in Tenon's earnings (refer TENON section above) as cyclical recovery in the US housing market continued. This was achieved despite the expensing of $3 million in a major refurbishment program to retail / DIY stores, the negative impact of the US west-coast port strike, sales foregone from severe US winter storms, costs associated with the now completed US distribution business restructuring, and an average effective NZ$:U$ exchange rate of 79 cents. This net earnings uplift was also reflected in our EBITDA[10] result, which improved to an $11 million profit (2014: $8 million), inclusive of the expensing of $2 million (2014: $2 million) of research and corporate development costs relating to ArborGen.

As Rubicon owns only 31.67% of ArborGen, ArborGen is treated as an associate and its debt is not consolidated into Rubicon's balance sheet, however Tenon's debt is consolidated into Rubicon's statements as we own 59.8% of Tenon. ArborGen and Tenon's debt are non-recourse to Rubicon Limited. At year-end, Rubicon's consolidated bank debt (net of cash) was $78 million (2014: $60 million), of which Tenon's debt was $58 million (2014: $50 million), and Rubicon Limited's own debt was $20 million (2014: $10 million). The increase in Rubicon's consolidated net debt reflected partner contributions ($6 million) to ArborGen in the period, Tenon's capital expenditure program ($6 million, which included two large optimisation capital upgrade projects at its Taupo NZ manufacturing site), and $6 million in working capital requirements net of cash flow generated.

As noted in the TENON highlights, during the period **Tenon amended its syndicated debt facility, to increase the facility size to $75 million and to extend its expiry date out five years, to 2020. ArborGen also extended its existing bank facility, which was to have expired in August 2015, out to August 2016.** The partner capital contribution requirements for the next fiscal year for ArborGen have been set at $4 million, approximately $2 million of which had been contributed at balance date.

To meet these needs, **Rubicon extended its existing $20 million debt facility with the ANZ out to July 2016, and also issued $3.5 million of debt notes fully subordinated to the ANZ facility. A total of $10 million debt notes are able to be issued, and commitments have been received for $7 million** – which (together with future dividend receipt from Tenon) should be sufficient to allow Rubicon to meet its ArborGen funding (and corporate) commitments for its 2016 financial year.

SHAREHOLDER VALUE INITIATIVES

Tenon's share price move up strongly, increasing 32%[6] in the period under review. This increase far exceeded the performance of the NZX50 index, which rose only 10%, and also the ASX50 and Dow Jones indices, which in comparison declined -3% and -2% respectively over this same period.

Although this relative share price performance is positive, we are obviously disappointed that in absolute terms the price is still well below external views of value. In this respect Edison Research issued a report on Tenon in March that, based on comparable equity market earnings multiples and the NZ$:US$ cross rate at the time, valued Tenon at NZ$3.75 – NZ$4.99 per share. We are very keen to quickly close this 'gap' and in this regard earlier today Tenon announced two value initiatives aimed at increasing shareholder value.

The first initiative is that Tenon will immediately undertake a **Strategic Review**. The underlying goal of the Review is to come up with the risk-adjusted path most likely to close the Tenon share price value gap and thereby achieve better value recognition for all shareholders. Deutsche Craigs and Deutsche Bank have been appointed as Tenon's exclusive advisors for the purpose of this Review.

The second initiative is the introduction of **dividend payments at Tenon**. Tenon had previously announced its intention to begin making regular dividend payments to shareholders in fiscal'16. Tenon has determined that the Company will immediately follow through on that intention, by declaring a final dividend payment in respect of its fiscal '15 year just completed. The dividend is NZ5.0 cps, and payment will be made on 6 November. Moving forward, Tenon's intention[3] is to make two dividend payments per year (subject to Tenon's financial performance, capital needs, and the outcome of the Strategic Review), following the completion and announcement of each of Tenon's interim and annual results. **The share price growth that should come from Tenon's future earnings profile (i.e. a recovering US housing market, falling NZ$:US$, organic growth initiatives, and the benefits from completion of the Taupo capex projects) together with the implementation of regular dividend payments, should make a compelling investor proposition. A collateral benefit of Tenon beginning regular dividend payments, is that any this will assist us with Rubicon's own internal funding needs as we receive our share of Tenon dividends paid.**

Value enhancement in Tenon should of course flow directly through to Rubicon's share price. We need to acknowledge that this has not been the case to date, with recovery in Tenon's price being more than offset by a decline in the underlying value of ArborGen implicit in Rubicon's share price (i.e. on a 'look-through' basis). This is counter-intuitive, and our view remains that this movement does not reflect the reality of the progress that ArborGen has made in its commercialisation goals over the past 12 months (please refer ArborGen Summary Highlights in this Review and in our 2014 Annual Review to shareholders). Given that Rubicon holds the strategic control stake in Tenon and our investment should therefore carry some additional 'premium' value to us, the moribund Rubicon share price performance is even more disappointing.

We have discussed the reasons before – particularly the illiquidity of the Rubicon share register, and the 'waiting for events to prove value dilemma' – however **it is ultimately our responsibility to ensure the market understands and values the investments we have and the progress that has been made. The alternative is to actually prove-out the value such that no gap can exist. With Tenon, this latter path is the current focus, and the underlying reasons for the announcements made by Tenon earlier today (as discussed above) reflect this.**

LOOKING AHEAD

Tenon

Whilst lower global activity and the potential for interest rate rises in the US remain as broader macro risks, Tenon does still see continued recovery in the US housing market in 2016 as the most likely outcome. This view is supported by the majority of industry and economic commentators[7]. This, combined with a series of positive earnings factors in the new fiscal year – e.g. a much more favourable FX environment closer to accepted long-run NZ$:US$ equilibrium, the benefit of the North American restructuring put in place this past year, completion of the Taupo manufacturing optimisation upgrades, gains made from new business won in 2015, non-repetition of the one-off events that occurred this past year (e.g. West Coast port strike), and the major store refurbishment costs largely completed - should see a much stronger earnings result for Tenon in 2016. In this respect, Tenon has announced it is internally **targeting EBITDA[2] of in excess of $20 million for fiscal 16.** This potential earnings range reflects Tenon's sensitivity to small improvements in macro conditions, as it lifts volume and revenue off an established distribution infrastructure cost base. To this point, Tenon has also repeated **its mid-cycle[4,8] EBITDA[2] projection of circa $50 million,** assuming a mid-cycle NZ$:US$ exchange rate of 65 cents. As Tenon achieves its earnings growth profile, that should convert into continued Tenon share price out-performance.

Tenon share price performance will also be supported by the announced commencement of dividends, and by the outcome of the Strategic Review process (both announced earlier today) later in the fiscal year. And whilst it has not been the case to date, **these gains should logically also convert into share price uplift for Rubicon, given our 60% holding in Tenon and given the strategic nature of Tenon's recent announcements.**

ArborGen

As we commented in our Interim Review, ArborGen is **entering a period of growth** – both expansionary (e.g. the Brazil step-out) and organic (e.g. working capital growth as the US market continues to recover). The **funding of these should ideally be met out of capital raised in an external ArborGen financing event** – i.e. an event that achieves both capital and liquidity objectives. ArborGen continues to actively advance this financing objective.

Operationally, whilst ArborGen still needs to improve its blended production technique to lower cost and increase the supply of its advanced products, the ArborGen business model is largely built. It is now all about increasing sales volume, revenue and earnings in its core markets, and meeting the successive milestones that maximise the attractiveness of ArborGen to external investors.

On behalf of Board and management we would like to thank all our stakeholders for their continued support. As always, it is very much appreciated.

Sincerely,

Steve Kasnet
Chairman

Luke Moriarty
Chief Executive Officer

Footnotes

[1] Revenue includes the sale of logs at the NZ (Taupo) manufacturing site under back-to-back forest stumpage arrangements. As planned, these arrangements terminated during the 2015 year. Whilst additive to revenue, these log sales were carried out at zero margin and did not contribute to Net Earnings. The log sales number included in revenue in 2015 was $6 million (2014, $11 million).

[2] EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisations) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance, because that number removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures. Refer also Note 10 of our 30 June 2015 Preliminary NZX Announcement. Tenon's EBITDA is calculated as Net Profit after Taxation of $6 million (2014: $2 million), plus Tax Expense of $nil (2014: $1 million), plus Financing Costs of $4 million (2014: $4 million), plus depreciation and amortisations of $3million (2014: $4 million).

[3] Eventual earnings, cash flow, net debt and dividend payment outcomes will be dependent upon continued US housing market recovery, interest rates, NZ$:US$ cross rate, and the Strategic Review (amongst other drivers, many of which are beyond Tenon's control).

[4] Tenon defines mid-cycle as 1.6 million housing starts, NZ$:US$ 0.6500, projected FY'16 gross margin % held flat, benefit of current Taupo optimisation capex, and limited organic growth (i.e. product program expansion and pro-dealer territorial expansion).

[5] Availability is the difference between the amount drawn and the borrowing limit under the Facility (as adjusted by available collateral).

[6] For the period from 1 July '14 through to the time of writing this report.

[7] 2016 projection represents an average derived from information and reports publicly released by Fannie Mae, Freddie Mac, Mortgage Bankers Association, National Association for Business Economics, National Association of Home Builders, Forest Economic Advisors, Survey of Professional Forecasters, Goldman Sachs, and Deutsche Bank.

[8] Mid-cycle housing starts represents an average derived from information and reports publicly released by Forest Economic Advisors, Forisk Consulting, Joint Center for Housing Studies of Harvard University, Goldman Sachs, Deutsche Bank, and from Tenon's own internal research.

[9] Tenon's fiscal year is 30 June, so FY'16 refers to the 12 months ending 30 June 2016.

[10] EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisation) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the difference in asset ages, depreciation policies, and debt:equity structures. EBITDA is calculated as Net Profit/Loss after Taxation of $3 (2014: $2 million loss), plus tax expense of $nil (2014: $1 million), plus financing expense of $5 million (2014: $5 million), plus depreciation and amortisation of $3 million (2014: $4 million). Please also refer to Note 10 of our 30 June 2015 Preliminary NZX Announcement.