ANNUAL REVIEW

YEAR ENDED 30 JUNE 2016

(released 29 August 2016)

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, pricing and customer concentration risk, and the outcome of the Tenon Strategic Review which is unknown and uncertain (although a Blue Wolf Capital offer has been announced today in respect of Tenon's North America division). Grant Samuel is preparing a valuation report for Tenon shareholders, which shows a value range of NZ$3.01 - NZ$3.25 per Tenon share assuming completion of the Blue Wolf offer, however that value is subject to a number of uncertainties and risks beyond the control of Tenon, and it is also pre transaction / wind-up costs. The actual outcome will be determined by the Strategic Review process, which may differ materially from the indicative Grant Samuel valuation. Tenon discloses its results separately on the NZX, and those releases may contain additional information on its performance, risks and opportunities than does Rubicon's reporting of Tenon's activities. Accordingly, Rubicon shareholders should also refer to Tenon's separate NZX announcements.

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. Rubicon is the majority shareholder in Tenon, and effectively controls the operational / financial performance and strategic direction of Tenon as a result. In contrast, Rubicon is only a minority equity investor in ArborGen, and accordingly it does not control the operational / financial performance and strategy of ArborGen, and it is therefore dependent upon another of ArborGen's partners voting in a like-minded manner in order for Rubicon to achieve its desired ArborGen outcomes.

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 - 2016

Shareholder Value Announcements

- **Strategic Review progressing** –
  - Blue Wolf Capital ("Blue Wolf") offer received today for Tenon's North American operations -
    - US$110 million purchase price
    - Implied FY'16 EBITDA[5] multiple of 7.3x (adj for the LSCFP[8])
    - Offer to go to Tenon shareholders for approval in November
    - Will be combined with large shareholder pro-rata capital return
    - Grant Samuel to prepare independent report for Tenon shareholders
    - All Tenon debt to be repaid on closing
  - Separate review process in relation to Australasian Clearwood assets continuing
- Tenon final dividend of NZ6.50[2] cps announced, up 30% on last year's final dividend

Financial and Operational

- **Improved operational earnings performance**
  - **Revenue[4] of $430 million, up 9%** (cpp[7] $396 million excluding forest/log sales[4])
  - A goodwill write-down of $31 million recorded in relation to Blue Wolf offer along with $3 million of Strategic Review costs expensed, saw **Tenon report a net loss after tax of $(21) million**
  - **Excluding both those costs, net profit after tax more than doubled, to $13 million** (cpp $6 million), and this was after expensing $3 million of restructuring/impairment costs in North America and Australasia (refer EBITDA commentary below)
  - **Gross margin expanded to 26%** (cpp 24% adjusted for forest and log sales)
  - **Operating earnings lifted 130% to $23 million** (cpp $10 million) and **EBITDA[5] doubled to $26 million** (cpp $13 million), prior to the $31 million goodwill write-down noted above in relation to the Blue Wolf offer, $3 million of Strategic Review costs, and $3 million of restructuring/impairment costs

- **Key operational initiatives were completed –**
    - **The two NZ manufacturing capital projects, totalling $7 million, were concluded -**
        - The optimising edger was commissioned in August / September ‘15, the ripline project was commissioned in April / May ’16, and both are achieving targeted benefits
        - Annualised EBITDA benefits projected to exceed $4 million pa
    - **Texas warehouse consolidation completed -**
        - 367,000 sq ft building was completed in Texas in June ‘16
        - Houston and Dallas facilities now consolidated into this new mega-facility
        - Logistics, efficiency and rental gains moving forward
    - **New procurement and forecasting system (Data Profits) now in place**
    - **New business won -**
        - New, and extended, National Home Centre product programmes won (e.g. hardwood boards, commodity boards, etc)
    - **Territories expanded** -
        - Pro-dealer regional expansion implemented (e.g. Louisiana and New York)

- **Balance sheet strengthened –**
    - **Net cash from operating activities lifted materially, to $35 million** (cpp $2 million)
    - **Closing net debt reduced by $22 million, to $36 million** (cpp $58 million), reflecting -
        - Cash flow from operations, less –
            - $3 million expenditure on the completion of the NZ manufacturing projects, and $2 million in other capex (e.g. IT-related spend in NA distribution activities)
            - $5 million in shareholder dividend payments
            - $3 million in financing costs

Outlook

- **US housing market to continue to improve**
- **NZ$:US$ cross rate forecast to decline from current levels as the year advances**
- **Operational initiatives put in place in FY’16 to be reflected in FY’17 earnings**
- **EBITDA[5] and Net Earnings targeted to improve[3] further**

ARBORGEN HIGHLIGHTS - 2016

- **Production & sales**
  - Revenue increased to $37 million
  - Advanced genetics targets met -
    - US advanced genetics increased to ≈ 25% of loblolly volumes (cpp 22%)
    - ANZ advanced genetics ≈ 85% of total radiata revenue
  - Global production was up 5% y-o-y, to 324 million seedlings (cpp 309 million)
    - Brazil sales increased 400%, to 30 million seedlings
      - 25 million eucalyptus (cpp 6 million)
      - 5 million loblolly (cpp nil)
    - ANZ sales were flat 'y-o-y' at 21 million
    - Although demand was strong, US sales were down 3% to 273 million, due to -
      - Floods in the US South affecting seed germination and damaging crops
      - Planting crew availability and unseasonal weather impacting site preparation
- **Herbicide tolerant eucalyptus (biotech) field trial approval received from the regulatory authority (CTNBio) in Brazil**
- **Focus remains on critical commercial milestones for forward financing event**
- **Cash requirements for working capital and growth continue to be refined -**
  - Surplus land sales advanced
  - Employee litigation settled
  - Restructuring initiatives completed
  - US acquisition opportunities progressed
- **New Debt facilities put in place –**
  - A new 20-year term loan facility of $13 million, was established with AgSouth
  - The existing NBSC bank relationship has been extended out to August 2017, with a $15 million working capital line
  - Funding lines of $28 million are now available to ArborGen in North America
  - Australasian operations are funded by a NZ$4.5 million facility, expiring in 2018
- **On track to meet EBITDA operational break-even / positive FY'17 run rate objective**
- **Macro-conditions outlook remains favourable**
  - US housing activity levels forecast to continue to grow over next 5 years
  - Brazil forestry and wood products market demand conditions to remain positive
  - New Zealand / Australia conditions to improve off current 'trough' conditions

TENON

Operational Review

2016 was a strong performance year for Tenon – not only in terms of financial results, but also in terms of setting the company's platform for future growth. In no particular order –

- Tenon completed its two large **capital upgrade projects at Taupo**, to their combined budget and commissioning timelines. The technology implicit in these projects now provides the Taupo operations with greater 'cut' flexibility, improves recovery of higher value grades and through-put efficiencies, and offers improved responsiveness to changes in market demand, by product type. The $4 million pa additional EBITDA[5] that should flow from these two projects will also be a strong positive for next year's earnings.

- Tenon continued to **grow the distribution footprint in the US**, expanding territories and launching new product programmes.

- In June, the **consolidation of Tenon's two Texas warehouses** into one mega-facility in Dallas was completed. This new purpose built 367,500 sq ft facility will allow Tenon to better serve its customers in the region, whilst reducing its cost base moving forward through rent and logistics savings.

- A new **demand planning / procurement system** in Tenon's North American distribution operations was implemented. The targeted benefits include better inventory management and increased sales across any given 12-month period. While Tenon is still in the "bedding down" phase of the implementation, by the end of the current calendar year the majority of the on-going operational benefits from this system will be in place.

- Some large restructuring/impairment costs were incurred in FY'16 (e.g. $2.0 million in respect of our Australian operations, and $0.9 million in relation to the Texas warehouse consolidation), these were fully expensed in the period, and having them addressed will be a positive for Tenon moving into FY'17.

- **Operating earnings lifted 130% and EBITDA[5] doubled** (excluding project costs, goodwill write-down relating to the Blue Wolf offer (refer detailed discussion below), and restructuring / impairment costs).

- **Tenon generated $35 million in net cash** from operating activities in the period – a strong improvement on the $2 million generated in the cpp, which helped reduce net debt to $36 million at balance date (cpp $58 million).

- A NZ6.50 cps final Tenon dividend in respect of fiscal 2016 has been announced, which is a 30% increase on last year's final dividend. This dividend will be paid in September 2016 to Tenon shareholders.

Strategic Review

In August last year Tenon announced that it would undertake a Strategic Review of the Company to help determine the most appropriate risk-adjusted value path forward for Shareholders, in order to close the perceived value-gap that was evident in the share trading price at that time. The Tenon board appointed Deutsche Bank and Deutsche Craigs to assist it in that endeavour, and soon after – in October last year – announced that it had received expressions of interests in Tenon that required the company to run a full sales process, as one of the key value alternatives open to the company to close the value gap.

Much has happened since then. For a start, Tenon's earnings profile has begun to prove out as projected, with EBITDA[5] doubling in FY'16 y-o-y. Cash generation has also strengthened materially, with the Tenon repaying $22 million of its net debt balance in this last fiscal year alone. And Tenon's share price has increased significantly. When the Strategic Review was announced last year, Tenon had not begun to pay dividends, the NZ$:US$ fx cross rate was under 65 cents, and the Tenon share price was NZ$2.00. As at the time of writing this report, the cross rate was over 72 cents, Tenon had announced three dividends over the past 12 months totalling NZ17.25 cps, and the Tenon share price was over NZ$2.50. Adjusting for dividends paid and fx rate movements, the total return on our Tenon investment since the Strategic Review announcement in August last year (i.e. the past 12 months) has been circa 50%, so we have been very pleased with that, and with the closing of much of the Tenon value gap that has occurred since the announcement of the Review.

The sales process that Deutsche has run determined that there were distinct buyer classes for each of Tenon's North American distribution operations and its NZ manufacturing activities, and that in order to optimise value for shareholders separate review processes should be run in respect of these two asset classes. Today Tenon announced that it had received a signed offer from Blue Wolf (a North American Private Equity firm operating in the forest and wood products arena) to acquire its North American operations only, for US$110 million (which reflects a 7.3x multiple on Tenon's North American division FY'16 EBITDA[5] (adjusted for the Lowe's supply chain financing programme, which had a balance of $20 million at 30 June)) – Tenon's large New Zealand manufacturing operations (which had revenue of circa $90 million last year including Australia) fall completely outside of this offer.

Historically our assets have been accounted for under IFRS at their "value-in-use" (i.e. their value to Tenon under our continued ownership and control, through the cycle), which you will understand can be quite different from a purchase offer received at any point in time, particularly in early cyclical recovery. Like Tenon itself, we have taken a $31 million impairment charge in our 30 June financial statements in order to align the carrying value of our Tenon investment with the Blue Wolf offer price, and this is disclosed on the face of the Income Statement.

The Tenon board has engaged Grant Samuel to produce an independent report on the proposal for Tenon shareholders, and they will be assessing the value of Tenon's residual manufacturing operations as part of their overall assessment of Tenon value for shareholders. We await that report, however we note that Tenon has said that Grant Samuel has confirmed to the Tenon Board today that the Blue Wolf offer is within its assessment of the valuation range for the North American operations, of $108.1 - $129.5 million. Grant Samuel has also provided an indicative value range for Tenon as a whole, of NZ$3.01 - NZ$3.25 per share assuming the Blue Wolf offer proceeds, using current exchange rates, inclusive of the value of the NZ manufacturing operations not subject to the Blue Wolf offer, and pre transaction / wind-up costs. Of course, this is a valuation report only, and not a 'realised value' or a 'promise' from Tenon, and at the end of the day the outcome will ultimately be determined by the conclusion of Tenon's Strategic Review process later this year.

The Blue Wolf offer will be put to Tenon shareholders for approval at a November Tenon meeting, and approval of the Blue Wolf Offer and completion of the deal would see all of Tenon's debt repaid and a large (exact amount to be agreed) pro-rata cash capital return made to all Tenon shareholders, including to Rubicon as Tenon's 60% shareholder. Tenon will be continuing with a review process in respect of its residual NZ manufacturing assets.

If shareholders elect not to proceed with the Blue Wolf offer, Tenon has determined that, from a strategic perspective, it will still continue with the NZ manufacturing Strategic Review process to see where that leads, and it will also continue to run the company for value as it did in fiscal '16. In that scenario, Tenon's stated intent is to immediately re-leverage Tenon to market levels and simultaneously return a large amount of capital to shareholders in a one-off capital return proposal. We concur with Tenon that the return of capital to shareholders at this point in the Company's life remains the best use of the surplus cash being generated today (in the absence of any obvious acquisition target).

ARBORGEN

The Highlights summary at the beginning of this Review shows the ArborGen achievements succinctly.

In this respect, **the high point was unquestionably the growth achieved in Brazil,** where **varietal eucalyptus production and sales increased from 6 million seedlings last year to 25 million in 2016**, and where pine sales increased from a 'standing start' to 5 million seedlings in the period. Two years ago, ArborGen made the initial strategic decision to enter Brazil – this year it sold 30 million seedlings in both eucalyptus and pine, which represents a 400% growth y-o-y. A sound platform has now been established in the largest commercial eucalyptus geography in the world. The question now is how best to fund the productive capacity needed to meet the growth ArborGen sees there.

Whilst total global production and sales were up 5% (the target for the year), US production and sales were down 3%. This was due to factors completely outside of ArborGen's control. Severe weather conditions in the US south saw poor seed germination, and crop 'wash-outs' from floods. This in turn saw forest companies unable to take all seedlings as site preparation was delayed. The lack of planting crews due to changes to temporary employment rules, also impacted 2016. So the year was affected by a 'smorgasboard' of uncontrollable factors, that saw sales volumes decline y-o-y.

Pleasingly, despite those factors, the **adoption of advanced genetics by ArborGen's customers (the critical indicator) continued to increase**, **representing 25% of loblolly sales volumes in 2016 compared with 22% in 2015.**

ArborGen **Australasia's advanced genetics sales as a percentage of total pine revenue remained at around 85%,** on flat sales y-o-y. This extraordinarily high percentage is indicative of where the US market can also get to over time, and it represents the ArborGen opportunity in a 'nutshell' when compared with the current 25% level.

Despite the factors impacting US sales, Revenue still lifted to $37 million. Pleasingly, gross margin from commercial sales also increased 20% to $12 million (cpp $10 million), as the relative share of **advanced genetics stock increased as a percentage of the total**. And, as a result, ArborGen believes it remains on track to meet its **break-even EBITDA goal.**

Although ArborGen has made the strategic decision to focus its immediate efforts on developing advanced non-regulated seedlings, as this avoids the development cost and long lead-time regulatory approval process associated with biotech crops, ArborGen will use its transgenic biotech capability to develop improved genetic products to take to market where it makes commercial sense to do so – i.e. where the performance outcome is relatively certain, where product performance can be proven early in a tree's life, where market demand is evident, and where the product cannot be developed another way. To this point, CTNbio, the relevant regulatory authority in Brazil, has recently given ArborGen **approval to field test** its new herbicide tolerant eucalyptus product – a good example of a product which meets each of these conditions.

During the period ArborGen focused on actions that **tidied up the balance sheet and improved the company's funding position.** Surplus land sales were advanced in North America and Australasia, patents carried on the balance sheet were aggressively tested for asset value and written off where appropriate to do so, and ArborGen's bank funding facilities were addressed. During the year, AgSouth was brought in as a new relationship bank, with a 20-year $13 million term loan. NBSC's existing $15 million working capital line was extended out to August 2017. Australasia's existing NZ$4.5 million bank line was extended out until November 2018, and is sufficient to fund all its needs. In total, ArborGen now has over $30 million of bank funding lines available to it.

It was pleasing to **put the ArborGen employee dispute behind us.** As has been previously publicly stated, the dispute has been settled for an immaterial cost to Rubicon, and no cost to ArborGen. However, the true cost is better measured in wasted time, resource, emotion, and reputation. In that respect we were extremely disappointed with some of the media coverage of the situation. Not wanting to labour the point, but for the record, the release we made to the NZX and market on 24 March read as follows –

Rubicon announced today that the South Carolina Court presiding over the ArborGen employee litigation has granted the defendants' (i.e. ArborGen, International Paper, MeadWestvaco, Rubicon, and their current and former representatives) motion to alter / amend the judgment in this matter. The Court has dismissed the litigation, and vacated in its entirety its prior US$53 million order in favour of the plaintiffs (i.e. it is null and void, and of no effect), and the parties to the litigation have agreed a confidential settlement arrangement, which brings this matter to a final conclusion. The net financial cost to Rubicon of that settlement is immaterial, and as far as Rubicon and its investment in ArborGen are concerned, there is no further financial impact from this lawsuit.

It is very difficult to misread that statement, but some chose to do so all the same.

The Partners have confirmed their **funding commitment** to ArborGen for the current fiscal year, and next year's funding will be established at the time that the new Budget and capital programme is agreed in Q2 of next calendar year. This will obviously form part of a wider funding discussion.

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 recorded a bottom line net loss after tax of $24 million. Excluding the goodwill write-down of $31 million in relation to the Blue Wolf offer, Rubicon recorded a net profit after tax of $7 million, more than doubling the previous year's $3 million profit. Operating earnings (excluding the Tenon goodwill and impairment/restructuring write-downs, and Strategic Review costs) almost trebled to $22 million (cpp $8 million), largely due to a recovery in Tenon's earnings (refer TENON section above). This net earnings uplift was also reflected in our EBITDA[1] result, which more than doubled to $25 million profit (2015: $11 million).

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 $62 million (2015: $78 million), of which Tenon's debt was $36 million (2015: $58 million), and Rubicon Limited's own debt was $26 million (2015: $20 million). The $16 million reduction in Rubicon's consolidated net debt reflected cash flow from operations of $32 million (cpp $(1) million), less Partner contributions to ArborGen of $4 million (cpp $6 million), $5 million (cpp $6 million) on Tenon's capital expenditure programme, which included the completion of the two large optimisation capital upgrade projects at its Taupo NZ manufacturing site), interest paid of $5 million (cpp $4 million), and dividends paid to minority Tenon shareholders of $2 million.

As noted in the ARBORGEN highlights, during the period ArborGen extended its existing $15 million working capital line with NBSC out to August 2017, and established a new bank relationship with AgSouth, where a 20-year $13 million amortising term loan was put in place, and extended out to November 2018 its NZ$4.5 million domestic bank facility which funds its Australasian activities. Tenon has a $75 million syndicated financing facility that does not expire until 2020. During the period, Rubicon also extended its existing $20 million debt facility with the ANZ out to January 2017, and also issued $3.5 million of debt notes fully subordinated to the ANZ facility.

LOOKING AHEAD

Tenon

The focus is now on the Blue Wolf transaction, and the review of the NZ manufacturing assets. A Tenon shareholder meeting in November will determine the outcome of the first of these, and if approved will result in a significant return of capital to Rubicon – more than sufficient to repay all Rubicon's bank debt and subordinated notes (should we wish to do so), and meet Rubicon's future ArborGen funding needs. The successful conclusion of the NZ manufacturing review by Tenon, could offer even further headroom for Rubicon, and provide the necessary capital to address immediate ArborGen opportunities.

ArborGen

The unfortunate and disappointing employee litigation is now behind ArborGen. Whilst it resulted in an immaterial dollar settlement cost to Rubicon, it was a major distraction for all involved. With that out of the way, we can now focus purely on the future. Achieving strategic agreement on the growth and funding path for ArborGen moving forward is now the number one agenda item for the Partners. The business objectives are clear, with achieving a break-even / positive EBITDA position being the immediate target to report against.

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 (on behalf of the Board)

Footnotes –

[1] 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 to Note 9 of our preliminary announcement to the NZX. Rubicon's EBITDA is calculated as Net Loss after Taxation of $(24) million (cpp $3 million), plus Tax Expense of $4 million (cpp $nil), plus Financing Costs of $5 million (cpp $5 million), plus depreciation and amortisations of $3 million (cpp $3 million). Tenon incurred restructuring/impairment costs of $3 million in the period, Strategic Review costs of $3 million, and a goodwill write-off in relation to the Blue Wolf offer of $31 million (cpp $nil), meaning that EBITDA pre these costs was $25 million (cpp $11 million).

[2] Imputation credits will not be attached to the dividend, due to Tenon's current non-tax paying position in New Zealand.

[3] Future actual 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). In particular, the guidance noted herein assumes no adverse changes in either macro-market conditions, and assumes a NZ$:US$ cross rate level similar to that which prevailed in FY'16.

[4] Revenue historically includes the sale of logs at the NZ (Taupo) manufacturing site under back-to-back forest stumpage arrangements. As planned, these arrangements terminated during our FY'15 fiscal 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 FY '15 was $6 million. Revenue also includes the sale of residual forest assets (from time to time) that the Group holds. The revenue from the sale of forests in FY'15 was $4 million. Revenue excluding both forest and back-to-back stumpage sales was $396 million for FY'15. There was no revenue in FY16 relating to either of these items.

[5] Tenon's EBITDA is calculated as Net Loss after Taxation of $(21) million (cpp $6 million), plus Tax Expense of $4 million (cpp $nil), plus Financing Costs of $3 million (cpp $4 million), plus depreciation and amortisations of $3 million (cpp $3 million). Tenon incurred restructuring/impairment costs of $3 million in the period, Strategic Review costs of $3 million, and a goodwill write-off in relation to the Blue Wolf offer of $31 million (cpp $nil), meaning that EBITDA pre these costs was $26 million (cpp $13 million).

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

[7] cpp refers to the corresponding prior period – i.e. the comparable 12-month period to 30 June 2015 (i.e. FY'15).

[8] LSCFP refers to the Lowe's supply chain financing programme, which had a balance of $20 million at 30 June 2016.