

Luke Moriarty – CEO's address

Good morning ladies and gentlemen and welcome.

Let me begin the year's review with a discussion of Tenon.

2009 saw a continuation of extremely difficult macro-operating conditions for Tenon - in fact, conditions which have no historical precedent in the industry - and which have been reflected in a record decline in the US housing sector from its 2006 historic peak. Unfortunately, these difficult conditions were compounded even further, by the global credit crisis which took hold in the second quarter of the financial year. The decline in the macro-environment that has occurred cannot be understated.

And this is perhaps best shown by the following charts.

This first chart shows the year-over-year percentage sales figures for the Big Box Retailers in the US. These are the large home supply stores - Lowe's and The Home Depot – which are similar to PlaceMakers and Bunnings here in New Zealand, albeit on a considerably grander scale. The chart shows that these large US home store retailers have recorded 12 successive quarters of year-on-year sales declines through to June '09.

This next chart shows new housing starts in the US – and you can see that they have declined from a peak of 2.2 million houses in 2006 to a recent low of under 500,000 starts – 80% off their peak. Overlaid on this chart, is the months-of-supply of existing housing inventory, which peaked at 11.2 months during the year, and which can be compared with a long-run historic average of around only 4.5 months of supply.

While Tenon did receive some relief from the absolute peak of the USD:NZD exchange rate during fiscal 2009, this has of course since trended back up. More on this later.

And this final chart shows the USD pricing Tenon received for its key grade of high value lumber sold into the US. As you can see, a significant reduction in pricing occurred in 2009 – a reflection of muted demand, exacerbated by the onset of the global credit crisis.

The year-on-year movements shown in these charts translate into very material impacts on Tenon's earnings. For example this \$400 decline in mouldings & better lumber pricing that occurred during 2009 would equate to US\$4 million in lost operating earnings to Tenon were it to be sustained on an annualised basis.

And I show you these charts only so that you can see the extent of the situation we have been dealing with. In this environment, like many of its competitors, Tenon could easily have chosen to adopt a “hunker down” or “survival” model. But it didn’t. Instead, in addition to running the Company to tight “day-to-day” operating disciplines, it also grew and strengthened its leadership position in its unique specialty-product activities.

Here are some 2009 highlights for you.

Strategically:

- The remaining minority interest in Southwest was acquired, for \$9 million. With that \$33 million total acquisition completed, Tenon is now the full-service mouldings distribution leader in the Texas and Oklahoma markets.
- Tenon continued to grow its share of business with its key customers. By way of example, this chart shows the growth that Tenon’s full service distribution business, Empire, has achieved with its largest customer, Lowe’s. Lowe’s operates some 1,700 stores today, and Empire is servicing 50% of them (i.e. 850 stores) – this is 200 more stores than Tenon had at the peak of the cycle in 2006 ... and it is indicative of the increased earnings base which has now been embedded into the company, and which will show through strongly as the cycle recovers.
- New innovative products continued to be introduced. As an example, this is a photo of RapidFit mouldings, which have been specifically designed to be used in a renovation situation, where they can be installed on top of the existing mouldings, thereby avoiding the cost of removal and repair of the existing situation.
- Tenon expanded its presence in the outdoor segment in 2009, with its LIFESPAN and Armour Wood products. Again, by way of example, this chart shows that the numbers of Lowe’s stores in which Armour Wood is represented has grown rapidly, from less than 30 stores only two years ago to some 500 stores today, and with the store count more than doubling in the past year.

Tenon’s initial outdoor products are essentially trim board products for a few selected house-exterior applications. As the diagram shows, the number of potential applications are far greater than Tenon has sought to capture with its initial product launch ... and at \$30 billion per annum, the total outdoor market is considerably larger than the interior mouldings market that Tenon has traditionally focused on – 10 times larger in fact ... so the opportunity set is very large.

In terms of operating and financial objectives for 2009:

- Maintenance capital expenditure was managed down to only \$3 million in the period – less than half Tenon’s annual depreciation level, and a reflection of the good state of health of the company’s operating assets.

- The business was right-sized according to the lower demand conditions. This saw some headcount attrition, resulting primarily from a reduction in operating shifts at manufacturing sites. At 1,100 employees, overall staffing levels are now around 20% lower than at their peak in 2006/7.
- Despite tough market conditions, 2009 was a very strong cashflow year, with \$26 million being generated from working capital and operating activities across the period.
- Tenon entered into a supply chain financing programme at the beginning of the year, that allows it to achieve early payment for a considerable proportion of its receivables ...
- ... which in turn allowed it to reduce working capital requirements by an additional \$16 million in the year.
- The covenants in Tenon's debt facility were renegotiated to provide the company with greater flexibility at this point in the operating cycle. Tenon has a secured facility that does not expire until June 2012 ... which is a very good place to be given the recent turmoil in the global banking world.
- Net interest bearing debt (including deferred liabilities) was reduced by \$36 million in 2009. Since its peak of almost \$90 million two years ago, Tenon has reduced net debt by some \$55 million ... down to today's level of only \$35 million. This has been a significant achievement in what have been the worst industry conditions seen since the 1930s, and it is reflective of the unique market position that Tenon occupies.
- Gross margin levels across Tenon's US businesses were maintained in 2009, however overall sales volumes declined as the year progressed, in line with the onset of the global credit crisis. This much lower level of activity was largely responsible for the decline in operating earnings from \$16 million in 2008 to \$10 million in 2009. Obviously this is not an absolute earnings level we are satisfied with, but given the unprecedented market conditions and the earnings performance of our competitors, it was actually a very good outcome in a relative sense.

So that was Tenon in 2009 ... but perhaps the more relevant question for today is what will its 2010 financial year look like? If we look again at the macro value-driver charts we saw earlier, and update them for movements since June this year, we will be able to gain some insight into the answer.

Although the 3rd quarter sales results for the Big Box retailers announced last week showed another negative result, the store sales data did actually improve each month as the quarter progressed. While Q4 is expected to show some further improvement, it will not be until calendar 2010 that we can expect to see any noticeable change.

The good news is that the months-of-supply of existing housing inventory has continued to decline over the past 4 months – a reflection of increased sales activity resulting from the US government's tax incentives which had been introduced for first home buyers. It is pleasing that this tax package, which was due to expire this month, has just been extended out to May next year, and is now also available to second-time home buyers.

New housing starts continue to bounce along the bottom, but they are expected to pick up again with the announcement of the extension of the tax credit package.

Since June, the moulding & better lumber price has increased sharply as the volume of available product has dried up. This pricing improvement is clearly a positive, and is a direct result of suppliers, like Tenon, slimming down inventories held in the supply chain and developing new markets outside the US for this valuable product.

While the NZD:USD exchange rate has once again reconfirmed its strengthening bias, Tenon has taken currency-cover over its first 7 months production for fiscal 2010 (i.e. out to January 2010 inclusive) at an average rate of 68 cents. This compares very favourably with today's rate of 72-73 cents. If the currency stays at this rate for the next couple of months, then Tenon's earnings will be \$1 million better off for having taken the cover - a good decision.

More generally, continued uncertainty around the pace and strength of economic recovery in the US remains. The key concerns here being the very high level of US unemployment, and the impact that might have on mortgage delinquencies (and the flow-on impact foreclosures, home sales and home prices), and consumer spending. Making long-term predictions in this environment is risky to say the least.

Having said that, with over four months of the year now behind us, we can say something about expectations for Tenon's upcoming December interim result.

Taking into account all of the macro-factors we have spoken of this morning, and absent any material changes to its key value drivers from today's levels, Tenon expects its Operating Earnings (i.e. EBITDA) prior to restructuring costs, for the six months to December 2009 to be up approximately 20% on the immediately preceding six months result to 30 June 2009. If this forecast can be achieved, then it will be a very good result in the current environment, particularly as its earnings are typically weighted more strongly to the second half of the financial year rather than to the first half.

Let's turn now to ArborGen.

2009 was another very good year in ArborGen's development. The progress made is discussed in detail in the Annual Review which shareholders have received, so I won't repeat that commentary again today. Instead, our time is better spent focusing on the future value-potential that this investment offers. In the past I have discussed this value-upside by way of specific biotech product examples. Today, however, rather than talk about a particular product opportunity, I will focus on a large, emerging market opportunity for ArborGen - Bio-energy.

Bio-energy can be segmented into two broad categories – bio-fuels and bio-power. In our Annual Review we discussed the cellulosic-biofuels opportunity, and the role trees can play as a feedstock of choice in transport fuels. Today I will focus on bio-power, which as the name suggests, is all about the

use of biomass to produce electricity. The relevance to ArborGen is that wood biomass is a well-established feedstock for bio-power.

To help explain this opportunity, let's take a look at the US situation, which is rapidly evolving.

This chart, which is derived from the US Energy Information Administration forecasts, shows greenhouse gas emissions for the major emitters (representing 85% of total emissions from 2016 onwards) in the United States ... extrapolated out to 2050. The trajectory is obvious. You will have heard and read a lot about global warming and the threat of these types of emissions, so I won't go into that today, other than to say, it is now generally accepted globally that this type of trend-line is unsustainable, and that greenhouse gas emissions must be reversed with urgency.

To this end, climate change legislation is currently progressing through the US Congress. The House passed the American Clean Energy and Security Act in July of this year and corresponding legislation was introduced into the Senate in September. Interestingly, the US Supreme Court has recently ruled that the Environmental Protection Agency (EPA) already has the authority to regulate (i.e. restrict) greenhouse gas emissions under the Clean Air Act ... so it appears inevitable that, one way or another, constraints on emissions will be put in place in the US.

The legislation currently under debate would see a total "cap" on emissions imposed (the orange line) ... which would result in emission levels being dramatically reduced, such that by 2030 they would be half their 2005-levels. The "closing-of-the-gap" (between these two lines) would be achieved through a mixture of legislated reduction in CO₂ emissions and use of domestic, and international, carbon offsets.

For ArborGen, the interesting question is what will be the source of these three emission-reduction components?

Domestic carbon offsets will come almost entirely from forestry and agriculture. Improved tree traits are specifically acknowledged in the legislation as carbon offsets, and so is carbon stored in wood following harvest. International carbon offsets are expected to come largely from reduced deforestation, afforestation, and improved forest management. So, it is quite clear that trees will have a central role to play in the generation of carbon credits.

In terms of the largest component – the absolute reduction in CO₂ emissions - the biggest contribution will come from dramatic changes to the electricity generation sector. This sector makes up 40% of US CO₂ emissions – more than 80% of which comes from coal-fired power plants.

Under the American Clean Energy and Security Act, entities covered will be required to own emission allowances equal to the volume of carbon dioxide and other greenhouse gases that they emit. Allowances will be freely tradable, so a market price for carbon will be set ... and the price will rise over time as the emission reduction targets tighten. To this point, the Energy Information Administration is projecting that the allowance price will rise from about \$18 per tonne of CO₂-equivalent in 2012 (the first year of the scheme) to \$45 a tonne by 2025 ... and, in turn, this is expected to more than treble the

effective cost of coal for electricity generation - from about \$40 a tonne today to over \$130 a tonne by 2025.

The Act also establishes specific performance standards for new coal-fired power plants. All new plants permitted in the next decade must achieve a 50% reduction in CO₂ emissions by 2025. The practical effect is that all new coal-fired plants that have not already received a permit will require carbon capture and sequestration technology (CCS) – technology that is yet to be commercialised.

Only 3% of electricity sales in the US today come from renewable energy sources (other than hydro). Under the national Renewable Electricity Standard, by 2020 (i.e. only ten years time) this figure must be 20% - with the gap required to be closed through the addition of new renewable energy sources and efficiency gains from existing power plants.... which means somewhere between 325 – 475 Billion kWh of additional renewable energy will need to be sourced reasonably quickly.

As you can imagine, the projected impact of all of these proposed climate change legislation measures on the mix of US electricity generation over the next 20 years is striking. Conventional coal-fired power currently accounts for around half of total US power generation ... and that share is expected to drop to only 18% by 2030, with a significant part of the supply-gap being met through increases in renewable energy.

The main alternatives to conventional coal-fired electricity are: wind, solar, nuclear, “coal with CCS systems,” and bio-power (i.e. biomass burned in electricity plants to generate power). The role of natural gas will be limited because of its high cost. It is worth comparing the attributes of each of these alternatives to understand the important role that tree-biomass is likely to play.

The first point to note is that coal-fired power stations are run to meet the demand for base-load power – i.e. they are run for as much of the year as possible (typically 85%) and they generate electricity “on demand.” Wind and solar are unable to meet this requirement as they are each heavily influenced by weather conditions. For example, wind has a capacity factor of around only 40%, and solar is even lower at only 20-30%, and of course it is obviously not available “on demand.”

While nuclear and “coal-plus-CCS” power stations can provide base-load power, both have significant development hurdles to overcome.

Nuclear power essentially has to be “re-commercialised” in the US. No new construction licences for nuclear generating units have been issued since 1979 – some 30 years ago. Uncertain costs and public acceptability are real hurdles, and the management of nuclear waste remains a major unresolved issue.

In relation to CCS systems, the reality is that there are still considerable commercialisation challenges to be overcome - including the fact that they are themselves energy intensive and expensive, injection processes need to be improved, and long-term storage is yet to be proven. Not until sometime in the 2020s is CCS technology likely to be widely deployed – and only if the technology ultimately proves successful.

However, the projections show that even assuming successful commercialisation of CCS technology and a significant step-up in nuclear generation, there is still a large role to be played by bio-power. While State renewable power standards and technology advances have already been lifting the future role of bio-power, climate change legislation now represents a major step-up.

Bio-power carries no environmental concerns, has high base-load availability, is useable with today's technology, and is cost-competitive.

To this last point, this next chart shows the current cost of coal-fired generation on a kWh basis ... a cost which increases dramatically as the cost of carbon offsets increases over time. This can be compared with the cost of electricity generation from bio-power, nuclear, wind and solar. Clearly bio-power is a very viable alternative.

In the US, ArborGen's current focus is in the South-east, where the bulk of the country's forest-based industry resides. Approximately one-third of US coal-fired electricity generation also happens to be located in the South-east ... and as these next maps show, in addition to the South-east not being an intense-solar zone it is also "light" in wind. However, the region is very rich in forest biomass. So it is logical that the renewable answer in this region will be bio-power, predominantly from purpose-grown trees as a dedicated biomass source.

- Forestry is already the prevailing land-use in the South-east today
- Sustainable forestry production practices are fully-developed in the region
- As are the harvesting and logistics infrastructure
- It is well understood that trees excel at sequestering carbon
- They represent a "living" inventory that can be harvested on an "as needed" basis
- They can be grown on marginal lands, and hence do not compete with demand for land for food needs
- And the use of wood-for-electricity is long-established in the forest industry

ArborGen's genetic improvement technologies enhance these tree-benefits even further, by enabling land owners to significantly increase the volume and usefulness of biomass they can produce from each acre of land, thereby improving the economics of the industry. This may be achieved:

- By shortening the time it takes to grow an acre of trees to harvestable age - as is the case with ArboGen's short-rotation Eucalyptus product, or
- By expanding the geographies and climates within which the best-performing tree species can grow – as is the case with ArborGen's freeze-tolerant eucalyptus product (shown here in trial in the US-South), or

- By Improving the traits of trees in order to increase their value to the buyer – for example changing the chemical composition of a tree to increase the energy content available per ton of wood.

The real question for ArborGen though, is how big might the bio-power market opportunity be in terms of future seedling demand?

... And the math behind the answer in the South-east may go something like this:

- In 2025, the total US electricity generation is estimated to be 4,700 billion kWh
- The US South-east will represent a third of this total
- The renewables share of this is approximately 20%
- And with electricity generation from biomass supplied by purpose-grown trees, representing, say, 40% of this output

... implies 125 billion kWh of electricity generation from purpose-grown tree-biomass.

At a conversion factor of 1,700 kWh per dry tonne of wood, this in turn implies a need for more than 70 million dry tonnes of wood ... or some 400 - 500 million seedlings planted per annum in the South-east alone.

This potential market demand for seedlings for bio-power use, is almost twice the number of seedlings that ArborGen is currently selling into the US South-east today (to meet the needs just of its traditional forestry and pulp & paper customers) - so clearly the market opportunity is very substantial.

It is important to note that the initial demand for biomass-fed electricity generation can largely be met from current conversion technologies and current seedlings genetics. There are few technology risks in the first wave of bio-power demand, which will be the co-firing of tree-biomass with coal.

The second wave of bio-power will see more dedicated direct-firing biomass plants based on purpose-grown, high-yielding trees, which will result in higher-efficiency, scale plants being developed and located close to abundant and low-cost planted feedstocks. From about 2020, higher efficiency integrated biomass gasification, combined-cycle plant technology should be available.

ArborGen is well-positioned to take advantage of the bio-power market opportunity.

It is already the largest producer of seedlings in the US South-east ... selling 250 million seedlings annually in the region, from large scale “state-of-the-art” facilities. For example, ArborGen’s Shellman nursery located in Georgia, produces and despatches some 50 million seedling annually from this one site.. ArborGen’s infrastructure allows it to grow these plants on a scale only seen in the largest of agricultural crops – and it gains significant efficiencies from doing so. The genetics and technologies underlying these tree crops are industry-leading – the result of decades of investment and resource

allocation. This advantage is aggressively protected with trade secrets, patents and innovative intellectual property strategies.

This chart represents a summarised view of ArborGen's current product pipeline – the portfolio is presented in matrix form, showing, by product, the technology employed, the geographies and market segments targeted, and the launch dates. You can see that it has been expanded now to include bio-energy applications. As this page continues to expand in products and markets, so too does ArborGen's value.

When ArborGen was initially established, it would be fair to say that none of the three partners had envisaged this new, quickly-emerging bio-power market. That opportunity is now very real and near-term ... and as such represents a significant increment to the ArborGen value-story.

That brings my comments to a close today.

Thank you.

FORWARD-LOOKING STATEMENTS

There are statements included in this presentation 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, including: – the markets and geographies in which ArborGen and Tenon operate and compete, foreign exchange rate fluctuations, US housing market conditions, US and global credit market conditions, intellectual property protection, regulatory environment, regulatory approval processes and timing, climate change legislation, public and customer acceptance of biotechnology products, the success of ArborGen's research and development activities, weather conditions – and other factors (many of which are beyond the control of Rubicon). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements.