

## Financial Statements and Corporate Governance

<b>33. Statement of Accounting Policies</b>	<b>66. Report of the Auditors</b>
<b>36. Statement of Financial Performance</b>	<b>67. Board of Directors</b>
<b>37. Statement of Movements in Equity</b>	<b>68. Corporate Governance</b>
<b>38. Statement of Financial Position</b>	<b>73. Statutory Disclosure</b>
<b>39. Statement of Cash Flows</b>	<b>78. Shareholder Statistics</b>
<b>40. Reconciliation of Net Earnings to Net Cash from Operating Activities</b>	<b>81. The Company at a Glance</b>
<b>41. Notes to the Financial Statements</b>	<b>83. Investor Information</b>

# Statement of Accounting Policies

## BASIS OF PRESENTATION

The Financial Statements presented are those of Tenon Limited (the Parent Company), and Tenon Limited and Subsidiaries (the Group).

## ACCOUNTING CONVENTION

The Financial Statements are based on the general principles of historical cost accounting with the exception of Forest Crop and investments as noted below. These Financial Statements are presented in accordance with the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993 and comply with generally accepted accounting practice in New Zealand (NZ GAAP).

All policies have been applied on a consistent basis except as disclosed in note 2, Changes in Accounting Policy.

### Estimates

The preparation of Financial Statements in conformity with generally accepted accounting practice requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## BASIS OF CONSOLIDATION

### Statement of Financial Position

The Statement of Financial Position is a consolidation of Tenon Limited and subsidiaries. The equity method has been used for associate entities over which the Group has significant influence but does not control (refer to note 30).

### Statement of Financial Performance

The Statement of Financial Performance includes the income and expenses of all Group companies and their equity share of associated entities' earnings, but excludes unrealised earnings on inter-company transactions. Funding costs attributed to assets under development for Group use are capitalised as part of the cost of those assets with such funding costs calculated on an avoidable cost basis.

### Goodwill on Acquisition

Fair values are assigned to the assets and liabilities of subsidiaries and associates of the Group at the date the interests in those entities are acquired. After assigning fair values to the assets and liabilities of subsidiaries and associates acquired, goodwill may arise when comparing the purchase cost to the fair value assigned. Goodwill arises to the extent that the fair value is determined to be less than the purchase cost and this goodwill is amortised to Earnings on a systematic basis over the period it is believed benefits will arise. The period of amortisation will generally be five years or less; however,

in individual cases it may be up to twenty years. The period of amortisation of any goodwill is regularly reviewed and, if it is believed that the amount remaining to be amortised will not be recovered by future benefits to be realised, the unrecoverable amount is written off to Earnings and the balance amortised over the period it is believed benefits will be realised. Negative goodwill on acquisition arises to the extent the fair value is determined to exceed the purchase cost and this surplus is applied to reduce the book value of non-monetary assets acquired and, to the extent there are insufficient non-monetary assets, taken to Earnings.

### Functional Currency

Each significant business unit, wherever domiciled, is evaluated by reference to the currency of its cash flow, sales prices, sales market, expenses and finance to determine its dominant functional currency. Where the functional currency differs from the domestic currency, the non-monetary assets are recorded in the functional currency rather than the currency of domicile and translated to New Zealand dollars in accordance with the currency translation policy.

### Currency Translation

Statements of Financial Position of independent foreign operations are translated into New Zealand currency at the rates of exchange ruling at balance date. Statements of Financial Performance in foreign currencies are translated using an average exchange rate reflecting an approximation of the appropriate transaction rates. Exchange variations arising from translation are held in the Currency Translation Reserve.

## VALUATION OF ASSETS

### Land, Buildings, Plant and Equipment

Land, Buildings, Plant and Equipment are valued at cost less accumulated depreciation.

### Forest Assets

Forest Crop is revalued to Directors' estimate of market valuation. The net gain/loss arising from changes in Forest Crop valuation is credited/debited to the Statement of Financial Performance.

### Associate Entities

The equity method has been used to account for associate entities in which the Group has a significant but not controlling interest.

### Investments

Investments in equity securities, not consolidated or equity accounted, which have a readily determinable fair value are classified as either trading securities or available-for-sale securities. Investments classified as trading securities are valued at fair (market) value with unrealised gains and losses included in Earnings. Investments classified as available-for-sale securities are valued at fair value, with unrealised gains or losses excluded from Earnings

## Statement of Accounting Policies *continued*

and reported as a separate component of Equity. Upon disposal of available-for-sale securities any gains or losses measured with reference to historical cost are included in Earnings.

Investments which do not have a readily determinable fair value are classified as either continuing or non-continuing investments. Continuing investments are valued at historical cost. Permanent impairments in value of continuing investments are written off to Earnings as they arise. Non-continuing investments are valued at the lower of historical cost or estimated net realisable value and any reduction in value is written off to Earnings.

### Stocks

Trading stock, raw materials and work in progress are valued at the lower of cost, net realisable value or replacement price, determined principally on the first-in-first-out basis. Cost includes direct manufacturing costs and manufacturing overheads at normal operating levels.

### Debtors

Debtors are valued at estimated net realisable value after providing against debts where collection is doubtful.

All known losses are written off to Earnings in the period in which it becomes apparent that the debts are not collectable.

### Cash

Cash and Liquid Deposits comprise cash and demand deposits with banks or other financial institutions and highly liquid investments that are readily convertible to cash.

### Permanent Impairment

Permanent Impairment is deemed to occur when the recoverable amount falls below the book value of the asset. The recoverable amount is determined to be the sum of expected future discounted net cash flows arising from the ownership of the asset. Future net cash flows take into account the remaining useful life, and the expected period of continued ownership, including any intended disposals, and any costs or proceeds expected to eventuate at the end of the remaining useful life or end of the expected period of continued ownership.

For the purposes of considering whether there has been a Permanent Impairment, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

When an impairment loss arises the impairment is measured as the amount by which the book value exceeds the recoverable amount of the asset.

## VALUATION OF LIABILITIES

### Derivative Financial Instruments

The Group uses derivative financial instruments for the purpose of managing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. The Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or the Statement of Movements in Equity, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction and the effectiveness of the hedge.

For cash flow hedge transactions in which the Group is hedging the variability of cash flows related to a variable-rate asset, liability or a forecasted transaction, the effective portion of the changes in the fair value of the derivative instrument are reported in the Statement of Movements in Equity. The gains and losses on the derivative instrument that are reported in the Statement of Movements in Equity are reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

The ineffective portion of all hedges is recognised in current period earnings.

The Group manages its exposure to interest rate movements by seeking to match asset and liability balances within maturity categories, both directly and through the use of derivative financial instruments. These derivative instruments include interest rate swaps ("swaps") that are designated and effective as hedges, as well as swaps that are designated and effective in modifying the interest rate and/or maturity characteristics of specified assets or liabilities.

The net interest received or paid on the contracts is reflected as interest income or expense of the related hedged position. Gains and losses resulting from the termination of contracts are recognised over the original period hedged as long as the underlying cash flows are still probable of occurring. If the hedged positions are sold, or the underlying cash flows are no longer probable of occurring, any unrealised gains or losses are recognised in the current period as net gains or losses on sales of interest-earning assets.

### Taxation

The provision for current tax is the estimated amount due for payment in the next 12 months.

The provision for deferred tax is the liability for taxation that has been deferred because of timing differences less taxation benefits which will offset the deferred liability

## Statement of Accounting Policies *continued*

as it arises. The provision for deferred taxation has been calculated by applying the liability method.

The future tax benefit of past and current tax losses, to the extent they exceed related deferred taxation liabilities, is not recognised unless utilisation is considered virtually certain.

Withholding taxes payable on repatriation are not provided on earnings of foreign subsidiaries except where it is planned to repatriate those earnings.

### Finance Leases

Finance leases are capitalised to reflect the term borrowing incurred and the cost of the asset acquired.

The finance cost portion of lease payments is written off to Earnings. The leased asset is depreciated on a straight line basis over the estimated useful life of the asset with regard to residual values.

## INCOME DETERMINATION

### Revenue Recognition

Operating Revenue is recognised in accordance with the terms of sale when the benefits of ownership and risk of loss passes to the customer.

### Investment Revenue

Interest income is taken to Earnings when received or accrued in respect of the period for which it was earned. Dividends are taken to Earnings when received or accrued where declared in respect of the period prior to balance date.

### Currency Gains and Losses

All currency gains and losses on monetary items are taken to Earnings as they accrue except to the extent that they hedge an exchange variation on translation of non-monetary items. Where a monetary item is designated as an effective hedge of net foreign investment, the gain or loss is offset against the exchange variation on translation of the investment and recorded in the Currency Translation Reserve.

### Depreciation

Depreciation of fixed assets is calculated on the straight line method. Expected useful lives, which are regularly reviewed, are (on a weighted average basis):

Buildings	30 years
Plant and Equipment	13 years
Office Equipment	3 to 5 years

### Forest Assets

All revenues related to forest asset harvesting are taken to Earnings when realised and related costs expensed as incurred.

### Leasing Commitments

Expenditure arising from operating leasing commitments is written off to Earnings in the period incurred. Purchased head leases are valued at cost and amortised over the unexpired period of the lease on a straight line basis.

### Pension Plan Expense

The actuarial cost of providing pension plan benefits in respect of services provided by pension plan members to the Group is expensed as it accrues over the service life of the employees, taking account of the income earned by income generating assets owned by the plans. Any over or under accrual of expenses or income from previous periods is amortised to Earnings over a maximum period of the remaining average service life of plan members employed by the Group.

### Taxation

Taxation expense is the estimated liability in respect of current earnings after allowance for permanent differences between reported earnings and assessable earnings.

Where the taxation expense in respect of current earnings recovers taxation benefits not previously recognised, the taxation benefit recovered is offset against the taxation expense.

# Statement of Financial Performance

for year ended 30 June

<i>Tenon Limited</i>				<i>Tenon Group</i>		
2003	2004		Note	2004	2003	2002
NZ\$m	NZ\$m			NZ\$m	NZ\$m	NZ\$m
9	300	Operating Revenue	3	556	393	409
30	14	Operating Expenses		-508	-344	-373
39	314	Operating Earnings	4	48	49	36
-18	-7	Funding Costs	18	-2	-3	-3
21	307	Earnings before Taxation		46	46	33
-6	-5	Taxation	5	-11	-13	-16
15	302	Earnings after Taxation		35	33	17
-	-	Minority Interest		-3	-	-
15	302	Net Earnings from Continuing Operations		32	33	17
-	-	Net Earnings from Discontinued Operations	32	-74	-304	-266
15	302	Net Earnings		-42	-271	-249
<b>Per Share Information – Continuing Operations:</b>						
		Basic and Diluted Net Earnings per Share (cents)	7	11.5	11.8	6.1
		Net Assets per Share (\$)		1.68	1.55	2.05
		Basic and Diluted Weighted Average Number of Shares Outstanding (millions of shares)	7	279	279	279
		Shares used for Net Assets per Share (millions of shares)		279	558	558

The accompanying notes form part of and are to be read in conjunction with these financial statements.

# Statement of Movements in Equity

for year ended 30 June

<i>Tenon Limited</i>			<i>Tenon Group</i>		
2003	2004		2004	2003	2002
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
		Net Earnings for the year, comprising			
		Net Earnings from Continued Operations			
15	302	Parent Shareholders' Interest	32	33	17
-	-	Minority Interest	3	-	-
		Net Earnings from Discontinued Operations			
-	-	Parent Shareholders' Interest	-74	-304	-266
-	-	Minority Interest	-1	-8	3
15	302		-40	-279	-246
		Other Recognised Revenues and Expenses for the year			
-295	-347	Revaluation of Investments	-	-	-
		Movement in Currency Translation Reserve			
-	-	Parent Shareholders' Interest	-3	-9	-6
-280	-45	Total Recognised Revenues and Expenses for the year	-43	-288	-252
-	-	Acquisition of The Empire Company Minority Interest	6	-	-
-	-349	Capital Return – Parent Shareholders' Interest	-349	-	-
-	-	Dividends – Minority Interest	-1	-2	-2
-280	-394	Movements in Equity for the year	-387	-290	-254
		Total Group Equity at the beginning of the year, comprising			
1,144	864	Parent Shareholders' Interest	864	1,144	1,399
-	-	Minority Interest	21	31	30
1,144	864		885	1,175	1,429
		Total Group Equity at the end of the year, comprising			
864	470	Parent Shareholders' Interest	470	864	1,144
-	-	Minority Interest	28	21	31
864	470		498	885	1,175

The accompanying notes form part of and are to be read in conjunction with these financial statements.

# Statement of Financial Position

as at 30 June

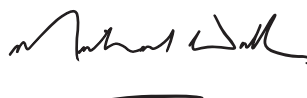
<i>Tenon Limited</i>				<i>Tenon Group</i>	
2003	2004		Note	2004	2003
NZ\$m	NZ\$m			NZ\$m	NZ\$m
<b>Assets</b>					
Current Assets:					
-	-	Cash and Liquid Deposits		141	-
-	-	Stocks	11	83	46
6	1	Debtors	12	82	30
-	-	Current Assets – Discontinued Operations	32	133	91
6	1	<b>Total Current Assets</b>		<b>439</b>	<b>167</b>
Term Assets:					
-	-	Fixed Assets	13	116	114
1,001	491	Investments	14	34	33
-	-	Goodwill	15	12	2
-	-	Deferred Taxation Asset	17	22	15
-	-	Term Assets – Discontinued Operations	32	-	790
1,007	492	<b>Total Group Assets</b>		<b>623</b>	<b>1,121</b>
<b>Liabilities and Group Equity</b>					
<b>Liabilities</b>					
Current Liabilities:					
9	2	Creditors	16	73	51
-	-	Provision for Current Taxation	17	1	-
-	-	Current Liabilities – Discontinued Operations	32	17	42
9	2	<b>Total Current Liabilities</b>		<b>91</b>	<b>93</b>
Term Liabilities:					
128	16	Term Debt	18	34	29
6	4	Provision for Deferred Taxation	17	-	-
-	-	Term Liabilities – Discontinued Operations	32	-	114
143	22	<b>Total Group Liabilities</b>		<b>125</b>	<b>236</b>
<b>Group Equity</b>					
1,443	1,094	Capital	8	1,094	1,443
-579	-624	Reserves	9&10	-624	-579
864	470	<b>Group Equity</b>		<b>470</b>	<b>864</b>
-	-	Minority Equity		28	21
864	470	<b>Total Group Equity</b>		<b>498</b>	<b>885</b>
1,007	492	<b>Total Group Liabilities and Equity</b>		<b>623</b>	<b>1,121</b>

The accompanying notes form part of and are to be read in conjunction with these financial statements.

For and on behalf of the Board  
20 August 2004



A I (Tony) Gibbs  
Chairman



Michael Walls  
Director



John Dell  
Chief Executive Officer



Brett Cruickshank  
Chief Financial Officer

# Statement of Cash Flows

for year ended 30 June

<i>Tenon Limited</i>			<i>Tenon Group</i>		
2003	2004		2004	2003	2002
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
		Cash was Provided:			
		From Operating Activities			
7	6	Receipts from Customers	546	386	399
-	294	Dividends Received	7	9	6
2	-	Interest Received	4	-	-
9	300	Total Provided	557	395	405
3	-	Payments to Suppliers, Employees and Other	525	358	373
17	9	Interest Paid	2	3	3
-	-	Income Tax Paid	10	5	-
20	9	Total Applied	537	366	376
-11	291	Net Cash from/(to) Operating Activities	20	29	29
		From Investing Activities			
-	-	Sale of Fixed Assets	-	1	-
-	-	Sale of Investments	-	-	3
-	-	Total Provided	-	1	3
-	-	Purchase of Fixed Assets	12	6	1
-	-	Purchase of Investments	1	12	-
-	-	Purchase of Subsidiary	17	-	-
-	-	Total Applied	30	18	1
-	-	Net Cash (to)/from Investing Activities	-30	-17	2
		From Financing Activities			
225	105	Debt Drawdowns	94	38	5
123	152	Advances from Subsidiaries	-	-	-
348	257	Total Provided	94	38	5
337	199	Debt Settlements	188	3	93
-	349	Capital Return Paid to Shareholders	349	-	-
337	548	Total Applied	537	3	93
11	-291	Net Cash (to)/from Financing Activities	-443	35	-88
-	-	Net Cash from/(to) Discontinued Operations	549	-20	-12
-	-	Net Movement in Cash Held	96	27	-69
-	-	Add Opening Cash and Liquid Deposits			
-	-	- Discontinued Operations	47	22	98
-	-	Effect of Exchange Rate Changes on Net Cash			
-	-	- Continuing Operations	-1	-	-
-	-	- Discontinued Operations	-1	-2	-7
-	-	Closing Cash and Liquid Deposits – Discontinued Operations	-	47	22
-	-	Closing Cash and Liquid Deposits – Continuing Operations	141	-	-

The accompanying notes form part of and are to be read in conjunction with these financial statements.

## Reconciliation of Net Earnings to Net Cash from Operating Activities *for year ended 30 June*

<i>Tenon Limited</i>			<i>Tenon Group</i>		
2003	2004		2004	2003	2002
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
		Cash was Provided from:			
15	302	Net Earnings from Continuing Operations	32	33	17
		Adjustment for Items not involving Cash:			
-29	-15	Depreciation, Amortisation and Provisions	7	-5	-3
6	5	Taxation	1	8	16
-	-	Minority Interest	3	-	-
-	-	Equity Earnings	-8	-5	-8
		Cash Flow from Operations before Net Working Capital			
-8	292	Movements	35	31	22
-3	-1	Net Working Capital Movements	-15	-2	7
-11	291	Net Cash from Operating Activities <sup>(1)</sup>	20	29	29
		Net Working Capital Movements:			
-	-	Debtors	-10	10	3
-	-	Stocks	-10	2	6
-3	-1	Creditors	5	-14	-2
-3	-1		-15	-2	7

(1) As per Statement of Cash Flows.

The accompanying notes form part of and are to be read in conjunction with these financial statements.

## Analysis of Purchase of Subsidiary *for year ended 30 June*

<i>Tenon Limited</i>			<i>Tenon Group</i>		
2003	2004		2004	2003	2002
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
-	-	Cash Outflow on Purchase of Subsidiary <sup>(1)</sup>	17	-	-
-	-	Amount transferred from Investment in Associates	6	-	-
-	-		23	-	-
-	-	Stock	25	-	-
-	-	Debtors	20	-	-
-	-	Fixed Assets	2	-	-
-	-	Goodwill on Acquisition	11	-	-
-	-	Taxation	-1	-	-
-	-	Creditors	-10	-	-
-	-	Term Debt	-18	-	-
-	-	Minority Equity	-6	-	-
-	-		23	-	-

(1) On 1 November 2003, Tenon increased its stake in The Empire Company from 33% to 67%.

The accompanying notes form part of and are to be read in conjunction with these financial statements.

# Notes to the Financial Statements

## 1 FOREST SALE AND CAPITAL RETURN

During the year the Group sold its forest assets for \$725 million allowing it to focus on its investment in higher margin wood processing, marketing and distribution activities and return surplus capital to shareholders. Following the sale of the forest assets, Fletcher Challenge Forests Limited changed its name to Tenon Limited.

On 31 March 2004, Tenon returned \$349 million to shareholders and subject to full completion of the forest sales, a further capital return of up to \$320 million (\$1.15 per existing Tenon share) is planned.

The segment previously disclosed as the Forests and Supply segment has been classified as discontinued operations within these financial statements, refer note 32. As at 30 June 2004 deferred forest settlements of \$106 million were outstanding and have been included within discontinued assets. As at 20 August 2004 consents have been received relating to \$86 million of the deferred forest settlements outstanding at balance date.

## 2 CHANGES IN ACCOUNTING POLICIES

- (i) For the years ended 30 June 2004 and 2003 there were no changes in Accounting Policies.
- (ii) On 30 June 2002, the Group changed its accounting policy in view of the Financial Reporting Standards Board issuing three new standards: FRS-36 "Accounting for acquisitions resulting in combinations of entities or operations", FRS-37 "Consolidating investments in subsidiaries" and FRS-38 "Accounting for investments in associates". FRS-36 details the accounting treatment for acquisitions (excluding inter-group reconstructions) using the purchase method and requires an annual impairment test to goodwill. FRS-37 defines a subsidiary on the basis of power to control and entitlement to ownership benefits. FRS-38 defines an associate and details the accounting treatment for associates using the equity method. These standards were not mandatory, however, the Group adopted the requirements of the new standards early. In addition, the Group also applied various consequential amendments which were made to other financial reporting standards as a result of the approval and adoption of the three new financial reporting standards listed above including the requirement for separate disclosure of Minority Interests in the Statement of Movements in Equity. With the exception of FRS-38 as noted below, the implementation of these new accounting standards did not have a material impact on the consolidated financial statements in the 2002 year.

Following the adoption of FRS-38, the Group's share of surplus from associates in 2002 of \$14 million was recognised as a component of operating earnings in the Statement of Financial Performance. Dividends received from associates were included within Equity Earnings. Up to 2001 the Group's share of the net surplus of associates, after adjusting for any dividends received, were recognised in the Statement of Financial Performance following the earnings after taxation, and dividends received from associates were recognised in earnings before taxation. This change in accounting policy resulted in an increase in operating surplus before taxation in 2002 of \$8 million. However the change in accounting policy had no effect on net earnings.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>		<i>Tenon Group</i>			
2003	2004	2004	2003	2002	
NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	
<b>3 OPERATING REVENUE</b>					
Operating Revenue from Continuing Operations includes:					
–	–	Trading Sales to Customers	537	379	395
7	6	Royalties received from Subsidiaries	–	–	–
2	–	Interest Received	2	–	–
Investment Revenue					
–	–	Dividends from Associates	7	9	6
–	–	Interest	2	–	–
–	–	Equity Earnings <sup>(1)</sup>	8	5	8
–	294	Dividend from Subsidiary	–	–	–
9	300		556	393	409
(1) The Group's share of the Earnings of Associates is:					
–	–	Operating Revenue	185	263	265
–	–	Operating Expenses	-169	-247	-249
<hr/>					
–	–	Net Earnings	16	16	16
–	–	Taxation	-1	-1	-1
–	–	Goodwill amortised	–	-1	-1
–	–	Dividends paid by Associates	-7	-9	-6
<hr/>					
–	–	Equity Earnings	8	5	8
<hr/>					
<b>4 OPERATING EARNINGS</b>					
Operating Earnings from Continuing Operations includes:					
Depreciation:					
–	–	Buildings	2	2	2
–	–	Plant and Equipment	11	11	13
–	–	Amortisation of Goodwill	1	–	–
–	–	Unusual Items <sup>(1)</sup>	-2	–	-3
31	14	Net Foreign Exchange Gain <sup>(2)</sup>	8	16	16
–	–	Maintenance and Repairs	18	18	16
–	–	Operating Lease Expense	8	4	4
–	–	Directors' Fees Payable to Directors of Tenon Limited <sup>(3)</sup>	–	–	–
Auditors' Fees and Expenses Payable for:					
–	–	Statutory Audit – PricewaterhouseCoopers	1	1	1
–	–	Other Audited Related Services – PricewaterhouseCoopers	1	1	–

(1) Unusual Items for June 2004 relate to costs associated with the partial takeover offer by Rubicon Forests Limited. Unusual Items for June 2002 relates to provisions established for costs of closing the Japanese Engineered Wood Products business unit.

(2) Net Foreign Exchange Gain for June 2004 includes realised exchange gains on foreign dollar denominated debt instruments of \$9 million, and realised foreign exchange losses of \$1 million. Net Foreign Exchange Gain for June 2003 includes net exchange gains on foreign denominated asset and debt instruments of \$19 million, and realised foreign exchange losses of \$3 million. Net Foreign Exchange Gain for June 2002 includes net exchange gains on foreign denominated asset and debt instruments of \$18 million, and realised foreign exchange losses of \$2 million.

(3) Total Directors' Fees payable to Non Executive Directors for June 2004 totalled \$419,662 (June 2003: \$435,650 and June 2002: \$426,600).

**Tenon Limited**

Net Foreign Exchange Gain for June 2004 of \$14 million (2003: \$31 million) relates to exchange gains on debt instruments.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>		
2003	2004		2004	2003	2002
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
<b>5 TAXATION</b>					
Earnings before Taxation:					
21	307	Domestic	27	35	22
-	-	Foreign	19	11	11
21	307		46	46	33
7	101	Taxation at 33 cents per dollar	15	15	11
Adjusted for:					
-	-	Equity Accounted Earnings of Associates	-	-1	-
-1	-97	Permanent Differences	-6	2	4
-	1	Taxation Under/(Over) Provided in the Prior Year	1	-3	-
-	-	Rates other than 33 cents	1	-	1
6	5	Taxation Expense	11	13	16
Current Taxation					
-	-	Non New Zealand	10	1	5
-	-	Total Current Taxation	10	1	5
Deferred Taxation					
6	5	New Zealand	1	12	11
6	5	Total Deferred Taxation	1	12	11
6	5	Taxation Expense	11	13	16

**6 SHAREHOLDER TAX CREDITS**

-1	-1	Conduit Tax Relief Account	-1	-1	-1
----	----	----------------------------	----	----	----

Dividends paid by New Zealand resident companies may include imputation credits representing the income taxes paid by the Group on profits to be distributed as dividends. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credits attached to dividends. The Group acts as a conduit for the central Government in achieving taxation relief. Accordingly the credits are not recognised in the financial statements.

	<i>Tenon Group</i>		
	2004	2003	2002
	NZ\$m	NZ\$m	NZ\$m
<b>7 NET EARNINGS PER SHARE</b>			
Basic and Diluted Net Earnings per Share (cents)			
Continuing Operations	11.5	11.8	6.1
Discontinued Operations	-26.5	-109.0	-95.3
	-15.0	-97.2	-89.2
Numerator for Basic and Diluted Net Earnings per Tenon Share (NZ\$ millions)			
Continuing Operations	32	33	17
Discontinued Operations	-74	-304	-266
	-42	-271	-249
Denominator for Basic and Diluted Net Earnings per Tenon Share (millions of shares) <sup>(1)</sup>			
	279	279	279

(1) Comparative per share data has been restated for the one for two share cancellation following the capital distribution in March 2004 and the one for five share consolidation completed during November 2003.

Notes to the Financial Statements *continued*

	2004 NZ\$m	<i>Tenon Group</i> 2003 NZ\$m	2002 NZ\$m
<b>8 CAPITAL</b>			
<b>Reported Capital</b>			
Reported Capital at the beginning of the year	1,443	1,443	1,443
Capital Return <sup>(1)</sup>	-349	-	-
Reported Capital	1,094	1,443	1,443
	2004	<i>Tenon Group</i> 2003	2002
<b>Tenon Ordinary Shares</b>			
Number of Shares at the beginning of the year	185,913,422	922,207,133	922,207,133
Cancellation of Shares upon Capital Return <sup>(1)</sup>	-92,963,192	-	-
Share Consolidation <sup>(2)</sup>	-	-736,293,711	-
	92,950,230	185,913,422	922,207,133
<b>Tenon Preference Shares</b>			
Number of Shares at the beginning of the year	371,809,026	1,859,015,794	1,859,015,794
Cancellation of Shares upon Capital Return <sup>(1)</sup>	-185,907,195	-	-
Share Consolidation <sup>(2)</sup>	-	-1,487,206,768	-
	185,901,831	371,809,026	1,859,015,794

Tenon Limited has two classes of shares: Ordinary and Preference. The Preference Shares rank equally with the Ordinary Shares in all respects (including dividend and voting rights) except that the Preference Shares have prior ranking (to the amount of \$1.25 per share) in the event of a liquidation of the Company, for a period of five years from allotment (15 December 2000). During this period, holders of Preference Shares will vote with holders of Ordinary Shares on all matters except a vote relating to a liquidation of the Company, in which case a separate vote of the holders of the Preference Shares will be required.

Shares held by the Tenon Employee Share Purchase Scheme accounted for under the Treasury Stock method include 730,091 fully paid Tenon Ordinary Shares.

- (1) On 31 March 2004 Tenon distributed a \$349 million return of capital to shareholders under a share cancellation and return of capital programme authorised by shareholders and approved by the High Court. One of every two Ordinary Shares and one out of every two Preference Shares in Tenon Limited were cancelled, and NZ\$1.25 per cancelled share paid to Tenon shareholders. Subject to full completion of the forest sales, a further capital return of up to \$320 million (\$1.15 per existing Tenon share) is planned.
- (2) During 2003 the Ordinary Shares and Preference Shares were consolidated on a one for five basis. Following the share consolidation, the Preference Shares retained their preference rights.

The comparative number of Ordinary Shares and Preference Shares restated for the share cancellation in March 2004 and share consolidation during 2002 are 92,950,230 Ordinary Shares and 185,901,831 Preference Shares as at 30 June 2003 and 30 June 2002.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>		
2003	2004		2004	2003	2002
NZ\$m	NZ\$m		NZ\$m	NZ\$m	NZ\$m
<b>9 RESERVE MOVEMENTS</b>					
-299	-579	Reserves at the beginning of the year	-579	-299	-44
15	302	Net Earnings	-42	-271	-249
-295	-347	Revaluation of Investment in Subsidiaries	-	-	-
-	-	Net variations on translation of foreign currency financial statements	-3	-9	-6
-579	-624	Total Reserves	-624	-579	-299
<b>Reserve Transfers</b>					
-	-	Equity Earnings of Associates transferred from Revenue Reserves	8	5	8
-	-	Currency Translation Reserve transferred to Revenue Reserves upon disposal of forest assets	640	-	-
-	-	Retained Earnings of Associates transferred to Revenue Reserves upon Realisation	1	-	1
<b>10 RESERVE BALANCES</b>					
Reserves comprise:					
908	1,210	Retained Earnings	-691	-1,282	-1,006
-	-	Retained Earnings in Associates	22	15	10
-	-	Net Currency Translation	45	688	697
-1,487	-1,834	Subsidiary Investment Revaluation	-	-	-
-579	-624	Total Reserves	-624	-579	-299

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>	
2003	2004		2004	2003
NZ\$m	NZ\$m		NZ\$m	NZ\$m
<b>11 STOCKS</b>				
-	-	Raw Materials and Work in Progress	3	2
-	-	Finished Goods	80	44
-	-		83	46
<b>12 DEBTORS</b>				
-	-	Trade Debtors	69	29
-	-	Less Provision for Doubtful Debts	-1	-1
-	-		68	28
6	1	Other Receivables	14	2
6	1		82	30
<b>13 FIXED ASSETS</b>				
Cost				
-	-	Land and Improvements	15	15
-	-	Buildings	41	40
-	-	Plant and Equipment	218	198
-	-	Capital Work in Progress	3	2
-	-	Total Cost	277	255
Accumulated Depreciation				
-	-	Buildings	-13	-11
-	-	Plant and Equipment	-148	-130
-	-	Total Accumulated Depreciation	-161	-141
-	-	Total Fixed Assets	116	114
Land and Buildings Analysis				
-	-	Industrial	43	44
-	-	Total Land and Buildings	43	44
Domicile of Fixed Assets				
-	-	New Zealand	114	114
-	-	United States	2	-
-	-	Total Fixed Assets	116	114
Functional Currency of Fixed Assets				
-	-	New Zealand Dollar	114	114
-	-	United States Dollar	2	-
-	-	Total Fixed Assets	116	114

At 30 June 2004 the fair value of Land and Buildings, based upon Government valuations, was approximately \$50 million.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>	
2003	2004		2004	2003
NZ\$m	NZ\$m		NZ\$m	NZ\$m
<b>14 INVESTMENTS</b>				
-	-	Investment in Associates (1)	25	22
-	-	Loans to Associates	9	11
1,001	491	Net Investment in Subsidiary Companies (refer to note 25)	-	-
1,001	491		34	33
<b>(1) Carrying Value of Associates</b>				
-	-	Balance at the beginning of the year	22	21
-	-	Effect of exchange rate changes	-	-6
-	-	Associates (disposed)/acquired during the year	-5	1
-	-	Earnings of associates before goodwill amortisation	15	15
-	-	Dividends	-7	-9
-	-	Balance at the end of the year	25	22
<b>Combined Associates' Statement of Financial Position</b>				
-	-	Current Assets	107	144
-	-	Term Assets	42	40
-	-	Total Assets	149	184
-	-	Current Liabilities	-36	-37
-	-	Term Liabilities	-62	-96
-	-	Total Liabilities	-98	-133
-	-	Net Assets	51	51
-	-	Interests held by Third Parties	-26	-29
-	-	Investment in Associates	25	22
<b>15 GOODWILL</b>				
-	-	Balance at the beginning of the year	2	3
-	-	Goodwill arising from acquisition <sup>(1)</sup>	11	-
-	-	Amortisation <sup>(2)</sup>	-1	-1
-	-		12	2

(1) Acquisition of an additional 33% of The Empire Company on 1 November 2003.

(2) Goodwill amortisation of \$1 million in June 2003 was recorded within equity earnings of associates.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>	
2003	2004		2004	2003
NZ\$m	NZ\$m		NZ\$m	NZ\$m
<b>16 CREDITORS</b>				
8	2	Trade Creditors	60	39
1	–	Accrued Interest	–	1
–	–	Accrued Employee Benefits	8	6
–	–	Provisions	5	5
9	2		73	51
<b>Provisions</b>				
		Environmental	4	4
		Other	1	1
			5	5
<b>Environmental</b>				
		Balance at the beginning of the year	4	5
		Amount utilised	–	-1
		Balance at the end of the year	4	4

The environmental provision was established to provide for ongoing management and remedial costs (on an undiscounted basis) at various processing sites. The provision is expected to be utilised progressively over the coming three years.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>	
2003	2004		2004	2003
NZ\$m	NZ\$m		NZ\$m	NZ\$m
<b>17 TAXATION PROVISION</b>				
Provision for Current Taxation:				
-	-	Opening Provision for Current Taxation	-	4
-	-	Acquisition of Current Taxation	1	-
-	-	Current Taxation in the Statement of Financial Performance	10	1
-	-	Net Taxation Payments	-10	-5
-	-	Provision for Current Taxation	1	-
Provision for Deferred Taxation				
6	4	Net Operating Loss Carryforwards	-33	-
-	-	Valuation Allowance <sup>(1)</sup>	32	-
6	4	Net Deferred Taxation Assets	-1	-
-	-	Depreciation and Amortisation	-21	-15
6	4	Provision for Deferred Taxation	-22	-15
6	4	Non Current Deferred Taxation	-22	-15
6	4	Provision for Deferred Taxation	-22	-15
Provision for Deferred Taxation:				
8	6	Opening Provision for Deferred Taxation	-15	-27
Deferred Taxation in the Statement of Financial Performance:				
6	5	Continuing Operations	1	12
-	-	Discontinued Operations	-8	-
-8	-7	Transfer of Taxation Losses	-	-
6	4	Provision for Deferred Taxation	-22	-15

(1) Tenon has taxation losses in excess of the amount that can be recognised under NZ GAAP. NZ GAAP allows the recognition of taxation assets when utilisation is considered virtually certain, which is subject to the future earnings of the Tenon Group. In line with NZ GAAP Tenon has recognised tax assets of \$22 million.

Notes to the Financial Statements *continued*

<i>Tenon Limited</i>			<i>Tenon Group</i>	
2003	2004		2004	2003
NZ\$m	NZ\$m		NZ\$m	NZ\$m
<b>18 FUNDING COSTS &amp; TERM DEBT</b>				
<b>Funding Costs<sup>(1)</sup></b>				
18	7	Interest payable on Term Debt	2	3
18	7	Total Funding Costs	2	3
<b>Term Debt<sup>(2)</sup></b>				
25	–	Loans with Floating Interest Rates	18	6
103	16	Loans with Fixed Interest Rates	16	23
128	16	Term Debt	34	29
<b>Summary of Repayment Terms</b>				
Due for Repayment:				
–	–	Less than one year <sup>(3)</sup>	18	–
85	16	Between two and three years	16	19
43	–	Between four and five years	–	10
128	16	Term Debt	34	29
<b>Summary of Interest Rates by Repayment Period (%)</b>				
Due for Repayment:				
–	–	Less than one year	4.9	–
4.5	7.0	Between two and three years	7.0	4.5
–	–	Between four and five years	–	4.5
4.5	7.0	Weighted Average Interest Rate	5.9	4.5
<b>Summary of Interest Rates by Currency (%)</b>				
–	7.0	New Zealand Dollar	7.0	–
4.5	–	United States Dollar	4.9	4.5
4.5	7.0	Weighted Average Interest Rate	5.9	4.5
<b>Denomination of Currencies:</b>				
–	16	New Zealand Dollar	16	–
128	–	United States Dollar	18	29
128	16	Term Debt	34	29

(1) Total funding costs for the Group of \$3 million (2003: \$18 million) have been allocated between continuing and discontinued operations based upon net assets of the respective operations resulting in \$2 million (2003: \$3 million) allocated to the continuing business.

(2) Tenon operates a centralised funding function. Total Group term debt at 30 June 2003 of \$133 million has been allocated between continuing and discontinued operations based upon the net assets of the respective operations resulting in \$29 million allocated to the continuing business and \$104 million allocated to the discontinued operations.

(3) The Empire Company term debt of \$18 million expires in September 2004 and is currently being renegotiated. Empire intends to refinance the revolving credit facility prior to its September 2004 maturity. As such, it has been recorded as term debt on the Statement of Financial Position.

## Notes to the Financial Statements *continued*

### 18 FUNDING COSTS & TERM DEBT *continued*

#### Loans Subject to Restrictive Undertakings

The Restrictive Undertakings relate to the Restricted Group. Certain subsidiaries are designated Restricted (refer note 30). The Restricted Group borrows funds based on covenants and security over the business and assets of the Restricted Group. The syndicated bank facility requires the Company to comply with the following financial ratios reported on a quarterly test basis:

- (i) Gearing Ratio: the ratio of Net Debt/EBITDA of the Group shall not exceed three times on any quarterly test date;
- (ii) Interest Cover Ratio: the ratio of EBIT to Interest Expense of the Group is not less than three times on any quarterly test date;
- (iii) Net Debt to Total Tangible Asset Ratio: the percentage of Net Debt to Total Tangible Assets of the Group at all times will be not more than 50%; and
- (iv) Minimum Net Tangible Assets: the minimum Net Tangible Assets of the Group will not at any time be less than NZ\$125 million until 31 March 2006 and NZ\$150 million thereafter.

#### Unused Committed Lines of Credit

At 30 June 2004 the Group had, subject to ratio compliance, \$144 million in unutilised committed lines of credit. The total term debt facility of \$150 million expires between two and three years. In addition to the term debt facility the Group has an overdraft facility of \$15 million, which is renewable on an annual basis. In addition, The Empire Company has uncommitted facilities of \$22 million.

### 19 FINANCIAL INSTRUMENTS

#### (1) Group Policies

##### *Currency Balance Sheet Risk*

It is the Group's policy to manage currency exchange rate exposure to ensure that changes in foreign exchange rates do not materially impair the Group's financial position, profitability, cash flow or key bank covenants. Non-monetary assets are recorded in their functional currency, as determined by the dominant currency of cash flows, sales prices, sales market, expenses and debt structure. The currency denomination and quantum of debt outstanding are managed so that economic risk exposure to currency movements on the aggregate of balance sheet and revenue items is offset within policy defined limits. Where the proportion of the underlying debt in any currency does not equate to the required proportion of total debt, derivative financial instruments are entered into to manage the exposure within defined limits.

##### *Currency Trade Risk*

It is Group policy that exchange risk on trade transactions should be managed within hedging policy defined limits. When exposures are incurred by operations in currencies other than their functional currency, they are managed through the use of derivative financial instruments.

##### *Interest Rate Risk*

It is Group policy to manage interest rates within an established ratio of fixed rate to floating rate and target a position in the range which is reviewed every calendar quarter, depending upon underlying interest rate exposures and economic conditions.

The Group's Treasury Policy specifically prohibits the use of derivative financial instruments for trading or speculative purposes.

## Notes to the Financial Statements *continued*

### 19 FINANCIAL INSTRUMENTS *continued*

#### (2) Balance Sheet Risk

Derivative financial instruments are used as a means of managing the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The total principal or contract amounts of derivative financial instruments outstanding at balance date were as follows:

	<i>Tenon Group</i>	
	2004	2003
	NZ\$m	NZ\$m
Forward Exchange Contracts	1	54
Foreign Exchange Options	–	44
Interest Rate Swaps	47	18

#### (3) Credit Risk

To the extent the Group has a receivable from another party there is a credit risk in the event of non-performance by that counter-party.

Contracts have been entered into with various counter-parties in accordance with limits set forth by the Group as to credit rating and dollar limits. The Group does not require collateral or other security to support financial instruments. While the Group may be subject to credit losses up to the principal or contract receivable amounts in the event of non-performance by its counter-parties, it does not expect such losses to occur except for those included in the Provision for Doubtful Debts.

In accordance with the counter-party restrictions set by the Group, the significant concentrations of credit risk are:

	<i>Tenon Group</i>	
	2004	2003
	NZ\$m	NZ\$m
Bank of New Zealand Limited	68	–
ANZ Banking Group (New Zealand) Limited	69	–

There are no other concentrations of credit risk.

#### (4) Interest Rate Repricing

In line with the Group's interest rate policy a spread of long and short term fixed and floating rate borrowings and hedge instruments have been entered into. The following table sets out the interest rate repricing profile and weighted average interest rate of borrowings and interest rate hedges:

	<i>Tenon Group</i>			
	2004		2003	
	NZ\$m	%	NZ\$m	%
Interest Rate Repriced:				
(including average interest rate)				
within one year	16	7.0	10	3.8
between two years and five years	18	4.9	19	4.9

Debtors and Creditors are not interest rate sensitive.

## Notes to the Financial Statements *continued*

### 19 FINANCIAL INSTRUMENTS *continued*

#### (5) Fair Values

The estimated fair value of the Group's financial assets and liabilities do not differ materially from the carrying values.

The financial instruments held by the Group at balance date do not meet the accounting definition of an effective hedge and the fair values have been recognised in earnings in the current period.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

#### *Term Debt*

The fair value of the Group's term debt is estimated based on current market interest rates (including an appropriate margin) available to the Group for debt of similar maturities and on the basis that term debt at fixed interest rates is to maturity.

#### *Forward Exchange Contracts, Foreign Exchange Options and Interest Rate Swaps*

The fair value of these instruments are estimated based on the quoted or estimated market prices.

	<i>Tenon Group</i>	
	2004	2003
	NZ\$m	NZ\$m
Forward Exchange Contracts	–	1
Foreign Exchange Options	–	1
Interest Rate Swaps	–	-3

#### *Investments*

It is not practical to estimate fair values of unlisted investments as there are no quoted market prices for those or similar investments. Unlisted investments are carried at the lower of net asset backing or historical cost (refer to note 14). The carrying value amount of loans to Associates is equivalent to the fair value.

#### *Cash and Liquid Deposits*

The carrying amount of cash and liquid deposits is equivalent to the fair value.

### 20 LEASE COMMITMENTS

The expected future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 30 June are as follows:

	<i>Tenon Group</i>	
	2004	2003
	NZ\$m	NZ\$m
within one year	5	3
two years	4	2
three years	3	1
four years	2	1
five years	2	1
after five years	1	1
	<b>17</b>	<b>9</b>

Operating lease commitments relate mainly to occupancy leases of buildings.

### 21 CONTINGENT LIABILITIES

There are no significant contingent liabilities as at June 2004.

## Notes to the Financial Statements *continued*

### 22 ENVIRONMENT

It is the Group's policy to monitor environmental performance on an ongoing basis and to require that all of its operations comply with applicable environmental regulatory requirements. As part of this policy, Management is required to report regularly to the Board of Directors on current and future environmental performance. The Group also commissions regular independent reports with respect to environmental management systems and the implementation of this policy. A provision for environmental matters has been recorded by the Group (refer note 16).

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. Failure to comply with these laws and regulations may result in orders being issued that could cause certain of the Group's operations to cease or be curtailed or may require installation of additional equipment at substantial cost. Violators may be required to compensate those suffering loss or damage by reason of violations and may be fined if convicted of an offence under such legislation.

The Group believes that its activities complied in all material respects with applicable environmental laws and regulations.

### 23 INSURANCE

The Group believes that its risk management programmes are adequate to protect its assets and earnings against losses incurred, within a self insurance level of NZ\$7.5 million for property and business interruption risk and \$5 million for public and product liability.

Based on past experience, the Group does not anticipate that future losses within these levels would have a significant impact on its financial position or performance. In certain circumstances, where required by law or where the Group considers it appropriate, insurance may be arranged for exposures within the self insurance levels. The Empire Company is fully insured.

In general terms, subject to the self insurance levels, the Group remains insured with insurers of high credit quality for the following risks:

	<i>Tenon Group</i>	
	2004 NZ\$m	2003 NZ\$m
Public and product liability	100	100
Loss or damage to Group property including business interruption	150	250
Marine charterers' liability	–	86

The Group's policy is to make provision for reported and estimated unreported losses incurred at balance date (June 2004: Nil).

### 24 CAPITAL EXPENDITURE COMMITMENTS

Committed at balance date for expenditure:

within one year	3	3
	<b>3</b>	<b>3</b>

At 30 June 2004 an additional \$6 million to upgrade the log feed and primary sawing equipment at the Kawerau sawmill has been approved by the Board but not yet committed to. This project is due for completion early in the 2005 calendar year.

Tenon has an agreement to purchase the remaining one third share of The Empire Company after 1 November 2004 at the discretion of the minority partner.

Notes to the Financial Statements *continued*

	2004 NZ\$m	Tenon Group 2003 NZ\$m	2002 NZ\$m
<b>25 RELATED PARTY TRANSACTIONS</b>			
<b>Tenon Group</b>			
<b>Trading Activities with Related Parties</b>			
Sale of wood products to American Wood Moulding LLC	17	27	31
Amounts owed relating to the sale of wood products to American Wood Moulding, and included within Debtors	1	1	1
Sale of wood products to The Empire Company <sup>(1)</sup>	3	13	18
Amounts owed relating to the sale of wood products to The Empire Company, and included within Debtors <sup>(1)</sup>	–	1	2
Loan to American Wood Moulding LLC <sup>(2)</sup>	9	11	–
Payment to Rubicon Limited <sup>(3)</sup>	5	–	7
Amounts owed by Rubicon Forests Limited and held in Debtors <sup>(4)</sup>	2	–	–
<b>Tenon Limited</b>			
Royalties, Management services provided to, and funding received from subsidiaries for which management fees have been received, and finance charges paid (expensed by Tenon Limited)	1	9	11
Net Term Liabilities/(Assets) from subsidiary companies included within Net Investment in Subsidiary Companies <sup>(5)</sup>	215	51	-29

- (1) On 1 November 2003, Tenon increased its stake in The Empire Company from 33% to 67%. Following this increase in ownership the financial results of The Empire Company are fully consolidated and excluded from the related party disclosure.
- (2) In addition to the US\$6 million loan to American Wood Moulding LLC, Tenon has issued a US\$3 million letter of credit which is able to be drawn upon if American Wood Moulding LLC breaches certain banking covenants. The US\$6 million loan is repayable by 30 June 2006 at an interest rate of 16.5%.
- (3) As part of the forest sales process Tenon paid Rubicon \$5 million in settlement of its future obligations to purchase seedlings from Trees & Technology Limited. As part of the Fletcher Challenge Group separation, Tenon sold to Rubicon Limited its biotechnology and South American assets but was not able to transfer legal title to certain assets, including an investment in an Argentinean associate. During 2002, Tenon paid Rubicon \$7 million in full settlement of all claims in respect of the separation process, including the obligation to make a fund of US\$10 million available to Rubicon to meet such claims. Tenon holds Forestadora Tapebicua S.A. in trust for Rubicon Limited until the title is transferred. As part of such payment Rubicon has waived any right to make any further claims against Tenon for any failure to complete the transfer of title. Rubicon is required to meet the costs and expenses incurred by the Group in continuing to hold the assets in trust for Rubicon.
- (4) Amounts owed by Rubicon Forests Limited relate to costs paid by Tenon in relation to the Rubicon Forests Limited's partial takeover offer which will be reimbursed to Tenon.
- (5) These advances are for no fixed term but represent long term funding advances, and bear interest at 6.8% (30 June 2003: 8.4%; 30 June 2002: 6.5%). The Principal Subsidiaries included within Net Investment in Subsidiary Companies are disclosed in note 30, Principal Operations.

**26 FOREIGN CURRENCIES**

All monetary amounts in these financial statements are expressed in New Zealand Dollars unless otherwise stated. The following are approximations to the New Zealand Dollar:

		2004	2003
United States Dollars	Period End	0.6327	0.5827
	Period Average	0.6275	0.5203
Australian Dollars	Period End	0.9155	0.8745
	Period Average	0.8811	0.8905

## Notes to the Financial Statements *continued*

### 27 PENSION PLANS

Tenon Group has a defined benefit pension plan that covers certain employees. The benefits are based on years of service and the employees' compensation during their years of employment. The Group's funding policy is to contribute to the plans to the extent that the service and interest costs of the plan is not covered by the return on plan assets and net amortisation and deferrals. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Plan assets consist primarily of property, equity and fixed income securities.

	2004 NZ\$m	2003 NZ\$m
Assets of Plans at Fair Value at the beginning of the year	11	11
Return on Assets	1	-1
Contributions	1	1
Benefit Payments	-2	-
Assets of Plans at Fair Value	11	11
Vested Accumulated Benefit Obligation	11	12
Total Accumulated Benefit Obligation	11	12
(Deficit)/Excess of Plan Assets over Accumulated Benefit Obligation	-	-1
Projected Benefit Obligation at the beginning of the year	-12	-12
Costs	-2	-
Benefit Payments	2	-
Total Projected Benefit Obligation at the end of the year	-12	-12
Assets of Plans at Fair Value	11	11
Funded (Obligation)/Surplus	-1	-1
Funded (Obligation)/Surplus Recognised in Earnings in previous years	-1	-1
Recognised Funded Obligation <sup>(1)</sup>	-1	-1
Projected Unrecognised Funded Surplus	-	-
(1) Recognised Funded Obligation included within note 16, Creditors for June 2004 and 2003 (\$1 million).		
Net Periodic Pension Cost		
Actual Return on Assets	1	-1
Net Amortisation and Deferral	-1	1
Net Periodic Pension Cost	-	-

The following table provides the weighted average assumptions used to develop the net periodic pension cost and the actuarial present value of projected benefit obligations for the Group's plans:

	2004 %	2003 %
Assumed Discount Rate on Benefit Obligations	5.5	5.5
Expected Long Term Rate of Return on Plan Assets	5.5	5.5
Rate of Increase in Future Compensation Levels	3.5	3.5

Notes to the Financial Statements *continued***28 EMPLOYEE REMUNERATION**

In accordance with Section 211(1)(g) of the New Zealand Companies Act 1993, remuneration and other benefits in excess of NZ\$100,000 per annum paid to employees of Tenon Limited and its subsidiaries not being Directors of the Company during the year are detailed below. The bandings below include retirement and redundancy payments.

	Continuing New Zealand Business Number of Employees <sup>(1)</sup>	Offshore Business Number of Employees <sup>(2)</sup>	Discontinued Business Number of Employees <sup>(3)</sup>	Total Number of Employees
NZ\$100,000 to NZ\$110,000	9	4	8	21
NZ\$110,000 to NZ\$120,000	10	–	8	18
NZ\$120,000 to NZ\$130,000	3	3	8	14
NZ\$130,000 to NZ\$140,000	5	–	9	14
NZ\$140,000 to NZ\$150,000	4	1	4	9
NZ\$150,000 to NZ\$160,000	3	5	2	10
NZ\$160,000 to NZ\$170,000	2	–	2	4
NZ\$170,000 to NZ\$180,000	2	–	2	4
NZ\$180,000 to NZ\$190,000	1	1	2	4
NZ\$190,000 to NZ\$200,000	1	–	–	1
NZ\$200,000 to NZ\$210,000	1	–	2	3
NZ\$210,000 to NZ\$220,000	–	1	3	4
NZ\$220,000 to NZ\$230,000	–	–	1	1
NZ\$230,000 to NZ\$240,000	–	1	2	3
NZ\$250,000 to NZ\$260,000	2	–	–	2
NZ\$260,000 to NZ\$270,000	–	1	–	1
NZ\$270,000 to NZ\$280,000	–	–	1	1
NZ\$290,000 to NZ\$300,000	–	–	1	1
NZ\$300,000 to NZ\$310,000	–	–	1	1
NZ\$310,000 to NZ\$320,000	1	–	–	1
NZ\$330,000 to NZ\$340,000	–	1	–	1
NZ\$340,000 to NZ\$350,000	–	–	1	1
NZ\$390,000 to NZ\$400,000	–	–	1	1
NZ\$430,000 to NZ\$440,000	1	–	–	1
NZ\$460,000 to NZ\$470,000	1	–	–	1
NZ\$970,000 to NZ\$980,000	1	–	–	1
NZ\$1,300,000 to NZ\$1,310,000	–	–	1	1
<b>Total</b>	<b>47</b>	<b>18</b>	<b>59</b>	<b>124</b>

- (1) Certain employees of Tenon have provisions in their employment contracts which provide for benefits in the event of a change of control taking place. As a consequence of the change of control of the Company which occurred in June 2004:
- (a) Certain variable payments, payable upon achievement of business targets set by the Board of the Company for the year, were paid during the year to employees. Two of the employees' variable payments covered a period of 15 months; and
  - (b) The Company provided in July 2004 (and therefore not included in the above employee remuneration table) a specified number of shares in Tenon to five employees. The aggregate value of shares that were provided as a result of the change of control was \$1,073,439.
- (2) Includes The Empire Company employees from 1 November 2003.
- (3) Includes redundancy payment and outstanding leave entitlements paid upon termination of employment.

## Notes to the Financial Statements *continued*

### 29 SEGMENTAL INFORMATION SUMMARY

Tenon is a New Zealand-based processing, marketing and distribution Group, represented by two divisions – the Structural Consumer Solutions segment and the Appearance Consumer Solutions segment. Each segment has a distinct market and product focus:

- (i) The Structural Consumer Solutions segment supplies structural lumber, plywood and treated outdoor products to the residential and light commercial building sectors in New Zealand and Australia, and treated posts and poles to the rural, viticulture and infrastructure sectors in New Zealand. In addition, the Structural Consumer Solutions segment supplies manufacturing grade lumber to the industrial sector in New Zealand and Asia and appearance grade lumber to Asian furniture manufacturers. The Structural Consumer Solutions segment operates four processing sites: the Kawerau Sawmill and Remanufacturing Plant; the Rainbow Mountain Sawmill; the Mt Maunganui Plywood Mill; and Ramsey Roundwood. All of these sites are located in or around the central North Island of New Zealand.
- (ii) The Appearance Consumer Solutions segment takes clear wood from pruned logs through to high value moulding and millwork uses in the United States. Radiata pine is a competitive substitute in many applications for diminishing United States supplies of Ponderosa pine. The Appearance Consumer Solutions segment has strong supplier relationships for finished mouldings and boards with the two largest home improvement chains in the United States: The Home Depot, through American Wood Moulding, in which the Group holds a 50% interest; and Lowe's, through a 67% shareholding in The Empire Company. The Home Depot, Lowe's and other major United States retailers are demanding environmentally certified wood products from their suppliers and the Appearance Consumer Solutions segment's access to an environmentally certified (by the Forest Stewardship Council) resource, together with its integrated supply chain, confers a significant competitive advantage. The Appearance Consumer Solutions segment also supplies appearance grade lumber to a number of US moulding and millwork manufacturers. The Appearance Consumer Solutions segment operates two plants in New Zealand, the Taupo Sawmill and the Taupo Mouldings Plant, and has a sales office in the United States. As well as providing a channel to market for Tenon's New Zealand products, Empire and American Wood Moulding also source significant quantities of finished mouldings from other suppliers. These two distribution companies operate from over one million square feet of warehouse space at eight locations throughout the United States.

Support includes shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments. Prior to the sale of the forest assets, shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments were included in the Forest and Supply segment and included in discontinued operations (refer note 1).

Notes to the Financial Statements *continued***29 SEGMENTAL INFORMATION SUMMARY** *continued*

June 2004	Structural NZ\$m	Appearance NZ\$m	Support <sup>(1)</sup> NZ\$m	Other <sup>(2)</sup> NZ\$m	Tenon NZ\$m
Sales Revenue	251	286	–	–	537
Other Revenue	–	17	–	2	19
<b>Operating Revenue</b>	<b>251</b>	<b>303</b>	<b>–</b>	<b>2</b>	<b>556</b>
<b>Earnings before Interest, Taxation, Depreciation, Amortisation and Unusual Items</b>	<b>21</b>	<b>37</b>	<b>-5</b>	<b>11</b>	<b>64</b>
Depreciation and Amortisation	-7	-6	-1	–	-14
<b>Operating Earnings before Unusual Items</b>	<b>14</b>	<b>31</b>	<b>-6</b>	<b>11</b>	<b>50</b>
Unusual Items	–	–	-2	–	-2
<b>Operating Earnings</b>	<b>14</b>	<b>31</b>	<b>-8</b>	<b>11</b>	<b>48</b>
<b>Total Assets</b>	<b>143</b>	<b>177</b>	<b>170</b>	<b>133</b>	<b>623</b>
Investments in Associates included in Total Assets – Equity	–	25	–	–	25
Investments in Associates included in Total Assets – Loan	–	9	–	–	9
Capital Expenditure	6	6	–	–	12

	Europe	North America	Australia	New Zealand	Asia	Total
<b>Total Operating Revenue by Destination</b>	<b>–</b>	<b>269</b>	<b>35</b>	<b>205</b>	<b>47</b>	<b>556</b>
<b>Total Operating Earnings</b>	<b>–</b>	<b>33</b>	<b>–</b>	<b>15</b>	<b>–</b>	<b>48</b>
<b>Total Assets</b>	<b>1</b>	<b>113</b>	<b>–</b>	<b>509</b>	<b>–</b>	<b>623</b>

- (1) Prior to the sale of the forest assets, shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments were included in the Forests and Supply segment and included in discontinued operations (refer note 1). Included within the operating expenses from continuing operations are overheads of \$6 million for June 2004 (being costs post the forest assets sale). Support costs on an annualised basis are estimated at \$15 million.
- (2) Relates to foreign exchange gains on net foreign denominated debt instruments (\$9 million) and interest income on cash (\$2 million) not attributed to a specific business segment and discontinued assets (\$133 million).

Notes to the Financial Statements *continued*29 SEGMENTAL INFORMATION SUMMARY *continued*

June 2003	Structural NZ\$m	Appearance NZ\$m	Support <sup>(1)</sup> NZ\$m	Other <sup>(2)</sup> NZ\$m	Tenon NZ\$m
Sales Revenue	234	153	–	–	387
Other Revenue	–	14	–	–	14
Inter-segmental Operating Revenue	-8	–	–	–	-8
<b>Operating Revenue</b>	<b>226</b>	<b>167</b>	<b>–</b>	<b>–</b>	<b>393</b>
<b>Earnings before Interest, Taxation, Depreciation and Unusual Items</b>	<b>20</b>	<b>23</b>	<b>–</b>	<b>19</b>	<b>62</b>
Depreciation	-8	-5	–	–	-13
<b>Operating Earnings before Unusual Items</b>	<b>12</b>	<b>18</b>	<b>–</b>	<b>19</b>	<b>49</b>
Unusual Items	–	–	–	–	–
<b>Operating Earnings</b>	<b>12</b>	<b>18</b>	<b>–</b>	<b>19</b>	<b>49</b>
<b>Total Assets</b>	<b>128</b>	<b>109</b>	<b>–</b>	<b>884</b>	<b>1,121</b>
<b>Investments in Associates included in Total Assets – Equity</b>	<b>–</b>	<b>22</b>	<b>–</b>	<b>–</b>	<b>22</b>
<b>Investments in Associates included in Total Assets – Loan</b>	<b>–</b>	<b>11</b>	<b>–</b>	<b>–</b>	<b>11</b>
<b>Capital Expenditure</b>	<b>3</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>6</b>
	North America	Australia	New Zealand	Asia	Total
<b>Total Operating Revenue by Destination</b>	<b>143</b>	<b>37</b>	<b>195</b>	<b>18</b>	<b>393</b>
<b>Total Operating Earnings</b>	<b>11</b>	<b>–</b>	<b>38</b>	<b>–</b>	<b>49</b>
<b>Total Assets</b>	<b>55</b>	<b>–</b>	<b>1,066</b>	<b>–</b>	<b>1,121</b>

- (1) Prior to the sale of the forest assets, shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments were included in the Forests and Supply segment and included in discontinued operations (refer note 1).
- (2) Relates to foreign exchange gains on net foreign denominated debt instruments and interest income on cash not attributed to a specific business segment and discontinued assets.

Notes to the Financial Statements *continued*29 SEGMENTAL INFORMATION SUMMARY *continued*

June 2002	Structural NZ\$m	Appearance NZ\$m	Support <sup>(1)</sup> NZ\$m	Other <sup>(2)</sup> NZ\$m	Tenon NZ\$m
Sales Revenue	231	181	–	–	412
Other Revenue	–	14	–	–	14
Inter-segmental Operating Revenue	-16	-1	–	–	-17
<b>Operating Revenue</b>	<b>215</b>	<b>194</b>	<b>–</b>	<b>–</b>	<b>409</b>
<b>Earnings before Interest, Taxation, Depreciation and Unusual Items</b>	<b>5</b>	<b>31</b>	<b>–</b>	<b>18</b>	<b>54</b>
Depreciation	-10	-5	–	–	-15
<b>Operating Earnings before Unusual Items</b>	<b>-5</b>	<b>26</b>	<b>–</b>	<b>18</b>	<b>39</b>
Unusual Items	-3	–	–	–	-3
<b>Operating Earnings</b>	<b>-8</b>	<b>26</b>	<b>–</b>	<b>18</b>	<b>36</b>
<b>Total Assets</b>	<b>134</b>	<b>99</b>	<b>–</b>	<b>1,458</b>	<b>1,691</b>
Investments in Associates included in Total Assets – Equity	–	21	–	–	21
Investments in Associates included in Total Assets – Loan	–	–	–	–	–
Capital Expenditure	–	1	–	–	1
	North America	Australia	New Zealand	Asia	Total
<b>Total Operating Revenue by Destination</b>	<b>167</b>	<b>33</b>	<b>171</b>	<b>38</b>	<b>409</b>
<b>Total Operating Earnings</b>	<b>9</b>	<b>–</b>	<b>27</b>	<b>–</b>	<b>36</b>
<b>Total Assets</b>	<b>47</b>	<b>–</b>	<b>1,641</b>	<b>3</b>	<b>1,691</b>

(1) Prior to the sale of the forest assets, shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments were included in the Forests and Supply segment and included in discontinued operations (refer note 1).

(2) Relates to foreign exchange gains on net foreign denominated debt instruments and interest income on cash not attributed to a specific business segment and discontinued assets.

Notes to the Financial Statements *continued***30 PRINCIPAL OPERATIONS**

Tenon Limited is the holding company of the Tenon Group. The Tenon Group's principal subsidiaries, associates and affiliates, as at 30 June, are outlined below:

	Country of Domicile	Principal Activity	% Holding	
			2004	2003
<b>Principal Subsidiaries</b>				
Tenon Industries Limited	NZ	Funding	100	100
Tenon Manufacturing Limited	NZ	Processing	100	100
Tenon New Zealand Limited	NZ	Holding Company	100	100
Tenon USA Inc.	USA	Distribution	100	100
Tarawera Forests Limited*	NZ	Forestry	82	82
Tenon Funding USA Limited	NZ	Funding	100	100
The Empire Company*	USA	Distribution	67	33
Tenon North America Limited	NZ	Holding Company	100	–
<b>Associates and Affiliates</b>				
American Wood Moulding LLC*	USA	Distribution	50	50
Zenia House A/S*	Denmark	Furniture	20	–
Wood Exports New Zealand 1986 Limited*	NZ	Processing	39	39
AWM Mexico*	Mexico	Distribution	50	50

\*Are not restricted subsidiaries under the Group's debt covenants.

## Notes to the Financial Statements *continued*

### 31 PROSPECTIVE FINANCIAL INFORMATION

In May 2004 the Group issued prospective financial information for the purpose of inclusion in its Target Company Statement, following Rubicon Forests Limited's partial takeover offer. Below is a comparison of the prospective financial information to the Group actual results.

#### Statement of Financial Performance

*for period ended 30 June 2004*

	Actuals NZ\$m	Prospective Information NZ\$m
Operating Revenue	556	554
Operating Expenses	-508	-506
Operating Earnings	48	48
Funding Costs	-2	-2
Earnings before Taxation	46	46
Taxation	-11	-10
Earnings after Taxation	35	36
Minority Interest	-3	-3
Net Earnings from Continuing Operations	32	33

#### Statement of Financial Position

*as at 30 June 2004*

Total Current Assets	439	397
Total Term Assets	184	186
Total Group Assets	623	583
Total Current Liabilities	91	72
Total Term Liabilities	34	19
Total Group Liabilities	125	91
Group Equity	470	484
Minority Equity	28	8
Total Group Liabilities and Equity	623	583

The June 2004 actual financial position differs from the prospective financial information due primarily to:

- delay of cash proceeds from the forest sale process, impacting Group cash and term debt.
- delay in the sale of Tarawera Forests land, impacting current assets and minority equity.
- delay in the payment of forest sale and reorganisation costs, impacting current liabilities.
- reduced earnings from Discontinued Operations, impacting Group equity.
- additional current assets within Continuing Activities relating to the purchase of forest stumpage blocks and takeover costs receivable from Rubicon.

#### Statement of Cash Flows

*for period ended 30 June 2004*

Net Cash from Operating Activities	20	22
Net Cash to Investing Activities	-30	-31
Net Cash to Financing Activities	-443	-461
Net Cash from Discontinued Operations	549	643
Net Movement in Cash Held	96	173

The June 2004 actual cash flows differ from the prospective financial information due primarily to delays in the forest sales process.

Notes to the Financial Statements *continued***32 DISCONTINUED OPERATIONS**

The following information details the operating revenue, operating earnings, financial position and cash flows of the Discontinued Operations of the Tenon Group relating to the forestry activities disposed of during the year. These operations were previously disclosed as the Forests and Supply Segment.

	2004 NZ\$m	2003 NZ\$m	2002 NZ\$m
<b>Operating Revenue</b>			
Total Operating Revenue	744	678	664
Operating Revenue from Discontinued Operations	188	285	255
<b>Earnings before Taxation</b>			
Operating Earnings from Discontinued Operations includes:			
Depreciation:			
Depreciation – Plant & Equipment	6	11	13
Unusual Items:			
Reorganisation and Separation Costs <sup>(1)</sup>	-23	-4	-
Permanent Impairment <sup>(2)</sup>	-	-	-349
(Loss)/Gain on sale of Forest Crop and Land <sup>(3)</sup>	-	-29	2
Provisions Released <sup>(4)</sup>	-	-	4
Acquisition Costs Written Off <sup>(5)</sup>	-	2	-6
Other Gains <sup>(6)</sup>	-	-	1
Net Foreign Exchange Gain	2	9	7
Research and Development	1	1	2
Bad Debts Written Off	-	1	-
Maintenance and Repairs	1	2	2
Operating Lease Expense	3	4	4
Forest Crop Revaluation <sup>(7)</sup>	51	451	-53
Funding Costs <sup>(8)</sup>	1	15	19

(1) Reorganisation Costs for June 2004 relate to costs incurred in exiting the forestry operations including redundancies. June 2003 of \$4 million relates to costs associated with the debt refinancing, proposed forest sale, strategic redirection of the Group following the termination of the Central North Island Forestry Partnership (CNIFP) management contract and proposed capital return.

(2) Permanent Impairment for June 2002 related to the investment in and advances to the Central North Island Forest Partnership of \$349 million. Permanent Impairment for the write-down of the Group's carrying value of its investment in the Central North Island Forest Partnership (the Partnership) of \$349 million was based upon the assessment of the realisable value of the Partnership estate. Primarily as a result of sustained low log prices the Partnership breached certain loan ratios and covenants putting the senior bank debt facility in default in December 2000. As a consequence of the default, Receivers were appointed in February 2001. This resulted in the Receivers assuming control of the Partnership's assets with the intention of selling the Partnership's assets. As a result, the Group's equity in the Partnership was written off, together with the Group's subordinated debt to the Partnership. Fair value was determined based on discounted cash flows.

(3) Loss on sale of Forest Crop for June 2003 of \$29 million relates to the sale of the cutting rights for 8,940 hectares of the Tahorakuri and Tauhara forest estates. Gain on sale of Forest Land for June 2002 of \$2 million related to the sale of the Ngatapa forest land.

(4) Provisions released for June 2002 related to the reversal of certain environmental provisions of \$2 million and other provisions of \$2 million.

(5) Acquisition Costs Written Off related to costs associated with the proposed acquisition of the Central North Island Forest Partnership. The gain of \$2 million in June 2003 relates predominately to the closing of a foreign currency contract entered into, to hedge the proposed acquisition. Acquisition Costs Written Off for June 2002 of \$6 million related to costs incurred in relation to the proposed acquisition.

(6) Other Gains for June 2002 related to the recovery of \$1 million, relating to a debt previously written off following the sale of the Chilean forestry operations.

Notes to the Financial Statements *continued***32 DISCONTINUED OPERATIONS** *continued*

- (7) During 2004 the carrying value of the forest crop was revalued to an estimated market value based upon the sale and purchase agreement for the forest assets. Included within the estimated market value were transaction costs of \$35 million. During 2003 log prices in New Zealand dollars fell significantly over the year, primarily as a result of the appreciation of the New Zealand dollar exchange rate against those of the Group's major trading partners. This necessitated a review of the carrying value of the forest estate. Recognising that the continued use of a "trailing" 12-quarter pricing series, as previously applied in the forest valuation methodology, would generate a forest estate value in excess of that value implied by the current operating environment, current prices were substituted, as represented by the last two quarters – March and June 2003. In addition the after tax discount rate increased from 7.5% to 8.5%. These changes aligned the forest valuation assumptions with current market conditions at June 2003.
- (8) Total funding costs on term debt for the Group of \$3 million (2003: \$18 million, 2002: \$22 million) have been allocated between continuing and discontinued operations based upon net assets of the respective operations resulting in \$1 million (2003: \$15 million, 2002: \$19 million) allocated to the discontinued operations.

**Statement of Financial Position***as at 30 June*

	2004 NZ\$m	2003 NZ\$m
<b>Assets</b>		
Cash and Liquid Deposits	–	47
Stocks	–	20
Debtors	3	24
Forest Crop <sup>(1)</sup>	106	–
Fixed Assets <sup>(2)</sup>	24	–
<b>Total Current Assets</b>	<b>133</b>	<b>91</b>
Fixed Assets	–	208
Forest Crop	–	582
<b>Total Discontinued Group Assets</b>	<b>133</b>	<b>881</b>
<b>Liabilities</b>		
Current Liabilities:		
Creditors	17	42
Term Debt	–	104
Provision for Deferred Taxation	–	10
<b>Total Discontinued Group Liabilities</b>	<b>17</b>	<b>156</b>

(1) For June 2004, the balance of \$106 million relates to leasehold forestry rights subject to a sale contract. Settlement will occur when consent is received from the forest land owners. As at 20 August 2004 consents have been received relating to \$86 million of the deferred forest settlements outstanding at balance date.

(2) Tarawera Land of \$24 million.

**Statement of Cash Flows***for period ended June*

	2004 NZ\$m	2003 NZ\$m	2002 NZ\$m
Net Cash from Operating Activities	-37	17	14
Net Cash from Investing Activities	587	112	8
Net Cash from Financing Activities	-1	-149	13
Net Cash from Discontinued Operations	–	–	-47
<b>Net Cash from/(to) Discontinued Operations</b>	<b>549</b>	<b>-20</b>	<b>-12</b>

# Report of the Auditors

*to the Shareholders of Tenon Limited*



We have audited the financial statements on pages 33 to 65. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2004 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 33 to 35.

#### **Directors' Responsibilities**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2004 and their financial performance and cash flows for the year ended on that date.

#### **Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

#### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The firm carries out other assignments for the Company and certain of its subsidiaries in the areas of taxation compliance, financial assurance and advisory services. The firm has no other relationship with or interests in the Company or any of its subsidiaries.

#### **Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 33 to 65:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2004 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 20 August 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature in cursive script that reads "Price Waterhouse Coopers".

## Board of Directors

### **Anthony Ian (Tony) Gibbs**

Fellow of the Institute of Directors

Chairman of Directors

#### *Committees*

Nominations and Governance (Chairman)

Initially appointed 2004

Mr Gibbs is a company director. He is Chairman of Turners and Growers and Staveley Inc. and is a director of Rubicon, Coats, Coats Holdings plc, Turners and Growers Fresh, Staveley Industries plc, Tower, Tower Australia, Guinness Peat Group plc, Guinness Peat Group New Zealand, GPG Forests, GPG Shares, Ithaca Custodians, Ezypeel Mandarins and Turners Auctions. He was previously Chairman of AGB McNair, Tyndall Life NZ, and Deputy Chairman of The NZ Guardian Trust Co. He is a former director of The Colonial Motor Co., Tyndall Australia, The Union Shipping Group and Wrightson.

### **Michael John Andrews**

MNZIF

Non-Executive Director

#### *Committees*

Nominations & Governance

Remuneration

Initially appointed 1990

Last re-elected 2002

Mr Andrews retired as Chief Executive Officer of Fletcher Challenge in April 2001. He was acting Chief Executive Officer of Fletcher Building until July 2001. He was previously Divisional Chief Executive of Fletcher Challenge Energy, Fletcher Challenge Forests and Fletcher Challenge Paper and previously Chief Executive Officer of the Solid Wood Forestry sector, and before that of the former Energy and Resources Group. He was Chairman of Rubicon until June 2004. He is a director of Eastland Infrastructure, Eastland Port, Eastland Network, New Zealand Trade and Enterprise and the National Centre for Advanced Bio Protection Technologies.

### **Rodger Herbert Fisher**

FCIS

Non-Executive Director

#### *Committees*

Audit

Nominations & Governance

Remuneration (Chairman)

Initially appointed 2001

Last re-elected 2003

Mr Fisher practises as a business consultant. Prior to that he was Managing Director of Owens Group between 1987 and 1999. He is Chairman of the Civil Aviation Authority and Aviation Security Services. He is Chairman of Eurotech Group and Deputy Chairman of WEL Networks and a director of Waste Management (NZ) and Lyttelton Port Company. He is a Fellow of the Chartered

Institute of Secretaries, the Chartered Institute of Transport, the Institute of Directors and the New Zealand Institute of Management.

Mr Fisher is an Independent Director.

### **Simon Luke Moriarty**

MS (Stanford), LLB (Hons), BCA (VUW)

Non-Executive Director

#### *Committees*

Audit

Nominations & Governance

Remuneration

Initially appointed 2001

Last re-elected 2003

Mr Moriarty is the Chief Executive Officer and an executive director of Rubicon. Prior to that he was a member of the Executive Office of Fletcher Challenge, and was instrumental in structuring the financial separation of the Fletcher Challenge Group in 2001. He joined Fletcher Challenge Limited in 1982, and held a number of senior executive roles across the Fletcher Challenge Group Divisions in New Zealand and North America, including Chief Financial Officer of Fletcher Challenge Canada and Director of TimberWest Forests.

### **Michael Carmody Walls**

BA, LLB (VUW), LLM (London)

Non-Executive Director

#### *Committees*

Audit (Chairman)

Nominations & Governance

Initially appointed 2001

Last re-elected 2002

Mr Walls practises as a business consultant. He was previously the Managing Director, Investment Banking, for BZW New Zealand, and then for its successor, ABN AMRO New Zealand, from 1997 to 2000. Prior to that Mr Walls practised as a commercial lawyer at Chapman Tripp, where he was a partner from 1972 until 1996 specialising in mergers and acquisitions, international finance and corporate law. Mr Walls is a former Chairman of BHP NZ Steel Holdings, and a former Chairman of the listed Independent Press Communications (now a subsidiary of APN News & Media Limited). In addition, he has been a director of a number of unlisted companies. He is the Chairman of the Board of the New Zealand Institute of Economic Research.

Mr Walls is an Independent Director.

**Sir Dryden Spring ceased to hold office as a director during 2003-04. He resigned on 9 June 2004.**

**Warren A Larsen ceased to hold office as a director during 2003-04. He resigned on 9 June 2004.**

## Corporate Governance

The Board of Tenon Limited is committed to the highest standards of corporate governance, which the Company recognises as fundamental to its business activities. The Company continually monitors, reviews and improves its governance practices.

The Company's governance procedures are designed to:

- Enable the Board to provide strategic guidance for the Company and effective oversight of Management;
- Clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both the Company and its shareholders; and
- Ensure a balance of authority so that no single individual has unfettered powers.

### ROLE OF THE BOARD

The Board is elected by shareholders to create value and have overall responsibility for management of the Company. The Board is structured in a way that it:

- Has a proper understanding of, and competence to deal with, the current and emerging issues of the business; and
- Can effectively review and challenge the performance of Management and exercise independent judgement.

The Company achieves Board and Management accountability through having formal strategies, policies and procedures, which include formal terms of reference for the Board and its Committees, and for the Chairman, Directors and Management.

The Chief Executive Officer is responsible for the day-to-day management of the Company's business and for ensuring that the policies and strategies approved by the Board are implemented.

There is a formal delegation of authority to the Chief Executive Officer.

The Board evaluates the performance of the Chief Executive Officer annually. The evaluation is based on criteria that include the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives agreed at the beginning of each year.

The Board currently comprises five non-executive Directors. One third must retire at each Annual Shareholders Meeting. The Board has resolved that, subject to shareholder approval, Directors should normally hold office for two terms, provided that the Board may invite a Director to serve for a longer period.

The Chairman's role is to manage and provide leadership to the Board and to interact with the Chief Executive Officer.

The governance procedures require that the roles of Chairman and Chief Executive Officer should not be held by one person at the same time.

The Company's policy is that the Board should be comprised of at least two independent Directors.

Independent Directors are generally regarded as being independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board regularly assesses the independence of each Director, in light of interests disclosed by them to the Company.

Until June 2004 when subsidiaries of Rubicon Limited acquired control of the Company, the Chairman was an independent Director and a majority of the Directors were independent. Following the resignation of Sir Dryden Spring and W A Larsen as Directors, the new controlling shareholder nominated A I Gibbs as a Director. Mr Gibbs was then elected a Director, and Chairman, by the remaining members of the Board. This reduced the number of Directors from six to five.

R H Fisher and M C Walls are independent Directors under the Australian Stock Exchange and NZX corporate governance guidelines, which are used by the Company to determine independence.

A I Gibbs and S L Moriarty are not considered by the Board to be independent Directors because they are Directors of the parent company of the Company's largest shareholder, Rubicon Forests Limited. S L Moriarty is also Chief Executive of that company's parent, Rubicon Limited. M J Andrews is not currently considered by the Board to be an independent Director because he was the Chairman of the parent company of Rubicon Forests Limited until June 2004 and would be perceived to be not an independent Director.

The Board is responsible for the management of the Company. Day to day leadership and management of the Company is delegated to the Chief Executive Officer. Specific matters reserved to the Board include:

- Oversight of the Company;
- Monitoring Company and Management performance;
- Appointing, compensating and removing the Chief Executive Officer;
- Approving and monitoring corporate strategy and performance objectives;
- Reviewing risk management and reporting systems; and
- Approval of major capital expenditure.

## Corporate Governance *continued*

### Board Process

The Board normally meets for scheduled meetings eight times each year, but also meets on an as-needed basis. Directors receive comprehensive information on the Company's operations, normally at least seven days in advance of meetings. Senior Management is available at all Board meetings to answer questions and to assist the Board in its understanding of the Company's business.

The Board of Directors meets periodically on an "in camera" basis without Management present.

The Board also holds an extended strategic planning meeting once a year.

New Directors are appropriately introduced to the Company and to relevant industry knowledge and economics. This includes visits to specific Company operations, and briefings from key executives.

Directors are required to consult with the Chairman before accepting any other board appointment or other commitment that might adversely impact on the ability of the Director to perform the Director's obligations to the Company.

An annual performance evaluation is conducted of the Board and its members. This is conducted by the Chairman of the Board by one-on-one discussions with members and by the use of questionnaires. The results of the evaluation are discussed by the Board.

A Director may, with the prior written approval of the Chairman, and at the Company's expense, seek independent advice on an issue affecting the Director's duties to the Company.

### BOARD COMMITTEES

Committees have been established by the Board to assist the Board in the execution of its responsibilities.

There are currently three Committees: Audit Committee, Nominations and Governance Committee and Remuneration Committee. Other Committees may be established from time to time to consider matters of special importance.

The independent Directors also met separately in response to the partial takeover offer by Rubicon Limited.

A Committee may engage separate independent counsel and/or advisors at the expense of the Company.

Each Committee has adopted a comprehensive Charter addressing membership, authority, responsibilities and reporting procedures. These have been reviewed during the year and have recently been placed on the Company's website.

All non-executive Directors are entitled to attend all Committee meetings. Executive Directors and Management attend Committee meetings by invitation.

All non-executive Directors receive copies of papers and minutes of meetings of the Committees.

Attendance by Directors at Committee meetings during the year is set out on page 72.

An annual performance evaluation is conducted for each Committee. This is conducted by the use of questionnaires. The results of the evaluation are discussed by the Committee, and by the Board.

### Audit Committee

#### **Committee members:**

M C Walls (Chairman), R H Fisher and S L Moriarty

The Board appoints the members of the Audit Committee from the non-executive Directors of the Company. It consists of not less than three members. The Chairman is an independent Director and a majority of the members are independent Directors.

The Audit Committee oversees all matters concerning:

- Internal accounting, control and business risk management policies and systems;
- Suitability of the Group's accounting policies and principles;
- Financial reporting, including reviewing the half year and full year financial statements;
- The internal audit function; and
- The appointment and supervision of the external auditors.

The external auditors attend all meetings of the Audit Committee.

A majority of the members of the Audit Committee must be independent Directors.

Any employee has access to the Chairman of the Audit Committee at any time.

The Audit Committee pre-approves all audit and audit-related services and non-audit services to be provided by the Company's audit firm to ensure that they do not impair the external audit firm's independence from the Company.

The Audit Committee also approves an annual internal audit programme, and the results of that programme are reported directly to the Committee.

During the year the Due Diligence Committee was disbanded and its duties taken over by the Audit Committee and the full Board.

### Remuneration Committee

#### **Committee members:**

R H Fisher (Chairman), M J Andrews and S L Moriarty

The Board appoints the members of the Remuneration Committee from the non-executive Directors of the Company. It consists of not less than three members. The Chairman is an independent Director.

## Corporate Governance *continued*

The Remuneration Committee ensures that remuneration and recruitment policies and practices are aligned with the creation of shareholder value and the Company's objectives. The Committee sets the remuneration levels for executives who report to the Chief Executive Officer. The Committee also at least annually reviews the performance of the senior executives based on performance against agreed objectives, and sets the guidelines for the annual salary review and bonus payments for salaried employees, other than for the Chief Executive Officer, whose performance and remuneration are dealt with by the full Board.

### Nominations and Governance Committee

#### *Committee members:*

A I Gibbs (Chairman), M J Andrews, R H Fisher, S L Moriarty and M C Walls

The Nominations and Governance Committee comprises the five non-executive Directors.

The Committee's responsibilities include considering Board nominations and succession plans, and Director remuneration. It also considers governance issues on behalf of the Board.

Because of the small size of the Board, all Directors are members of this Committee, which has meant that a majority of the Committee comprises non-independent Directors.

### FINANCIAL REPORTING

Without diminishing the ultimate responsibility of the Board to ensure the integrity of the Company's financial reporting, a structure of review and authorisation has been put in place that is designed to ensure the truthful and factual presentation of the Company's financial position. This structure includes:

- An Audit Committee comprised of a majority of independent Directors, with a chairman who is not also the Chairman of the Board, appropriately resourced, and with a written charter;
- An independent review of the Company's financial statements by the Company's external auditor;
- A review by the Audit Committee of the half year and full year financial statements, with the external auditor present;
- Certification of the financial statements by the Chief Executive Officer and the Chief Financial Officer which meets Australian Stock Exchange corporate governance recommendations;
- Policies with regard to the independence of the external auditor;
- The Audit Committee meeting with the external auditor, without Management present; and
- A code of ethics for employees.

### AUDITOR INDEPENDENCE

The Board considers it is essential that the Company's external auditor be independent, and also be seen to be independent. The Company has an auditor independence policy which is designed to ensure that the Company's auditor does not have a mutual or conflicting interest with that of the Company, nor its independence impaired in relation to its performance of audit, or audit-related, services to the Company.

The Company has adopted the following key policies in relation to auditor independence:

- The auditor is required to abide by the independence regulations set out in regulations issued by the United States Securities and Exchange Commission;
- The Audit Committee must pre-approve the appointment of the auditor to provide any non-audit services to the Company or its subsidiaries;
- The auditor is required to report in writing to the Audit Committee on an annual basis on matters relating to its independence;
- The auditor is required to rotate its lead audit partner and the audit partner responsible for reviewing the audit on a five yearly basis, and such partners cannot be re-involved with the Company for a further five years; and
- The auditor is required to attend the Annual Shareholders' Meeting of the Company and answer any shareholder questions relating to the audit or audit report.

### REMUNERATION POLICY

The Company has adopted remuneration policies that are designed to encourage and reward performance and the creation of shareholder value, and also attract and retain talented and motivated employees. A significant proportion of the remuneration of executive employees is linked to performance. The Company uses an objective third party benchmarking system to ensure its remuneration is aligned to market.

The Company has a comprehensive and objective formal programme for setting the performance objectives of its employees, and for monitoring performance against those objectives.

On page 57 is a table describing remuneration and other benefits in excess of \$100,000 per annum paid to employees of the Company and its subsidiaries.

Directors do not receive any remuneration from the Company other than in their capacity as Directors.

A discussion of the Company's remuneration policies is contained on pages 26 and 27. See also the role of the Remuneration Committee on page 69.

## Corporate Governance *continued*

### ENSURING THE MARKET IS PROPERLY INFORMED

The Company has in place comprehensive, Board-approved, disclosure policies and procedures that are designed to ensure compliance with the information disclosure requirements of the New Zealand Exchange, the Australian Stock Exchange and the New York Stock Exchange, which are designed to ensure that:

- All investors have equal and timely access to material information concerning the Company – including its financial situation, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

### NEW YORK STOCK EXCHANGE AND AUSTRALIAN STOCK EXCHANGE

On 24 August 2004 the Company issued a notice to the Depository, Citibank, cancelling the Company's American Depository Receipt ("ADR") Programme in the United States (and de-listing from the New York Stock Exchange), with effect from 30 September 2004.

On 24 August 2004, the Company also advised the market that it was progressing with its previously announced intention to de-list from the Australian Stock Exchange. The ASX has consented to the Company de-listing effective 1 October 2004.

### CODE OF BUSINESS CONDUCT AND ETHICS

The Company has written procedures to:

- Clarify the standards of ethical behaviour required of Directors, executives and employees; and
- Prescribe the circumstances where Directors and employees can trade in the Company's securities.

The Company's Code of Business Conduct and Ethics underpins all its activities, and recognises the Company's legal and other obligations to legitimate stakeholders. It applies to all Directors, executives and employees. The Code ensures that Company decisions reflect the Company's core values of action orientation, innovation, commercial acumen, customer focus, personal accountability, teamwork, respect for the individual, respect for the environment and safety. Various policies and procedures implement the Code of Business Conduct and Ethics. The Code can be viewed on [www.tenon.co.nz](http://www.tenon.co.nz).

A comprehensive Code has been adopted by the Company to prohibit trading in the Company's securities by Directors, executives and certain groups of people within the Company outside of two specified trading windows that commence after release to the market of the Company's half year and full year results. Trading within the trading windows is subject to a formal approval process, designed within the framework of New Zealand's insider trading laws, to ensure that the law is complied with.

### CONTROLLING AND MANAGING RISK

The Company is, like any other business, exposed to risks. A central function of Management is to effectively manage those risks within policy levels set by the Board. The Company has a sound system of risk oversight and management and internal control. It has a range of policies, practices and procedures that help the Company to manage business risks. They are reviewed regularly as part of the Company's risk management process. The Chief Executive Officer and Chief Financial Officer are required to certify to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

### NZX CORPORATE GOVERNANCE PRINCIPLES

The Company's corporate governance process materially differs from the principles set out in the NZX Corporate Governance Best Practice Code in the following respects:

- The Company does not offer any equity security compensation plan to Directors;
- The Nominations Committee has responsibility for making recommendations with regard to Director remuneration; and
- Due to the number of Directors being only five, the Nominations Committee consists of all the Directors of the Company. This has resulted in only two out of the five members of the Nominations Committee being independent Directors.

## Corporate Governance *continued*

### KEEPING IN TOUCH WITH SHAREHOLDERS

The Company strives to effectively communicate with its shareholders, by giving them ready access to balanced and understandable information about the Company and corporate proposals, and by making it easy to participate in shareholder meetings. Ways that the Company achieves these objectives include:

- A website is maintained with information about the Company, including information about its businesses, copies of all stock exchange releases made by the Company, copies of media releases, full year and half year reports and supplemental financial information;
- An Annual Shareholders' Meeting is held, which any shareholder can attend;
- The speeches and presentations which are delivered to the Annual Shareholders' Meeting are placed on the Company's website;
- A recording of media and investor analysts' conferences is placed on the Company's website, for a period of time;
- The results of the voting at shareholder meetings, together with voting statistics, are announced to the stock exchanges;
- Letters are sent directly to shareholders on major events affecting the Company;
- Full year reports and half year reports which include an update of Company strategy and developments are mailed to shareholders; and
- An investor relations email in-box enables a quick response to investor enquiries.

### DIRECTORS' ATTENDANCE AT MEETINGS

	Board Meetings		Audit Committee		Due Diligence Committee <sup>(1)</sup>		Remuneration Committee		Nominations & Governance Committee		Independent Directors Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
M J Andrews	30	27	–	–	–	–	5	5	1	1	–	–
R H Fisher	30	29	7	7	1	–	5	5	1	1	15	14
A I Gibbs	1	1	–	–	–	–	–	–	–	–	–	–
W A Larsen	29	26	3	3	1	1	5	3	1	1	14	10
S L Moriarty	30	29	7	5	1	1	–	–	–	–	–	–
D T Spring	29	29	7	5	1	1	5	5	1	1	15	13
M C Walls	30	29	7	7	1	1	–	–	–	–	15	15

A = Meetings held while a Board or Committee Member

B = Meetings attended

(1) The Due Diligence and Audit Committees were combined from December 2003.

## Statutory Disclosure

### DIRECTORS' INTERESTS REGISTER

Directors' certificates to cover entries in the Interests Register in respect of remuneration, dealing in the Company's securities, insurance and other interests have been disclosed as required by the New Zealand Companies Act 1993.

### NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive Directors' base remuneration was set in April 2001, and has been revised from 1 July 2004.

The revised base fee is \$45,000 per annum (formerly \$50,000), with the Chairman receiving \$112,500 (formerly \$125,000).

The aggregate amount of fees paid by Tenon Limited to non-executive Directors for services in their capacity as Directors during the year ended 30 June 2004 was \$419,662.

Fees, prior to any taxation liability, paid to individual non-executive Directors in the year ended 30 June 2004 were:

	Base Fee	Board Committees	Total Fee
M J Andrews	50,000	2,400	52,400
R H Fisher	50,000	10,000	60,000
A I Gibbs <sup>(1)</sup>	7,212	–	7,212
W A Larsen	50,000	6,150	56,150
S L Moriarty <sup>(1)</sup>	50,000	5,000	55,000
D T Spring	125,000	–	125,000
M C Walls	50,000	13,900	63,900
<b>Total</b>	<b>382,212</b>	<b>37,450</b>	<b>419,662</b>

(1) From 1 April 2004 Directors' fees in relation to services provided by S L Moriarty and A I Gibbs were paid directly to Rubicon Limited.

### EXECUTIVE DIRECTOR'S REMUNERATION

Executive Directors do not receive remuneration as Directors of Group subsidiaries.

### INCENTIVE REMUNERATION

The Company operates an incentive remuneration scheme for the Chief Executive and other senior executives, each of whom has an annual performance plan. The Company's incentive remuneration scheme is tied to performance relative to that plan.

## Statutory Disclosure *continued*

### SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the New Zealand Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 30 June 2004.

Apart from some overseas subsidiaries which have independent Directors or are required to have a specific number of local residents as Directors, no subsidiary except Tarawera Forests Limited and certain nominee companies, has Directors who are not full-time employees of the Group.

No employee of the Tenon Limited Group appointed as a Director of Tenon Limited or its subsidiaries receives or retains any remuneration or other benefits as a Director.

The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed in the Notes to the Financial Statements, where the employee received remuneration and other benefits totalling \$100,000 or more during the year ended 30 June 2004.

Except where shown below, no other Director of any subsidiary company within the Group receives Director's fees or other benefits as a Director.

The following persons respectively held office as Directors of subsidiary companies at the end of the year or in the case of those persons with the letter (R) after their name ceased to hold office during the year.

#### **Fletcher Challenge Forests Finance Limited**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon Industries Limited (formerly Fletcher Challenge Forests Industries Limited)**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon Manufacturing Limited (formerly Fletcher Challenge Forests (Manufacturing) Limited)**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon New Zealand Limited (formerly Fletcher Challenge Forests New Zealand Limited)**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon Funding USA Limited (formerly Fletcher Challenge Forests Funding USA Limited)**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon Finance Limited (formerly Fletcher Challenge Finance Limited)**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon Holdings Limited (formerly Fletcher Challenge Industries Limited)**

I R Boyd (R), J A Dell, P M Gillard

#### **Fletcher Challenge Limited**

I R Boyd (R), J A Dell, P M Gillard

#### **Kaingaroa Holdings Limited**

I R Boyd (R), J A Dell, P M Gillard

#### **Kaingaroa Timber Company Limited**

I R Boyd (R), J A Dell, P M Gillard

#### **Tarawera Forests Limited**

R B Adlam (\$18,000), A F Bond, I R Boyd (R), I W Brown, P M Gillard, B R Goldsack, W K J McCallum (R), G M Park (\$14,000), J C A Schell (\$18,000)

#### **Woodlink Limited**

I R Boyd (R), J A Dell, P M Gillard

#### **CNI Forest Nominees Limited**

I R Boyd (R), J A Dell, P M Gillard

#### **Tenon Retirement Plan Nominees Limited (formerly Fletcher Challenge Forests Nominees Limited)**

D M Harris, J McDonald, G D Niccol, D C Robertson (R), G D Stebbing, P M Gillard

#### **Fletcher Challenge Forests Trust Nominees Limited**

I R Boyd, A C Grinter, G W Hall (R), J McDonald, R D Te Whare (R), P M Gillard, P K Callaghan

#### **Tenon Welfare Fund Nominees Limited (formerly Fletcher Forests Welfare Fund Nominees Limited)**

I R Boyd, G D Niccol, D H Sixton (R), P M Gillard

#### **Tenon North America Limited (formerly Fletcher Challenge Forests North America Limited)**

J A Dell, P M Gillard

#### **NACS USA Inc.**

J A Dell, R A Johnson, R L Fitzgerald

#### **Tenon USA Inc. (formerly Fletcher Challenge Forests USA, Inc.)**

J A Dell, M K Eglinton (R), R A Johnson, R L Fitzgerald

#### **Tenon USA Holding Company**

R L Fitzgerald

#### **The Empire Company, Inc.**

J A Dell, M K Eglinton, P M Gillard, S R Grossman (R), T B Highley (R), T H Highley, S J Johandes, A S White

#### **Forestry Corporation of New Zealand Limited (in Receivership)**

#### **Silvamare Shipping Services Limited**

## Statutory Disclosure *continued*

### DIRECTORS' INTERESTS

In accordance with Section 140(2) of the Companies Act 1993, Directors have advised the following changes in their interests:

<b>M J Andrews</b>		
Eastland Infrastructure Limited	Appointed	Director
Eastland Port Limited	Appointed	Director
Eastland Network Limited	Appointed	Director
<b>A I Gibbs</b>		
Guinness Peat Group plc	Initial Advice	Director
Guinness Peat Group New Zealand Limited	Initial Advice	Director
GPG Forests Limited	Initial Advice	Director
GPG Shares Limited	Initial Advice	Director
Turners and Growers Limited	Initial Advice	Chairman
Turners and Growers Fresh Limited	Initial Advice	Director
Ithaca Custodians Limited	Initial Advice	Director
Staveley Industries plc	Initial Advice	Director
Staveley Inc.	Initial Advice	Chairman
ENZA Limited	Initial Advice	Director
Rubicon Limited	Initial Advice	Director
Turners Auctions Limited	Initial Advice	Director
Ezypeel Mandarins Limited	Initial Advice	Director
Aeneid Seventeen Limited	Initial Advice	Director
Coats Limited	Initial Advice	Director
Coats Holdings plc	Initial Advice	Director
Tower Limited	Initial Advice	Director
Tower Australia Limited	Initial Advice	Director
Rubicon Forests Limited	Initial Advice	Director
<b>S L Moriarty</b>		
Horizon2 Limited	Appointed	Director
Rubicon Forests Limited	Appointed	Director
Rubicon Forests Investment Limited	Appointed	Director

During the year S L Moriarty was granted authorisation under section 145 of the NZ Companies Act 1993 to disclose specific information about the forest sale process to Rubicon Limited.

### DIRECTORS' AND OFFICERS' INDEMNITY AND INSURANCE

In accordance with section 162 of the New Zealand Companies Act 1993 and the Constitution of the Company, the Company has given indemnities to, and has effected insurance for, Directors and Executives of the Company and its related companies which, except for specific matters which are expressly excluded, indemnify and insure Directors and Executives against monetary losses as a result of actions or omissions by them in the course of their duties. Specifically excluded from the indemnity are actions for criminal liability or breach of the Director's duty to act in good faith and in what the Director believes to be the best interests of the Company.

On 13 July 2004 the Company effected directors' and officers' liability insurance through American International Group with an aggregate limit of liability of US\$15,000,000 in a primary layer, and through ACE Insurance Limited with an aggregate limit of liability

of US\$15,000,000 in an excess layer, thereby providing an aggregate limit of liability of US\$30,000,000.

On 13 July 2004 the Company effected statutory liability insurance through American International Group with an aggregate limit of liability of \$5,000,000.

### DEALING IN COMPANY SECURITIES

The Company's Securities Trading Code of Conduct for insider trading supplements the New Zealand legislation containing the Insider Trading (Approved Procedure for Company Officers) Notice 1996. That legislation and the Securities Trading Code of Conduct prevent short-term trading and dealing in the Company's securities whilst Directors and senior executives are in possession of non-public material and relevant information.

During the financial year Directors disclosed trades in shares in respect of Section 148(2) of the New Zealand Companies Act 1993 details of which are scheduled on page 77.

## Statutory Disclosure *continued*

### NEW ZEALAND STOCK EXCHANGE DISCLOSURE

On 14 June 2002 the Market Surveillance Panel of the New Zealand Stock Exchange granted the Company a waiver from Listing Rules 11.1.1 and 11.1.4 in connection with the Company's change of listing status on the Australian Stock Exchange.

Listing Rule 11.1 relates to the transfer of securities. The Market Surveillance Panel granted waivers from Listing Rules 11.1.1 and 11.1.4 in order to accommodate Australian Stock Exchange Listing Rule 15.12, which prevents the transfer of restricted securities during an escrow period. Under the Australian Stock Exchange Listing Rules, restricted securities can be issued in a number of circumstances including, for example, as consideration for the purchase of a speculative asset.

### DONATIONS

Donations totalling \$14,648 were made during the year.

### AUDITORS' FEES

Fees payable to PricewaterhouseCoopers during the year related to:

Audit Services	\$516,000
Audit Related Services	\$300,000
Taxation Services	\$161,000
Other	\$17,000

### CREDIT RATING

Tenon has not sought a credit rating.

### AUSTRALIAN STOCK EXCHANGE DISCLOSURE

Tenon is incorporated in New Zealand.

Tenon is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which Tenon is incorporated (i.e. New Zealand law) are:

- (a) In general securities in Tenon are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

- (b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in Tenon or the increase of an existing holding of 20% or more of the voting rights in Tenon can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the voting rights in Tenon.
- (c) The New Zealand Overseas Investment Act 1973 and Overseas Investment Regulations 1995 regulate certain investments in New Zealand by overseas persons. In general terms the consent of the New Zealand Overseas Investment Commission is likely to be required where an "overseas person" acquires shares or an interest in shares in Tenon that amount to more than 25% of the shares issued by Tenon or, if the overseas person already holds 25% or more, the acquisition increases that holding.
- (d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in Tenon if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

Subject to any voting restrictions set out in the Listing Rules of the New Zealand or Australian Stock Exchanges or attached to any share, each ordinary shareholder is entitled to one vote on a show of hands and one vote per ordinary share on a poll. Each preference shareholder has the same voting rights as a holder of an ordinary share and ordinary and preference shareholders vote together on all matters except on a vote relating to liquidation of the Company, in which case a separate vote of the holders of preference shares is required.

There are no current on-market buy-backs of Tenon shares.

The registered office of Tenon in Australia is at McBurney and Partners, Chartered Accountants, Level 7, 20 Loftus Street, Sydney, NSW 2000, telephone 612 9241 2651.

ARBN-002-232-368

## Statutory Disclosure *continued*

### DIRECTORS' HOLDINGS – EQUITY SECURITIES

#### Tenon Ordinary Shares

	30 June 2004			30 June 2003		
	Beneficial	Non Beneficial	Associated Persons	Beneficial	Non Beneficial	Associated Persons
M J Andrews	–	–	15,925	–	–	31,850
R H Fisher	2,000	–	–	4,000	–	–
A I Gibbs	–	–	–	–	–	–
S L Moriarty	3,403	–	–	6,807	–	–
M C Walls	–	–	–	–	–	–
	<b>5,403</b>	<b>–</b>	<b>15,925</b>	<b>10,807</b>	<b>–</b>	<b>31,850</b>

The reduction in Directors' Holdings at 30 June 2004 reflects the one in two shares cancelled during March 2004 in conjunction with the Capital Return.

#### Tenon Preference Shares

	30 June 2004			30 June 2003		
	Beneficial	Non Beneficial	Associated Persons	Beneficial	Non Beneficial	Associated Persons
M J Andrews	–	–	31,850	–	–	63,700
R H Fisher	1,000	–	–	2,000	–	–
A I Gibbs	–	–	–	–	–	–
S L Moriarty	6,805	–	–	13,610	–	–
M C Walls	3,000	–	–	6,000	–	–
	<b>10,805</b>	<b>–</b>	<b>31,850</b>	<b>21,610</b>	<b>–</b>	<b>63,700</b>

The reduction in Directors' Holdings at 30 June 2004 reflects the one in two shares cancelled during March 2004 in conjunction with the Capital Return.

### DISCLOSURE OF DIRECTORS' DEALINGS

Director	Date	Securities Acquired/(Disposed of)		Price	
		Ordinary	Preference	Ordinary	Preference
M J Andrews	26 March 2004*	-15,925	-31,850	\$1.25	\$1.25
R H Fisher	26 March 2004*	-2,000	-1,000	\$1.25	\$1.25
WA Larsen	26 March 2004*	-10,101	-202	\$1.25	\$1.25
S L Moriarty	26 March 2004*	-3,404	-6,805	\$1.25	\$1.25
D T Spring	26 March 2004*	-250	-12,375	\$1.25	\$1.25
D T Spring	5 April 2004	–	13,000	–	\$1.72
M C Walls	26 March 2004*	–	-3,000	–	\$1.25

\*Shares cancelled on a one in two basis in conjunction with the capital repayment of \$1.25 per share.

## Shareholder Statistics

### LARGEST SHAREHOLDERS

The 20 known ordinary shareholders with the largest holdings of shares as at 31 August 2004 were:

	Tenon Ordinary	% of Tenon Ordinary
HSBC Nominees – a/c Rubicon Forests Limited	31,975,372	34.40
New Zealand Central Securities Depository Limited	25,991,683	27.96
HSBC Nominees – a/c Rubicon Forest Holdings Limited	7,500,000	8.07
Citicorp Nominees Pty Limited	1,009,936	1.09
Tenon Custodians Limited	793,445	0.85
Leveraged Equities Custodians Limited	403,821	0.43
HSBC Nominees – a/c Rubicon Forest Investments Limited	214,711	0.23
John Anthony Dell	198,052	0.21
Fletcher Building Educational Fund Limited	188,438	0.20
Investment Custodial Services Limited	138,534	0.15
Simon Philip Wallace & John Neville Simpson – Wallace Family a/c	125,000	0.13
Hugh Green Investments Limited	125,000	0.13
John Albert McKinnon	110,000	0.12
Julian Rex Harris & Jo-Ann Lee Harris	100,000	0.11
Peter Carnoutsos	91,147	0.10
Paul Malcolm Gillard	84,463	0.09
Victor Hugo Bedford	81,838	0.09
Pieter Dirk Sieling	79,000	0.08
Peter James Kane	75,000	0.08
Chang Chung Lee	70,000	0.08
Shih Yu Yin Lee	70,000	0.08
Chin Yi Lin	70,000	0.08
Macquarie Equities Custodians Ltd a/c 775199	70,000	0.08
	69,565,440	74.84
<b>Total Shares</b>	<b>92,950,230</b>	

The 20 known preference shareholders with the largest holdings of shares as at 31 August 2004 were:

	Tenon Preference	% of Tenon Preference
HSBC Nominees – a/c Rubicon Forests Limited	51,713,920	27.82
New Zealand Central Securities Depository Limited	49,658,470	26.71
HSBC Nominees – a/c Rubicon Forest Holdings Limited	41,714,866	22.44
HSBC Nominees – Rubicon Forests Investments Limited	6,335,084	3.41
Ithaca (Custodians) Limited	2,305,247	1.24
Citicorp Nominees Pty Limited	2,128,337	1.14
Hugh Green Investments Limited	575,000	0.31
Leveraged Equities Custodians Limited	564,045	0.30
Peter Hanbury Masfen & Joanna Alison Masfen	331,223	0.18
Imperator Investments Limited	270,881	0.15
Fletcher Challenge Forests Trust Nominees Limited	235,039	0.13
University of Otago – Common Fund	200,000	0.11
Macquarie Equities Custodians Limited a/c 718526	186,695	0.10
Hendry Nominees Limited a/c 6	170,931	0.09
Mahendra Moopnar	160,000	0.09
First NZ Capital Custodians Limited	135,401	0.07
Keith Alexander Stewart	132,748	0.07
First NZ Capital Custodians Limited	128,227	0.07
Robin MacDonald Smith	126,474	0.07
Philip Robert Briggs & Pamela Annette Briggs	120,131	0.06
	157,192,719	84.56
<b>Total Shares</b>	<b>185,901,831</b>	

## Shareholder Statistics *continued*

### LARGEST SHAREHOLDERS *continued*

New Zealand Central Securities Depository Limited ("NZCSD") is a depository system which allows electronic trading of securities to its members. At 31 August 2004, the 10 largest shareholdings in each share class held through NZCSD were:

	Tenon Ordinary	% of Tenon Ordinary	Tenon Preference	% of Tenon Preference
Accident Compensation Corporation a/c NZCSD	3,762,000	4.05	8,195,321	4.41
National Nominees New Zealand Limited	3,154,658	3.39	6,409,416	3.45
Westpac Banking Corporation Client Assets No 2	1,049,494	1.13	4,407,602	2.37
Citibank Nominees (New Zealand) Limited	11,116,486	11.96	4,188,570	2.25
AMP Life Limited			3,652,003	1.96
Asteron Life Limited			3,159,376	1.70
ANZ Nominees Limited	2,553,703	2.75	3,025,285	1.63
NZ Superannuation Fund Nominees Limited	649,075	0.70	2,839,225	1.53
AMP Investments Strategic Equity Growth Fund	531,170	0.57	2,823,485	1.52
NZGT Nominees Limited – AIF Equity Fund	331,089	0.36	2,469,081	1.33
AMP Superannuation Tracker Fund	429,874	0.46		
Custody & Investment Nominees Ltd – a/c TEAC65	367,466	0.40		
	23,945,015	25.77	41,169,364	22.15
Total Shares	92,950,230		185,901,831	

## Shareholder Statistics *continued*

### DISTRIBUTION OF SHARES – 31 AUGUST 2004

Size of Holdings	Tenon Ordinary				Tenon Preference			
	Shareholders		Shares		Shareholders		Shares	
	Number	%	Million	%	Number	%	Million	%
1 – 199*	21,940	62.1	1.3	1.4	7,301	39.6	0.6	0.3
200 – 999	8,390	23.7	3.6	3.9	6,138	33.3	2.8	1.5
1,000 – 4,999	4,111	11.6	7.9	8.5	3,816	20.7	8.0	4.3
5,000 – 9,999	497	1.4	3.2	3.4	592	3.2	3.9	2.1
10,000 – 99,999	405	1.1	8.1	8.7	581	3.1	12.7	6.8
100,000 and over	14	0.1	68.9	74.1	27	0.1	157.9	85.0
	35,357	100.0	93.0	100.0	18,455	100.0	185.9	100.0

\*Less than a minimum holding: As at 31 August 2004, 21,940 holders of ordinary shares and 7,301 holders of preference shares held less than the minimum holding of 200 shares under the NZX listing rules.

### SUPPLEMENTAL AUSTRALIAN STOCK EXCHANGE DISCLOSURE – 31 AUGUST 2004

Size of Holdings	Tenon Ordinary				Tenon Preference			
	Shareholders		Shares		Shareholders		Shares	
	Number	%	Million	%	Number	%	Million	%
1 – 1,000	31,034	87.7	5.6	6.0	13,842	75.0	3.8	2.0
1,001 – 5,000	3,530	10.0	7.8	8.4	3,517	19.1	8.1	4.4
5,001 – 10,000	457	1.3	3.4	3.7	596	3.2	4.5	2.4
10,001 – 100,000	323	0.9	7.4	7.9	476	2.6	11.9	6.4
100,001 and over	13	0.1	68.8	74.0	24	0.1	157.6	84.8
	35,357	100.0	93.0	100.0	18,455	100.0	185.9	100.0

As at 31 August 2004, 24,152 holders of ordinary shares and 8,933 holders of preference shares held less than a marketable parcel of A\$500 worth of securities.

### SUPPLEMENTAL DISCLOSURE OF DOMICILE OF BENEFICIAL OWNERS\*

	Tenon Ordinary		Tenon Preference	
	Million	%	Million	%
New Zealand	70.9	76.3	159.6	85.9
United States of America	14.0	15.0	10.2	5.5
Australia	2.6	2.8	3.0	1.6
United Kingdom/Europe	3.4	3.6	7.2	3.8
Asia/Japan	1.9	2.1	5.6	3.0
Rest of World	0.2	0.2	0.3	0.2
	93.0	100.0	185.9	100.0

\*Based on information received in response to notices under sections 28 and 29 of the New Zealand Securities Markets Act 1988.

### SUBSTANTIAL SECURITY HOLDERS

As at 31 August 2004 the following persons have given notice (in terms of the New Zealand Securities Markets Act 1988) that they are substantial security holders in Tenon. In terms of the Act, the number of Tenon ordinary and preference shares shown below is as last advised to Tenon by the substantial security holder.

	Tenon Ordinary Shares	Tenon Preference Shares	% of Tenon Shares
Rubicon Forests Limited	39,690,058	99,763,858	50.010
AMP Capital Investors (New Zealand) Limited	2,378,845	12,868,887	5.468
Total issued voting shares	92,950,230	185,901,831	

## The Company at a Glance

### OPERATING REVENUE BY DESTINATION

#### North America

Solid, clear mouldings and boards and appearance grade lumber for the housing and DIY market.

#### New Zealand

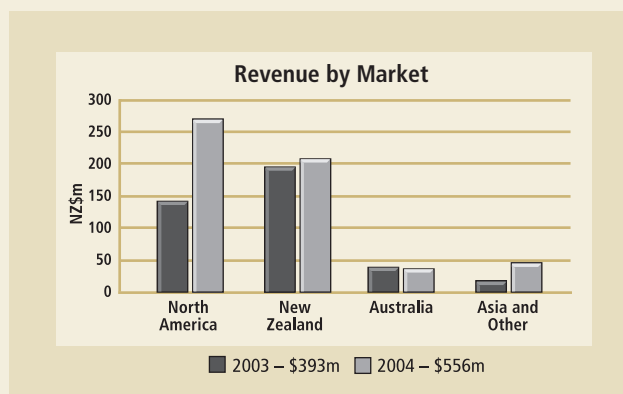
Lumber, panels and outdoor treated products for building/construction and industrial use. Wood chips for industrial use.

#### Australia

Lumber and panels for building/construction.

#### Asia and Other

Appearance grade lumber and clearwood components for furniture. Lumber for industrial use.



### SEGMENTAL VOLUME INFORMATION

External Sales Volumes (000 m <sup>3</sup> )	2004			2003		
	Structural	Appearance	Total	Structural	Appearance	Total
Solid lineal mouldings	–	31	31	–	30	30
Plywood, laminated and finger-jointed product <sup>(1)</sup>	65	7	72	70	1	71
Lumber and roundwood <sup>(1)</sup>	430	143	573	408	163	571
Total company product	495	181	676	478	194	672
Third party product <sup>(1)</sup>	32	–	32	54	21	75
Total product sales <sup>(2)</sup>	527	181	708	532	215	747

(1) Product from the former CNIFP mills which was on sold through Tenon in 2003 has been included in third party product.

(2) Does not include Empire's sales volumes.

### PROCESSING CAPACITY

Location	Products	(m <sup>3</sup> /year)
<b>Structural Consumer Solutions</b>		
Kawerau Sawmill	Kiln-dried machine stress-graded framing for New Zealand. Feedstock for Kawerau Remanufacturing Plant. Lumber for Asian furniture manufacturers.	320,000
Rainbow Mountain Sawmill	Kiln-dried visually graded framing for New Zealand and Australia. Outdoor treated lumber products.	185,000
Ramsey Roundwood	Posts and poles, landscaping and outdoor treated products.	60,000
Mt Maunganui Plywood Mill	Standard and treated structural plywood. Dried veneer.	45,000
Kawerau Remanufacturing Plant	Finger-jointed and laminated lumber for Australasian housing markets. Solid and finger-jointed kiln-dried studs and components for structural applications.	35,000
<b>Appearance Consumer Solutions</b>		
Taupo Sawmill	North American appearance grade lumber. Feedstock for Taupo Mouldings Plant and Boards Plant.	210,000
Taupo Mouldings Plant	Solid lineal mouldings for North American homes.	40,000
Taupo Boards Plant	Clear, surfaced, dimensional boards for North American DIY market.	20,000
<b>Company Total</b>		<b>915,000</b>

## The Company at a Glance *continued*

### US DISTRIBUTION EQUITY PARTNERS

	The Empire Company, Inc.	American Wood Moulding, LLC.
Tenon Limited shareholding	67%	50%
President and CEO	Tom Highley	Mathew Hagen
Website	under development	www.americanwoodmoulding.com
Head Office location	Zeeland, Michigan	Hanover, Maryland
Warehouse locations	Zeeland (Michigan) Ocala (Florida) Portsmouth (Virginia) Allentown (Pennsylvania)	Hanover (Maryland) Sacramento (California) Middletown (Connecticut) Indianapolis (Indiana)
Warehouse space	650,000 sq ft	600,000 sq ft
Associated companies	none	AWM Mexico (50% owned) Ornamental Mouldings (50% owned) Focal Point (25% owned)
Main customer	Lowe's	The Home Depot
Number of employees (approx.)	330	700

### PROCESSING AND DISTRIBUTION SUPPLY CHAIN

End Use Category	Consumers	Tenon Customers	Tenon Building Solutions/Products	Markets			
				NZ	Aust	US	Asia
<b>Structural</b>	Home owners	Frame & truss manufacturers NZ building supply merchants – PlaceMakers, ITM, Mitre 10, Bunnings/Benchmark, Carters, Independents Australian timber/panel product importers/distributors – Tasman KB, ITI, Amerind, Others	Origin® Timeframe®	✓	✓		
	Property developers		Origin® Plywood	✓	✓		
	Builders		Origin® Outdoor	✓			
	Specifiers (architects, building inspectors)		Origin® I-beam Origin® I-floor Origin® F7	✓ ✓ ✓			
Agriculture	Rural supply merchants	Posts and poles	✓			✓	
Viticulture	Building supply merchants	Landscaping products	✓				
Construction	Retail yards	Piles	✓				
<b>Appearance</b>	US home owners in the DIY and internal fit-out market via home centres: The Home Depot Lowe's	US distributors including American Wood Moulding <sup>(1)</sup> and Empire <sup>(2)</sup> Moulding/millwork manufacturers	Mouldings Clear boards/panels Appearance grade lumber			✓ ✓ ✓	
	Furniture consumers in US and Asia	Direct to Asian manufacturers	Furniture grade lumber				✓
<b>Industrial</b>	NZ dairy/agriculture industries	Pallet and packaging manufacturers	Packaging grade lumber	✓			
	Asian equipment manufacturers						✓

(1) 50% owned by Tenon

(2) 67% owned by Tenon

## Investor Information

Tenon reports six-monthly for the half year (to 31 December) and full year (to 30 June).

Copies of the Half Year and Annual Reports are available on the Company's website, [www.tenon.co.nz](http://www.tenon.co.nz).

### 2004-2005 Calendar

- Mailing of Annual Report: 30 September 2004
- Annual Shareholders' Meeting: 22 December 2004
- Half Year End: 31 December 2004
- Half Year Results Announcement: February 2005
- Financial Year End: 30 June 2005
- Annual Results Announcement: August 2005

### Dividend/Capital Return

There is no 2004 dividend. A second return of surplus capital arising from the forest sale process is planned later in the 2004/05 financial year.

### Preference Shares

Tenon Limited has two classes of shares: Ordinary and Preference. The Preference shares rank equally with the Ordinary shares in all respects (including dividend and voting rights) except that the Preference shares have prior ranking (to the amount of NZ\$1.25 per share) in the event of a liquidation of the Company, for a period of five years from allotment (15 December 2000).

### Share Listings

Stock Exchange	New Zealand	Australia
Ordinary shares	TEN	TNN
Preference shares	TENPA	TNNPA

Tenon Limited shares were previously traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs). The Company is in the process of withdrawing from this listing effective 30 September 2004. ADS holders have been advised of the de-listing and the process to be followed should they wish to register for the underlying New Zealand shares.

The Company has announced that it will be de-listing from the ASX. The de-listing will take effect on 1 October 2004.

### Issued Share Capital (number of shares)

Ordinary shares	92,950,230
Preference shares	185,901,831
<b>Total shares</b>	<b>278,852,061</b>

### Share Registry Enquiries

Shareholders with enquiries about share transactions, changes of address or dividend payments should contact the share registrar in the country in which their shares are registered. Shareholders who hold shares on the New Zealand register can access the Computershare website [www.computershare.co.nz](http://www.computershare.co.nz) and check their shareholding online. Enquirers should click on *Investors*, and then click on *Account Summary*. They can then enter the Company name, and their shareholder number and FIN.

#### New Zealand

Computershare Investor Services Limited  
Private Bag 92-119,  
Auckland 1020, New Zealand  
Level 2, 159 Hurstmere Road,  
Takapuna, North Shore City  
Telephone: 64-9-488-8777  
Facsimile: 64-9-488-8787  
E-mail: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

#### Australia

Computershare Investor Services Pty Limited  
GPO Box 7045,  
Sydney, NSW 2001, Australia  
Level 3, 60 Carrington Street,  
Sydney, NSW 2000  
Telephone: 1 800 501 366 (local within Australia)  
Facsimile: 61-2-8234-5050

### Other Investor Enquiries/Registered Office

Investor Relations  
Tenon Limited  
8 Rockridge Avenue,  
Penrose, Auckland  
Private Bag 92-036,  
Auckland 1030, New Zealand  
Telephone: 64-9-571-9800  
Facsimile: 64-9-571-9801  
E-mail: [investor-relations@tenon.co.nz](mailto:investor-relations@tenon.co.nz)

### Directors

Anthony Ian (Tony) Gibbs (*Chairman*)  
Michael John Andrews  
Rodger Herbert Fisher  
Simon Luke Moriarty  
Michael Carmody Walls

### Senior Management

John Dell, Chief Executive Officer  
Brett Cruickshank, Chief Financial Officer  
Mark Eglinton, Director of Sales and Marketing  
Paul Gillard, Director Corporate and Legal Services and Company Secretary  
Brian Goldsack, Director of Operations

## Investor Information *continued*

### **Forward-Looking Statements**

Except to the extent that they relate to historical information, there are statements included in this document which are “forward-looking statements” as defined in the US Private Securities Litigation Reform Act of 1995, and they are included herein in reliance upon the safe harbours created by that Act. These forward-looking statements include, but are not limited to, statements under the headings “Chairman’s Letter”, “Chief Executive Officer’s Report” and “Operating Review”. As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Tenon, its operations, the markets in which it competes and other factors (some of which are beyond the control of Tenon). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular Tenon’s operations and results are significantly influenced by the level of building and export activity in the various sectors of the Australasian, Asian and North American economies in which it competes. Fluctuations in industrial output, commercial and residential construction activity, public sector spending on infrastructure, relative exchange rates, and interest rates in each market, can have a substantial impact on Tenon’s results of operations and financial condition. Other risks include competitor product development and pricing.

### **Websites**

[www.tenon.co.nz](http://www.tenon.co.nz)

[www.origin.co.nz](http://www.origin.co.nz)

[www.fcfusa.com](http://www.fcfusa.com)