

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 meet the following principles:

1. Directors should observe and foster high ethical standards.
2. There should be a balance of independence, skills, knowledge, experience, and perspectives among Directors so that the Board works effectively.
3. The Board should use committees where this would enhance its effectiveness in key areas while retaining Board responsibility.
4. The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on Group affairs.
5. The remuneration of Directors and executives should be transparent, fair and reasonable.
6. The Board should regularly verify that the Group has appropriate processes that identify and manage potential and relevant risks.
7. The Board should ensure the quality and independence of the external audit process.
8. The Board should foster constructive relationships with shareholders that encourage them to engage with the Group.
9. The Board should respect the interests of stakeholders within the context of the Group's ownership type and its fundamental purpose.

Code of Business Conduct and Ethics and Company Policies

The Company has written procedures to:

- Clarify the standards of the high 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. The Code ensures that Company decisions reflect the Company's core values of action orientation, innovation, commercial intensity, customer focus, accountability, teamwork, respect for the individual, respect for the environment and safety. The Board reviews the Code, ensures the Code is communicated to the Company's personnel, monitors adherence to the Code, and holds Directors, executives and other personnel accountable for any unethical behaviour. The Code can be viewed on www.tenonglobal.com.

Various policies and procedures are in place to effectively implement the Code of Business Conduct and Ethics. For example, a comprehensive code has been adopted by the Company to regulate trading in the Company's securities by Directors, executives and Company employees. Trading is subject to a formal Board approval process, designed within the framework of New Zealand's insider trading laws. In addition, a number of other policies cover such matters as continuous disclosure obligations under securities laws, financial management, environmental compliance, employment equal opportunity and whistleblowing by employees. Policies are published on the internal Company websites, which are accessible to all employees and, where appropriate, distributed to employees.

Appropriate training is provided to the Company's personnel, for example in the areas of insider trading laws and competition law.

Role of the Board

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

- Has a balance of independence, skills, knowledge, experience and perspectives among Directors;
- 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 includes a formal charter for the Board and its Committees, and for the Chairman, Directors and Management.

The Executive 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 are formal delegations of authority to the Executive.

The Executive comprises the Chief Executive Officer (until October 2011), Chief Operating Officer, Chief Financial Officer and General Manager Corporate.

The Board formally evaluates the performance of the Executive annually. The evaluation is based on criteria that include the performance of the business, the accomplishment of long-term strategic objectives and other specific 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 Chairman's role is to manage and provide leadership to the Board and to interact with the Executive. The Chairman is also responsible for fostering a constructive governance culture and for applying appropriate governance principles among Directors and with Management.

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

The Board facilitates full and frank dialogue among the Company's Audit Committee, the auditor and Management. For example, the auditor receives copies of Board papers at the time they are sent to Directors, the auditor can and does discuss Company issues with Management outside of formal meetings with the Audit Committee, and the auditor attends Audit Committee meetings.

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.

S L Moriarty and S G Kasnet 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 Holdings Limited. S L Moriarty is also Chief Executive of that company's parent, Rubicon Limited, and S G Kasnet is Chairman of Rubicon Limited.

Although the Chairman is not an independent Director, the majority of the Board, comprising R H Fisher (who is also the Chairman of the Remuneration Committee), M C Walls (who is also the Chairman of the Audit Committee) and M J Andrews are independent Directors under the NZX corporate governance guidelines, which are used by the Company to determine independence.

As stated above, the Board is responsible for the overall management of the Company. However day to day leadership and management of the Company is delegated to the Executive pursuant to formal delegations established by the Board.

Notwithstanding the delegations from the Board to the Executive, specific matters reserved to the Board include:

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

Board Process

The Board has scheduled meetings each year, but also meets on an as-needed basis. Directors receive comprehensive information on the Company's operations in advance of meetings. Senior Management is normally present at all Board meetings to make presentations, answer questions and to assist the Board in its understanding of the Company's business.

The Board of Directors meets periodically without Management present.

The Board also holds a 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. The Company provides training, in the form of presentations to the Board, and encourages Directors to ensure their skills, knowledge and experience remain up to date and relevant 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. 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.

They are used where this would enhance the Board's effectiveness in key areas, while retaining Board responsibility.

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

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 can be reviewed on the Company's website, www.tenonglobal.com.

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 for and minutes of meetings of the Committees.

The Chairperson of each Committee reports back to the Board in relation to proceedings of the Committee to allow other Directors to question Committee members.

An annual performance evaluation is conducted for each Committee. 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 fewer than three members. The Chairman is an independent Director who is not the Chairman of the Board, 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 and the integrity thereof, including reviewing the half year and full year financial statements;
- The internal audit function; and
- The appointment and supervision of the auditor. The auditor attends 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 has a formal pre-approval procedure that must be followed for 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 audit firm's independence from the Company. During the year the auditor did perform non-audit related work for the Company in relation to the review of certain internal controls and the Company's Annual Shareholders Meeting. The work was in the nature of assurance and the total fees paid to the audit firm were US\$83,000 which the Company considers did not impair the audit firm's independence from the Company.

The Audit Committee also approves an annual internal audit (extended assurance) programme, and the results of that programme are reported directly to the Committee and also copied to all Directors.

Remuneration Committee

Committee members:

R H Fisher (Chairman), M J Andrews and S G Kasnet

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

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 makes recommendations to the Board with regard to the remuneration of the Executive and of the direct reports to the Executive. The Committee also, at least annually, reviews the performance of the Company's senior management based on performance against agreed objectives, and determines the amount of variable incentive payments to be made to the Company's employees. The Committee also sets the guidelines for annual salary reviews and objectives for performance-based payments for senior salaried employees. The Executive's performance is also reviewed by the full Board.

The Remuneration Committee reviews and makes recommendations to the Board with regard to Director remuneration.

Nominations Committee

Committee members:

S L Moriarty (Chairman), M J Andrews, R H Fisher, S G Kasnet and M C Walls

The Nominations Committee comprises the five non-executive Directors.

The Committee is responsible for considering Board nominations. In order to ensure the appropriate balance of skills and experience of the Board, the Committee assesses the necessary and desirable competencies of Board members before their appointment and makes recommendations to the Board from time to time as to changes to the Board composition that the Committee believes to be desirable.

Financial Reporting

It is the Board's responsibility 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 quality and integrity of the Company's financial reporting including their relevance, reliability, comparability, and timeliness. 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 auditor;
- A review by the Audit Committee of the half year and full year financial statements, with management and the auditor present;
- A formal report from the Chairman of the Audit Committee to the Board in relation to the approval by the Board of the half year and annual financial statements;
- A review by the Board of the half year and full year financial statements, with management present;
- A formal Management Representation letter to the Board relating to the half year and annual financial statements, signed by each member of the Executive;
- Consideration by the Board of a formal Directors' Representation letter to the auditor relating to the half year and annual financial statements, signed by a Director under delegated authority from the Board;

- Signing of the financial statements by the Chief Financial Officer, the Chairman of the Board, and the Chairman of the Audit Committee;
- Policies to ensure the independence of the auditor;
- Processes and policies to ensure that the Company has an effective system of internal control for reliable financial reporting;
- The Audit Committee meeting with the auditor, without Management present; and
- A code of ethics for employees.

Auditor Quality and Independence

The Board considers it is essential that the Company's 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 defined independence standards;
- The Audit Committee must pre-approve the appointment of the auditor to provide any non-audit services to the Company or its subsidiaries and the Chairman of the Committee may, pursuant to a delegation from the Committee, approve lower-cost non-audit services to the Company;
- 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;
- The auditor may freely, and is encouraged to, communicate directly with the Chairman of the Board and the Chairman of the Audit Committee and with Management, including, for example, if the auditor wished to make any complaint about the support being provided by the Company in relation to the audit process;
- The auditor attends all meetings of the Audit Committee, and is encouraged to speak freely at such meetings;
- The auditor is required to be available at the Annual Shareholders Meeting of the Company and answer any shareholder questions relating to the audit or audit report.

The nature of the Company's business requires an experienced auditor with a global presence. The Board, through the Audit Committee, together with Management of the Company monitors the performance of the auditor to ensure that the services being provided to the Company are of high quality, relevant, timely and cost effective.

Remuneration Policy

The remuneration of Directors and executives is transparent, fair and reasonable. The Remuneration Committee reviews annually all remuneration paid to employees within the Group.

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 range of performance-based incentive schemes are in place among Tenon and its subsidiaries. These all involve a significant proportion of the annual remuneration of executive and senior management employees being linked to business performance and also individual performance. The Company uses objective third party benchmarking systems to ensure its remuneration is aligned to market. For example, in New Zealand the Company has a policy of maintaining base remuneration for its salaried employees within a band around the industry median. Remuneration outside that band is permitted only in exceptional circumstances, such as where special skills are required.

The Company has comprehensive and objective formal programmes for setting the performance objectives of its employees, and for monitoring performance against those objectives. Objectives are established for each financial year with the agreement of the Remuneration Committee and performance against those objectives is assessed by the Committee after completion of that year, and before any performance based payments are made to employees.

Adjustments to the remuneration of salaried employees are normally based on market movements and individual performance, and must first be approved by the Remuneration Committee or made within guidelines agreed by the Committee. The remuneration and other terms and conditions of employment of the Executive and the Executive's direct reports must be approved by the Board of Directors.

Tenon's Annual Reports contain a table describing remuneration and other benefits in excess of NZ\$100,000 per annum paid to employees of the Company and its subsidiaries, and a table describing the fees paid to the Directors of the Company during the year. Directors do not receive any remuneration from the Company other than in their capacity as Directors.

The Company has prohibited the making of loans to Directors and employees.

Controlling and Managing Risk

The Company is, like any other business, exposed to risks. A central function of Management is to effectively identify and manage those risks within policy levels set by the Board. The Board takes an active role in ensuring the Company has and operates 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. These are reviewed regularly as part of the Company's risk management process. The Executive is required to ensure that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. All Directors are copied on all Committee papers and minutes of Committee meetings to ensure transparency of decision-making.

The Board meets on a regular basis and Management presents information to the Board on risks facing the Company and strategies adopted to manage those risks.

Details of many of the risks the Company is exposed to and the way the Company manages those risks are described in note 4 to the financial statements (see pages 28 to 33).

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 that the Company does not offer any equity security compensation plan to Directors and all Directors may attend meetings of the Audit Committee.

Ensuring the Market is Properly Informed

The Company has in place comprehensive, Board-approved, disclosure policies and procedures that are designed to ensure timely and balanced compliance with the information disclosure requirements of the New Zealand 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 and governance; and
- Company announcements are factual and presented in a clear and balanced way.

The Board examines continuous disclosure issues as an agenda item at each Board meeting.

Financial Markets Authority Corporate Governance Principles

The Company's corporate governance process differs from the principles set out in the Financial Markets Authority Corporate Governance in New Zealand Principles and Guidelines in that the Chairman of the Board is not an independent Director. However, the Board has a majority of independent Directors, and the Chairmen of the Company's Audit and Remuneration Committees are also independent Directors.

Keeping in Touch with Shareholders and Stakeholders

The Company strives to effectively communicate with its shareholders and stakeholders, 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 supplementary financial information, and copies of key Company governance policies;
- 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;
- The results of the voting at shareholder meetings are announced to the stock exchange;
- 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;

- The holding of Annual Shareholders Meetings at different locations to ensure that as broad a cross section of shareholders as possible have an opportunity to attend such meetings;
- Compliance with continuous disclosure obligations;
- The Code of Business Conduct and Ethics reflects the commitment of the Company to respect the interests of stakeholders (including customers, employees, compliance with the law and respect for the environment); and
- An investor relations email in-box enables a quick response to investor enquiries.