

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

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. 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 intensity, customer focus, 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.

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 Board approval process, designed within the framework of New Zealand's insider trading laws.

ROLE OF THE BOARD

The Board is elected by shareholders to create value and has overall responsibility for 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 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 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 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.

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

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 Limited. S L Moriarty is also Chief Executive of that company's parent, Rubicon Limited.

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;
- 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, 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.

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.

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.

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.

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 less 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 sets the remuneration levels for executives who report to the Chief Executive Officer and makes recommendations to the Board with regard to the remuneration of 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. The Chief Executive Officer's performance is reviewed by the full Board.

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.

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 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;
- 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 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;
- 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 remuneration of Directors and executives is transparent, fair and reasonable.

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. Generally a significant proportion (up to one-third) of the annual remuneration of executive and senior management employees is linked to performance. For example, the Chief Executive Officer is entitled to a long term incentive payment for meeting earnings targets, with such payment being dependent upon Tenon's share price performance (refer Note 27 to the Financial Statements). The Company uses an objective third party benchmarking system to ensure its remuneration is aligned to market.

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

The key elements of the Salaried People Performance Management Process are:

- Annual individual performance plans which set out an individual's objectives and performance measures.
- Bi-annual performance appraisal interviews where individual performance is reviewed against both the performance plan objectives and Company values.
- An annual salary review process based around a written performance assessment, which is used to determine adjustments to base salary and performance related payments.

Waged staff participate in a similar performance appraisal process which is tailored to each site.

On page 37 is a table describing remuneration and other benefits in excess of NZ\$100,000 per annum paid to employees of the Company and its subsidiaries.

On page 56 is 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 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 that the Company does not offer any equity security compensation plan to Directors, and the Board, rather than the Remuneration Committee, reviews Director remuneration.

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.

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;
- 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, 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.