


2016 Tenon Annual Meeting of Shareholders

Notice of Meeting and Explanatory Memorandum


Notice is hereby given that the 2016 Annual Meeting of Tenon Limited shareholders will be held at the Tamaki Yacht Club, 30 Tamaki Drive, Mission Bay, Auckland, commencing at 10.00am on 18 November 2016








25 October 2016

Tenon

Wood Solutions to the World

Tenon Limited's 2016 Annual Meeting

IMPORTANT INFORMATION

This document includes the following information:

- a letter from the Chairman of Tenon Limited;
- a summary of:
  - o **Proposed Transaction:** the proposed sale by Tenon Holdings of 100% of the shares in NACS USA, Inc., which is the holding company for Tenon's US Operating Business, to BW Empire Holdings, LLC, (an affiliate of Blue Wolf Capital Fund III, L.P.), and the associated Supply Agreement; and
  - o **Capital Return:** the pro rata return of capital to the Company's shareholders,

  for which shareholder approval is being sought at the Annual Meeting;
- a description of the business of the Annual Meeting; and
- an explanatory memorandum, which provides more detailed information regarding the Proposed Transaction and the Capital Return, and their impact on the Company.

An independent report prepared by Grant Samuel & Associates Limited in relation to the Proposed Transaction is also included with this document.

VOTING/PROXY FORM

Accompanying this document is the Voting/Proxy Form, to enable shareholders to vote on the resolutions by:

- attending the Annual Meeting; or
- lodging a postal vote; or
- appointing a proxy to vote on their behalf at the Annual Meeting.

Shareholders are urged to complete and return the Voting/Proxy Form as soon as possible if they do not plan to attend the Annual Meeting.

CURRENCY ELECTION FORM

Accompanying this document is a currency election form, which allows shareholders to elect to receive their Capital Return in US$ rather than in NZ$ (i.e., the default currency) and to provide bank account details for receiving the payment.

IMPORTANT DATES

All times are given in New Zealand time unless otherwise specified.

5.00pm, 11 November 2016	Record date for determination of voting entitlements for the Annual Meeting
10.00am, 16 November 2016	Latest time for receipt by Tenon Limited of postal votes and proxies
10.00am, 18 November 2016	Annual Meeting
1.00pm, 25 November 2016	Last time for filing a notice of opposition or notice of appearance opposing the Capital Return
On or about 30 November 2016 (New York time)	Expected completion date for the Proposed Transaction
5.00pm, 30 November 2016	Latest time for shareholders who want to receive their Capital Return in US$ to return their Currency Election Form
9.00am, 7 December 2016	Final Court hearing expected to approve the Capital Return
By 31 December 2016	Capital Return expected to be completed

FORWARD-LOOKING STATEMENTS

There are forward-looking statements included in this document. 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, 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 activity in the various sectors of the economies in which it competes, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development and demand and pricing and customer concentration risk. Further, Tenon is currently undertaking a Strategic Review of its Clearwood business and the results of that Review are not known. The Grant Samuel report issued with this document provides Grant Samuel's view of value for the Clearwood business. The Strategic Review outcome for the Clearwood business may not result in a sale of the Clearwood business, or a sale that generates proceeds within the Grant Samuel value range.

All references in this document to $ or "dollars" are references to United States dollars unless otherwise stated.

CHAIRMAN'S LETTER

Dear Shareholders,

I am pleased to invite you to the Annual Meeting of shareholders of Tenon Limited, which will be held at the Tamaki Yacht Club, 30 Tamaki Drive, Mission Bay, Auckland, commencing at 10.00am on 18 November 2016. Enclosed is the Notice of Annual Meeting, outlining the business to be conducted.

If you are unable to attend the Annual Meeting, you are encouraged to complete and lodge your Voting/Proxy Form (either by post or by fax) so that it reaches the registered office of the Company, or the office of the Share Registry, no later than 10.00am on 16 November 2016 (New Zealand time).

Strategic Review – Sale of US Operating Business

At the Annual Meeting, shareholders will be given the opportunity to vote on the proposed sale of Tenon's US Operating Business. If approved by shareholders, this will be effected by Tenon Holdings selling its shares in NACS USA, Inc. (which is the holding company for Tenon's US Operating Business), to BW Empire Holdings, LLC, an affiliate of Blue Wolf Capital, together with TML entering into an associated five-year product supply agreement.

The Proposed Transaction is the result of a Board-initiated Strategic Review that was announced in August last year. The purpose of that Review was to help determine the most appropriate risk-adjusted value path forward for Tenon shareholders, in order to close the perceived value gap that was evident in the Tenon share price at that time.

Much has happened since the announcement of the Review. You will have seen that our earnings profile has begun to prove out as we had projected, with EBITDA doubling in FY16. Our cash generation has also strengthened materially, with the Company repaying US$22 million of its net debt balance in this last fiscal year. And our share price has also increased significantly. When we announced the Review last year, we had not begun to pay dividends, the NZ$:US$ exchange rate was under 65 cents, and the Tenon share price was around NZ$2.00 (US$1.30). The exchange rate is now over 70 cents, we have announced three dividends over the past 12 months totalling NZ17.25 cps, and the Tenon share price is over NZ$2.50 (US$1.78 at an exchange rate of 0.71). In US dollar terms (i.e., Tenon's functional currency) the total return to Tenon shareholders, inclusive of dividends, since the Review announcement in August 2015 has been more than 50%. So we have been very happy with the closing of much of the value gap that has occurred since the announcement of the Review.

To assist Tenon in the Strategic Review process, the Board appointed Deutsche Bank and Deutsche Craigs ("Deutsche") to act as advisors throughout. One of the potential value paths was a sale of Tenon's business operations and, following expressions of interest received, a sales process was run as part of the Review. That process determined that there were distinct buyer classes for each of our North American distribution operations and our NZ-based manufacturing and global sales activities (i.e., our Clearwood business), and that in order to optimise value for shareholders, separate review processes should be run in respect of these two businesses.

The first of these two processes to conclude was the review of our US Operating Business, in respect of which we have now entered into the conditional Sale Agreement with an affiliate of Blue Wolf Capital for US$110 million. The sale price under the Proposed Transaction reflects a 7.3x multiple on our US Operating Business' FY16 EBITDA – see the section "Implied Multiples – Tenon USA" in the enclosed Grant Samuel report. Completion of the Proposed Transaction would see all of Tenon's debt repaid, and a pro-rata cash capital return made to the Company's shareholders (discussed further below). Our Clearwood business is not included in the Proposed Transaction.

The Board believes it is very important that you have the opportunity to vote on the Proposed Transaction and unanimously recommends it to you.

A range of strategic, financial and structural alternatives to an outright sale of the US Operating Business was considered, evaluated and compared as part of the Strategic Review, which included reinstating a share buyback programme, listing the Company in the US, leveraging the Company to either make a major acquisition in the US or to return surplus cash to shareholders, having the major shareholder place some of its shares into the market to increase the Company's market liquidity, and merging the Company with Rubicon Limited. The Board fully considered all of the alternatives, including the relative risks and benefits of continued ownership of the US Operating Business. The Board concluded that as the Strategic Review was unable to either unilaterally address the fundamental illiquidity of Tenon shares, or to generate greater domestic institutional and broker interest in what is a US-dominant equity market story, then if an offer was received for the US Operating Business which fell within an independent value range assessment it should be pursued. On that basis, the Proposed Transaction offers the most appropriate risk-adjusted path forward for shareholders.

To help you with your consideration of the Proposed Transaction, the Board commissioned Grant Samuel to evaluate the Proposed Transaction. A copy of Grant Samuel's report is included with this document. As you will see, the consideration payable under the Proposed Transaction (US$110 million) is within Grant Samuel's assessment of the valuation range for the US Operating Business of US$108.1 - US$129.5 million. Whilst we acknowledge that the sale value is towards the lower end of the valuation range, the Grant Samuel report recognises that it was the result of an exhaustive process conducted by Deutsche, and that process yielded competing offers for the US Operating Business that were within a range of 2% of the Proposed Transaction sale value. Although we clearly would have liked a higher number, we do have to accept that the market process at this time has yielded a very tight offer range in line with the Proposed Transaction sale value.

The Board has assessed the merits of the Proposed Transaction in considerable detail. That assessment considered all relevant factors, including (as noted above) a full consideration of the relative risks (e.g. customer concentration) and benefits (e.g. future market recovery) likely to arise from continued ownership of the US Operating Business. In particular, shareholders should note the following in respect of the Proposed Transaction:

- an extensive global marketing campaign has been conducted by a leading international investment bank;
- three final offers were received for the US Operating Business, and the value range of the offers was within 2% of the Proposed Transaction sale value;
- the offer from Blue Wolf Capital is within the Grant Samuel valuation range, albeit towards the lower end of their range;
- there is a low likelihood that an alternative offer would realise any materially greater value at this time; and
- the offer from Blue Wolf Capital is "clean", in that it involves no recourse to Tenon for breaches of representations and warranties, other than a limited category of title and capacity warranties.

Capital Return

If the Proposed Transaction proceeds, all of Tenon's net debt will then be repaid. The Board has determined that given the change in the scale of Tenon's ongoing business and its limited ongoing capital requirements, the net sale proceeds (after repayment of all debt) from the Proposed Transaction will be surplus capital.

Accordingly, the Company proposes to undertake a pro rata return of capital to Tenon shareholders of approximately US$71.3 million, representing US$1.10 per existing Tenon share[1] (or NZ$1.55 per existing Tenon share at an exchange rate of 0.71). This return of capital will be undertaken by way of a cancellation of Tenon shares under a scheme of arrangement to be approved by shareholders, by which Tenon will cancel one out of every two ordinary shares held by each shareholder and pay US$2.20 for every ordinary share cancelled. The capital return is expected to be made in one payment in December 2016, following receipt of final orders by the High Court.

Given the size of the Capital Return and Rubicon's 60% shareholding in Tenon, the non-independent directors did not vote on the Capital Return. However the Independent Directors unanimously recommend the Capital Return to shareholders.

Tenon's Clearwood Business, and the Future

To assist shareholders in their assessment of the Proposed Transaction, Grant Samuel has also provided an indicative value range for Tenon as a whole of NZ$3.01 - NZ$3.25 per share, assuming the Proposed Transaction proceeds, using an exchange rate of 0.71, and inclusive of the value of the Clearwood business (of US$63.3 – US$74.7 million, which is not being sold under the Proposed Transaction) and before transaction / wind-up costs. Of course, this is Grant Samuel's view of current value only, and not a 'realised value' or 'promise' to Tenon shareholders. The final value outcome will ultimately be determined by the conclusion of the Clearwood review process, which may or may not result in a sale of the Clearwood business, or a sale that generates proceeds within the Grant Samuel range.

If shareholders elect not to authorise the Proposed Transaction, we have determined that, from a strategic perspective, we will still continue with the Clearwood review to see where that leads, and we will continue to run Tenon for value as we did in FY16. In that scenario, the Board's intent would be to re-leverage Tenon to market levels and simultaneously return capital to shareholders. We believe that, in the absence of a sales outcome, the return of capital to shareholders at this point remains the best use of Tenon's surplus capital.

If the US Operating Business is sold, Tenon's remaining operations will comprise its core New Zealand Clearwood business, including the large sawmill and manufacturing operation in Taupo, which in FY16 reported revenue of circa US$90 million (including Australia). A new bank facility is currently being put in place to ensure the Clearwood business can continue to operate efficiently going forward if the US Operating Business is sold. The Company has received a committed term sheet from the Bank of New Zealand, comprising a US$20 million amortising revolving cash advance facility and a US$5 million working capital facility – i.e., US$25 million of funding commitments in total.

In connection with the sale of the US Operating Business, a five-year market-based supply arrangement (reflecting the existing supply relationship) has been put in place between the US Operating Business and the Clearwood business, which will represent approximately US$15 million in annual revenue to Clearwood.

1. Capital to be returned to shareholders will be paid in NZ$ unless a shareholder elects to receive their payment in US$. Please refer to "Currency of Payment" on page 15.

Governance

Long-serving board member, Rodger Fisher, has advised the Board that, due to other business and personal commitments, he intends to resign from the Board some time after the Annual Meeting and upon the appointment of a new independent director to the Board. The Company is currently in discussions with an appropriate candidate to replace Rodger, and although that may not be confirmed by the date of the Annual Meeting, the Board is confident that an individual will be in place by the end of the calendar year. The appointee will then be required to seek confirmation of their election at next year's annual meeting. The Board acknowledges the significant contribution Rodger has made to Tenon over the past 15 years he has been with Tenon, and we wish him well with his future endeavours.

We very much look forward to seeing you at the Annual Meeting if you are able to attend.

Yours sincerely,

Luke Moriarty
Chairman

25 October 2016

SUMMARY OF THE PROPOSED TRANSACTION AND CAPITAL RETURN

PROPOSED TRANSACTION

On 29 August 2016, Tenon Holdings reached an agreement with BW Empire Holdings, LLC, an affiliate of Blue Wolf Capital Fund III, L.P., for the sale of 100% of the shares in its United States holding company, NACS USA, Inc., for US$110 million.

The sale of the US Operating Business (i.e., NACS USA, Inc.) is subject to certain conditions, including the approval by Tenon's shareholders and there having been no material adverse change in the US Operating Business between signing and closing.

As part of the Proposed Transaction, a five-year agreement has been put in place for the supply of Radiata clear pine boards from Clearwood to the US Operating Business.

CAPITAL RETURN

If the Proposed Transaction proceeds, Tenon will use a portion of the sale proceeds to repay all its net debt. The Board has determined that the remaining sale proceeds will not be needed by Tenon or the Clearwood business and that all excess cash after that debt repayment should be returned to shareholders in cash by way of a pro rata capital return, to be implemented by a Court-approved scheme of arrangement under Part 15 of the Companies Act. Under the scheme of arrangement, Tenon will cancel one out of every two ordinary shares held by each shareholder and pay US$2.20 for every ordinary share cancelled[2]. This equates to US$1.10 per existing share being returned to shareholders. If the scheme of arrangement is approved by shareholders, the Capital Return is expected to be made in one payment in December 2016, following receipt of final orders by the High Court.

RECOMMENDATIONS

The Directors recommend that shareholders vote to approve the Proposed Transaction outlined in this document.

The Independent Directors also recommend that shareholders vote to approve the Capital Return outlined in this document.

2. Capital to be returned to shareholders will be paid in NZ$ unless a shareholder elects to receive their payment in US$. Please refer to "Currency of Payment" on page 15.

BUSINESS OF THE ANNUAL MEETING

Notice is hereby given that the annual shareholders' meeting (**Annual Meeting**) of Tenon Limited (the **Company**) will be held at the **Tamaki Yacht Club, 30 Tamaki Drive, Mission Bay, Auckland, on 18 November 2016 at 10.00am.**

A. CHAIRMAN'S INTRODUCTION AND ADDRESS

B. SHAREHOLDER DISCUSSION

C. RESOLUTIONS

Resolution 1 – Proposed Transaction – Ordinary Resolution

Under NZX Main Board Listing Rule 9.1, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the sale of the US Operating Business (inclusive of the Supply Agreement) on the terms set out in the Sale Agreement, for a price of approximately US$110 million, as described in the Explanatory Memorandum, be approved.

See Explanatory Note 1.

Resolution 2 – Capital Return – Special Resolution

Pursuant to an order of the High Court of New Zealand made at Auckland on 21 October 2016, to consider and, if thought fit, pass the following resolution as a special resolution:

That, subject to Resolution 1 being passed, the arrangement relating to the return of capital to the Company's shareholders, as described in the Explanatory Memorandum and the Arrangement Plan, under which the Company will return approximately US$71.3 million of capital to shareholders, be approved.

See Explanatory Note 2.

Resolution 3 – Re-election of Directors of the Company – Ordinary Resolutions

Under NZX Main Board Listing Rule 3.3.11, to consider and, if thought fit, pass each of the following resolutions as separate ordinary resolutions:

(a) To re-elect Mark Kenneth Eglinton as a director to the Board of the Company.

(b) To re-elect Stephen Garfield Kasnet as a director to the Board of the Company.

See Explanatory Note 3 below for a biography of each director of the Company offering himself for re-election. The re-election of each director will be voted on separately.

Resolution 4 – Auditor's Remuneration – Ordinary Resolution

To authorise the directors of the Company to fix the auditor's remuneration for the ensuing year.

See Explanatory Note 4.

Procedural Notes

(i) Resolutions 1, 3 and 4 are ordinary resolutions and therefore are required to be passed by a simple majority of the votes of those shareholders entitled to vote and voting on that resolution. Resolution 2 is a special resolution and therefore is required to be passed by a majority of 75% or more of the votes of those shareholders entitled to vote and voting on that resolution.

(ii) Resolution 2 is subject to Resolution 1 being passed and will only take effect if Resolution 1 is approved by the required votes. Resolutions 1, 3 and 4 will take effect if passed, even if Resolution 2 is not passed.

(iii) The persons who will be entitled to vote on the resolutions at this Annual Meeting are those persons who are shareholders at 5.00pm on 11 November 2016, and only the shares registered in those shareholders' names on that date may be voted at the Annual Meeting.

(iv) The accompanying Voting/Proxy Form should be used to vote on the resolutions. Shareholders can participate by postal vote, by proxy or by casting their vote in person at the Annual Meeting.

(v) Shareholders may cast a postal vote on the resolutions to be voted on at the Annual Meeting by indicating their voting directions on the enclosed Voting/Proxy Form, signing the form and sending it either by post or by fax to the registered office of the Company or the office of the Share Registrar. The completed Voting/Proxy Form must be received no later than 10.00am on 16 November 2016 (New Zealand time). The General Counsel has been authorised by the Board to receive and count postal votes at the Annual Meeting.

(vi) Any shareholder who is entitled to attend and vote at the Annual Meeting may appoint a proxy to attend and vote in their place. A shareholder wishing to appoint a proxy should complete the enclosed Voting/Proxy Form and send it either by post or by fax to the registered office of the Company or the office of the Share Registrar. The completed Voting/Proxy Form must be received no later than 10.00am on 16 November 2016 (New Zealand time). A proxy does not have to be a shareholder in the Company. For example, shareholders may appoint the Chairman of the Board to act as their proxy, or another person. It is proposed that Mark Eglinton will act as chairman of the Annual Meeting while resolutions 1 and 2 are put to shareholders for consideration and Luke Moriarty will act as chairman of the Annual Meeting while resolutions 3 and 4 are put to shareholders for consideration. In their capacity as chairman of the Annual Meeting at the relevant time, each of Mark Eglinton and Luke Moriarty has advised that it is his intention to vote discretionary proxies held by the "chairman of the meeting" in favour of each of the resolutions.

(vii) Each of Mark Eglinton and Stephen Garfield Kasnet has advised that it is his intention to abstain from voting any discretionary proxies held by him in favour of the resolution for his own re-election as a Director. If additional matters are raised during the course of the Annual Meeting which require a shareholder vote, a proxy will be entitled to vote as he or she thinks fit.

(viii) This Notice of Annual Meeting has been approved by NZX Limited in accordance with NZX Main Board Listing Rule 6.1.1.

(ix) Shareholders may revoke their proxies by giving written notice of revocation to the registered office of the Company or the office of the Share Registrar no later than 10.00am on 16 November 2016 (New Zealand time).

(x) Address details for the Company and the Share Registrar are set out in the Voting/Proxy Form.

By Order of the Board
Auckland
New Zealand
25 October 2016

Paul Gillard
General Counsel
Tenon Limited

DISCUSSION OF THE SHAREHOLDER RESOLUTIONS

Explanatory Note 1: Resolution 1 – Proposed Transaction – Ordinary Resolution

NZX Main Board Listing Rules

NZX Main Board Listing Rule 9.1 provides that the Company and its subsidiaries must not enter into a transaction, or series of linked or related transactions, to sell assets in respect of which the gross value is in excess of 50% of the "average market capitalisation" of the Company and its subsidiaries, except with the prior approval of an ordinary resolution of the Company (or a special resolution if section 129 of the Companies Act also applies).

The gross value of the assets that are proposed to be sold by subsidiaries of the Company under the Proposed Transaction, including taking into account the Supply Agreement, is in excess of the relevant threshold. The consideration for the sale of the US Operating Business of US$110 million (equivalent to NZ$154.9 million at an exchange rate of 0.71) is in excess of 50% of Tenon's average market capitalisation as at 19 October 2016 (NZ$161.9 million) and the sale of the US Operating Business will result in a change in the essential nature of Tenon's business due to the significant change in the scale and geographical focus of its business following the transaction. If approved, the Proposed Transaction will result in Tenon's business being focused on the NZ-based Clearwood business only - see the discussion under the heading "Tenon's Clearwood business, and the future" in the Chairman's letter.

Shareholder approval by way of ordinary resolution is therefore required.

The Proposed Transaction is not a "major transaction" for the Company for the purposes of section 129 of the Companies Act and the appropriate voting threshold is that required for an ordinary resolution only.

Resolution required

Resolution 1 will therefore be proposed as an ordinary resolution to satisfy NZX Main Board Listing Rule 9.1 and the Company's constitution. An ordinary resolution is required to be passed by a simple majority of the votes of the shareholders entitled to vote and voting on the resolution.

Explanatory Note 2: Resolution 2 – Capital Return – Special Resolution

Court-approved Capital Return

On 21 October 2016, the Company received initial orders granted by the High Court under section 236 of the Companies Act directing the Company to seek shareholder approval for the Capital Return which involves returning capital to shareholders by the Company cancelling one out of every two ordinary shares in the Company held by each shareholder and paying US$2.20 for every ordinary share cancelled (which equates to US$1.10 for each share on issue immediately prior to the cancellation)[3].

Resolution required

The High Court has required that the Capital Return be approved by a special resolution. Resolution 2 must be passed by a majority of 75% or more of the votes of those shareholders of the Company entitled to vote and voting on the resolution.

Resolution 2 is subject to Resolution 1 being passed. This approval will also satisfy the requirements of NZX Main Board Listing Rules 9.1, 7.6.1 and 7.6.5 (to the extent applicable) in the context of the Capital Return.

Explanatory Note 3: Resolution 3 – Re-election of Directors of the Company – Ordinary Resolution

Below are the brief biographical notes on each of the persons offering themselves for re-election as Directors.

Mark Kenneth Eglinton
B. Com., LLB (Otago)
Non-Executive Director

Committees
Audit
Nominations

Mark Eglinton is currently the CEO and a director of NDA Group. NDA Group is a NZ-based international engineering group, which has a large presence in the US, and where Mark spends a considerable amount of his time. Prior to joining NDA Group, Mark worked for Tenon for nine years, including five years as CEO from 2005 through to 2009, and before that four years as Commercial Director and head of Tenon's US-based consumer solutions business. Prior to Tenon, Mark held a number of positions within Fletcher Challenge Building, including Managing Director of Fletcher Aluminium. Mark is also a trustee of the Young Enterprise Trust.

The Board has determined that Mr Eglinton is an independent Director.

3. Capital to be returned to shareholders will be paid in NZ$ unless a shareholder elects to receive their payment in US$. Please refer to "Currency of Payment" on page 15.

Stephen Garfield Kasnet
BA University of Pennsylvania (Philadelphia)
Non-Executive Director

Committees
Nominations

Mr Kasnet is currently Chairman of Rubicon Limited, the holding company of the Company's largest shareholder, Rubicon Forests Holdings Limited. He is also Chief Executive Officer of Calypso Management LLC, President of Ocean Manchester Corporation, director of the First Ipswich Bank, Trustee of the Governors Academy, Vice Chairman and lead director of Two Harbors Investment Corp and lead director of Silver Bay Realty Trust Corp. He has previously held the roles of President and Chief Executive Officer of Harbor Global, a prime asset of which was a timber harvesting and sales operation in eastern Russia covering over three million acres of concession area, Managing Director of First Winthrop Corporation and Winthrop Financial Associates in the US, President and Chief Executive Officer of Raymond Property Group and Dartmouth Street Company and also Executive Vice President of the Pioneer Group Inc. in the US. His responsibilities there covered the global strategic investments for the Pioneer Group, including venture capital and timber operations.

The Board has determined that Mr Kasnet is not an independent Director because he is the Chairman of Rubicon Limited, the holding company of the Company's largest shareholder, Rubicon Forests Holdings Limited.

Explanatory Note 4: Resolution 4 – Auditor's Remuneration – Ordinary Resolution

This resolution is a standard annual resolution put to shareholders' annual meetings by New Zealand companies, allowing the Directors to fix the auditor's remuneration for the year. The resolution will operate in accordance with section 207S of the Companies Act.

EXPLANATORY MEMORANDUM

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THE PROPOSED TRANSACTION

Introduction

Last year, Tenon initiated rigorous Strategic Review processes in respect of each of its US Operating Business and its NZ-based Clearwood business. A description of each of these businesses is set out in sections 3.3 and 3.4 of the Grant Samuel report enclosed with this Notice of Meeting.

The review of the Clearwood business is on-going; however the review of the US Operating Business culminated in the announcement on 30 August 2016 of the agreement pursuant to which Tenon Holdings agreed to sell the US Operating Business to BW Empire Holdings, LLC, an affiliate of Blue Wolf Capital.

Blue Wolf Capital is a private equity firm founded in 2005, based in New York. Blue Wolf Capital has raised two institutional funds since its inception – Blue Wolf Capital Fund II LP and Blue Wolf Capital Fund III LP. Its investor base includes foundations, endowments, fund of funds and pension funds. Blue Wolf Capital is an investor in the forest and building products, healthcare, aerospace and defence, and niche manufacturing and distribution sectors. Details of Blue Wolf Capital can be found on the firm's website (www.bluewolfcapital.com).

Business being sold

Tenon's US Operating Business, through the sale of 100% of the shares in NACS USA, Inc. on the basis that Tenon will retain the debt and cash attributed to that business. NACS USA, Inc. is the holding company for Tenon's US Operating Business.

Consideration

US$110 million payable in cash (equivalent to NZ$154.9 million at an exchange rate of 0.71).

The purchase price is subject to an adjustment payment, for variance against an agreed target level of net working capital for the US Operating Business on closing, beyond an agreed +/- US$3 million no-adjustment band.

Key conditions

The Proposed Transaction is subject to the satisfaction or waiver of certain conditions, including:

- the approval of Tenon's shareholders for the purposes of NZX Main Board Listing Rule 9.1; and
- there having been no material adverse change in the US Operating Business between signing and closing.

The transaction is also stated to be subject to any applicable waiting period for the consummation of the sale under the US Hart-Scott-Rodino Antitrust Improvements Act of 1976 expiring. However the parties have agreed that filings under this statute are not required because the net proceeds of the sale of the US Operating Business to Blue Wolf will be below the relevant statutory threshold for the need to obtain clearance and therefore there is no applicable waiting period which must expire.

Potential termination events

Either party may terminate the Proposed Transaction if:

- the sale does not close by 31 December 2016; or
- Tenon's shareholders do not approve the Proposed Transaction for the purposes of NZX Main Board Listing Rule 9.1; or
- there is a permanent injunction or other restraint against the sale by a government agency.

The Purchaser can also terminate the transaction if:

- the Tenon Board withdraws its recommendation of the Proposed Transaction; or
- Tenon Holdings wilfully and materially breaches its obligations in relation to non-solicitation of alternative transactions.

Tenon Holdings may terminate the transaction if it is entering into an alternative transaction as a result of the Tenon Board determining that it is required to do so in order to comply with its fiduciary duties.

Tenon Holdings must pay a termination fee of US$3.3 million if:

- it terminates the Sale Agreement in order to enter into an alternative transaction; or
- the Purchaser terminates the Sale Agreement because the Tenon Board has withdrawn its recommendation of the sale; or
- Tenon Holdings has received a public proposal for an alternative transaction and, subsequent to receipt, the Proposed Transaction is terminated by either party because Tenon's shareholders vote against the sale or because 31 December 2016 has passed, and within 12 months after termination Tenon enters into an agreement for or consummates the alternative transaction.

The Purchaser must pay Tenon Holdings a termination fee of US$3.3 million if all conditions to the sale have been satisfied but the Purchaser fails to close the sale, including as a result of a failure to obtain its debt financing, and the Sale Agreement is terminated. This commitment is supported by a guarantee from BW Capital Fund III. No termination fee is payable by Tenon if Tenon's shareholders vote against the Proposed Transaction and the Sale Agreement is terminated as a result (where no public proposal for an alternative transaction has been received). However, in those circumstances Tenon Holdings must reimburse the Purchaser's costs and expenses in an amount of up to US$1.1 million.

Representations and warranties

The Sale Agreement contains a comprehensive set of representations and warranties concerning the sale business that are given by Tenon Holdings to the Purchaser. However, the Purchaser's sole recourse for breaches of those representations and warranties (other than "fundamental representations") is against an insurance policy to be obtained by the Purchaser at its cost. The "fundamental representations" relate to matters such as the standing and power of Tenon Holdings and NACS USA, Inc., and to title to the shares in the companies being sold.

Closing

If Tenon's shareholders approve the Proposed Transaction at the Annual Meeting and all other conditions are satisfied or waived, closing of the Proposed Transaction will take place at the end of the month in which the conditions to the sale transaction have been satisfied or waived. Closing is expected to occur on 30 November 2016 (New York time).

Post-closing

Tenon is subject to several post-closing commitments given to the Purchaser, including:

- an agreement not to do direct business with Lowe's; and
- an agreement not to hire employees of the US Operating Business.

Tenon's remaining Clearwood business does not currently have any direct business with Lowe's, and is not constrained after closing in its ability to otherwise carry out business in North America as it has in the past.

Use of sale proceeds

The net proceeds of the Proposed Transaction will, after allowing for the repayment of the Company's bank debt, be used to fund the Capital Return. The Company's bank debt at 30 June 2016 was approximately US$38 million.

Supply Agreement

The US Operating Business involves the supply of certain products to Lowe's by The Empire Company (a subsidiary of NACS USA, Inc.). In order for the Purchaser to have certainty as to the continued availability of product manufactured at Tenon's Clearwood business in New Zealand so that it can continue to supply Lowe's, TML has entered into the Supply Agreement to supply selected product to The Empire Company for a five-year term. The Empire Company has, in turn, agreed not to acquire this product from any other supplier over this period, except to the extent agreed upon volumes have been exceeded. Based on the volumes currently transacted, the estimated revenue to TML from the product to be supplied under the Supply Agreement is in the order of US$15 million per annum.

Under the terms of the Supply Agreement, The Empire Company is required to purchase a minimum annual volume of product from TML, which may be permanently increased upwards by up to 20% at The Empire Company's option (for example due to recovering US demand). The purchase price for this committed volume will be set at a reference market price. The Supply Agreement contains provisions allowing the minimum annual volume to be adjusted, upwards (subject to the above cap) and downwards, based on specified changes in demand from Lowe's including in the event of a force majeure or certain adverse changes to The Empire Company's channel into Lowe's. The minimum annual volume commitment is subject to a "take-or-pay" obligation, whereby if at the end of each supply year the volume of product The Empire Company has ordered is less than its agreed minimum annual volume commitment, it must pay the difference between the volume of product actually ordered and its minimum annual volume commitment. The terms of the Supply Agreement largely reflect current trading terms between Tenon's Clearwood business and The Empire Company, and the Board believes the Supply Agreement is market based, and is equally valuable to each of The Empire Company and the Clearwood business. The Supply Agreement only becomes effective upon the closing of the Proposed Transaction.

Summary of Independent Advisers' Report to shareholders

Grant Samuel & Associates Limited was commissioned by the Board to undertake an independent review of the Proposed Transaction. Grant Samuel has concluded that the Proposed Transaction values the US Operating Business within Grant Samuel's assessment of the valuation range of US$108.1 - US$129.5 million, albeit at the lower end of that range. The valuation methods used by Grant Samuel are outlined in section 4 of the Grant Samuel report.

A full copy of the Grant Samuel report is appended to this Notice of Meeting.

Board recommendation

The Directors consider that the completion of the Proposed Transaction is in the Company's best interests and of benefit to all shareholders and, as a result, unanimously recommend that shareholders support the Proposed Transaction.

CAPITAL RETURN

The proposed Capital Return

On 21 October 2016, the High Court made orders under section 236 of the Companies Act directing the Company to seek shareholder approval for an arrangement under Part 15 of the Companies Act which provides for:

(a) the Capital Return, which involves returning capital to shareholders by the Company cancelling one out of every two ordinary shares in the Company held by each shareholder and paying US$2.20 for every ordinary share cancelled (which equates to US$1.10 for each share held immediately prior to the cancellation); and

(b) the receipt by the Company of a dividend of up to US$75 million from its wholly-owned subsidiary, Tenon Holdings, in order to fund the Capital Return.

To the extent that a shareholder does not have a number of shares exactly divisible by two, the fraction of a share will be rounded down to the nearest whole share. The total capital to be returned is approximately US$71.3 million (equivalent to NZ$100.4 million at an exchange rate of 0.71).

The Court has directed that the Capital Return be put for the approval by special resolution of shareholders of the Company, which requires 75% or more of the votes cast on the resolution to be cast in favour.

The Company will pursue its application to the High Court for final orders sanctioning the Capital Return if, at the Annual Meeting, the Capital Return and the Proposed Transaction are approved by shareholders. If these orders are granted, the Capital Return will be binding on all shareholders and the Company. The application will be heard at the High Court in Auckland at 9.00am on 7 December 2016. If orders are made that day, the Company expects the Capital Return to be completed and payment made to shareholders before the end of December 2016.

No minority buy-out rights arise under the Capital Return.

The Board has determined to return the capital to shareholders by way of a Court approved arrangement because this is:

- consistent with the underlying nature of the transaction, which is to return to shareholders a significant amount of capital that is surplus to the Company's ongoing requirements; and
- fair to all shareholders as it achieves its objective of returning the desired amount of capital to shareholders on a pro rata basis and leaves relative voting rights unaffected.

Attached to this Notice of Meeting are:

- the initial Court orders given by the High Court on 21 October 2016 – see Appendix 1; and
- the application to the High Court for orders approving the Capital Return. This attaches the Arrangement Plan, which reflects the final Court orders that the Company will seek if the Capital Return is approved by shareholders – see Appendix 2.

Conditions to the Capital Return

Completion of the Capital Return by way of payment to shareholders is conditional on:

- the approval of the Proposed Transaction by shareholders by way of ordinary resolution and completion of that transaction;
- the approval of the Capital Return by shareholders by way of special resolution;
- the granting by the High Court of final orders approving and giving effect to the Capital Return; and
- the Board remaining satisfied that the Company will, immediately after the Capital Return, satisfy the solvency test prescribed by the Companies Act.

Rationale for the Capital Return

As a result of the Proposed Transaction, Tenon will repay all its net debt. Its only remaining business will be the Clearwood business. The Board has considered the capital requirements for Tenon going forward and determined that the cash proposed to be returned to Tenon shareholders is surplus to Tenon's projected requirements for the following reasons:

- *Debt profile:* all of Tenon's net debt will have been repaid. A new bank facility is being established to ensure the Clearwood business can continue to operate efficiently going forward. In this respect, the Company has received a committed term sheet from the Bank of New Zealand, comprising a US$20 million revolving amortising cash advance facility and a US$5 million working capital facility – i.e., US$25 million of funding commitments in total. The new facility will be subject to the sale closing. Tenon expects to have the new bank facility in place by the date of the Annual Meeting and can update shareholders at that time;
- *Capital requirements:* the large capital upgrades at the Taupo mill previously identified to improve performance (the edger optimisation and the ripline upgrade) have been fully funded and completed. These upgrades are performing as anticipated and management does not currently anticipate any new material capital expenditure (beyond normal maintenance expenditure) being required in relation to the Taupo mill in the near term;

- *Financial flexibility:* Tenon will have, with the benefit of the new Bank of New Zealand facility, more than adequate working capital and financial flexibility for the Clearwood business for the foreseeable future;
- *Cash flow:* the Clearwood business is generating surplus cash flow and this is forecast to continue, with the Company expecting to generate positive net cash flow from the Clearwood operations of at least US$8 million in FY17, after taking account of anticipated working capital growth and maintenance capital expenditure;
- *Solvency:* the Board is satisfied that Tenon will satisfy the solvency test immediately following the Capital Return;
- *Alternative use of funds:* the Board has not identified any acquisitions or other uses for the funds that are expected to be value accretive to shareholders; and
- *Ongoing Strategic Review:* the Clearwood business remains subject to the Strategic Review process.

Tenon is therefore in a position to return capital to its shareholders. The Board is of the opinion that the Capital Return is the best use of that capital at this time.

The following table shows the adjustments to the 30 June 2016 financial position of Tenon arising from the Proposed Transaction and the Capital Return.

US$ millions	**Tenon (as published)**	**Sale of NACS**	**Debt repaid & Capital Return**	**Tenon (adjusted)**
ASSETS				
Current Assets:				
Cash and Cash Equivalents	2	110	-109	3
Inventory	71	-61	–	10
Trade and Other Receivables	35	-28	–	7
Total Current Assets	108	21	-109	20
Non-Current Assets:				
Fixed Assets	26	-9	–	17
Forest Assets	1	–	–	1
Goodwill	36	-36	–	–
Deferred Taxation Asset	8	-1	–	7
Total Non-Current Assets	71	-46	–	25
Total Group Assets	179	-25	-109	45
LIABILITIES AND EQUITY				
Liabilities				
Current Liabilities:				
Trade and Other Payables and Provisions	40	-22	–	18
Current Debt	3	–	-3	–
Total Current Liabilities	43	-22	-3	18
Non Current Liabilities:				
Non Current Debt	35	–	-35	–
Deferred Rent Liability	3	-3	–	–
Total Group Liabilities	81	-25	-38	18
Equity				
Capital & Reserves	98	–	-71	27
Total Group Liabilities and Equity	179	-25	-109	45

Effect of the Capital Return on shareholders

The effect of the Capital Return will be that, subject to the conditions to the Capital Return being satisfied, one out of every two ordinary shares registered in the name of a shareholder on the record date will be cancelled. To the extent that a shareholder does not have a number of shares exactly divisible by two, the fraction of a share will be rounded down to the nearest whole share. Each shareholder will receive US$2.20 for each share cancelled (which is equivalent to US$1.10 cents for every share held immediately prior to the share cancellation).

Approximately 32.4 million shares, or 50% of the total number of the Company's shares on issue, will be cancelled.

The impact of the Capital Return will ultimately depend on the actual movements in the Company's share price following the return.

Currency of payment

Tenon is a US functional currency business, and the consideration it receives under the Proposed Transaction will be in US dollars. **The cash to be returned to shareholders by way of the Capital Return will be paid in NZ$ unless a shareholder elects to receive their payment in US$ by completing and returning the Currency Election Form accompanying this Notice of Annual Meeting.** Shareholders need not complete the Currency Election Form if they wish to receive their payment in NZ$, as that is the default currency in which the Capital Return will be made. Only those shareholders who wish to receive their Capital Return in US$ need to complete the Currency Election Form, which must be received by the Share Registrar by 5:00pm on 30 November 2016 (New Zealand time). Payment in USD will only be made to a USD bank account, details of which must be set out in the Currency Election Form.

In order to make payment to shareholders in NZ$, Tenon will convert US$ into NZ$. Tenon will convert the required US$ into NZ$ at the weighted average exchange rate purchased by Tenon over the five business days following receipt of the final orders from the High Court.

Payment to shareholders

The Company's share register will close at 5.00pm (in New Zealand, being the jurisdiction in which the Company's share register is located) on 21 December 2016. This will be for the purpose of determining the number of shares to be cancelled and the amount to be returned to those shareholders recorded in the Company's share register at that time.

Payment to shareholders will be made by cheque or, in the case of New Zealand shareholders who have previously provided bank account details to the Company or the Share Registrar, by direct credit. Cheques will be posted, or direct credits made, within five business days after the record date. Shareholders will be issued with new holding statements at the same time, showing the number of shares held following the cancellation of shares pursuant to the Capital Return. If shareholders wish to provide bank account details to the Company, or update bank account details previously provided, this information can be included in the Currency Election Form.

Creditors

Following the completion of the Capital Return, the Company will continue to satisfy the solvency test set out in the Companies Act and Tenon's creditors will not be prejudiced by the Capital Return.

In accordance with the terms of the Company's existing bank facility, all bank debt will be repaid upon the closing of the Proposed Transaction. Other than normal working capital drawings, Tenon does not expect that the new bank facility will be materially drawn in the short term. The borrowing capacity provided by the new bank facility will, however, provide Tenon with confidence that it has the financial resources available to support the Clearwood business to the extent required following the Capital Return.

Taxation implications of the Capital Return

The following summarises the New Zealand income tax consequences for New Zealand tax resident shareholders whose shares are cancelled under the Capital Return.

Shareholders in doubt as to the taxation effects of the Capital Return (including overseas tax resident shareholders) should consult an appropriately qualified taxation advisor.

Tax on proceeds

Shareholders who hold their shares on capital account should not be taxed on the proceeds they receive from the cancellation of their shares under the Capital Return.

However, shareholders who hold their shares on revenue account (for example, dealers or traders in shares) will be taxed on those proceeds, after allowing a deduction for the cost of the relevant shares.

Proceeds not dividends

Ordinarily where a New Zealand company cancels shares the proceeds are treated as taxable dividends in the hands of the selling shareholders. An exception to this treatment applies for "off-market share cancellations" which meet certain criteria prescribed in the Income Tax Act 2007.

The Board is of the opinion that the Capital Return will meet the criteria required in order for it to be excluded from being treated as a taxable dividend for selling shareholders. The proceeds received by any shareholder under the Capital Return should therefore be excluded from being a dividend for tax purposes.

Accordingly:

- New Zealand shareholders should not be taxed on the Capital Return under the dividend tax rules (but revenue account holders may be taxed under the rules for share disposals as described above); and
- Tenon should not be required to deduct resident withholding tax from payments made to shareholders under the Capital Return.

Tenon's tax position

Tenon does not expect any adverse tax consequences for itself as a result of the Capital Return.

The Capital Return will result in a reduction to the available subscribed capital of Tenon for tax purposes. However, the current available subscribed capital in Tenon exceeds the amount of the Capital Return.

Directors

Directors of the Company, and associated persons of Directors, who beneficially own shares in the Company will participate in the Capital Return in exactly the same way as all other shareholders in the Company. The number of shares in which Directors and/or their associated persons have relevant interests as at 19 October 2016, and the payments they will receive under the Capital Return, are noted in the table below (assuming a payment of US$1.10 per existing share).

Shares held by Directors and/or associated persons

Director	How held	Number of Ordinary Shares	US$ to be received
R H Fisher	Beneficial	750	$825.00
S L Moriarty	Beneficial	27,155	$29,869.40
S L Moriarty	Associated Persons	59,243	$65,166.20

In addition, Directors of the Company may have an indirect interest in the Capital Return as a result of them holding an interest in shares in Rubicon Limited.

The Independent Directors recommend that shareholders vote to approve the Capital Return.

Directors Luke Moriarty, Stephen Kasnet and George Karaplis are also directors of Rubicon Limited, a subsidiary of which owns 38,747,695 ordinary shares in the Company. Rubicon will receive approximately US$42.6 million under the Capital Return and will therefore receive a material financial benefit from it. **Luke Moriarty, Stephen Kasnet and George Karaplis therefore did not participate in the Board's approval of the Capital Return as they were considered to be interested in the outcome of the transaction.**

Right to be heard for final Court orders

Unless the Independent Directors determine to abandon the Capital Return, then the application for final Court orders will be heard before the presiding judge at 9.00am on 7 December 2016 (New Zealand time).

Any shareholder of the Company who wishes to appear and be heard on the application for final Court orders must file a notice of appearance or a notice of opposition (both containing an address for service) and any affidavits and a memorandum of submissions on which such shareholder intends to rely by 5.00 pm (New Zealand time) on 25 November 2016 and serve a copy on the Company at its address for service. The Company will serve upon that shareholder at their address for service a copy of the affidavits in support of the application for final Court orders by 5.00pm on 1 December 2016 (New Zealand time). The application will then be called in the High Court at Auckland at 9.00am on 7 December 2016 (New Zealand time). If a notice of opposition is filed, the application may be adjourned to a date to be fixed by the High Court for argument. No minority buy-out rights arise under the Capital Return.

GLOSSARY

The following terms have the following meanings when used in this Notice of Annual Meeting.

Annual Meeting means the special meeting of shareholders of the Company, to be held on 18 November 2016, and any adjournments or postponements thereof.

Arrangement Plan means the arrangement plan attached to the application for final Court orders that the Company proposes to seek approving the Capital Return, set out in Appendix 2.

Blue Wolf Capital means Blue Wolf Capital Fund III, L.P., a Delaware limited partnership.

Board means the board of directors of the Company.

Capital Return means the return of capital on terms set out in the Explanatory Memorandum to be approved by the High Court as an arrangement under Part 15 of the Companies Act.

Clearwood or **Clearwood business** means Tenon's wood-products processing, marketing and distribution business based in Taupo, selling product into the US, Europe and Australasia, comprising TML and Taupo Wood Solutions Inc.

Companies Act means the Companies Act 1993 (New Zealand).

Company means Tenon Limited.

Currency Election Form means the currency election form accompanying this Notice of Annual Meeting.

Directors mean the directors of the Company.

EBITDA means earnings before interest, tax, depreciation and amortisation.

Explanatory Memorandum means the explanatory memorandum that forms part of this Notice of Annual Meeting.

FY means Tenon's financial/fiscal year ending 30 June.

High Court means the High Court of New Zealand.

Independent Directors means Mark Eglinton and Rodger Fisher.

Lowe's means Lowe's Companies, Inc.

Notice of Annual Meeting means this notice of special meeting and explanatory memorandum issued by the Company for the purpose of calling the Annual Meeting.

NZ$ means New Zealand dollars.

NZX means NZX Limited.

Proposed Transaction means the proposed sale of the US Operating Business under the terms of the Sale Agreement, including the entry into of the associated Supply Agreement.

Purchaser means BW Empire Holdings, LLC, an affiliate of Blue Wolf Capital Fund III, L.P., a Delaware limited partnership.

Sale Agreement means the sale and purchase agreement relating to the shares in NACS USA, Inc. dated 29 August 2016 between the Company, Tenon Holdings, NACS USA, Inc. and the Purchaser.

Share Registrar means Computershare Investor Services Limited.

Strategic Review or **Review** means the Board-initiated strategic review that was announced in August 2015.

Supply Agreement means the five-year agreement between The Empire Company LLC and TML relating to the supply of Radiata clear pine boards, described under "Supply Agreement" in the Explanatory Memorandum.

Tenon means Tenon Limited or, where the context requires, the group comprising Tenon Limited and its subsidiaries.

Tenon Holdings means Tenon Holdings Limited, a wholly-owned subsidiary of Tenon.

The Empire Company means The Empire Company, LLC, a wholly-owned subsidiary of NACS USA, Inc.

TML means Tenon Manufacturing Limited, a wholly-owned subsidiary of Tenon.

US$ means United States dollars.

US Operating Business means the Company's North American manufacturing, procuring, marketing, selling, service and distribution business carried out by Tenon in North America, except to the extent carried out by Tenon's Clearwood business.

Voting/Proxy Form means the voting/proxy form accompanying this Notice of Annual Meeting.

APPENDIX 1 – INTERIM COURT ORDERS

In the High Court of New Zealand **CIV 2016-404-2590**
Auckland Registry

Under Part 19 of the High Court Rules

In the matter of a scheme of arrangement under Part 15 of the Companies Act 1993

And in the matter of:

Tenon Limited

Applicant

Initial orders under section 236 of the Companies Act 1993 relating to an originating application for orders approving an arrangement under Part 15 of the Companies Act 1993

21 October 2016

BELL GULLY

BARRISTERS AND SOLICITORS

S V A EAST / T B FITZGERALD
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Before the Honourable Justice Lang

Friday 21 October 2016

The interlocutory application by Tenon Limited for initial orders relating to an originating application for approval of a scheme of arrangement under Part 15 of the Companies Act 1993, dated 14 October 2016, was determined by the Honourable Justice Lang on 21 October 2016. Upon hearing from S V A East and T B Fitzgerald, counsel for the applicant, and upon reading the amended originating application for approval of a scheme of arrangement under Part 15 of the Companies Act 1993 dated 20 October 2016, and the affidavits of Mark Kenneth Eglinton dated 14 October 2016 and Adam Stanley White dated 13 October 2016, and Matthew Wentz dated 20 October 2016, this Court orders:

Timetable

1. Unless otherwise advised by the Court, the amended originating application for orders approving a scheme of arrangement under Part 15 of the Companies Act 1993 dated 20 October 2016 (the **Application for Final Orders**) will be heard at 9.00am on 7 December 2016.

Service and representation

2. Formal service of this ex parte interlocutory application for initial orders relating to an originating application for approval of a scheme of arrangement under Part 15 of the Companies Act 1993 (the **Application for Initial Orders**), and the Application for Final Orders, is dispensed with.
3. Representation in relation to the Application for Initial Orders is dispensed with.
4. Except as provided in these orders:
   (a) Tenon is not required to serve any other documents on the persons specified in those orders; and
   (b) If hearing of the Application for Final Orders is adjourned for any reason, Tenon is required only to serve those persons who are entitled to appear and be heard under paragraph 27 below with notice of the new hearing date.

Confidentiality & orders that Court File not be searched

5. The Application for Final Orders, all interlocutory applications, affidavits, and all other documents related to approval of the proposed scheme of arrangement (the **Arrangement**) on the Court File shall not be searched, inspected or copied until such time as the Notice of Meeting and Explanatory Memorandum (as defined at paragraph 14 below) has been distributed to Tenon's shareholders in accordance with the orders at paragraph 15 below.

Shareholders' Meeting

6. Tenon is directed to:
   (a) hold a general meeting of shareholders (the **Shareholders' Meeting**):
      (i) On Friday,18 November 2016 at 10.00am;
      (ii) At Tamaki Yacht Club, 30 Tamaki Drive, Mission Bay, Auckland; and
   (b) at the Shareholders' Meeting, put the Arrangement (as amended by Tenon before the Shareholders' Meeting in a manner consistent with these orders, if necessary) to Tenon's shareholders for consideration and approval in the manner specified in these orders (the **Resolution**).
7. All of the shareholders of Tenon are in a single interest class for the purposes of voting on the Arrangement at the Shareholders' Meeting.
8. Except as otherwise provided in these orders, the Shareholders' Meeting will be conducted in accordance with Tenon's constitution and Schedule 1 and ss 121 – 125 of the Act (including in respect of the chairperson's power to adjourn the Shareholders' Meeting).
9. Mr Mark Eglinton, or his nominee, will act as the chairperson of the Shareholders' Meeting while the Resolution is put to shareholders for consideration.
10. Only holders of Tenon shares whose names appear in the register of shareholders as at:
    (a) 5.00pm on 21 October 2016 (**Explanatory Memorandum Record Date**) are entitled to receive the Notice of Meeting and Explanatory Memorandum (as defined at paragraph 14 below); and
    (b) 5.00pm on 11 November 2016 (**Shareholder Voting Record Date**) are entitled to be represented and vote at the Shareholders' Meeting or any adjournment or postponement thereof.

11. Shareholders are authorised to vote at the Shareholders' Meeting in person, by postal vote, or by proxy, provided that:

(a) to be valid, voting/proxy forms need to be:

(i) mailed or delivered to Tenon's registered office at Level 1, Mastercard House, 136 Customs Street West, Auckland, 1010;

(ii) mailed or delivered to Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna, Auckland, New Zealand; or

(iii) faxed to Computershare Investor Services Limited at +64 9 488 8787,

and received at that address by 10.00am on 16 November 2016 (**Voting/Proxy Form Deadline**);

(b) Tenon is entitled to disregard any proxy appointment or postal votes received after the Voting/Proxy Form Deadline;

(c) Tenon may waive, in its discretion, the Voting/Proxy Form Deadline, generally or in relation to certain proxy appointments or postal votes, if it deems such waiver to be in its best interests and in the best interests of Tenon shareholders as a whole; and

(d) Shareholders may revoke their proxies by giving written notice of revocation to the registered office of the Company or the office of the Share Registrar no later than 10.00am on 16 November 2016.

12. The Resolution shall be approved if passed by a majority of 75% or more of the votes of those shareholders entitled to vote and voting on the Resolution.

13. Voting at the Shareholders' Meeting is to be by way of a poll, rather than by a show of hands.

Notice of Shareholders' Meeting and information for shareholders

Notice of Meeting and Explanatory Memorandum

14. Tenon will give notice of the Arrangement, Shareholders' Meeting, and Application for Final Orders by distributing a booklet including the following sections, which is attached as exhibit **[MRW-4]** of the affidavit of Matthew Robert Wentz dated 20 October 2016 (the **Notice of Meeting and Explanatory Memorandum**), which collectively will constitute part (though not necessarily all) of the materials to be sent to shareholders in accordance with paragraph 15 below:

(a) a summary of the key times and dates relevant to the Arrangement;

(b) a letter from the chairman of Tenon's board of directors addressed to Shareholders;

(c) a summary of the matters for consideration at the Shareholders' Meeting, including the Arrangement;

(d) the formal Notice of Meeting (including procedural notes);

(e) a discussion of the resolutions to be put to shareholders at the Shareholders' Meeting (including the Resolution);

(f) an Explanatory Memorandum setting out more detail relevant to the resolutions to be put to shareholders at the Shareholders' Meeting (including the Resolution);

(g) a Glossary;

(h) copies of the orders made by the Court following the hearing of the Application for Initial Orders;

(i) a copy of the Application for Final Orders (including the Arrangement Plan (**Arrangement Plan**));

(j) an independent report prepared by Grant Samuel and addressed to Tenon's Directors for the benefit of all shareholders regarding the sale of Tenon's US operating business, to be considered at the Shareholders' Meeting;

(k) a Voting/Proxy Form; and

(l) a Currency Election Form.

Distribution of Notice of Meeting and Explanatory Memorandum

15. Tenon will:

(a) Distribute the approved Notice of Meeting and Explanatory Memorandum at least 10 working days before the Shareholders' Meeting by sending it in accordance with paragraph (b) below to:

(i) Each of Tenon's directors; and

(ii) All shareholders listed on Tenon's share register as at the Explanatory Memorandum Record Date; and

(b) Send the approved Notice of Meeting and Explanatory Memorandum to Tenon's shareholders in terms of the preceding paragraph by sending it to the shareholders' addresses as recorded on Tenon's share register at 5.00 pm on the Explanatory Memorandum Record Date in:

(i) Electronic format to all shareholders who have elected to receive documents from Tenon in electronic form only; and

(ii) By ordinary mail in hardcopy format to all other shareholders;

(c) Provide on request a copy of the approved Notice of Meeting and Explanatory Memorandum to any other person who becomes a Tenon shareholder and entitled to vote on the Resolution after the Explanatory Memorandum Record Date but before the Shareholder Voting Record Date;

(d) Make hard copies of the approved Notice of Meeting and Explanatory Memorandum available for inspection and removal from Tenon's offices at Level 1, Mastercard House, 136 Customs Street West, Auckland 1010 from at least 10 working days before the Shareholders' Meeting; and

(e) Make electronic copies of the approved Notice of Meeting and Explanatory Memorandum available for inspection and download from Tenon's website, from at least 10 working days before the Shareholders' Meeting.

16. The Notice of Meeting and Explanatory Memorandum will be deemed to have been received by all those to whom it was ordered to be sent 48 hours after it is sent in accordance with paragraph 15(b) above.

17. Tenon is granted leave to effect service outside the jurisdiction in the manner referred to in paragraph 15(b) above.

18. Tenon will lodge the approved Notice of Meeting and Explanatory Memorandum on NZX's market announcement platforms prior to its distribution to shareholders.

19. If Tenon accidentally fails or omits to send a Notice of Meeting and Explanatory Memorandum to any person specified in paragraph 15(a) above, or the Explanatory Memorandum is not received by any such person:

(a) Any such failure or omission does not constitute a breach of the orders made in relation to the Arrangement or invalidate any resolution passed or any proceedings taken at the Shareholders' Meeting; but

(b) Where any such failure or omission is brought to Tenon's attention, Tenon shall endeavour to rectify it by the method and in the time most reasonably practicable in the circumstances.

Amendment of Resolution, Arrangement Plan or Notice of Meeting and Explanatory Memorandum

20. Tenon may make such amendments, revisions, and/or supplements to the Resolution, Arrangement Plan or Notice of Meeting and Explanatory Memorandum as it may determine are in its best interests or the best interests of its shareholders or other affected or properly interested persons. If the Resolution or Arrangement Plan are amended, revised, and/or supplemented, it will be the Resolution or Arrangement Plan as amended, revised, and/or supplemented that are put to shareholders for consideration and approval. Where possible, any such amendments will be:

(a) Made before Tenon distributes the Notice of Meeting and Explanatory Memorandum to shareholders and any other person identified in paragraph 15(a) or directed to be served with this application; but

(b) If any material amendment to a document contained in the Notice of Meeting and Explanatory Memorandum is made after the Notice of Meeting and Explanatory Memorandum is distributed to Tenon shareholders and any other person directed to be served with this application and more than 72 hours before the Shareholders' Meeting (including any adjournment of the Shareholders' Meeting) (**Announcement Window**), Tenon will notify those persons of such amendment by lodging a notice on NZX's market announcement platform, or other means that it considers will ensure timely notification and receipt.

Advertisement

21. The draft advertisement regarding the Shareholders' Meeting and shareholders' and others' rights of opposition to the Arrangement attached as exhibit **[MKE-14]** to the affidavit of Mark Kenneth Eglinton dated 14 October 2016 is approved (the **Approved Advertisement**).

22. Tenon will advertise the Shareholders' Meeting, at least 10 working days before the Shareholders' Meeting, by publishing an advertisement that is in the same or substantially the same format as the Approved Advertisement, in the following major daily newspapers:

(a) New Zealand Herald;

(b) Waikato Times;

(c) Dominion Post;

(d) Christchurch Press;

(e) Otago Daily Times;

(f) Taranaki Daily News; and

(g) The Southland Times.

Reporting of the results of the Shareholders' Meeting

23. Tenon will notify the outcome of the Shareholders' Meeting by:

    (a) Lodging the results on NZX's market announcement platforms as soon as practicable after voting at the Shareholders' Meeting is complete; and

    (b) Serving written notice on persons entitled under paragraph 27 below to appear and be heard at the hearing of the Application for Final Orders. Such notice is to be served as soon as is practicable after voting at the Shareholders' Meeting is complete.

24. Tenon will, as soon as reasonably practicable after 25 November 2016, and in any event at least three clear working days prior to the Court's consideration of the Application for Final Orders, cause to be filed with the Court, and served on any party who has filed a notice or an application for leave under the orders at paragraphs 25 and 26 (as applicable) at the relevant address for service, an affidavit or affidavits:

    (a) Verifying compliance with the requirements of the orders made following hearing of this Application for Initial Orders;

    (b) Including confirmation of:

        (i) The Resolution voted on at the Shareholders' Meeting; and

        (ii) The number of votes cast for and against the Resolution.

Rights of opposition

25. Any shareholder who wishes to appear and be heard on the Application for Final Orders must, by 1pm on 25 November 2016, file and serve on Tenon at Level 1, Mastercard House, 136 Customs Street West, Auckland:

    (a) A notice of appearance (containing an address for service); or

    (b) If they oppose the Application for Final Orders:

        (i) A notice of opposition (containing an address for service), any affidavit(s); and

        (ii) A memorandum of submissions on which they intend to rely.

26. Any other person who considers that they have a proper interest in the Arrangement and who wishes to appear and be heard on the Application for Final Orders to file and serve on Tenon at Level 1, Mastercard House, 136 Customs Street West, Auckland 1010 by 1pm on 25 November 2016, an application for leave to be heard on the Application for Final Orders (containing an address for service), a notice of opposition, any affidavit(s) and a memorandum of submissions.

27. The only persons entitled to appear and be heard at the Application for Final Orders are:

    (a) Tenon;

    (b) those persons who file a notice of appearance or opposition in accordance with paragraph 25 above; and

    (c) those persons who are granted leave pursuant to an application made in accordance with paragraph 26 above;

28. Tenon, at least three clear working days prior to the Court's consideration of the Application for Final Orders, is to serve a copy of all documents filed in support of the Application for Final Orders upon any person entitled under paragraphs 25 and 26 to appear and be heard at the Application for Final Orders as well as file and serve any papers in reply.

29. Tenon is not required to include in the Arrangement Plan minority buy-out rights for any shareholder opposed to the Arrangement.

Leave to return to Court at short notice

30. Leave is reserved for Tenon or any other person entitled under paragraph 27 above to appear and be heard at the Application for Final Orders to apply for further orders on 24 hours' notice.

Date: 21 October 2016

K Tauhinu
....
Deputy Registrar

APPENDIX 2 – APPLICATION FOR FINAL COURT ORDERS (INCLUDING THE ARRANGEMENT PLAN)

In the High Court of New Zealand
Auckland Registry

CIV 2016-404-2590

Under Part 19 of the High Court Rules

In the matter of a scheme of arrangement under Part 15 of the Companies Act 1993

And in the matter of:

Tenon Limited, a duly incorporated company, having its registered office at Level 1, Mastercard House, 136 Customs Street West, Auckland, 1010, New Zealand

Applicant

Amended originating application for orders approving a scheme of arrangement under Part 15 of the Companies Act 1993

20 October 2016
For hearing on **7 December 2016 at 9am**

Judicial Officer: Lang J

BELL GULLY

BARRISTERS AND SOLICITORS

S V A EAST / T B FITZGERALD
COUNSEL FOR THE APPLICANT
AUCKLAND LEVEL 22, VERO CENTRE, 48 SHORTLAND STREET
PO BOX 4199, AUCKLAND 1140, DX CP20509, NEW ZEALAND
TEL 64 9 916 8800 FAX 64 9 916 8801 EMAIL SOPIHE.EAST@BELLGULLY.COM / TIM.FITZGERALD@BELLGULLY.COM

Originating Application for Orders Approving a Scheme of Arrangement Under Part 15 of the Companies Act 1993

To: The Registrar of the High Court at Auckland

And to: Persons directed to be served in the initial orders obtained on 21 October 2016.

This document notifies you that –

1. The applicant will at 9.00 am on 7 December 2016 apply to the Court for orders that:

   (a) the scheme of arrangement described in the Arrangement Plan (a draft of which is located at Schedule 1 of this application and the final version of which will be submitted to the Court prior to the hearing of this application) (the **Arrangement**) is approved and binding upon:

      (i) Tenon Limited; and

      (ii) every person who is a Shareholder in terms of the Arrangement Plan; and

   (b) Tenon is granted leave to apply to the Court at short notice for approval of any amendment, modification or supplement to the Arrangement.

2. The grounds on which each of the above orders is sought are:

   (a) section 236(1) of the Companies Act 1993 (the **Act**) provides jurisdiction for the Court to make orders that the Arrangement is binding on Tenon and such other persons as the Court may specify and upon such terms and conditions as the Court thinks fit;

   (b) section 237(1) of the Act provides jurisdiction for the Court to make additional orders to give effect to the Arrangement;

   (c) by the date on which this application is determined, Tenon will have:

      (i) complied with the initial orders made by this Court under s 236(2) of the Act following a hearing on 21 October 2016; and

      (ii) complied with Part 15 of the Act;

   (d) Tenon will satisfy the solvency test prescribed by sections 4 and 52 of the Companies Act 1993 on completion of the Arrangement;

   (e) the Arrangement is not adverse to the interests of Tenon's creditors; and

   (f) the Arrangement is such that an intelligent and honest person of business acting in respect of his or her own interest would reasonably approve it.

3. This application is made in reliance on:

   (a) Part 15 of the Act;

   (b) Parts 7 and 19 of the High Court Rules;

   (c) the submissions of counsel filed in support of the ex parte interlocutory application for initial orders;

   (g) the evidence filed in support of this application as set out in the affidavits of:

      (i) Adam Stanley White dated 13 October 2016;

      (ii) Mark Kenneth Eglinton dated 14 October 2016; and

   (d) any further affidavit filed by the applicant prior to the hearing of this application; and

   (e) further memoranda of counsel to be filed prior to the hearing of this application.

Dated 20 October 2016

....
S V A East
Solicitor for the applicant

This document is filed by **Sophie Virginia Addison East**, solicitor for the applicant, of the firm Bell Gully. The address for service of the Plaintiff is at the offices of Bell Gully, Level 22, Vero Centre, 48 Shortland Street, Auckland.

Documents for service on the applicant may be delivered to that address or may be:

(a) posted to the solicitor at PO Box 4199, Auckland; or

(b) left for the solicitor at a document exchange for direction to DX CP20509, Auckland; or

(c) transmitted to the solicitor by facsimile to facsimile number +64 9 916 8801.

Schedule 1 – Draft Arrangement Plan

ARRANGEMENT PLAN

ARRANGEMENT PURSUANT TO PART 15 OF THE COMPANIES ACT 1993

BETWEEN Tenon Limited and the holders of its ordinary shares.

1. INTERPRETATION

In this document, unless the context otherwise requires:

Arrangement means the arrangement described in this document;

Board means the board of directors of the Company;

Business Day means a day on which the NZX Main Board market operated by NZX Limited is open for trading;

Company means Tenon Limited;

Completion Date means the completion date for the Sale Transaction, which is to be the last Business Day (New York time) of the month ending at least two Business Days following the satisfaction or waiver of the conditions precedent to the Sale Transaction, or such later date as the parties to the Sale Transaction may agree;

Conditions means the conditions to the Arrangement set out in clause 4;

Currency Election Form means the currency election form that accompanied the Notice of Meeting;

Notice of Meeting means the notice of annual meeting sent to the Company's shareholders on or about 1 November 2016;

Record Date means 21 December 2016;

Sale Agreement means the sale and purchase agreement relating to the shares in NACS USA, Inc. dated 29 August 2016 between the Company, Tenon Holdings, NACS USA, Inc. and BW Empire Holdings, LLC;

Sale Transaction means the sale by Tenon Holdings of its shares in NACS USA, Inc. to BW Empire Holdings, LLC pursuant to the Sale Agreement;

Share means an ordinary share in the Company;

Shareholder means each person who is registered in the share register of the Company as the holder of a Share as at 5.00pm (New Zealand time) on the Record Date; and

Tenon Holdings means Tenon Holdings Limited, a wholly-owned subsidiary of the Company.

2. FUNDING

Subject to completion of the Sale Transaction on the Completion Date, the Company will receive a dividend payment of up to US$75 million from Tenon Holdings.

3. CANCELLATION OF SHARES AND CAPITAL RETURN

(a) Subject to the prior satisfaction of each of the Conditions and receipt of the dividend referred to in clause 2, at 5.00pm on the Record Date (New Zealand time), one out of every two Shares registered on the Company's share register in the name of each Shareholder will be cancelled. To the extent that a Shareholder does not have a number of Shares exactly divisible by two, the fraction of a share will be rounded down to the nearest whole share.

(b) No later than five Business Days after the Record Date, the Company will pay to each Shareholder the equivalent of US$2.20 for each Share in the name of that Shareholder that has been cancelled in accordance with paragraph 3(a). Such payment will be made:

(i) in New Zealand dollars, converted from United States dollars at the weighted average exchange rate purchased by the Company over the five business days following receipt of the final orders from the High Court in respect of this Arrangement Plan, to Shareholders who did not complete and return the Currency Election Form electing payment in United States dollars in accordance with the instructions set out in the Notice of Meeting; or

(ii) in United States dollars to Shareholders who completed and returned the Currency Election Form electing payment in United States dollars in accordance with the instructions set out in the Notice of Meeting.

4. CONDITIONS

Completion of the Arrangement is conditional on:

(a) the completion of the Sale Transaction on the Completion Date; and

(b) the Board remaining satisfied that the Company will, immediately after implementation of the Arrangement, continue to satisfy the solvency test prescribed by section 4 of the Companies Act 1993 as modified by section 52(4) of the Companies Act 1993.

APPENDIX 3 – INDEPENDENT ADVISER'S REPORT TO SHAREHOLDERS

GRANT SAMUEL

Tenon Limited

Independent Report
on the Proposed Sale of Tenon USA

October 2016

LEVEL 31, VERO CENTRE, 48 SHORTLAND STREET, PO BOX 4306, AUCKLAND 1140
T: +64 9 912 7777 F: +64 9 912 7788
WWW.GRANTSAMUEL.CO.NZ

Table of Contents

Glossary

Term	Definition
AWM	American Wood Moulding Co.
Blue Wolf	Blue Wolf Fund Capital III LP, managed by Blue Wolf Capital
Board	Tenon Board of Directors
Clearwood	Tenon Limited's Australasian assets – Tenon Manufacturing Limited and Tenon Industries Limited
DIY	Do-it-yourself
Empire	Empire Company LLC
Fletcher Challenge	Fletcher Challenge Limited
Fletcher Forests	Fletcher Forests Limited
FWS	Fletcher Wood Solutions
FY14	Year ended 30 June 2014
FY15	Year ended 30 June 2015
FY16	Year ended 30 June 2016
Grant Samuel	Grant Samuel & Associates Limited
Lowe's	Lowe's Companies, Inc.
NACS USA	NACS USA, Inc. Tenon Limited's holding company for its US operations
NHC	National Home Centres
Ornamental	Ornamental Products LLC
Proposed Transaction	Proposed sale of Tenon Limited's US operations to Blue Wolf Capital for US$110 million
Rubicon	Rubicon Limited
Southwest	Southwest Mouldings Co.
Tenon	Tenon Limited
Tenon USA	Tenon Limited's North America operations
TWS	Taupo Wood Solutions
US	United States of America

1. Terms of the Proposed Transaction

1.1 Background

In August 2015, Tenon Limited (**Tenon** or the **Company**) announced a formal strategic review of its operations with the purpose of determining the best path forward for Tenon shareholders. The underlying goal of the strategic review as stated by the company was *"to close the share price value gap and thereby achieve better value recognition for shareholders"*. On 30 August 2016 Tenon announced that as a result of the strategic review it had received an offer for Tenon's North American operations (**Tenon USA**) for a proposed purchase price of US$110 million from Blue Wolf Capital (**Blue Wolf**), (the **Proposed Transaction**). The Proposed Transaction, if approved by Tenon shareholders, will result in a capital return to shareholders and the repayment of all Tenon debt. A separate review process in relation to Tenon's New Zealand based manufacturing and global sales operations (**Clearwood**) is continuing, and as at the date of this Report the outcome of that review is unknown.

1.2 Details of the Proposed Transaction

The proposed sale of Tenon USA to Blue Wolf is for all of the shares in the US holding company NACS USA, Inc. (**NACS USA**) for a price of US$110 million. The Proposed Transaction is subject to the satisfaction or waiver of certain conditions including:

- Tenon shareholder approval;
- United States of America (**US**) antitrust approval; and
- there being no material adverse change in Tenon USA prior to the closing date.

The Proposed Transaction is also subject to certain termination events including:

- the ability to terminate by either party if:
  - the Proposed Transaction does not settle by 31 December 2016;
  - Tenon shareholders do not approve the Proposed Transaction; or
  - there is a permanent injunction or other restraint against the Proposed Transaction.
- the ability to terminate by Blue Wolf if:
  - the Tenon Board withdraws its Proposed Transaction recommendation; or
  - Tenon wilfully and materially breaches its obligations in relation to the non-solicitation or alternative transactions provisions of the sale and purchase agreement.
- Tenon may terminate the Proposed Transaction if it enters into an alternative transaction as a result of the Tenon Board determining that it is required to do so in order to comply with its fiduciary duties.

1.3 Profile of Blue Wolf

Blue Wolf Capital is a North American private equity firm founded in 2005. The firm specialises in control investments in middle market companies. The firm has made a number of investments in the forest and building products supply chain including the acquisition of Finch Paper Company (paper), Northern Resources Nova Scotia (pulp and timber), Suwanee Lumber Company (lumber, mulch and soils), Twin Rivers Paper Company (pulp, paper, lumber), and American Builders Supply (building products distribution).

2. Scope of the Report

2.1 Purpose of the Report

The Proposed Transaction is subject to clause 9.1 of the NZSX Listing Rules relating to the disposal of a listed company's assets. Listing Rule 9.1.1 states that an issuer shall not sell or otherwise dispose of assets which would change the essential nature of the business of the issuer or in respect of which the gross value is in excess of 50% of the average market capitalisation of the issuer. The proposed sale price of Tenon USA at US$110 million is greater than 50% of the average market capitalisation of Tenon (approximately NZ$160 million or US$115 million)[1]. Accordingly, the Proposed Transaction requires the approval of Tenon's shareholders by way of an ordinary resolution.

The Notice of Meeting to consider the Proposed Transaction must contain such information, reports, valuations, and other material as are necessary to enable the holders of Tenon shares to appraise the implications of the Proposed Transaction. The directors of Tenon have engaged Grant Samuel and Associates (**Grant Samuel**) to prepare a report to consider the Proposed Transaction. Grant Samuel is independent of Tenon, Rubicon and Blue Wolf and has no involvement with, or interest in, the outcome of the Proposed Transaction.

A copy of this report will accompany the Notice of Meeting to be sent to all Tenon shareholders. This report is addressed to Tenon's directors, for the benefit of the shareholders of Tenon. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Transaction. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix F.

Grant Samuel acknowledges that this report has not been reviewed by or gone through the formal approval process of the NZX.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Proposed Transaction by reviewing the following factors:

- the estimated value range of Tenon's business units and the value of the Proposed Transaction when compared to the estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- any advantages or disadvantages for Tenon shareholders of accepting or rejecting the Proposed Transaction;
- the potential alternatives to the Proposed Transaction and the process followed to yield these outcomes; and
- reviewing the current trading conditions for Tenon and the timing and circumstances surrounding the Proposed Transaction.

[1] Using an exchange rate of US$0.71 per NZD, and a Tenon share price of NZD$2.50 per share

3. Profile of Tenon

3.1 History and Background

Tenon emerged from the restructuring of Fletcher Forests Limited (**Fletcher Forests**), which itself was originally part of the Fletcher Challenge Limited (**Fletcher Challenge**) group of companies. Rubicon (originally also part of the Fletcher Challenge group of companies) was formed as a new company to assist in the capitalisation of Fletcher Forests and allow it to become a stand-alone entity. As part of the Fletcher Challenge separation transactions Fletcher Forests received NZ$90 million from a placement of Fletcher Forest shares to newly formed Rubicon and NZ$80 million from the sale of its South American and biotechnology assets to Rubicon. The Fletcher Challenge separation was implemented in March 2001, following which Rubicon and Fletcher Forests traded as separate publicly listed entities.

In late 2002, Fletcher Forests transitioned from a forestry growth strategy to refocus the business on the higher yielding wood processing, marketing and in-market distribution activities. In 2003 Fletcher Forests sold all of its forest estates and contemporaneous with the sale, changed its name to Tenon. Sale proceeds from the forest estate sale were distributed to shareholders. In March 2004 Rubicon successfully launched a takeover bid to acquire 50.01% of Tenon, and it has since increased its ownership interest to 59.8%.

In late 2004 Tenon announced that it had sold its structural consumer solutions business to Carter Holt Harvey for NZ$171 million. The sale included the manufacturing mills and facilities comprising the Kawerau, Mt Maunganui, Rainbow Mountain and Ramsey Roundwood mills. This transaction repositioned Tenon as a North American manufacturing and distribution business operating in the US specialty millwork market, focusing on high-value clear wood products used primarily both in the remodelling & renovation and new home construction segments of the market. The Clearwood assets in Taupo (and related global sales and marketing operations) are the only remaining group assets located outside of North America.

Tenon has further refined and strengthened its market position in North America through the acquisition of certain niche manufacturing and distribution operations:

- ***Empire.*** In September 2005 Tenon announced that it would acquire the remaining 33% shareholding of The Empire Company LLC (**Empire**). The initial 33% stake was acquired in 1999 and the second 33% was acquired in 2003. Empire is a leading US distributor of mouldings and specialty millwork (such as stair parts), with a key relationship with Lowe's Company Inc. (**Lowe's**), North America's second largest home improvement retail chain;
- ***Ornamental.*** In November 2006 Tenon announced that it had acquired the remaining 50% of Ornamental Products LLC (**Ornamental)**. Ornamental is a key participant in the architectural and decorative mouldings and related products sector. Until November 2006, Tenon had owned 50% of American Wood Moulding (**AWM**), which owned 50% of Ornamental. In November 2006, Tenon announced that it had sold its 50% interest in AWM in return for the transfer of ownership of 50% of Ornamental to Tenon. Simultaneously, Tenon acquired the remaining 50% share in Ornamental.; and
- ***Southwest.*** In September 2008 Tenon announced that it had agreed to acquire the remaining 24.5% interest in Southwest Moulding Co. (**Southwest**). Southwest is the leading Texas based manufacturer and distributor of stair parts, exterior doorframes, mouldings and other related millwork products. The initial 51% investment by Tenon in Southwest was made in November 2005 and Tenon acquired an additional 24.5% shareholding in August 2007.

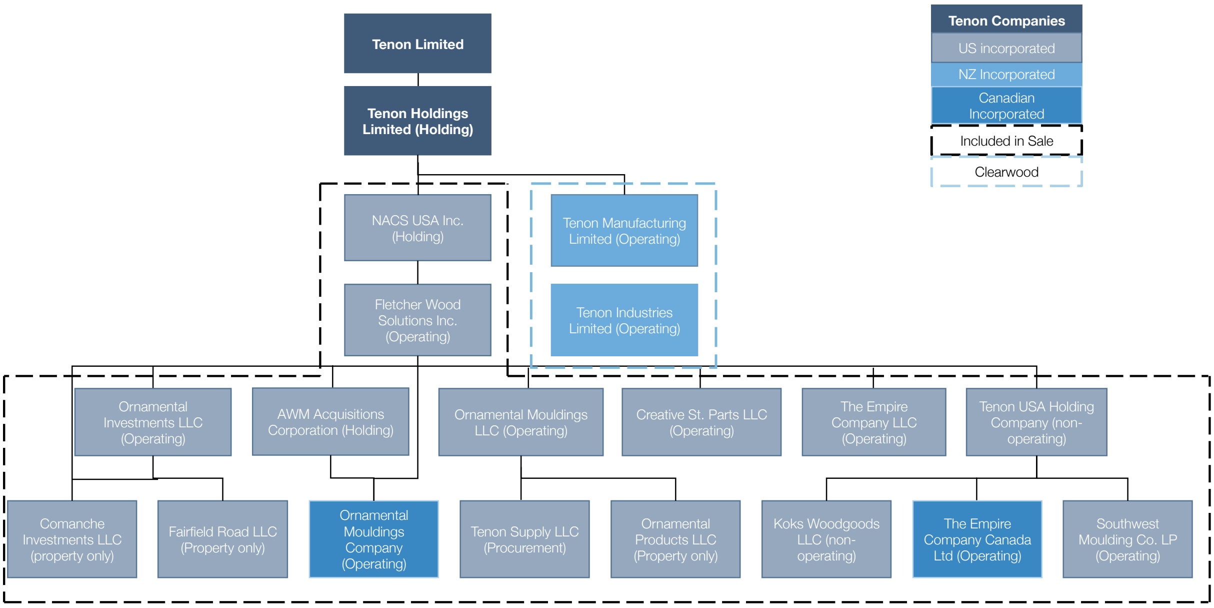
3.2 Operational Overview of Tenon

Tenon's manufacturing and distribution operations comprise:

- **Tenon USA** – the distribution operations in the US and Canada; and
- **Clearwood** – Tenon's Australasian assets.

The group structure is summarised below:

Tenon Group Corporate Structure



3.3 Tenon USA

Overview

Tenon USA distributes wood mouldings and millwork for use in new homes and do-it-yourself (**DIY**) applications. Its two distribution channels are through National Home Centres (**NHC's**) for the DIY market, and through national and regional lumber yards / pro-dealers for new home builders.

The global financial crisis and the related housing crisis adversely impacted Tenon USA as new housing completion rates in the US fell under 0.5 million in 2011, down from a peak of 2.2 million in 2006. Since 2011, there has been a steady increase in the housing completion rate, reaching 1.1 million in 2015 with continued growth forecast to reach 1.6 million by 2020.[2] Tenon USA has benefited from the steadily improving trend in the new house completion rate in the US.

Core Product Range

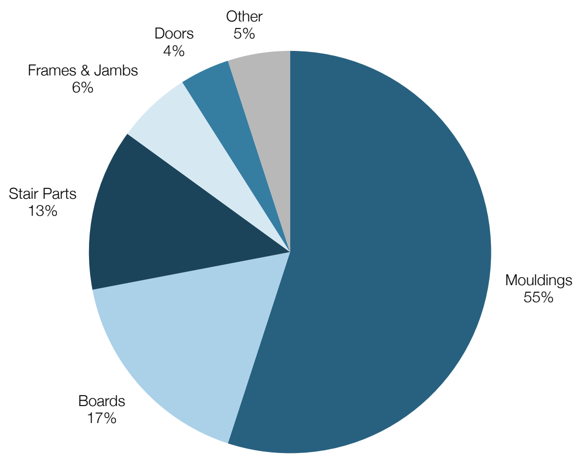
Tenon USA distributes a wide range of speciality millwork products including:

- ***Mouldings.*** This is Tenon USA's core product category;
- ***Boards.*** This is the highest growth category in Tenon USA's range;
- ***Stair Parts.*** Primarily supplied through Tenon USA's Creative Stair Part business;
- ***Door Frames.*** Manufactured in-house;
- ***Doors.*** Expanding product category; and
- ***Other.*** A range of specialty products for customised requirements.

[2] Source. Freedonia Customer Research

An overview of sales by product for the financial year ended 30 June 2016 (**FY16**) is summarised below:

Tenon USA's FY16 Sales by Product (% of total)



Market and Customers

Tenon USA has established two distinct market channels to supply its products into, from its three wholly-owned US based distribution businesses, Empire, Southwest and Ornamental. These companies provide product to:

- ***NHC's.*** Tenon USA supplies into 2,300 stores of the major US NHC retailers, including *Lowe's, Home Depot* and *Menards.* Lowe's is the second largest NHC in North America and Tenon's largest customer, accounting for approximately half of total Tenon USA revenue. Tenon's relationship with Lowe's is long standing and is supported by its proprietary Customer Performance Management programme that allows Tenon USA to assist Lowe's in managing its warehousing logistics, in-store services, support staff, marketing and advanced analytics. Through this programme, Lowe's has been able to materially grow sales in key benchmark categories; and
- ***Pro-dealers.*** Tenon USA also distributes its products into a large number of US national, regional and local Pro-dealers and is considered one of the key suppliers to this market in the US with respect to the specialty millwork category. Tenon USA currently has access to over 2,000 Pro-dealer sites primarily located in the Midwest, Mid-Atlantic, Southeast and Northeast of the US.

The breakdown of sales between the NHC and Pro-dealer channels for Tenon USA is balanced with approximately US$179.6 million of sales generated from the Pro-dealer market and US$178.6 million generated from the NHC's in FY16.

Procurement and Supply Chain

Approximately 85% of Tenon USA's products are sourced externally through its global procurement network in Chile, Brazil, Argentina, China, Mexico and the US. In addition to its global network, Tenon USA sources approximately 15% of its products in-house through Clearwood, Ornamental and Southwest.

Tenon USA supplies its customers through a series of strategically located distribution centres across the Northeast, Midwest and Southeast of the US:

Overview of Tenon USA Distribution Centres

Company	Distribution Centres
Empire	▪ Dallas, Texas (367,500 sq. ft.). Shared distribution centre with Southwest ▪ Lakeland, Florida (181,000 sq. ft.) ▪ Chesapeake, Virginia (122,000 sq. ft.) ▪ Allentown, Pennsylvania (336,500 sq. ft.) ▪ Zeeland, Michigan (295,750 sq. ft.)
Ornamental mouldings www.ornamental.com	▪ Archdale, North Carolina (97,000 sq. ft.)
Southwest Moulding Co.	▪ Dallas, Texas (367,500 sq. ft.). Shared distribution centre with Empire

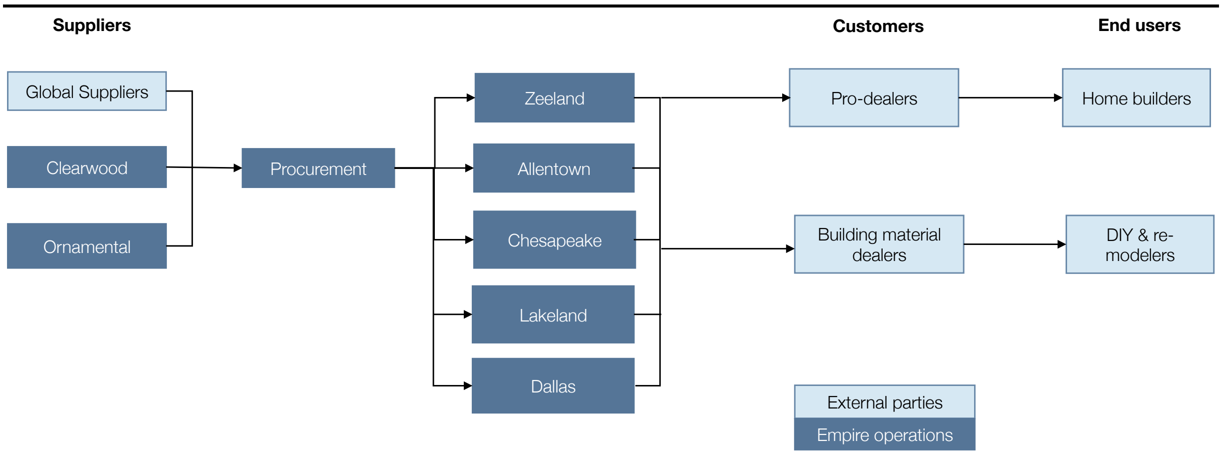
Overview of Empire

Empire is a leading distributor of mouldings and specialty millwork such as stair parts. Empire distributes its products to the NHC (primarily Lowe's) and Pro-dealer markets in the majority of states east of the Mississippi, and employs approximately 460 people.

Empire has a strong and longstanding relationship with Lowe's that is over 20 years old. Lowe's has a significant presence in the North Eastern states of the US where Empire is its preferred moulding supplier. Mouldings are recognised as a top-five gross margin dollar category within a Lowe's store, and Empire provides a very large range within the category. As millwork is a significant category within Lowe's, it has a strong focus on the quality and consistency of its supply, and vendor service levels. The relationship between Empire and Lowe's is managed at numerous levels within each business and across key product categories. Lowe's is Empire's single largest customer, and has twice been awarded the Lowe's *"Millwork Vendor of the Year"*.

Empire distributes to Pro-dealers in 22 states across the Midwest, Mid-Atlantic, Northeast and Southeast and is one of the leading distributors of millwork to the Pro-dealers in each of these markets. Empire sells into large national and regional dealerships including '*Probuild', '84 Lumber', 'LMC', 'Do it Best'* and *'Carter Lumber'*. Empire's supply chain is summarised below:

Empire's Supply Chain

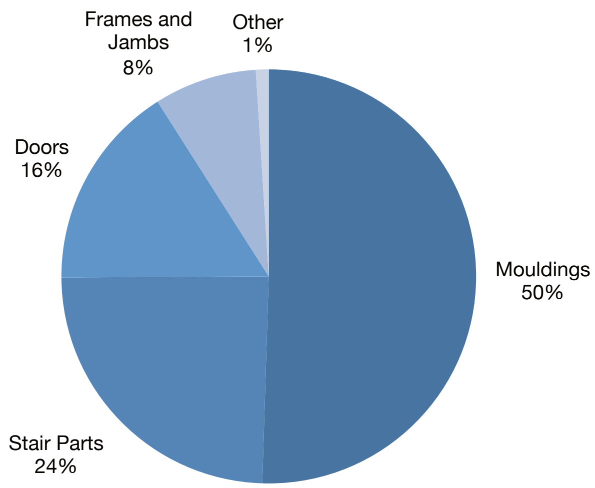


Empire sources its product both internally from Clearwood and Ornamental as well as from its external supplier base. Product is then distributed via Empire's five distribution centres. The distribution centres are strategically located in order to service Empire's customer base, which is primarily based in the Northeast, Midwest and Southeast of the US. Tenon USA recently opted to consolidate the Empire location with its other Texas based location operated by Southwest, moving both companies into a brand new 367,500 square foot purpose-built warehouse in Dallas.

Overview of Southwest Moulding Company

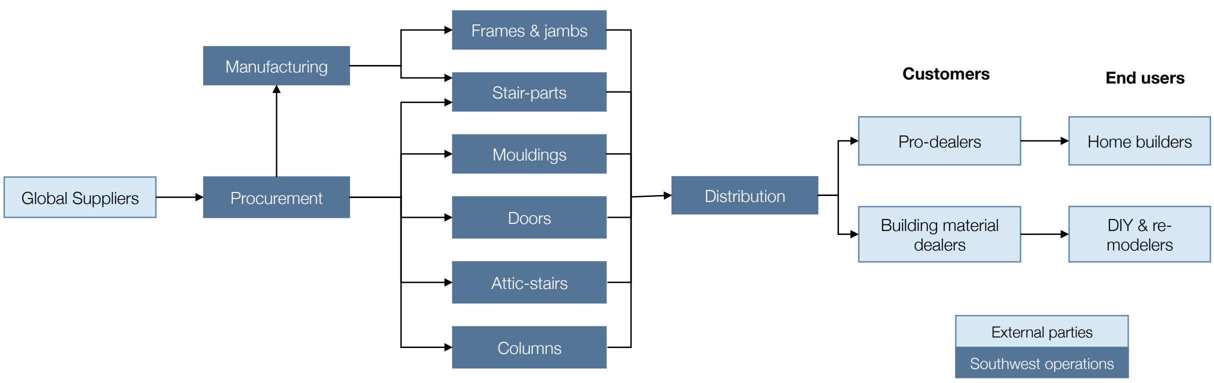
Southwest is considered the leading distributor of moulding, stairparts and speciality millwork products to the pro-dealer market throughout Texas, Oklahoma and bordering states. Southwest has a diverse customer base distributing millwork to pro-dealer houses including '*Stock Building Supply*', '*Builders FirstSource*', '*BMC*', '*ProBuild*' and '*Tri-Supply*' and regional and independent lumber yards including '*McCoy's*', '*Parker Best Lumber*' and '*Sutherlands*'. Southwest employs approximately 120 staff members. Southwest's sales by product for FY16 is summarised below:

Southwest FY16 Sales by Product (% of total)



Southwest's supply chain is summarised below:

Southwest's Supply Chain

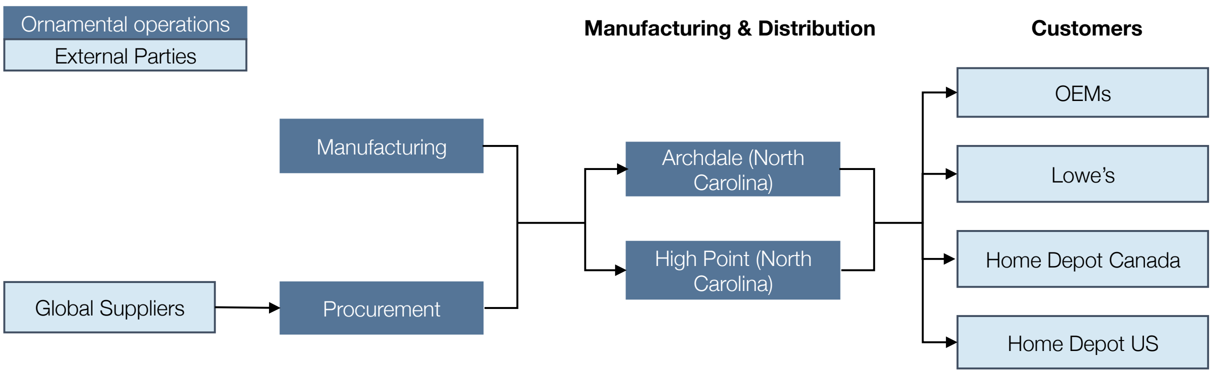


Southwest sources its product from global suppliers (including Clearwood) as well as through its in-house manufacturing plant. The company's product strategy is to manufacture specialised short-lead time products and import high volume items. Southwest manufactures approximately 12% of product internally and sources approximately 33% in the US and the remaining 55% from Mexico, South America and China.

Overview of Ornamental

Ornamental is a manufacturer and supplier of high value ornamental mouldings and decorative products. Ornamental is considered one of the leading suppliers of decorative wood products for furniture and cabinet manufacturers as well as high-quality mouldings, distributing its products to large NHCs as well as Pro-dealers, furniture manufacturers, cabinet distributors and contract manufactures. Ornamental employs approximately 70 staff members. Ornamental's supply chain is summarised below:

Ornamental's Supply Chain



Ornamental manufactures 80% of its products in-house, sourcing mouldings from its two manufacturing plants in North Carolina with the balance of product being sourced from offshore.

3.4 Overview of Clearwood

Business Operations

Clearwood is a stand-alone business within Tenon (separate from Tenon USA), employing 275 full-time staff. The business comprises a large grade cutting mill in Taupo, New Zealand with an associated remanufacturing plant, and integrated global sales and marketing activities. Clearwood distributes high-value clear pine finished products into global markets. The company is responsible for exporting approximately 30% of the total pine products from New Zealand to the US, and is the fifth largest containerised exporter out of New Zealand.

The US is Clearwood's primary market, being the destination for approximately 85% of all of its high-value products, with Europe being Clearwood's second major fast-developing market. Clearwood's total export market comprises:

- ***United States.*** Supplying Empire and Fletcher Wood Solutions (**FWS**) for on-sale to Lowe's, and also supplying directly to Clearwood's own pro-dealer and wholesale customers through its sales and marketing arm, Taupo Wood Solutions (**TWS**);
- ***Europe.*** Supplying the wood modification market; and
- ***Other markets.*** These primarily comprise China and New Zealand for lower-grade 'shop' and industrial products.

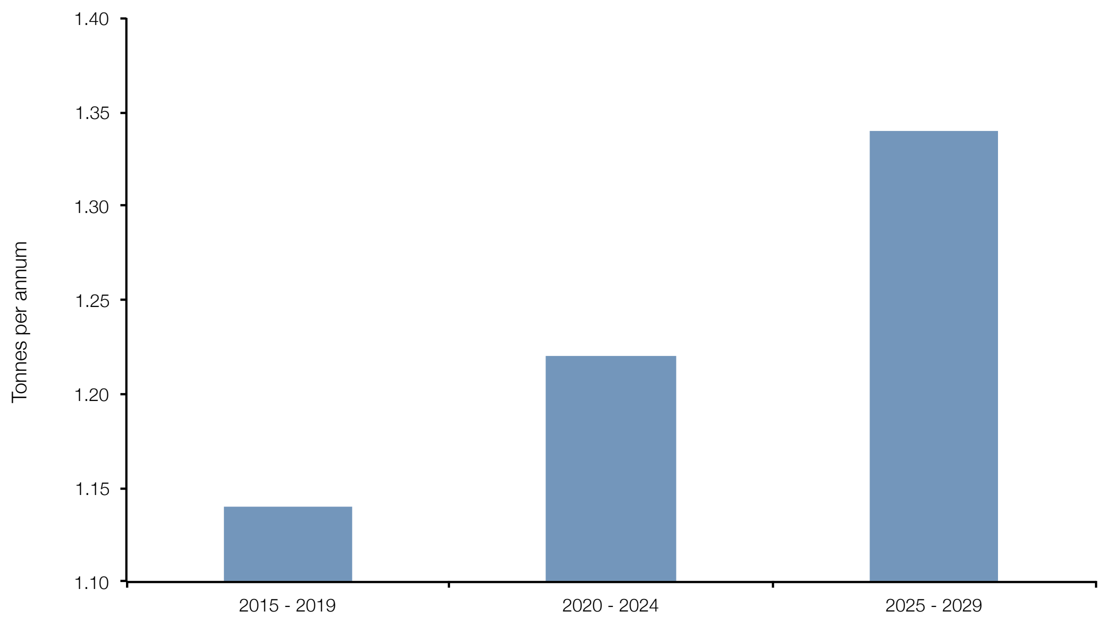
New Zealand's pruned radiata pine resource is unique globally as the harvested log at maturity contains approximately 5.0-5.5 metres in length of clear (no knots) high quality fibre - this is the genesis of Tenon's 'Clearwood' business name. Although this clear wood represents only 30% of the volume of the log, it typically represents more than 50% of the log's total value.

Tenon's Clearwood operation procures 300,000 m^3 annually of these high quality pruned logs from Central North Island forest owners. At its operations at Taupo, it then converts those logs into long length, clear boards, mouldings, and related products for sale into the high-value European and North American markets. Initially, Clearwood converted these logs solely into clear commodity lumber and sold that to US-based remanufacturers, however over the past decade Clearwood has developed its own portfolio of customers and markets for finished processed clear products, to such an extent that today 85% of Clearwood's high-value clear product is sold by it in remanufactured form, with only 15% being sold as clear lumber.

Procurement

Clearwood is the largest consumer of pruned logs in New Zealand, and sources the vast majority of its requirements from the Central North Island forest estate. The projected supply from this market is shown in the table below:

Projected Central North Island pruned log resource[3]



Clearwood benefits from having in-depth knowledge of the forestry market, as it was the previous owner of significant forest resources in the Central North Island. This gives the company insights into log quality, demand and supply requirements and industry volume and price metrics, assisting Clearwood in its objective of acquiring the highest quality logs at the lowest average delivered price.

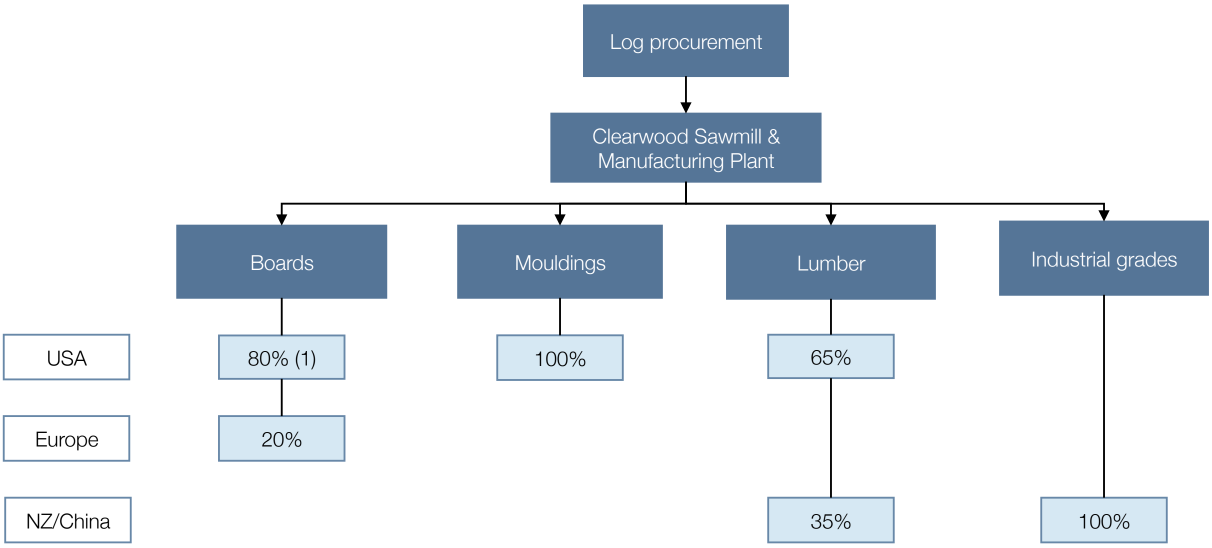
Supply Chain

Clearwood has established its own portfolio of customers for its remanufactured clear products. Of the product sold by Clearwood to the US, approximately 30% is sold directly to Tenon USA for on-sale to Lowe's. As part of the Proposed Transaction, a five year exclusive supply contract has been put in place between Tenon USA and Clearwood over current supply levels, with a 20% volume increase allowed under that contract to account for projected demand increases over the five year period. For the 70% of volume Clearwood sells into the US outside of this Tenon USA volume, Clearwood uses its own sales and marketing arm, TWS. TWS sells primarily to the wholesale and pro-dealer market segment, where demand for clear products is currently strong, in response to recovering activity levels in new home construction in the US.

[3] Tenon (from National Exotic Forest Description Report and Ministry of Primary Industries)

Clearwood's supply chain is summarised below:

Clearwood's Supply Chain



Note: (1) 30% of Clearwood's board sales into the US will be sold to Tenon USA (for an on-sale to Lowe's) under a 5-year exclusive supply agreement.

Sawmill and remanufacturing operations

Clearwood operates the largest pruned log sawmill in New Zealand. Based in Taupo, the 377,000 square foot. sawmill and warehouse facility is situated on a combined site of 34.4 hectares (including 12.5 hectares of surplus land). The sawmill currently operates at 75% of capacity, consuming approximately 300,000m^3 of logs per annum. This throughput can be increased to 3.5-4 shifts a day, consuming up to approximately 400,000 logs per annum. Clearwood has consistently and successfully run on four shifts previously to meet market demand. There are nine kilns operating on the site, which are powered by geothermal energy.

Clearwood has recently installed new technology to improve productivity and reduce operating costs. An optimising edger was commissioned in September 2015 at a cost US$4.7 million, and an upgrade to the ripline in the remanufacturing plant in the final quarter of FY16 a cost of US$2.3 million. The EBITDA benefits of these upgrades are estimated by Clearwood to be in excess of US$4 million per annum, with less than half of that having been included in the 2016 financial result (due to the phasing of the commissioning of the projects). The commissioning of the edger and ripline projects brings to a completion all major current capital expenditure at the Taupo site, other than the installation of additional drying kilns (estimated at approximately US$2 million) which would be required were the site to move to a four shift basis, if market demand warranted this investment.

3.5 Financial Performance

Tenon – Consolidated

The financial performance of Tenon for the years ended 30 June 2014 (**FY14**), 2015 (**FY15**) and 2016 (**FY16**) is summarised below:

Tenon Consolidated Financial Performance (US$ millions)

Year end 30 June	2014	2015	2016
Sales	385	400	430
Cost of sales	(290)	(300)	(315)
Gross profit	**95**	**100**	**115**
Gross margin %	*23%*	*24%*	*26%*
Distribution expenses	(71)	(74)	(76)
Administration expenses	(13)	(13)	(13)
EBITDA	**11**	**13**	**26**
Depreciation and amortisation	(4)	(3)	(3)
EBIT (before one-off items)	**7**	**10**	**23**
One-off items	-	-	(37)
EBIT (after one-off items)	**7**	**10**	**(14)**
Net interest expense	(4)	(4)	(3)
Profit /(loss) before tax	**3**	**6**	**(17)**

The following points should be taken into consideration when reviewing the table above:

- the table excludes log trading activities that ceased in 2015;
- the strategic review costs are non-recurring costs relating to the strategic review process;
- Net Profit before Tax excluding these two items, more than tripled in 2016 and was more than six times that recorded in FY14; and
- One-off items in FY16 consist of impairments of US$33 million, strategic review costs of US$3 million and other one-off expenses of US$1 million. The impairment relates to the write-down of goodwill in Tenon USA (relating to the Proposed Transaction) and an impairment recorded upon the exit of the Australian operation.

Tenon USA

The financial performance of Tenon USA for FY14, FY15 and FY16 is summarised below:

Tenon USA Financial Performance (US$ millions)

Year end 30 June	2014	2015	2016
Sales	320	331	358
Cost of sales	(241)	(246)	(264)
Gross profit	**79**	**85**	**95**
Gross margin %	*25%*	*26%*	*26%*
Overhead expenses	(69)	(74)	(77)
EBITDA	**10**	**10**	**18**
Depreciation and amortisation	(2)	(2)	(2)
EBIT	**8**	**8**	**16**

The following points should be taken into consideration when reviewing the table above:

- Tenon USA enjoyed increasing profitability in FY16 as it leveraged its fixed cost base with higher volume as the US housing cycle and retail DIY spending lifted;

- The FY16 result also benefited from the positive impact of new business won in the NHC channel, and the programmed expansion of pro-dealer territories;
- the increased EBITDA is also a reflection of extensive business re-engineering undertaken in FY15 to lower the cost base of the business whilst enhancing customer service levels; and
- the FY16 result excludes the goodwill write-off associated with the Blue Wolf offer and excludes non-recurring items, primarily costs relating to the consolidation of warehouse facilities in Texas.

Clearwood

The financial performance of Clearwood for the years ended FY14, FY15 and FY16 is summarised below:

Clearwood Financial Performance (US$ millions)

Year end 30 June	**2014**	**2015**	**2016**
Sales	72	77	81
Cost of sales	(67)	(69)	(66)
Gross profit	**5**	**8**	**15**
Gross margin %	*7.0%*	*11.0%*	*18.0%*
Overhead expenses	(3)	(3)	(3)
EBITDA	**2**	**5**	**12**
Depreciation and amortisation	(2)	(1)	(1)
EBIT	**-**	**4**	**11**

The following points should be taken into consideration when reviewing the table above:

- Clearwood's gross margin increased in FY16 due to a mix change towards higher value products, the impact of the edger and ripline upgrades, and the weaker New Zealand dollar;
- The EBITDA benefits from the edger and ripline projects are only partially captured in the FY16 result, as they were only phased in during the year. Tenon estimates that the annualised EBITDA benefit of both projects combined is in excess of US$4 million, with less than US$2 million included in the FY16 result;
- Clearwood is a US functional currency operation, and the strength of the New Zealand dollar is a key driver of earnings. Tenon estimates that a 1 cent movement in the US dollar against the weighted basket of currencies Tenon trades with would equate to an approximate US$0.5 million EBITDA impact ceteris paribus. However, there is a natural hedge for Clearwood to the extent that there is a strong correlation between New Zealand dollar log prices and movements in the US dollar. Taking that into account, the 1c sensitivity reduces to less than US$0.1 million EBITDA impact. The NZ$:Euro sensitivity is approximately US$0.28 million EBITDA for every 1 cent movement; and
- Clearwood is exiting its Australian activities and therefore the results shown above exclude the Australian activities over the three years.

3.6 Financial Position

Tenon - Consolidated

The financial position of Tenon as at 30 June 2014, 2015 and 2016 is summarised below:

Tenon Group – Consolidated Balance Sheet (US$ millions)

For the year ended 30 June	2014	2015	2016
Cash and cash equivalents	-	-	2
Inventory	67	81	71
Trade and other receivables	35	34	35
Total current assets	**102**	**115**	**108**
Fixed assets and forestry assets	24	25	27
Goodwill	67	67	36
Deferred taxation asset	12	11	8
Total non current assets	**103**	**103**	**71**
Total Group assets	**205**	**218**	**179**
Trade and other payables and provisions	33	37	40
Current debt (including bank overdraft)	2	4	3
Total non current liabilities	**48**	**54**	**38**
Total Group liabilities	**83**	**95**	**81**
Capital	533	532	532
Reserves	(411)	(409)	(434)
Total Equity	**122**	**123**	**98**
Total Group Equity and Liabilities	**205**	**218**	**179**
Net assets per share (US$)	*1.87*	*1.90*	*1.51*
Net tangible assets per share (US$)	*0.66*	*0.69*	*0.83*
Shares used for net assets per share (millions)	*65.4*	*64.8*	*64.8*

Goodwill of US$67 million has been calculated using a discounted cash flow projection over a three year period inclusive of a terminal value. The cash flows assume that the recovery in the US housing market conditions continues. The goodwill was written down in FY16 by US$31 million in anticipation of the Proposed Transaction proceeding.

Tenon USA

The financial position of Tenon USA as at 30 June 2014, 2015 and 2016 is summarised below:

Tenon USA – Financial Position (US$ millions)

Year ended 30 June	2014	2015	2016
Debtors	26	26	28
Inventory	54	67	61
Creditors	(22)	(25)	(32)
Net working capital	**58**	**68**	**57**
Fixed assets	10	9	9
Net operating assets	**68**	**77**	**66**

The following points are relevant when reviewing the above table:

- the increase in inventory in Tenon USA was a result of a planned build up in anticipation of higher levels of activity (which took longer to eventuate than forecast); and

- the table reflects Tenon USA's tangible assets only (i.e. excludes Tenon's goodwill associated with the business), and excludes any Tenon consolidated group funding items and taxation balances not directly related to the Tenon USA business being sold to Blue Wolf under the Proposed Transaction.

Clearwood

The financial position of Clearwood as at 30 June 2014, 2015 and 2016 is summarised below:

Clearwood – Financial Position (US$ millions)

Year end 30 June (US$ millions)	2014	2015	2016
Receivables	6	6	6
Inventory	12	11	11
Payables	(8)	(8)	(8)
Net working capital	**10**	**9**	**9**
Fixed Assets	11	15	17
Net Assets	**21**	**24**	**26**

The following points are relevant when reviewing the above table:

- the above table reflects Clearwood's tangible assets only and excludes any Tenon consolidated group funding items, taxation balances and forest assets not directly related to the Clearwood business; and
- fixed assets have increased slightly following the installation of new processing equipment at Clearwood's Taupo mill.

3.7 Cash Flows

Tenon – Consolidated

The cash flows for Tenon for FY14, FY15 and FY16 are summarised below:

Tenon Group – Consolidated Cash Flows (US$ millions)

Year ended 30 June	2014	2015	2016
Receipts from customers	398	404	428
Payments to suppliers, employees and other	(391)	(401)	(392)
Tax paid	(1)	(1)	(1)
Net cash from operating activities	**6**	**2**	**35**
Purchase of fixed assets	(2)	(6)	(5)
Net investing cash flow	**(2)**	**(6)**	**(5)**
Net drawdown / (repayment) of debt	2	6	(17)
Interest and refinancing fees paid	(5)	(3)	(3)
Share buyback	-	(1)	-
Dividend paid	-	-	(5)
Net financing cash flow	**(3)**	**2**	**(25)**
Net Cash flow	**1**	**(2)**	**5**
Opening cash	(2)	(1)	(3)
Closing cash	**(1)**	**(3)**	**2**

Tenon USA

The operating cash flows for Tenon USA for FY14, FY15 and FY16 are summarised below:

Tenon USA – Operating Cash Flows (US$ millions)

Year ended 30 June	2014	2015	2016
EBITDA	10	10	18
Movement in working capital (including non-cash items)	(3)	(10)	11
Cash flow from operations pre-tax	**7**	**-**	**29**
Capital expenditure	(1)	(1)	(1)
Free cash flow	**6**	**(1)**	**28**

In reviewing the cash flow statement for Tenon USA the following points should be noted:

- the build-up of working capital in 2015 was largely related to the build-up of inventory in Empire, reflecting forecast growth in demand to be realised in 2016; and
- strong operating cash flow in Tenon USA FY16 enabled Tenon to repay bank debt of US$22 million in the period.

Clearwood

The cash flows for Clearwood for FY14, FY15 and FY16 are summarised below:

Clearwood - Free Cash Flow (US$ millions)

Year ended 30 June	2014	2015	2016
EBITDA / cash flow from operations before tax	2	5	12
Less: Capital expenditure	(1)	(5)	(4)
Free cash flow	**1**	**-**	**8**

3.8 Capital Structure and Ownership

As of the date of this report, Tenon had 64,814,931 shares on issue, held by approximately 2,900 shareholders. The Company's top shareholders are shown in the table below:

Tenon – Top 3 Shareholders as at 12 October 2016

Shareholder	Shares (millions)	% Total
Rubicon Forests Holdings Limited	38.8	59.8%
Third Avenue Management LLC	8.5	13.1%
Accident Compensation Corporation	4.5	7.0%
Top 3 Shareholders	**51.8**	**79.9%**
Other Shareholders	13.0	20.1%
Total	**64.8**	**100.0%**

The three largest shareholders control approximately 80% of the shares on issue. The following table shows the volume of Tenon shares traded over the past 12 months when compared with the total shares on issue and the "free-float" shares. The free-float share volumes are calculated as the total number of shares less shares held by Rubicon Forests Holdings Limited:

Tenon – Share Trading Summary

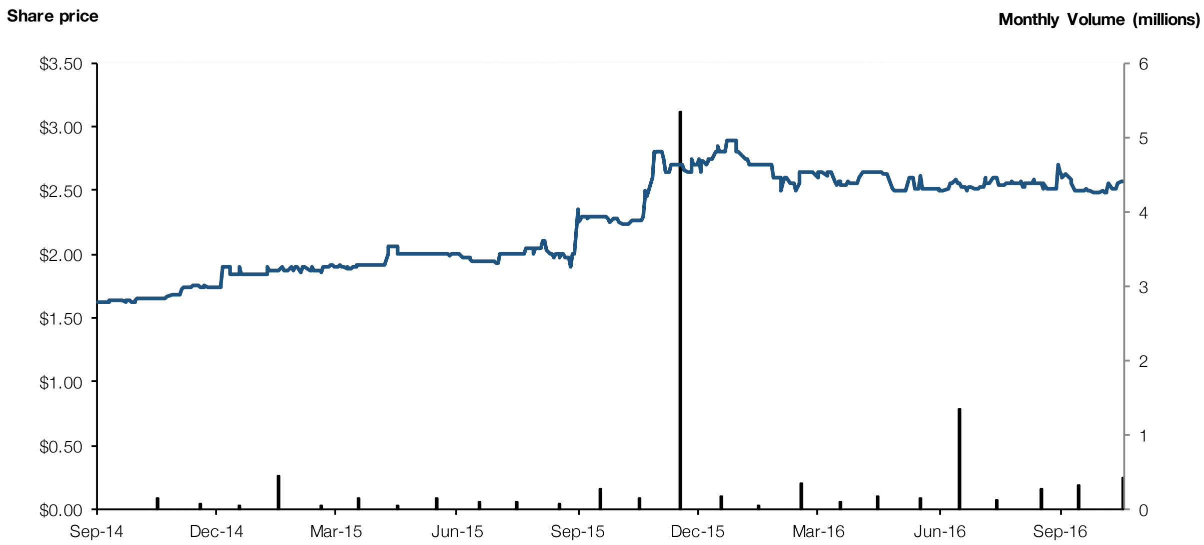
Time period	Low	High	VWAP	Volume	Liquidity	
	$	$	$	(000s)	Total	Free Float
1 month	2.48	2.63	2.54	254	0.4%	1.0%
3 months	2.48	2.75	2.56	806	1.2%	3.1%
6 months	2.48	2.75	2.54	2,418	3.7%	9.3%
12 months	2.24	2.89	2.64	8,667	13.4%	33.3%

Tenon has a very small free float and therefore the volume of shares traded on a daily basis is low compared to similar sized companies. On a number of days, no shares are traded at all.

Share Price Performance

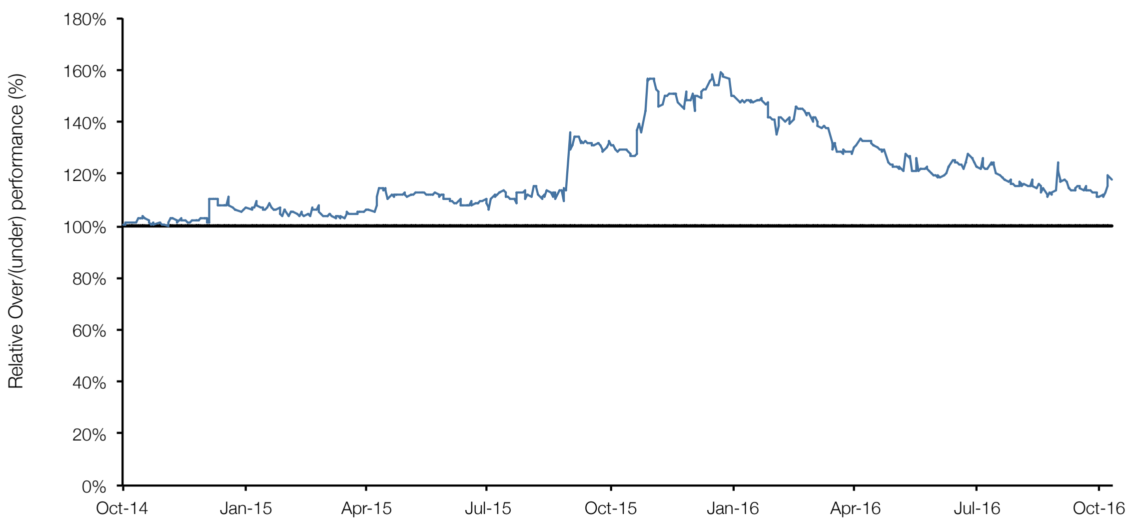
The share price and trading volume history of Tenon shares during the past two years is depicted below:

Share Price Performance of Tenon shares and Volume Traded over the last 24 months



Tenon's share price performance against the NZX50 index over the past two years is shown below:

Tenon share price performance versus the NZX50 Index over the last 24 months



4. Valuation of Tenon

4.1 Valuation of Combined Group

Grant Samuel has valued the equity in Tenon in the range of NZ$192.2-$238.3 million (equivalent to US$136.4-$169.2 million[4]) which corresponds to a value of NZ$2.96-$3.67 per share. At the Blue Wolf Offer price, Grant Samuel has valued the equity in Tenon in the range of NZ$194.8-$210.8 million (US$138.3-$149.7 million). The valuation is summarised below:

Tenon – Valuation Summary ($ millions)

	Value Range	
	Low	**High**
Business operations – Tenon USA	128.1	149.5
Less: supply chain financing programme	(20.0)	(20.0)
Valuation of Tenon USA	**108.1**	**129.5**
Valuation of Clearwood	63.3	74.7
Less: net debt	(35.0)	(35.0)
Value of equity US$	**136.4**	**169.2**
Assumed exchange rate (US$ per NZ$)	$0.71	$0.71
Value of equity NZ$	**192.1**	**238.3**
Number of issued shares (millions)	64.8	64.8
Value per share	**NZ$2.96**	**NZ$3.67**
Value of equity US$ - at the Blue Wolf Offer Price	**138.3**	**149.7**
Value per share - at Blue Wolf Offer Price	**NZ$3.01**	**NZ$3.25**

Tenon has been valued on a sum-of-the-parts basis by estimating and aggregating the market value of its business operations. Grant Samuel's valuation of Tenon has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Tenon is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Tenon could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The enterprise value attributed to Tenon's business operations (i.e. including borrowings, but excluding transaction costs) of US$136.4-169.2 million represents an overall judgement having regard to a number of valuation methodologies and parameters. The valuation reflects the particular attributes and risks of Tenon's business. These are discussed in more detail below. The value represents the following premiums over the recent sharemarket trading price of Tenon shares:

Tenon – Implied Premiums

	Implied Premium	
Date/Period	**Low**	**High**
Closing price on 11 October 2016	18%	46%
One week VWAP ending 11 October 2016	18%	46%
One month VWAP ending 11 October 2016	18%	46%
Three months VWAP ending 11 October 2016	16%	44%

[4] Using an exchange rate of US$0.71 per NZ$

Net Debt

For the purposes of this report, net debt comprises the forecast bank debt (net of cash) as at 30 November 2016 of US$35 million (net debt at 30 June 2016 was US$36.1 million). This figure excludes the final dividend in respect of the 2016 fiscal year, of US$3.1 million, to be paid in September 2016.

4.2 Valuation of Tenon USA

Grant Samuel has valued the equity in Tenon USA in the range of US$108.1-$129.5 million, as summarised below:

Tenon USA – Valuation Summary (US$ millions)

	Value Range	
	Low	**High**
Enterprise Value of Tenon USA	**128.1**	**149.5**
Less: supply chain financing program debt	(20.0)	(20.0)
Equity Value of Tenon USA	**108.1**	**129.5**

The enterprise value attributed to Tenon USA's business operations (i.e. excluding the supply chain financing programme) of US$128.1-$149.5 million represents an overall judgement having regard to a number of valuation methodologies and parameters.

The following comments are relevant to Grant Samuel's valuation of Tenon USA:

- the earnings for valuation purposes has been determined by reference to the actual results for FY16 excluding non-recurring items and adjusted to reflect a full year of the benefit flowing from the consolidation of the Texas warehouses and net new hardwood and commodity board based business with Lowe's.
- Tenon USA is a relatively small building products distributor by US standards with a comparatively narrow product range when compared with its key competitors;
- although Tenon USA has a good working relationship with Lowe's, should Lowe's choose to reduce its reliance on Tenon USA, or drop it as a supplier altogether it would likely have a major adverse and damaging impact on the future earnings, cash flow and value of Tenon USA;
- the US building products market is very competitive which results in tight earnings margins. Small changes in margins can therefore have a large impact on Tenon USA's earnings. To partly offset this market pressure, Tenon USA has sought to provide a high level of customer service, particularly to the NHC sector; and
- Tenon USA is a well managed business that has weathered a major downturn in the US economy and is now producing sound earnings and cash flows, in particular when compared with historic results over the last five years.

Implied Multiples – Tenon USA

Grant Samuel's valuation of Tenon USA implies the following multiples of FY16 EBITDA and EBIT:

Tenon USA - Implied Multiples

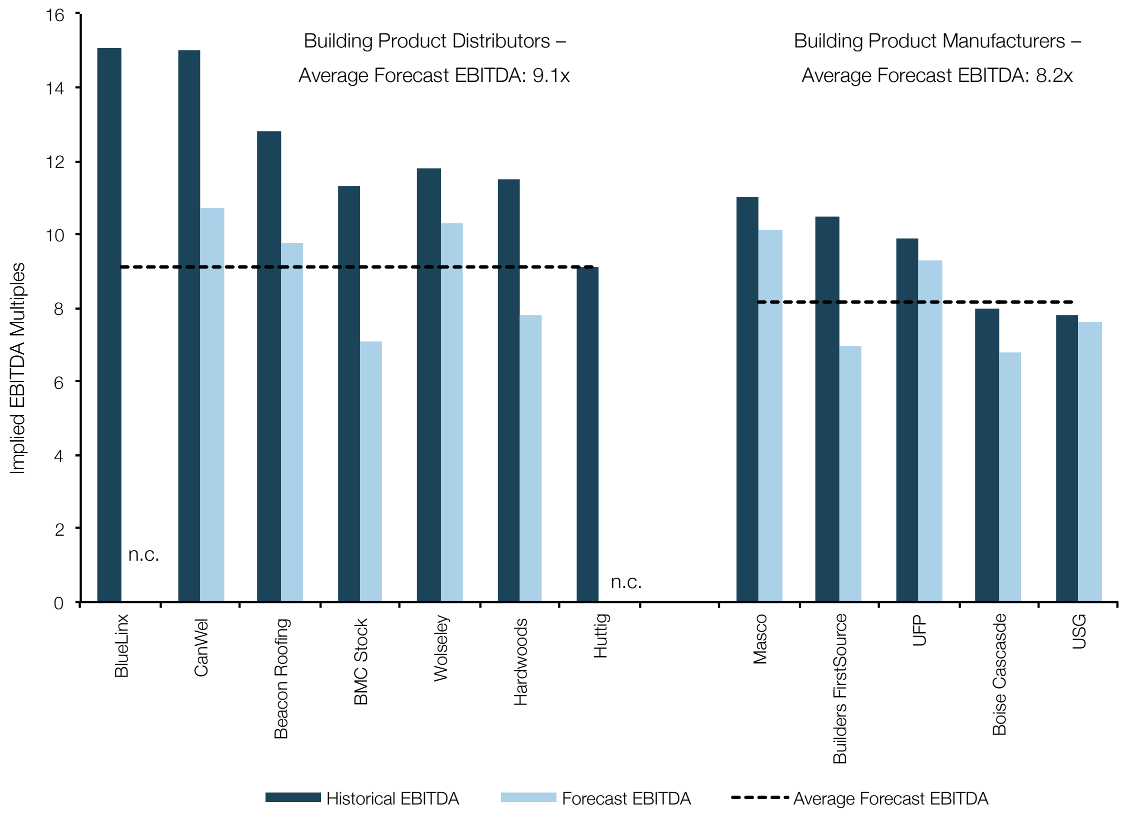
	Valuation Range	
	Low	**High**
Multiple of FY16 EBITDA (excluding one-offs)	7.2	8.4
Multiple of FY16 EBIT (excluding one-offs)	8.7	10.2

The earnings for valuation purposes for FY16 excludes write-offs and non-recurring items. Grant Samuel's selected value range has been reviewed having regard to multiples of EBITDA implied by the share prices of comparable listed companies and the multiples implied by the prices of transactions involving building product businesses. The Blue Wolf Offer represents a multiple of approximately 7.3 times Tenon USA's FY16 EBITDA.

Sharemarket Evidence – Building Product Businesses

The valuation of Tenon USA has been considered in the context of the share market ratings of US listed companies with operations in the building product distribution industry. While none of these companies is directly comparable to Tenon, the share market data provides some framework within which to assess value of Tenon USA. The following chart illustrates the historical and forecast trading EBITDA multiples of listed building product companies:

Listed Building Products Companies – Implied multiples of Historical Forecast EBITDA



Source: Grant Samuel analysis, Capital IQ

The following factors are relevant when considering Tenon USA's value based on the comparable listed company multiples:

- the multiples are based on closing share prices as at 11 October 2016. The share prices, and therefore the multiples, do not include a premium for control;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year;
- there are considerable differences between the operations and scale of the comparable companies when compared with Tenon USA, which is in almost all cases significantly smaller;
- the industry can be segmented into two categories – distributors of building products and manufacturers and suppliers of building products (although there is a certain level of overlap between these companies). In each of the two categories, the businesses analysed are involved in a broad range of services:
  - ***Distributors.*** In almost every case, the companies analysed above distribute a broader range of building products than Tenon USA's primarily wood-related internal products and in many cases include hardware, roofing, cladding, bricks and tiles, fasteners, ventilation, plumbing and appliances; and
  - ***Manufacturers.*** Similarly, the manufacturers and suppliers compared above are also engaged in a broad range of manufacturing operations to a wide group of customers and products that cover the entire building spectrum in the North American market.

Brief descriptions of the companies are set out below in Appendix B. In addition, some of the differences between the companies listed above and Tenon USA are highlighted below:

Building Product Distributors:

- ***Wolseley.*** Wolseley is a large distribution company with a market capitalisation of over US$13.5 billion and broad product, customer and geographic diversification. Wolseley is listed on the London Stock Exchange and is a multinational company with strong diversification outside of the US market. It has higher EBITDA margins than Tenon USA;

- ***Beacon Roofing Supply.*** Beacon is a large company with a market capitalisation of over US$2.7 billion and exposure to both the non-residential and residential construction sectors. The roofing market is considered more diversified and less dependent on new building activity when compared to Tenon USA. Beacon also has higher EBITDA margins than Tenon USA and greater customer diversification;

- ***BMC Stock Building Supply.*** BMC is a large North American building product distributor with a market capitalisation of over US$1.3 billion. BMC has higher comparative earnings multiples but significant synergy gains are expected (US$45 million) from the merger between BMC and Stock Building Supply which should lift earnings strongly. Furthermore, BMC has higher EBITDA margins, a greater product range (due to its access into the maintenance market) and customer diversification than Tenon USA enjoys;

- ***BlueLinx.*** BlueLinx has a greater product and customer diversification and is the largest US general distributor with over 11,500 customers and complete coverage throughout the US;

- ***CanWel Building Materials.*** CanWel's high earnings multiples are driven by recent acquisitions where the company anticipates it will achieve material earnings improvements in the near term. Furthermore, it has greater product and customer diversification than Tenon USA and a large exposure to the relatively stable Canadian market. In addition, CanWel achieves manufacturing margins as well as distribution margins where Tenon USA does not;

- ***Hardwoods Distribution.*** Hardwood Distributions' high earnings multiples are driven by recent acquisitions where the company anticipates it will achieve material earnings improvements as a result of synergies. Hardwoods has greater customer diversification compared to Tenon USA as well as exposure to the relatively stable Canadian market; and

- ***Huttig.*** Huttig has greater product and customer diversification with a broader product range, allowing it to access the stable maintenance markets (e.g. roofing products and decking).

Building Product Manufacturers and Suppliers:

- ***Masco.*** Masco is a large building product company with a market capitalisation of over US$12 billion with a diverse product and customer base;

- ***USG Corporation.*** USG has a market capitalisation of over US$4.1 billion and enjoys a broad product and customer diversification;

- ***Universal Forest Products.*** Universal Forest Products has a market capitalisation of approximately US$2.2 billion and has exposure to both the residential and commercial sectors. Higher implied earnings multiples are driven by anticipation of synergies recent acquisition;

- ***Builders FirstSource.*** Building FirstSource has a market capitalisation of approximately US$1.4 billion. High earnings multiples are likely driven by the anticipation of significant earnings improvements from the merger with Builders FirstSource/ProBuild. The company also has greater product and customer diversification than Tenon USA and achieves higher distribution and manufacturing margins; and

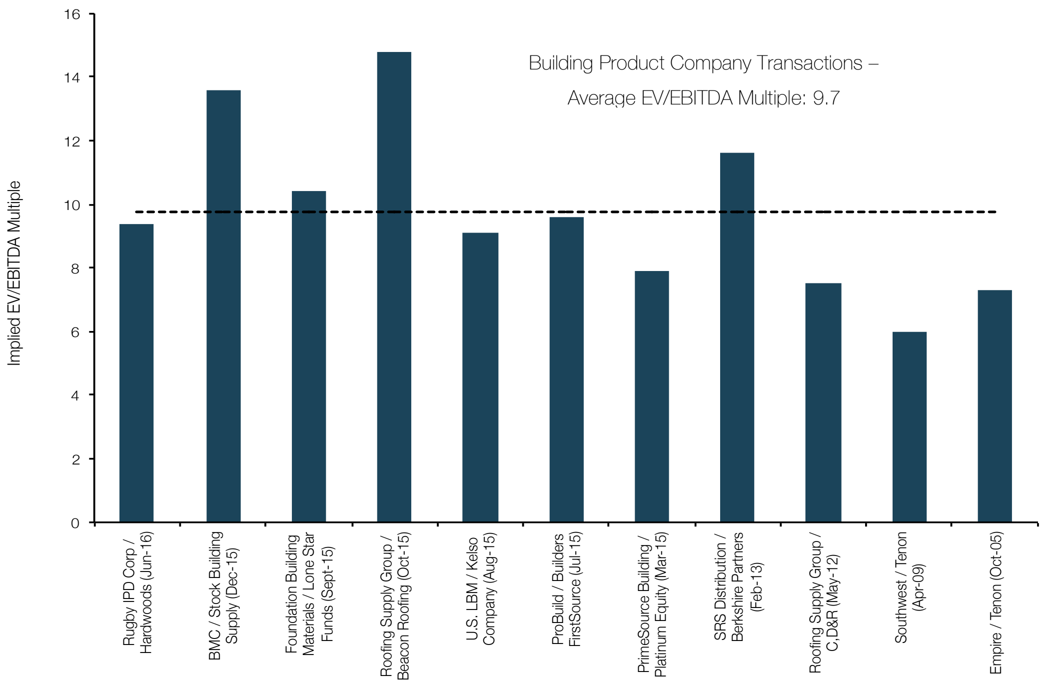
- ***Boise Cascade.*** Boise Cascade has a market capitalisation of over US$1 billion. It enjoys exposure to both non-residential and industrial sectors and a greater product and customer diversification than Tenon USA.

The average forecast multiples for both listed building product manufacturers and listed building product distributors are slightly higher than the multiples implied by Grant Samuel's valuation of Tenon USA. The differences reflect in many cases the substantially larger and more diversified earnings of the comparable companies when compared to Tenon USA.

Transaction Evidence – Building Products Distribution

Grant Samuel has also had regard to the earnings multiples implied by the prices at which broadly comparable companies and businesses have changed hands. Analysis of the EBITDA multiples implied by recent acquisitions of building products businesses in the US is outlined below:

Building Product Company Transactions – Implied EV/EBITDA



Source: Grant Samuel analysis (where available Grant Samuel has shown forecast multiples)

The following factors are relevant when considering the above transaction evidence:

- each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions. In addition, the transactions are of markedly different sizes. Larger businesses generally, but not always, tend to attract higher multiples reflecting more robust or diversified earnings, stronger market positions and often enhanced financial and management disciplines and systems. With the exception of the Rugby IPD transaction, all of the transactions represented above were significantly larger than Tenon USA and in certain cases, provided strategic benefits to the acquirer by way of synergies or alignment with current portfolio investments, as illustrated in the table below:

Recent Building Product Transactions – Adjusted Multiples (times)

Date	Target	Acquirer	Implied enterprise value (US$ millions)	Implied EV/EBITDA Multiples	
				Unadjusted	Synergy Adjusted
Dec 15	BMC	Stock Building Supply	554	13.6	6.5
Oct 15	Roofing Supply Group	Beacon Roofing	1,100	14.8	8.0
Jul 15	ProBuild	Builders FirstSource	1,820	9.6	6.1
Median				**9.4**	**6.5**

Source: Grant Samuel analysis, Capital IQ

- for the purposes of this valuation, Grant Samuel has placed greater reliance on the synergy adjusted transaction multiples in the table above; and
- brief descriptions of the above transactions along with descriptions of the three North American businesses previously acquired by Tenon are included in Appendix A.

4.3 Valuation of Clearwood

Grant Samuel has valued the equity in Clearwood in the range of US$63.3-$74.7 million as summarised below:

Clearwood – Valuation Summary (US$ millions)

	Value Range	
	Low	**High**
Enterprise Value of Clearwood	63.3	74.7

Clearwood's FY16 earnings of US$11.5 million EBITDA, have been adjusted to reflect a full 12 months of benefits from the new edger and ripline machines, and current exchange rates of NZD:USD 71 cents and NZD:Euro 64 cents. The enterprise value attributed to Clearwood represents an overall judgement having regard to a number of valuation methodologies and parameters. Grant Samuel makes the following observations of the Clearwood business:

- Clearwood has shown improved performance in FY16 when compared with prior years, in part due to the recovery in activity in the US housing sector, the development of the European market for Clearwood's products, the partial benefit from the capital programme completed at the Taupo mill in 2016, and a lower NZ:US exchange rate;
- Clearwood has a broad balanced customer portfolio with limited reliance on any single customer;
- The New Zealand dollar has strengthened recently against the US dollar and the euro and this is where Clearwood's greatest sensitivity lies. A strengthening New Zealand dollar (all other things held constant) results in lower earnings for Clearwood;
- capital expenditure will be at or below depreciation for a number of years following the completion of the US$7 million capital expenditure programme at the Taupo mill;
- Clearwood has access to a high quality and sustainable timber resource; and
- Clearwood's unique long length wide clear products are in strong demand globally.

Implied Multiples – Clearwood

Grant Samuel's valuation of Clearwood implies the following multiples of FY16 EBITDA and EBIT:

Clearwood - Implied Multiples

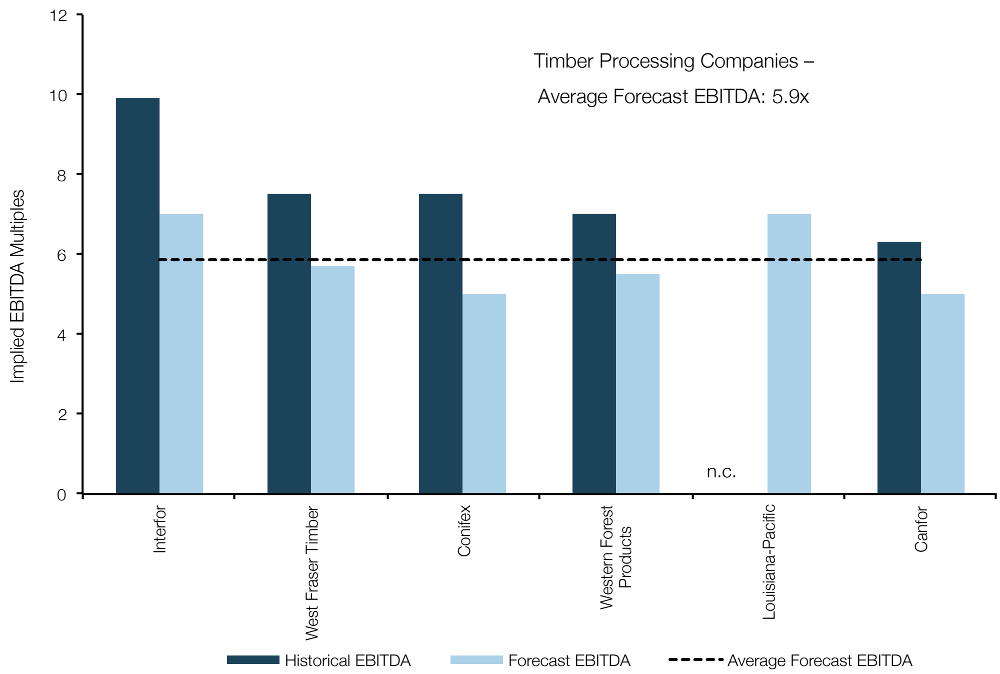
	Valuation Range	
	Low	**High**
Multiple of FY16 EBITDA (adjusted)	5.4	6.3
Multiple of FY16 EBIT (adjusted)	6.2	7.3

Grant Samuel's value range has been reviewed having regard to multiples implied by the share prices of comparable listed companies and the multiples implied by prices of transactions involving timber processing businesses.

Sharemarket Evidence – Timber Processing Businesses

The valuation of Clearwood has been considered in the context of the multiples implied by the share market ratings of listed companies with operations in the timber processing industry. None of these companies are precisely comparable to Clearwood, and in particular none of these companies operate in the conversion and marketing of clear pruned resource. Nevertheless, the share market data does provide a broad framework within which to assess value. The following chart summarises the historical and forecast trading EBITDA multiples for the timber processing companies that have been analysed by Grant Samuel:

Listed Timber Processing Companies – Implied EBITDA Multiples



Source: Grant Samuel analysis

The following factors are relevant when considering the comparable listed company multiples above:

- the multiples are based on closing share prices as at 11 October 2016. The share prices, and therefore the multiples, do not include a premium for control;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year;
- none of the comparable companies has the exposure to movements in the NZD:USD that Clearwood does;
- Brief descriptions of the companies are set out in Appendix B. There are key differences between the operations and scale of the comparable companies when compared to Clearwood. These include:
  - ***Interfor.*** Interfor is significantly larger than Clearwood with a market capitalisation of over US$1.1 billion, operating 18 sawmills and with revenue of CAD1.7 billion for the year ending 31 December 2015;
  - ***West Fraser Timber.*** West Fraser Timber is one of the largest forest products company in the world with a market capitalisation of over US$2.7 billion operating 40 mills across Western Canada and the Southern United States. West Fraser Timber produces a wide variety of wood products. The company's annual revenue was CAD1.1 billion for the year ended 31 December 2015;
  - ***Louisiana-Pacific.*** Louisiana-Pacific is a large integrated forestry and building products company with a market capitalisation of over US$2.8 billion and operations in the US, Canada and Chile. The company's revenue was US$582 million for the year ending 31 December 2015;
  - ***Conifex.*** Conifex operates two business segments - lumber and bioenergy. The lumber segment comprises timber harvesting, reforestation, forest management and the manufacture, sale and distribution of dimension lumber. The company operates three sawmills selling its products primarily in

the United States, China, Canada and Japan. Annual revenue amounted to CAD104 million for the year ended 31 December 2015;

- ***Western Forest Products.*** Western Forest Products' business divisions are involved in the harvesting of timber, reforestation, forest management, manufacturing of lumber and wood chips and the sale of logs. Western Forest Products' log and lumber products are sold in over 25 countries around the world. Western Forest Products' business comprises seven sawmills with annual revenue of CAD300 million for the year ended 31 December 2015; and
- ***Canfor.*** Canfor is a large integrated forest products company with a market capitalisation of over US$1.5 billion. The company operates through two segments - lumber and pulp and paper. Canfor also produces softwood timber, kraft pulp and paper, plywood, remanufactured timber products, hardboard panelling and a range of specialised wood products. Canfor's revenue for the year to 31 December 2015 was CAD1.0 billion.

Transaction Evidence – Timber Processing Businesses

The valuation of the Clearwood business has been considered having regard to the earnings multiples implied by the prices at which broadly comparable companies and businesses have changed hands. The table below contains analysis of the earnings multiples implied by the prices of recent acquisitions of timber processing businesses:

Recent Timber Processing Transactions – Multiples (times)

Date	Target	Acquirer	Implied EV ($m)	Implied EV/EBITDA Multiples
Sep-15	Anthony Forest Products	Canfor	US$94	5.8
Mar-15	Simpson Lumber Company	Interfor	US$125	5.2
Jun-04	Tenon	Rubicon	NZ$334	6.0
Average				**5.6**

Source: Grant Samuel analysis, Capital IQ.

Larger businesses generally, but not always, tend to attract higher multiples reflecting more robust or diversified earnings, stronger market positions and often enhanced financial and management disciplines, management team depth and systems. Brief descriptions of the transactions are set out below in Appendix A.

The evidence from the share prices of comparable listed companies and the prices of transaction involving comparable business or assets is consistent with the multiples implied by Grant Samuel's valuation of Clearwood.

5. Evaluation of the Proposed Transaction

5.1 Evaluation and Summary of the Proposed Transaction

In Grant Samuel's opinion, the full underlying enterprise value of Tenon USA is in the range of US$128.1-149.5 million. The offer from Blue Wolf of US$110 million for Tenon's US holding company, NACS USA Inc. is on a debt-free, cash-free basis. Tenon USA's assets and liabilities include a supply chain financing programme (with an estimated average outstanding balance of US$20 million) which is being assumed by Blue Wolf as part of the Proposed Transaction. To compare the US$110 million offer with the assessed value, the US$20 million supply chain financing facility needs to be deducted from Grant Samuel's enterprise value giving a comparable range of US$108.1-$129.5 million. The Blue Wolf offer is within, albeit towards the bottom end of the Tenon USA valuation range. The Blue Wolf Offer represents an implied multiple of 7.3 times FY16 EBITDA for Tenon USA.

5.2 Rationale for the Proposed Transaction

The Transaction being put forward for shareholders to vote upon is the result of an extensive 12-month Strategic Review process undertaken by the Company, under which a number of options were considered by the Tenon Board. The objective of the Strategic Review was to identify a path to close the perceived share price value gap at the time the Review was announced. Since the announcement of the Review, Tenon has begun paying dividends, earnings and cash flow have lifted, and the share price has increased considerably, closing much of the value gap that existed at the time of the Board's original announcement.

The signing of the Sale and Purchase Agreement between Tenon and Blue Wolf in respect of Tenon USA was the result of a thorough process (which included the appointment of an international investment bank to run the process on behalf of the board) to find a suitable purchaser for the assets. Initially Tenon was seeking to sell both Tenon USA and Clearwood together, however, as the sale process progressed, it became apparent that the strategy of combining the businesses was not going to produce the optimal value result, given the two businesses represented two separate asset classes, with distinct buyer communities. Accordingly, in order to maximise value, the decision was taken to 'split' the Strategic Review into two processes, with the US assets being addressed first. The Board of Tenon is satisfied that all known prospective purchasers were approached in respect of Tenon USA. Three formal offers were received, each within 2% of the US$110 million Blue Wolf Offer price. While it cannot be ruled out, it would appear that the prospect of a competing bid at a higher value is unlikely.

5.3 Transaction Alternatives

The Strategic Review was wide ranging and considered a number of alternatives, including the sale of Tenon USA, share buybacks, capital returns, increasing debt, acquisitions, listing in the US, merging with Rubicon or encouraging Rubicon to sell down part of its shareholder to increase liquidity. The Board determined that the best course of action was to explore a sale of Tenon USA.

5.4 Impact on Tenon Capital Structure

If the Proposed Transaction is approved by Tenon shareholders and is completed in accordance with the proposed timetable, Tenon intends to make a capital return to shareholders after the repayment of its outstanding debt balance. Tenon is putting in place a new bank facility to fund the working capital needs of the residual Clearwood business moving forward. The capital return to shareholders (after repayment of all Tenon debt and the NZ$0.65 cents dividend paid in September 2016) is US$1.10 per existing share, however the default currency of payment will be NZD for those shareholders not electing to receive their capital return in US dollars. The USD amount will be converted into NZD at the average rate that Tenon takes FX cover for this purpose in the five business days following receipt of court orders approving the capital return. At the 71 cent NZD:USD exchange rate that Grant Samuel has used in this report, US1.10 per share would be equivalent to approximately NZ$1.55 per share. The Proposed Transaction-related distribution will be effected by way of a court-approved pro-rata capital return to all shareholders. Tenon's current timetable is for the Proposed Transaction to close on 30 November 2016, following a shareholders' meeting on 18 November 2016, with the intention that the capital return to shareholders will occur in late December 2016.

Grant Samuel have assessed the value of the remaining Clearwood business at US$63.3 - $74.7 million, which is equivalent to an additional NZ$1.38-$1.62 per share, before any transaction costs. Although the outcome of the Clearwood Strategic Review is unknown at the time of writing this Report, if the outcome was that the Board determined Clearwood was to be sold, then a further pro-rata capital return would likely be made to Tenon shareholders, and the company would then be liquidated, having disposed of all of its assets and having returned all cash to shareholders.

5.5 Transaction Considerations

- Tenon USA's macro-economic operating environment is currently favourable and the increasing level of new home building in the US is enabling Tenon USA to diversify its revenue streams with positive results. Tenon USA is a well-managed business, with a positive outlook that is strongly correlated with economic activity in the US. Tenon also now has a relatively low level of debt and in the current low interest rate environment in both the US and New Zealand, it is well-positioned to re-lever its balance sheet to either return capital to shareholders or to make acquisitions;
- Taking the above into consideration, although it is possible that by continuing to hold the Tenon USA business earnings may increase (as the number of new homes being built in the US continues to grow and housing activity in the US lifts with cyclical recovery), the interest of prospective purchasers in acquiring Tenon USA may not increase, considering numerous potential buyers were approached as a consequence of the Strategic Review. There is also the risk that the recovery in the US housing market stalls, (e.g. due to a lack of real wage growth or to the introduction of interest rate increases by the Federal Reserve), thereby potentially reducing earnings and lessening the likelihood of achieving a clean exit in the future;
- Shareholders need to also consider what might happen to the Tenon share price if the Proposed Transaction does not proceed. Tenon has a very small free float with the three largest shareholders together control approximately 80% of the shares on issue and tend not to actively trade their shares. The volume of shares traded on a daily basis is very low relative to similar sized companies and on many days no shares are traded. The small free float has also resulted in a low level of institutional interest and broker research coverage in Tenon, compounding the lack of liquidity. If the Proposed Transaction is rejected, then this illiquidity issue will remain;
- If the Proposed Transaction is approved, the proceeds of the sale after the repayment of debt will be returned to its shareholders holding their shares on capital account in New Zealand in a tax free form. If the Clearwood Strategic Review also subsequently results in a sale, then Tenon will effectively have been liquidated at above market share price value (assuming the Grant Samuel valuation range is achieved), and all the cash returned to shareholders in a tax free form for those shareholders holding their shares in New Zealand on capital account. That, combined with the significant total shareholder return already enjoyed by Tenon shareholders since the Strategic Review was announced last year, will have delivered considerable value to Tenon shareholders, with certainty and without risk of future events negatively affecting Tenon's operations;
- However, it is also possible that Clearwood may not be sold at this time, in which case Tenon would remain a publicly listed company with the associated fixed costs of a listed company being borne by a company with a much reduced earnings stream than prior to the Proposed Transaction. However, in that event, Grant Samuel would expect Tenon to readjust its overheads to match the smaller size of the residual Tenon Clearwood operation, although it would still need to maintain the costs associated with a public listing;
- A condition of the Proposed Transaction was that the parties enter into a five year supply agreement with Clearwood ensuring that its current supply arrangements with Tenon USA are maintained. Furthermore, Empire has agreed in turn, not to procure product from any other supplier over this period. As per the terms of the agreement, Empire is required to purchase a minimum amount of Clearwood product annually, which may permanently increase by up to 20%. Further strengthening the arrangement, the minimum annual volume commitment includes a "take-or-pay" obligation requiring Empire to pay the difference between the volume of product actually ordered and the annual commitment. Ultimately, this supply agreement provides Clearwood and Tenon shareholders with a certain level of comfort that the Proposed Transaction should not result in an immediate reduction in demand for Clearwood's products;

- Although the Proposed Transaction appears to be a straightforward transaction, if either party is unable to complete the transaction for a number of specific events, as highlighted in Section 1.2, then the defaulting party shall pay a termination fee to the other of US$3.3 million, except where Tenon's shareholders vote against the Proposed Transaction, in which case Tenon reimburses Blue Wolf's costs up to US$1.1 million. This is a relatively normal condition of sale and purchase agreements; and
- Rubicon owns 59.8% of the shares in Tenon and is able to vote in respect of the Proposed Transaction. Accordingly, if Rubicon votes in favour of the Proposed Transaction then the resolution to consider the Proposed Transaction will be passed and that condition will be satisfied.

5.6 Other Matters

The following matters should also be considered when evaluating the Proposed Transaction:

- Although Tenon USA has been well managed and has carved out a leading US distribution position with regard to speciality millwork products, its continued success is not without risk. In addition to the macro-environment risks noted above, other risks to the business include:
  - Tenon USA has considerable exposure to one customer, Lowe's. In 2016, approximately half of all Tenon USA's revenues were generated from Lowe's, and while Tenon believes its service model entrenches its business with Lowe's to some extent, this nevertheless remains a fundamental risk moving forward;
  - Tenon USA operates in a highly competitive market place, and has strong competition from established participants. It is relatively small by industry standards, operating in a niche specialist millwork segment of the market;
  - Tenon USA's EBITDA margin is not high, and small compression in product gross margins through increased market competition could adversely impact Tenon USA's results;
  - Tenon USA is operated by a strong but small management team with extensive industry experience. Employee retention is a fundamental risk. Loss of key members within the Tenon USA team could jeopardise the future performance of the company;
  - It is unlikely that Tenon USA can continue to operate on the same fixed cost base as it has been up until now, as cyclical recovery will require overheads to increase; and
  - Tenon USA is a distributor, and it has been the beneficiary of reducing energy prices, with falling oil costs reducing its cost of distribution and expanding its distribution margin. If oil prices recover too close to the past decade's average price, then this would increase Tenon USA's cost base and reduce its earnings.
- There are a number of attributes relating to Clearwood that are also important to highlight:
  - the timber processing plant is modern and highly efficient working three shifts, seven days a week with further capacity to expand to four shifts;
  - Clearwood has direct access to a large and sustainable resource of pruned timber from the adjacent Central North Island forest estate. Currently it processes 300,000 tonnes per annum, however it is able to purchase additional volumes at competitive prices should demand increase;
  - Clearwood uses geothermal heat to operate its seven kiln dryers sourced from an adjacent geothermal power plant, providing a low cost sustainable source of energy; and
  - movements in the New Zealand dollar impact Clearwood's earnings. Clearwood's largest markets are the US and Europe. In the year ended 30 June 2016 the average exchange rates achieved were US$0.67 and €0.65. If the NZ$ strengthens against these currencies Clearwood's earnings will decline. Currently the New Zealand dollar has strengthened to around US$0.71, but has weakened slightly against the Euro to €0.64, however, the earnings offset to these adverse movements in FY17 will be the annualised EBITDA benefit (US$4.3 million) from the edger and ripline technology upgrades commissioned progressively during FY16 (only US$1.8 million benefit included in FY16).

The decision whether to vote for or against the Proposed Transaction is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional advisor.

GRANT SAMUEL & ASSOCIATES LIMITED

October 2016

Appendix A – Recent Transaction Evidence

A brief description of each of transactions listed in Section 4 is outlined below:

Transactions involving Building Product Distributors:

Rugby IPD / Hardwoods

In July 2016, Hardwoods Distribution (**Hardwoods**) acquired Rugby IPD (**Rugby**) for US$107 million. Rugby is a US wholesale distributor of non-structural architectural grade building products to customers that supply end-products to the commercial market as well as serving the industrial, retail, residential and institutional construction end-markets. The acquisition was a strategic move by Hardwoods as it gave the company a combined total of 64 branches (adding 31 new locations) and more than doubled Hardwoods' existing US branch footprint (in particular in Eastern US) delivering approximately $1.0 billion in pro forma sales for the last twelve months ended March 31, 2016. Furthermore, Hardwoods announced that it expected to benefit from structural and operating synergies (the specific value of the benefits was not disclosed), which if taken into consideration, would have had the effect of reducing the implied multiple paid by Hardwoods.

BMC / Stock Building Supply

In December 2015, Building Materials Corporation signed a merger agreement to acquire Stock Building Supply Holdings and create a mergco called BMC Stock Holdings. The acquisition price amounted to US$554 million. Both companies supply building products including lumber, flooring, windows, structural components and wall panels to customers that include homebuilding and renovation contractors. Through the merger, BMC Stock Building Supply increases distribution to approximately 42 metropolitan areas across 17 states.

Roofing Supply Group / Beacon Roofing

In October 2015, Beacon Roofing Supply (**Beacon**) acquired Roofing Supply Group (**RSG**) from private equity firm Clayton, Dubilier & Rice for $US1.1 billion. RSG is a distributor of residential and commercial roofing products, with $1.1 billion in sales. As a result of the transaction, the company now has 83 locations across 24 states. This transaction is significantly larger than the Proposed Transaction, and is punctuated by being linked to the roofing industry, which is expected to experience rapid growth in the near future from new home build recovery. The overall stability of the industry has been driven off re-roofing demand and maintenance activity, which historically has represented 75% of overall demand. As a result, roofing industry sales demonstrate a much higher degree of stability than other building products that are more exposed to new residential construction only. This would help explain the reason for the higher implied multiple paid by Beacon.

Foundation Building Materials / Lone Star Funds

In September 2015, Loan Star Funds acquired Foundation Building Materials (**FBM**) for US$560 million. FBM is based in California (with locations throughout the US) and distributes drywall, steel studs, stucco and related building products to commercial and residential contractors. Loan Star Funds is a private equity and real estate investment firm specializing in asset acquisitions, corporate acquisitions, company sponsorships, turnarounds, refinancing and distressed debt.

U.S. LBM / Kelso Company

In August 2015, Kelso & Company (**Kelso**) (along with management) acquired a majority interest in U.S. LBM Holdings (**LBM**) for approximately US$1.28 billion. LBM distributes building materials throughout the United States and reported annual sales of $1.4 billion in the full year prior to the acquisition. LBM is an amalgamation of a number of individual building supply companies that distribute a wide range of building products including lumber, doors and millwork to a large base of custom homebuilders and commercial contractors. Although Kelso did not previously have any investments that gave the company obvious strategic benefits prior to the acquisition, it owns a Canadian lumber manufacturer that owns sawmills and timber rights in Eastern Canada called EACOM, which may have delivered some advantages following the acquisition of LBM.

Builders FirstSource / ProBuild

In July 2015, Builders FirstSource completed the acquisition of ProBuild Holdings for US$1.6 billion. Builders FirstSource is a leading supplier and manufacturer of building products for the US market and ProBuild is one of the country's largest professional building suppliers. The acquisition created a dealership servicing over 430 locations and 74 metropolitan areas and generating revenue in excess of US$6 billion.

PrimeSource Building Products / Platinum Equity

In May 2015, Platinum Equity acquired PrimeSource Building Products, Inc. (**PrimeSource**) from international trading house ITOCHU for US$835 million. PrimeSource is the largest distributer of fasteners in North America and one of the largest distributers of non-lumber building materials throughout North America with locations in United States, Mexico and the Caribbean. PrimeSource has a wide customer base serving independent lumber and building supply dealers, major retailers and retail building supply chains.

SRS Distribution / Berkshire Partners

In February 2013, Investment firm Berkshire Partners acquired a majority interest in SRS Distribution (**SRS**) for $US645 million. SRS is the fourth largest residential roofing distributor in the U.S with a national network of independent distributors delivering products and services to professional roofing contractors. SRS' products include fasteners, gutters, lumber and plywood products, caulk, paint and ventilation products.

Roofing Supply Group / Clayton, Dubilier & Rice

In May 2012, Clayton, Dubilier & Rice (**CD&R**) acquired 100% of Roofing Supply Group (**RSG**) from the Sterling Group for US$685 million. The acquisition was identified as a strategic one from CD&R in order to take advantage of the opportunities and stability offered in the roofing industry at the time.

Tenon / Southwest Moulding Co

In September 2008 Tenon announced that it had agreed to acquire the remaining 24.5% shares in Southwest Moulding Co (**Southwest**). The initial 51% investment by Tenon in Southwest was made in November 2005 and Tenon acquired an additional 24.5% shareholder in August 2007. Southwest is a Texas based manufacturer of stair parts and exterior doorframes. The company also distributes mouldings and other related millwork products in North America. The 100% acquisition of Southwest implied an average acquisition multiple of approximately 7.3 times historical EBITDA, although this multiple is likely significantly over-stated given it represented a staggered acquisition over four years with a fixed price component, completed at the time of the US housing crisis when industry earnings were quickly declining.

Tenon / Ornamental Mouldings

In November 2006, Tenon announced that it had acquired the remaining 50% share of Ornamental Mouldings (**Ornamental**). Ornamental is one of the largest players in architectural mouldings and decorative products. At the time of the acquisition Ornamental had four manufacturing operations in North Carolina and Ontario, Canada. The purchase price implied a multiple of approximately 5.8 times EBITE.

Tenon / The Empire Company LLC

In September 2005 Tenon announced that it would acquire the remaining 33% shareholding of the Empire Company Inc. (**Empire**). The initial acquisition of 33% took place in November 1999 and the second acquisition of 33% took place in December 2003. Empire is one of the leading distributors and marketers of wood mouldings in the USA and the leading supplier of wood mouldings to Lowe's. The 100% acquisition of Empire was staggered over 6 years and implied an average acquisition multiple of approximately 6.0 times historical EBITDA.

Transactions involving Building Product Distributors:

Anthony Forest Products / Canfor

In October 2015, Canfor acquired Anthony Forest Products (**AFP**) for US$94 million. AFP is engaged in the integrated forest products business offering its products through dealers in the United States and internationally. The company operates six facilities producing lumber, engineered wood and wood chips in Southern United States. Canfor identified AFP as a strategic acquisition, in particular to grow its presence in southern United Sates. The purchase price implied a multiple of 5.8 times EBITDA, in line with the market valuation for comparable timber processing businesses.

Simpson Lumber Company / Interfor

In March 2015, Interfor acquired four sawmills from Simpson Lumber Company for US$125 million. The transaction increased Interfor's annual lumber production capacity by 30% and were identified as important to Interfor's growth strategy. As a result of the acquisition, two-thirds of Interfor's total annual capacity is now spread throughout the North and South of the US. The purchase price implied a multiple of 5.2 times EBITDA, in line with the market valuation for comparable timber processing businesses.

Tenon / Rubicon

In June 2004, Rubicon was successful in acquiring a 50.01% stake in Tenon for NZ$1.95 per share, implying an enterprise value of NZ$334 million. The purchase price implied a multiple of 6.0 times EBITDA.

Appendix B – Comparable Listed Companies

A brief description of each of the companies listed in Section 4 is outlined below:

BluLinx Holdings Inc.

BluLinx Holdings Inc. (**BluLinx**) is a distributor of building products in North America. Bluefin operate its distribution business through a network of 44 distribution centers located throughout the United States, supplying most major metropolitan areas in the U.S, and delivers building products to a variety of wholesale and retail customers. BluLinx distributes products in two principal categories: structural products (which represents approximately 40% of the company's revenue and includes plywood, lumber and other wood products primarily used for structural support) and specialty products (which represents approximately 60% of the company's revenue and includes roofing, insulation, specialty panels, moulding, engineered wood products and vinyl products).

Huttig Building Products

Huttig Building Products (**HBP**) is a domestic distributor of millwork, building materials and wood products used principally in new residential construction and in home improvement, remodeling and repair work. HBP purchases from manufacturers and distributes its products through 26 wholesale distribution centers serving 41 states. The company's distribution centers sell principally to building materials dealers, national buying groups and home centers. HBP's products fall into three categories: (i) millwork, which includes doors, windows, moulding, stair parts and columns (ii) general building products, which include composite decking, house wrap, roofing products and insulation, and (iii) wood products, which include engineered wood products, such as wood panels and lumber.

CanWel Building Materials

CanWel Building Materials (**CanWel**) is a wholesale distributor of building materials and home renovation products in Canada and the Western United States. The company supplies structural, exterior, interior, and specialty products the new home construction, home renovation and industrial markets by supplying the retail and wholesale lumber and building materials industry, hardware stores, industrial and furniture manufacturers and similar concerns. In addition to the distribution business, CanWel also operates nine wood preservation plants that produce quality treated wood products. CanWel is headquartered in Vancouver, Canada.

Hardwoods Distribution

Hardwoods Distribution Inc. (**Hardwoods**) is one of North America's largest wholesale distributors of hardwood lumber and related sheet good and specialty wood products. It has over 10,000 customers that primarily operate as manufacturers of cabinets, mouldings, custom finishing, home furniture, home renovations and finishing millwork. Approximately 60% of Hardwoods' products are sold to the residential construction market, 20% to the commercial sector and 20% in the renovation market. In addition to its core distribution business, Hardwoods also create custom moulding and millwork packages for customers and produce and export high-quality lumber products.

BMC Stock Building Supply

BMC Stock Building Supply (**BMC**) is one of North America's leading providers of diversified building products and services to professional builders and contractors in the residential housing market. BMC's product portfolio comprises building materials, including millwork and structural component manufacturing capabilities, consultative showrooms and design centers, value-added installation management and an eBusiness platform capable of supporting all of our customers' needs. BMC operates in 17 states in the US.

Beacon Roofing Supply Inc.

Beacon Roofing Supply Inc. (**Beacon**) is North America's largest publically traded distributor of residential and non-residential roofing and complementary building products. Beacon currently operates under 31 regional brands in 365 locations within 46 US states and 6 Canadian provinces.

Wolseley Plc.

Wolseley Plc. (**Wolseley**) is the world's leading specialist plumbing, heating and building materials distributor to trade customers. Wolseley distributes to approximately 60,000 suppliers who service approximately 1.1 million customers. Wolseley operates over five geographic regions (the United States, Canada, the Nordic region, the United Kingdom and Central Europe). Wolseley has approximately 39,000 employees and is headquartered in the United Kingdom.

Masco Corporation

Masco Corporation (**Masco**) one of the world's largest manufacturers of brand-name products for the home improvement and new home construction markets. Masco is comprised of more than 20 companies and operates nearly 60 manufacturing facilities in the United States and over 20 in other parts of the world. Masco operates within four broad segments: cabinetry, plumbing, decorative and architectural and window and other specialty products. Masco is headquartered in Taylor, Michigan.

USG Corporation

USG Corporation (**USG**) is a producer and distributor of gypsum wallboard, joint compound and ceiling suspension systems to the construction and remodeling industries in North America. USG has numerous plants, mines, quarries and other facilities in North America and South America. USG, through its subsidiary L&W Supply is a large US supplier of drywall and related building products to professional contractors. The 50/50 joint venture with Boral Building Products operates throughout Asia, Australasia and the Middle East. USG is headquartered in Chicago, Illinois.

Builders FirstSource

Builders FirstSource (**BFS**) are a supplier and manufacturer of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. The Company operates 400 locations in 40 states across the United States and provides manufacturing, supply and installation of a full range of structural and related building products. BFS' manufactured products include roof and floor trusses, wall panels and stairs. In addition, BFS supplies lumber and lumber sheet goods sourced that is has sourced from other manufacturers. BFS has approximately 14,000 full-time equivalent employees.

Universal Forest Products Inc.

Universal Forest Products Inc. (**UFP**) manufactures and distributes wood and wood-alternative products, pressure-treated wood, engineered roof systems for site-built construction and manufactured housing, and a solid-sawn lumber products. UFP's main markets are retail outlets of building materials, industrial (specialised packaging and material handling products), commercial construction and concrete forming (roof trusses, wall panels and floors systems for commercial structures), manufactured housing/RV and residential construction. UFP's product portfolio includes composite and wood siding, trim and moulding and ThermalStar insulated structural sheathing, as well as lumber and engineered wood and building components. UFP is headquartered in Michigan, operates approximately 100 facilities in North America and Australia and employs approximately 8,000 employees.

Boise Cascade Company

Boise Cascade Company (**BCC**) is a large, vertically-integrated wood products manufacturer and building materials distributor with operations throughout the United States. BCC are one of the largest producers of plywood and engineered wood products in North America and a leading U.S. wholesale distributor of building products. BCC's products are used primarily in new residential building, renovations and light commercial construction. The company has over 4,500 customers, which includes retail lumberyards, home improvement centers and wholesalers. BCC was founded in 1957 and is headquartered in Idaho.

Canfor

Based in Vancouver, British Colombia, Canfor Corporation Limited (**Canfor**) is a leading integrated forest products company with interests in British Columbia, Alberta, North and South Carolina, Alabama, Georgia and Mississippi. The company operates through two segments: Lumber, and Pulp and Paper. Canfor is a leading producer of softwood timber and one of the largest producers of softwood kraft pulp in Canada. Canfor also produces kraft paper, plywood, remanufactured timber products, Oriented Strand Board (OSB), hardboard paneling and a range of specialised wood products. Canfor owns a 51% interest in Canfor Pulp Products Inc., which is one of the largest producers of market northern bleached softwood kraft pulp and a leading producer of high performance kraft paper.

West Fraser Timber

West Fraser Timber Company Limited (**West Fraser**) is an integrated forest products company based in Canada, operating 40 mills across Western Canada and the Southern US. West Fraser produces timber, wood chips, LVL, MDF, plywood, pulp, linerboard, kraft paper and newsprint. West Fraser's main product is lumber however it is also one of Canada's largest producers and manufacturers of pulp and plywood pulp.

Louisiana-Pacific

Louisiana-Pacific Corporation Inc. (**Louisiana-Pacific**) is engaged in the manufacture and distribution of building products, with operations in the US, Canada and Chile. Louisiana-Pacific's products are used in home construction, repair and remodelling, and outdoor structures. Louisiana-Pacific operates four business divisions: OSB, Siding, Engineered Wood Products (EWP) and South America. Louisiana-Pacific's largest division manufactures and distributes OSB structural panel products. The company also makes OSB, hardboard and vinyl siding products and accessories and LVL, I-joists, plywood, and other related products.

Interfor Corp

Interfor Corporation (**Interfor**) is one of the largest lumber producers in the world, producing lumber for residential, commercial and industrial applications. Interfor operates 18 sawmills with a combined manufacturing capacity of over 3 billion board feet of lumber with sales to North America, Asia-Pacific and Europe.

Western Forest Products

Western Forest Products Inc. (**Western Forest**) is a softwood forest products company, operating in the coastal region of British Columbia. Western Forest's businesses include the harvesting of timber, reforestation, forest management, the manufacturing and sale of lumber and wood chips, and the sale of logs. Western Forest's log and lumber products are sold in over 25 countries around the world. The Company's sawmills process various woods into commodity grades of lumber and residual wood chips that are sold externally for pulp production. Western Forest's lumber remanufacturing operations dry, saw and plane lumber are used in producing products, such as mouldings, doors, windows, paneling and siding. Its business comprises over seven sawmills.

Conifex Timber

Conifex Timber Inc. (**Conifex**) is a Canada-based forestry company. The Company operates two business segments: Lumber and Bioenergy. The Lumber segment includes timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. The Lumber segment operates approximately three sawmill complexes in British Columbia, over one in Fort St. James and over two in Mackenzie. It markets and distributes the Company's lumber products through its subsidiaries, Conifex Fibre Marketing Inc. and Navcor Transportation Services Inc. The Company's lumber products are primarily sold in the United States, Chinese, Canadian and Japanese markets.

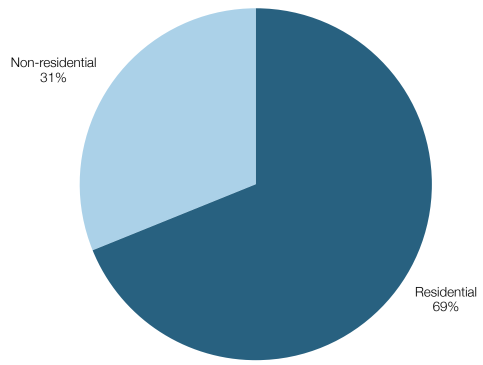
Appendix C - Industry Overviews

US Specialty Millwork Distribution Industry

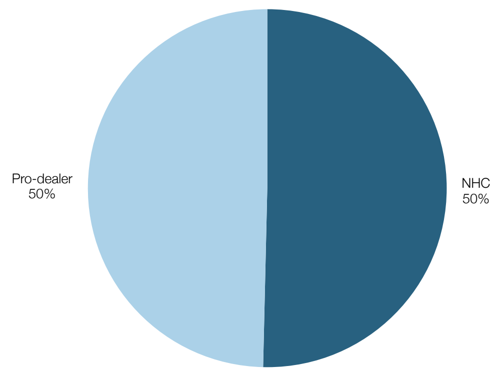
Market Structure

The supply of speciality moulding and millwork products is based upon the direct and indirect relationships distributors have with large National Hardware Chains (**NHC**) as well as national and regional professional dealers primarily focussed on the supply of the home building sector (**Pro-dealers**).

US Demand for Speciality Millwork – FY16

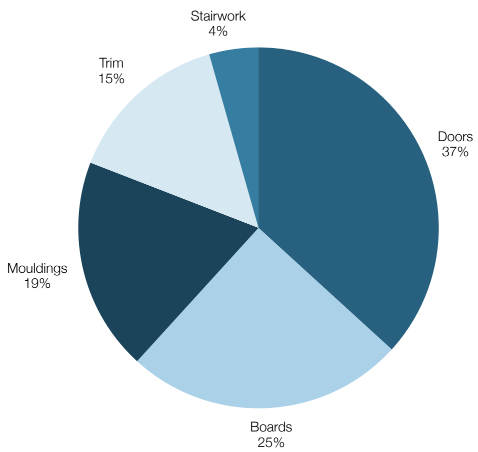


Specialty Millwork Sales Channels – FY16

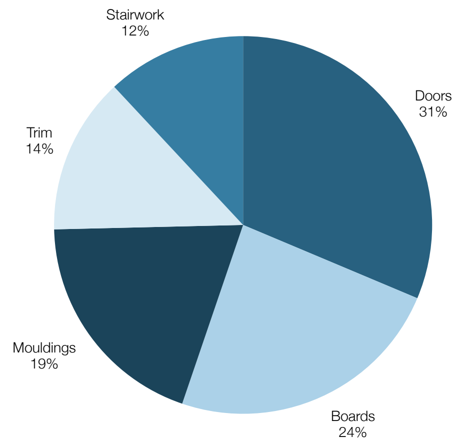


There is a large addressable market for specialty millwork with demand for products in this category estimated at approximately US$19.6 billion in 2016. Of this estimated value, approximately US$13.5 billion is categorised as residential, which is split broadly evenly between the NHC and Pro-dealer channels with NHCs accounting for US$6.8 billion and the Pro-dealers accounting for US$6.7 billion.[5]

NHC Demand by Product Type – FY16



Pro-dealer Demand by Product – FY16[6]



The NHC sales channel is driven by demand from the residential replace and remodel market. Growth in this area is forecast to improve as a result of built up demand (following many homeowner's decision to delay projects during the recession) and improving economic conditions in the US. It is expected that through an increase in household income, home equity values and general economic growth, customers will have the confidence and wherewithal to engage in home improvement projects more readily.

[5] Source: Freedonia Customer Research (December 1, 2015)

[6] Source: Freedonia Customer Research (December 1, 2015)

Sales through the Pro-dealer channel are driven by new residential construction, which is forecast to grow in the US through the short-medium term with an estimated increase of approximately 11% per annum. in new houses per year through to 2020[7]. The primary drivers for this anticipated growth include acceleration of immigration and a general improvement of the US economy.

US Economic Outlook

Growth in the US housing industry and subsequent demand for specialty millwork is expected to come from positive macro-economic factors within the US. Real GDP is projected to increase 2.6% per annum for the next four years largely due to investment expenditure and diversification of economies including non-traditional manufacturing and the development of shale oil and gas.

Furthermore, the US population is expected to increase to over 330 million people by 2020 (from approximately 320 million in 2016). This growth will likely underpin the demand for new housing in the US and subsequently, the demand for specialty millwork products.

New Zealand Timber Processing Industry

The timber industry is an integral part of the New Zealand economy contributing an annual gross income of around $5 billion (3% of New Zealand's GDP) and directly employing approximately 20,000 people. Wood products are New Zealand's third largest export earner (behind dairy and meat) with New Zealand sawmills exporting approximately 2 million cubic metres per annum. New Zealand's largest export markets are China, Australia and the US. New Zealand timber also has a strong presence throughout Asia, the Middle East, Europe and the Pacific.8

Radiata Pine

New Zealand timber primarily comes from renewable plantation forests that are managed on a sustainable basis with the predominant species being Radiata Pine. Radiata is considered a globally unique product and is one of the most versatile softwoods with superior machining and finishing qualities. Furthermore, its uniform appearance means that it is an easy wood to paint and stain, adding to its popularity.

Due to New Zealand's unique growing conditions and pruning regime, New Zealand Radiata produces wide, long length clear fibre (i.e. knot free), which can be converted into high-value clear finished products, making them highly desirable in the US NHC and Pro-dealer markets.

The pruning regime in New Zealand sees the trees pruned to 5-8 metres each year up to the age of 10. As a result of this process, clear wood forms around the knots where the branches have been pruned and creates a log consisting of straight-grained clear wood suitable for high-value appearance applications. Although the pruned part of the tree consists of only approximately 15% of the height of the full-grown pine tree, it typically equates to approximately 50% of the total value.[9]

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[7] Source: Freedonia Customer Research (December 1, 2015)

[8] Source: NZ Ministry from Primary Industries

[9] Source: NZ Ministry from Primary Industries

New Zealand Timber Supply

The Central North Island is the most significant supplier of timber within New Zealand supplying approximately 41% of all logs in 2015 and when taken with the remaining North Island forestry regions, they combine to supply over 78% of the country's logs.

Wood supply by region[10]	**% Total**
Central North Island	40.6%
Hawkes Bays	16.2%
Northland	14.1%
Nelson/Marlborough	8.5%
Otago/Southland	7.2%
Southern North Island	5.7%
Canterbury	5.5%
Auckland	1.5%
West Coast	0.7%
Total	**100%**

[10] Source: NZ Ministry from Primary Industries

Appendix D – Valuation Methodology Descriptions

1. Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

2. Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

3. Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Tenon's case.

4. Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value Tenon. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix E – Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business.
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Appendix F – Qualifications, Declarations and Consents

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, FFin, and Dave Burley LLB, BCom. Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Tenon. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Tenon. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Grant Samuel has not undertaken a due diligence investigation of Tenon. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Tenon. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Tenon prepared by the management of Tenon. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Tenon. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Tenon is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;

- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Tenon, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Tenon, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Transaction. Grant Samuel expressly disclaims any liability to any Tenon security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Notice of Meeting issued by Tenon and has not verified or approved any of the contents of the Notice of Meeting. Grant Samuel does not accept any responsibility for the contents of the Notice of Meeting (except for this report).

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Tenon or Blue Wolf that could affect its ability to provide an unbiased opinion in relation to the Proposed Transaction. Grant Samuel had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Samuel will receive no other benefit for the preparation of this report.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Tenon and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Tenon and contained within this report is sufficient to enable Tenon security holders to understand all relevant factors and make an informed decision in respect of the Proposed Transaction. The following information was used and relied upon in preparing this report:

5.1 Publicly Available Information

- Tenon Annual Reports for FY14, FY15 and FY16;
- Capital IQ website to identify comparable transactions;
- Tenon recent Investor Presentations; and
- Tenon's recent Public Filings.

5.2 Non Public Information

- Detail regarding Empire's sales and margins by category by month for FY14, FY15 and FY16;
- Sales and COGS information for OMI;
- Detail regarding Southwest's margin and volumes by category for FY14, FY15 and FY16;
- Research regarding the US Regional Moulding, Stairwork, Trim, Door and Decorative Board market prepared by Freedonia Custom Research Inc. for Tenon;
- Information Memorandum for Tenon USA prepared by Deutsche Bank dated April 2016; and
- Management Presentation for Tenon USA prepared by Deutsche Bank dated May 2016.

6. Declarations

Tenon has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Tenon has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Tenon are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Tenon. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in Notice of Meeting to be sent to security holders of Tenon. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

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