Tenon

Wood Solutions to the World

Annual Report 2012

Contents

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 of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular Tenon's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes. Amongst other things, fluctuations in industrial output, commercial and residential construction activity, changes in availability of capital, declining housing turnover and pricing, declining levels of repairs, remodelling and additions to existing homes in North America, relative exchange rates, interest rates in each market, profitability of customers, competitor product development, demand and pricing, and customer concentration risk can each have a substantial impact on Tenon's results of operations and financial condition.

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

Review of the 2012 Fiscal Year

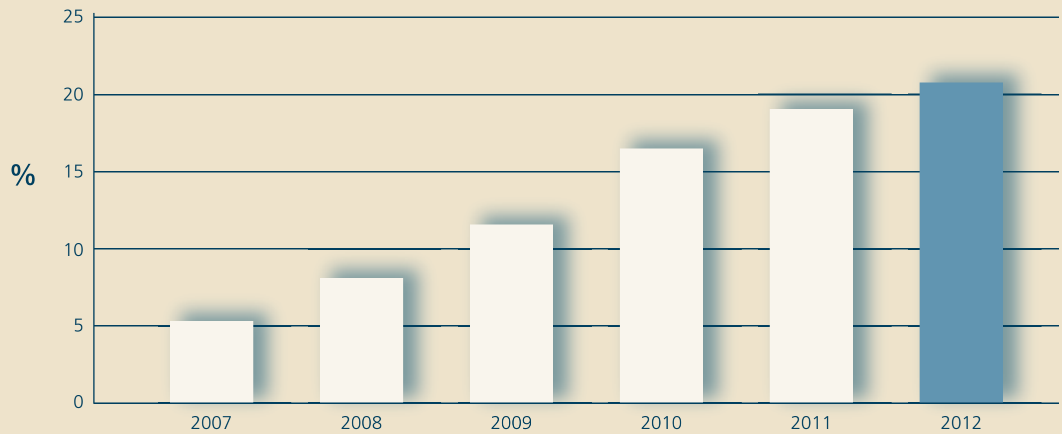
The 2012-Year Reviewed

There are many data points now emerging that indicate that after five years of year-on-year decline, the US housing cycle is at last showing signs of turning for the positive. However, that was unfortunately not the case for the majority of our fiscal 2012 year reported upon in this document. Indeed, we believe the financial year just completed should prove to have been the 'dead bottom' of the cycle from a Tenon earnings perspective - a year in which operating conditions (refer macro-condition charts on next page) were the toughest we will likely see in the current US housing cycle.

Despite this, Tenon's revenues, at $334 million, were $8 million (or 2.5%) higher than the previous year. Pleasingly, in the second half of the fiscal year we recorded revenue of $172 million, which was $10 million up on the $162 million reported in the first half, and $8 million up on the corresponding period last year.

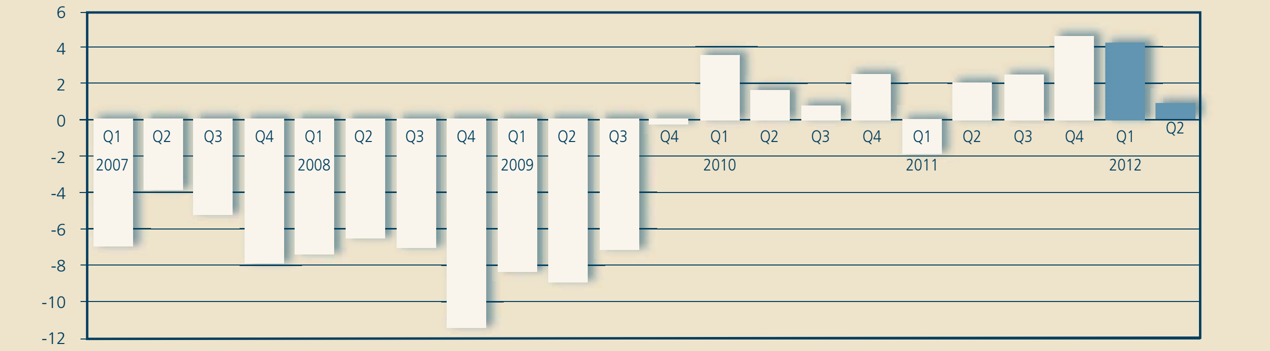
This revenue performance is reflective of a considerable amount of hard work on the promotion of existing programs as well as on new product introductions. To this point, the chart below shows the increasing percentage of our distribution revenues that now comes from products we have introduced over the past six years.

New Products As a % of total distribution revenue

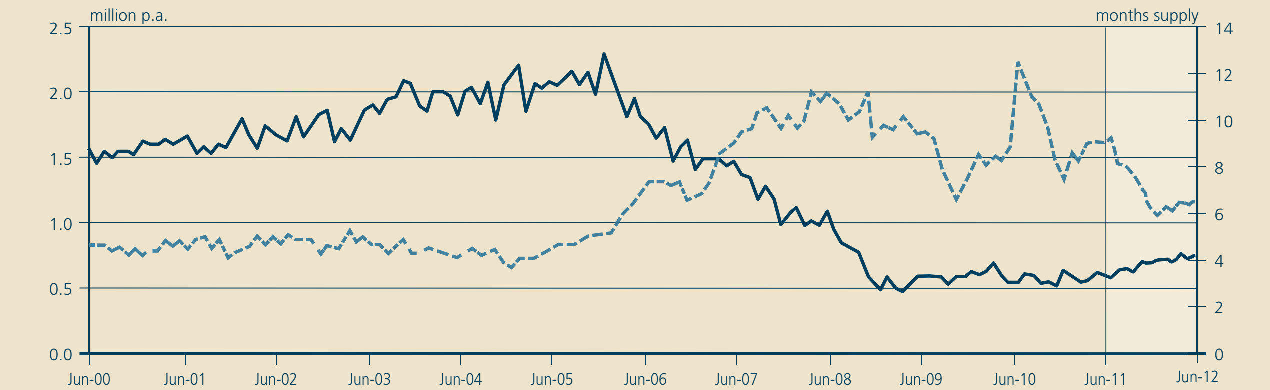


The notable product addition this year was our distribution of a new outdoor decking range – Perennial Wood™ decking, which has been developed by the Eastman Chemical Company, a global chemical manufacturing company with annual sales revenue of more than $6 billion. Eastman has partnered with Empire (our core distribution business in the US) in the initial roll-out of this new product into Lowe's stores in the US market. The initial launch into the retail market comprises a 100 Lowe's store trial in New England, and sees Empire as the exclusive Perennial Wood™ decking distributor into this channel.

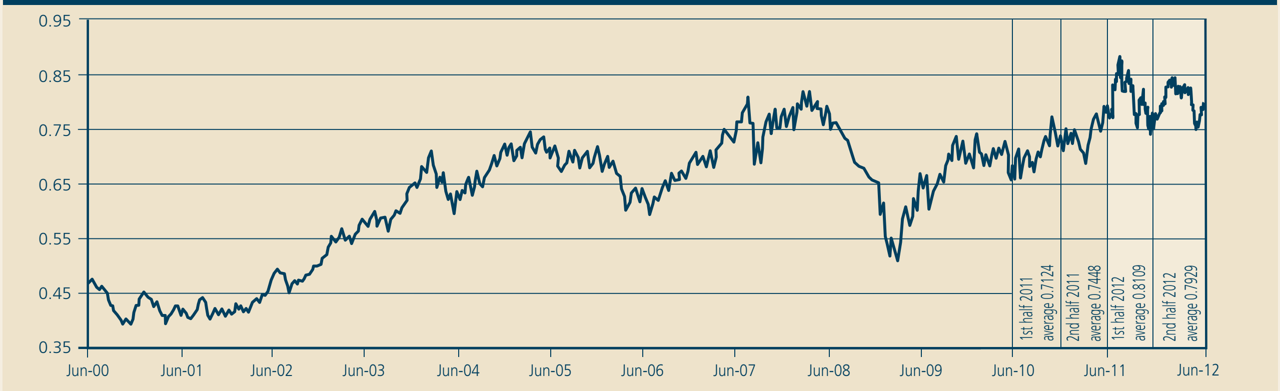
Home Centre Retailers Average (Total) Same Store Sales
% change from previous comparable period



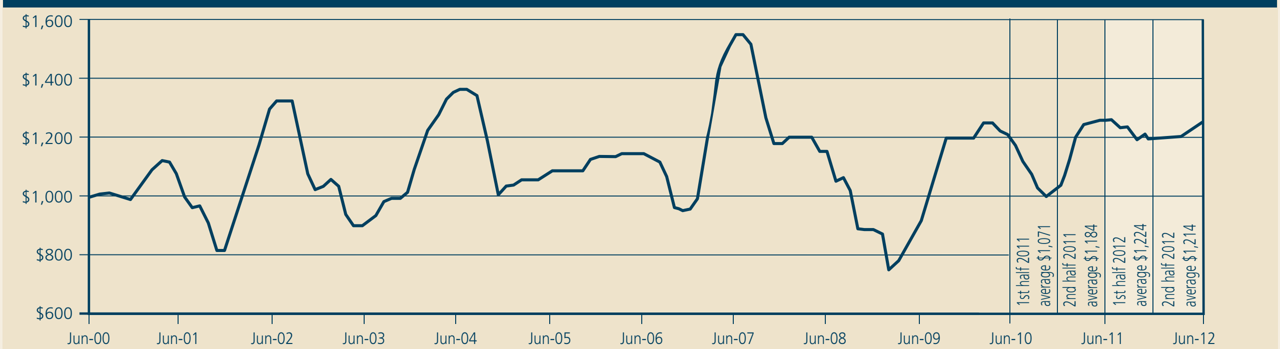
New and Existing Housing



NZD/USD Exchange Rate
NZD/USD exchange rates shown are effective (i.e. hedged)



Moulding and Better Lumber Pricing
US$ mbf



Through the application of Eastman's proprietary technology process, which modifies the wood's cellular structure, Perennial Wood™ is three times more stable than unmodified wood, and is warranted to protect against rot, decay, and movement for 25 years – making it an excellent substitute for non-wood products in outdoor applications. The resulting product is straighter, smoother and harder, while still maintaining the wood's natural appearance.

So, whilst our revenue performance was good (as noted above, a result of both our existing and new product performance), weak macro-conditions combined with a strong NZD:USD exchange rate conspired to squeeze Tenon's overall gross operating margins. Although the second half gross profit was up 5% on the first half, the gross profit for fiscal 2012 was down $5 million on that recorded in fiscal 2011.

We responded to these tough operating conditions by pushing harder on efficiency and cost-out initiatives. Examples of these restructuring and business re-engineering initiatives in the period included –

- The closure of our Canadian manufacturing site and the integration of that activity into our existing North Carolina operation. This restructuring will not only lower our overall North American manufacturing cost base through the manufacturing and labour efficiencies gained, but it will also release cash upon the sale of the now surplus Canadian land and buildings which can then be applied to debt reduction;

- A $5 million profit improvement program put in place at our large clearwood manufacturing operation at Taupo, targeted at ensuring the site's profitability at current demand levels and sustained high NZ:US exchange rate;

- A reorganisation of our US wholesale operation and vendor distributor arrangements in the decorative category;

- An operational efficiency program established at Empire, to reduce operating costs while maintaining our excellence standard in customer service; and

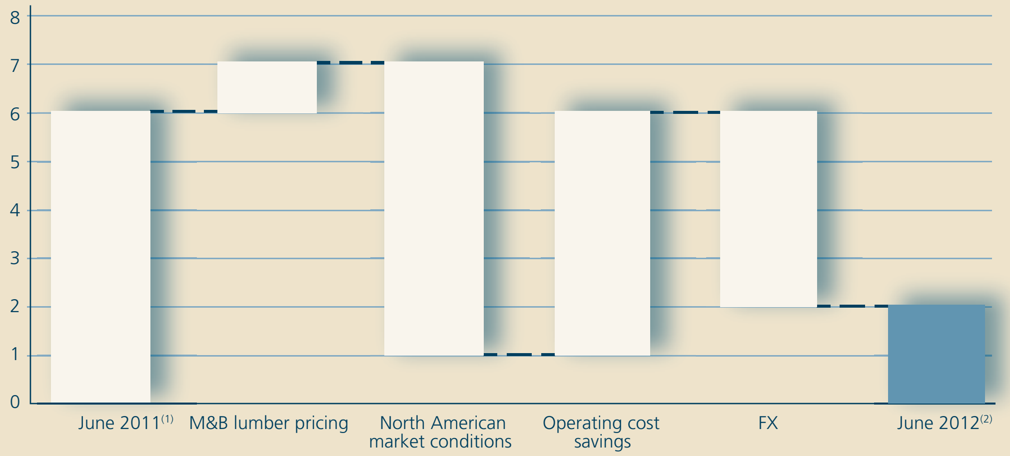
- The reduction in administrative costs through the closure of our Annapolis office.

While some of these initiatives were completed during the year and made an initial contribution to the second half's result, some (such as the Canadian reorganisation) are on-going, which means that the full impact of all these programs will not be felt until the second half of fiscal 2013.

Each of these initiatives involved some up-front costs, which have been provided for in the 2012 fiscal year results. In total, $5 million of costs relating to these initiatives were recorded in the period under review ($3 million of which are reported in the Restructuring line on the face of the Consolidated Income Statement, with the balance being in the Administration Expense and Gross Profit lines). While the cash component of these costs had an immediate negative impact on our debt level (with net debt rising from $36 million at December to $39 million at year end), these were changes we had to make in order to enhance the future earnings power of the business. We remain confident that the expenditure on these initiatives will generate benefits in future periods well in excess of their cost. Indeed, we will need to extract the lion's share of these benefits in fiscal 2013 in order to drive our debt balance back down to our target mid-$30 million level by June 2013.

Our reported Operating Profit before Financing Costs was a loss of $8 million, or a loss of $3 million before the $5 million of costs noted above. However, the earnings figure that equity analysts tend to focus on for company comparative purposes is EBITDA (i.e. Operating Profit before Financing costs, tax, depreciation, and amortisations), because that number removes distortions caused by differences in asset age and depreciation policies, and by different debt:equity funding structures. To assist the reader with that same analysis, this next chart shows the EBITDA reconciliation from last year's result to this year's result (adjusted for the $5 million of costs previously noted).

EBITDA Reconciliation US$m



(1) Excludes $2 million Fair Value gain on Forest Assets
(2) Excludes $5 million of restructuring and business re-engineering costs noted above

The short summary is that, had the NZD:USD cross rate not strengthened from an average (hedged) rate of 73 cents in fiscal 2011 to over 80 cents this last year, then our fiscal 2012 EBITDA (as shown above) would have equalled that of the previous year, despite the tougher market demand conditions experienced this past year. Attempting to hedge currency movements in the year proved extremely difficult, as the NZD:USD rate fluctuated between a low of 74 cents and a high of 88 cents, although our strict policy did manage to add $200,000 to our earnings in the period. Currency aside, it is also important to note that the gains from all of our cost-out and profit improvement plans that were operative in the period almost offset the significant decline in demand conditions sustained in fiscal 2012. So, if the consensus view is correct and the cycle has indeed bottomed (and assuming the NZ dollar does not strengthen from today), then this means Tenon will have traversed the longest and deepest housing recession since the 1930s depression without having recorded an EBITDA loss (adjusting for the restructuring and business re-engineering costs discussed above) in any reporting period – something few industry participants have been able to achieve.

Although relative performance may have been good, we are very conscious that absolute performance in recent times – particularly this past year - has been quite underwhelming. We do believe that everything that could realistically have been done in order to address operating performance in our North American activities has been done. Extensive changes to Tenon's operating model have been made in recent times, including –

- *Organic Growth* - We have expanded our presence in the retail, professional, and wholesale channels. We now service some 40% more retail stores than we did when we approached the last cycle peak. We have six distribution centres in the US, a global logistics operation that sources over 8,000 containers of product globally each year, and our products now appear in some 2,000 stores.

- *Changed Customer Focus* - As we reported last year, we fundamentally restructured the way we service our core customers. Each customer now has a single interface with the Company, no matter from where in the world, or from which Tenon manufacturing entity, their products are produced or sourced.

  This customer-focus change has resulted in a higher level of service delivery and product innovation, and tighter customer relationships. This in turn has resulted in new opportunities for us with our key customers, ranging from organically growing our existing business, to new product introductions, to entering new market segments.

  The Perennial Wood™ opportunity discussed above is a good example of the latter two opportunity categories – a totally new product, in a new market segment. The potential outdoor applications for Perennial Wood™ in the US market are extensive. The first product being launched (as noted above), Perennial Wood™ decking, will be sold into the $4 billion per annum US decking and railing market – a market larger than Tenon's entire traditional indoor mouldings segment, and this is only one market where Eastman's modified wood technology is applicable. There are many further applications for Eastman's technology in other outdoor applications, and we believe those products will be equally well received upon their future introduction.

- *Profit Improvement / Efficiency Programs* - The restructuring and business re-engineering programs instituted in fiscal 2012 (discussed above) represent only a few of the total series of initiatives of this type that have been put in place to address the performance of our base operating business. These initiatives, which began with the $5 million One-Company program, have in total now either removed cost, or increased operational efficiencies, to the extent of $20 million per annum.

As a result of all these changes, our US business is far better positioned today, both operationally and strategically, than it was when we entered the cycle downturn five or so years ago. To bring some perspective to that statement, we now hold the #1 position in interior mouldings (as sold through our full service distribution business), the #1 position in stair parts distribution in the large Texas pro-dealer market, the #2 position in imported clear and finger jointed mouldings (as sold through our US wholesale operation), and a leading position in decorative mouldings sold to the large format home improvement retailers. In short, we believe that Tenon now holds industry-leading positions in each of the businesses in which it operates in North America, and a platform for growth is in place to take advantage of the increased demand that will occur as market recovery brings a return to mid-cycle conditions.

Growth

The only change to our existing North American growth strategy moving forward is one of relative focus. Given the point in the housing cycle we are now at, we are keen to more aggressively consider acquisition opportunities, particularly in the professional builder market where we can leverage our existing positions to create additional value for Tenon. In order to do this, we will need to lower our current debt levels and / or access new equity funding, or just be financially 'smart' in the way we make our acquisitions. Whilst the timing of these opportunities is not within our control – i.e. they arise when they arise – we will be keenly seeking them out in fiscal 2013.

Equally as important to this continued growth in North America, is our desire to also balance this current single-market exposure by establishing new revenue streams outside of North America where we can take our existing capabilities and establish new in-market positions that will allow us to replicate our North American success elsewhere. In this regard, we have been clear that our focus will be on two markets – Australia and China.

In that respect, we announced in February this year that we had established an initial beachhead in Australia, by acquiring the #2 hardwood mouldings manufacturing and distribution position there (previously held by Whiteline Timber Products). As part of that move, sales and administrative staff previously employed by Whiteline have joined Tenon Australia, thereby ensuring a seamless transfer of the business. Through Whiteline's established links to quality reseller chains (e.g. Mitre10) and independent stores, Tenon Australia will be offering a variety of mouldings, high-grade boards, and architraves into the Australian market, and we will become a comprehensive supplier of these products in multiple profiles and species.

We would not have entered Australia unless we believed that not only could we bring significant additional value to the Whiteline assets, but also that we would be able to then move on to establish a position of scale in the Australian market, longer-term. We are already addressing the first of these goals - for example, we are now supplementing locally manufactured hardwood products with softwood and hardwood products sourced from Tenon's existing global supply chain. This includes high-quality pine mouldings from our Taupo clearwood site that is so conveniently located close to the Australian market. We will soon be turning our attention to the second objective - expanding our activities in Australia to a position of economic scale that justifies our presence there. We will comment on our progress towards this wider goal in subsequent reports to shareholders.

Of course, China is quite a different proposition from either North America or Australia. To profitably enter China and make money under a sustainable business model, Tenon must ultimately have an in-market presence there. This in turn must involve the participation of joint venture Chinese partners, which was the same successful strategy we used when we moved in-market into North America and either took initial joint venture (e.g. American Wood Mouldings) or minority (e.g. The Empire Company) positions.

It is no secret that partner selection is critical, and that China is littered with "how not to do it" examples of Western companies poorly executing their entry strategies. We believe we have the right approach – i.e. establish a sales history of delivering high quality products into China that builds company credibility, use that to build an understanding of the wholesale and retail market channels there, and then build an in-market presence through local partnering to develop a position of real scale.

We believe the first of these has already been achieved, in that manufactured product out of our Taupo site being sold into China now represents 15% of all our third party sales from New Zealand. We know the China market is large and growing, that there is an increasing wood fibre deficit, and that there is a willingness of the Chinese consumer to pay for valuable product. By way of example, we are now achieving in China the same price as we are receiving in the US market for the highest grade of clear lumber we sell (i.e. mouldings and better lumber) – a product that increased in price, year-on-year, by $90 per thousand board feet – i.e. over 8% in the past year. There is every reason to believe that this demand for 'clear' products will continue as China grows (and as the US market recovers).

As to the second phase – i.e. developing an understanding of the customer channels in China - we believe the next step should be to take a position in the wholesale market there. Understanding the wholesale market is the next natural move for us, as it 'follows' our current product flows one-step closer to the Chinese end-consumer. Supplying product into China through our own wholesale channel would, of course, be the other side of the 'China coin' for us, so to speak, as we currently do source an extensive amount of decorative and specialist millwork product from China and sell it through our US distribution entities into the North American retail and pro-builder markets. So we already have a good feeling for this type of activity. We do not believe the spend on establishing a wholesale market presence need be large, and we are already well advanced in exploring opportunities in this regard. We will report on this later in the year.

The final step – establishing an in-market presence in China of scale – is the critical phase. While we have also made progress on this, our work is still far from complete, and we will not be making the mistake of rushing this final phase, which is of course the defining step. For that reason, and also for obvious commercial sensitivity reasons, we are not able to outline our strategy any further in this Annual Report. However, such a move would likely require shareholder approval, as it would be a major step-out for us from the Tenon of today. It would be transformative in nature, rather than incremental, and we look forward to being able to present it to shareholders when the time is right to do so.

Governance

Our last ASM was held in Auckland, New Zealand, in December last year. Over 80% of the Company's issued shares were voted at the meeting, and all resolutions were passed - each with a majority of in excess of 99%. At the meeting, a new Director, Mr George Karaplis, was voted onto the Board, with the full support of the Company's largest shareholders. We are pleased to have George's prior experience in the forestry and wood products sector, and we welcome him onto the Board.

The Company's next ASM will be held in December, in Wellington. We will advise shareholders of the exact time and venue at a later date. For those shareholders who are able to join us, we would of course very much appreciate your attendance.

During the year we completed a small share buyback plan. The offer was to buy back all shares of shareholders holding 10,000 or fewer shares, at a share price of 65 cents per share, and its purpose was to offer liquidity to shareholders with small share parcels who were wishing to sell. The offer closed undersubscribed (1.16 million shares were bought back at the offer price), reflecting shareholders' belief in the long-term value of the Company.

Looking Ahead

This section lays out the go-forward plan for the Company.

In our North American businesses, we will complete the restructuring initiatives already underway, and release surplus cash to pay-down debt. We will continue with our new product introductions, with the goal of expanding the breadth of our product range into the retail and pro-builder channels that we have created over the past five years. Examples of this, which we will be reporting upon in the new fiscal year, are 'FindIt", a new internally developed proprietary pull-out kitchen cabinet product which we have been asked by Lowe's to distribute into 800 stores commencing in the first quarter of next year, the addition of a new Empire range of "Plank Paneling" products into 815 Lowe's stores commencing October this year, and a new doors program at Southwest which will target the Texas pro-builder market. As mentioned above, we will also be targeting expansion potential in the US pro-builder channel, by way of acquisitions, as opportunities present themselves.

In Australia, we will be expanding our initial entry position and developing a strategy to build a position of scale in our closest market.

China will play an increasing role in Tenon's future. The immediate plan is to continue to increase the sale of product out of Taupo directed into the China market, and to take a position in the wholesale market there – a pre-requisite to building an in-market position of size.

Growth into Australia and China will eventually reduce our current single-market dependence on the US for our cashflow. However, rebalancing our portfolio across geographies will take time, and the reality remains that despite best efforts, in the very immediate term our earnings will remain reliant on recovery in the North American market. In this respect, increasingly there are favourable data points emerging that indicate the worst is now behind us, and that we will over time begin to see a return to mid-cycle operating conditions.

Factors supporting a US housing recovery, which we have commented upon previously, include –

- US housing affordability at an all time high;
- US new home inventories at a 40-year low;
- US mortgage rates at an all time low;
- Robust population growth in line with long-term trends;
- Housing starts per head of population at a 60-year low;
- Housing activity well below the underlying long-term trend; and
- An aging housing stock, with two thirds of the total being well over 25 years old, and the median age over 35 years.

Although 'sticky' unemployment, access to credit, and the shadow inventory of homes potentially for sale remain outstanding as issues to be resolved before a full US housing recovery can take place, recent data highlight some emerging positives. These include –

- House prices, which are off their peak by approximately 33%, appear to have stabilised, and are now beginning to show some gains. The closely watched Case-Shiller 20-city composite price index rose 2.2% in May, marking two consecutive months of house price gains. The alternative CoreLogic index reported house prices rising 1.3% in June, and 2.5% on a June 'year-on-year' basis (or 3.2% excluding distressed sales).

  Home prices are closely correlated with home sales in a housing recovery. That house prices now appear to be stabilising is a very important market signal, in that those potential buyers who may have been standing back waiting to see where the market 'floor' might be should now be encouraged to re-enter the market. As house prices recover, the equity people have in their homes increases. This in turn goes to reduce the number of 'underwater' home mortgages, and therefore, the potential shadow inventory that might come onto the market. Increased home equity is also an important source of funding for homeowners (i.e. they can borrow against their home equity) that can be spent on other items, which in turn re-ignites the economy in a self-reinforcing cycle;

- Over the past two years, "for sale" existing housing inventory has declined from a peak of 12 months of demand, to now be at 6.6 months. While 6 months is considered to indicate a 'balanced' market, there remains the unquantifiable size of the 'shadow supply' of inventory that might come onto the market via foreclosures. To this point, a recent Goldman Sachs equity research report (July 23rd, 2012) had the following to say –

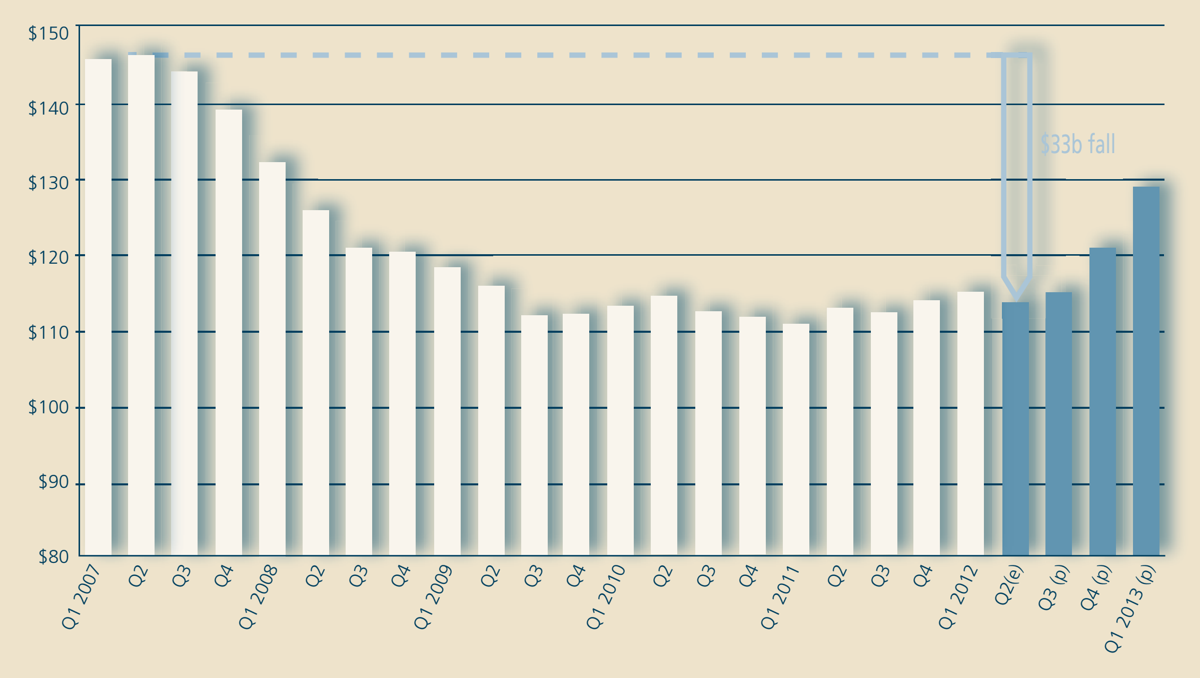
  Our housing checks have been indicating since the turn of the year that inventory is scarce in good markets and our statewide analysis points to a 15% reduction in shadow inventory in the five key new home markets (Arizona, California, Florida, Nevada, and Texas). At the same time, the growth in building permits suggests a 34% increase in demand in those same states … bottom line, we expect any further decline in inventory to serve as a platform for price appreciation, further aiding sales";

- Housing starts increased to a seasonally adjusted annual rate of 746,000 in July, up 21.5% on July last year. Whilst this is well down on the previous cycle peak of 2.3 million homes, it is also well off the low of 500,000 new house starts recorded only 18 months ago;

- As an indicator of future expected activity, building permits for July were 812,000 units - 6.8% up on June and 29.5% up on the previous July. In addition, builder confidence increased in June to its highest point in over five years, with builders reporting the highest sales levels since February 2007; and

- While Tenon will participate in any recovery of new house construction through its existing positions in the pro-builder channel, it is recovery in the remodelling and renovation segment that Tenon is most exposed to. Here too, commentators are projecting a more positive outlook. By way of example, the chart on the next page shows the remodelling activity forecast from the Joint Center for Housing Studies of Harvard University released in July.

Lending indicator of remodelling activity (LIRA)
Homeowner Improvements 4-quarter moving totals
$ billions - July 2012 projections



Although we believe recovery will be gradual, these points are all indicative of a much stronger future earnings profile for Tenon moving forward. For now however, given the considerable uncertainty that remains as to the movement of the NZD:USD cross rate and the timing of any recovery, like our industry colleagues we will not be giving earnings guidance at this stage, other than to say that any short-term lift in Tenon's earnings as a result of market recovery is unlikely to be felt until the second half of fiscal 2013. We will however update you on Tenon's progress as events unfold during the year.

Finally, we would like to thank all of our shareholders, employees, and customers for your continued support throughout this past year. As always, it is very much appreciated.

Sincerely,

Luke Moriarty (Chairman)

Tony Johnston (Chief Operating Officer)

22 August 2012

Financial Statements and Corporate Governance

Tenon Limited and Subsidiaries

Consolidated Income Statement for year ended 30 June

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Note	Tenon Group 2012 US$m	Tenon Group 2011 US$m
–	**–**	Revenue		**334**	326
–	**–**	Cost of Sales	5	**-254**	-241
–	**–**	Gross Profit		**80**	85
–	**–**	Distribution Expense	5	**-71**	-72
–	**–**	Administration Expense	5	**-14**	-13
–	**–**	Fair value gain on Forest Assets	13	**–**	2
–	**–**	Restructuring Costs	5	**-3**	–
–	**–**	Operating Profit before Financing Costs		**-8**	2
-17	**-17**	Financing Costs	19	**-3**	-3
-17	**-17**	Profit / (Loss) before Taxation		**-11**	-1
–	**–**	Income Tax (Expense) / Benefit	6	**2**	-1
-17	**-17**	Net Profit / (Loss) after Taxation		**-9**	-2
		Earnings Per Share Information			
		Basic and Diluted Net Earnings per Share (cents)	7	**-13.9**	-2.8

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

Consolidated Statement of Comprehensive Income for year ended 30 June

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Note	Tenon Group 2012 US$m	Tenon Group 2011 US$m
-17	**-17**	Net Profit / (Loss) after Taxation for the year		**-9**	-2
–	**–**	Net movement of Cash Flow Hedges net of Tax	9	**–**	–
-43	**13**	Movement in Currency Translation Reserve	9	**-1**	2
-43	**13**	Other Comprehensive Income for the year, net of Tax		**-1**	2
-60	**-4**	Total Comprehensive Income for the year		**-10**	–

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

Tenon Limited and Subsidiaries

Consolidated Statement of Changes in Equity for year ended 30 June

Tenon Group

	Note	Shares US$m	Retained Earnings US$m	Cash Flow Hedge Reserves US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Group Equity and Reserves US$m
As at 1 July 2010		533	-406	–	1	4	132
Net Profit / (Loss) after Taxation for the year		–	-2	–	–	–	-2
Other Comprehensive Income for the year		–	–	–	–	2	2
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-2	–	–	2	–
As at 30 June 2011	9	533	-408	–	1	6	132
As at 1 July 2011		533	-408	–	1	6	132
Net Profit / (Loss) after Taxation for the year		–	-9	–	–	–	-9
Other Comprehensive Income for the year		–	–	–	–	-1	-1
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-9	–	–	-1	-10
Share Buyback (1)		–	–	–	–	–	–
As at 30 June 2012	9	533	-417	–	1	5	122

Tenon Limited

	Note	Shares US$m	Retained Earnings US$m	Cash Flow Hedge Reserves US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Group Equity and Reserves US$m
As at 1 July 2010		533	-492	–	–	-5	36
Net Profit / (Loss) after Taxation for the year		–	-17	–	–	–	-17
Other Comprehensive Income for the year		–	–	–	–	-43	-43
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-17	–	–	-43	-60
As at 30 June 2011	9	533	-509	–	–	-48	-24
As at 1 July 2011		533	-509	–	–	-48	-24
Net Profit / (Loss) after Taxation for the year		–	-17	–	–	–	-17
Other Comprehensive Income for the year		–	–	–	–	13	13
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-17	–	–	13	-4
Share Buyback (1)		–	–	–	–	–	–
As at 30 June 2012	9	533	-526	–	–	-35	-28

(1) On 14 November 2011, Tenon announced that it intended to make an offer to shareholders owning 10,000 or fewer Tenon shares, to buy back their shares, at 65 cents per share brokerage free, up to a maximum of 1,250,000 shares. The offer period closed on 28 December 2011 and 1,159,980 shares valued at NZ$753,987 were purchased and cancelled by Tenon on 30 December 2011.

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

Tenon Limited and Subsidiaries

Consolidated Balance Sheet as at 30 June

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Note	Tenon Group 2012 US$m	Tenon Group 2011 US$m
		ASSETS			
		Current Assets:			
–	**–**	Cash and Liquid Deposits		**–**	2
–	**–**	Inventory	10	**53**	53
–	**–**	Trade and Other Receivables	11	**31**	25
–	**–**	Assets Held for Sale	15	**3**	2
–	**–**	Total Current Assets		**87**	82
		Non Current Assets:			
–	**–**	Fixed Assets	12	**25**	29
–	**–**	Forest Assets	13	**3**	3
262	**262**	Investments	14	**–**	–
1	**1**	Intercompany Advances	24	**–**	–
–	**–**	Goodwill	16	**67**	67
–	**–**	Deferred Taxation Asset	18	**11**	9
263	**263**	Total Non Current Assets		**106**	108
263	**263**	Total Group Assets		**193**	190
		LIABILITIES AND GROUP EQUITY			
		Liabilities			
		Current Liabilities:			
–	**–**	Bank Overdraft		**1**	–
1	**1**	Trade and Other Payables and Provisions	17	**32**	26
–	**–**	Current Debt	19	**1**	1
1	**1**	Total Current Liabilities		**34**	27
		Non Current Liabilities:			
–	–	Non Current Debt	19	**37**	31
286	**290**	Intercompany Advances	24	**–**	–
286	**290**	Total Non Current Liabilities		**37**	31
287	**291**	Total Group Liabilities		**71**	58
		Group Equity			
533	**533**	Capital	8	**533**	533
-557	**-561**	Reserves	9	**-411**	-401
-24	**-28**	Total Group Equity		**122**	132
263	**263**	Total Group Liabilities and Equity		**193**	190
		Net Assets per Share (US$)		**1.86**	1.97
		Net Tangible Assets per Share (US$)		**0.67**	0.84
		Shares used for Net Assets per Share (millions)	8	**65.7**	66.9

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

For and on behalf of the Board
22 August 2012

Chairman of Directors
Luke Moriarty

Director (Chairman of Audit Committee)
Michael Walls

Chief Operating Officer
Anthony Johnston

Chief Financial Officer
Adam White

Consolidated Statement of Cash Flows for year ended 30 June

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Note	Tenon Group 2012 US$m	Tenon Group 2011 US$m
		Cash was Provided:			
		From Operating Activities			
–	–	Receipts from Customers		**327**	328
–	–	Total Provided		**327**	328
–	–	Payments to Suppliers, Employees and Other		**331**	322
–	–	Income Tax Payment		–	1
–	–	Total Applied		**331**	323
–	–	Net Cash from / (to) Operating Activities		**-4**	5
		To Investing Activities:			
–	–	Purchase of Fixed Assets	12	**2**	2
–	–	Net Cash to Investing Activities		**-2**	-2
		From Financing Activities:			
–	–	Debt Drawdowns		**7**	45
17	**18**	Advances from Subsidiaries		–	–
17	**18**	Total Provided		**7**	45
–	–	Debt Settlements		**1**	42
17	**17**	Interest and Refinancing Fees paid		**2**	4
–	**1**	Share Buyback		**1**	–
17	**18**	Total Applied		**4**	46
–	–	Net Cash from / (to) Financing Activities		**3**	-1
–	–	Net Movement in Cash Held		**-3**	2
–	–	Add Opening Cash, Liquid Deposits and Overdrafts		**2**	–
–	–	Closing Cash, Liquid Deposits and Overdrafts		**-1**	2

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

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

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		Cash was Provided from:		
-17	**-17**	Net Profit after Taxation	**-9**	-2
17	**17**	Add Net Financing Expense	**3**	3
		Adjustments:		
–	**–**	Depreciation	**5**	6
–	**–**	Taxation	**-2**	–
–	**–**	Asset valuation - Forest Assets(2)	**–**	-2
–	**–**	Other(3)	**2**	-1
–	**–**	Cash Flow from / (to) Operations before Net Working Capital Movements	**-1**	4
–	**–**	Net Working Capital Movements	**-3**	1
–	**–**	Net Cash from / (to) Operating Activities(1)	**-4**	5
		Net Working Capital Movements:		
–	**–**	Trade and Other Receivables	**-7**	2
–	**–**	Inventory	**-1**	6
–	**–**	Trade and Other Payables	**5**	-7
–	**–**		**-3**	1

(1) As per Statement of Cash Flows
(2) Fair value adjustment to forest assets
(3) Restructuring costs provided (June 2011: restructuring costs paid and non cash provision releases)

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

Notes to the Financial Statements

1 GENERAL INFORMATION

Tenon Limited (the Company) and its Subsidiaries (together the Group) is a processing, marketing and distribution business represented by one division - the Moulding and Millwork segment. The Group focuses on the North American market. The Group has strong direct and indirect supplier relationships for finished mouldings and boards with independent Pro-Dealers and with the two largest home improvement chains in the United States: Lowe's and The Home Depot and supplies appearance grade lumber to a number of US moulding and millwork manufacturers. As well as providing a channel to market for Tenon's New Zealand products, its wholly owned distribution businesses in the United States also source significant quantities of finished mouldings and millwork products from other suppliers.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 7 Fanshawe Street, Auckland, New Zealand.

The Company is listed on the New Zealand stock exchange. As at 30 June 2012 the Group was 58.99% owned by Rubicon Limited and its subsidiaries (June 2011: 57.96%).

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 22 August 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Presentation

The consolidated financial statements presented are those of Tenon Limited and its Subsidiaries (the Group).

2.2 Statement of Compliance

The financial statements have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards. The financial statements are in compliance with International Financial Reporting Standards (IFRS). The Group has designated itself as a profit-oriented entity for the purposes of compliance with NZ IFRS.

2.3 Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993 and comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The presentation currency used in the preparation of these financial statements is United States dollars, rounded to the nearest million.

The accounting principles recognised as appropriate for the measurement and reporting of profit and loss and financial position on an historical cost basis have been applied, with the exception of derivative financial instruments, forest assets and assets held for sale which are stated at their net book value.

The preparation of financial statements in conformity with NZ IFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates (refer to note 3).

The Group financial statements consolidate the financial statements of subsidiaries, using the acquisition method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group.

During the year the Group adopted NZ IAS 24 (Revised), Related Party Disclosures and FRS 44, New Zealand Additional Disclosures and Harmonisation Amendments.

NZ IAS 24 (Revised) clarifies and simplifies the definition of a related party. The amendment has not impacted the related party disclosures that the Group makes in its financial statements.

FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs. Adoption of the new rules has not affected any of the amounts recognised in the financial statements.

(b) Certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IAS) and the External Reporting Board (XRB) that are mandatory for future periods and which the Group will adopt when they become mandatory. The Group has identified the following standards described below as relevant:

- NZ IAS 1 Amendments, Presentation of Items of Other Comprehensive Income (effective 1 July 2012). This amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any items recognised in the balance sheet or income statement in the current period. The Group will adopt the new standard on 1 July 2012.

- NZ IFRS 9 Financial Instruments: Classification and Measurement (mandatory for annual periods beginning on or after 1 January 2015). The major changes under the standard are: NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 Financial Instruments: Recognition and Measurement with a single model that has two classification categories: amortised cost and fair value. The impact on the Group is not expected to be significant. The Group will apply NZ IFRS 9 prospectively from 1 July 2015.

- NZ IFRS 10 Consolidated Financial Statements and NZ IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013). NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ IFRIC 12 Consolidation – Special Purpose Entities. The standard introduces a single definition of control that applies to all entities. NZ IFRS 12 sets out the required disclosures for entities reporting under the new standard, NZ IFRS 10. The Group does not expect the new standards to have a significant impact on the financial statements.

- NZ IFRS 13 Fair Value Measurement (effective for reporting periods beginning on or after 1 January 2013). NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

- Other interpretations and amendments that have been issued in the current period are unlikely to have an impact on the Group accounts and so have not been disclosed.

2.5 Basis of Consolidation

(a) Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent Company. Control exists when the Parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For acquisitions before 30 June 2009, the following purchase method of accounting was used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value for the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

There have been no acquisitions subsequent to 1 July 2010, but if there had been, the Group would have applied the purchase method of accounting as described above, modified by NZ IFRS 3 (Amendment) 'Business Combinations'. The most significant change to the purchase method of accounting brought about by the adoption of NZ IFRS 3 is that all costs relating to a business combination must be expensed and not capitalised to the cost of the acquisition. In addition subsequent remeasurement of the business combination would be required to be put through the income statement.

(b) Goodwill

All business combinations are accounted for by applying the acquisition method. In respect of business acquisitions that have occurred since 1 July 2004, goodwill represents the difference between the cost of the acquisition and the Group's share of the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill was calculated by comparing the fair values of assets and liabilities of subsidiaries acquired to the purchase price of those assets and liabilities. Goodwill arising upon acquisition was amortised to earnings on a systematic basis and the balance of the goodwill was included in the accounts at its net carrying value at the date of transition to NZ IFRS. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is no longer amortised but is tested annually for impairment at each reporting date.

2.6 Presentation and Functional Currencies

(a) Presentation currency

These financial statements are presented in United States dollars, which is the functional currency of the Parent and principal operating subsidiaries. The use of the United States dollar as the presentation currency is because the predominant functional currency of the Group entities is the United States dollar.

(b) Functional currency

(i) Foreign operations

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the Parent is the United States dollar.

The assets and liabilities of all of the Group companies (none of which has a currency of a hyper-inflationary economy) that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to the functional currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the date of the transactions. Non-monetary exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve.

(ii) Transactions

Transactions in currencies other than the functional currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation of monetary items are recognised in the income statement.

2.7 Valuation of Assets

(a) Land, buildings, plant and equipment

Land, buildings, plant and equipment are stated at historical cost less accumulated depreciation and impairments. Land is not depreciated. Depreciation on Buildings, Plant and Equipment and Office Equipment is calculated on the straight line method. Expected useful lives, which are regularly reviewed, are:

Buildings	30 years
Plant and equipment	10 to 13 years
Office equipment	3 to 5 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Inventory

Trading inventory, raw materials and work in progress are valued at the lower of cost or net realisable value and are determined principally on the first-in-first-out basis. Cost includes direct manufacturing costs and manufacturing overheads at normal overheads at normal operating levels. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

(c) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

Trade receivables are derecognised when the rights to receive cash flows from the transaction have expired or have been transferred and the Group has transferred substantially all of the risks and rewards of ownership.

(d) Cash

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(e) Assets held for sale and discontinued operations

Assets held for sale are assets whose carrying value will be recovered principally through sale rather than through continuing use. Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised while they are classified as held for sale.

(f) Forest assets

Forest assets are standing trees on leased forest land, and are residual forest assets remaining after the sale of the majority of the Group's forest assets during 2004. The assets are valued at their fair value. All the costs necessary to maintain the forest assets are included in the income statement together with the change in fair value for each accounting period. The value is based on discounted forestry cash flow models where the fair value is calculated using cash flows based on sustainable forest management plans. The fair value is measured as the present value of cash flows from one growth cycle on leased forest land, taking into consideration environmental, operational and market restrictions.

(g) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For goodwill, the recoverable amount is estimated at each balance sheet date.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of assets, other than receivables, is the greater of their fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Valuation of Liabilities

(a) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost.

(b) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Group's best estimate of the expenditure required to settle the present obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(c) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

(d) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(e) Derivative financial instruments

The Group uses derivative financial instruments for the purpose of managing its exposure to adverse fluctuations in interest and foreign currency exchange rates and commodity prices. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged.

The Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes, however derivatives that do not qualify for hedge accounting are classified as financial assets at fair value through the income statement. These derivative financial instruments are initially recognised at fair value at the date the contract is entered into. The subsequent gain or loss arising from changes in the fair value of derivative financial instruments is recognised immediately in the income statement.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(f) Cash flow hedges

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

The ineffective portion of all cash flow hedges is recognised in current year's earnings in the Consolidated Income Statement.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Fair value hedges

Changes in the fair value of derivatives which are designated and qualify as fair value hedges are recognised in the Consolidated Statement of Income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within "finance costs". The ineffective portion of all fair value hedges is recognised in the Consolidated Income Statement.

2.9 Income Determination

(a) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of any value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

(b) Goods sold

The Group's revenue is mainly from the North American market where it has strong direct and indirect supplier relationships for finished mouldings and boards with independent Pro-Dealers and with the two largest home improvement chains in the United States: Lowe's and The Home Depot. The Group also supplies appearance grade lumber to a number of US moulding and millwork manufacturers. As well as providing a channel to market for Tenon's New Zealand products, its wholly owned distribution businesses in the United States also source significant quantities of finished mouldings and millwork products from other suppliers. Sales of goods are recognised when a group entity has delivered the product to the customer and/or the title and risk of loss has passed to the customer. Products are generally sold with volume discounts and customers have a right to return faulty product. Sales are recorded based on the price negotiated with the customer, net of estimated volume discounts and returns. Historical experience is used to estimate the level of returns likely and volume rebates are calculated on a preset formula.

(c) Investment income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(d) Financing costs

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method and amounts payable in relation to the supply chain financing programme.

(e) Leases

The Group leases certain plant, equipment, land and buildings. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the income statement in the periods of expected benefit. Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(f) Employee benefits

Long service leave vests to the employee after varying periods of service. The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised in the income statement.

2.10 Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the Tenon Group Board and the Executive Management team, who make strategic decisions.

2.11 Goods and Services Tax (GST)

The Income Statement and Statement of Cash Flows have been prepared exclusive of Goods and Services Taxation (GST). All items in the Balance Sheet are stated net of GST, with the exception of trade receivables and trade payables, which include GST invoiced.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Research and Development Costs

All research costs are recognised as an expense when incurred. When a project reaches the stage where it is reasonably certain that further expenditure can be recovered through the processes or products produced, then further expenditure is recognised as a development asset. The asset is amortised from the commencement of commercial production of the product to which it relates, over the period of expected benefit.

2.13 Comparatives

Changes in prior year disclosure comparatives have been made to align with the current year presentation.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following:

(a) Note 13 - Forest Assets
(b) Note 16 - Goodwill
(c) Note 18 - Provision for Current Taxation and Deferred Taxation

4 RISK MANAGEMENT

This note presents information about the Group's potential exposure to financial, commercial and environmental risks that the Group has identified; the Group's objectives, policies and processes for managing those risks; the estimation of fair values of financial instruments; and the Group's management of capital. Quantitative disclosures of some of the key financial risks are made in note 20 of the consolidated financial statements.

4.1 Approach to Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group actively operates a risk management programme, designed to minimise potential adverse effects on the Group's financial performance. The Group's risk management programme identifies and analyses the risks faced by the Group, sets appropriate risk limits and controls, and monitors risks and adherence to those limits. The Group uses an intra-Group web-based risk management system for standardised risk assessment and reporting.

Management reports to the Board on the key outputs of the Group's annual risk reviews. The Board establishes formal written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. The Board may waive or modify the application of such policies, and from time to time has done so, where particular circumstances make it, or have made it, appropriate to do so.

4.2 Key Financial Risks

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases, cash and short-term deposits and derivatives.

The Group manages its exposure to the key financial risks - market risk (including commodity price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk - in accordance with the policies set down by the Board as discussed above. The Group enters into derivative transactions (principally interest rate swaps and forward currency contracts) to manage interest rate and currency risks.

(a) Market risk

The Group is exposed to changes in market demand, prices, foreign exchange rates and interest rates that affect the Group's earnings or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns. The Group enters into derivative transactions in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors as discussed above. The Group does not use derivative financial instruments for trading or speculative purposes.

4 RISK MANAGEMENT (continued)

4.2 Key Financial Risks continued

(i) Price risk (input and output)

The Group operates in a competitive environment and takes all commercial actions necessary to minimise the risk of increasing input prices including operating procurement programmes to ensure raw materials are sourced on a competitive basis and the fostering of relationships with customers that allow the re-negotiation of selling prices in response to input/source price changes as appropriate.

Product prices, particularly in the US market, can be cyclical and volatile. Prices for the Group's products are influenced by North American housing inventory levels (new and existing), house price movement, housing construction levels, remodelling and renovation expenditure levels and other factors that affect consumer demand, such as employment levels and interest rates. Prices are also influenced by product availability, which can be a function of interest and foreign exchange variation, seasonal factors or supply availability and competition from a number of countries that supply products into the North American market, particularly New Zealand, North and South America and China. US lumber prices are particularly volatile, while US prices for finished products (such as mouldings) tend to be less volatile and on longer-term supplier programmes. Movements in the above factors materially affect the Group's financial performance. A movement of $50 per thousand board feet in the sales price for Moulding & Better lumber is estimated to affect Operating Profit before Financing Costs by approximately $0.75 million per annum assuming the Taupo sawmill is operating at full capacity. The average Moulding & Better 5/4 lumber price, per Crow's, in the 2012 fiscal year was approximately $1,219 per thousand board feet (2011: $1,128 per thousand board feet). Tenon can manage some of this pricing volatility by increasing or decreasing total production and/or internal consumption of the Moulding & Better lumber in the Taupo remanufacturing plant. Actual monthly sales volumes will vary depending on market and operating circumstances.

Sawlogs are the key raw material for the Group's New Zealand based solid wood processing operations. A failure to secure wood supply could have a material adverse effect on the Group's New Zealand production. To mitigate this risk, the Group maintains specialist in-house procurement expertise and has a number of long-term sawlog supply agreements with the purchasers of its former forest estate and varies the grades of log utilised. The Group also purchases sawlogs under shorter-term supply arrangements and on the spot market. A movement in the average cost of logs of NZ$1/tonne is estimated to affect Operating Profit before Financing Costs by approximately US$0.3 million assuming up to 400,000 tonnes of logs are processed at full capacity on an annual basis.

In addition, should existing third party suppliers of sawlogs fail to maintain Forest Stewardship Council (FSC) Certification, or an equivalent certification, and the Group is unable to source replacement certified volume, this might result in the loss of some contracts to supply US customers who require that the wood they purchase come from forests that are managed according to internationally agreed social and environmental principles and criteria. The Group considers it currently has sufficient FSC certified volume available, but it is actively managing this risk, for example, by offering its customers the option of taking non-FSC products in certain product categories to minimise this risk.

The Group relies on international shipping being available at competitive prices for the distribution of its products, particularly those manufactured in New Zealand. Shipping contracts are typically 1-2 years in duration, with fixed container rates in US dollar currency for the contract period, subject only to fluctuations in fuel prices.

In December 2010, the Group entered into a 3-year electricity commodity contract to replace the previous contract that expired on 31 December 2010. The new commodity contract provides an economic hedge against approximately 33% (previous contract 75%) of electricity costs incurred at the Taupo site when the site is operating at full capacity. The new and old contracts were determined as effective hedges under NZ IAS 39 (Financial Instruments: Recognition and Measurement), with the 30 June 2012 and 30 June 2011 mark-to-market valuation adjustments being required to be taken to the hedging reserve in Group Equity.

Other than the above electricity commodity contract, during the year the Group did not use any commodity price swaps, futures or options to manage the market price risk of any commodities.

4 RISK MANAGEMENT (continued)

4.2 Key Financial Risks continued

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the NZ dollar. Foreign exchange risk arises from future recognised assets and liabilities and net investments in foreign operations. The Group's functional currency is the US dollar. Accordingly, strengthening or weakening in the NZ dollar against the US dollar has had, and could have in the future, a material impact on the Group's financial condition or results of operations. Approximately 19% of the Group's 2012 costs and approximately 6% of the Group's 2012 revenues are incurred in New Zealand dollars, and approximately 1% of the Group's 2012 costs and 1% of the Group's 2012 revenues are incurred in Canadian dollars. In addition, log costs in New Zealand are linked to the US/NZ exchange rate, typically moving, after some delay, partially in correlation with New Zealand dollar export returns from logs or procured wood products. However, recent weakening in the US dollar and relative strengthening in the NZ dollar, combined with strong pruned log demand out of China to meet China domestic needs, has caused this historic correlation to weaken. The currencies of the Group's key non-New Zealand manufacturer competitors could also have a material impact on the Group's financial condition or results of operations. Such movements would be partially offset to the extent the Group's North American operations can leverage lower purchase prices from lower (in US dollars) cost countries. A 1 cent change in the value of the NZ dollar against the US dollar is estimated to have an impact on Operating Profit before Financing Costs of approximately US$0.65 million at full operating capacity, assuming key pricing variables remain constant.

The Group uses forward contracts to manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's functional currency.

The Group's policy is to manage currency exchange rate exposure to limit the impact that any adverse changes in foreign exchange rates might have on the Group's financial position, profitability or cash flow. Non-monetary assets are recorded in their functional currency, as determined by the dominant currency of cash flows, sales prices, sales markets, expenses and debt structure. The currency denomination and quantum of debt outstanding are managed so that economic risk exposure to currency movements on the aggregate of balance sheet and revenue items is offset within policy defined limits. Where the proportion of the underlying debt in any currency does not equate to the required proportion of total debt, derivative financial instruments may be entered into to manage the exposure within formal Board policies as discussed above.

(iii) Interest rate risk

The Group's debt facility comprises a mixture of long-term debt and short-term LIBOR loans. Interest on both types of debt is based on LIBOR rates and can be for a term of one, two, three or six months, and borrowings issued at these short term variable rates expose the Group to market interest rate risk. Interest is also paid on a supply chain financing programme sponsored by the Bank of America based on LIBOR rates. The Group's policy is to manage its interest position depending upon underlying interest rate exposures and economic conditions. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group raises long-term borrowings at floating rates and when appropriate swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts (refer to note 20 (a) - exposure to interest rate risk).

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and financial derivatives it has entered into.

4 RISK MANAGEMENT (continued)

4.2 Key Financial Risks continued

(i) Trade and other receivables.

The Group's exposure to credit risk is influenced by the individual characteristics of each customer or counterparty. Credit arrangements are entered into in accordance with limits set forth by the Group as to credit rating and dollar limits. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. In the United States, the Group has entered into credit insurance arrangements that cover approximately 37% of trade receivables as at 30 June 2012 (excluding national retail accounts), thereby reducing the Group's credit risk exposure. The total amount of policy cover is approximately $6 million and is subject to certain blanket deductibles per Group entity and specific cover limits and deductibles for individual customers. The Group establishes a provision for doubtful debts based upon an estimate of losses expected in respect of trade and other receivables (refer to note 20 (b), credit risk, exposure to credit risk, for analysis of accounts receivable and note 4.3 commercial risk (a) market demand risk, for customer concentration risk). Tenon's largest customer is Lowe's, the second largest retail home store operator in the US. Whilst there is a degree of customer concentration with Lowe's, its credit rating has remained strong throughout the current US housing down-cycle and global credit crisis. Tenon has minimised the commercial credit risk with this customer by entering into the supply chain financing programme (refer to note 4.2 (c), liquidity risk) in respect of most of its receivables exposure with it. In addition, Tenon's strategy is to actively grow pro-dealer business to provide greater diversity of revenue and earnings streams.

(ii) Financial Derivatives

The Group is exposed to counterparty risk in respect of potential default of a counterparty to a financial instrument, with the maximum exposure equal to the carrying amount of those instruments. Financial instruments are able to be spread amongst a number of financial institutions to minimise the risk of default of counterparties. Authorised counterparties for financial instruments (apart from electricity price hedge arrangements) are restricted to those financial institutions that form part of the Group's syndicated debt facility.

(c) Liquidity risk

The Group Treasury policy aims to maintain flexibility in funding by keeping committed credit lines available.

On 24 June 2011, a long-term debt financing facility was established, replacing the Group's previous syndicated facility. The facility is a syndicated facility structured on a group basis with JPMorgan Chase Bank, N.A. ("JPMorgan Chase") as Agent. The term of the facility is for 5 years. The facility is a $57.6 million secured facility, comprising a $50 million revolver facility and a $7.6 million amortising term loan.

The facility is an "asset-based" lending facility, whereby the underlying assets and working capital of Tenon secure the obligations to the bank syndicate. The amount available for drawdown at any one time is determined by the value of the assets under a Borrowing Base covenant, based on the current value of the Group's inventory and receivables, reported to the Agent on a monthly basis, subject to certain prescribed exclusions, reserves and deductions. The Borrowing Base calculations are subject to periodic examination by the Agent during the remaining life of the credit facility (refer to note 19 (2)).

The Group's banking facility requires a minimum "availability" Borrowing Base of $7.5 million. At 30 June 2012, the amount of availability was $16.1 million. Should availability fall below $7.5 million at any time, this would result in a default under the terms of the banking facility giving the banks the right to impose certain restrictions on the Group's access to and use of its funds including demanding repayment of the amount borrowed, thereby requiring the Group to source alternative funding. The terms of the facility also include certain negative covenants in relation to acquisitions and dividends, each of which are limited to $5 million per calendar year (without bank approval) and each subject to a minimum availability of $12.5 million existing immediately after the acquisition or the payment of the dividend. In addition, the facility has an annual excess cash flow recapture provision of up to $1 million to be applied against the balance of the term loan owing at the end of the relevant fiscal year commencing June 2012. The Group is also limited to the amount of third party borrowing, which cannot exceed $5 million. With the exception of the provision relating to excess cash flow recapture, the new facility is not otherwise subject to earnings or fixed charge based financial covenants.

The supply chain financing programme announced on 16 June 2008, sponsored by the Bank of America, which allows Tenon the opportunity to receive payment from the Bank of America for a large portion of its receivables in advance of normal customer credit payment terms, has continued under the current bank facility.

The Group was at all times in compliance with the financial covenants throughout the period of the loan.

4 RISK MANAGEMENT (continued)

4.3 Commercial Risk

The geographical nature of the Group's operations and history of the Group give the Group exposure to the following risks:

- Market Demand Risk
- Fletcher Challenge Separation Risk

(a) Market demand risk

Over 90% of the Group's earnings are sourced from the North American market. Material changes in market conditions have had, and will have, a material consequential effect on the Group's business. The Group has been materially adversely impacted by the prolonged economic downturn in this key market that has prevailed for the past 4-5 years.

Negative factors affecting the housing sector in North America have been tight credit market conditions, falling house prices, higher levels of housing inventory and reduced mortgage availability. These have each had, and are continuing to have, a material negative effect on the total consumption of building products, and therefore the Group's level of revenue, earnings and cash flow.

The Group experiences strong competition in our global market. Radiata pine mouldings from Chile and other New Zealand suppliers and pine mouldings from the United States and Brazil compete with the Group's New Zealand manufactured Radiata pine mouldings in the North American market. Radiata pine lumber from Chile and other New Zealand suppliers and other lumber species from Canada and the United States compete with the Group's appearance grade lumber products. Increasing product supply from China also competes with the Group's products manufactured in North America. The Group purchases products from third parties to supplement products manufactured by the Group, particularly where it is more cost effective to do so.

Some of the Group's manufactured products are subject to competition from products which perform the same or similar functions. These include alternative wood types and non-wood products such as plastic composites. Changes in consumer preference in favour of these alternative products, comparative pricing levels of the competing products and technological advances of these products could all materially affect the Group's financial performance. The Group continues to explore new channels where there is opportunity for new products and as such changes in the market occur the Group will look to satisfy customer demand for new products. In addition, the Group is materially dependent on major customers for a significant portion of its revenues. The loss of one or more of these customers, or a material loss of their business to a competitor, or a material reduction in the margin earned on the Group's product sales to these customers, would have a material effect on the Group's financial performance. The Group's strategy is to continue to improve its product and service offerings to these customers to ensure the Group remains the most competitive and innovative supply partner in specific categories. Revenues of approximately $153 million (June 2011:$160 million) are derived from a single external customer. These revenues are attributable to the North American geographic segment.

(b) Fletcher Challenge separation risk

Following the separation of the Fletcher Challenge Group, which was completed in March 2001, Tenon Limited remains as the continuing business of Fletcher Challenge Limited, the former ultimate parent company of the Fletcher Challenge Group. As some of the Fletcher Challenge Limited assets and liabilities were difficult to isolate or to transfer, prior to separation, the new owners of the former Fletcher Challenge divisions entered into an agreement with Tenon Limited (the Amended and Restated Deed Relating to Assets and Liabilities - "Deed") under which the economic benefits and risks of these assets and liabilities were assumed by the division to which they were properly attributed. Following separation, any claims made on Tenon Limited that are properly attributed to one or more of the other three divisions require Tenon to exercise its rights under the Deed to require payment from the relevant division or its successor or purchaser. Tenon is exposed to the risk that, in these circumstances, the relevant division (or its new owners) will not, or cannot, make the required payment. In more than ten years since separation only one claim has been made on Tenon that has required Tenon to seek to exercise its rights under the Deed. Under the terms of the Deed, Tenon attributed this claim to the relevant division and its purchaser, and it was settled by the purchaser with no material impact to Tenon.

4 RISK MANAGEMENT (continued)

4.4 Environmental Risk

The Group considers that its activities currently comply in all material respects with applicable environmental laws and regulations. Failure to comply with these laws and regulations may result in orders being issued that could cause certain of the Group's activities to cease or be curtailed or may require installation of additional equipment at substantial cost. Violators may be required to compensate those suffering loss or damage by reason of violations and may be fined if convicted of an offence under such legislation.

Environmental due diligence is part of the investigative process for any acquisition of a business by the Group. The Group has historically been a party to a number of disposals of businesses and assets which included potential associated environmental exposures. An entity that created an environmental liability may continue to retain liability for the environmental exposure, notwithstanding any change of ownership. In addition, the New Zealand operations include historical environmental risks which are being monitored by the Company. The costs of environmental compliance and remedial work are generally included in the normal cost of conducting the Group's businesses.

The Group has no reason to believe that these costs vary significantly from similar costs incurred by other companies engaged in similar businesses. Assuming that the environmental laws and regulations are applied uniformly, the Group considers that its environmental compliance and remedial costs are not likely to have a material adverse effect on its relative competitive position or its financial position or results of operations. The precise cost of any future compliance and remedial work will depend on, among other things, the nature and extent of the current and future environmental laws and regulations, the timing and nature of any required remedial work, the extent of any contamination, the technology available to meet the required standards, the determination of any liability in proportion to that of other parties and the extent to which any costs are recoverable from third parties.

4.5 Capital Management

The Board's objectives when managing capital are to maximise the return for the Company's shareholders and to safeguard the Group's ability to continue as a going concern.

In order to maintain or adjust the capital structure the Group may pay dividends, return capital, issue new shares or sell assets to reduce debt, subject to the terms of the Group's syndicated debt facility.

4.6 Fair Value Estimation

Financial instruments are recorded in the balance sheet at an estimated fair value. In the June 2012 year, foreign exchange contracts, interest rate swaps and the electricity commodity contract for difference are treated as effective hedges under NZ IAS 39 (refer to note 2.8 Valuation of Liabilities, Significant Accounting Policies). In the June 2011 year, the interest rate swap was ineffective and valued at fair value through the Income Statement, the foreign exchange contracts and the electricity commodity contract for difference were treated as effective hedges under NZ IAS 39 (refer to note 2.8 Valuation of Liabilities, Significant Accounting Policies). The fair value of financial instruments traded in active markets is based on quoted market prices at balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Externally sourced valuations are used to value interest rate swaps and foreign exchange contracts held at balance date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The carrying amount of cash and liquid deposits and bank overdrafts is equivalent to the fair value. Long-term financial liabilities and other receivables are held at amortised cost. It is not practicable to estimate fair values of unlisted investments in Subsidiaries as there are no quoted market prices for those or similar investments. The carrying value of forest assets is equivalent to their fair value. The assets held for sale are valued at net book value. The Group has no unlisted investments in other companies.

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		5 OPERATING EARNINGS		
		Operating Earnings includes:		
–	–	Depreciation - Plant, Equipment and Buildings		
–	–	Cost of Sales Expense	**4**	5
–	–	Selling and Distribution Expense	**1**	1
–	–		**5**	6
–	–	Net Foreign Exchange (gain) / loss	–	-2
–	–	Employee Benefit Costs	**55**	55
		Restructuring Costs		
–	–	– Employee Costs (3)	**2**	–
		– Asset relocation costs (3)	**1**	–

Other items in Operating Earnings were:
(1) Directors fees payable were $0.4 million for the current year (June 2011: $0.3 million) (refer Key Management compensation note 24 (b))
(2) Payments made and accrued to PricewaterhouseCoopers were:
Statutory Audit $0.6 million for the current year (June 2011: $0.5 million)
Additional audit related work was $0.1 million for the current year (June 2011:$0.1 million)
(3) Restructuring costs in the year to June 2012 related to the Company's manufacturing activities in Canada and Taupo and the closure of the US Support office in Annapolis

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		note	Tenon Group 2012 US$m	Tenon Group 2011 US$m
		6 INCOME TAX EXPENSE			
		Current Taxation:			
–	–	United States		**-2**	–
–	–	New Zealand		–	1
–	–	Total Current Taxation		**-2**	1
–	–	Taxation Expense / (Benefit)		**-2**	1
		Net Profit / (Loss) before Taxation			
-17	**-17**	New Zealand		**-4**	–
–	–	United States		**-7**	-1
-17	**-17**			**-11**	-1
-5	**-5**	Taxation at 28 cents per dollar (June 2011: 30 cents)		**-3**	–
		Adjusted for:			
–	–	Expenses / (Income) not included in assessable income		**1**	–
–	–	Tax losses written off	18	–	1
5	**5**	Valuation allowance		–	–
–	–	Taxation Expense / (Benefit)		**-2**	1

Imputation Credit Account and Dividend Withholding Payment Account

The Imputation Credit Account and the Dividend Withholding Payment Account for the Group and Tenon Limited as at 30 June 2012 were nil (June 2011: nil).

	Tenon Group 2012	Tenon Group 2011
7 NET EARNINGS PER SHARE		
Basic and Diluted Net Earnings per Share (cents)	**-13.9**	-2.8
Numerator for Basic and Diluted Net Earnings per Tenon Share ($ millions)	**-9**	-2
Denominator for Basic and Diluted Net Earnings per Tenon Share (millions), refer to note 8.	**66.3**	66.9

	Tenon Group and Parent 2012 US$	Tenon Group and Parent 2011 US$
8 CAPITAL		
Capital		
Reported Capital:		
Reported Capital at the beginning of the year	**533,573,563**	533,573,563
Share Buyback (1)	**-625,904**	–
Reported Capital at the end of the year	**532,947,659**	533,573,563

	Tenon Group and Parent 2012	Tenon Group and Parent 2011
Tenon Ordinary Shares (1) (2)		
Number of Shares at the beginning of the year	**66,850,661**	66,850,661
Share Buy Back (1)	**-1,159,980**	–
Number of Shares at the end of the year	**65,690,681**	66,850,661

(1) On 14 November 2011, Tenon announced that it intended to make an offer to shareholders owning 10,000 or fewer Tenon shares, to buy back their shares, at 65 cents per share brokerage free, up to a maximum of 1,250,000 shares. The offer period closed on 28 December 2011 and 1,159,980 shares valued at NZ$753,987 were purchased and cancelled by Tenon on 30 December 2011.

(2) Includes 182,548 (June 2011: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as treasury stock.

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		9 RESERVES		
		Retained Earnings		
-492	**-509**	Opening Balance	**-408**	-406
-17	**-17**	Net Profit / (Loss) after Taxation	**-9**	-2
-509	**-526**		**-417**	-408
		Cash flow Hedging Reserve (1)		
–	**–**	Opening Balance	**–**	–
–	**–**	Fair Value gains for the year	**–**	1
–	**–**	Hedge gains transferred to Earnings in the year	**–**	-1
–	**–**		**–**	–
		Revaluation Reserve (2)		
–	**–**	Opening Balance	**1**	1
–	**–**		**1**	1
		Net Currency Translation (3)		
-5	**-48**	Opening Balance	**6**	4
-43	**13**	Net variations on Translation of Foreign Currency Financial Statements	**-1**	2
-48	**-35**		**5**	6
-557	**-561**	Total Reserves	**-411**	-401

(1) The Hedging reserve records the net movement of cash flow hedging instruments, comprising of foreign exchange contracts, an electricity hedge contract at the Group's Taupo operation and interest rate swaps.

(2) The Revaluation reserve arose in November 2006 when the Group announced that it had exited its 50% investment in AWM and acquired 100% of Ornamental Mouldings. Tenon's share of the reserves of Ornamental Mouldings when it was an associate was recognised as a revaluation reserve on consolidation.

(3) The Tenon Limited currency translation movement of $13 million in the June 2012 year (June 2011: $43 million) arises on the translation of intercompany New Zealand dollar advances at balance date. These advances are eliminated on consolidation of the Tenon Group. Under IFRS, investments in subsidiaries are held at cost and are not revalued to reflect exchange rate translation movements, investments in subsidiaries are also eliminated on consolidation. Cumulative movements in the currency translation reserve ($35 million as at 30 June 2012) have resulted in Tenon Limited Equity reported as a negative $28 million when presented in US dollars for reporting purposes only.

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		10 INVENTORY		
–	**–**	Raw Materials and Work in Progress	**6**	4
–	**–**	Finished Goods	**47**	49
–	**–**		**53**	53

The cost of inventory recognised as an expense and included in cost of sales amounted to $254 million (June 2011: $241 million).

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		11 TRADE AND OTHER RECEIVABLES		
–	–	Trade Debtors [1]	**26**	19
–	–	Prepayments	**3**	3
–	–	Other Receivables	**2**	3
–	–		**31**	25

(1) The Group's exposures to credit and currency risks and impairment losses related to Trade Debtors are disclosed in notes 20 (a) and 20 (b).

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		12 FIXED ASSETS		
		Cost		
–	–	Land and Improvements	**6**	6
–	–	Buildings	**17**	19
–	–	Plant and Equipment	**76**	76
–	–	Total Cost	**99**	101
		Accumulated Depreciation		
–	–	Buildings	**-7**	-7
–	–	Plant and Equipment	**-67**	-65
–	–	Total Accumulated Depreciation	**-74**	-72
–	–	Total Fixed Assets at Net Book Value	**25**	29
		Domicile of Fixed Assets		
–	–	New Zealand	**14**	13
–	–	United States	**11**	16
–	–	Total Fixed Assets at Net Book Value	**25**	29

	Land & Improvements US$m	Buildings US$m	Plant & Equipment US$m	Total US$m
Net Book Value 1 July 2010	5	13	15	33
Additions	1	–	1	2
Depreciation Charge	–	-1	-5	-6
Net Book Value 30 June 2011	6	12	11	29
Additions	–	–	2	2
Transfer from / to asset held for sale [1]	–	-1	–	-1
Depreciation Charge	–	-1	-4	-5
Net Book Value 30 June 2012	6	10	9	25

(1) Refer to note 15

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		13 FOREST ASSETS		
–	**–**	Opening Balance	**3**	–
–	**–**	Reclassification of forest assets	**–**	1
–	**–**	Gain attributable to fair value changes	**–**	2
–	**–**	Closing Balance	**3**	3

The Group has an interest in a forest asset growing on leased forest land (354.1 hectares) and the forestry rights to several forest assets growing on other forest land (76.1 hectares). The lease on the forest land expires in 2075 and the forestry rights expire between 2022 and 2046. The forest assets comprise a combination of clearwood (pruned) and framing (unpruned) stands in 4 separate locations. The forest assets form part of the security supporting the Group's global credit facility. The forests were residual assets remaining after the sale of the majority of the Group's forest assets in 2004 and had been classified as a discontinued asset under NZ IFRS 5, and valued at the lower of historic cost or fair value less costs to sell. In 2011, the decision was made to hold the current crop through to harvest, and the assets have now been valued under NZ IAS 41 "Biological Assets" and presented in the accounts as forest assets.

Valuation

The carrying value of our forest assets in these Financial Statements is their fair value of $3.4 million. This is derived from a current, independent forest valuation, as at 30 June 2012. The independent valuation assumes a post-tax cash flow assumption, an historical 12 quarter average pricing series to March 2012, and a transaction derived discount rate of 7% (real after-tax). Although Tenon is entitled to replant the land once harvesting is complete, the valuation only assumed a single rotation. The first stand is projected to be harvested in 2014. As Tenon does not own the forest land, carbon tax credits were not assumed.

As noted above, Tenon intends to hold the forest crop through to harvest. As the Group currently has sufficient carried forward New Zealand tax losses to offset the forecast assessable net income earned upon harvest, it is unlikely that tax will need to be paid on the positive net cash flows generated from the forest assets. On current discount rate and cash flow assumptions, the Company expects that the discounted net cash flows from the forest assets will exceed our carrying value and the independent valuation.

Sensitivities

The fair value estimate is sensitive to changes in the log price at mill or wharf gate log price and to changes in the discount rate. A 10% change in log prices is estimated to change the fair value of the forest asset as at 30 June 2012 by $0.3 million (June 2011: $0.3 million). A 1% change in the discount rate is estimated to change the fair value of the forest asset as at 30 June 2012 by $0.2 million (June 2011: $0.3 million).

Risk

As the Group operates a sawmill in Taupo, New Zealand that processes logs (total purchases of logs processed by the sawmill in the June 2012 year was $41 million (June 2011: $40 million)), there is a partial natural hedge where decreases/increases in the forest valuation due to log price changes are partially offset with increases/decreases in the profitability of the Taupo sawmill due to the change in the cost of raw materials used by the mill.

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		14 INVESTMENTS		
262	**262**	Investment in Subsidiary Companies (refer to notes 24 and 26)	**–**	–
262	**262**		**–**	–

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		15 ASSETS HELD FOR SALE		
–	**–**	Opening Balance	**2**	1
–	**–**	Currency translation and revision to costs to sell	**–**	1
–	**–**	Transfer from fixed assets (1)	**3**	–
–	**–**	Transfer to fixed assets (2)	**-2**	–
–	**–**	Closing Balance	**3**	2

(1) During the year, it was determined that the manufacturing operations in Canada would be relocated and integrated into the existing Group facilities in the USA. The manufacturing facility owned in Canada is therefore surplus to requirements and has been classified as available for sale. This asset has been transferred from fixed assets to this category at the lower of net book value and the estimated fair value less costs to sell.

(2) The company owns approximately 12.5 hectares of bare land adjacent to the Taupo manufacturing site which had been classed as available for sale in previous years. In the current economic market it is unlikely that the asset will be realised in the next 12 months and the land has been reclassified as a fixed asset in the 2012 year. The asset was transferred back to fixed assets at the lower of the original cost and the current fair value ($1.5 million).

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		16 GOODWILL		
–	**–**	Goodwill at beginning of the year	**67**	67
–	**–**	Balance at end of year	**67**	67

Tenon has allocated goodwill to one Cash Generating Unit ("CGU") being Tenon's 100% ownership interests in its North American manufacturing and distribution activities comprising The Empire Company, Southwest Moulding Co., and the Ornamental Group of companies. In the prior year Tenon reported the Ornamental Group as a separate CGU and allocated $18 million of goodwill to it.

As a result of the further integration of Tenon's North American manufacturing businesses and the restructuring of Ornamental's supply chain and shared service activities that occurred during the fiscal year, Tenon's North American full service distribution and manufacturing activities are now combined as one CGU. This approach is consistent with the sharing of certain common customers that were present at the time of Tenon's original acquisition of the Ornamental Group in 2006 and consistent with Ornamental's products being sold either to The Empire Company or to similar distributors in the decorative millwork supply chain. As a result, the operating activities and cash flows of the North American manufacturing and distribution activities have become closely integrated since the acquisition, and yet further integration will take place in 2013. The reduction of two CGU's down to one CGU has had no material effect on the impairment review of purchased goodwill carried out at the end of the fiscal year.

All businesses operate within Tenon's primary business segment being the North American geographic market.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use discounted cash flow projections over a five year period. These cash flows assume a gradual recovery from the currently depressed market conditions, due to the prolonged depressed state of the housing market in North America, such that by year 5 of the projections (i.e. the terminal year) Tenon's consolidated operating profit before financing costs, depreciation and amortisations (i.e. EBITDA) is projected to be $30 million (June 2011 Annual Report estimate $32 million).

Key assumptions used in the value-in-use calculations for each CGU are as follows, together with commentary on key sensitivities:

(1) For the purposes of the value-in-use calculations, the weak operating environment seen since 2008 is not forecast to materially improve until 2014. Longer term annual sales growth rates of between 5% and 7% are assumed for years 2014 to 2017, consistent with assuming long term growth in the new homes and remodelling markets gradually moving up from the bottom of the economic cycle.

(2) Gross margin percentages are assumed to be similar to the current year's percentage for the next 5 years (i.e. +/- 2%).

(3) The discount rate applied to the cash flow projections was 7.0% real, pre-tax (2011 - 8.3%), which reflects Tenon's weighted average cost of capital (WACC).

As the value-in-use significantly exceeded the carrying value plus allocated goodwill of the CGUs, no impairment existed at 30 June 2012.

16 GOODWILL continued

Sensitivities

Sensitivity analysis was applied to determine whether under realistic scenarios there may be an impairment in goodwill. Even after applying these sensitivities, the value-in-use calculations shows excess value significantly greater than the carrying value of the goodwill.

A sensitivity analysis shows that there would be no goodwill impairment even if:
– the real, pre-tax discount rate was increased to more than 11% pa; or
– the compound annual sales growth rate assumption was halved
– the gross margin was held constant at current levels.

The results of the sensitivities apply to the previous CGU reporting structure as well as the CGU reporting structure applied for this fiscal year and going forward as described above.

Tenon Limited			Tenon Group	
2011 US$m	2012 US$m		2012 US$m	2011 US$m
		17 TRADE AND OTHER PAYABLES AND PROVISIONS		
–	**–**	Trade Creditors	**19**	14
–	**–**	Accrued Employee Benefits	**4**	4
1	**1**	Other Payables	**3**	3
–	**–**	Accruals	**4**	5
–	**–**	Restructuring Provision (1)	**2**	–
1	**1**		**32**	26
		Provisions (1)		
–	**–**	Opening balance	**–**	–
–	**–**	Created through earnings	**2**	–
–	**–**	Closing Balance	**2**	–

(1) Restructuring provision for the closure of manufacturing operations in Canada.

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		18 PROVISION FOR CURRENT TAXATION AND DEFERRED TAXATION		
		Provision for Current Taxation:		
–	–	Opening Provision for Current Taxation	–	–
–	–	Current Taxation (Expense)/Benefit in the Consolidated Income Statement	**2**	-1
		Deferred Tax Movement during the year	**-2**	–
–	–	Net Tax Payments/(Refund)	–	1
–	–	Provision for Current Taxation Liability	–	–

Deferred Taxation:
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
–	–	Deferred Tax on Assets	**10**	9
–	–	Deferred Tax on Liabilities	**1**	–
–	–	Deferred Tax Asset	**11**	9
		The gross movement on the deferred income tax account is as follows:		
		Non Current Deferred Taxation:		
–	–	Opening Deferred Taxation	**9**	8
–	–	Effect of Currency Translation	–	1
–	–	Deferred Tax Movement during the year excluding tax losses written off	**2**	1
–	–	Net Taxation losses written off (1)	–	-1
–	–	Deferred Tax Asset	**11**	9

(1) In June 2011, previously recognised US tax losses that expired during the 2011 year or were due to expire in 2012/2013 were expensed ($1 million).

	Depreciation US$m	Forestry US$m	Provisions US$m	Tax Losses(1) US$m	Current Assets US$m	Total US$m
June 2011						
Opening Provision for Deferred Taxation	-1	–	1	8	–	8
Effect of Currency Translation	–	–	–	1	–	1
Tax losses expensed in Income Statement	–	–	–	-1	–	-1
Deferred Taxation in the Income Statement	-1	-1	-1	5	-1	1
Closing Provision for Deferred Taxation	-2	-1	–	13	-1	9
June 2012						
Opening Provision for Deferred Taxation	-2	-1	–	13	-1	9
Effect of Currency Translation	–	–	–	–	–	–
Deferred Taxation in the Income Statement	-1	–	1	1	1	2
Closing Provision for Deferred Taxation	-3	-1	1	14	–	11

(1) Recognised tax losses include $6.6 million of NZ tax losses (June 2011: $6.7 million), that do not expire, subject to shareholder continuity provisions, and $7.7 million (June 2011: $5.9 million) of US tax losses which have an expiry date as detailed below.

		Expiry Dates	
	Total	2014	2021 and beyond
US Tax Losses	US$m	US$m	US$m
Gross Value	22.0	1.7	20.3
Tax Effected	7.7	0.6	7.1

Tenon has taxation losses in excess of the amount that can be recognised under NZ IFRS. NZ IFRS allows the recognition of taxation assets when utilisation is considered probable, which is subject to the future earnings of the Tenon Group and shareholder continuity. Tenon has $25 million in unrecognised NZ tax losses, and no unrecognised US tax losses (June 2011: $26 million NZ losses and no unrecognised US tax losses).

Tenon Limited 2011 US$m	Tenon Limited 2012 US$m		Tenon Group 2012 US$m	Tenon Group 2011 US$m
		19 FINANCIAL COSTS AND DEBT		
		Finance Costs		
–	**–**	Interest payable on Debt	**2**	1
–	**–**	Interest payable on Supply Chain Financing	**1**	1
–	**–**	Amortisation of Refinancing Fees (1)	**–**	1
17	**17**	Interest payable on Intercompany Advances (refer to note 24)	**–**	–
17	**17**	Net Financing Expense	**3**	3
		Non Current Debt		
–	**–**	Loans (2)	**37**	31
–	**–**		**37**	31
		Current Debt		
–	**–**	Loans (2) (5)	**1**	1
–	**–**		**1**	1
–	**–**	Total Debt (4)	**38**	32
		Summary of Repayment Terms (3)		
		Due for Repayment:		
–	**–**	Less than one year (5)	**1**	1
–	**–**	between one and two years	**2**	2
–	**–**	between two and three years	**2**	2
–	**–**	between three and four years	**33**	2
–	**–**	between four and five years	**–**	25
–	**–**	**Total Debt**	**38**	32
		Non Current Debt		
%	**%**	Summary of Interest Rates by Repayment Period (%) (6)	**%**	**%**
		Due for Repayment:		
–	**–**	between one and two years	**4.81**	5.03
–	**–**	between two and three years	**4.81**	5.03
–	**–**	between three and four years	**4.98**	5.03
–	**–**	between four and five years	**–**	4.82
–	**–**	**Weighted Average Interest Rate**	**4.97**	4.85
		Weighted Average Interest Rate comprises:		
–	**–**	Weighted average interest rate on debt	**3.65**	3.32
–	**–**	Facility fees amortisation % on debt	**1.32**	1.53
–	**–**	**Weighted Average Interest Rate**	**4.97**	4.85
		Current Debt		
		Summary of Interest Rates by Repayment Period (%) (6)		
		Due for Repayment:		
–	**–**	Less than one year	**4.80**	6.63
–	**–**	**Weighted Average Interest Rate**	**4.80**	6.63
		Weighted Average Interest Rate comprises:		
–	**–**	Weighted average interest rate on debt	**3.63**	5.30
–	**–**	Facility fees amortisation % on debt	**1.17**	1.33
–	**–**	**Weighted Average Interest Rate**	**4.80**	6.63

19 FINANCIAL COSTS AND DEBT continued

(1) Includes the amortisation of the unamortised refinancing fees of $0.3 million. The June 2011 expense included the amortisation of the unamortised refinancing fees on the previous facility ($0.4 million).

(2) Tenon has a bank credit facility provided by a consortium of banks led by JPMorgan Chase Bank, N.A. (the Agent). The facility, which is structured as a global facility supporting the operations of the Tenon group as a whole, was entered into on 24 June 2011 and does not expire until June 2016. The new facility is an "asset-based" lending facility whereby the underlying assets and working capital of Tenon secure the obligations to the bank syndicate, subject to availability under a Borrowing Base covenant. The value of the assets under the Borrowing Base covenant is calculated based on the current value of the Group's inventory and receivables, reported to the Agent on a monthly basis, subject to certain prescribed exclusions, reserves and deductions. The Borrowing Base calculations are subject to periodic examination by the Agent during the remaining life of the credit facility (refer to note 4.2 (c)).

The revolver facility is classified as non-current, reflecting the lenders' commitment to the Company for the life of the facility which expires in June 2016. Under the facility the Company can exercise its unconditional right to draw down or repay borrowings from time to time up to the amount of the facility, subject to the Company remaining in compliance with certain facility covenants (refer to note 4.2 (c)). As at 30 June 2012 and 30 June 2011, the Company was in compliance with the Borrowing Base Covenant, accordingly the amount of debt drawn under the revolver facility as at 30 June 2012 and 30 June 2011 is aged non-current.

(3) The total size of Tenon's new syndicated bank credit facility reduces as a result of the scheduled amortisation of the Term Loan and the payment of an annual excess cash flow recapture provision of up to $1 million. The assumption in the notes to the financial statements has been made that, commencing in September 2013, the maximum $1 million repayment will be made under the excess cash flow provision of the facility.

		$m	
	Term	**Revolver**	**Total**
June 2012[a]	7.08	50.00	57.08
June 2013[a]	6.46	50.00	56.46
June 2014[b]	4.83	50.00	54.83
June 2015[b]	3.21	50.00	53.21
June 2016	–	–	–

(a) Scheduled Term Loan amortisation of $52,000 per month

(b) Scheduled Term Loan amortisation of $52,000 per month and $1 million excess cash flow payment on 30 September.

(4) All Non-Current and Current Debt is denominated in United States Dollars.

(5) The current debt of $1 million reflects term loan amortisation of $0.6 million and finance lease payments of $0.1 million.

(6) The weighted average interest rates reflect the effective interest rate, inclusive of fee amortisations and any applicable interest rate swaps. The two interest rate swaps, entered into in July 2011, hedge the LIBOR contracts and the swap interest cost has been included in calculating the interest rate on the LIBOR loans, due for repayment in 2016. As at 30 June 2011, the Group's remaining interest rate swap was ineffective due to the refinancing activities of the Group on 24 June 2011. In calculating the future average interest rates by repayment period, the interest rate swap interest differential was included in the effective interest rate for the current debt to be repaid in the 2012 year. Loans are drawn as floating rate loans and the Group enters into floating to fixed interest rate hedges (refer to note 20 (a) interest rate risk).

20 FINANCIAL INSTRUMENTS

(a) Market Risk

Exposure to Price Risk

In December 2010, the Group entered into an electricity commodity contract for the purposes of providing an economic hedge against New Zealand electricity costs. This three year contract replaced the previous contract that expired in December 2010. The contract was approved by the Board (refer to note 4.2 (a) (i)).

20 FINANCIAL INSTRUMENTS continued

Exposure to Currency Risk

The functional currency of the Group is the United States dollar. The risks to the Group's equity and earnings are from assets, liabilities, revenues and costs in currencies denominated in currencies other than United States dollars.

The Group's exposure to foreign currency risks on financial instruments is based on the following:

	Tenon Group Currency of Denomination					
	As at 30 June 2012			As at 30 June 2011		
	USD US$m	NZD/AUD US$m	CAD US$m	USD US$m	NZD US$m	CAD US$m
Cash and Liquid Deposits	**–**	**–**	**–**	2	–	–
Trade Debtors	**23**	**3**	**–**	17	2	–
Bank Overdraft	**–**	**-1**	**–**	–	–	–
Trade Creditors	**-15**	**-4**	**–**	-9	-5	–
Current Debt	**-1**	**–**	**–**	-1	–	–
Non Current Debt	**-37**	**–**	**–**	-31	–	–
Gross Balance Sheet Exposure		**-2**	**–**		-3	–

The following exchange rates applied during the year:	Average rate(1) 2012	Average rate(1) 2011	Reporting date (spot rate) 2012	Reporting date (spot rate) 2011
USD/NZD	**0.8069**	0.7586	**0.7851**	0.8228
USD/CAD	**0.9897**	0.9966	**0.9822**	1.0132

(1) Excludes the impact of foreign exchange cover put in place during the year.

Sensitivity Analysis

Given the small size of the gross balance sheet exposure shown above, any movement in the NZD/USD foreign exchange rate is unlikely to be material (refer to note 4.2 (a) (ii)).

Exposure to Interest Rate Risk

The Group's interest rate policy is for interest to be a mix of fixed rate and floating rate debt within an established ratio. Loans are drawn with floating interest rates and the Group enters into floating to fixed interest rate hedges to comply with Group risk management policy. As at 30 June 2012, the Group had two interest rate swaps totalling $15 million, covering 39% of total Debt (as at 30 June 2011 there was one interest rate swap of $4.375 million, or 14% of total Debt). The two current period swaps are for $7.5 million each and were entered into in July 2011. They have a 4 year duration and expire in July 2015. The Group pays a fixed interest rate of 1.575% on one swap and 1.53% on the other. For both swaps the Group receives a rate based on the USD LIBOR floating rate. The rate receivable as at 30 June 2012 was 0.2428% on one swap and 0.2398% on the other. The swap interest cost has been included in calculating the interest rate on the LIBOR loans, due for repayment in 2016. The previous period swap of $4.375 million, as at June 2011, was subject to a quarterly amortisation and terminated in June 2012. The fixed interest payable on the terminated swap was 3.42% and the floating interest receivable was the equivalent of the one month USD LIBOR floating rate.

Swaps are settled monthly on a net basis. Interest rate swaps are treated as hedging instruments and the effective portion of the change in the fair value of swaps is taken to the hedging reserve in Equity. The ineffective portions of any swaps are taken to Earnings. The interest rate swaps were 100% effective as at 30 June 2012 and the net fair value of the interest rate swaps as at 30 June 2012 was a liability of $0.5 million and is included in other current liabilities and the hedging reserve in Equity. As at 30 June 2011, the previous period swap was ineffective and the net fair value was a liability to the Group of $0.1 million and was included in other current payables and as a financing expense in the income statement.

20 FINANCIAL INSTRUMENTS continued

The following table sets out the weighted average interest rate of borrowings and interest rate hedges:

		Tenon Group 2012 US$m	2012 %	2011 US$m	2011 %
Interest Rates Repriced:					
(including average interest rate)					
Debt repayable	within one year	**1**	**4.80**	1	6.63
	between one and two years	**2**	**4.81**	2	5.03
	between two and three years	**2**	**4.81**	2	5.03
	between three and four years	**33**	**4.98**	2	5.03
	between four and five years	**–**	–	25	4.82
		38		32	

Sensitivity Analysis

As at 30 June 2012, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated $0.2 million reduction in Profit before Taxation, a 1% decrease in the floating interest rate would have resulted in an estimated increase of $0.3 million in Profit before Taxation. The 2012 earnings impact was calculated on the actual debt drawn as at 30 June 2012 and was for a full 12 months assuming that 39% of debt was subject to the two interest rate swaps in existence as at 30 June 2012 and the swaps were for the whole year and taken out at the beginning of the year. As effective hedges, the changes in fair value of the swaps are included in Equity. The supply chain financing interest cost is also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2012 a 1% change in the floating LIBOR interest rates on the level of debtors de-recognised as a result of the supply chain financing programme ($16 million as at 30 June 2012) would have had an estimated $0.2 million impact on Profit before Taxation.

A 1% increase in interest rates would have increased Equity by $0.2 million, being the reduction in the fair value liability of the interest rate swaps partially offset by the after tax increase in total interest costs. A 1% reduction in interest rates would have increased Equity by $0.1 million, being the after tax reduction in total interest costs partially offset by an increase in the fair value liability of the interest rate swaps.

As at 30 June 2011, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated $0.2 million reduction in Profit before Taxation, a 1% decrease in the floating interest rate would have resulted in an estimated increase of $0.3 million in Profit before Taxation. The 2011 earnings impact was calculated on the actual debt drawn as at 30 June 2011 and was for a full 12 months assuming that 14% of debt was subject to the one interest rate swap in existence as at 30 June 2011 and the swap was the only one for the whole year and taken out at the beginning of the year and the change in fair value of the swap was included in interest costs in the year. The supply chain financing interest cost was also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2011 a 1% change in the floating LIBOR interest rates on the level of debtors de-recognised as a result of the supply chain financing programme ($19 million as at 30 June 2011) would have had an estimated $0.2 million impact on Profit before Taxation.

A 1% increase in interest rates would have reduced Equity by $0.3 million, being the after tax increase in total interest costs. A 1% reduction in interest rates would have increased Equity by $0.3 million, being the after tax reduction in total interest costs.

(b) Credit Risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

	Tenon Group 2012 US$m	2011 US$m
Cash and Liquid Deposits (1)	**–**	2
Trade and Other Receivables	**31**	25
	31	27

	2012 US$m	2011 US$m
The status of Trade Debtors is as follows:		
Neither past due nor impaired (2)	**23**	17
Past due but not impaired (3)	**3**	2
Impaired (4)	**–**	–
	26	19
Less provision for doubtful debts (5)	**–**	–
Net Trade Debtors	**26**	19

20 FINANCIAL INSTRUMENTS continued

(1) Cash and Liquid Deposits are only held with banks that are part of the Group's banking consortium led by JPMorgan Chase Bank, N.A. In the event of default, cash balances may be set off against obligations owing by Tenon to its lenders. Moody's credit ratings of the counterparties for Cash and Liquid Deposits are all rated as P-1 which is designated by Moody's as "Issuers who have a superior ability to repay short-term debt obligations".

(2) The Group has an excellent history of trade debtor collections and there is no reason to believe that the $23 million (June 2011: $17 million) of "neither past due nor impaired" debtors will not be collected, taking into account the payment history of the Group's customers, the share of total trade debtors owed by the National Accounts (both retail and pro-dealer), and the existence of credit insurance for a significant portion of the US based pro-dealer customers.

(3) As at 30 June 2012, $3 million (June 2011: $2 million) of Trade Debtors were past due but not impaired. The ageing of these Trade Debtors is as follows:

	Tenon Group 2012 US$m	Tenon Group 2011 US$m
Days overdue:		
1 month	**3**	2
	3	2

(4) As at 30 June 2012, $0.1 million (June 2011: $0.3 million) of Trade Debtors were impaired. Impaired Trade Debtors relate to customers who have experienced or who are experiencing financial difficulties. A provision for Doubtful Debts of $0.1 million (June 2011: $0.3 million) exists to cover the balance of the impaired debtors not expected to be recovered under the credit insurance programme operated by Tenon's US Subsidiaries. The other classes of receivables do not contain any impaired asset. The creation and release of provision for doubtful debts are included in Administration Expense in the Consolidated Income Statement.

(5) Movements in the Group provision for doubtful debts.
In the year to June 2012, the net provision created through earnings during the period was $0.1 million. (In June 2011, the net provision created through earnings during the period was nil). Debtors written off directly against the provision during 2012 were $0.3 million (June 2011: $0.1 million).

(c) Liquidity Risk

The following are contractual maturities of financial liabilities and net settled derivatives (excluding estimated interest payments). The amounts disclosed are the contractual undiscounted cash flows.

2012 $m	Carrying value	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
Non Derivative Financial Liabilities							
Bank Overdraft	1	1	1	–	–	–	–
Trade and Other Payables	31	31	30	1	–	–	–
Debt	38	38	–	1	2	35	–
Derivative Financial Liabilities							
Interest rate swaps ($0.2 million per annum for 3 years)	1	1	–	–	–	–	–
	71	71	31	2	2	35	–

2011 $m	Carrying value	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
Non Derivative Financial Liabilities							
Trade and Other Payables	25	25	23	2	–	–	–
Debt	32	32	–	1	2	29	–
	57	57	23	3	2	29	–

20 FINANCIAL INSTRUMENTS continued

Interest Rate Swap cash flows

As at 30 June 2012 the future gross cash flows of the interest rate swaps (refer to note 20 (a) market risk, exposure to interest rate risk) are a $0.7 million cash outflow (being fixed interest paid). The swaps are settled on a net basis monthly. Of the net cash outflow (based on the prevailing floating interest rates as at 30 June 2012) of $0.6 million, $0.1 million is expected to occur in the 6 months to December 2012 and $0.1 million in the six months to June 2013. $0.2 million is expected to occur in the 2014 and 2015 years.

As at 30 June 2011 the future gross cash flows of the interest rate swaps (refer to note 20 (a) market risk, exposure to interest rate risk) was a $0.2 million cash outflow (being fixed interest paid). The swap was settled on a net basis monthly. Of the net cash outflow (based on the prevailing floating interest rates as at 30 June 2011) of $0.2 million, $0.1 million was expected to occur in the 6 months to December 2011 and $0.1 million in the 6 months to June 2012.

(d) Financial Instruments by Category

Cash and liquid deposits and trade and other receivables and intercompany advances are classified as loans and receivables. Bank overdraft, trade and other payables, current and non-current debt and deferred settlements and intercompany advances are classified as other financial liabilities. The electricity hedge and interest rate swaps are classified as derivatives used for hedging (June 2011: the interest rate swap was classified at fair value through the Income Statement).

(e) Financial Instruments measured at fair value

The estimated fair values of the Group's financial assets and liabilities do not differ materially from the carrying values. The methods and valuation techniques used for the purposes of measuring fair value are unchanged compared to the previous reporting period (refer to note 4.6 Fair Value Estimation).

The Group adopted the amendments to NZ IFRS 7 'Financial Instruments - Disclosures' effective from 1 July 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the Consolidated Balance Sheet. The Group's financial assets and liabilities as at 30 June 2012 and 30 June 2011 were below levels requiring disclosure.

The parent company had no financial instruments at 30 June 2012 (30 June 2011: nil).

21 COMMITMENTS

Lease Commitments

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

		Tenon Group 2012 US$m	Tenon Group 2011 US$m
within	one year	**7**	7
	two years	**5**	5
	three years	**5**	4
	four years	**4**	3
	five years	**2**	2
after	five years	**6**	2
		29	23

Operating lease commitments relate mainly to occupancy leases of buildings and vehicles. There are no renewal options to purchase in respect of any asset held under operating leases. Total lease costs for the year were $8.6 million (June 2011: $8.4 million).

There are no lease commitments for Tenon Limited.

Capital Expenditure Commitments

There were no material capital expenditure commitments for the Tenon Group or Tenon Limited.

22 CONTINGENT LIABILITIES

The Group has no material contingent liabilities (June 2011: nil).

23 CONTINGENT ASSETS

Central North Island Forest Partnership (CNIFP) legal proceedings

A subsidiary of Tenon Limited (CNI Forest Nominees Limited) is party to legal proceedings in the New Zealand High Court commenced by the Receivers of CNIFP (on 7 February 2008) against the Commissioner for Inland Revenue (the IRD) in order to determine whether it is the IRD or the secured lenders to the CNIFP (which include Tenon's subsidiary CNI Forest Nominees Limited, which is the trustee for advances of more than US$200 million to the CNIFP by another subsidiary of Tenon Limited in 1996 which have not yet been repaid by CNIFP (these advances have been fully provided for in the Group's financial statements in past accounting periods)) that have first priority to Goods and Services Tax (GST) paid to the Receivers by the purchaser of the CNIFP forest estate in 2003 and which was paid to the IRD at the time of the sale. In the event the Court holds that the secured creditors were entitled to the GST receipt ahead of the IRD, then, as a second ranking security holder, CNI Forest Nominees Limited would be entitled to receive in the order of NZ$90 million from the GST receipt in partial repayment of the CNIFP loan. However, the issues are very complex, and the proceedings are being strongly resisted by the IRD. As a result, the outcome for the Group, including the amount and timing of any recovery, is uncertain. An application by the IRD to the High Court to strike out the legal proceedings was dismissed in 2010 and the IRD appealed that decision to the Court of Appeal which heard the appeal in November 2011. In March 2012, the Court of Appeal granted the IRD's application to strike out the claim, and in May 2012 the Supreme Court granted leave for Tenon to appeal that decision to the Supreme Court. A hearing in the Supreme Court is expected in calendar 2012.

24 RELATED PARTY TRANSACTIONS

(a) The following related party transactions occurred during the year and as at 30 June the following balances, guarantees and shareholdings existed between related parties.

Services are negotiated with related parties based upon competitive market rates charged to unaffiliated customers for similar goods.

Rubicon Limited and its subsidiaries ("Rubicon") own 58.99% of Tenon Limited (June 2011: 57.96%). Three of Tenon Limited's directors are also directors of Rubicon Limited. Directors fees received by Rubicon were $0.1 million (June 2011: $0.1 million). As at 30 June 2012, there was no amount owing between Tenon and Rubicon for outstanding Director's fees for the 2012 year (June 2011: $0.1 million). Office and administration costs received by Rubicon from Tenon for the 2012 year were $0.2 million (June 2011: nil).

	Tenon Group	
	2012 US$m	**2011 US$m**
Tenon Group		
Borrowers under the credit agreement (1)	**–**	–
Tenon Limited		
Royalties and Management Fees received for services provided to subsidiaries by Tenon Limited (2)	**–**	–
Finance charges paid by Tenon Limited on Advance from Subsidiary (3)	**-17**	-17
Term Advance Liability from Subsidiary Company (3)	**290**	286
Term Advance Asset to Subsidiary Company (4)	**1**	1
Investment in Subsidiary Companies (5)	**262**	262

(1) All material subsidiaries of the Group are named borrowers in the credit facility signed on 24 June 2011.

(2) Royalties and management fees charged were $0.3 million (June 2011: $0.3 million). These charges are to New Zealand based subsidiaries Tenon Manufacturing Limited and Tenon Industries Limited.

(3) This advance is for no fixed term but represents a long-term funding advance, and bears interest at 6.30 % per annum (30 June 2011: 7.08 % per annum).

(4) This advance is for no fixed term but represents a long-term funding advance and is not interest bearing.

(5) The Principal Subsidiaries included within Investment in Subsidiary Companies are disclosed in note 26, Principal Operations.

(b) Key Management Compensation	**2012 US$m**	**2011 US$m**
Salaries and other short-term employee benefits	**3**	3
Directors fees paid to Non Executive Directors (refer to note 5 (1))	**–**	–
	3	3

Chief Financial Officer's Incentive Plan

The Chief Financial Officer's remuneration included a long-term incentive plan (LTI Plan) that was terminated, with the agreement of the executive, during the year, except for the provision for a payment to be made in the event of a change of control of the Company.

25 SEGMENTAL INFORMATION SUMMARY

Tenon derives its revenue from and operates within one material operating segment, being the Moulding and Millwork segment. The Board and the Executive Management team assess Tenon's performance, and review the allocation of resources, from reports presented as a single business operating within this one segment. Consequently no segmental information by business class is disclosed.

Geographic segmental reporting for the periods ended June 2012 and June 2011 split between North America and New Zealand & Australia is shown below. Tenon announced that it had commenced trading in Australia in February 2012, offering a variety of products in the Moulding and Millwork segment to reseller chains and independent stores.

2012	North America US$m	New Zealand and Australia US$m	Total US$m
Operating Revenue	294	40	**334**
Non Current Assets(1)	78	17	**95**
Capital Expenditure	1	1	**2**

2011	North America US$m	New Zealand US$m	Total US$m
Operating Revenue	287	39	326
Non Current Assets (1)	83	16	99
Capital Expenditure	2	–	2

(1) Excludes Deferred Tax and Financial Instruments.

26 PRINCIPAL OPERATIONS

Tenon Limited is the holding company of the Tenon Group. The Tenon Group's principal subsidiaries all have June balance dates and are outlined below:

	Country of Domicile	Principal Activity	% Holding June 2012	% Holding June 2011
Principal Subsidiaries				
Tenon Industries Limited	NZ	Funding	100	100
Tenon Manufacturing Limited	NZ	Processing	100	100
Fletcher Wood Solutions Inc.	USA	Distribution	100	100
Creative Stair Parts LLC	USA	Distribution	100	100
The Empire Company, Inc.	USA	Distribution	100	100
Kok's Woodgoods LLC	USA	Processing	100	100
Southwest Moulding Co., LP	USA	Distribution	100	100
Ornamental Mouldings LLC	USA	Processing	100	100
Ornamental Products LLC	USA	Processing	100	100
Ornamental Mouldings Company	Canada	Processing	100	100

27 SUBSEQUENT EVENTS

On 17 August the sale and purchase agreement for Ornamental's manufacturing premises in Canada, that the Group had entered into in June 2012, became unconditional. The asset was classified as an asset held for sale as at 30 June 2012 (refer to note 15) and valued at net book value. No material gain or loss will arise from the sale of the asset.

Independent Auditor's Report to the Shareholders of Tenon Limited

pwc

Report on the Financial Statements
We have audited the financial statements of Tenon Limited ("the Company") on pages 12 to 45, which comprise the balance sheets as at 30 June 2012, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Tenon Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

Opinion
In our opinion, the financial statements on pages 12 to 45:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2012:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland
22 August 2012

Board of Directors as at 22 August 2012

Simon Luke Moriarty

MS (Stanford), LLB (Hons), BCA (VUW)
Chairman of Directors
Non-Executive Director

Committees
Audit

Nominations (Chairman)

Last re-elected 2009

Mr Moriarty was appointed Chairman of Directors on 7 October 2005. He is the Chief Executive Officer and an Executive Director of Rubicon Limited. Prior to that he was a member of the Executive Office of the Fletcher Challenge Group, and was instrumental in structuring the financial separation of the Fletcher Challenge Group in 2001. He joined Fletcher Challenge Limited in 1982, and held a number of senior executive roles across the Fletcher Challenge Group Divisions in New Zealand and North America, including Chief Financial Officer of Fletcher Challenge Canada and Director of TimberWest Forests. In 2011 he was appointed Monetary Policy Advisor to the Governor of the Reserve Bank of New Zealand. He is also a director of ArborGen LLC.

The Board has determined that Mr Moriarty is not an independent Director because he is a director of Rubicon Forests Holdings Limited, the Company's largest shareholder, and is the Chief Executive Officer and Executive Director of Rubicon Limited, the holding company of Rubicon Forests Holdings Limited.

Michael John Andrews

MNZIF
Non-Executive Director

Committees
Nominations
Remuneration

Last re-elected 2010

Mr Andrews retired as Chief Executive Officer of Fletcher Challenge Limited in April 2001. He was acting Chief Executive Officer of Fletcher Building Limited until July 2001. He was previously Divisional Chief Executive of Fletcher Challenge Energy, Fletcher Challenge Forests and Fletcher Challenge Paper and previously Chief Executive Officer of the Solid Wood Forestry sector, and before that of the former Energy and Resources Group. He is a director of Orion NZ Limited and the National Centre for Advanced Bio Protection Technologies.
The Board has determined that Mr Andrews is an independent Director.

Rodger Herbert Fisher

FCIS, FCIT, FIDNZ, FNZIM
Non-Executive Director

Committees
Audit
Nominations
Remuneration (Chairman)

Last re-elected 2010

Mr Fisher practises as a business consultant. He was previously Managing Director of Owens Group Limited between 1987 and 1999. He is Chairman of Eurotech Group, Ultrafast Fibre Limited and Lyttelton Port Company Limited and is a director of The Property Group Limited. He is a former Chairman of the Civil Aviation Authority and Aviation Security Services. He is a Fellow of the Chartered Institute of Secretaries, the Chartered Institute of Transport, the Institute of Directors in New Zealand and the New Zealand Institute of Management.
The Board has determined that Mr Fisher is an independent Director.

George Karaplis

BEng, MBA (McGill)

Committees
Nominations

Elected 2011

Mr Karaplis has over 36 years experience in building and growing shareholder value and a proven track record in "turn-around" and high growth companies. He is currently Deputy Chairman of Netia, a Polish integrated telecom services and media solutions company, and he has previously led France Telecom's Global One business in Greece as Managing Director. He also acted as Chief Financial Officer and General Manager of International Investments for the Hellenic Telecommunications Organisation. Prior to that Mr Karaplis held a number of management positions in Canada and Europe. He has relevant experience in the forestry and wood products industry from his previous employment with Domtar, a Canadian Paper and Forest Products producer.
The Board has determined that Mr Karaplis is not an independent Director because he is a director of Rubicon Limited, the holding company of the Company's largest shareholder, Rubicon Forests Holdings Limited.

Stephen Garfield Kasnet

BA University of Pennsylvania (Philadelphia)
Non-Executive Director

Committees
Nominations
Remuneration

Last re-elected 2011

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, Chairman of Directors of Columbia Labs, Inc, President of Ocean Manchester Corporation, director of the First National Bank of Ipswich, Trustee of the Governors Academy and a director of Two Harbors Investment 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.

Michael Carmody Walls

BA, LLB (VUW), LLM (London)
Non-Executive Director

Committees
Audit (Chairman)
Nominations

Last re-elected 2011

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

Corporate Governance as at 22 August 2012

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

The Company's governance procedures are designed to meet the following principles:

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

Code of Business Conduct and Ethics and Company Policies

The Company has written procedures to:

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

The Company's Code of Business Conduct and Ethics underpins all its activities, and recognises the Company's legal and other obligations to legitimate stakeholders. The Code ensures that Company decisions reflect the Company's core values of action orientation, innovation, commercial intensity, customer focus, accountability, teamwork, respect for the individual, respect for the environment and safety. The Board reviews the Code, ensures the Code is communicated to the Company's personnel, monitors adherence to the Code, and holds Directors, executives and other personnel accountable for any unethical behaviour. The Code can be viewed on www.tenonglobal.com.

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

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

Role of the Board

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

- Has a balance of independence, skills, knowledge, experience and perspectives among Directors;
- Has a proper understanding of, and competence to deal with, the current and emerging issues of the business; and
- Can effectively review and challenge the performance of Management and exercise independent judgement.

The Company achieves Board and Management accountability through having formal strategies, policies and procedures, which includes a formal charter for the Board and its Committees and for the Chairman, Directors and Management.

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

The Executive comprises the Chief Operating Officer, Chief Financial Officer and General Manager Corporate.

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

The Board currently comprises six non-executive Directors. One third must retire at each Annual Shareholders Meeting.

The Chairman's role is to manage and provide leadership to the Board and to interact with the Executive. The Chairman is also responsible for fostering a constructive governance culture and for applying appropriate governance principles among Directors and with Management.

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

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

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

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

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

S L Moriarty, S G Kasnet, and G Karaplis are not considered by the Board to be independent Directors because they are Directors of the parent company of the Company's largest shareholder, Rubicon Forests Holdings Limited. S L Moriarty is also Chief Executive of that company's parent, Rubicon Limited, and S G Kasnet is Chairman of Rubicon Limited.

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

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

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

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

Board Process

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

The Board of Directors meets periodically without Management present.

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

New Directors are appropriately introduced to the Company and to relevant industry knowledge and economics. This includes visits to specific Company operations, and briefings from key executives. Directors are required to consult with the Chairman before accepting any other board appointment or other commitment that might adversely impact on the ability of the Director to perform the Director's obligations to the Company. The Company provides training, in the form of presentations to the Board, and encourages Directors to ensure their skills, knowledge and experience remain up to date and relevant to the Company.

A performance evaluation is conducted of the Board, its Committees and its members. This is conducted by the Chairman of the Board and/or the Committees of the Board. The results of the evaluation are discussed by the Board.

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

Board Committees

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

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

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

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

Each Committee has adopted a comprehensive Charter addressing membership, authority, responsibilities and reporting procedures. These can be reviewed on the Company's website, www.tenonglobal.com.

All non-executive Directors are entitled to attend all Committee meetings. Executive Directors (there are currently none) and Management attend Committee meetings by invitation.

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

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

An annual performance evaluation is conducted for each Committee.

Audit Committee

Committee members:

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

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

The Audit Committee oversees all matters concerning:

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

The auditor attends all meetings of the Audit Committee.

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

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

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

The Audit Committee has a formal pre-approval procedure that must be followed for all audit and audit-related services and non-audit services to be provided by the Company's audit firm to ensure that they do not impair the external audit firm's independence from the Company. During the year the auditor did perform non-audit related work for the Company in relation to the review of certain internal controls and the Company's Annual Shareholders Meeting. The work was in the nature of assurance and the total fees paid to the audit firm were US$85,000 which the Company considers did not impair the audit firm's independence from the Company.

Remuneration Committee

Committee members:

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

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

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

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

Nominations Committee

Committee members:

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

The Nominations Committee comprises the six non-executive Directors.

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

Financial Reporting

It is the Board's responsibility to ensure the integrity of the Company's financial reporting. A structure of review and authorisation has been put in place that is designed to ensure the quality and integrity of the Company's financial reporting including their relevance, reliability, comparability, and timeliness. This structure includes:

- An Audit Committee comprised of a majority of independent Directors, with a chairman who is not also the Chairman of the Board, appropriately resourced, and with a written charter;
- An independent review of the Company's financial statements by the Company's auditor;
- A review by the Audit Committee of the half year and full year financial statements, with Management and the auditor present;
- A formal report from the Chairman of the Audit Committee to the Board in relation to the approval by the Board of the half year and annual financial statements;
- A review by the Board of the half year and full year financial statements, with Management present;
- A formal Management Representation letter to the Board relating to the half year and annual financial statements, signed by each member of the Executive;
- Consideration by the Board of a formal Directors' Representation letter to the auditor relating to the half year and annual financial statements, signed by a Director under delegated authority from the Board;
- Signing of the financial statements by the Chief Operating Officer, Chief Financial Officer, the Chairman of the Board, and the Chairman of the Audit Committee;
- Policies to ensure the independence of the auditor;
- Processes and policies to ensure that the Company has an effective system of internal control for reliable financial reporting;
- The Audit Committee meeting with the auditor, without Management present; and
- A code of ethics for employees.

Auditor Quality and Independence

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

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

- The auditor is required to abide by defined independence standards;
- The Audit Committee must pre-approve the appointment of the auditor to provide any non-audit services to the Company or its subsidiaries and the Chairman of the Committee may, pursuant to a delegation from the Committee, approve lower-cost non-audit services to the Company;
- The auditor is required to report in writing to the Audit Committee on an annual basis on matters relating to its independence;
- The auditor is required to rotate its lead audit partner and the audit partner responsible for reviewing the audit on a five yearly basis, and such partners cannot be re-involved with the Company for a further five years;
- The auditor may freely, and is encouraged to, communicate directly with the Chairman of the Board and the Chairman of the Audit Committee and with Management, including, for example, if the auditor wished to make any complaint about the support being provided by the Company in relation to the audit process;
- The auditor attends all meetings of the Audit Committee, and is encouraged to speak freely at such meetings;
- The auditor is required to be available at the Annual Shareholders Meeting of the Company and answer any shareholder questions relating to the audit or audit report.

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

Remuneration Policy

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

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

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

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

On page 56 is a table describing the fees paid to the Directors of the Company during the year. Directors do not receive any remuneration from the Company other than in their capacity as Directors.

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

Employee Remuneration

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

			US/Canada based Business Number of Employees	NZ based Business Number of Employees
NZ$100,000	to	NZ$110,000	10	2
NZ$110,000	to	NZ$120,000	10	2
NZ$120,000	to	NZ$130,000	6	4
NZ$130,000	to	NZ$140,000	10	–
NZ$140,000	to	NZ$150,000	3	2
NZ$150,000	to	NZ$160,000	5	1
NZ$160,000	to	NZ$170,000	4	–
NZ$170,000	to	NZ$180,000	4	–
NZ$180,000	to	NZ$190,000	5	1
NZ$190,000	to	NZ$200,000	2	–
NZ$200,000	to	NZ$210,000	1	–
NZ$210,000	to	NZ$220,000	1	–
NZ$220,000	to	NZ$230,000	2	–
NZ$240,000	to	NZ$250,000	1	2
NZ$270,000	to	NZ$280,000	2	–
NZ$290,000	to	NZ$300,000	1	–
NZ$310,000	to	NZ$320,000	1	–
NZ$320,000	to	NZ$330,000	1	–
NZ$330,000	to	NZ$340,000	1	–
NZ$340,000	to	NZ$350,000	1	–
NZ$360,000	to	NZ$370,000	1	–
NZ$410,000	to	NZ$420,000	–	1
NZ$420,000	to	NZ$430,000	1	–
NZ$450,000	to	NZ$460,000	1	–
NZ$460,000	to	NZ$470,000	1	–
NZ$490,000	to	NZ$500,000	1	–
NZ$610,000	to	NZ$620,000	–	1

Controlling and Managing Risk

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

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

Details of many of the risks the Company is exposed to and the way the Company manages those risks are described in note 4 to the financial statements (see pages 24 to 29).

NZX Corporate Governance Principles

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

- The Company does not offer any equity security compensation plan to Directors and all Directors may attend meetings of the Audit Committee; and
- The Nominations Committee is not comprised of a majority of independent Directors, as half of the members of the Committee are independent Directors.

Ensuring the Market is Properly Informed

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

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

The Board examines continuous disclosure issues at each Board meeting.

Financial Markets Authority Corporate Governance Principles

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

Keeping in Touch with Shareholders and Stakeholders

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

- A website is maintained with information about the Company, including information about its businesses, copies of all stock exchange releases made by the Company, copies of media releases, full year and half year reports and supplementary financial information, and copies of key Company governance policies;
- An Annual Shareholders Meeting is held, which any shareholder can attend;
- The speeches and presentations which are delivered to the Annual Shareholders Meeting are placed on the Company's website;
- The results of the voting at shareholder meetings are announced to the stock exchange;
- Letters are sent directly to shareholders on major events affecting the Company;
- Full year reports and half year reports which include an update of Company strategy and developments are mailed to shareholders;
- The holding of Annual Shareholders Meetings at different locations to ensure that as broad a cross section of shareholders as possible have an opportunity to attend such meetings;
- Compliance with continuous disclosure obligations;
- The Code of Business Conduct and Ethics reflects the commitment of the Company to respect the interests of stakeholders (including customers, employees, compliance with the law and respect for the environment);
- Investors may subscribe on the Company's website to an email service whereby stock exchange filings made by the Company are emailed to them; and
- An investor relations email in-box enables a quick response to investor enquiries.

Statutory Disclosure

Directors' Interests Register

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

Non-Executive Directors' Remuneration

Non-executive Directors' remuneration for the 30 June 2012 year was $54,466[(1)(4)] (NZ$67,500) per annum per Director, with the Chairman receiving $104,897[(2)] (NZ$130,000) per annum. The Chairman of the Audit Committee receives an additional $5,245[(1)(3)] (NZ$6,500) per annum and the Chairman of the Remuneration Committee receives an additional $3,631[(1)(3)] (NZ$4,500) per annum. Other members of board committees do not receive additional fees for participation on board committees.

The aggregate amount of fees paid by Tenon Limited to non-executive Directors for services in their capacity as Directors during the year ended 30 June 2012 was $361,386[(1)] (NZ$447,868). Fees, prior to any taxation liability, paid to individual non-executive Directors in the year ended 30 June 2012 were:

	Fee[(1)]
M J Andrews	54,466
R H Fisher	58,097
S G Kasnet	54,466
S L Moriarty[(2)]	104,897
M C Walls	59,711
G Karaplis[(4)]	29,749

(1) Directors' fees have been translated from New Zealand dollars at an average foreign exchange rate of NZ$1 = US$0.8069.
(2) Total Directors' fees in relation to S L Moriarty (Chairman) were paid directly to Rubicon Limited.
(3) Chairmen's fees were introduced on 1 January 2010, reflecting the additional responsibilities required of the Chairmen.
(4) G Karaplis was appointed to the Board on 15 December 2011 and received $29,749 (NZ$36,868) as directors fees for the period.

Executive Directors' Remuneration

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

Directors' Certification to NZX

The independent directors approved variations to the employment contracts of the Chief Operating Officer and the General Manager Corporate and eight other executive officers of subsidiaries of Tenon Limited, which entitle each executive to receive a payment in the event of the change of control of Tenon Limited or the sale of substantially all of the assets of Tenon Limited occurring on or before 30 June 2015. If a change of control were to occur, the pre-tax payment to them would, in the aggregate, be approximately NZ$3.2 million (converting US$ payments to be made to the US based executives at NZ$1 = US$0.8069). The Company relied on the exception provided in Listing Rule 9.2.4 (d) which allows the Company to agree the change to the executives' remuneration without requiring shareholder approval. To satisfy the exception, the independent Directors of the Company provided a certificate to the NZX on 26 July 2012 certifying that the remuneration was set on an arm's length, commercial basis and that it had been approved by the independent Directors of Tenon.

Subsidiary Company Directors

Section 211(2) of the New Zealand Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors and particulars of entries in the interests registers made during the year ended 30 June 2012.

As at 30 June 2012, no subsidiary except certain nominee companies had Directors who were not full-time employees of the Group.

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

The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed on page 53, where the employee received remuneration and other benefits totaling NZ$100,000 or more during the year ended 30 June 2012.

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

Fletcher Challenge Forests Finance Limited
A T Johnston, P M Gillard, J E Paice, A S White

Tenon Custodians Limited
A T Johnston, P M Gillard, J E Paice, A S White

Tenon Industries Limited
A T Johnston, P M Gillard, J E Paice, A S White

Tenon Manufacturing Limited
A T Johnston, P M Gillard, J E Paice, A S White

Tenon Holdings Limited
A T Johnston, P M Gillard, J E Paice, A S White

Fletcher Challenge Limited
A T Johnston, P M Gillard, J E Paice, A S White

Kaingaroa Holdings Limited
P M Gillard

CNI Forest Nominees Limited
A T Johnston, P M Gillard, J E Paice, A S White

Tenon Retirement Plan Nominees Limited
A T Johnston, P M Gillard, J E Paice, A S White

Tenon Employee Educational Fund Limited
P M Gillard, A C Grinter, J McDonald

Tenon Welfare Fund Nominees Limited
P M Gillard, G D Niccol, M R Taylor

NACS USA, Inc
A T Johnston, A S White, P M Gillard

Fletcher Wood Solutions, Inc
A T Johnston, A S White, P M Gillard

Tenon USA Holding Company
A T Johnston, A S White, P M Gillard

Tenon Supply, LLC
A T Johnston, A S White, P M Gillard

The Empire Canada Company Limited
A T Johnston, A S White, P M Gillard, C Rogers

Kok's Woodgoods, LLC
A T Johnston, A S White, P M Gillard

Southwest Moulding Co LP
A T Johnston, D Bell, P M Gillard, A S White, T H Highley

AWM Acquisitions Corporation
A T Johnston, A S White, P M Gillard

Ornamental Mouldings Company
A T Johnston, A S White, P M Gillard

Ornamental Mouldings, LLC
A T Johnston, A S White, P M Gillard

Ornamental Investments, LLC
A T Johnston, A S White, P M Gillard

Comanche Investments, LLC
A T Johnston, A S White, P M Gillard

Fairfield Road, LLC
A T Johnston, A S White, P M Gillard

Ornamental Products, LLC
A T Johnston, A S White, P M Gillard

Creative Stair Parts, LLC
A T Johnston, A S White, P M Gillard

Directors' Interests

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

S G Kasnet		
Escon Capital Inc.	Resigned	Director
S L Moriarty		
Reserve Bank of New Zealand	Appointed	Monetary Policy Advisor to Governor
G Karaplis[(1)]		
Netia	Appointed	Deputy Chairman
Rubicon Limited	Appointed	Director

(1) Initial disclosures made upon G Karaplis' appointment to the Board on 15 December 2011.

Directors' and Officers' Indemnity and Insurance

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

On 1 July 2012 the Company effected directors' and officers' liability and statutory liability insurance which was noted in the Interests Register. During the year the Company authorised updated Deeds of Indemnity and Insurance for the Directors and senior management, which was noted in the Interests Register.

Dealing in Company Securities

The Company's Code of Conduct for Securities Trading supplements the New Zealand legislation prohibiting short-term trading and dealing in the Company's securities by employees, whilst they are in possession of non-public material and relevant information about the Company.

Donations

Charitable donations totaling US$5,000 were made during the year.

Auditor's Fees

Fees payable to PricewaterhouseCoopers during the year are disclosed on page 30. During the year the auditor was paid US$85,000 for non-audit related work for the Company, which is discussed on page 51.

Credit Rating

Tenon has not sought a credit rating.

Directors' Holdings – Equity Securities

Tenon Limited Ordinary Shares

	30 June 2012			30 June 2011		
	Beneficial	**Non-Beneficial**	**Associated Persons**	**Beneficial**	**Non-Beneficial**	**Associated Persons**
M J Andrews	**–**	**–**	**11,943**	–	–	11,943
R H Fisher	**750**	**–**	**–**	750	–	–
S G Kasnet	**–**	**–**	**–**	–	–	–
S L Moriarty	**27,155**	**–**	**–**	27,155	–	–
M C Walls	**10,750**	**–**	**–**	10,750	–	–
G Karaplis	**–**	**–**	**–**	–	–	–
	38,655	**–**	**11,943**	38,655	–	11,943

Shareholder Statistics

Largest Shareholders

The 20 shareholders with the largest holdings of shares as at 31 July 2012 were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
Rubicon Forests Holdings Limited	38,747,695	58.99
New Zealand Central Securities Depositary Limited	17,838,591	27.16
Leveraged Equities Finance Limited	331,083	0.50
Caprian Developments Limited	305,740	0.47
Sok Eng Boey & Yeow Ann Chiam & Kay Hong Chiam & Shen Mei Chiam	255,000	0.39
C W Flood	200,000	0.30
Tenon Custodians Limited	182,548	0.28
Chin-Yi Lin & Yu-Ching Lin-Chao	180,150	0.28
Tenon Employee Educational Fund Limited	144,721	0.22
J E C Anderson & B L Denholm	140,000	0.21
S P Wallace & J N Simpson	100,000	0.15
E A Badham & L J Badham	87,367	0.13
M H Teulon & E M Quigley	83,569	0.13
Geary Limited	78,783	0.12
A Kaan & M Kaan & A Blackwood	70,000	0.11
John Wilson	65,000	0.10
I G Douglas & B J Cook	59,728	0.09
Peter Donald Wheeler	58,172	0.09
Fletcher Building Nominees Limited	58,000	0.09
Walker Capital Management Limited	56,624	0.09
	59,042,771	89.9
Total Shares	65,690,681	

NZCSD

New Zealand Central Securities Depository Limited ("NZCSD") is a depository system which allows electronic trading of securities to its members. At 31 July 2012, the shareholdings held through NZCSD were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
JPMorgan Chase Bank NA	10,643,616	16.20
Accident Compensation Commission	4,715,486	7.18
Citibank Nominees (New Zealand) Limited	2,184,826	3.33
National Nominees New Zealand Limited	263,333	0.40
HSBC Nominees (New Zealand) Limited	30,430	0.05
Private Nominees Limited	900	0.00
	17,838,591	27.16
Total Shares	65,690,681	

Distribution of Shares – 31 July 2012

Size of Holdings	Ordinary Shareholders Number	%	Ordinary Shares Number	%
1 – 200	988	22.72	137,071	0.21
201 – 500	1,143	26.28	379,610	0.58
501 – 5,000	1,971	45.32	2,697,607	4.11
5,001 – 10,000	108	2.48	810,794	1.23
Over 10,000	139	3.20	61,665,599	93.87
Total	4,349	100.00	65,690,681	100.00

Less than a minimum holding: As at 31 July 2012, 2,131 holders of Ordinary shares held less than the minimum holding of 500 or less shares under the NZX listing rules.

Supplemental Disclosure of Domicile of Beneficial Owners[(1)]

	Ordinary Shares Number	%
New Zealand	52,347,691	79.69
United States of America	12,783,181	19.46
Other	559,809	0.85
Total issued voting shares as at 12 August 2012	65,690,681	100.00

(1) Updated for information received by 12 August 2012 in response to notices under sections 28 and 29 of the New Zealand Securities Markets Act 1988.

Substantial Security Holders

As at 22 August 2012 the following persons have given notice (in terms of the New Zealand Securities Markets Act 1988) that they are substantial security holders in Tenon. In terms of the Act, the number of Tenon ordinary shares shown as held below is as last advised to Tenon by the substantial security holder.

	Tenon Ordinary Shares	% of Tenon Shares
Rubicon Forests Holdings Limited	38,747,695	58.99
Third Avenue Management LLC	10,482,120	15.96
Accident Compensation Commission	4,715,486	7.17
Total	53,945,301	82.12
Total issued voting shares as at 22 August 2012	65,690,681	

Investor Information

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

Copies of the Half Year and Annual Reports are available on the Company's website, www.tenonglobal.com.

2012-2013 Calendar

- Annual Shareholders Meeting: 13 December 2012
- Half Year End: 31 December 2012
- Half Year Results Announcement: February 2013
- Financial Year End: 30 June 2013
- Annual Results Announcement: August 2013
- Mailing of Annual Report: September 2013

Dividend

There is no 2012 dividend.

Tenon Shares

Tenon Limited has one class of shares, Ordinary shares.

New Zealand Exchange

Ordinary shares	TEN

Issued Share Capital (Number of Shares)

Ordinary shares	65,690,681 as at 22 August 2012

Share Registry Enquiries

Enquiries

Computershare Investor Services Limited
Private Bag 92119,
Auckland 1142
159 Hurstmere Road,
Takapuna, North Shore City 0622
New Zealand
Telephone: 64-9-488-8777
Facsimile: 64-9-488-8787
E-mail: enquiry@computershare.co.nz
Please assist our registry by quoting your CSN or shareholder number.

Managing your shareholding online

To change your address, update your payment instructions, and to view your investment portfolio including transactions, please visit: www.computershare.co.nz/investorcentre.

Investor Information continued

Company Websites

www.tenonglobal.com
www.tenon.co.nz
www.empireco.com
www.ornamentalmouldings.com
www.southwestmoulding.com
www.lifespanoutdoor.com
www.fwsdirect.com

Other Investor Enquiries/Registered Office

Investor Relations
Tenon Limited
Level 1,
7 Fanshawe Street,
Auckland, 1010
Private Bag 92036,
Auckland, 1142, New Zealand
Telephone: 64-9-368-4193
Facsimile: 64-9-368-4197
E-mail: investor-relations@tenon.co.nz

Forward-Looking Statements

There are statements in this document that are "forward-looking statements". As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Tenon, its operations, the markets in which it competes and other factors (some of which are beyond the control of Tenon). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular, Tenon's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes. Amongst other things, fluctuations in industrial output, commercial and residential construction activity, changes in availability of capital, declining housing turnover and pricing, declining levels of repairs, remodelling and additions to existing homes in North America, relative exchange rates, interest rates in each market, profitability of customers, competitor product development, demand and pricing, and customer concentration risk can each have a substantial impact on Tenon's results of operations and financial condition.

Directors

Simon Luke Moriarty (Chairman)
Michael John Andrews
Rodger Herbert Fisher
George Karaplis
Stephen Garfield Kasnet
Michael Carmody Walls

See page 47-48 for details of Directors.

Executive Officers

Tony Johnston – Chief Operating Officer

Tony Johnston joined Tenon in May 2011. Tony has 20 years experience in manufacturing, international sales, marketing and distribution in the wood products sector, returning to Tenon having formerly been a senior executive of the Company in its early stages of growth into the US. In that role he led the North American Consumer Solutions business, where he spearheaded Tenon's initial entry into the North American distribution market.

Tony was previously an executive director of LumberLink Limited, an international wood marketing and export company he co-founded, based in New Zealand, and prior to that was the inaugural CEO of Wood Processors Association of New Zealand, Chairman of WOODCO (the NZ Forest Products Industry body), CEO of Thames Group Limited, a processor of pruned Radiata pine logs and marketer of lumber to the USA and elsewhere, and Group General Manager of Sales and Marketing for AFFCO, a New Zealand beef and lamb processing sales and marketing organization. Tony was also a senior executive in Tenon's predecessor Fletcher Challenge Forests' business during the 1990s. Tony has a Bachelor of Science (Hons) from the University of Otago.

Don Bell – Chief Executive, Southwest Moulding - Texas

Don Bell has over 30 years experience in in the important Texas wholesale millwork distribution market with Tenon subsidiary Southwest Moulding Co., which was established in Dallas in 1952. Don is a former owner of Southwest. Under Don's continued stewardship, Southwest has continued to grow its various operations and capabilities, and is now recognized as having a leading position in the Texas market.

Greg Clark – General Manager and Vice President Finance North American Manufacturing

Greg Clark has over 20 years leadership experience in millwork manufacturing in North America. Greg is also a Chartered Public Accountant, with over 10 years experience in public and industry accounting. Prior to joining Tenon's manufacturing operations in North America in 2010 as General Manager and Vice President Finance, Greg held a number of roles in the industry, including President of American Millwork Corporation and General Manager at Woodgrain Millwork. Greg holds a Masters degree in accounting from Brigham Young University.

Paul Gillard – General Manager Corporate

Paul Gillard joined Tenon Limited in 2001. Paul's role includes commercial negotiations for the Group and company secretarial and governance and legal affairs. He had previously spent five years as Corporate Counsel with EDS (New Zealand) Limited, then one of New Zealand's largest IT service providers. Paul's role with EDS also encompassed responsibilities in Australasia, for the EDS Group. From 1989-1996 he was Corporate Counsel and manager of the legal department for Telecom Limited. Paul formerly practised as a lawyer to partnership level in New Zealand, and also worked for a law firm in Washington DC. Paul has a Bachelor of Laws from Victoria University in Wellington.

Thomas H. Highley – Chief Executive Officer, North American Operations

Tom Highley joined Tenon subsidiary The Empire Company in 1991, when the then owner Westinghouse Credit Corporation engaged Tom to turn the business around, after he had successfully executed four turnarounds (manufacturing and distribution building material companies) in the prior ten years. Before becoming a turnaround agent, Tom worked for Owens Corning Fiberglass in various building materials sales and sales manager roles for 15 years, culminating in his employment as the East Coast Regional Sales Manager. Since Tom joined Empire, it has grown from a small regional millwork distribution business to one of the largest multi-regional millwork distribution businesses in North America. Tom is a graduate of The Ohio State University.

Mark Taylor – General Manager New Zealand and Australia Operations

Mark Taylor joined Tenon in 2004 (having previously worked for Fletcher Challenge for 18 years). He has held several management roles at Tenon's Taupo operations, including Sawmill and Solid Lineal Mouldings Plant Manager. He was appointed General Manager of the Taupo operation in May 2006. In 2012 Mark's responsibilities were expanded to include Tenon's Australian business, which he was instrumental in establishing. Mark has extensive experience in the manufacture of high quality wood products, and with his team has successfully managed the supply of high value radiata products to global customers for many years.

Adam White – Chief Financial Officer

Adam White joined Tenon Limited in 1999 as Commercial Manager for the North America business unit. He was appointed Chief Financial Officer of Tenon Limited in March 2006. He was also appointed Chief Financial Officer of The Empire Company Inc. in March 2007, a role he previously occupied until February 2004. Prior to joining Tenon, Adam held corporate accounting roles in the UK and has worked for PricewaterhouseCoopers in New Zealand and the UK. Adam holds a Bachelor of Science degree from the University of Aston in Birmingham, UK.

www.tenonglobal.com