Tenon

Wood Solutions to the World

Annual Report 2014

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, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development and demand and pricing and customer concentration risk. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.

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

Cover photo - Tenon product layout in Masters' Hawthorn East store, Melbourne, Australia

2014 Summary Highlights

- **Tenon is leveraged to both new housing and DIY / retail in the US, and will be a beneficiary of the broader recovery in the US housing market as it progresses**
  - US industry activity now only at early cycle recovery levels
  - Upside potential from current industry activity level is therefore significant
- **New 5-year, $70 million syndicated debt financing facility established**
- **Advancement of Australian strategy with the establishment of a new business relationship with the Masters Home Improvement chain**
- **Announcement of $5 million optimisation upgrade at Taupo manufacturing site**
- **Revenue of $396 million recorded, up $32 million, or 9%, on the corresponding year -**
  - Revenue from US pro-dealer customers up 15%+
  - Revenue from US DIY / retail customers up 5%+
  - Revenue from Europe and Australia up $4 million
- **A return to bottom line profitability was recorded** (net profit after tax of $2 million, corresponding prior period $3 million loss). This result included -
  - $1 million of expenses relating to establishment of new financing facility
  - $1+ million earnings foregone from severe US winter weather storms
- **Operating Profit before financing costs increased to $7 million (2013, $1 million)**
- **EBITDA[1] for the 12 months more than doubled (i.e. up 120%) to $11 million**
- **EBITDA[1] is projected to increase again in fiscal 2015,[3] as US housing market recovers**
- **Potential mid-cycle[2] EBITDA[1] upgraded to circa $45 million (previously circa $35 million)**
- **Share price increased 37% across the period**
  - NZX50, ASX50 and Dow Jones up 16%, 12% and 13% respectively
- **Shareholder Plan (completed) strongly supported by shareholders**
- **Announcement of new share buyback program**

(1) EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisation) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the difference in asset ages, depreciation policies, and debt : equity structures. EBITDA is calculated as Net Profit/Loss after Taxation of $2 million (2013 $3 million loss), plus income tax expense of $1 million (2013 $nil million), plus financing costs of $4 million (2013 $4 million), plus depreciation and amortisation of $4 million (2013 $4 million). Please refer also to Note 25 of the Financial Statements.

(2) Mid-cycle assumptions include US housing starts circa 1.7 million per annum and NZ$:US$ of 70 cents.

(3) Eventual earnings outcome will be dependent upon continued US housing market recovery, interest rates, and NZ$:US$ FX rate (amongst other drivers).

Strategy, Operations and Finance

Tenon's financial performance gained momentum in the year, as the US housing market continued along its initial recovery path. In this respect, a quick review of recent US industry data shows housing starts, home permits, new home sales, home prices, and builder confidence, all up year-on-year (y-o-y). However, market conditions across the year were not as plain sailing as perhaps the year-on-year data suggests, with the US housing recovery continuing very much on a saw-tooth upward trend, and with highly variable month-to-month industry data being recorded. This can be seen in the housing starts data, which although declining in the month of June, showed that the moving annual average for housing starts (which removes month-to-month data volatility) reached its highest level in June since October 2008. Similarly, existing home sales, which declined in March to 4.59 million pa, were up in June by 10% to over 5 million homes pa. This data volatility has been caused by, amongst other factors, movements in mortgage rates (a result of the US Federal Reserve's decision to begin the tapering of its quantitative easing program, which is currently targeted for completion in October this year), and severe winter weather conditions which negatively impacted industry activity in the January to April period. Indeed, the weather was so extreme that it is estimated to have reduced US GDP by the equivalent of 1% pa in the first quarter alone.

Despite the saw-tooth nature of the recovery, and despite the fact that we are only in the early phase of cyclical recovery, we have now begun to benefit from improving market conditions. A few highlights from our reported earnings results for 2014 illustrate this:

- **At $396 million, revenue was up $32 million, or 9%, on the previous year.**
  This growth came primarily from a 15%+ increase over the corresponding prior period to June 2013 ("cpp") in sales to our pro-dealer customers (who supply the new home construction market and who now represent over 50% of our total North American distribution revenues), as we expanded our product range into existing customers.

  Notably, our retail / DIY customer sales also showed good growth, increasing by 5%+ over the cpp. This is the first year since the beginning of the US housing down-cycle in 2007-8 that we have been able to report comparable period retail sales growth – a very positive indication that these customers will provide a source of earnings growth for Tenon as the US housing sector continues to recover.

  Outside of the US, expansion of our European and Australian (see page 4) activities, as we continued our geographic growth and rebalancing program, resulted in top line revenue growth of $4 million.

- **Consistent with previous market guidance, we returned to bottom line profitability.**
  Net Profit after tax of $2 million was recorded, which compares with a loss of $3 million in 2013. This result was after expensing $1 million of costs relating to the establishment of our new bank financing facility (see following page), and $1+ million in earnings foregone as a result of the extreme US weather conditions that prevailed in the second half of the fiscal year (as noted above).

- **Gross profit of $92 million was recorded, up 11% or $9 million on the cpp, and operating profit before financing costs of $7 million compares favourably with the $1 million recorded in the prior year.**
  This improved operating profit result reflected not only the benefits of higher volumes and improved product mix, but also the gains from our restructuring activities taken last year. The NZ$:US$ cross rate moved wildly in the period, ranging from 77 cents to 88 cents, averaging 83 cents. Our FX hedging policy worked well in this environment, securing a hedged rate in line with our budgeted rate of 80 cents.

- **EBITDA[1] more than doubled to $11 million ($5 million cpp).**
  (1) EBITDA (please refer to Note 25 of the Financial Statements, and also to the footnote to the Highlights on page 1 of this Report for further explanation) is the non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the differences in asset ages and depreciation policies, and by different debt:equity structures.
  The EBITDA result for the 12 months was up 120% on the result reported for the prior year, and clearly showed the strengthening in Tenon's financial performance as the housing market continued on its recovery path. The result was in line with previous market guidance given that our goal was to at least double our fiscal 2013 EBITDA result in 2014. As already noted, this result was achieved despite the headwind of a strong NZ dollar, and the $1+ million in lost earnings from the severe weather conditions experienced in the second half of the fiscal year.

Stepping back from the detailed operational and financial results, in terms of strategic developments in the period, the following initiatives were put in place to advance the Company's competitive positioning:

- **The establishment of a new 5-year $70 million bank financing facility.**
  We have signed a new syndicated bank facility, led by PNC (as agent bank), with continued participation by two of our existing syndicate banks – Bank of New Zealand and Comerica. This new 5-year facility provides for 30% greater debt capacity than the $54 million we operated with under the previous facility. The PNC facility does not expire until September 2018, and its terms are outlined in Note 18 of the Financial Statements. This new facility will allow us to advance through the cyclical recovery in the US housing market on a much stronger financial footing.

- **The announcement of a $5 million sawmill optimisation upgrade to our large clear-wood manufacturing operation at Taupo, NZ.**
  In order to support our Australian market expansion, and also to meet the demands of a recovering US housing market and on-going product growth into Europe, we have made the decision to upgrade our Taupo manufacturing site with new sawmill optimisation equipment. This (circa) $5 million investment, which will allow Taupo's production of high-value clearwood product to increase without additional log-in requirement, is expected to generate a (approx) 2.5 year payback on investment once fully installed and commissioned. Given the lead time from manufacture to equipment installation, this capital expenditure is unlikely to impact earnings until the second half of calendar '15. Financing, which has been approved by Tenon's banking syndicate, will be provided from an increase in term loan borrowings of $3.2 million with the balance coming from our existing revolver facility.

- **The expansion of our Australian strategy with the announcement of a new business relationship with the Masters Home Improvement chain.**

  Last month we expanded our business in Australia by entering into a new agreement with Masters Home Improvement ("Masters") to supply and service a full range of interior moulding and millwork products to all of Masters current and future stores, Australia wide. Masters is a joint venture between Woolworths and Lowe's Home Improvement ("Lowe's"), currently with 49 large-format home centre stores across the country, and with an aspiration to grow this store count at a rate of 10-15 stores per year for the next several years.

  To conduct this new business, we have established Empire Mouldings Australia as a new operation (alongside the existing Tenon Australia operation that we established in 2012), to provide our unique proprietary service model and extensive product range to Masters. Empire Mouldings Australia will replicate the service offering provided to Lowe's in North America by our 100% US-based subsidiary, The Empire Company. Product will be supplied primarily from Tenon's large clearwood manufacturing site in Taupo (NZ) and from our Tenon Australia manufacturing operation in Victoria, with supplemental product sourced from the Tenon global supply chain as required.

Governance

Our last Annual Shareholders' Meeting was held in Auckland (NZ) on 4 December 2013. The presentations to that meeting focused on the future of the Company, and these are available for download from our website at www.tenonglobal.com. Approximately 85% 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%. The resolutions included the appointment of our former CEO, Mark Eglinton, as a Director of the Company, following the retirement of Michael Andrews and Michael Walls from the Board after more than a decade of valuable service. These excellent voting statistics are a reflection not only of the Company's consolidated share register, but also of the confidence that shareholders have in Tenon's future.

During the year we put in place a small shareholder plan. The plan ended on 31 January, by which time the number of existing Tenon shareholders buying further shares exceeded those wishing to sell by a ratio of 2:1, and the numbers of shares bought by shareholders exceeded those sold by a ratio of 10:1. This was a pleasing response. As part of the Plan, we also undertook a small on-market share buy-back program of 450,000 shares. As at this announcement, some 385,000 shares had been bought back under this program.

Our share price performance in 2014 was very strong, increasing 37% across the fiscal year. This is more than double the 16% recorded on the NZX50, the 12% on the ASX50, and the 13% on the Dow Jones Industrial Average, over the same period. While we are pleased with this performance, we still believe that the current price is well below fair value for the Company at this point in the cycle, and we have operational, strategic (discussed above), and structural initiatives in place to help close this value-gap.

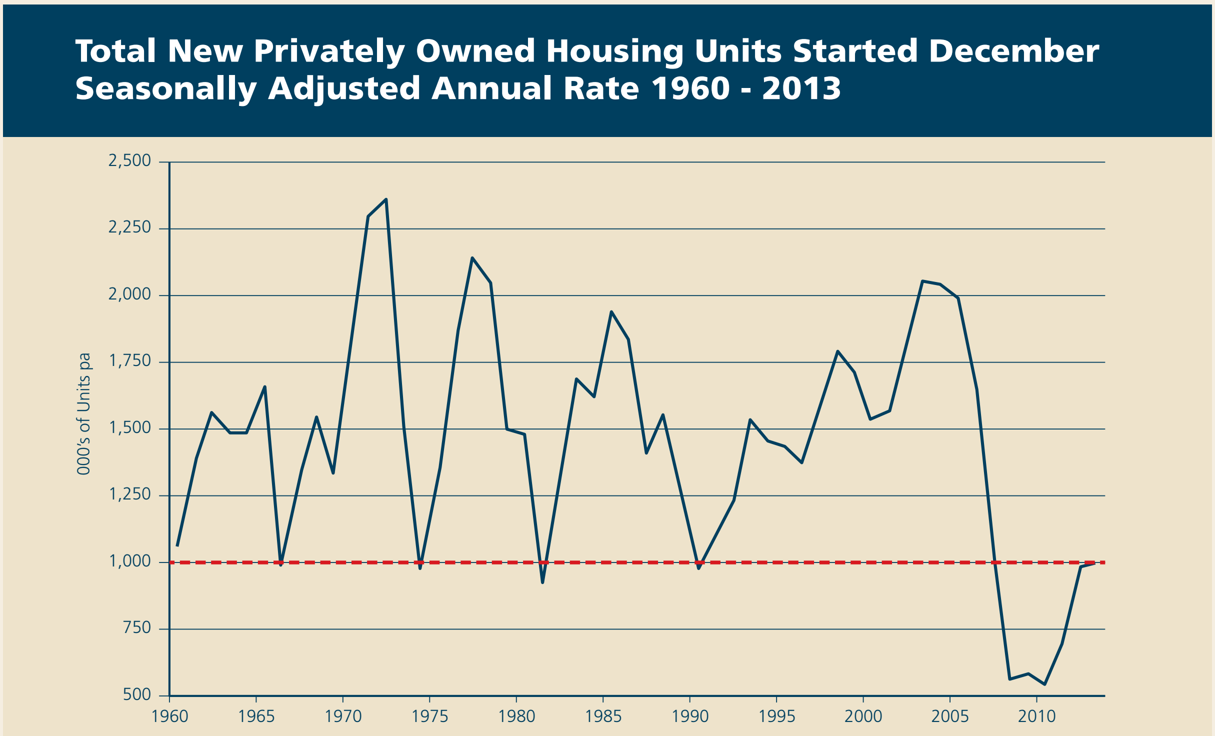
In this respect, the Board has determined that in addition to reinvestment in the Company's growth projects (e.g. the Masters new business opportunity and the Taupo sawmill optimisation capital project mentioned above), an appropriate use of the Company's capital in the current environment is to begin to return surplus cash to shareholders. Delivering cash returns by way of dividends would not be tax effective to shareholders, given that Tenon does not have imputation credits to attach to dividend flows. Accordingly, the Board has instead determined that the best way to effect its cash return objective is through the announcement of sequential on-market share buyback programs. The Board considers the buyback mechanism to be a flexible one, allowing the Company to alter the dollar amount expended according to its cash flow position at any point in time. It is also consistent with the Company's objective of providing more liquidity in the market for small volume daily trading. A buyback program offers shareholders the opportunity to sell into the buyback if they require cash, and those shareholders who do not wish to sell will benefit from any share price increase arising from the Company's future financial performance. Consistent with this conclusion, the Company has announced a (new) further buyback, commencing 27 August 2014, for the purchase of an additional 400,000 shares on-market, with the intention that further announcements of this type will be made in the future.

The other structural initiative relates to increasing the Company's equity exposure to US investors. Some 90% of Tenon's revenue is derived from the US, where the bulk of our operations are located, yet our equity is NZ-based, where news of the US housing market and the performance of Tenon's competitors is sparse. We are continuing our consideration of all viable alternatives as to how best to address this issue.

Loading kiln dried lumber at Tenon's Taupo plant for processing into clear pine boards for the USA and Australian markets

Looking Ahead

As the new housing starts graph (as extracted from our Interim Report) below shows clearly, we are only now at the very bottom, or "floor," of previous US housing cycles. Put another way, over the past 50+ years, US housing activity has been at a higher level than today's level for almost 90% of the time. Clearly, the gap to a mid-cycle level of activity represents a large future opportunity for Tenon.



So, based on previous cycles, we are only now just entering early cyclical recovery, and most industry data points (including the July new housing starts (1.09 million pa) and building permits (1.05 million pa) data released the week of 18 August) indicate good underlying industry activity levels moving forward. So, quite apart from our own organic growth initiatives, cyclical recovery alone should drive strong future earnings growth in each of our underlying businesses.

In support of future demand levels, long-run household formation activity – a key driver of new housing starts, is forecast to be strong, with a projected increase in young adults entering household formation years. Similarly, the continued ageing of US homes (with more than 40% of homes today being at least 40 years old), the recent appreciation in US home prices, and on-going job market recovery, are each supportive of future remodelling and renovation spend.

In terms of the immediate outlook, we are conscious that there are some large 'uncontrollables' at play that could materially change our earnings outcome, up or down. Our basic concerns reside in the macro-conditions likely to prevail over the next 12 months. The US Federal Reserve's plan to eliminate its quantitative easing program by October this year, and the impact that may have on mortgage interest rates next year and housing demand as a result, will be a key macro driver. Closer to home, the NZ$:US$ exchange rate continues to operate at a level that is unsustainable on fundamentals, and its forward path will similarly be a determinant of Tenon's short-term earnings profile.

On the positive side, and as we summarised in our Interim Report to shareholders, outside of these uncontrollable macro-factors, we do expect to reap the benefits from Company-specific growth and profit improvement initiatives that continue to be identified and implemented. In addition to cyclical recovery, market share growth, continued product expansion with existing customers (e.g. stairparts and doors programmes), new product introductions (e.g. refreshed decorative moulding profiles noted above), improved manufactured product mix, operational efficiency gains, and increased exposure to the pro-dealer segment, will each support Tenon's earnings growth.

These initiatives do not come without some initial costs however. In this respect there will be some higher than normal costs reflected in 2015, in particular marketing and merchandising spend supporting extensive product reset activity across all the core product categories we service - however this will deliver stronger retail store performance in future periods. Despite these costs and a higher FX rate today than prevailed in fiscal 2014, **our internal budget is for our Revenue and EBITDA[1] performance in 2015 to show yet further improvement again on our 2014 result** (subject to the 'uncontrollables' comments noted above).

As a result of the growth we have embedded into the Company, the new Masters and Taupo clearwood optimisation initiatives outlined in this Report, the restructuring and efficiency programs executed in recent periods, and stronger mid-cycle activity levels predicted, **we now see Tenon's mid-cycle EBITDA[1] potential to be circa $45 million.** This earnings potential excludes the upside that might come from acquisitive growth. As the US industry recovers, merger & acquisition activity will expand, and the opportunity for synergistic transactional growth will similarly increase. Growth by merger and/or acquisition remains firmly on the Tenon agenda.

Finally, we would like to thank all of our stakeholders for their continued support. As always, it is very much appreciated.

Sincerely,

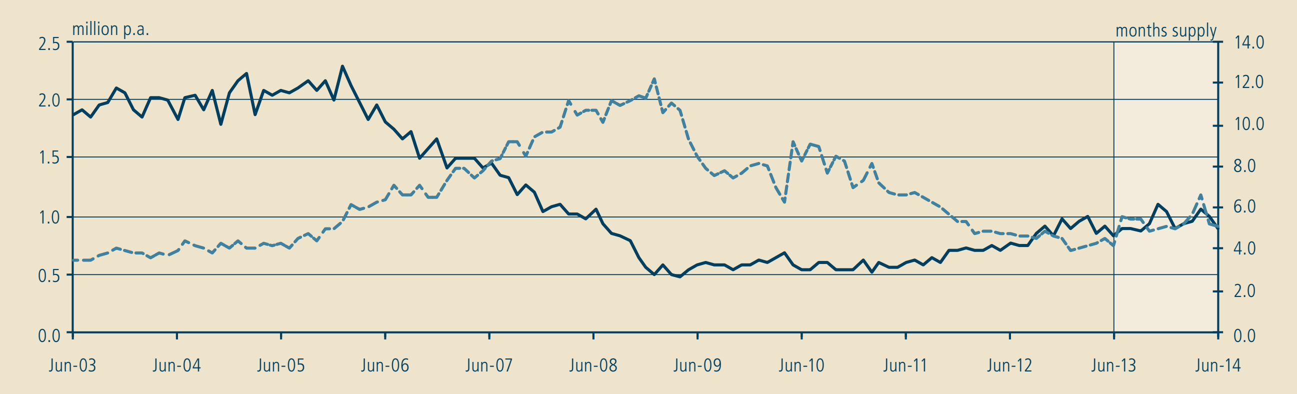
Luke Moriarty
Chairman

Tony Johnston
Chief Operating Officer

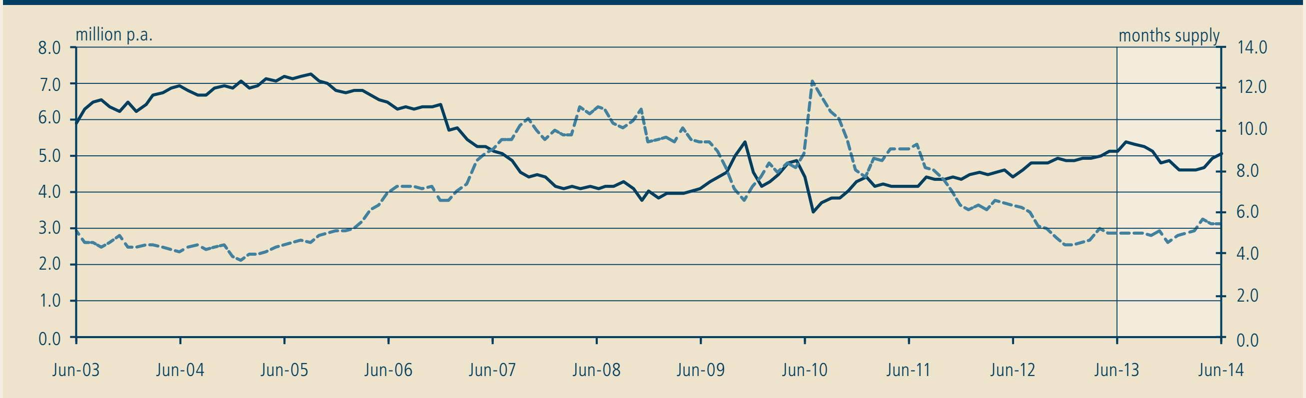
21 August, 2014

(1) Please refer Note 25 of the Financial Statements, and also to footnotes 1, 2 and 3 to the Highlights on page 1 of this Annual Report for further explanation.

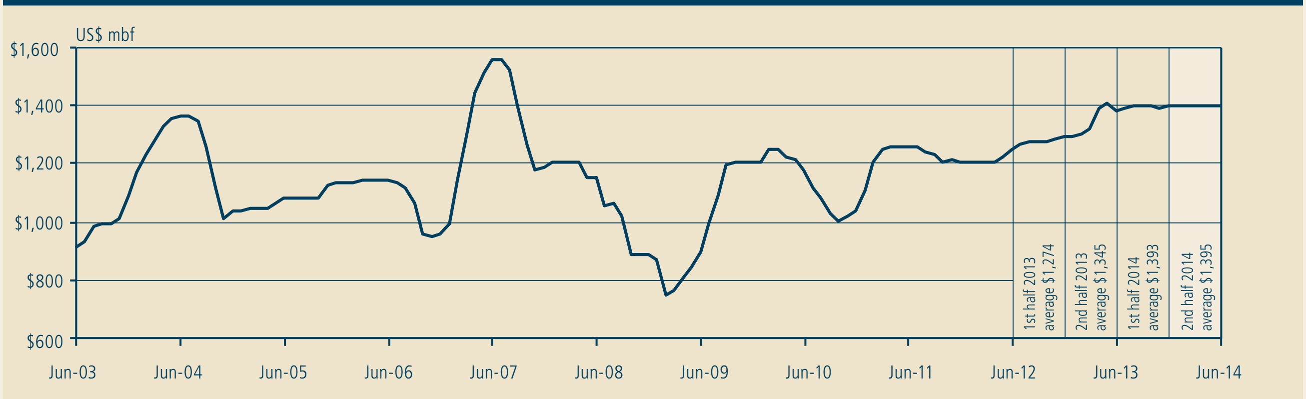
New Homes



Existing Homes

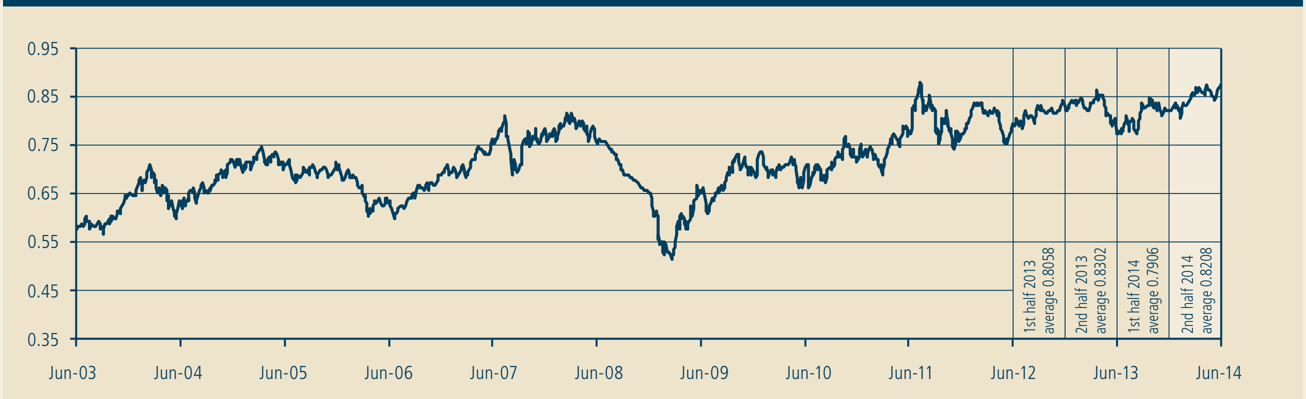


Moulding and Better Lumber Pricing



NZ$/US$ Exchange Rate

(blue line is actual rate, six-monthly averages represent hedged rates)



Financial Statements and Corporate Governance

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Consolidated Income Statement for year ended 30 June

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Note	Tenon Group 2014 US$m	Tenon Group 2013 US$m
–	**–**	Revenue		**396**	364
–	**–**	Cost of Sales	5	**-304**	-281
–	**–**	Gross Profit		**92**	83
–	**–**	Distribution Expense	5	**-71**	-69
–	**–**	Administration Expense	5	**-14**	-13
–	**–**	Operating Profit / (Loss) before Financing Costs		**7**	1
-18	**-25**	Financing Costs	18	**-4**	-4
-18	**-25**	Profit / (Loss) before Taxation		**3**	-3
5	**7**	Income Tax (Expense) / Benefit	6	**-1**	–
-13	**-18**	Net Profit / (Loss) after Taxation		**2**	-3
		Earnings Per Share Information			
		Basic and Diluted Net Earnings per Share (cents)	7	**2.4**	-4.8

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 2013 US$m	Tenon Limited 2014 US$m		Note	Tenon Group 2014 US$m	Tenon Group 2013 US$m
-13	**-18**	Net Profit / (Loss) after Taxation for the year		**2**	-3
		Items that maybe recycled to the Consolidated Income Statement:			
-1	**1**	Net movement of Cash Flow Hedges net of Tax	9	**1**	-1
3	**-35**	Movement in Currency Translation Reserve	9	**1**	–
2	**-34**	Other Comprehensive Income for the period, net of Tax		**2**	-1
-11	**-52**	Total Comprehensive Income for the year		**4**	-4

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

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 2012		533	-417	–	1	5	122
Net Profit / (Loss) after Taxation for the year		–	-3	–	–	–	-3
Other Comprehensive Income / (Loss) for the year		–	–	-1	–	–	-1
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-3	-1	–	–	-4
As at 30 June 2013	9	533	-420	-1	1	5	118
As at 1 July 2013		533	-420	-1	1	5	118
Net Profit / (Loss) after Taxation for the year		–	2	–	–	–	2
Other Comprehensive Income / (Loss) for the year		–	–	1	–	1	2
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	2	1	–	1	4
Share Buyback (1)		–	–	–	–	–	–
As at 30 June 2014	9	533	-418	–	1	6	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 2012	27	533	-493	–	–	-33	7
Net Profit / (Loss) after Taxation for the year		–	-13	–	–	–	-13
Other Comprehensive Income for the year		–	–	-1	–	3	2
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-13	-1	–	3	-11
Share Buyback (1)		–	–	–	–	–	–
As at 30 June 2013	9	533	-506	-1	–	-30	-4
As at 1 July 2013		533	-506	-1	–	-30	-4
Net Profit / (Loss) after Taxation for the year		–	-18	–	–	–	-18
Other Comprehensive Income / (Loss) for the year		–	–	1	–	-35	-34
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-18	1	–	-35	-52
Share Buyback (1)		–	–	–	–	–	–
As at 30 June 2014	9	533	-524	–	–	-65	-56

(1) On 4 December 2013, Tenon announced a small shareholder plan, compulsory acquisition of minimum shareholdings and a limited share buyback. The share buyback is for up to 450,000 shares to be acquired at the discretion of the Board in the 12 months ending December 2014. As at 30 June 2014, 271,557 shares had been acquired at a total cost of $0.4 million. The shares were cancelled upon acquisition by Tenon Limited. The share plan and compulsory acquisition were completed in early 2014. Refer to Governance on pages 4 and 5 for commentary on the share plan, compulsory acquisition and share buyback.

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 2013 US$m	Tenon Limited 2014 US$m		Note	Tenon Group 2014 US$m	Tenon Group 2013 US$m
		ASSETS			
		Current Assets:			
–	**–**	Inventory	10	**67**	72
–	**–**	Trade and Other Receivables	11	**35**	34
–	**–**	Total Current Assets		**102**	106
		Non Current Assets:			
–	**–**	Fixed Assets	12	**21**	23
–	**–**	Forest Assets	13	**3**	4
262	**262**	Investments	14	**–**	–
1	**1**	Intercompany Advances	23	**–**	–
–	**–**	Goodwill	15	**67**	67
12	**18**	Deferred Taxation Asset	16	**12**	11
275	**281**	Total Non Current Assets		**103**	105
275	**281**	Total Group Assets		**205**	211
		LIABILITIES AND GROUP EQUITY			
		Liabilities			
		Current Liabilities:			
–	**–**	Bank Overdraft		**1**	2
1	**1**	Trade and Other Payables and Provisions	17	**33**	43
1	**–**	Derivative Financial Instruments	19	**–**	1
–	**–**	Current Debt	18	**1**	1
2	**1**	Total Current Liabilities		**35**	47
		Non Current Liabilities:			
–	**–**	Non Current Debt	18	**48**	46
277	**336**	Intercompany Advances	23	**–**	–
277	**336**	Total Non Current Liabilities		**48**	46
279	**337**	Total Group Liabilities		**83**	93
		Group Equity			
533	**533**	Capital	8	**533**	533
-537	**-589**	Reserves	9	**-411**	-415
-4	**-56**	Total Group Equity		**122**	118
275	**281**	Total Group Liabilities and Equity		**205**	211
		Net Assets per Share (US$)		**1.87**	1.80
		Net Tangible Assets per Share (US$)		**0.66**	0.61
		Shares used for Net Assets per Share (millions)	8	**65.4**	65.7

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

For and on behalf of the Board
21 August 2014

Chairman of Directors
Luke Moriarty

Chief Operating Officer
Anthony Johnston

Director
Rodger Fisher

Chief Financial Officer
Adam White

Consolidated Statement of Cash Flows for year ended 30 June

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Note	Tenon Group 2014 US$m	Tenon Group 2013 US$m
		Cash was Provided:			
		From Operating Activities			
–	**–**	Receipts from Customers		**398**	360
6	**3**	Intercompany Tax Transfer	16	**–**	–
6	**3**	Total Provided		**398**	360
–	**–**	Payments to Suppliers, Employees and Other		**391**	368
–	**–**	Income Tax Payment	16	**1**	–
–	**–**	Total Applied		**392**	368
6	**3**	Net Cash from / (to) Operating Activities		**6**	-8
		To Investing Activities:			
–	**–**	Sale of Assets held for sale		**–**	3
		Total Provided		**–**	3
–	**–**	Purchase of Fixed Assets	12	**2**	2
–	**–**	Total Applied		**2**	2
–	**–**	Net Cash from / (to) Investing Activities		**-2**	1
		From Financing Activities:			
–	**–**	Debt Drawdowns		**55**	15
12	**22**	Advances from Subsidiaries		**–**	–
12	**22**	Total Provided		**55**	15
–	**–**	Debt Settlements		**53**	6
18	**25**	Interest and Refinancing Fees paid		**5**	3
–	**–**	Share Buyback		**–**	–
18	**25**	Total Applied		**58**	9
-6	**-3**	Net Cash from / (to) Financing Activities		**-3**	6
–	**–**	Net Movement in Cash Held		**1**	-1
–	**–**	Add Opening Cash, Liquid Deposits and Overdrafts		**-2**	-1
–	**–**	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 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		Cash was Provided from:		
-13	**-18**	Net Profit / (Loss) after Taxation	**2**	-3
18	**25**	Add Financing Costs	**4**	4
		Adjustments:		
–	**–**	Depreciation	**4**	4
1	**-4**	Taxation	**–**	–
–	**–**	Forest Assets	**1**	–
–	**–**	Other [(2)]	**–**	-2
6	**3**	Cash Flow from / (to) Operations before Net Working Capital Movements	**11**	3
–	**–**	Net Working Capital Movements	**-5**	-11
6	**3**	Net Cash to Operating Activities [(1)]	**6**	-8
		Net Working Capital Movements:		
–	**–**	Trade and Other Receivables	**2**	-4
–	**–**	Inventory	**5**	-19
–	**–**	Trade and Other Payables	**-12**	12
–	**–**		**-5**	-11

(1) As per Statement of Cash Flows
(2) June 2013: Restructuring costs paid and gain on sale of assets

The accompanying notes form part of and are to be read in conjunction with these 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 primarily 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 large home improvement chains in the United States, 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 global 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 2014 the Group was 59.23% owned by Rubicon Limited and its subsidiaries (June 2013: 58.99%).

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 21 August 2014.

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 fair 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.

- NZ IFRS 7 Financial Instruments: Amendments to NZ IFRS 7 Financial Instruments: Disclosures - Transition Disclosures. The Group adopted this standard for the first time in 2014 and there was no impact on the financial statements.
- NZ IFRS 10 Consolidated Financial Statements and NZ IFRS 12 Disclosure of Interests in Other Entities. 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 adopted this standard for the first time in 2014 and there was no impact on the financial statements.
- NZ IFRS 12 Disclosure of Interests in Other Entities. The Group adopted this standard for the first time in 2014 and there was no impact on the financial statements.
- Revised NZ IAS 27, effective from 1 January 2013, is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. The Group adopted this standard for the first time in 2014 and there was no impact on the financial statements.
- NZ IFRS 13 Fair Value Measurement. NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. NZ IFRS 13 defines fair value as an exit price. As a result of guidance in NZ IFRS 13, the Group re-assessed its policy for measuring fair values, in particular its valuation inputs. The major changes to valuation inputs has been the adoption of an exit price rather than current bid price and the consideration of the credit quality of the counterparties. As the Electricity Hedge expired in December 2013, the adoption of a exit price valuation had no impact on the financial statements and the assessment of non-performance credit risk resulted in no material adjustment to the Group accounts.

(b) New and amended standards for future periods.

Certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) 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 standard described below as relevant:

- NZ IFRS 9 Financial Instruments. NZ IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The mandatory effective date is 1 January 2015 and the Group will quantify the effect when the final standard, including all phases, is issued.
- NZ IFRS 15 Revenue from Contracts with Customers. NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The mandatory effective date is 1 January 2017. The Group will quantify the effect of the standard at a date closer to adoption.
- 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.

(c) Change to basis of recognition of tax losses.

Tenon Limited changed the basis of recognition of tax losses from a stand alone taxpayer approach to a separate taxpayer within a group approach. All the Tenon New Zealand entities are part of a single tax group and losses are offset against assessable income for tax return filing purposes. Losses are transferred at full value between the entities, after balance date, through intercompany advances, this ensures that no taxation is payable as long as the NZ Group has historic unutilised tax losses. These intercompany transfers and the remaining tax balance have been recognised under the new accounting policy for Tenon Limited. The 2012 Tenon Limited balance sheet has been restated to reflect this change and the effect of the restatement is detailed in note 27 of the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 re-measurement 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 and is tested regularly for impairment including 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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

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 non-financial assets is the greater of their fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future pre-tax 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)

(h) 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.

The deferred income tax asset recognised by Tenon Limited represents the value of tax losses that will be transferred to other New Zealand based Tenon entities in future periods.

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) 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.

Group policy specifically prohibits the holding or issuing of derivative financial instruments for trading or speculative purposes. 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.

(e) 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)

(f) 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 "financing 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 large home improvement chains in the United States. 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 pre-set formula.

(c) 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.

(d) 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, leased under a finance lease, is accounted for in accordance with the accounting policy applicable to that asset.

(e) Employee benefits

Long service leave vests to certain employees 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 Consolidated 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 15 - Goodwill
(c) Note 16 - 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 19 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 also 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.

4 RISK MANAGEMENT (continued)

4.2 Key Financial Risks continued

(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.

(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.

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. A movement in the average cost of logs of NZ$1/tonne is estimated to affect Operating Profit before Financing Costs and Equity by approximately US$0.3 million assuming up to 300,000 tonnes of logs are processed at current operating 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 year in duration, with fixed container rates in US dollar currency for the contract period, subject only to fluctuations in fuel prices.

The Group had previously entered into an electricity commodity contract which provided 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 contract expired on 31 December 2013 and has not been replaced. The contracts had been determined as effective hedges under NZ IAS 39 (Financial Instruments: Recognition and Measurement), with the 30 June 2013 and 30 June 2012 mark-to-market valuation adjustments being required to be taken to the hedging reserve in Group Equity.

Other than the above electricity commodity contract which operated for the first 6 months of the 2014 fiscal 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 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 20% of the Group's 2014 costs and approximately 6% of the Group's 2014 revenues are incurred in New Zealand dollars, 2% of the Group's revenues are received in Euros and approximately 1% of the Group's 2014 costs and 1% of the Group's 2014 revenues are incurred in Australian 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's 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 and Equity of approximately US$0.65 million at current 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 19 (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 30% of trade receivables as at 30 June 2014 (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 19 (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 the expired 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 5 September 2013 Tenon announced that it had signed a new long-term $70 million syndicated debt financing facility, replacing the previous $54 million facility (refer also to note 18 (3)). The new facility comprises a $59 million revolver line and a $11 million amortising term loan. The facility is for a period of 5 years, expiring in September 2018. The new facility is led by PNC Bank National Association ("the Agent"), and the Syndicate also includes two existing lenders from the previous facility, the Bank of New Zealand and Comerica. The new facility is a typical US lending facility, where the underlying assets and working capital of the Group secure the obligations to the Syndicate.

The amount available for drawdown at any one time is determined by the value of the Group's inventory and receivables collaterised, as reported to the Agent on a monthly basis and is 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.

The Group's banking facility requires a minimum "availability" of $7.5 million. At 30 June 2014, availability was $20.5 million (June 2013: $17.5 million). The facility contained a short term minimum EBITDA covenant for the period to 31 December 2013, at which time it was replaced by a standard quarterly fixed charge covenant (FCCR) of 1.10x commencing in March 2014. Should the FCCR fall below 1.10x, 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 the demanding of repayment of the amount borrowed. Refer to note 18 (3) for definitions of the FCCR and EBITDA covenants.

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 before and 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. The Group is also limited in the amount of third party borrowing, which cannot exceed $5 million.

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 Market Demand and 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 prevailed from 2007 to 2012.

Negative factors that affected the housing sector in North America over this period were tight credit market conditions, falling house prices, higher levels of housing inventory and reduced mortgage availability. These each had a material negative effect on the total consumption of building products, and therefore the Group's level of revenue, earnings and cash flow over this period. These conditions have since improved, with 2014 recording an increase in new house construction activity and house prices.

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 certain 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 $156 million (June 2013: $149 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 and managed 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. Based on the current environmental laws, regulations and practice, 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, improve or optimise the capital structure of the Group, Tenon 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 2014 and June 2013 years, 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). 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 exit 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. In line with IFRS 13, the credit quality of counterparties was considered as part of the fair value measurement. 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 less estimated costs to sell. The Group has no unlisted investments in other companies.

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		5 OPERATING EARNINGS		
		Operating Earnings includes:		
–	**–**	Depreciation - Plant, Equipment and Buildings		
–	**–**	Cost of Sales Expense	**3**	3
–	**–**	Selling and Distribution Expense	**1**	1
–	**–**		**4**	4
–	**–**	Net Foreign Exchange (gain) / loss	**-1**	–
–	**–**	Employee Benefit Costs	**57**	56

Other items in Operating Earnings were:
(1) Directors fees payable were $0.4 million for the current year (June 2013: $0.4 million) (refer Key Management Compensation note 23 (b))
(2) Payments made and accrued to KPMG were:
Statutory audit and review of financial statements $0.5 million for the current year (June 2013: nil)
(3) Payments made and accrued to PricewaterhouseCoopers were:
Statutory audit and review of financial statements was nil for the current year (June 2013: $0.5 million)
Extended assurance work was $0.1 million for the current year (June 2013: $0.1 million)
Extended assurance work involves the testing of internal controls and processes.
Refer to page 55 of the Corporate Governance section for commentary on the Audit Committee process in managing the relationship with the Auditor to ensure independence.

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Note	Tenon Group 2014 US$m	Tenon Group 2013 US$m
		6 INCOME TAX EXPENSE (1)			
		Current Taxation:			
–	**–**	United States		**1**	–
-5	**-7**	New Zealand		**–**	–
-5	**-7**	Total Current Taxation		**1**	–
-5	**-7**	Taxation Expense / (Benefit)		**1**	–
		Net Profit / (Loss) before Taxation			
-18	**-25**	New Zealand and Australia		**2**	-2
–	**–**	United States		**1**	-1
-18	**-25**			**3**	-3
-5	**-7**	Taxation at 28 cents per dollar		**1**	-1
		Adjusted for:			
–	**–**	Expenses / (Income) not included in assessable income		**-1**	1
–	**–**	Tax losses written off (2)	16	**1**	–
-5	**-7**	Taxation Expense / (Benefit)		**1**	–

(1) Tenon Limited tax losses are recognised at full value, refer to note 2.4 (c) and note 2.7 (h), and are subsequently offset with taxable income of other New Zealand Tenon entities.

(2) In June 2014, previously recognised US tax losses that expired during the year were expensed ($1 million).

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 2014 were nil (June 2013: nil).

	Tenon Group 2014	2013

7 NET EARNINGS PER SHARE

	2014	2013
Basic and Diluted Net Earnings per Share (cents)	**2.4**	-4.8
Numerator for Basic and Diluted Net Earnings per Tenon Share ($ millions)	**2**	-3
Denominator for Basic and Diluted Net Earnings per Tenon Share (millions), refer to note 8.	**65.6**	65.7

8 CAPITAL

Capital

Reported Capital:	Tenon Group and Tenon Limited 2014 US$	2013 US$
Reported Capital at the beginning of the year	**532,947,659**	532,947,659
Share Buyback (1)	**-382,430**	–
Reported Capital at the end of the year	**532,565,229**	532,947,659

Tenon Ordinary Shares (1) (2)	Tenon Group and Tenon Limited 2014	2013
Number of Shares at the beginning of the year	**65,690,681**	65,690,681
Share Buyback (1)	**-271,557**	–
Number of Shares at the end of the year	**65,419,124**	65,690,681

(1) On 4 December 2013, Tenon announced a share plan, compulsory acquisition of minimum shareholdings and a limited share buyback. The share buyback is for up to 450,000 shares to be acquired at the discretion of the Board in the 12 months ending December 2014. As at 30 June 2014, 271,557 shares had been acquired at a total cost of $0.4 million. The shares were cancelled upon acquisition by Tenon Limited. The share plan and compulsory acquisition were completed in early 2014. Refer to Governance on pages 4 and 5 for commentary on the share plan, compulsory acquisition and share buyback.

(2) Includes 182,548 (June 2013: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as treasury stock.

Tenon Limited 2013 (1) US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		9 RESERVES		
		Retained Earnings		
-493	**-506**	Opening Balance	**-420**	-417
-13	**-18**	Net Profit / (Loss) after Taxation	**2**	-3
-506	**-524**		**-418**	-420
		Cash Flow Hedging Reserve (2)		
–	**-1**	Opening Balance	**-1**	–
-1	**3**	Fair Value gains / (losses) for the year	**3**	-1
–	**-2**	Hedge gains transferred to Earnings in the year	**-2**	–
-1	**–**		**–**	-1
		Revaluation Reserve (3)		
–	**–**	Opening Balance	**1**	1
–	**–**		**1**	1
		Net Currency Translation (4)		
-33	**-30**	Opening Balance	**5**	5
3	**-35**	Net variations on Translation of Foreign Currency Financial Statements	**1**	–
-30	**-65**		**6**	5
-537	**-589**	**Total Reserves**	**-411**	-415

(1) Refer to note 2.4 (c) and note 27. Tenon Limited has changed its accounting policy in regard to the recognition of tax losses and the intercompany transfer of taxation losses. The opening balance of Retained Earnings and the Net Currency Translations reserves have been restated to reflect this change in accounting policy.

(2) The Cash Flow Hedging Reserve records the net movement of cash flow hedging instruments and comprising of foreign exchange contracts and interest rate swaps. In June 2013 it also included the electricity hedge contract at the Group's Taupo operation.

(3) The Revaluation Reserve relates to Tenon's share of Ornamental Mouldings pre-consolidation reserves.

(4) The Tenon Limited currency translation movement of -$35 million in the June 2014 year (June 2013: $3 million) arises on the translation of inter-company New Zealand dollar advances at balance date. These advances are eliminated on consolidation of the Tenon Group. Under IFRS, investments in subsidiaries, which are also eliminated on consolidation, are held at cost and are not revalued to reflect exchange rate translation movements. Tenon Limited equity is positive when calculated in New Zealand dollars.

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		10 INVENTORY		
–	**–**	Raw Materials and Work in Progress	**6**	6
–	**–**	Finished Goods	**61**	66
–	**–**		**67**	72

The cost of inventory recognised as an expense and included in cost of sales amounted to $300 million (June 2013: $280 million).

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		11 TRADE AND OTHER RECEIVABLES		
–	**–**	Trade Debtors [1]	**29**	29
–	**–**	Prepayments	**4**	3
–	**–**	Other Receivables	**2**	2
–	**–**		**35**	34

(1) The Group's exposures to credit and currency risks and impairment losses related to Trade Debtors are disclosed in notes 19 (a) and 19 (b).

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		12 FIXED ASSETS		
		Cost		
–	**–**	Land and Improvements	**6**	6
–	**–**	Buildings	**17**	17
–	**–**	Plant and Equipment	**74**	77
–	**–**	Total Cost	**97**	100
		Accumulated Depreciation		
–	**–**	Buildings	**-8**	-8
–	**–**	Plant and Equipment	**-68**	-69
–	**–**	Total Accumulated Depreciation	**-76**	-77
–	**–**	Total Fixed Assets at Net Book Value	**21**	23
		Domicile of Fixed Assets		
–	**–**	New Zealand	**11**	12
–	**–**	United States	**10**	11
–	**–**	Total Fixed Assets at Net Book Value	**21**	23

	Land & Improvements US$m	Buildings US$m	Plant & Equipment US$m	Total US$m
Net Book Value 1 July 2012	6	10	9	25
Additions	–	–	2	2
Depreciation Charge	–	-1	-3	-4
Net Book Value 30 June 2013	6	9	8	23
Additions	–	–	2	2
Depreciation Charge	–	–	-4	-4
Net Book Value 30 June 2014	6	9	6	21

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		13 FOREST ASSETS		
–	**–**	Opening Balance	**4**	3
–	**–**	Current year movement (1)	**-1**	1
–	**–**	Closing Balance	**3**	4

(1) The current year movement of the forests assets is made up of several items: fair value expensed on sale of forests of $1.7 million (included in Cost of Sales in the Consolidated Income Statement) (June 2013: $0.3 million), costs associated with maintaining the forests of $0.1 million (June 2013: $0.2 million) and a fair value uplift due to improved log prices and forest growth (June 2013 also included reduced estimated costs of harvest) of $0.3 million (included in Cost of Sales in the Consolidated Income Statement) (June 2013: $0.3 million).

The Group has an interest in a forest asset growing on leased forest land (June 2014: 299.7 stocked area hectares, June 2013: 359 hectares) and the forestry rights to several forest assets growing on other forest land (June 2014: 89.7 stocked area hectares, June 2013: 57.6 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 four 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 are valued under NZ IAS 41 "Biological Assets" and presented in the accounts as forest assets.

During the year the harvesting of some of the Group's forests continued. External revenues of $4 million (June 2013: $1 million) and internal log consumption of $0.4 million (June 2013: nil) were recorded representing 133.4 hectares of forest harvested (June 2013: 17.5 hectares). The realised gain on this harvesting was $0.3 million (June 2013: $0.3 million), over and above the fair value of the crop harvested, and is included in the gross profit.

Valuation

The carrying value of the forest assets in these Consolidated Financial Statements is their fair value of $2.5 million (June 2013: $3.6 million). This is derived from a current, independent forest valuation, as at 30 June 2014. The independent valuation assumes; a post-tax cash flow, a historical 12 quarter average pricing series to March 2014, 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. Harvesting of the first stand began in 2013. 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, taxation and cash flow assumptions, the Group expects that the discounted net cash flows from the forest assets will exceed the 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 2014 by $0.3 million (June 2013: $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 2014 by $0.1 million (June 2013: $0.2 million).

Risk

As the Group operates a sawmill in Taupo, New Zealand that processes logs (total cost of logs processed by the sawmill in the June 2014 year was $44 million (June 2013: $44 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 sawmill.

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		14 INVESTMENTS		
262	**262**	Investment in Subsidiary Companies (refer to notes 23 and 26)	**–**	–
262	**262**		**–**	–

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		15 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.

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

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use discounted cash flow projections over a five year period inclusive of a terminal value. These cash flows assume the recovery in market conditions experienced in 2014 continues going forward, such that by year five of the projections (fiscal year 2019) (i.e. the terminal year) Tenon's consolidated EBITDA is projected to be $45 million (June 2013 Annual Report estimate: $44 million).

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

(1) For the purposes of the value-in-use calculations, volume growth rates are assumed in the 10% to 15% per annum range over the next four years, and then flat thereafter, consistent with assuming stronger rate of growth in the new homes and remodelling markets early in the cyclical recovery and then flattening out as mid-cycle conditions are approached. Growth in market share is not assumed. In the June 2013 value-in-use calculation, long term annual sales growth rates of between 5% and 10% were assumed for the following five years, consistent with the assumption of long term growth in the new homes and remodelling markets moving up from the bottom of the economic cycle and growth in market share from new products.

(2) Gross margin percentages are assumed to be similar to the current year's percentage for the next five years (+/- 2%), (June 2013: +/- 2%).

(3) The discount rate applied to the cash flow projections is 8.5% real, pre tax (June 2013: 8.25%), which is representative of Tenon's weighted average cost of capital (WACC).

(4) The terminal value growth rate used in the value-in-use calculation is 1% (June 2013: 1%) consistent with assuming a low long term annual growth rate in the new homes and remodelling markets beyond year five of the projections.

As the value-in-use significantly exceeds the carrying value inclusive of allocated goodwill of the CGU, no impairment exists at 30 June 2014.

Sensitivities

Sensitivity analysis is 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 discount rate was doubled, or
- the compound annual sales growth rate assumption was halved, or
- the terminal value growth rate was nil

16 PROVISION FOR CURRENT TAXATION AND DEFERRED TAXATION

Tenon Limited 2013 (1) US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		Provision for Current Taxation:		
–	**–**	Opening Provision for Current Taxation	**–**	–
5	**7**	Current Taxation (Expense) / Benefit in the Consolidated Income Statement	**-1**	–
1	**-4**	Deferred Tax Movement during the year	**–**	–
-6	**-3**	Intercompany transfers	**–**	–
–	**–**	Net Tax Payments / (Refund)	**1**	–
–	**–**	Provision for Current Taxation Liability / (Asset)	**–**	–

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:

–	**–**	Deferred Tax on Assets	**10**	10
–	**–**	Deferred Tax on Liabilities	**2**	1
–	**–**	Deferred Tax Asset	**12**	11
		The gross movement on the deferred income tax account is as follows:		
		Non Current Deferred Taxation:		
13	**12**	Opening Deferred Taxation	**11**	11
–	**2**	Effect of Currency Translation	**1**	–
-1	**4**	Deferred Tax Movement during the year	**–**	–
12	**18**	Deferred Tax Asset	**12**	11

(1) Refer to note 2.4 (c) and note 27. Tenon Limited changed its accounting policy in regard to the recognition of tax losses and the intercompany transfer of taxation losses. The opening balance of Non-Current Deferred Taxation has been restated to reflect this change in accounting policy.

16 PROVISION FOR CURRENT TAXATION AND DEFERRED TAXATION continued

	Depreciation US$m	Forestry US$m	Provisions US$m	Tax Losses [1] US$m	Current Assets US$m	Total US$m
June 2013						
Opening Provision for Deferred Taxation	-3	-1	1	14	–	11
Deferred Taxation in the Income Statement	–	–	–	1	-1	–
Closing Provision for Deferred Taxation	-3	-1	1	15	-1	11
June 2014						
Opening Provision for Deferred Taxation	-3	-1	1	15	-1	11
Effect of Currency Translation	–	–	–	1	–	1
Tax losses expensed in Income Statement [2]	–	–	–	-1	–	-1
Deferred Taxation in the Income Statement	–	–	1	–	–	1
Closing Provision for Deferred Taxation	-3	-1	2	15	-1	12

(1) Recognised tax losses include $7.4 million of tax effected NZ tax losses (June 2013: $6.8 million), that do not expire, subject to shareholder continuity provisions, and $7.9 million (June 2013: $7.7 million) of US tax losses which have expiry dates as detailed below.

(2) In June 2014, previously recognised US tax losses that expired during the year were expensed ($1 million).

	Expiry Dates		
	2021	Beyond 2021	Total
US Tax Losses	US$m	US$m	US$m
Gross Value	5.1	18.4	23.5
Tax Effected	1.7	6.2	7.9

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 $27 million (NZ$31 million) in unrecognised NZ tax losses (gross value), and no unrecognised US tax losses (June 2013: $24 million NZ losses (NZ$31 million) and no unrecognised US tax losses).

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		17 TRADE AND OTHER PAYABLES AND PROVISIONS		
–	**–**	Trade Creditors	**20**	31
–	**–**	Accrued Employee Benefits	**5**	4
1	**1**	Other Payables	**3**	3
–	**–**	Accruals	**5**	5
–	**–**	Restructuring Provision [1]	**–**	–
1	**1**		**33**	43
		Restructuring Provision [1]		
–	**–**	Opening balance	**–**	2
–	**–**	Created through earnings	**–**	–
–	**–**	Paid during the year	**–**	-2
–	**–**	Closing Balance	**–**	–

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

18 FINANCIAL COSTS AND DEBT

Tenon Limited 2013 US$m	Tenon Limited 2014 US$m		Tenon Group 2014 US$m	Tenon Group 2013 US$m
		Financing Costs		
–	–	Interest payable on Debt (1)	**3**	3
–	–	Amortisation of Refinancing Fees (2)	**1**	1
18	**25**	Interest payable on Intercompany Advances (refer to note 23)	**–**	–
18	**25**	Net Financing Expense	**4**	4
		Non Current Debt		
–	–	Loans (3)	**48**	46
–	–		**48**	46
		Current Debt		
–	–	Loans (3) (6)	**1**	1
–	–		**1**	1
–	–	Total Debt (5)	**49**	47
		Summary of Repayment Terms (4)		
		Due for Repayment:		
–	–	Less than one year (6)	**1**	1
–	–	between one and two years	**2**	1
–	–	between two and three years	**2**	45
–	–	between three and four years	**3**	–
–	–	between four and five years	**41**	–
–	–	**Total Debt**	**49**	47
		Non Current Debt		
%	%	Summary of Interest Rates by Repayment Period (%) (7)	%	%
		Due for Repayment:		
–	–	between one and two years	**6.31**	4.85
–	–	between two and three years	**6.32**	5.14
–	–	between three and four years	**6.32**	–
–	–	between four and five years	**5.35**	–
–	–	**Weighted Average Interest Rate**	**5.48**	5.13
		Weighted Average Interest Rate comprises:		
–	–	Weighted average interest rate on debt	**3.91**	4.03
–	–	Facility fees amortisation % on debt	**1.57**	1.10
–	–	**Weighted Average Interest Rate**	**5.48**	5.13
		Current Debt		
		Summary of Interest Rates by Repayment Period (%) (7)		
		Due for Repayment:		
–	–	Less than one year	**6.23**	4.82
–	–	**Weighted Average Interest Rate**	**6.23**	4.82
		Weighted Average Interest Rate comprises:		
–	–	Weighted average interest rate on debt	**4.74**	3.89
–	–	Facility fees amortisation % on debt	**1.49**	0.93
–	–	**Weighted Average Interest Rate**	**6.23**	4.82

18 FINANCIAL COSTS AND DEBT continued

(1) Includes $0.3 million for the cost of cancelling the Interest Rate Swaps related to the previous facility (June 2013: nil)

(2) Includes the amortisation of unamortised refinancing fees on the previous facility of $0.8 million (June 2013: $0.3 million) and $0.3 million amortisation on the new facility refinancing fees.

(3) On 5 September 2013 Tenon announced that it had signed a new long-term $70 million syndicated debt financing facility, replacing the previous $54 million facility. The new facility comprises a $59 million revolver line and a $11 million amortising term loan. The facility is for a period of 5 years, expiring in September 2018. The new facility is led by PNC Bank National Association, and the Syndicate also includes two lenders from the previous facility, the Bank of New Zealand and Comerica. The new facility is a typical US lending facility, where the underlying assets and working capital of the Group secure the obligations to the Syndicate. The facility contained a short term minimum EBITDA (1) covenant for the period to 31 December 2013, at which time it was replaced by a standard quarterly fixed charge covenant (FCCR) (2) of 1.1 times commencing in March 2014.

The revolver facility is currently subject to a $7.5 million "block" reserve deducted from the eligible collateral. The block is permanently released (resulting in availability increasing by up to $7.5 million, depending on the amount of total eligible collateral available), when Tenon has met four successive quarters of 1.50x FCCR (1) coverage and $15 million surplus availability (measured before deducting the block), and subject to the existing Term Loan balance being paid down to $7.5 million or less at the date of the release of the block.

The revolver facility is classified as non-current, reflecting the Syndicate's commitment to the Group for the life of the facility. Under the facility the Group 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 Group remaining in compliance with certain facility covenants (refer paragraph above).

The previous facility provided by a consortium of banks led by JPMorgan Chase Bank, N.A. was repaid when the new facility was drawn down.

As at 30 June 2014, the Company was in compliance with the FCCR (2) covenant and accordingly the amount of debt drawn under the revolver facility is shown as non-current. Tenon has been compliant with all covenants throughout the year and believes it will continue to be so in the future.

(4) The total size of Tenon's 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 per annum). The assumption made in the table below is that, commencing in September 2015, the maximum $1 million repayment each year will be made under the excess cash flow provision of the facility.

		$m	
	Term	**Revolver**	**Total**
Sept 2013	11.00	59.00	70.00
June 2014[a]	10.17	59.00	69.17
June 2015[b]	9.07	59.00	68.07
June 2016[b]	6.97	59.00	65.97
June 2017[b]	4.87	59.00	63.87
June 2018[b]	2.77	59.00	61.77
Sept 2018	–	–	–

(a) Scheduled Term Loan amortisation of $91,667 per month

(b) Scheduled Term Loan amortisation of $91,667 per month and $1 million excess cash flow payment on 30 September.

(5) All non-current debt and current debt is denominated in United States Dollars.

(6) The current debt of $1 million reflects Term Loan amortisation of $1.1 million and other loan principal payments of $0.1 million.

(7) The weighted average interest rates reflect the effective interest rate, inclusive of fee amortisations and any applicable interest rate swaps. For June 2014, the Group's two interest rate swaps, entered into in September 2013, partially hedge the Term Loan and Libor contracts. The swap interest cost has been included in calculating the interest rate on the Term Loan (repaid as per the schedule in (4) above) and the LIBOR loans which are due for repayment in 2018.

For the June 2013 interest rate calculation, the Group's two interest rate swaps, entered into in July 2011, partially hedged the LIBOR contracts. The swap interest cost was included in calculating the interest rate on the LIBOR contracts, due for repayment in 2016. Loans are drawn as floating rate loans and the Group enters into floating to fixed interest rate hedges (refer to note 19 (a) interest rate risk).

(1) EBITDA is a Non-GAAP financial measure, refer to note 25.

(2) The FCCR covenant is defined as [(EBITDA - capital expenditure - cash tax paid) / (interest + amortising term loan payments + distributions paid)].

19 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 expired in December 2013 and has not been replaced.

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 2014		As at 30 June 2013	
	US$ US$m	NZ$/AU$ US$m	US$ US$m	NZ$/AU$ US$m
Cash and Liquid Deposits	**–**	**–**	–	–
Trade Debtors	**26**	**3**	27	2
Bank Overdraft	**–**	**-1**	-1	-1
Trade Creditors	**-15**	**-5**	-27	-4
Current Debt	**-1**	**–**	-1	–
Non Current Debt	**-48**	**–**	-46	–
Gross Balance Sheet Exposure		**-3**		-3

Sensitivity Analysis - Group gross balance sheet exposure

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

Tenon Limited

	Currency of Denomination			
	As at 30 June 2014		As at 30 June 2013	
	US$ US$m	NZ$ US$m	US$ US$m	NZ$ US$m
Intercompany Advance - Asset	**–**	**1**	–	1
Intercompany Advance - Liability	**–**	**-336**	–	-277
Gross Balance Sheet Exposure		**-335**		-276

Sensitivity Analysis - Tenon Limited gross balance sheet exposure

The Intercompany advances are denominated in New Zealand dollars. A 1 cent change in the NZ/US dollar exchange rate will change the currency translation reserve in Tenon Limited Equity by $4 million (June 2013: $4 million) when reported in United States dollars (the presentation currency).

19 FINANCIAL INSTRUMENTS continued

Tenon Limited and the Group Financial Instruments	As at 30 June 2014 Selling US$	As at 30 June 2014 Buying NZ$	As at 30 June 2013 Selling US$	As at 30 June 2013 Buying NZ$
Foreign Exchange Contracts	**11**	**12**	21	26

Sensitivity Analysis - Financial Instruments
As at 30 June 2014, Tenon Limited had foreign exchange contracts selling US$11 million into NZ$12 million at an average rate of 0.8478. All the contracts are due for settlement within the 3 months to 30 September 2014. As at 30 June 2013, Tenon Limited had foreign exchange contracts selling US$21 million into NZ$26 million at an average rate of 0.7935. All the contracts settled in the 6 months to 31 December 2013.

As at 30 June 2014, the mark to market valuation adjustment on the contracts was a gain of $0.3 million (June 2013: loss of $0.6 million) and was included in the Cash Flow Hedging Reserve in Tenon Limited and Group Equity. If the NZ/US Dollar exchange rate changes by 1 cent before the contracts are settled, the mark to market valuation adjustment in Equity would change by $0.1 million (June 2013: $0.3 million).

The following exchange rates applied during the year:	Average rate (1) 2014	Average rate (1) 2013	Reporting date (spot rate) 2014	Reporting date (spot rate) 2013
US$/NZ$	0.8304	0.8168	0.8767	0.7790

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

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 2014, the Group had two interest rate swaps totalling $11 million, covering 23% of total debt. Both swaps were entered into in September 2013 and expire in September 2018. The Group pays a fixed rate and receives a floating rate based upon the US$ LIBOR rate. As at 30 June 2014, the floating rate receivable was 1.51% on both swaps. One of the two current period swaps is for $6 million and the Group pays a fixed interest rate of 2.05% on this swap. This swap interest cost has been included in calculating the interest rate on the LIBOR loans, due for repayment in 2018. The other swap is an amortising swap with a balance of $5.1 million as at 30 June 2014 (the initial amount was $6 million) and the Group pays a fixed interest rate of 1.828% on this swap. The swap reduces by $45,833 per month and hedges the term loan that also amortises. This swap interest cost has been included in calculating the interest rate on the Term loan, which will be fully repaid by 2018.

As at 30 June 2013, the Group had two interest rate swaps totalling $15 million, covering 32% of total Debt. Both swaps were for $7.5 million each and were entered into in July 2011. The swaps were cancelled as part of the refinancing process that occurred in the first quarter of the June 2014 fiscal year. The break costs related to cancelling the swaps were $0.3 million and have been included in the June 2014 financing costs in the Statement of Consolidated Income. The Group paid a fixed interest rate of 1.575% on one swap and 1.53% on the other. For both swaps the Group received a rate based on the US$ LIBOR floating rate. The rate receivable as at 30 June 2013 was 0.195% on one swap and 0.1925% on the other. The swap interest cost was included in calculating the interest rate on the LIBOR loans, due for repayment in 2016.

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 2014 and June 2013 and the net fair value of the interest rate swaps as at 30 June 2014 was a liability of $0.3 million (June 2013: liability of $0.4 million) and is included in other current liabilities and the hedging reserve in Equity.

19 FINANCIAL INSTRUMENTS continued

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

		Tenon Group			
		2014 US$m	2014 %	2013 US$m	2013 %
Interest Rates Repriced:					
(including average interest rate)					
Debt repayable	within one year	**1**	**6.23**	1	4.82
	between one and two years	**2**	**6.31**	1	4.85
	between two and three years	**2**	**6.32**	45	5.14
	between three and four years	**3**	**6.32**	–	–
	between four and five years	**41**	**5.35**	–	–
		49		47	

Intercompany interest on Tenon Limited intercompany advance liability is an average weighted rate based upon the 1 year NZ swap Rate (refer to note 23 (a)(3)).

Sensitivity Analysis - Group

As at 30 June 2014, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated $0.5 million reduction in Profit before Taxation, a 1% decrease in the floating interest rate would have resulted in an estimated increase of $0.6 million in Profit before Taxation. The 2014 earnings impact was calculated on the actual debt drawn as at 30 June 2014 and was for a full 12 months assuming that 23% of debt was subject to the two interest rate swaps in existence as at 30 June 2014 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 2014, 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 2014) would have had an estimated $0.2 million impact on Profit before Taxation.

A 1% increase in interest rates would have had no impact on Equity, the reduction in the fair value liability of the interest rate swaps offsetting the after tax increase in total interest costs. A 1% reduction in interest rates would have reduced Equity by $0.2 million, being the after tax reduction in total interest costs being more than offset by an increase in the fair value liability of the interest rate swaps.

As at 30 June 2013, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated $0.3 million reduction in Profit before Taxation, a 1% decrease in the floating interest rate would have resulted in an estimated increase of $0.4 million in Profit before Taxation. The 2013 earnings impact was calculated on the actual debt drawn as at 30 June 2013 and was for a full 12 months assuming that 32% of debt was subject to the two interest rate swaps in existence as at 30 June 2013 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 were included in Equity. The supply chain financing interest cost was also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2013, 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 ($16.7 million as at 30 June 2013) would have had an estimated $0.2 million impact on Profit before Taxation.

A 1% increase in interest rates would have had no impact on Equity, the reduction in the fair value liability of the interest rate swaps offsetting 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.

Sensitivity Analysis - Tenon Limited

As at 30 June 2014, a 1% change in the 1 year NZ swap rate would have resulted in an estimated $3.4 million (June 2013: $2.8 million) change in Profit before Taxation and a $2.4 million (June 2013: $2.0 million) change in Tenon Limited Equity.

19 FINANCIAL INSTRUMENTS continued

(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	
	2014 US$m	**2013 US$m**
Cash and Liquid Deposits (1)	**–**	–
Trade and Other Receivables	**35**	34
	35	34

	Tenon Group	
	2014 US$m	**2013 US$m**
The status of Trade Debtors is as follows:		
Neither past due nor impaired (2)	**26**	25
Past due but not impaired (3)	**3**	4
Impaired (4)	**–**	–
	29	29
Less provision for doubtful debts (5)	**–**	–
Net Trade Debtors	**29**	29

(1) Cash and Liquid Deposits are only held with banks that are part of the Group's banking consortium led by PNC Bank (previously 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 $26 million (June 2013: $25 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 2014, $3 million (June 2013: $4 million) of Trade Debtors were past due but not impaired. The ageing of these Trade Debtors is as follows:

	Tenon Group	
	2014 US$m	**2013 US$m**
Days overdue:		
1 month	**2**	4
2 months	**1**	–
	3	4

(4) As at 30 June 2014, no Trade Debtors were impaired (June 2013: $0.1 million). Impaired Trade Debtors relate to customers who have experienced or who are experiencing financial difficulties. As at 30 June 2013, a provision for Doubtful Debts of $0.1 million existed to cover the balance of the impaired debtors not expected to be recovered under the credit insurance programme operated by Tenon's US Subsidiaries. During the current 2014 year these impaired Debtors were expensed against the provision. As at 30 June 2014 there is no specific provision for Doubtful Debts. 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 2014, the net provision created through earnings during the period was nil (In June 2013, the net provision created through earnings during the period was $0.1 million). Debtors written off directly against the provision during 2014 were $0.1 million (June 2013: $0.1 million).

19 FINANCIAL INSTRUMENTS continued

(c) Liquidity Risk

The following are contractual maturities of financial liabilities and net settled derivatives. The amounts disclosed are the contractual undiscounted cash flows.

Tenon Group				**2014 US$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	33	33	31	2	–	–	–
Debt	49	49	–	1	2	46	–
Interest Expense on Debt	–	–	1	1	2	4	–
Derivative Financial Liabilities							
Interest rate swaps							
($0.2 million per annum for 4 years)	–	–	–	–	–	–	–
	83	83	33	4	4	50	–

Tenon Group				**2013 US$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	2	2	2	–	–	–	–
Trade and Other Payables	43	43	41	2	–	–	–
Debt	47	47	–	1	1	45	–
Interest Expense on Debt	–	–	1	1	2	2	–
Derivative Financial Liabilities							
Interest rate swaps							
($0.2 million per annum for 2 years)	–	–	–	–	–	–	–
Forward Exchange Contracts	1	1	1	–	–	–	–
	93	93	45	4	3	47	–

Interest Rate Swap cash flows

As at 30 June 2014 the future gross cash flows of the interest rate swaps (refer to note 19 (a) market risk, exposure to interest rate risk) are a $0.9 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 2014) of $0.8 million, $0.1 million is expected to occur in the six months to December 2014 and $0.1 million in the six months to June 2015. $0.2 million is expected to occur in the 2016, 2017 and 2018 years.

As at 30 June 2013 the future gross cash flows of the interest rate swaps (refer to note 19 (a) market risk, exposure to interest rate risk) were a $0.5 million cash outflow (being fixed interest paid). The swaps were settled on a net basis monthly. Of the net cash outflow (based on the prevailing floating interest rates as at 30 June 2013) of $0.4 million, $0.1 million was expected to occur in the six months to December 2013 and $0.1 million in the six months to June 2014. $0.2 million was expected to occur in the 2015 year. The Swaps were cancelled as part of the refinancing process in the first quarter of fiscal 2014 and $0.4 million was paid in interest and break costs in the three months to 30 September 2013.

19 FINANCIAL INSTRUMENTS continued

Tenon Limited — 2014 US$m

	Carrying value	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years [(1)]
Non Derivative Financial Liabilities							
Intercompany Advance Liability	336	336	–	–	–	–	336
Interest Expense on Intercompany Advance Liability [(1)]	–	–	14	15	29	116	29
Derivative Financial Liabilities							
Forward Exchange Contracts (Tenon Limited and Group)	–	–	–	–	–	–	–
	336	336	14	15	29	116	365

(1) Interest expense on the intercompany advance liability is $29 million per annum based upon the 30 June 2014 balance outstanding and the average interest rate for the 30 June 2014 year.

Tenon Limited — 2013 US$m

	Carrying value	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years [(1)]
Non Derivative Financial Liabilities							
Intercompany Advance Liability	277	277	–	–	–	–	277
Interest Expense on Intercompany Advance Liability [(1)]	–	–	9	9	18	72	18
Derivative Financial Liabilities							
Forward Exchange Contracts (Tenon Limited and Group)	1	1	1	–	–	–	–
	278	278	10	9	18	72	295

(1) Interest expense on the intercompany advance liability is $18 million per annum based upon the 30 June 2013 balance outstanding and the average interest rate for the 30 June 2013 year.

(d) Financial Instruments by Category

Tenon Limited and the Group

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 (expired December 2013), forward exchange contracts and interest rate swaps are classified as derivatives used for hedging.

19 FINANCIAL INSTRUMENTS continued

(e) Financial Instruments measured at fair value

Tenon Limited and the Group

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 following table presents financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Of the Group and Tenon Limited's external financial assets and liabilities as at 30 June 2014 and 30 June 2013, only the foreign exchange rate contracts in existence as at 30 June 2013 were above levels requiring disclosure, and they have been determined to be within the level 2 of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable. The foreign exchange contracts are contracted by Tenon Limited.

Tenon Limited and Tenon Group		**2013**		
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities	(a)	(b)	(c)	
Derivatives used for Hedging - Forward Exchange Contracts	–	-1	–	-1
Net Fair Value	–	-1	–	-1

There have been no transfers between levels 1, 2 and 3 in the reporting period.

(a) The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and whose prices represent actual and regularly occurring market transactions on an arm's length basis. The Group has no instruments in level 1.

(b) The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group has interest rate swaps and forward exchange contracts that are classified as Level 2 instruments, however, for June 2014, neither are above disclosure levels.

(c) If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. For the year ended 30 June 2013, the electricity contract was classified as a level 3 derivative due to the lack of market data, however as at 30 June 2013 the fair value of the electricity hedge was less than $0.1 million. The Electricity contract expired in December 2013 and therefore has no fair value as at 30 June 2014.

Specific valuation techniques used to value financial instruments include:

- Quoted Market prices or dealer quotes for similar instruments.
- The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows based on observable yield curves. The valuation is performed by an external source.
- The fair value of forward foreign exchange contracts are determined using forward exchange rates at the balance date, with the resulting value discounted back to the present value. The valuations are performed by external sources.
- The fair value of the Electricity Hedge (as at 30 June 2013) was determined using the exit price quoted at balance date.

		Tenon Group 2014 US$m	Tenon Group 2013 US$m

20 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:

		2014 US$m	2013 US$m
within	one year	**7**	6
	two years	**6**	6
	three years	**5**	5
	four years	**3**	3
	five years	**2**	2
after	five years	**6**	7
		29	29

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 $9.8 million (June 2013: $9.4 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.

21 CONTINGENT LIABILITIES

The Group has no material contingent liabilities (June 2013: nil).

22 CONTINGENT ASSETS

The Group has no material contingent assets (June 2013: nil).

23 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 59.23% of Tenon Limited (June 2013: 58.99%). Three of Tenon Limited's directors are also directors of Rubicon Limited. Directors fees received by Rubicon were $0.1 million (June 2013: $0.1 million). Office and administration costs received by Rubicon from Tenon for the 2014 year were $0.1 million (June 2013: $0.1 million).

	Tenon Group	
	2014 US$m	**2013 US$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)	**-25**	-18
Intercompany Advance Liability from Subsidiary Company (3)	**336**	277
Intercompany 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 5 September 2013.

(2) Royalties and management fees charged were $0.4 million (June 2013: $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 it is not expected that Tenon Industries Limited will call for Tenon Limited to repay it in the next 12 months. It bears interest at 8.52 % per annum (30 June 2013: 6.4 % per annum).

(4) This advance is for no fixed term but Tenon Limited does not expect to call it for repayment in the next 12 months. It 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	**2014 US$m**	**2013 US$m**
Salaries and other short-term employee benefits	**3**	3
Directors fees paid to Non Executive Directors (refer to note 5 (1))	**–**	–
	3	3

24 SEGMENTAL INFORMATION SUMMARY

Tenon derives its revenue from and operates within one material operating segment, being the Moulding and Millwork segment. Tenon provides a wide range of Moulding and Millwork products to an extensive number of customers in this one 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 2014 and June 2013 split between North America and Australasia is shown below.

2014	North America US$m	Australasia US$m	Total US$m
Operating Revenue (1)	346	50	**396**
Non Current Assets (2)	77	14	**91**
Capital Expenditure	2	–	**2**

2013	North America US$m	Australasia US$m	Total US$m
Operating Revenue (1)	317	47	364
Non Current Assets (2)	78	16	94
Capital Expenditure	2	–	2

(1) Operating revenue excludes transfers between geographical segments. Such transfers are accounted for at competitive market rates charged to unaffiliated customers for similar goods. Transfers are eliminated on consolidation.

(2) Excludes Deferred Tax and Financial Instruments.

25 NON-GAAP MEASURES

Tenon uses EBITDA when discussing financial performance. EBITDA is Earnings before Interest, Tax, and Depreciation and Amortisation. This is a non-GAAP financial measure and is not recognised within IFRS. As it is not uniformly defined or utilised this measure may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with IFRS. Management believes that EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in asset age and depreciation policies.

The following table reconciles Net Profit / (Loss) after Taxation to EBITDA:

	Tenon Group 2014 US$m	Tenon Group 2013 (1) US$m
Net Profit / (Loss) after Taxation (1)	**2**	-3
Plus Income Tax Expense	**1**	–
Plus Financing Costs	**4**	4
Operating Profit / (Loss) before Financing Costs (1)	**7**	1
Plus depreciation and amortisation	**4**	4
EBITDA	**11**	5

(1) June 2013 includes pre-tax business re-engineering and restructuring costs of $1 million.

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 2014	% Holding June 2013
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 LLC	USA	Distribution	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	Distribution	100	100

27 TENON LIMITED BALANCE SHEET RESTATEMENT

The 2012 Tenon Limited balance sheet has been restated to reflect the change in accounting policy regarding the recognition of tax losses incurred and transferred to other Tenon entities or recognised at balance date (refer to note 2.4 (c)).

The impact of the change in accounting policy on the 2012 balance sheet is as follows:

	2012 US$m Restated	2012 US$m Previously Reported
Investments	262	262
Intercompany Advances	1	1
Deferred Taxation Asset	13	–
Total Non Current Assets	276	263
Total Tenon Limited Assets	**276**	**263**
Trade and Other Payables and Provisions	1	1
Total Current Liabilities	1	1
Intercompany Advances	268	290
Total Non Current Liabilities	268	290
Total Tenon Limited Liabilities	269	291
Capital	533	533
Retained Earnings	-493	-526
Net Currency Translation	-33	-35
Total Reserves	-526	-561
Total Tenon Limited Equity	7	-28
Total Tenon Limited Liabilities and Equity	**276**	**263**

28 POST BALANCE DATE EVENT

The Tenon Board have approved the decision to invest (circa) $5 million in a "state-of-the-art" optimisation project at the Taupo manufacturing site in New Zealand. In August 2014, financing of the project was approved with Tenon's banking syndicate which will be provided from an increase in term loan borrowings of $3.2 million with the balance of the project to be funded from the existing revolver facility. There is a 12 month lead time from manufacture to installation, and discussions are currently underway with potential suppliers. As at the date of issuing these Consolidated Financial Statements, a contract had not been committed to or signed in relation to the supply of this optimisation equipment.

Independent Auditor's Report to the Shareholders of Tenon Limited

To the shareholders of Tenon Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Tenon Limited (''the company'') and the group, comprising the company and its subsidiaries, on pages 10 to 48. The financial statements comprise the statements of financial position as at 30 June 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the company and group's preparation of the 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 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 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.

Other than in our capacity as auditors we have no relationship with or interests in the company and group.

Opinion

In our opinion the financial statements on pages 10 to 48:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

Other matter

The financial statements of Tenon Limited and the group, for the year ended 30 June 2013, were audited by another auditor who expressed an unmodified opinion on those statements on 27 August 2013.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Tenon Limited as far as appears from our examination of those records.

KPMG

21 August 2014

Auckland

Board of Directors as at 21 August 2014

Simon Luke Moriarty

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

Committees
Audit (Chairman)
Nominations (Chairman)
Remuneration

Last re-elected 2012

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 Inc.

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.

Mark Kenneth Eglinton

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

Committees
Audit
Nominations

Elected 2013

Mark Eglinton is currently the CEO and a director of NDA Group (NDA). NDA is a NZ-based international engineering group, which has a large presence in the US, and where Mark spends a considerable amount of his time. Prior to joining NDA Group, Mark worked for Tenon for 9 years, including five years as CEO from 2005 through to 2009, and before that four years as Commercial Director and head of Tenon's US-based consumer solutions business. Prior to Tenon, Mark held a number of positions within Fletcher Challenge Building, including Managing Director of Fletcher Aluminium. Mark is also a trustee of the Young Enterprise Trust.

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

Rodger Herbert Fisher

FCIS, FCIT, FIDNZ, FNZIM
Non-Executive Director

Committees
Audit
Nominations
Remuneration (Chairman)

Last re-elected 2012

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 The Property Group Limited. He is a director of Ports of Auckland Limited. He is a former Chairman of the Civil Aviation Authority and Aviation Security Services and a former Chairman of Port Lyttleton. 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)
Non-Executive Director

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 was previously 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 Ipswich Bank, Trustee of the Governors Academy and a director of Two Harbors Investment Corp and Silver Bay Realty Trust. 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.

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 competitiveness, innovation, integrity, customer focus, continuous improvement, positive attitude and effort, 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 and environmental compliance. 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.

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 ensures 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 by 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, General Manager Corporate, and Senior Vice President Growth and Performance.

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

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

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

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

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

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

Independent Directors are generally regarded as being independent of Management if they are 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, R H Fisher (who is also the Chairman of the Remuneration Committee) and M K Eglinton are independent Directors under the NZX corporate governance guidelines 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. Management attends 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:

S L Moriarty (Chairman), R H Fisher and M K Eglinton

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 of the Board is the Chairman of the Audit Committee, following the retirement of the prior chairman in December 2013, however 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 extended assurance programme; 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 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, PricewaterhouseCoopers, performed non-audit related work for the Company in relation to the review of certain internal controls and attendance at the Company's Annual Shareholders Meeting. The work was in the nature of assurance and bank reporting and the total fees paid to the audit firm were US$93,000 which the Company considers did not impair the audit firm's independence from the Company.

Remuneration Committee

Committee members:

R H Fisher (Chairman), S L Moriarty 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.

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), R H Fisher, S G Kasnet, M K Eglinton and G Karaplis

The Nominations Committee comprises the five non-executive Directors.

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

Financial Reporting

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

- An Audit Committee comprised of a majority of independent Directors, 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, and by the Executive;
- Signing of the financial statements by the Chief Operating Officer, Chief Financial Officer, the Chairman of the Board and one other director;
- 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. Performance-based incentive schemes are in place among Tenon and its subsidiaries. These 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 of the Executive's direct reports must be approved by the Board of Directors.

On page 61 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	Australasia based Business Number of Employees
NZ$100,000	to	NZ$110,000	10	5
NZ$110,000	to	NZ$120,000	7	1
NZ$120,000	to	NZ$130,000	4	4
NZ$130,000	to	NZ$140,000	9	
NZ$140,000	to	NZ$150,000	6	2
NZ$150,000	to	NZ$160,000	5	2
NZ$160,000	to	NZ$170,000	2	2
NZ$170,000	to	NZ$180,000	3	1
NZ$180,000	to	NZ$190,000	2	
NZ$190,000	to	NZ$200,000	3	1
NZ$200,000	to	NZ$210,000	5	
NZ$220,000	to	NZ$230,000	1	
NZ$230,000	to	NZ$240,000	2	
NZ$240,000	to	NZ$250,000		1
NZ$250,000	to	NZ$260,000	3	
NZ$280,000	to	NZ$290,000	1	
NZ$290,000	to	NZ$300,000	1	1
NZ$300,000	to	NZ$310,000		1
NZ$310,000	to	NZ$320,000	1	
NZ$320,000	to	NZ$330,000	1	
NZ$350,000	to	NZ$360,000	1	
NZ$390,000	to	NZ$400,000		1
NZ$400,000	to	NZ$410,000	1	
NZ$410,000	to	NZ$420,000	1	
NZ$450,000	to	NZ$460,000	1	
NZ$510,000	to	NZ$520,000	1	
NZ$530,000	to	NZ$540,000	1	
NZ$580,000	to	NZ$590,000	1	
NZ$670,000	to	NZ$680,000	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 22 to 27).

Health and Safety

The Company has adopted a "zero-harm" policy with regard to health and safety. The Board takes steps to ensure that it has a good understanding of health and safety matters in the workplace, and as to the Company's operations and hazards and risks associated with those operations. The Board conducts site visits, receives presentations from managers on health and safety and requires regular reporting of health and safety information. All injuries are required to be reported to the Board. The Board also has the benefit of regular reviews by independent third parties. For example, in New Zealand the Company's Taupo site has been awarded "Tertiary" status by the Accident Compensation Commission, which is the highest qualification awarded by the Commission.

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;
- The Nominations Committee is not comprised of a majority of independent Directors, as two of the five members of the Committee are independent Directors and
- The Chairman of the Board Is also Chairman of the Audit Committee, however the other two members of the Audit Committee are independent Directors.

NZX Diversity Disclosure

In accordance with Listing Rule 10.4.5(j) relating to diversity disclosures, of Tenon's Group executive management team, 23% are female (June 2013: 23%). Tenon has 5 (June 2013: 6) Non-Executive Directors, all of whom are male. Tenon does not have any Executive 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 the following respects:

- The Chairman of the Board is not an independent Director; and
- The Chairman of the Board is also the Chairman of the Audit Committee.

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.

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' annual remuneration is NZ$72,500 per annum per Director - increased from NZ$67,500 on 24 October 2013 [(2)], with the Chairman receiving NZ$130,000 per annum (which is paid directly to Rubicon Limited). The Chairman of the Audit Committee receives an additional NZ$6,500 per annum and the Chairman of the Remuneration Committee receives an additional NZ$6,500 per annum - increased from NZ$4,500 on 24 October 2013 [(2)]. 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 2014 was $377,217 [(1)] (NZ$454,259). Fees, prior to any taxation liability, paid to individual non-executive Directors in the year ended 30 June 2014 were:

	Fee [(1)]
M J Andrews [(4)]	24,716
M K Eglinton [(5)]	35,119
R H Fisher	64,148
G Karaplis	59,166
S G Kasnet	59,166
S L Moriarty [(3)]	107,952
M C Walls [(4)]	26,950

(1) Directors' fees have been translated from New Zealand dollars at an average foreign exchange rate of NZ$1 = US$0.8304.
(2) Particulars of the increases in directors' fees were duly entered in the Interests Register.
(3) Total Directors' fees in relation to S L Moriarty (Chairman) were paid directly to Rubicon Limited.
(4) M J Andrews and M C Walls retired on 4 December 2013.
(5) M K Eglinton was elected to the board at the Annual Shareholders Meeting on 4 December 2013.

Executive Directors' Remuneration

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

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 2014.

As at 30 June 2014, 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 58, where the employee received remuneration and other benefits totaling NZ$100,000 or more during the year ended 30 June 2014.

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 Company, LLC
A T Johnston, A S White, P M Gillard

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

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

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

Forestry Corporation of New Zealand Limited
P M Gillard

Directors' Interests

In accordance with Section 140(2) of the Companies Act 1993, Directors advised the following changes in their interests during the year ended June 2014:

M J Andrews (1)		
Orion NZ Limited	Resigned	Director
M K Eglinton		
NDA Group Limited	Initial Disclosure	Director
Snapper Rock Limited	Initial Disclosure	Director
Young Enterprise Trust	Initial Disclosure	Trustee
R H Fisher		
Port Lyttleton	Resigned	Chairman
The First Management Group Limited	Resigned	Member of Advisory Board
Property Group Limited	Appointed	Chairman
Ports of Auckland	Appointed	Director
G Karaplis		
Netia	Resigned	Deputy Chairman

(1) M J Andrews retired on 4 December 2013

Shareholder Statistics

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 2014 the Company effected directors' and officers' liability and statutory liability insurance which was noted in the Interests Register. During the year the Company authorised a Deed of Indemnity and Insurance for a member of 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$4,865 were made during the year.

Auditor's Fees

Following a full review of the Company's requirements for audit services, KPMG were appointed as auditor on 7 November 2013 pursuant to section 196(4) of the New Zealand Companies Act 1993 and PricewaterhouseCoopers resigned in accordance with section 196(3A) of the Act.

Fees payable to PricewaterhouseCoopers and KPMG during the year are disclosed on page 28. During the year PricewaterhouseCoopers was paid US$93,000 for non-audit related work for the Company, which is discussed on page 55.

Credit Rating

Tenon has not sought a credit rating.

Directors' Holdings – Equity Securities

Tenon Limited Ordinary Shares

	30 June 2014			30 June 2013		
	Beneficial	**Non-Beneficial**	**Associated Persons**	**Beneficial**	**Non-Beneficial**	**Associated Persons**
M K Eglinton	**–**	**–**	**–**	–	–	–
R H Fisher	**750**	**–**	**–**	750	–	–
S G Kasnet	**–**	**–**	**–**	–	–	–
S L Moriarty	**27,155**	**–**	**59,243**	27,155	–	–
G Karaplis	**–**	**–**	**–**	–	–	–
	27,905	**–**	**59,243**	27,905	–	–

Largest Shareholders

The 20 shareholders with the largest holdings of shares as at 31 July 2014 were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
Rubicon Forests Holdings Limited	38,747,695	59.29
New Zealand Central Securities Depositary Limited	16,825,212	25.74
Tenon Employee Educational Fund Limited	415,703	0.64
Leveraged Equities Finance Limited	331,083	0.51
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	0.31
Tenon Custodians Limited	182,548	0.28
J E C Anderson & B L Denholm	140,000	0.21
M H Teulon & E M Quigley	103,569	0.16
A Kaan & A Blackwood & I R Eades	100,000	0.15
S P Wallace & Sievwrights Trustee Services (No.4) Limited	100,000	0.15
Geary Limited	92,983	0.14
J Wilson	80,000	0.12
D R Stevenson	73,542	0.11
G W Simms	62,586	0.10
A F Wylde	61,990	0.10
N L Petry	60,000	0.09
D E Moriarty	59,243	0.09
Peter Donald Wheeler	58,274	0.09
	58,255,168	89.14
Total Shares	65,355,702	

NZCSD

New Zealand Central Securities Depository Limited ("NZCSD") is a depository system which allows electronic trading of securities to its members. At 31 July 2014, the shareholdings held through NZCSD were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
JJPMorgan Chase Bank NA	10,464,749	16.01
Accident Compensation Commission	4,228,589	6.47
Citibank Nominees (New Zealand) Limited	1,795,550	2.75
National Nominees New Zealand Limited	259,194	0.40
Private Nominees Limited	70,400	0.11
HSBC Nominees (New Zealand) Limited	6,372	0.00
BNP Paribas Nominees (NZ) Limited	358	0.00
	16,825,212	25.74
Total Shares	65,355,702	

Investor Information

Distribution of Shares – 31 July 2014

Size of Holdings	Ordinary Shareholders Number	Ordinary Shareholders %	Ordinary Shares Number	Ordinary Shares %
1 – 200	32	1.03	6,400	0.01
201 – 500	832	26.73	280,009	0.43
501 – 5,000	1,967	63.21	3,071,332	4.70
5,001 – 10,000	135	4.34	1,012,288	1.55
Over 10,000	146	4.69	60,985,673	93.31
Total	3,112	100.00	65,355,702	100.00

Less than a minimum holding: As at 31 July 2014, there were no holders of Ordinary shares holding less than the minimum holding of 200 or less shares under the NZX listing rules.

Supplemental Disclosure of Domicile of Beneficial Owners (1)

	Ordinary Shares Number	Ordinary Shares %
New Zealand	52,560,186	80.42
United States of America	12,334,356	18.87
Other	461,160	0.71
Total	65,355,702	100.00

(1) Updated for information received by 14 August 2014 in response to notices under sections 28 and 29 of the New Zealand Securities Markets Act 1988.

Substantial Security Holders

As at 29 August 2014 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 notified to Tenon by the substantial security holder.

	Tenon Ordinary Shares	% of Tenon Shares
Rubicon Forests Holdings Limited	38,747,695	59.29
Third Avenue Management LLC	10,482,120	16.04
Accident Compensation Commission	4,617,628	7.06
Total	53,847,443	82.39
Total issued voting shares as at 31 July 2014	65,355,702	

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.

Share Buyback

On 4 December 2013 the Company announced an on-market share buyback programme of up to 450,000 shares. As at 21 August 2014, a total of 384,626 shares had been purchased by the Company at an average price of NZ$1.46. The shares were cancelled upon purchase.

On 21 August 2014 the Company announced an on-market share buyback programme of up to a further 400,000 shares upon completion of the first buyback programme.

2014-2015 Calendar

- Annual Shareholders Meeting: TBA
- Half Year End: 31 December 2014
- Half Year Results Announcement: February 2015
- Financial Year End: 30 June 2015
- Annual Results Announcement: August 2015
- Mailing of Annual Report: September 2015

Dividend

There is no 2014 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	65,355,702 as at 31 July 2014

Share Registry Enquiries

Enquiries

Computershare Investor Services Limited
Private Bag 92119,
Auckland 1142
159 Hurstmere Road,
Takapuna, Auckland 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.

Company Websites

www.tenonglobal.com
www.tenon.co.nz
www.tenonmanufacturing.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 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, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development and demand and pricing and customer concentration risk. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.

Directors

Simon Luke Moriarty (Chairman)
Mark Kenneth Eglinton
Rodger Herbert Fisher
George Karaplis
Stephen Garfield Kasnet

See page 50-51 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 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 encompasses commercial negotiations for the Group, stock exchange compliance, governance, legal affairs and company secretarial. 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 commercial responsibilities in Australasia, for the EDS Group. From 1989-1996 he was Corporate Counsel and manager of the legal department for Telecom Limited, responsible for the provision of all legal services to the Telecom Group. Paul formerly practised as a lawyer to partnership level in New Zealand, and before that, he spent three years with a law firm in Washington DC. Paul has a Bachelor of Laws from Victoria University in Wellington.

Sharon Ludher-Chandra – Senior Vice President, Growth and Performance

Sharon Ludher-Chandra joined Tenon in 2012, and prior to that she had been involved with the Company for more than a decade through her employment with Tenon's majority shareholder, Rubicon Limited. Sharon brings to Tenon strong commercial, analytical and project management skills, with her role spanning a wide range of activities including Group operational and financial review, performance improvement, budgeting, and strategic planning. Prior to joining Rubicon, Sharon worked at Deloitte Corporate Finance. Sharon has a Bachelor of Laws and Bachelor of Commerce (First Class Honours in Finance) from Auckland University, New Zealand.

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