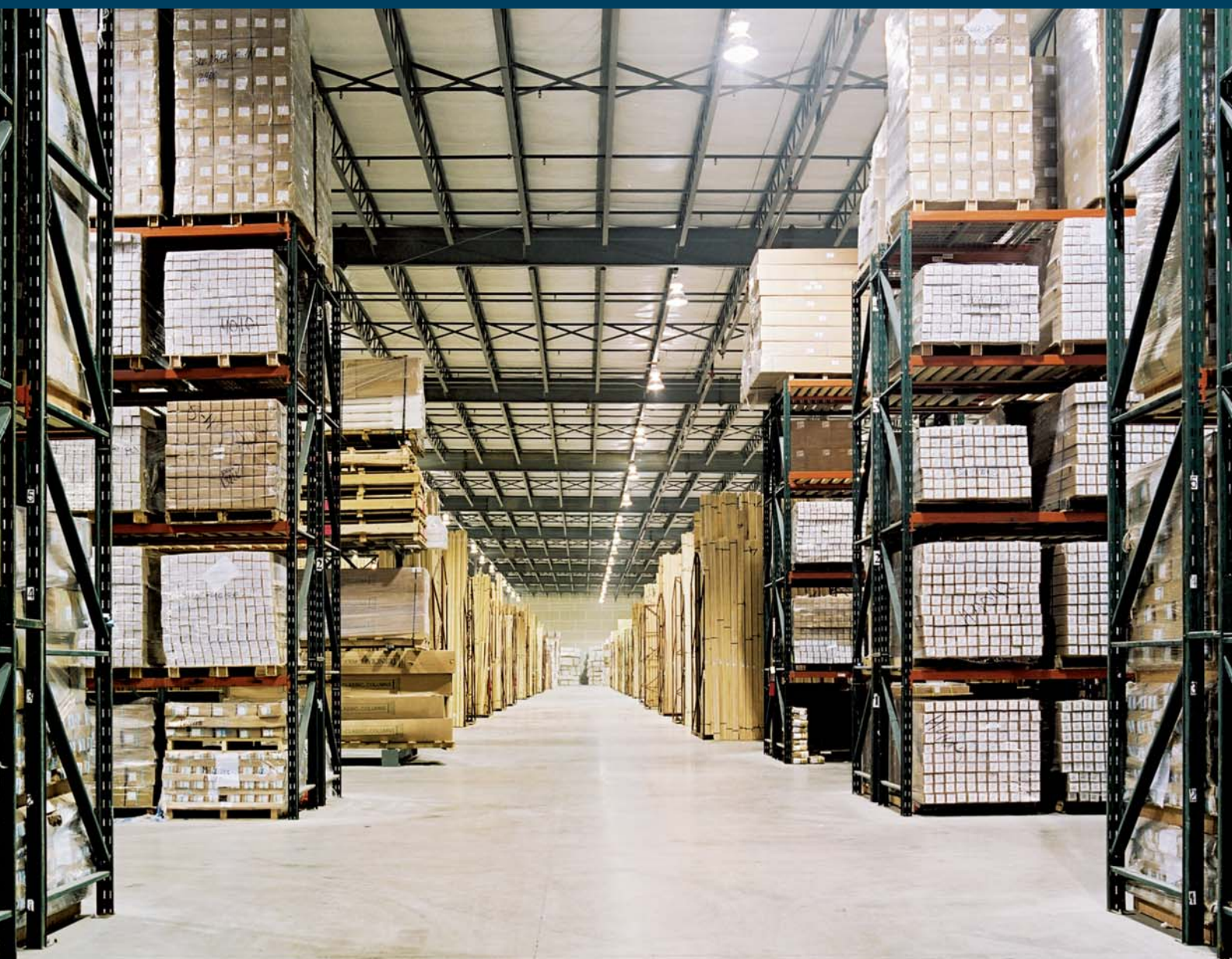


Annual Report **2015**



Tenon
Wood Solutions to the World



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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). 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 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.

Tenon's financial year is 30 June.

Tenon Highlights 2015

Shareholder Value Announcements

- Tenon share price increased 32%⁶
 - Outperformed the NZX50 index which was up only 10%, and also the ASX50 and Dow Jones indices which were down -3% and -2% respectively
 - Considerable future value upside remains –
 - Edison Research (Mar '15) valued Tenon at NZ\$3.75 - NZ\$4.99 per share
- Formal Tenon Strategic Review initiated
 - Purpose is to determine best value path forward for Tenon shareholders
 - Deutsche Craigs and Deutsche Bank have been appointed as Tenon's exclusive advisors
 - Shareholders will be kept up to date on progress
- Dividend payments to begin immediately
 - First dividend of NZ5.0 cps¹⁰ declared in respect of fiscal '15 – payment in Nov '15
 - Intention is to make two dividend payments per year
 - Next dividend³ to be in relation to the 2016 interim result period – payment in April '16
 - Future dividend rates (i.e. cents per share) yet to be determined³
 - Future payments will also be subject to³ the outcome of the Strategic Review

Macro-Conditions Improving

- US economy continues on recovery path
 - 2.9 million jobs created in FY '15
 - Unemployment rate fell to 5.3% (June)
- US housing gains further strength, with last quarter's (i.e. June qtr) data showing –
 - 1.06 million new housing starts in FY '15, up on the 953,000 in 2014
 - New home sales reached a 7-year high
 - Building permits reached an 8-year high
 - Builders confidence index at a 9-year high
 - Existing home sales (annualised) of 5.48 million recorded (June), an 8-year high
 - Pending home sales reached a 6-year high
- US new home construction is forecast^{7,8} to grow strongly over the next 2-3 years
 - Industry forecasts ≈ 11% growth y-o-y in calendar '15 (CY)
 - Even that increased level is still half a million homes p.a. short of mid-cycle estimates
 - Tenon has increased its exposure to the new home construction market recovery
 - ≈ 55% of US distribution revenue in FY '15
 - ... up from approx 35% at the same point in the previous cycle

Tenon 2015 Financial Results

- Revenue¹ of \$406 million reported (2014, \$396¹ million)
 - New home construction market now represents ≈ 55% of US distribution revenues
- Net profit after tax trebled to \$6 million (2014, \$2 million)
- Gross margin % expanded in all US distribution activities
- EBITDA² of \$13 million (up 18% on 2014), including –
 - \$3 million extensive upgrade programme to 500 retail stores (≈ 200 remaining)
 - Sales lost from the US West Coast port strike
 - Earnings foregone from severe US winter storms
 - Costs associated with the now completed US distribution business restructuring
 - An average effective NZ\$:US\$ exchange rate of 79 cents (2014, 80 cents)
- New business won, territories expanded – benefit to be realised in FY'16
- Clearwood (NZ) manufacturing capital projects are well-advanced, and proceeding to plan
 - The \$5 million optimising edger is to be commissioned in Q3 of CY '15
 - The \$2 million ripline project is to be commissioned in Q1 of CY '16
 - Financial metrics are very favourable
 - ≈ 18 months payback
 - Full benefit of optimising edger will not be realised until ripline project is completed
- Senior management roles realigned according to customer channels
 - Objective is to maximise the profitability and opportunity of each channel
 - Strong growth mandate exists for each
- Expanded Syndicated Bank Facility, and improved terms
 - Facility extended out to May 2020 (i.e. 5 years)
 - Facility size increased to \$75 million
 - More favourable funding rates agreed
 - Elimination of fixed charge covenant, unless availability⁵ falls below minimum limits
 - Increased flexibility in relation to shareholder distributions (i.e. dividends and buyback)
- Closing debt (net of cash) of \$58 million (2014, \$50 million), reflecting –
 - Expenditure on the two Clearwood manufacturing projects
 - Working capital growth to meet the recovering US housing market
 - Absent any acquisitions, FY '16 closing debt level projected to be ≈ \$50 million³

Tenon 2016 Outlook

- EBITDA² and Net Earnings targeted to materially improve³ (refer Macro Conditions on page 2)
 - FY '16⁹ internal earnings target is for EBITDA² to exceed \$20 million (excluding FX hedging gains and losses, and assuming continued market recovery and current FX rates)
 - Mid-cycle⁴ EBITDA² guidance of ≈ \$50 million

Strategy, Operations and Finance

Tenon's financial performance in 2015 continued the momentum that began in the prior year, **with Net Profit After Tax trebling year-on-year** ('y-o-y'). Two of the key drivers of Tenon's performance – the US housing market activity and the NZ\$:US\$ cross rate – both improved noticeably in the last quarter of the fiscal year. Although neither materially impacted Tenon from an earnings perspective in 2015 (the improvement in the US housing market occurred later into the fiscal year, and the benefit of the weakening NZ currency was not felt due to expiring FX cover taken earlier in the year), both of these will be significant positives to Tenon's earnings in the new fiscal '16 year.

In relation to FX, we have covered the first four months of the new fiscal '16 year at circa 68 cents (NZ\$:US\$), but we are unhedged beyond that horizon and will then be the full beneficiary of the lower currency level y-o-y now prevailing.

To give an understanding of the extent to which the US housing market improved towards the end of the year, data for the June quarter period showed –

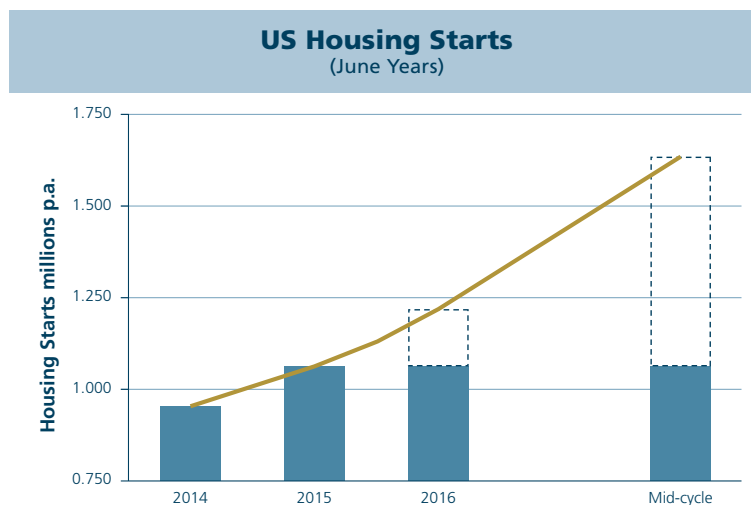
- New home permits at an 8-year high
- New home sales at a 7-year high
- Existing home sales at an 8-year high
- Pending home sales at a 6-year high
- Builder's confidence index at a 9-year high

Tenon is leveraged to recovery in both the new home construction (i.e. pro-dealer) and DIY (i.e. retail) markets in the US. These markets share some common drivers – job security and job growth, real wage growth, credit availability, home prices, affordability, homes available for sale, and existing house sales levels, are all key to both markets. Almost all of these drivers are now supportive of a continued recovery in new home construction and in improved retail activity.

By way of further explanation of the current macro housing situation, the chart on the next page (which we have shown before) succinctly summarises the upside that currently exists in the first of these markets – new home construction. As can be seen, the gap that exists between current new home construction activity and what is generally accepted⁸ as being the next mid-cycle housing level, is very large. Moving forward, as the market continues to recover, Tenon's earnings profile will reflect the closing of this gap, and the considerably higher activity levels that mid-cycle will represent.

As noted above, the noticeable improvement in housing data recently observed is indicative of much stronger future activity levels rather than a reflection of those that were present in fiscal '15. For example, the increase in new home construction permits and pending house sales are lead indicators of future activity, rather than being indicative of past conditions.

In that respect, the chart on the next page shows the y-o-y improvement now projected⁷ in new home construction activity in 2016 – a growth rate of circa 14% p.a. Similarly, DIY and remodelling spend is projected to grow circa 5% p.a. supported by increased existing home sales activity.



Although 2015 was still early in the US housing cyclical recovery, the period under review saw **Revenue¹ increase to \$406 million**. Revenues from our pro-dealer customers (i.e. new home construction market) were up 8% y-o-y, and gains were made in all of the territories we service. By year end, our exposure to the recovering new home construction cycle represented approximately 55% of our total US distribution revenues – up considerably on the 35% at this point in the previous cycle, and also up on the 50% of last year. This is a reflection not only of the faster recovery of this market relative to the DIY / retail market that has occurred to date, but also of the strong organic growth initiatives we had put in place to grow our pro-dealer activities, which have been focused primarily on product expansion and territorial growth. We believe a 60% weighting to new home construction is the right customer target mix for Tenon through this next stage of the cycle, given the strong recovery path forecast for this market, and given we operate in US States that represent approximately 60% of all housing permits issued annually.

Our retail-based revenue was up only slightly y-o-y – a reflection not only of the fact that recovery in DIY / retail has lagged new home construction, but also of the first four bulleted EBITDA factors noted on the following page. In particular, the 700 store major upgrade programme that is currently being undertaken had a negative impact on financial performance, as foot traffic in the store aisles was adversely impacted by this activity during the period. Major retail store refurbishments of this nature are rare, so the expenditure we have incurred on them (\$3 million expensed in 2015, and \$1 million to be expensed in 2016) is quite atypical and should not recur any time soon. The positive side of the refurbishment programme is that customer traffic and store ‘comp’ performance should increase post store completion, and this should in turn feed directly into Tenon’s revenue performance in 2016 and beyond.

Gross margin % improved in all our US distribution activities – both in the pro-dealer and the DIY / retail markets. This was a direct result of the outputs of the operational review of our North American activities that we undertook in 2015. This review was extensive, covering logistics, support, consolidation opportunities, and procurement, amongst other things. A core objective of the review was to align our activities around the two key customer channels we participate in, and to reinforce our best-in-class service and product delivery processes in each – thereby further strengthening the platforms for profit growth in existing activities and organic growth in future opportunities. The financial benefits of these review initiatives will be reflected in 2016, although some of the larger initiatives (e.g. procurement) will phase in progressively as the new fiscal year proceeds.

EBITDA² rose 18% y-o-y to \$13 million. As noted in the Highlights section of this Report, this result included –

- \$3 million in an extensive upgrade programme to circa 500 US retail stores (with some 200 remaining)
- The negative impact of the US West Coast port strike
- Earnings foregone from severe US winter storms
- Costs associated with the now completed US distribution business restructuring
- An average effective NZ\$:US\$ exchange rate of 79 cents

The decline in the NZ\$:US\$ cross rate towards more normal levels (currently around 65 cents) has been long awaited, and Tenon will be a direct beneficiary of this in 2016 (refer Looking Ahead, on page 8). However, due to the run-off of FX hedging cover previously taken, this decline had limited impact on our results in 2015, as the effective exchange rate for us in the period was 79 cents – very much in line with 80 cents reported in 2014.

During the year we expanded our product range in both markets, as **new customers were acquired and new business won**. Examples of this were the introduction of a new pre-finished mouldings range, a broader integrated stairparts programme, and a new door shop programme. Most of this new business occurred towards year end, and will be reflected in fiscal '16.

The two clearwood optimisation projects at Taupo (NZ) are proceeding to plan. These two exciting projects, which have a combined cost of \$7 million and a payback of circa 18 months upon full commissioning, are critical to Taupo expanding its supply of high-value clearwood products – particularly clear pine boards, where market demand today significantly exceeds our ability to supply. The first project is currently in its commissioning phase and will be fully operational by the end of next month. The second project will be commissioned in Q1 of CY '16. The equipment being installed is proven industry technology, and start-up issues are not envisaged. The full benefits of these capital upgrades will not be realised until the second project is completed early next calendar year.

In April, **we expanded the size and improved the terms of our syndicated bank facility**, in order to allow for the Clearwood capex upgrades, to meet our working capital demands as cyclical recovery continues, and also to provide us greater flexibility as to future shareholder distributions. The facility was increased in size to \$75 million, the end-date extended out to 2020, and more favourable borrowing rates obtained.

Our debt (net of cash) at year end was \$58 million, up \$8 million in the year. This increase was primarily a result of expenditure on the Taupo capex projects outlined above (\$4.5 million), and cyclical working capital expansion. Working capital expanded further than normal in the last quarter in order to meet the initial inventory stocking levels required for new programmes and organic growth, however these initial levels are expected to quickly reduce in the new fiscal year as normalised inventory turns are met on this business. In the absence of any acquisitive growth moves, the expectation is that net debt at end of fiscal '16 will be lower, particularly as our positive cash flow and earnings expand. Beyond the two major Taupo projects discussed above, our manufacturing assets are in excellent shape and require little in the way of ongoing expenditure. Indeed, our annual capex requirements are limited primarily to IT expenditure to support our logistics and customer delivery platforms.

Shareholder Value Initiatives

Tenon employees have a strong shareholder value focus. In that respect, it was pleasing for employees and shareholders alike to see **Tenon's share price move up strongly**, increasing 32%⁶. This increase far exceeded the performance of the NZX50 index, which was up only 10%, and the ASX50 and Dow Jones indices, which declined -3% and -2% respectively over the same period. Although this relative share price performance is positive, we are obviously disappointed that in absolute terms the price is still well below some external views of value. In this respect Edison Research issued a report on Tenon in March that, based on comparable equity market earnings multiples and the NZ\$:US\$ cross rate at the time, valued Tenon at NZ\$3.75 – NZ\$4.99 per share. The Board is very keen to quickly close this gap and has today announced two value initiatives aimed at increasing shareholder value.

Strategic Review – The Board has determined a Strategic Review will be immediately undertaken. The underlying goal of the Review is to come up with the risk-adjusted path most likely to close the share price value gap and thereby achieve better value recognition for all shareholders. Deutsche Craigs and Deutsche Bank have been appointed as Tenon's exclusive advisors for the purpose of this Review.

Introduction of dividend payments – We had previously announced our intention to begin making regular dividend payments to shareholders in fiscal '16. The Board has now determined that the Company will immediately follow through on that intention, by declaring a final dividend payment in respect of Tenon's fiscal '15 year just completed. The dividend is NZ5.0 cps¹⁰, and payment will be made on 6 November to shareholders on the Tenon share register as at 5pm on 30 October 2015.

The Board has also determined that moving forward, the intention³ is to make two dividend payments per year (subject to Tenon's financial performance, capital needs, and the outcome of the Strategic Review) following the completion and announcement of each of the Company's interim and annual results. The Board has not decided what the dividend rate will be for fiscal '16, and that will be determined after the completion of the Strategic Review. As is always the case with dividend payments, they will ultimately be dependent upon financial performance, competing needs for the Company's capital, and broader macro market conditions and considerations. Having said that, your Board and management believe that **the share price growth that should come from Tenon's future earnings profile (i.e. a recovering US housing market, falling NZ\$:US\$, organic growth initiatives, and the benefits from completion of the Clearwood capex projects) together with the implementation of regular dividend payments, makes a compelling investor proposition.**

Our last Annual Shareholders' Meeting was held in Wellington (NZ) on the 4th December 2014. Over 84% of the Company's issued shares were voted at the meeting, and all resolutions were passed – each with a majority in excess of 99%. These excellent voting statistics reflect not only the Company's consolidated share register, but also the confidence shareholders have in Tenon's future. We believe the announcements made today reflect that alignment of interests.

Looking Ahead

Whilst lower global activity and the potential for interest rate rises in the US remain as broader macro risks, we do still see continued recovery in the US housing market in 2016 as the most likely outcome. This view is supported by the majority of industry and economic commentators⁷. This, combined with a series of positive earnings factors in the new fiscal year – e.g. a much more favourable FX environment closer to accepted long-run NZ\$:US\$ equilibrium, the benefit of the North American restructuring put in place this past year, completion of the Clearwood manufacturing optimisation upgrades, gains made from new business won in 2015, non-repetition of the one-off events that occurred this past year (e.g. West Coast port strike), and the major store refurbishment costs largely behind us - should see a much stronger earnings result for Tenon in 2016. **In this respect, we are internally targeting EBITDA^{2,3} in excess of \$20 million for fiscal '16** (excluding FX gains / losses). This target reflects Tenon's sensitivity to small improvements in macro conditions, as we lift volume and revenue off our established distribution infrastructure cost base. At the same time, we repeat **our mid-cycle^{4,8} EBITDA² projection of circa \$50 million**, reflecting a mid-cycle NZ\$:US\$ exchange rate assumption of 65 cents. We strongly believe this earnings growth profile should convert into **continued share price out-performance in 2016**. Share price performance will be supported by the announced **commencement of dividends** and also by the outcome of the **Strategic Review** process later in the fiscal year.

2016 will be an extremely busy year for the Company, and we look forward to delivering strong value gains to shareholders. On behalf of the Board and management I would like to thank all our stakeholders for their continued support. As always, it is very much appreciated.

Sincerely,



Luke Moriarty
Chairman

28 August, 2015

1 Revenue includes the sale of logs at the NZ (Taupo) manufacturing site under back-to-back forest stumpage arrangements. As planned, these arrangements terminated during the 2015 year. Whilst additive to revenue, these log sales were carried out at zero margin and did not contribute to Net Earnings. The log sales number included in revenue in 2015 was \$6 million (2014 \$11 million).

2 EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisations) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance, because that number removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures. Refer also to Note 7 of our 30 June 2015 Consolidated Financial Statements. Tenon's EBITDA is calculated as Net Profit after Taxation of \$6 million (2014 \$2 million), plus Tax Expense of \$nil (2014 \$1 million), plus Financing Costs of \$4 million (2014 \$4 million), plus depreciation and amortisations of \$3 million (2014 \$4 million).

3 Eventual earnings, cash flow, net debt and dividend payment outcomes will be dependent upon continued US housing market recovery, interest rates, NZ\$:US\$ cross rate, and the Strategic Review (amongst other drivers), many of which are beyond Tenon's control.

4 Tenon defines mid-cycle as 1.6 million housing starts, NZ\$:US\$0.6500, projected FY'16 gross margin % held flat, benefit of current Clearwood optimisation capex, and limited organic growth (i.e. product programme expansion and pro-dealer territorial expansion).

5 Availability is the difference between the amount drawn and the borrowing limit under the Facility (as adjusted by available collateral).

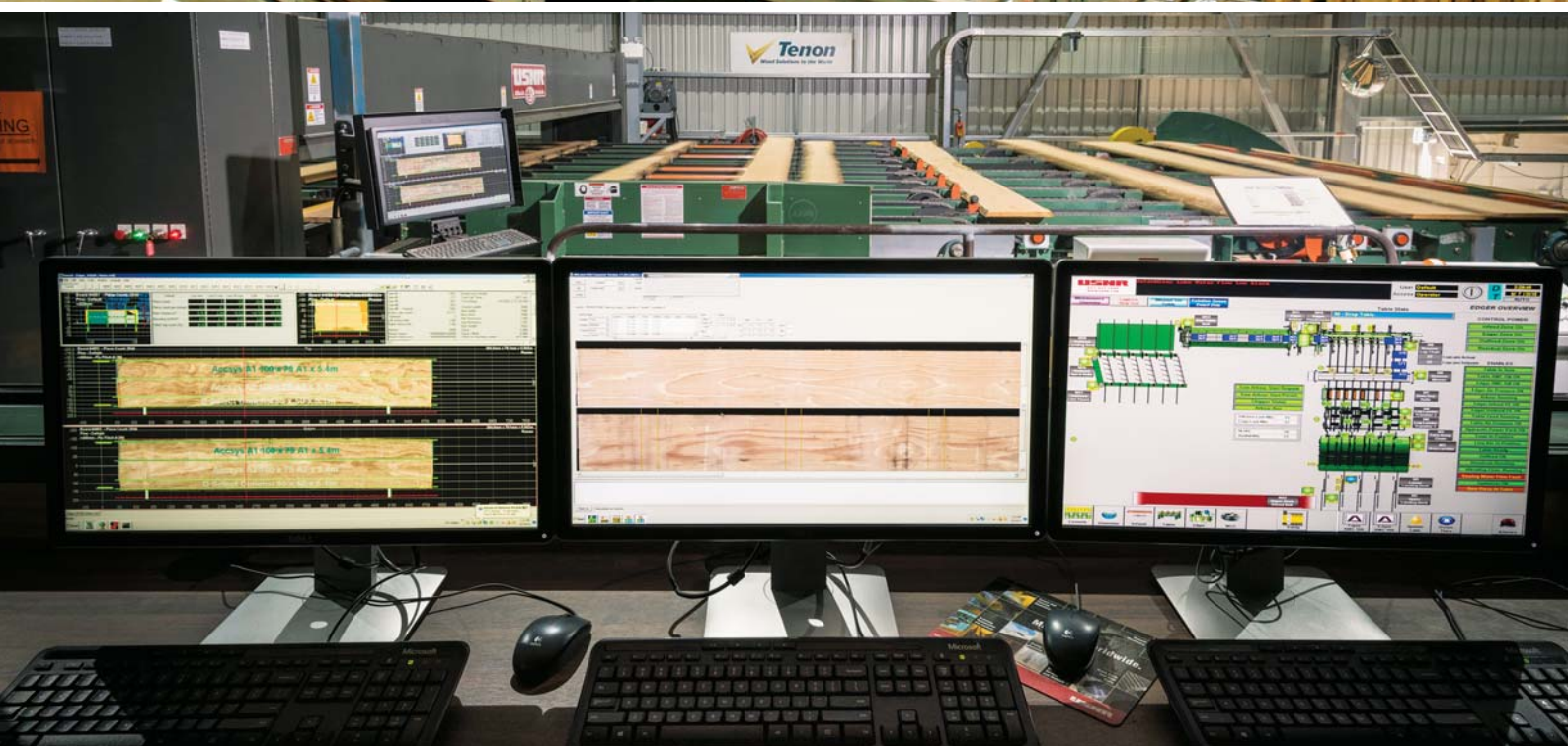
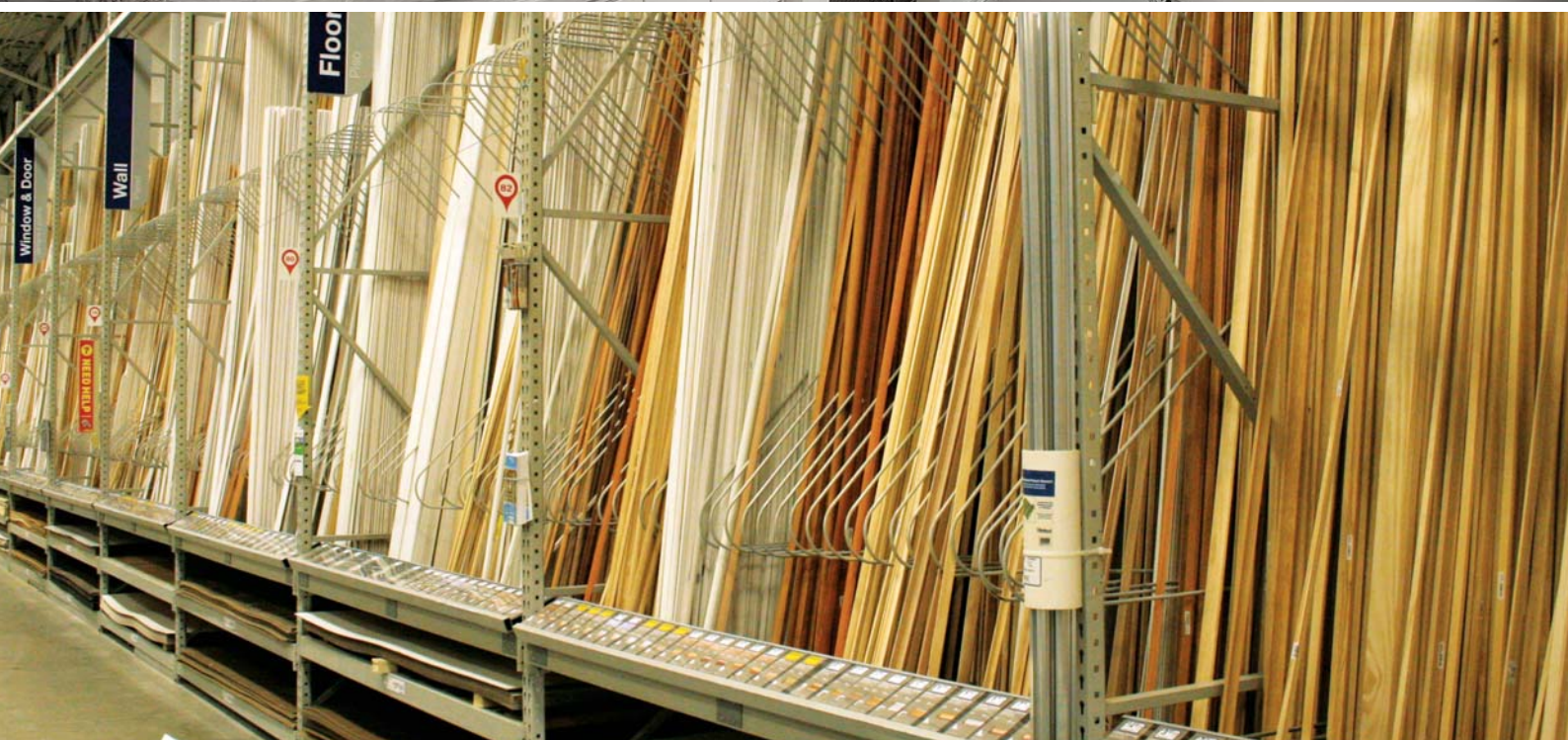
6 For the period from 1 July '14 through to the writing of this report.

7 2016 projection derived from information and reports publicly released by Fannie Mae, Freddie Mac, Mortgage Bankers Association, National Association for Business Economics, National Association of Home Builders, Forest Economic Advisors, Survey of Professional Forecasters, Goldman Sachs, and Deutsche Bank.

8 Mid-cycle housing starts derived from information and reports publicly released by Forest Economic Advisors, Forisk Consulting, Joint Center for Housing Studies of Harvard University, Goldman Sachs, Deutsche Bank, and from Tenon's own internal research.

9 Tenon's fiscal year is 30 June, so FY '16 refers to the 12 months ending 30 June 2016.

10 Imputation credits will not be attached to the dividend, due to Tenon's current non-tax paying position in New Zealand.



Financial Statements and Corporate Governance

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Consolidated Income Statement

for year ended 30 June

	Note	Tenon Group	
		2015 US\$m	2014 US\$m
Revenue	4	406	396
Cost of Sales	5	-308	-304
Gross Profit		98	92
Distribution Expense	5	-74	-71
Administration Expense	5	-14	-14
Operating Profit before Financing Costs		10	7
Financing Costs	14	-4	-4
Profit before Taxation		6	3
Tax Expense	6	-	-1
Net Profit after Taxation		6	2
Earnings Per Share Information			
Basic and Diluted Net Earnings per Share (cents)	8	9.9	2.4

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 Group	
	Note	2015 US\$m	2014 US\$m
Net Profit after Taxation for the year		6	2
Items that maybe recycled to the Consolidated Income Statement:			
Net movement of Cash Flow Hedges net of Tax	18	-1	1
Movement in Currency Translation Reserve	18	-3	1
Other Comprehensive Income for the year, net of Tax		-4	2
Total Comprehensive Income for the year		2	4

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

Consolidated Balance Sheet

as at 30 June

		Tenon Group	
	Note	2015 US\$m	2014 US\$m
ASSETS			
Current Assets:			
Inventory	9	81	67
Trade and Other Receivables	10	34	35
Total Current Assets		115	102
Non Current Assets:			
Fixed Assets	12	24	21
Forest Assets		1	3
Goodwill	13	67	67
Deferred Taxation Asset	16	11	12
Total Non Current Assets		103	103
Total Group Assets		218	205
LIABILITIES AND GROUP EQUITY			
Liabilities			
Current Liabilities:			
Bank Overdraft		3	1
Trade and Other Payables and Provisions	11	37	33
Current Debt	15	1	1
Total Current Liabilities		41	35
Non Current Liabilities:			
Non Current Debt	15	54	48
Total Non Current Liabilities		54	48
Total Group Liabilities		95	83
Group Equity			
Capital	17	532	533
Reserves	18	-409	-411
Total Group Equity		123	122
Total Group Liabilities and Equity		218	205
Net Assets per Share (US\$)		1.90	1.87
Net Tangible Assets per Share (US\$)		0.69	0.66
Shares used for Net Assets per Share (millions)	17	64.8	65.4

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

For and on behalf of the Board
28 August 2015



Chairman of Directors
Luke Moriarty



Chief Financial Officer
Adam White



Director
Mark Eglinton

Consolidated Statement of Changes in Equity for year ended 30 June

Tenon Group		Shares	Retained Earnings	Cash Flow Hedge Reserves	Revaluation Reserve	Net Currency Translation	Total Group Equity and Reserves
	Note	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
As at 1 July 2013		533	-420	-1	1	5	118
Net Profit after Taxation for the year		–	2	–	–	–	2
Other Comprehensive Income for the year		–	–	1	–	1	2
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	2	1	–	1	4
As at 30 June 2014		533	-418	–	1	6	122
As at 1 July 2014		533	-418	–	1	6	122
Net Profit after Taxation for the year		–	6	–	–	–	6
Other Comprehensive Income / (Loss) for the year		–	–	-1	–	-3	-4
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	6	-1	–	-3	2
Share Buyback	17	-1	–	–	–	–	-1
As at 30 June 2015		532	-412	-1	1	3	123

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

Consolidated Statement of Cash Flows

for year ended 30 June

		Tenon Group	
	Note	2015 US\$m	2014 US\$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers		404	398
Total Provided		404	398
Payments to Suppliers, Employees and Other		401	391
Tax Paid	16	1	1
Total Applied		402	392
Net Cash from Operating Activities		2	6
To Investing Activities:			
Purchase of Fixed Assets	12	6	2
Total Applied		6	2
Net Cash to Investing Activities		-6	-2
From Financing Activities:			
Debt Drawdowns		13	55
Total Provided		13	55
Debt Settlements		7	53
Interest and Refinancing Fees paid		3	5
Share Buyback		1	–
Total Applied		11	58
Net Cash from / (to) Financing Activities		2	-3
Net Movement in Cash Held		-2	1
Add Opening Cash, Liquid Deposits and Overdrafts		-1	-2
Closing Cash, Liquid Deposits and Overdrafts		-3	-1

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 Group	
	2015	2014
	US\$m	US\$m
Cash was Provided from:		
Net Profit after Taxation	6	2
Add Financing Costs	4	4
Adjustments:		
Depreciation	3	4
Taxation	-1	-
Forest Assets	1	1
Cash Flow from Operations before Net Working Capital Movements	13	11
Net Working Capital Movements	-11	-5
Net Cash from Operating Activities	2	6
Net Working Capital Movements:		
Trade and Other Receivables	-1	2
Inventory	-16	5
Trade and Other Payables	6	-12
	-11	-5

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

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Notes to the Consolidated Financial Statements

A General

1 Description of the Tenon Group

Tenon Limited (the Company) and its Subsidiaries (together the Group) is a leading moulding and millwork distribution business, supported by wholly owned specialised manufacturing operations. It operates in one division - the Moulding and Millwork segment – and the products it distributes are used equally in new home construction and DIY applications. The Group focuses primarily on the North American market, where over 90% of its revenue is sourced, and where the Group has strong direct and indirect vendor relationships with national and regional pro-dealers and with the largest home improvement chains in the United States. Over 85% of the products it distributes and supplies are sourced externally through its global logistics network, with Tenon's own specialist manufacturing being specifically targeted to desired applications – for example, Tenon's NZ large scale manufacturing operation supplies its North American distribution activities with high-value clearwood products which are in industry short supply, and its US manufacturing activities provide customised short lead-time delivery (e.g. stairparts) and highly specialised (e.g. decorative) products for distribution throughout North America.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 136 Customs Street West, Auckland, New Zealand.

The Company is listed on the New Zealand stock exchange. As at 30 June 2015 the Group was 59.78% owned by Rubicon Limited and its subsidiaries (June 2014: 59.23%). According to filed regulatory statements, the three largest shareholders own approximately 83.1% of the Group.

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 28 August 2015.

2 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 - Goodwill.
- (b) Note 16 - Provision for Current Taxation and Deferred Taxation.

B Financial Risk

3 Financial Risk Management

This note presents information about the Group's potential exposure to financial 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.

Key Sensitivities are presented that are significant to the Group.

3.1 Approach to Financial 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.

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.

3.2 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 - 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. 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.

Key Financial Sensitivities

		Impact on Profit before Taxation US\$m	Impact on Equity US\$m
NZ\$/US\$	1 cent movement	0.65	0.65
Open US\$ Foreign Exchange contracts as at 30 June ^(a)	1 cent movement	–	0.18
NZ\$/EUR	1 cent movement in NZ\$/EUR at constant NZ\$/US\$ of 0.6868	0.12	0.12
Open EUR Foreign Exchange contracts as at 30 June	1 cent movement	–	0.05
Interest rate (incl interest rate swap) ^(b)	1% + movement in Floating rates	-0.61	-0.10
Interest rate (incl interest rate swap) ^(c)	1% - movement in Floating rates	0.70	0.15
Log Price (annual 300,000 tonnes)	NZ\$1/ tonne (at NZ\$/US\$ 0.6868)	0.21	0.21

(a) June 2014: \$0.1 million impact on Equity.

(b) June 2014: \$0.5 million reduction in Profit before Taxation and no impact on Equity.

(c) June 2014: \$0.6 million increase in Profit before Taxation and \$0.2 million reduction in Equity.

The sensitivities calculated above are based upon fiscal 2015 operating capacity and assume key pricing variables remain constant.

B Financial Risk continued

3 Financial Risk Management continued

3.2 Key Financial Risks continued

(a) 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. 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 following exchange rates applied during the year:	Average rate ⁽¹⁾		Reporting date (spot rate)	
	2015	2014	2015	2014
US\$/NZ\$	0.7777	0.8304	0.6868	0.8767

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

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.

Foreign Exchange contracts outstanding at balance date	MTM ^{(2) (3)} US\$m	June 2015 US\$m		
		Selling US\$m	Selling EUR m	Buying NZ\$m
Foreign Exchange Contracts US\$ to NZ\$	-0.3	12.5	-	18.0
Foreign Exchange Contracts EUR to NZ\$	-0.3	-	2.9	4.4

All US contracts are due to be settled by 30 September 2015 and all EUR contracts by 31 December 2015.

(2) Mark-to-Market ("MTM") is the difference between the contracted value and the fair value of the foreign exchange contracts as at balance date. The MTM adjustment is included in the cash flow hedging reserve.

(3) As at 30 June 2015, the fair value was less than the contracted value by \$0.3 million on the US\$ contracts and \$0.3 million on the EUR contracts. As at 30 June 2014, the fair value was more than the contracted value by \$0.3 million on the US\$ to NZ\$ contracts. All the US\$ to NZ\$ contracts were settled by 30 September 2014. There were no EUR to NZ\$ contracts as at 30 June 2014.

The Group's exposure to foreign currency risks on financial instruments is based on the following:	Currency of Denomination			
	As at 30 June 2015		As at 30 June 2014	
	US\$ US\$m	NZ\$/AU\$ US\$m	US\$ US\$m	NZ\$/AU\$ US\$m
Cash and Liquid Deposits	-	-	-	-
Trade Debtors	25	3	26	3
Bank Overdraft	-3	-	-	-1
Trade Creditors	-18	-5	-15	-5
Current Debt	-1	-	-1	-
Non Current Debt	-54	-	-48	-
Gross balance sheet exposure		-2		-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.

B Financial Risk^{continued}

3 Financial Risk Management^{continued}

3.2 Key Financial Risks^{continued}

(b) 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. 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.

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 2015, the Group had two interest rate swaps totalling \$10.5 million, covering 19% (June 2014: 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.

One swap has a fixed principal amount of \$6 million with fixed interest payable at 2.05%, the other swap has a balance of \$4.5 million as at June 2015 with a fixed interest payable of 1.828%, the principal value of this swap reduces monthly, the 2014 balance was \$5.1 million. For both swaps floating interest receivable at 30 June 2015 was 0.184% (June 2014: 1.51%).

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 2015 and June 2014 and the net fair value of the interest rate swaps as at 30 June 2015 was a liability of \$0.3 million (June 2014: liability of \$0.3 million) and is included in other current liabilities and the hedging reserve in Equity.

Refer to note 15 for the repayment profile of debt and Interest rates (inclusive of interest rate swaps).

B Financial Risk continued

3 Financial Risk Management continued

3.2 Key Financial Risks continued

(c) 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.

(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 31% of trade receivables as at 30 June 2015 (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 10 Trade Debtors and Other Receivables for analysis of ageing of Trade Debtors). 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 US housing down-cycle and global credit crisis. Tenon's strategy is to actively grow its US 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 are restricted to those financial institutions that form part of the Group's syndicated debt facility.

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:

	June 2015 US\$m	June 2014 US\$m
Cash and Liquid Deposits ⁽¹⁾	—	—
Trade and Other Receivables ⁽²⁾	34	35
	34	35

(1) Cash and Liquid Deposits are only held with banks that are part of the Group's banking consortium led by PNC Bank. 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) Refer to note 10 for ageing profile of Trade Debtors.

B Financial Risk continued

3 Financial Risk Management continued

3.2 Key Financial Risks continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial commitments as they fall due. The Group Treasury policy aims to maintain flexibility in funding by keeping committed credit lines available.

Refer to Note 15, Debt Facility Terms, for a full description of the Group's credit facilities and covenants.

The supply chain financing programme, sponsored by the Bank of America, and which has been in place for 7 years, allows Tenon the opportunity to receive payment from the Bank of America for a portion of its receivables in advance of normal customer credit payment terms.

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

June 2015						
US\$m						
	Carrying value	Fair value	6 months or less	6-12 months	1-2 years	2-5 years
Non Derivative Financial Liabilities						
Bank Overdraft	3	3	3	–	–	–
Trade and Other Payables ⁽¹⁾	36	36	34	2	–	–
Debt	55	55	–	1	3	51
Interest Expense on Debt	–	–	1	1	2	6
Derivative Financial Liabilities						
Interest rate swaps (\$0.2) million per annum for 3 years)	–	–	–	–	–	–
Forward Exchange Contracts	1	1	1	–	–	–
	95	95	39	4	5	57

(1) excludes derivatives (shown separately)

June 2014						
US\$m						
	Carrying value	Fair value	6 months or less	6-12 months	1-2 years	2-5 year
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

B Financial Risk continued

3 Financial Risk Management continued

3.2 Key Financial Risks continued

(d) Liquidity risk continued

Interest Rate Swap cash flows

As at 30 June 2015 the future gross cash flows of the interest rate swaps are a \$0.6 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 2015) of \$0.6 million, \$0.1 million is expected to occur in the six months to December 2015 and \$0.1 million in the six months to June 2016. \$0.2 million is expected to occur in the 2017 and 2018 years.

As at 30 June 2014 the future gross cash flows of the interest rate swaps were a \$0.9 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 2014) of \$0.8 million, \$0.1 million was expected to occur in the six months to December 2014 and \$0.1 million in the six months to June 2015. \$0.2 million was expected to occur in the 2016, 2017 and 2018 years.

3.3 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 buyback its shares, pay dividends, issue new shares, or sell assets, subject to the terms of the Group's syndicated debt facility.

3.4 Fair Value Estimation

Financial instruments are recorded in the balance sheet at estimated fair value. In the June 2015 and June 2014 years, foreign exchange contracts and interest rate swaps are treated as effective hedges under NZ IAS 39 (refer to note 25.8 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. 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.

C Earnings Information

4 Segmental Information Summary – Revenue

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.

Geographic segmental reporting for the periods ended June 2015 and June 2014 split between North America and Australasia is shown below.

	Tenon Group	
	2015	2014
	US\$m	US\$m
By geographic location:		
North America	357	346
Australasia ⁽²⁾	49	50
Operating Revenue ⁽¹⁾	406	396

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

(2) Australasia sales includes \$6 million of Log sales (June 2014: \$11 million) made under a back-to-back forest stumpage agreement. The arrangement terminated during the 2015 year.

Revenues of approximately \$159 million (June 2014: \$153 million) are derived from a single external customer that Tenon and its predecessor companies have a strong relationship with and who have been selling to for over 20 years. These revenues are attributable to the North American geographic segment.

5 Operating Earnings

Operating Earnings includes:

Depreciation Expense

	Tenon Group	
	2015	2014
	US\$m	US\$m
Included in Cost of Sales Expense	2	3
Included in Selling and Distribution Expense	1	1
	3	4
Net Foreign Exchange gain / (loss)	-1	1
Employee Benefit Costs	58	57

Other items in Operating Earnings were:

(1) Includes Directors fees paid of \$0.3 million for the current year (June 2014: \$0.4 million) (refer Key Management Compensation note 22 (b)).

(2) Payments made and accrued to KPMG were:

Statutory audit and review of financial statements \$0.5 million for the current year (June 2014: \$0.5 million).

Assurance services regarding an IT project (\$0.04 million).

Refer to page 51 of the Corporate Governance section for commentary on the Audit Committee process in managing the relationship with the Auditor to ensure independence.

C Earnings Information continued

		Tenon Group	
		2015	2014
		US\$m	US\$m
6	Tax Expense		
	Current Taxation:		
	United States	–	1
	New Zealand	–	–
	Total Current Taxation	–	1
	Tax Expense	–	1
		2015	2014
		US\$m	US\$m
	Note		
	Net Profit before Taxation	6	3
	Taxation at 28 cents per dollar	2	1
	Adjusted for:		
	Expenses / (Income) not included in assessable income	-1	-1
	Tax losses (recognised) / written off ⁽¹⁾	-1	1
	Tax Expense	–	1

(1) Previously unrecognised NZ tax losses of \$1 million were recognised in the year. In June 2014, previously recognised US tax losses that had expired 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 as at 30 June 2015 was nil (June 2014: nil).

C Earnings Information continued

7 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 after Taxation to EBITDA:

	Tenon Group	
	2015 US\$m	2014 US\$m
Net Profit after Taxation	6	2
Plus Tax Expense	–	1
Plus Financing Costs	4	4
Operating Profit before Financing Costs	10	7
Plus depreciation and amortisation	3	4
EBITDA	13	11

8 Net Earnings Per Share

	Tenon Group	
	2015 US\$m	2014 US\$m
Basic and Diluted Net Earnings per Share (cents)	9.9	2.4
Numerator for Basic and Diluted Net Earnings per Tenon Share (\$ millions)	6	2
Denominator for Basic and Diluted Net Earnings per Tenon Share (millions), refer to note 17.	65.3	65.6

D Net Working Capital

		Tenon Group	
		2015	2014
		US\$m	US\$m
9	Inventory		
	Raw Materials and Work in Progress	7	6
	Finished Goods	74	61
		81	67

The cost of inventory recognised as an expense and included in cost of sales amounted to \$305 million (June 2014: \$300 million).

		Tenon Group	
		2015	2014
		US\$m	US\$m
10	Trade and Other Receivables		
	Trade Debtors ⁽¹⁾	28	29
	Prepayments	4	4
	Other Receivables	2	2
		34	35

(1) The status of Trade Debtors is as follows:

	Due ⁽²⁾	25	26
	Past due ⁽³⁾	3	3
		28	29
	Less provision for doubtful debts	–	–
	Net Trade Debtors	28	29

As at 30 June 2015, no Trade Debtors were impaired (June 2014: nil).

(2) The Group has an excellent history of trade debtor collections and there is no reason to believe that the \$25 million (June 2014: \$26 million) of due 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 2015, \$3 million (June 2014: \$3 million) of Trade Debtors were past due. The ageing of these Trade Debtors is as follows:

		Tenon Group	
		2015	2014
		US\$m	US\$m
	Days overdue:		
	1 month	3	2
	2 months	–	1
		3	3

		Tenon Group	
		2015	2014
		US\$m	US\$m
11	Trade and Other Payables and Provisions		
	Trade Creditors	23	20
	Accrued Employee Benefits	6	5
	Other payables	3	3
	Accruals	5	5
		37	33

E Non-Current Assets

		Tenon Group	
		2015	2014
		US\$m	US\$m
12	Fixed Assets		
Cost			
	Land and Improvements	6	6
	Buildings	17	17
	Plant and Equipment	73	74
	Capital Work in Progress	5	–
Total Cost		101	97
Accumulated Depreciation			
	Buildings	-9	-8
	Plant and Equipment	-68	-68
Total Accumulated Depreciation		-77	-76
Total Fixed Assets at Net Book Value		24	21
Domicile of Fixed Assets			
	United States	9	10
	Australasia	15	11
Total Fixed Assets at Net Book Value		24	21
Domicile of Additions			
	United States	1	2
	Australasia	5	–
Total Additions		6	2

E Non-Current Assets continued

	Tenon Group	
	2015 US\$m	2014 US\$m
13 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 three year period inclusive of a terminal value. These cash flows assume that the recovery in US housing market conditions continues, in line with average external forecaster projections. These projections imply a 'mid-cycle' level is reached in approximately three years, at which time Tenon's consolidated EBITDA is projected to be \$45 million excluding organic growth (2014: \$45 million after five years). This figure excludes organic growth which is included in the Group's mid-cycle guidance of circa \$50 million EBITDA.

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, growth rates in new home construction and retail / DIY activity translate into Tenon revenue growth of approximately 13% per annum over the next three years. No growth in Tenon's market share is assumed beyond territorial expansion already underway. The underlying market growth rate assumptions are consistent with those used in 2014.
- (2) Gross margin percentages are assumed to be similar to the current year's percentage for the next three years (+/- 2%), (June 2014: +/- 2%).
- (3) The discount rate applied to the cash flow projections is 8.5% real, pre tax (June 2014: 8.5%), 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 2014: 1%) consistent with assuming a low long-term annual growth rate in the new homes and remodelling markets beyond year three 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 2015.

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 show 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 terminal value growth rate was set to zero, or
- the assumed future rate of recovery of the US housing cycle was halved, or
- Retail / DIY growth rates were set to zero.

F Debt and Financing Costs

Total Net Debt	Tenon Group	
	2015	2014
	US\$m	US\$m
Current Debt	1	1
Non-Current Debt ⁽¹⁾	54	48
Total Debt	55	49
Bank Overdraft	3	1
Net Debt	58	50

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

Opening Net Debt	50	49
Debt drawdowns	13	55
Debt settlements	-7	-53
Net Movement in Cash, Cash Equivalents and Overdrafts	2	-1
Closing Net Debt	58	50

(1) Tenon has been compliant with all covenants throughout the year and believes it will continued to be so in the future, accordingly the amount of debt drawn under the revolver facility at 30 June 2015 and 30 June 2014 is shown as non-current.

	Tenon Group	
	2015	2014
	US\$m	US\$m
14 Financial Costs		
Financing Costs		
Interest payable on Debt	3	3
Fees including amortisation of Refinancing Fees	1	1
Net Financing Expense	4	4

F Debt and Financing Costs ^{continued}

		Tenon Group	
		2015	2014
		US\$m	US\$m
15	Total Debt		
	Current Debt	1	1
	Non-Current Debt	54	48
	Total Debt	55	49
Summary of Repayment Terms			
Due for Repayment:			
	Less than one year	1	1
	between one and two years	3	2
	between two and three years	3	2
	between three and four years	3	3
	between four and five years	45	41
	Total Debt	55	49
Total Debt			
Summary of Interest Rates by Repayment Period (%)		%	%
Due for Repayment:			
	Less than one year	4.84	6.23
	between one and two years	4.84	6.31
	between two and three years	4.84	6.32
	between three and four years	4.84	6.32
	between four and five years	4.45	5.35
	Weighted Average Interest Rate ⁽¹⁾	4.51	5.50
Weighted Average Interest Rate comprises:			
	Weighted average interest rate on debt	3.32	3.93
	Facility fees amortisation % on debt	1.19	1.57
	Weighted Average Interest Rate ⁽¹⁾	4.51	5.50

(1) The weighted average interest rates reflect the effective interest rate, inclusive of fee amortisations and any applicable interest rate swaps. 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 and the LIBOR loans which are due for repayment in 2020.

F Debt and Financing Costs continued**15 Total Debt** continued**Debt Facility terms**

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 facility comprised a \$59 million revolver line and a \$11 million reducing term loan. In May 2015 the size of the facility was increased to \$75 million with a \$10.4 million reducing term loan component, and the term of the facility was extended to May 2020.

The facility is led by PNC Bank National Association ("the Agent"), and the Syndicate includes the Bank of New Zealand and Comerica as lenders. The 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 (i.e. undrawn Availability) at any one time is determined by the value of the Group's inventory and receivables, less the amount of the facility drawn. There are a number of exclusions, reserves and deductions made to the gross value of inventory and receivables to determine the level of inventory and receivables eligible to borrowing against. Every month a report is made to the Agent showing the eligible inventory and receivables (a Borrowing Base report). The Borrowing Base report and calculations are subject to periodic examination by the Agent.

The facility has a standard quarterly fixed charge covenant (FCCR) ⁽¹⁾, however this covenant only applies if undrawn Availability falls below \$8.5 million for two consecutive business days or \$12.5 million for five consecutive business days. At 30 June 2015, undrawn Availability was \$21.5 million (June 2014: \$20.5 million), and the FCCR covenant had no application. Were the FCCR covenant to apply in future, as soon as undrawn Availability moved above \$12.5 million for thirty consecutive business days the covenant would then have no application again.

Should the covenant apply following the failure to meet the above undrawn Availability thresholds, and the FCCR falls below 1.10x, then this would result in a default under the terms of the banking facility giving the banks the right to impose certain restrictions on the Group's access to and use of its funds, including demanding repayment of the amount borrowed.

The terms of the facility also include certain negative covenants in relation to payments of dividends and other distributions and buybacks of Tenon Limited shares. For example, the Bank Syndicate must approve any acquisitions totalling over \$10 million per financial year, and these covenants also limit to \$5 million per financial year, the amount of dividends and other distributions that Tenon Limited can make without Bank Syndicate approval. For any dividend, distribution and acquisition payments which total more than \$3 million in each financial year, a \$12.5 million minimum undrawn Availability requirement immediately before and after the payment of the dividend, distribution or acquisition must be met.

The facility also has an annual excess cash flow payment requirement of up to \$1 million. Any excess cash flow payment reduces the term loan balance. The Group cannot exceed \$5 million of borrowings from third parties outside of the facility syndicate.

The total size of Tenon's syndicated bank credit facility does not decrease with reductions in the Term Loan balance being offset by an increased Revolver facility. The assumption made in the table below is that, commencing in September 2015, the maximum \$1 million repayment under the excess cash flow provision of the facility will be made and the Term Loan balance reduce accordingly.

	US\$m		
	Term	Revolver	Total
June 2015	10.43	64.57	75.00
June 2016 ^(a)	9.12	65.88	75.00
June 2017 ^(b)	6.55	68.45	75.00
June 2018 ^(b)	3.98	71.02	75.00
June 2019 ^(b)	1.41	73.59	75.00
June 2020 ^(b)	0.00	0.00	0.00

(a) Scheduled Term Loan amortisation of \$130,952 per month from 1 September 2015.

(b) Scheduled Term Loan amortisation of \$130,952 per month and \$1 million excess cash flow payment on 30 September.

Consistent with standard financing facilities, consent of the lenders to continue the facility following a change of control of Tenon or a sale of the Group's assets would be required.

(1) The FCCR covenant is defined as [(EBITDA - capital expenditure - cash tax paid) / (interest + amortising term loan payments + distributions paid)]. EBITDA is a Non-GAAP financial measure, refer to note 7.

G Taxation Provisions

		Tenon Group	
		2015	2014
		US\$m	US\$m
16	Provision for Current Taxation and Deferred Taxation		
Provision for Current Taxation:			
	Opening Provision for Current Taxation	–	–
	Current Taxation Expense in the Consolidated Income Statement	–	-1
	Deferred Tax Movement during the year	-1	–
	Net Tax Payments	1	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 Taxation:

	Deferred Tax on Assets	9	10
	Deferred Tax on Liabilities	2	2
	Deferred Tax Asset	11	12

The gross movement on the deferred income tax account is as follows:

Non Current Deferred Taxation:

	Opening Deferred Taxation	12	11
	Effect of Currency Translation	-2	1
	Deferred Tax Movement during the year	1	–
	Deferred Tax Asset	11	12

G Taxation Provisions continued

16 Provision for Current Taxation and Deferred Taxation continued

Deferred Taxation continued	Depreciation	Forestry	Provisions	Tax Losses ⁽¹⁾	Current assets	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
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
June 2015						
Opening Provision for Deferred Taxation	-3	-1	2	15	-1	12
Effect of Currency Translation	–	–	–	-2	–	-2
Tax losses recognised in Income Statement ⁽²⁾	–	–	–	1	–	1
Deferred Taxation in the Income Statement	-1	1	–	–	–	–
Closing Provision for Deferred Taxation	-4	–	2	14	-1	11

(1) Recognised tax losses include \$5.8 million of tax effected NZ tax losses (June 2014: \$7.4 million), that do not expire, subject to shareholder continuity provisions, and \$8.4 million (June 2014: \$7.9 million) of US tax losses which have expiry dates as detailed below.

Tax Losses	Expiry dates		
	2021	Beyond 2021	Total
US tax losses	US\$m	US\$m	US\$m
Gross Value	5.1	19.7	24.8
Tax Effected	1.7	6.7	8.4

(2) Previously unrecognised NZ tax losses of \$1 million were recognised in the 2015 year. In June 2014, previously recognised US tax losses that had expired were expensed (\$1 million).

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 \$10 million (NZ\$15 million) in unrecognised NZ tax losses (gross value), and no unrecognised US tax losses (June 2014: \$27 million unrecognised NZ losses (NZ\$31 million) and no unrecognised US tax losses).

H Shareholders Equity

		Tenon Group	
		2015	2014
		US\$	US\$
17 Capital			
Reported Capital:			
Reported Capital at the beginning of the year	532,565,229	532,947,659	
Share Buyback ⁽¹⁾	-849,040	-382,430	
Reported Capital at the end of the year	531,716,189	532,565,229	

		Tenon Group	
		June 2015	June 2014
Tenon Ordinary Shares ^{(1) (2)}			
Number of Shares at the beginning of the year	65,419,124	65,690,681	
Share Buyback ⁽¹⁾	-604,193	-271,557	
Number of Shares at the end of the year	64,814,931	65,419,124	

(1) The Company is conducting an on-market share buy-back of up to 1.2 million shares, comprising three separate tranches, the first two of which have been completed. As at 30 June 2015, 875,750 shares had been acquired under the share buybacks at an average on-market purchase price of NZ\$1.70. The shares were cancelled upon acquisition by Tenon Limited.

(2) Includes 182,548 (June 2014: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as treasury stock.

		Tenon Group	
		2015	2014
		US\$m	US\$m
18 Reserves			
Retained Earnings			
Opening Balance	-418	-420	
Net Profit after Taxation	6	2	
	-412	-418	
Cash Flow Hedging Reserve ⁽¹⁾			
Opening Balance	-	-1	
Fair Value gains / (losses) for the year	-2	3	
Hedge gains transferred to Earnings in the year	1	-2	
	-1	-	
Revaluation Reserve ⁽²⁾			
Opening Balance	1	1	
	1	1	
Net Currency Translation			
Opening Balance	6	5	
Net variations on Translation of Foreign Currency Financial Statements	-3	1	
	3	6	
Total Reserves	-409	-411	

(1) The Cash Flow Hedging Reserve records the net movement of cash flow hedging instruments and comprising of foreign exchange contracts and interest rate swaps.

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

I Other Information

		Tenon Group	
		2015	2014
		US\$m	US\$m
19	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:			
	within one year	7	7
	two years	6	6
	three years	4	5
	four years	3	3
	five years	2	2
	after five years	5	6
		27	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 \$10 million (June 2014: \$10 million).

Capital Expenditure Commitments

At balance date the Group was undertaking two major sawmill optimisation capital expenditure projects at the Group's Clearwood sawmill in New Zealand. The \$5 million Edger project is expected to be commissioned in September 2015 and the \$2 million dollar Ripline project is expected to be commissioned in March 2016. As at 30 June 2015, a remaining estimated \$3 million is forecast to be spent over the next nine months to complete these two projects.

20 Contingent Liabilities

The Group has no material contingent liabilities (June 2014: nil).

21 Contingent Assets

The Group has no material contingent assets (June 2014: nil).

I Other Information continued

22 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.

Intercompany trading

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

Payments to Rubicon

Rubicon Limited and its subsidiaries ("Rubicon") own 59.78% of Tenon Limited (June 2014: 59.23%). Three of Tenon Limited's directors are also directors of Rubicon Limited. Directors fees received by Rubicon were \$0.1 million (June 2014: \$0.1 million). Office and administration costs received by Rubicon from Tenon for the 2015 year were \$0.1 million (June 2014: \$0.1 million).

Tenon Group-borrowers under the credit agreement

All material subsidiaries of the Group are named borrowers in the credit facility signed on 5 September 2013.

	Tenon Group	
	2015	2014
	US\$m	US\$m
(b) Key Management Compensation		
Salaries and other short-term employee benefits	2	3
Directors fees paid to Non Executive Directors (refer to note 5 (1))	–	–
Other Payments	–	–
	2	3

23 Principal Operations

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

	Country of Domicile	Principal Activity
Principal Subsidiaries		
Tenon Industries Limited	NZ	Funding
Fletcher Wood Solutions Inc.	USA	Funding
The Empire Company LLC	USA	Distribution
Southwest Moulding Co., LP	USA	Distribution and Processing
Ornamental Mouldings LLC	USA	Distribution and Processing
Tenon Manufacturing Limited	NZ	Distribution and Processing

24 Post Balance Date Events Announced After the 30 June Reporting Date.

Dividend announcement

On 28 August 2015, a final dividend of NZ 5.0 cents per share was approved by the Board of Directors. This dividend will have no imputation credits attached given the current non-tax paying position of Tenon in New Zealand. In accordance with NZ IFRS, this amount has not been recognised as a liability as at 30 June 2015, but will be brought to account during the 2016 financial year.

Strategic review

On 28 August 2015, the Board of Directors announced that a strategic review would be undertaken immediately, and that Deutsche Craigs and Deutsche Bank had been appointed as Tenon's exclusive advisors for the purpose of the review. The financial effect of the review cannot be estimated at this time.

I Other Information ^{continued}

25 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.

25.1 Basis of Presentation

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

25.2 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.

25.3 Basis of Preparation

The Company is a FMC entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. Both these acts became effective for financial years beginning on or after 1 April 2014, and the Financial Reporting Act 1993 was repealed with effect from this date.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 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 2).

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

25.4 Changes in Accounting Policy and Disclosures

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

There have been no new or amended standards adopted by the Group in the current financial year.

(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 not identified any new standards or amendments that will materially impact the preparation of the Group accounts.

I Other Information^{continued}

25 Summary of Significant Accounting Policies^{continued}

25.5 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.

25.6 Presentation and Functional Currencies

(a) Presentation currency

These financial statements are presented in United States dollars, which is the functional currency of the 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 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.

I Other Information continued

25 Summary of Significant Accounting Policies continued

25.7 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 a weighted average basis. Cost includes direct manufacturing costs and manufacturing 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) 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.

(f) 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.

I Other Information continued

25 Summary of Significant Accounting Policies continued

25.7 Valuation of Assets continued

(g) 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.

25.8 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.

I Other Information^{continued}

25 Summary of Significant Accounting Policies^{continued}

25.8 Valuation of Liabilities^{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.

25.9 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.

(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.

I Other Information ^{continued}

25 Summary of Significant Accounting Policies ^{continued}

25.10 Segmental Reporting

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. The chief operating decision-makers have been identified as the Tenon Group Board and the Executive Management team, who make strategic decisions.

25.11 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.

25.12 Comparatives

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

Independent Auditor's Report to the Shareholders of Tenon Limited



To the shareholders of Tenon Limited

We have audited the accompanying consolidated financial statements of Tenon Limited and its subsidiaries ("the group") on pages 11 to 44. The financial statements comprise the consolidated statement of financial position as at 30 June 2015, the consolidated income statement and consolidated 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.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements 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 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 consolidated financial statements.

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

Our firm has also provided assurance services to the group. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 11 to 44 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Tenon Limited as at 30 June 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

A handwritten signature in blue ink, appearing to read 'KPMG', with a large, stylized 'K' and 'P'.

28 August 2015

Auckland

Board of Directors_{as at 28 August 2015}

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 and the establishment of Tenon as a stand-alone entity. 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. Between 2011 and 2015 he was a 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 nine years, including five years as CEO from 2005 through to 2009, and before that four years as Commercial Director and head of Tenon's US-based consumer solutions business. Prior to Tenon, Mark held a number of positions within Fletcher Challenge Building, including Managing Director of Fletcher Aluminium. Mark is also a trustee of the Young Enterprise Trust.

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

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 Deputy Chairman 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.

Board of Directors as at 28 August 2015 continued

George Karaplis

BEng, MBA (McGill)
Non-Executive Director

Committees

Nominations

Last re-elected 2014

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 2014

Mr Kasnet is currently Chairman of Rubicon Limited, the holding company of the Company’s largest shareholder, Rubicon Forests Holdings Limited. He is also Chief Executive Officer of Calypso Management LLC, President of Ocean Manchester Corporation, director of the First Ipswich Bank, Trustee of the Governors Academy 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 from the Board to the Executive, and formal sub-delegations from the Executive to Management.

The Executive, which reports to the Board, through the Chairman, comprises the Presidents of North America and Asia Pacific and the Corporate Centre, comprising the Chief Financial Officer, General Counsel (who also fulfils the function of Company Secretary), Senior Vice President Operating Performance and Growth, and the Financial Controller for the Group.

The Centre is responsible for all the "corporate" functions for the Group, including operating performance review, Group strategy, governance, investor relations, funding and oversight.

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 and direct reports to the Executive;
- Approving and monitoring corporate strategy and performance objectives;
- Reviewing risk management and reporting systems;
- Approval of major capital expenditure;
- Funding; 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.

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.

The Chairman of the Board evaluates the performance of the Board, its Committees and its members. The Nominations 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.

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 meetings of the Committees. Minutes of meetings of the Committees are tabled at subsequent board meetings.

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, KPMG, performed non-audit related work for the Company in relation to information technology project review 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\$36,000 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 members of the Executive;
- Signing of the financial statements by the Chairman of the Board and one other director and the Chief Financial Officer;
- 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, 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 and information 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 formal delegated authority levels established 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 57 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.

Employees			
NZ\$100,000	to	NZ\$110,000	13
NZ\$110,000	to	NZ\$120,000	16
NZ\$120,000	to	NZ\$130,000	9
NZ\$130,000	to	NZ\$140,000	12
NZ\$140,000	to	NZ\$150,000	7
NZ\$150,000	to	NZ\$160,000	6
NZ\$160,000	to	NZ\$170,000	8
NZ\$170,000	to	NZ\$180,000	5
NZ\$180,000	to	NZ\$190,000	3
NZ\$190,000	to	NZ\$200,000	2
NZ\$200,000	to	NZ\$210,000	2
NZ\$210,000	to	NZ\$220,000	1
NZ\$220,000	to	NZ\$230,000	1
NZ\$230,000	to	NZ\$240,000	4
NZ\$240,000	to	NZ\$250,000	1
NZ\$250,000	to	NZ\$260,000	3
NZ\$270,000	to	NZ\$280,000	3
NZ\$280,000	to	NZ\$290,000	1
NZ\$290,000	to	NZ\$300,000	1
NZ\$320,000	to	NZ\$330,000	1
NZ\$330,000	to	NZ\$340,000	1
NZ\$340,000	to	NZ\$350,000	1
NZ\$360,000	to	NZ\$370,000	2
NZ\$380,000	to	NZ\$390,000	1
NZ\$400,000	to	NZ\$410,000	1
NZ\$420,000	to	NZ\$430,000	1
NZ\$430,000	to	NZ\$440,000	1
NZ\$450,000	to	NZ\$460,000	1
NZ\$480,000	to	NZ\$490,000	1
NZ\$570,000	to	NZ\$580,000	1
NZ\$580,000	to	NZ\$590,000	1
NZ\$770,000	to	NZ\$780,000	1
NZ\$810,000	to	NZ\$820,000	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, and includes formal delegations of authority from the Board, formal treasury and credit control policies, and external assurance reviews conducted by the Auditor on areas of the business selected by the Audit Committee. The Company also maintains comprehensive Group-wide insurance programmes, which are approved annually by the Board. 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.

The Company has a formal whistleblower policy whereby any employee can convey any concern to the Chairman of the Audit Committee on a confidential/anonymously basis, without fear of retribution.

Details of some of the specific financial risks the Company is exposed to and the way the Company manages those risks are described in note 3 to the financial statements (see pages 19-24).

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 monthly reporting of health and safety information. All injuries are required to be reported to the Board. The Board also has the benefit of regular health and safety and environmental 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. The Company also obtains specialist environmental reviews of its manufacturing sites, to ensure that those sites are compliant with environmental laws.

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

Tenon is an equal opportunity employer and recognises the value of having a diverse workforce. Tenon does not tolerate any form of discrimination. The Board is satisfied that the Company recruits, promotes and treats its people without discrimination, based on its values of respect and dignity for the individual and on the individual's qualifications and ability to do the job.

In accordance with Listing Rule 10.4.5(j) relating to diversity disclosures, of Tenon's Officers (as defined in the NZSX's Listing Rules), 4 are female out of a total of 21 Officers (June 2014: 4 out of 17 Officers were female).

The Executive is comprised of 6 Officers, of which 2 are female (June 2014: 2 out of 5 Officers were female).

Tenon has 5 Non-Executive Directors, all of whom are male (June 2014: 5). 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 considers continuous disclosure issues at each Board meeting.

Financial Markets Authority Corporate Governance Principles

The Company's corporate governance process materially 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 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;
- Each business area maintains a separate website, detailing its operations, its products and customer base, details of which are on page 63;
- 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 or made available by email through our share registrar, Computershare;
- The holding of Annual Shareholders Meetings at different locations to ensure that as broad a cross section of shareholders as possible have an opportunity to attend such meetings;
- Compliance with continuous disclosure obligations;
- The Code of Business Conduct and Ethics reflects the commitment of the Company to respect the interests of stakeholders (including customers, employees, compliance with the law and respect for the environment);
- Investors may subscribe on the Company's website to an email service whereby stock exchange filings made by the Company are emailed to them; and
- An investor relations email in-box enables a quick response to investor enquiries.

Statutory Disclosure

Directors' Interests Register

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

Non-Executive Directors' Remuneration

Non-executive Directors' annual remuneration is NZ\$72,500 per annum per Director, 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. 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 2015 was \$334,164⁽¹⁾ (NZ\$436,250). Fees, prior to any taxation liability, paid to individual non-executive Directors in the year ended 30 June 2015 were:

	Fee ⁽¹⁾
M K Eglinton	55,535
R H Fisher	60,513
G Karaplis	55,535
S G Kasnet	55,535
S L Moriarty ⁽²⁾	107,046

(1) Directors' fees have been translated from New Zealand dollars at an average foreign exchange rate of NZ\$1 = US\$0.7660.

(2) Total Directors fees in relation to S L Moriarty (Chairman) were paid directly to Rubicon Limited.

Executive Directors' Remuneration

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

Directors' Certification to NZX

The independent directors approved variations to the employment contracts of two senior executives, which entitle each executive to receive a payment in the event of the change of control of Tenon Limited or the sale of substantially all of the assets of Tenon Limited occurring on or before 30 June 2017. If a change of control were to occur, the pre-tax payment to them would, in the aggregate, be approximately US\$865,000 which would, together with their other remuneration including severance payments, exceed the threshold in Listing Rule 9.2.2 (e) for shareholder approval (converting US\$ payments at NZ\$1 = US\$0.6546, being the exchange rate ruling at the time changes were made). The Company relied on the exception provided in Listing Rule 9.2.4 (d) which allows the Company to agree the change to the executives' remuneration without requiring shareholder approval. To satisfy the exception, the independent Directors of the Company provided a certificate to the NZX on 5 August 2015 certifying that the remuneration was set on an arm's length, commercial basis and that it had been approved by the independent Directors of Tenon.

Subsidiary Company Directors

Section 211(2) of the New Zealand Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors and particulars of entries in the interests registers made during the year ended 30 June 2015.

As at 30 June 2015, 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 54, where the employee received remuneration and other benefits totaling NZ\$100,000 or more during the year ended 30 June 2015.

Statutory Disclosure continued

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

Forestry Corporation of New Zealand Limited

P M Gillard

NACS USA, Inc

A T Johnston (R), A S White, P M Gillard

Fletcher Wood Solutions, Inc

A T Johnston (R), A S White, P M Gillard

Tenon USA Holding Company

A T Johnston (R), A S White, P M Gillard

Tenon Supply, LLC

A T Johnston (R), A S White, P M Gillard

The Empire Company, LLC

A T Johnston (R), A S White, P M Gillard

The Empire Canada Company Limited

A T Johnston (R), A S White, P M Gillard, S Reed

Southwest Moulding Co LP

A T Johnston (R), P M Gillard, A S White

AWM Acquisitions Corporation

A T Johnston (R), A S White, P M Gillard

Ornamental Mouldings Company

A T Johnston (R), A S White, P M Gillard

Ornamental Mouldings, LLC

A T Johnston (R), A S White, P M Gillard

Ornamental Investments, LLC

A T Johnston (R), A S White, P M Gillard

Comanche Investments, LLC

A T Johnston (R), A S White, P M Gillard

Fairfield Road, LLC

A T Johnston (R), A S White, P M Gillard

Ornamental Products, LLC

A T Johnston (R), A S White, P M Gillard

Creative Stair Parts, LLC

A T Johnston (R), A S White, P M Gillard

Directors' Interests

In accordance with Section 140(2) of the Companies Act 1993, Directors advised the following changes in their interests during the year ended June 2015:

S G Kasnet

Columbia Labs

Resigned

Director

S L Moriarty

Reserve Bank of New Zealand

Retired

Monetary Policy Adviser

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 2015 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\$6,907 were made during the year.

Auditor's Fees

Fees payable to the Company's Auditor, KPMG, during the year are disclosed on page 25. During the year KPMG was paid US\$36,000 for non-audit related work for the Company, which is discussed on page 51.

Credit Rating

Tenon has not sought a credit rating.

Directors' Holdings – Equity Securities

Tenon Limited Ordinary Shares

	Beneficial	30 June 2015 Non-Beneficial	Associated Persons	Beneficial	30 June 2014 Non-Beneficial	Associated Persons
M K Eglinton	–	–	–	–	–	–
R H Fisher	750	–	–	750	–	–
S G Kasnet	–	–	–	–	–	–
S L Moriarty	27,155	–	59,243	27,155	–	59,243
G Karaplis	–	–	–	–	–	–
	27,905	–	59,243	27,905	–	59,243

Largest Shareholders

The 20 shareholders with the largest holdings of shares as at 31 July 2015 were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
Rubicon Forests Holdings Limited	38,747,695	59.78
New Zealand Central Securities Depository Limited	16,676,950	25.73
Tenon Employee Educational Fund Limited	465,752	0.72
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	0.22
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	0.15
J Wilson	80,000	0.12
M H Teulon & E M Quigley	79,981	0.12
D R Stevenson	73,542	0.12
G W Simms	68,000	0.11
Walker Capital Management Limited	62,624	0.10
N L Petry	60,000	0.09
A F Wylde	59,990	0.09
D E Moriarty	59,243	0.09
	58,141,131	89.70
Total Shares	64,814,931	

NZCSD

New Zealand Central Securities Depository Limited ("NZCSD") is a depository system which allows electronic trading of securities to its members. At 31 July 2015, the shareholdings held through NZCSD were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
JPMorgan Chase Bank NA	10,002,100	15.43
Accident Compensation Commission	4,552,649	7.02
Citibank Nominees (New Zealand) Limited	1,814,560	2.80
National Nominees New Zealand Limited	231,138	0.36
Private Nominees Limited	70,400	0.11
HSBC Nominees (New Zealand) Limited	5,711	0.01
BNP Paribas Nominees (NZ) Limited	392	0.00
	16,676,950	25.73
Total issued voting shares as at 31 July 2015	64,814,931	

Investor Information

Distribution of Shares – 31 July 2015

Size of Holdings	Ordinary Shareholders		Ordinary Shares	
	Number	%	Number	%
1 – 499	738	24.78	226,793	0.35
500 – 999	780	26.19	547,822	0.85
1,000 – 1,999	490	16.45	620,924	0.96
2,000 – 4,999	677	22.74	1,659,406	2.56
5,000 – 9,999	134	4.50	857,142	1.32
10,000 and over	159	5.34	60,902,844	93.96
Total	2,978	100.00	64,814,931	100.00

Less than a minimum holding: As at 31 July 2015, there were no holders of Ordinary shares holding less than the minimum holding of 100 or less shares under the NZX listing rules.

Supplemental Disclosure of Domicile of Beneficial Owners ⁽¹⁾

	Ordinary Shares	
	Number	%
New Zealand	52,514,721	81.02
United States of America	12,009,694	18.53
Other	290,516	0.45
Total issued voting shares as at 31 July 2015	64,814,931	100.00

(1) Updated for information received by 10 August 2015 in response to notices under the New Zealand Financial Markets Conduct Act 2013.

Substantial Security Holders

As at 31 July 2015 the following persons have given notice (in terms of the New Zealand Financial Markets Conduct Act 2013) that they are substantial security holders in Tenon. The number of Tenon ordinary shares shown as held below is as last notified to Tenon by the substantial security holder pursuant to the substantial security holder notice procedure under the Act.

	Tenon Ordinary Shares	% of Tenon Shares
Rubicon Forests Holdings Limited	38,747,695	59.78
Third Avenue Management LLC	10,482,120	16.17
Accident Compensation Commission	4,617,628	7.13
Total	53,847,443	83.08
Total issued voting shares as at 31 July 2015	64,814,931	

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 its intention to begin to return capital to shareholders by implementing a series of sequential on-market share buyback programmes. Accordingly, as at 28 August 2015, a total of 875,750 shares had been purchased by the Company in the share buybacks at an average price of NZ\$1.70. The shares were cancelled upon purchase.

2015-2016 Calendar

- Annual Shareholders Meeting: TBA
- Half Year End: 31 December 2015
- Half Year Results Announcement: February 2016
- Financial Year End: 30 June 2016
- Annual Results Announcement: August 2016
- Mailing of Annual Report: September 2016

Dividend

A final dividend for the 2015 financial year of NZ\$0.05 per share is payable on 6 November 2015 to shareholders on the register at 5pm on Friday 30 October 2015. The dividend will have no imputation credits attached given the current non-tax paying position of Tenon in New Zealand.

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 64,814,931 as at 31 July 2015

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,
136 Customs Street West,
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). 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 46-47 for details of Directors.

The Senior Leadership Team

Terry Bailey – General Manager, Southwest Moulding *(reporting to Dennis Berry)*

Terry Bailey joined Southwest Moulding in 2000. Terry has 20 years experience in manufacturing, retail sales, wholesale and distribution of millwork and building material related products. Terry has occupied a number of senior sales roles in Southwest Moulding and The Empire including National Accounts Sales Manager for Southwest Moulding and Divisional Field Service Coordinator for Empire. In 2008 Terry assumed the role as VP of Sales and Marketing at Southwest Moulding. In January 2015 Terry was appointed to the role of General Manager for Southwest Moulding. Prior to his time at Southwest Moulding in the late 90's Terry worked as a regional sales director for Larson Storm Door mfg co. and a territory sales rep for Wilsonart Inc. Terry has a Bachelor of Science Degree from Stephen F. Austin State University.

Dennis Berry – President, North America *(reporting to Luke Moriarty¹)*

Dennis Berry joined The Empire Company in 1996 prior to its acquisition by Tenon, and for the past 19 years has led all of Empire's national home center activities, until his appointment in March 2015 as President, Tenon North America. Dennis has more than 35 years of industry experience in the supply side of both the retail and wholesale channels of the wood products distribution market. He began his career managing his family's Central Florida lumber yard business in the late 70's and early 80's. In 1982, Dennis and his brother started a new family business manufacturing and distributing building products to the pro lumber yards, as well as national and regional retail chains doing business in the state of Florida. He spent 10 years in that business before deciding to venture into the retail channel. As the Millwork Merchant for big box chain Home Quarters Warehouse in Virginia Beach, Virginia, Dennis became acquainted with The Empire Company as a supplier before ultimately joining Empire. Dennis received his BS in Business from Florida Southern College in Lakeland Florida in 1980.

Greg Clark – General Manager and Vice President Finance, North American Manufacturing *(reporting to Dennis Berry)*

Greg Clark has over 20 years leadership experience in millwork manufacturing in North America. 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. Greg is also a Chartered Public Accountant, with over 10 years experience in public and industry accounting.

Paul Gillard – General Counsel and Company Secretary *(reporting to Luke Moriarty)*

Paul Gillard joined Tenon Limited in 2001. Paul's role encompasses legal affairs and company secretarial for the Group, stock exchange compliance, governance and commercial negotiations, and brings to Tenon a breadth of knowledge and experience in these areas. Paul has been closely involved in the restructuring of Tenon through the sales of its forests and structural manufacturing divisions, and the acquisition of Tenon's business units in North America and Australia. He had previously spent five years as Corporate Counsel with the New Zealand operations of US Information Technology services company, EDS. Paul's role with EDS also encompassed responsibilities in Australasia, including large IT outsourcing transactions in Australia and advising on transactions throughout Asia. Before joining EDS, Paul consulted to the Treasury Department of the State of Victoria in energy sector deregulation. Prior to that he was Corporate Counsel for Telecom Limited in New Zealand, responsible for the provision of all legal services, where he was involved in the privatisation of Telecom and the deregulation of the telecommunications sector in New Zealand. Prior to joining Telecom, Paul practised as a commercial lawyer at partnership level in New Zealand, and before that, he worked at a law firm in Washington DC. Paul has a Bachelor of Laws from Victoria University in Wellington, where he also spent time as a member of the law faculty. Paul was also a founding board member of the Wood Processors Association of New Zealand.

Tony Johnston – President, Asia-Pacific *(reporting to Luke Moriarty)*

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 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 1990's. Tony has a Bachelor of Science (Hons) from the University of Otago.

¹ Refer to bio on page 46

Investor Information continued

Jeff Leys – Senior Vice President New Home Centre Distribution *(reporting to Dennis Berry)*

Jeff Leys joined Tenon in January 2007. Jeff has 19 years of experience in sales, marketing, general management and distribution in the building material sector of North America. Jeff's previous roles within Tenon include Director of Strategic Marketing, ProDealer Director of Sales, ProDealer Senior Sales Director, and Vice President of Creative Stair Parts. Jeff was previously a senior leader of Zeeland Lumber & Supply, a ProDealer building products provider in Michigan.

Sharon Ludher-Chandra – Senior Vice President, Operational Performance and Growth *(reporting to Luke Moriarty)*

Sharon Ludher-Chandra joined Tenon in 2012, and prior to that she had been involved with the Company for 15 years, through her employment with Tenon's majority shareholder, Rubicon Limited, reporting directly to the CEO. Sharon's responsibilities at Rubicon included market analysis, operational reviews, and M & A activity, with the Group's forestry interests in NZ, US and South America. Sharon brings to Tenon strong commercial, analytical and project management skills, with her role spanning a wide range of activities including operational and financial performance improvement and review, the assessment and implementation of organic and acquisitive growth initiatives, budgeting, and strategic planning. Prior to joining Tenon and 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.

Dan Nelson – Senior Vice President ProDealer Distribution *(reporting to Dennis Berry)*

Dan Nelson joined Empire in September 2007. Dan has 25 years of building material industry experience. Previous to Empire, Dan spent 17 years with Andersen Windows, Bayport, MN in multiple capacities and geographies primarily focused on sales, pricing, marketing, brand management, product management and leading distribution optimization. Dan originally joined Empire as Sales Director of the Midwest region and later was elevated to Vice President of Pro Dealer sales on a national basis. Most recently Dan was promoted to Senior Vice President of the Pro Dealer Business unit for Empire North America. He graduated in 1990 from Northern Illinois University with a degree in Finance and received his MBA from Richard Devos School of Management in May of 1998.

Mark Taylor – General Manager New Zealand Operations *(reporting to Tony Johnston)*

Mark Taylor joined Tenon in 2004 (having previously worked for Tenon's predecessor, Fletcher Forests, for 18 years). He has held several management roles at Tenon's Taupo operations, including Sawmill Manager and Solid Lineal Mouldings Plant Manager. He was appointed General Manager of the Taupo operation in May 2006, and since then has been responsible for leading the growth of Tenon's clearwood production and sales into the US and Europe. Mark is responsible for all operational matters on the Taupo site, including for the completion and commissioning of two large (\$7 million) capital upgrades currently underway, which are designed to increase the site's output of its high value clearwood products. Mark was also instrumental in establishing Tenon's Australian business.

Adam White – Chief Financial Officer *(reporting to Luke Moriarty)*

Adam White was appointed Chief Financial Officer of Tenon Limited in 2006. Adam joined Tenon in 1999 as Commercial Manager responsible for financial leadership and performance review of Tenon's North America manufacturing and distribution business units in New Zealand and the United States, with experience in capital investment appraisals, new system implementations, restructuring activities and supply chain planning. In 2004, Adam was appointed Chief Financial Officer of Tenon's leading US-based subsidiary, The Empire Company, during a period of accelerated growth and strategic expansion involving the completing of key acquisitions and implementing new US bank facilities. Following his appointment as CFO to Tenon Limited in 2006, Adam has led the functional responsibilities for audit and tax reporting, and treasury management, including the negotiating of bank-syndicated facilities. Prior to joining Tenon, Adam held corporate accounting roles in the UK and as project leader of a major European finance systems implementation. Adam previously worked for PricewaterhouseCoopers in New Zealand and the UK for seven years within business advisory and audit disciplines. Adam holds a Bachelor of Science degree from the University of Aston in Birmingham, UK, and qualified as a UK chartered accountant in 1985.

www.tenonglobal.com