



2010 Annual Report

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Forward-Looking Statements

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

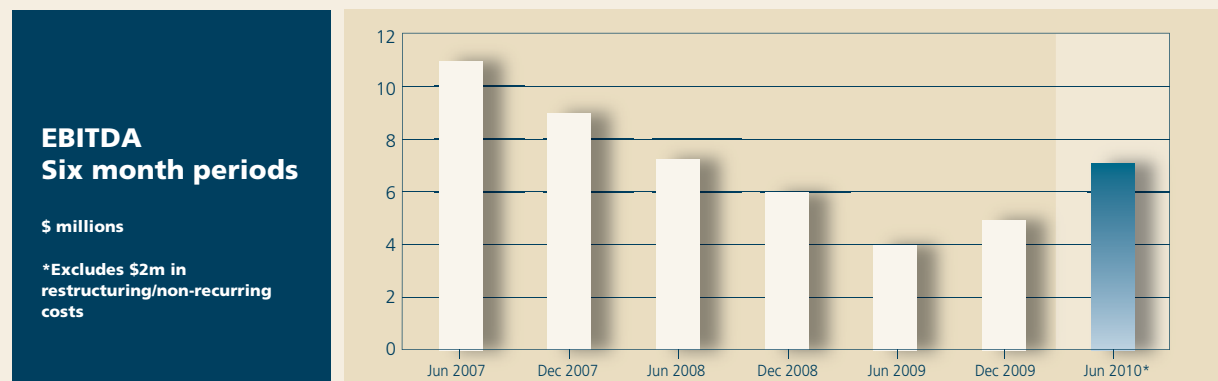
All references in this document to \$ or "dollars" are references to United States dollars unless otherwise stated.

Review of the 2010 Fiscal Year

Overview

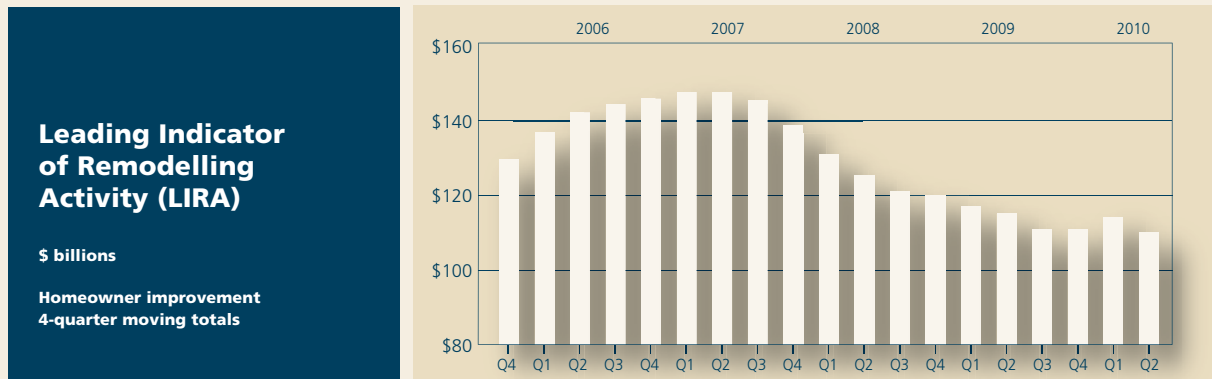
Tenon performed strongly relative to its peers in fiscal 2010, and our results for the year reflected our decision to focus on our core operating disciplines over the past 12 months, in order to maximise our cash generation and earnings potential in a continuing tough market environment.

In financial summary, our operating earnings before interest, tax, and depreciation (i.e. EBITDA) for the 2010 financial year were up 20% to \$12 million (pre restructuring costs) on those recorded in fiscal 2009. Noticeably, the second half of fiscal 2010 (i.e. the six months to 30 June 2010) was more favourable than the first half and than the corresponding prior period, primarily due to an increase in short-term sales activity resulting from the uncertainty introduced into the supply chain caused by an earthquake in Chile (refer **Performance and Results** section below). This was reflected in EBITDA (pre restructuring costs) for the six months to 30 June 2010, which was up 75% on the comparative six months to 30 June 2009. Although volatility will continue to plague the macro operating environment for some time yet, this hopefully indicates a bottoming of the market (refer **The Macro-Environment** and **Opportunity and Outlook** sections below). In this regard, the next chart shows a summary of our recent six-months EBITDA results.



The Macro-Environment

At a macro level, it was a mix of “head” and “tail” winds that influenced US industry conditions throughout the year. Greatly improved home affordability (a result of lower home prices and record low mortgage interest rates), and a continuation of the US Federal Government’s stimulus programmes (e.g. the homebuyer tax credit scheme), were notable positives; however these were more than offset by the negative impact of rising unemployment levels, high home foreclosures, and limited consumer access to home mortgages. The net result was a continuation of a low level of consumer confidence, which in turn moderated Tenon’s fundamental earnings driver – real dollar spending on home improvements. This is shown graphically in the chart below, which reports total dollar spending on residential remodelling activity in the US housing sector. As you can see, the current spending level is more than \$30 billion below the peak levels of only three years ago – a dramatic reduction in activity.



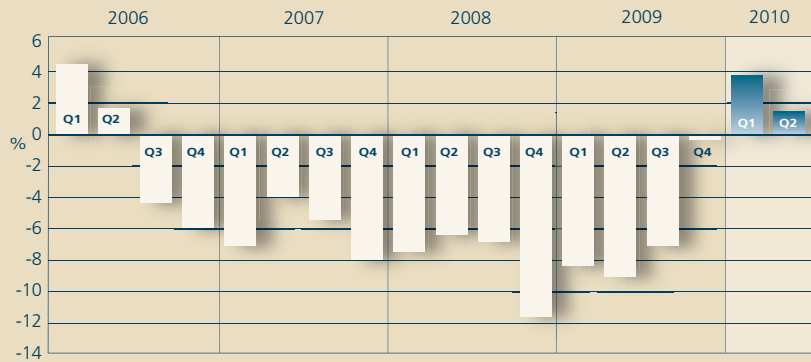
The charts on the facing page show that this “mixed” macro-market condition story also applied to the more micro-specific drivers of Tenon’s performance.

For example, the positive earnings uplift from a higher average M&B lumber price that prevailed in 2010 was more than offset by a much stronger NZD:USD exchange rate which reduced earnings by some \$3 million on a year-on-year comparative basis, and although the performance of the “Big Box” retail home centre stores showed clear improvement in the period this was mostly driven by necessary repair and maintenance activity and small “ticket” discretionary spending rather than the mid to large discretionary remodelling spending which is important to Tenon (and which fell well below the overall per-store sales improvement recorded).

So, in summary, the volatility in market conditions that defined 2009 continued through into our fiscal 2010 year. That Tenon was able to record an increase in earnings in this environment is a direct reflection of the continued success we have had in the introduction of new products, in the acquisition of new customers, and in driving operating efficiencies through the business restructuring initiatives we have put in place.

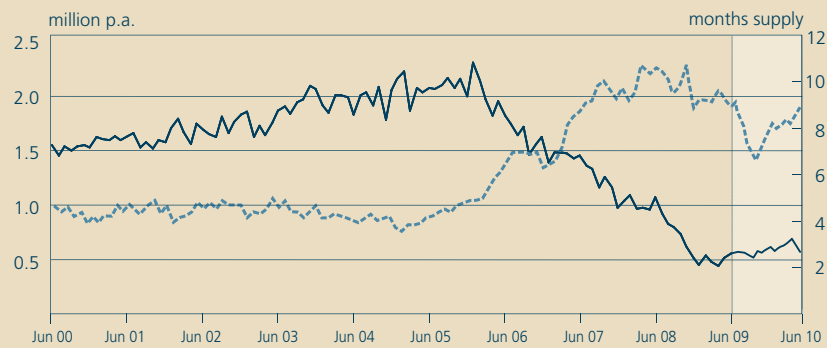
“Big Box” Building Retailers Average Same Store Sales

% change from previous comparable period



New and Existing Housing

— Housing starts
 - - - Existing home inventory



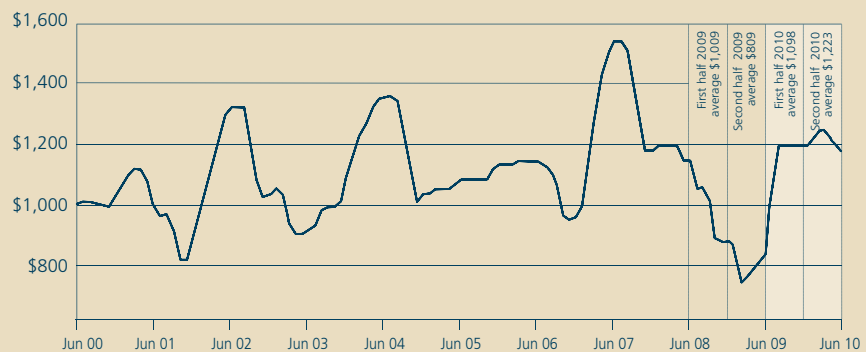
NZD/USD Exchange Rate

2009 and 2010 NZD/USD exchange rates shown are effective (i.e. hedged)



Moulding & Better Lumber Pricing

US\$ mbf



FY10 Performance and Managing What We Could Control

We shared in our Half Year Report the initiatives we were implementing to directly mitigate the tough macro-operating conditions facing our industry. Difficult times can create some of the greatest opportunities to better position a business, and we have been keen to take advantage of this market opportunity to reposition ourselves as strongly as possible for the future. As William Arthur Ward famously penned, “The pessimist complains about the wind, the optimist expects it to change, the realist adjusts the sails.” While we clearly do expect the winds to change, we spent the better part of 2010 adjusting our sails to ensure we are in the best position to come off the bottom of the business cycle faster and stronger than any of our competitors.

Our goal is to continue to provide shareholders with top quartile industry earnings performance throughout the economic cycle. This will always involve a careful balancing of the tradeoffs between running the business efficiently for earnings today, while at the same time making those key strategic investments we believe will yield the greatest possible returns in the future. We believe we have managed this balancing act well through the down-cycle, having prioritised five main operating objectives in 2010:

- serving our existing customers better
- focusing on cash preservation and generation
- exiting non-strategic and non-core business activities
- eliminating redundant costs through the integration of logical functions, and
- taking advantage of the bottom of the market to drive strategic market share acquisition and growth.

We are pleased to report that we have made considerable progress on each one of these major objectives.

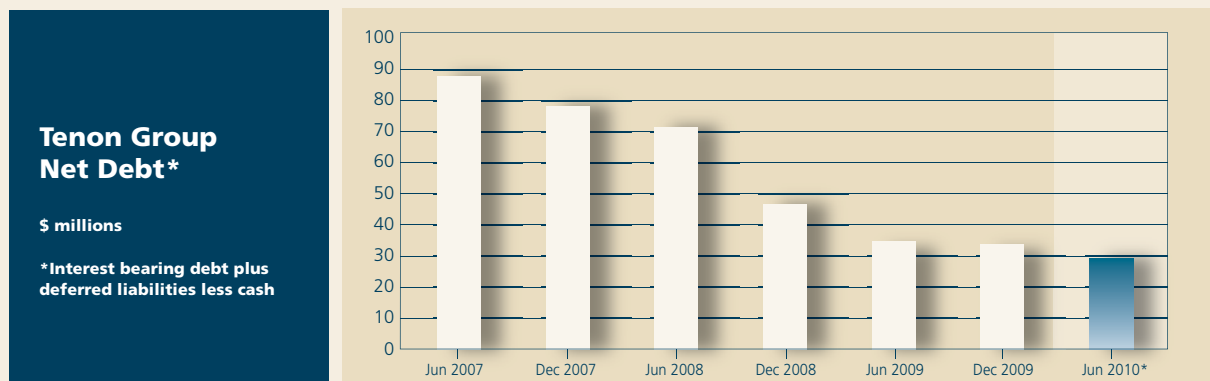
Performance and Results

Financial

As previously noted, Tenon outperformed its competitors in 2010, with the following financial highlights worthy of discussion:

- Revenue for the year was up 2% to \$329 million in a down-market environment.
- Gross margins were maintained, in a very challenging market.
- EBITDA pre-restructuring costs was (as previously noted) up 20% on the previous year, to \$12 million, on a revenue base largely unchanged.
- A noticeable increase in performance in the second half of the fiscal year (six months to 30 June 2010), with EBITDA pre-restructuring costs up 75% (i.e. from \$4 million to \$7 million) on the comparable period in the previous year. This is largely a reflection of the “one-time” benefit of heightened sales activity for Tenon as a result of an earthquake in Chile. Chile is the largest supplier of finger-joint pine and MDF moulding production in the world and the earthquake closed some of the manufacturing supply base available to the market, resulting in a short-term excess of demand over supply, with consequent increases in the volume of pre-orders by our customers to ensure their security of supply.

- \$12 million of net cash from Continuing Operating Activities was generated in the period.
- Working capital levels were maintained at around \$50 million – a level we believe is sustainable (as a percentage of revenue) through this part of the operating cycle.
- Interest bearing debt net of cash balances (“net debt”) declined to \$29 million, slightly better than our financial year end stretch target of \$30 million that we had previously publicly stated. Tenon has exhibited a consistent ability to reduce debt in extremely difficult operating conditions. This is shown clearly in the chart below, where net debt including deferred liabilities has fallen from a peak of almost \$90 million to under \$30 million at balance date – a significant achievement.



Strategic Operating Objectives

In 2010, we:

- Continued to expand and develop our product and service offerings to our existing customers, thereby increasing our total existing customer share position at the bottom of the market (refer discussion in the **Profitable Growth** section below).
- Continued to leverage the economies achievable from a more integrated approach in areas such as information technology, accounting and finance, human resources, and common customer service and support teams. We also leveraged our industry leading competencies in product development, global sourcing, retail marketing and retail operations excellence (see the discussion in **An Evolving Structure** below).
- Made the decision to exit unprofitable, non-strategic, and redundant business activities that have historically been a drag on earnings performance. This restructuring will result in the consolidation of our US manufacturing and distribution activities, with the closures of one of two Empire distribution facilities in the state of Florida and of our Kok's Woodgoods (Koks) operating facility in Michigan. These moves are consistent with our desire to match Tenon's productive and logistics capacity to market conditions, and they are also consistent with our wider global sourcing strategy, under which we deliver a high-value product and service to our customers at a market-competitive price. While we were required to incur \$2 million in non-recurring restructuring costs in the period in order to effect these changes, we believe the net gains achieved will quickly recoup the restructuring costs recorded.

- Effected a reorganisation of our senior management team, and also integrated our sales and operations teams around our major customers (refer **An Evolving Structure** section below).
- Made strategic resourcing investments in our Asian sourcing capabilities, with the aim of evolving them to a “world class” standard.

An Evolving Structure – One Company Efficiency, Many Companies Effectiveness

One of our key strategic goals is to complete Tenon’s transformation from a “portfolio of like-industry companies” (i.e. a collection of semi-autonomous, independent business units) into a single, integrated entity with dedicated customer-focused operating teams. Progress has been good. For example, we have now fully implemented a unified shared-services support platform, which includes the finance and accounting, human resources and information technology functions. We are also well down the path of integrating and aligning those functions that directly “touch” our key customers – i.e. sales, marketing, store service, and operational support. This new customer-facing structure will allow us to further improve our performance by allowing us to provide even better coordinated, highly-customised solutions for our strategic customers. At the same time, walls of clear separation have been reinforced to ensure that our various customer support teams protect any unique, proprietary and confidential individual customer programme information. This new shared-services approach will also allow us to employ a lower cost operating model as compared with our smaller, stand-alone competitors, while still affording us the flexibility of a highly customer-focused, entrepreneurial company.

The importance of having a common culture and understanding in place across the entire Tenon Group as a pre-requisite to effective business transformation cannot be underestimated. With this in mind, we have formalised and communicated the following “Tenon Principles” to our employees:

1. Serving the customer and beating the competition drives all we do.
2. We know that profitable growth comes from being better than, and different from, our competition.
3. We are primarily a service company, with an overriding commitment to discipline and execution, striving to serve our customers better than anyone else.
4. Our two primary competitive measures of success are customer satisfaction and earnings performance.
5. We are an entrepreneurial organisation with a minimum of bureaucracy, and a never-ending focus on continuous improvement and efficiency.

We believe corporate principles not only state desired beliefs and guide behaviours for those living inside the organisation, but they also help those on the outside of the organisation – customers, suppliers, and potential new employees – understand the kind of culture they are engaging with.

Profitable Growth

In last year's Annual Report we outlined the growth model we were adopting to ensure the Company was best-positioned for growth, both during the down-cycle and as we enter the business up-cycle. This growth model, in schematic form, is shown below.



The next sections of this report expand on this model, by way of discussion of specific examples of just some of the growth initiatives we have actively underway.

Driving Value and Growth through Customer Performance Management (CPM)

One way of countering a shrinking or static market "pie" is the acquisition of a greater share of the pie through new product and service offerings, or through new customer conversions. Tenon executed on all three approaches this past fiscal year. In fact, we benefited from the highest level of company-wide new product dollar growth in the past five years. The following are noteworthy examples of this success.

Exterior Trim Boards – The Efficient Delivery of a Complete Programme

Over the past three years, our Fletcher Wood Solutions (FWS) service platform has quickly grown into a North American market force in the supply of exterior trim board (Outdoor) products to both the retail home centres and professional contractor yards. The success of the outdoor programme has confirmed that the proprietary Customer Performance Management (CPM) system we have developed and used for many years in our full-line interior millwork offering (i.e. interior wood mouldings and stair parts) is very transferable to other product categories in both our retail and wholesale market channels. It is now quite clear that our CPM service model is a key driver of our competitive advantage, in that it allows Tenon to deliver a fully technologically-integrated vendor-managed in-store service, and a formal and disciplined approach to customer-led market research. We see our proprietary CPM system as a key platform for our future growth. It allows us to clearly differentiate our service offering from our competition and allows us to expand our product and service offerings in our current retail channels, while at the same time offering us similar growth opportunities in our wholesale business (refer **Pro-Dealer** discussion below).

Our CPM business model is focused on ensuring we have the right product, in the right place, at the right time, at the right retail cost and price, and with the right rate of inventory turns. To drive optimal programme productivity we have employed a “good-better-best” complete product offering in our outdoor boards programme, based on a well-researched selection of product types and price points. This means that we have a complete range of product offering within the outdoor category, comprising a selection of untreated primed finger-jointed boards, primed and treated ArmourWood™ boards, and Royal PVC (synthetic) boards. In this way, our outdoor product offering provides virtually every consumer with a price point and product type that will meet their needs. All three product categories have benefited from greater than 100% revenue growth over the past 24 months, with nearly half of that growth occurring in FY2010.

National Trust Mouldings

As with our outdoor boards offering, we continue to focus on those programmes and products that offer the opportunity to move the consumer up the continuum to premium product offerings. By offering improved design, functionality, and brand association, we are providing options that bring greater customer satisfaction while also positively impacting our retail customers’ (and Tenon’s) profitability. We are moving the consumer out of low-level entry products to higher ground. A recent example of our branded programme successes is our National Trust Mouldings offering.



Two years ago, we partnered with Lowe’s and the National Historic Trust for Historic Preservation to introduce an authentic moulding collection, inspired by the landmark homes recognised by the Trust. The goal was to celebrate America’s rich heritage by documenting historic moulding styles and adapting them for today’s homes. A portion of every sale has been donated to the National Trust for Historic Preservation, to enable the Trust to further its objectives. We currently have eight unique families of mouldings, each associated with an historic property, and there are further opportunities to increase our involvement in this important initiative.

This innovative concept allows our customers to make an emotional connection with history and at the same time enjoy a premium product purchase. The success of the National Historic Trust programme has been immediate, with the product already being present in 400 retail stores. The latest two families, Lincoln Cottage and Grand Hotel, will become part of our extended offering for FY2011.

Pro-Dealer: Growth in a Wholesale Channel

We made considerable progress in the period in pursuit of our goal of complementing and balancing our retail home centre market leadership position by becoming the North American market leader in the supply of interior and exterior millwork products to the professional trade. As discussed above, we took advantage of the slow housing market to enhance the way we add value to these important customers, and, in the process, generated increased visibility in the professional (Pro-Dealer) channel.

Our Southwest Mouldings team maintained their market leadership position in the important and large Texas market, and we experienced material market share growth and improved operational efficiencies in the sum of the other regional markets we serve. We increased revenues by 5% year-over-year with Pro-Dealer customers in an overall market that witnessed year-over-year new home sales decline of 17% in the period. From an efficiency perspective, we improved both gross margin dollar per-head and gross margin dollar per-delivery metrics by more than 30%, through increased market penetration and efficiencies. We put a major focus on improving our customers' experience, while simultaneously increasing the competitiveness of our cost position and executing on our cash generation goals. We rationalised underperforming SKUs, consolidated trucking (without adversely impacting customer service), and invested in new programmes that would drive the profitable growth for our customers. We are very pleased with the progress we have made in the Pro-Dealer channel, at the bottom of the cycle, and we believe FY2011 will be a year of continued growth and expansion in this business.

Geographic Expansion – Logical “Step-Outs”

United States

Our full service marketing and distribution operations are well positioned in core markets throughout the Eastern half of the United States. As we continue to gain market share in the professional channel and as the residential home construction market recovers, we will have additional opportunities for distribution operation expansion in Eastern US markets.

Also, at present, we do not provide full service marketing and distribution to the Western half of the United States. At the right point in time, and at the right entry point, a combination of acquisition and green field activity will naturally fill this void.

Canada

The housing recession in Canada was later, milder and shorter than the US housing recession. In contrast to the US, Canada does not have a serious problem with underwater mortgages, high and rising foreclosures, or with consumer access to mortgage financing. Tenon experienced noteworthy successes in Canada in fiscal 2010, including with the introduction of an expanded high value decorative mouldings programme. We believe we will continue to see new store openings and new product opportunities in this growing and very important market over the next several years.

Australia

With major US based retail home centres exploring the market potential of Australia and given the country's close proximity to our Taupo production operation, it is natural for us to be interested in this geographic expansion opportunity. We have initiated and completed extensive market research in Australia in the past 12 months, and we do see opportunity to develop the market and to support retail customers there. We will, in future periods, consider strategic opportunities to enter this market, and we believe our first phase opportunities will involve Radiata pine clear-product offerings from our Taupo, New Zealand operation.

Asia

Emerging markets are increasingly becoming not only a source of production activity, but also a potential outlet for our own productive output. In this regard, in 2010 we made positive progress in investigating the size of the opportunity for our clear radiata products in the Asian markets. We also made the decision to increase our focus on "low-cost country" sourcing activity, and we are now actively building the competency and reach of our team – the end objective being a much more efficient and cost-effective total programme solution for our customers.

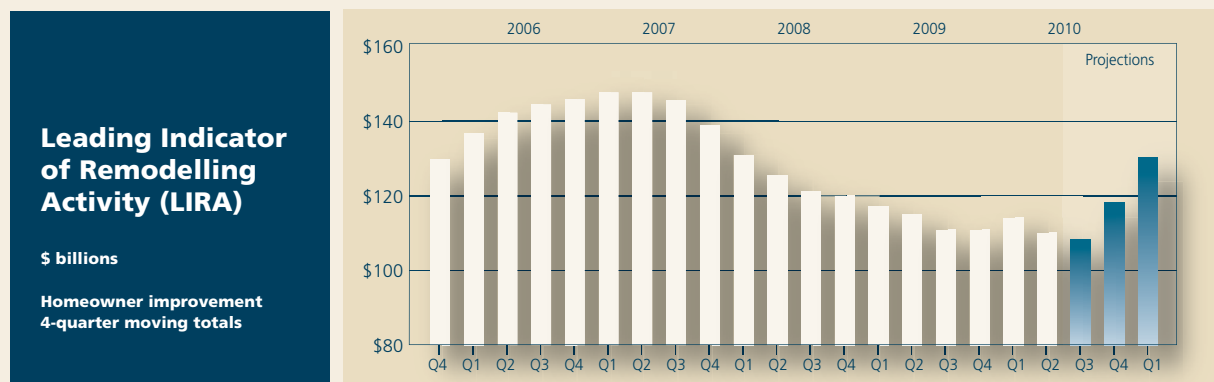
FY2011 Opportunity and Outlook

We made significant and very pleasing progress growing both market share and profitability in fiscal year 2010.

In the very immediate term it is likely that we will continue to face challenging macro-economic headwinds – particularly from high US unemployment, the effect of the removal of the US Federal Government's homebuyer tax credit scheme, and the "shadow" housing inventory that exists from the potential for further bank-enforced home mortgage foreclosures. However, it is positive that even in this environment the large US home centre retailers – Lowe's and The Home Depot – are predicting comparable store sales to improve by approximately 2% year-over-year for the current year (after three years of negative store performance), and most forecasters concur with an estimated range of 2%-3% in projected store sales improvement. Much of the improved purchasing activity is likely to be associated with home maintenance and repair expenditure, rather than with expenditure in Tenon's "sweet spot" – i.e. the larger discretionary remodelling activity – which is likely to lag overall total store performance in the short term. So, in summary, the immediate period (i.e. the next six months) is likely to show ongoing market volatility and a continuation of the current difficult operating conditions, with industry earnings performance continuing to be dictated by the macro-economic fundamentals in the US. Given this environment, we will once again focus on what we can control. We will leverage our strengths and continue to drive out inefficiencies in our operating model, and we will continue to look for strategic growth through effective execution of product and service innovation. Our goal is not only to make Tenon easy to do business with, but to also make our customers' businesses better off for having done so. As we continue to execute on our core strategic operating model we believe customer and Tenon value will follow.

We remain positive about longer-term market recovery in the housing sector, and, most importantly, we are confident as to Tenon's market-leadership position and earnings performance in that recovery. While forecasting experts and industry participants each have different views as to the exact timing, they do all agree that as the US economy enters its recovery phase and the unemployment situation eases, then the home improvement markets will also begin to grow again – and this will positively impact Tenon's future earnings performance.

Data released by the Joint Center For Housing Studies at Harvard University in July this year projects a "bottoming" in remodelling spending this year and a clear upturn in calendar 2011 (see chart below), stating: "Absent a reversal of recent economic progress, there should be a healthy upturn in home improvement activity by [this] year-end and into next year ... The recovery in home improvement activity appears to be moving beyond simple replacement projects ... to broader remodels and upgrades ... A wider activity base would help generate the expected growth in the quarters ahead." If the JCHS outlook proves to be true, then the second half of fiscal 2011 should provide a stronger earnings platform for Tenon going forward.



As a final and very important note, we would like to thank all of our shareholders, employees and customers for their continued support throughout this past fiscal year. It is very much appreciated.

Sincerely,

Luke Moriarty (Chairman)
25 August 2010

Tom Highley (CEO)

Financial Statements and Corporate Governance

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Consolidated Income Statement for year ended 30 June

Tenon Limited		Note	Tenon Group	
2009 US\$m	2010 US\$m		2010 US\$m	2009 US\$m
–	–		329	322
–	–	5	-236	-233
–	–		93	89
–	–	5	-72	-72
–	–	5	-15	-14
–	–	5	-2	–
–	–		4	3
-13	-16	18	-3	-4
-13	-16		1	-1
–	–	6	1	1
-13	-16		2	–
			10	10
		5	-6	-7
			4	3
			2.9	0.5

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

Consolidated Statement of Comprehensive Income for year ended 30 June

Tenon Limited			Note	Tenon Group	
2009 US\$m	2010 US\$m			2010 US\$m	2009 US\$m
-13	-16	Net Profit/(Loss) after Taxation for the year		2	-
-	-	Gains/(Losses) on Cash Flow Hedges net of Tax	9	1	-2
31	-13	Movement in Currency Translation Reserve	9	-	-2
31	-13	Other Comprehensive Income for the year, net of Tax		1	-4
18	-29	Total Comprehensive Income for the year		3	-4

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

Consolidated Statement of Changes in Equity for year ended 30 June

Tenon Limited		Note	Tenon Group	
2009 US\$m	2010 US\$m		2010 US\$m	2009 US\$m
-13	-16		2	-
-13	-16		2	-
-	-	9	1	-2
31	-13	9	-	-2
18	-29		3	-4
18	-29		3	-4
47	65		129	133
65	36		132	129

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 Limited		Note	Tenon Group		
2009 US\$m	2010 US\$m		2010 US\$m	2009 US\$m	
ASSETS					
Current Assets:					
–	–		1	6	
–	–	10	57	49	
–	–	11	25	27	
–	–	14	1	–	
–	–		84	82	
Non Current Assets:					
–	–	12	33	37	
262	262	13	–	–	
1	1		–	–	
–	–	14	–	1	
–	–	15	67	67	
–	–	17	8	9	
263	263		108	114	
263	263		192	196	
LIABILITIES AND GROUP EQUITY					
Liabilities					
Current Liabilities:					
–	–		1	–	
1	1	16	30	25	
–	–	17	–	1	
–	–	18	6	6	
1	1		37	32	
Non Current Liabilities:					
–	–	18	23	35	
197	226		–	–	
197	226		23	35	
198	227		60	67	
Group Equity					
533	533	8	533	533	
-468	-497	9	-401	-404	
65	36		132	129	
263	263		192	196	
Net Assets per Share (US\$)			1.97	1.93	
Net Tangible Assets per Share (US\$)			0.85	0.79	
Shares used for Net Assets per Share (millions)			8	66.9	66.9

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

For and on behalf of the Board
25 August 2010



Chairman of Directors
Luke Moriarty



Chief Executive Officer
Tom Highley



Director (Chairman of Audit Committee)
Michael Walls



Chief Financial Officer
Adam White

Reconciliation of Consolidated Net Earnings to Consolidated Net Cash from Continuing Operating Activities

for year ended 30 June

Tenon Limited			Tenon Group	
2009 US\$m	2010 US\$m		2010 US\$m	2009 US\$m
		Cash was Provided from:		
-13	-16	Net Profit after Taxation	2	-
13	16	Add Net Financing Expense	3	4
		Adjustments for Items not involving Cash:		
-	-	Depreciation	6	7
-	-	Taxation	1	-1
-	-	Impairment of Fixed Assets	1	-
-	-	Cash Flow from Operations before Net Working Capital Movements	13	10
-	-	Net Working Capital Movements ⁽²⁾	-1	32
-	-	Net Cash from Continuing Operating Activities ^{(1) (2)}	12	42
		Net Working Capital Movements:		
-	-	Trade and Other Receivables ⁽²⁾	2	21
-	-	Inventory	-7	12
-	-	Trade and Other Payables	4	-1
-	-		-1	32

(1) As per Statement of Cash Flows.

(2) Includes \$6 million (June 2009: \$16 million) of net cash from the supply chain financing programme (refer to notes 4.2(c) and 11).

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

Notes to the Financial Statements

1 GENERAL INFORMATION

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

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

The Company is listed on the New Zealand stock exchange. As at 30 June 2010 the Group was 57.96% owned by Rubicon Limited and its subsidiaries (June 2009: 57.96%).

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 25 August 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Presentation

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

2.2 Statement of Compliance

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

2.3 Basis of Preparation

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

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

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

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

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

2.4 Changes in accounting policy and disclosures

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

The following new standards and amendments to standards are mandatory for the first time for the financial year and the Group has adopted them as of 1 July 2009:

- NZ IAS 1 (revised) "Presentation of Financial Statements". The revised standard requires the presentation of items of income and expenses that are "non-owner changes in equity" to be presented separately from "owner changes in equity". All "non-owner changes in equity" are required to be shown in a performance statement. The "non-owner changes in equity" presented separately at June 2010 are gains on cash flow hedges net of taxation and movement in currency translation reserves.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Tenon has elected to present two statements: an income statement and a statement of comprehensive income.

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

- NZ IFRS 8 “Operating Segments”. NZ IFRS 8 replaces NZ IAS 14 “Segment Reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the Tenon Group Board and the Chief Executive Officer, who jointly make strategic decisions. The adoption of NZ IFRS 8 has not made any change in reportable segments and has not resulted in any additional goodwill impairment. There has been no impact on the measurement of the Group’s assets and liabilities.
- NZ IFRS 7 “Financial Instruments – Disclosures (Amendment)”. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on reported earnings (refer to note 19(e)).

(b) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2009 but have had no impact on the consolidated financial statements:

- NZ IFRS 2 (Amendment) “Share-based Payment”. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty’s entitlement. The amended standard restricts the definition of vesting conditions to only include service and performance conditions and amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets. The amendment also specifies that all cancellations, whether by the entity or the other party, should receive the same accounting treatment. The Group has adopted NZ IFRS 2 (Amendment) from 1 July 2009 but it is currently not applicable to the Group as it has no share-based payment plans in operation.
- NZ IFRS 3 (Amendment) “Business Combinations”. The amendment includes a number of updates including the requirement that all costs relating to a business combination must be expensed and subsequent re-measurement of the business combination must be put through to the income statement. The Group has adopted NZ IFRS 3 (Amendment) prospectively for any new business combinations, however there have been no business combinations in the current period.
- NZ IFRS 5 (Amendment) “Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale”. The amendment is part of the “Improvements to NZ IFRS” project and was approved by the Accounting Standards Review Board (ASRB) in May 2009. The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The amendment had no impact on the Group’s financial statements as there have been no partial disposals of subsidiaries in the current period.
- NZ IAS 23 (Amendment) “Borrowing Costs”. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group has adopted NZ IAS 23 (Amendment) from 1 July 2009 but it is currently not applicable to the Group as there are no qualifying assets.
- NZ IAS 27 (Revised) “Consolidated and Separate Financial Statements”. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the income statement. The Group has adopted NZ IAS 27 (Revised) prospectively to transactions with non-controlling interests; however all entities within the Tenon Group are currently 100% owned.
- NZ IAS 38 (Amendment) “Intangible Assets”. The amendment is part of the “Improvements to NZ IFRS” project and was approved by the ASRB in May 2009. The Group has adopted NZ IAS 38 in conjunction with NZ IFRS 3 (Revised). The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment has no impact on the Group’s financial statements as there have been no business combinations in the current period.

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(c) *Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2010 or later periods. The Group has identified the following standards described below as relevant. The Group believes NZ IFRS 9 will not have a material effect on the Group's accounts but will require additional disclosure or format changes and amendments. The Group believes NZ IAS 24 will not have an impact on the consolidated financial statements. The Group has not early adopted the new or amended standards.

- NZ IFRS 9 "Financial Instruments: Classification and Measurement" (mandatory for annual reporting periods beginning on or after 1 January 2013) is based on IFRS 9. IFRS 9 is the first phase of the International Accounting Standards Board (IASB) project to replace IAS 39 "Financial Instruments". IFRS 9 and NZ IFRS 9 do not address financial liabilities, the IASB expects to issue final requirements for financial liabilities in 2010. The major changes under NZ IFRS 9 are:
 - (i) Replacement of the multiple classification and measurement models of NZ IAS 39 with a single model that has two classification categories: amortised cost and fair value. A financial asset is measured at amortised cost if two criteria are met. These criteria are (a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows and (b) the contractual cash flows under the instrument solely represent the payment of principal and interest. Where a financial asset meets the criteria and can be measured at amortised cost, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch. Where a financial asset does not meet the two criteria it will be measured at fair value plus transaction costs in the case of a financial asset not at fair value through the income statement.
 - (ii) Debt instruments. A debt instrument that meets the following business model test and the cash flow characteristic test can be measured at amortised cost (net of any writedown for impairment). To meet the business model test, the objective of the entity's business model must be to hold the financial asset to collect the contractual cash flows. Under the cash flow characteristics test, the contractual cash flows of the instrument must be solely payments of principal and interest. Where a debt instrument meets the amortised cost criteria, an entity can elect to hold a debt instrument at fair value if it eliminates or significantly reduces a measurement or recognition inconsistency.
 - (iii) Equity instruments. All equity instruments in the scope of NZ IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in the income statement, except for those equity instruments for which the entity has elected to report value changes in "other comprehensive income".
 - (iv) Embedded Derivatives. The embedded derivative concept of NZ IAS 39 is not included in NZ IFRS 9; consequently the contractual cash flows of a financial asset are assessed in their entirety and the asset as a whole is measured at fair value through the income statement if any of its cash flows do not represent payments of principal and interest.
- NZ IAS 24 "Related Parties". In November 2009, the Accounting Standards Review Board approved a revised version of NZ IAS 24 "Related Parties". The main changes are not applicable to the Group as they relate to governments or government-related entities, however the revision does include an amendment of the definition of a related party to clarify the intended meaning and remove some inconsistencies. The revised standard applies for annual periods commencing on or after 1 January 2011. The amendments will not impact the related party disclosures that the Group makes in its financial statements.

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

2.5 Basis of Consolidation

(a) *Subsidiaries*

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

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

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

(b) *Goodwill*

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 July 2004, goodwill represents the difference between the cost of the acquisition and the Group's share of the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill was calculated by comparing the fair values of assets and liabilities of subsidiaries acquired to the purchase price of those assets and liabilities. Goodwill arising upon acquisition was amortised to earnings on a systematic basis and the balance of the goodwill was included in the accounts at its net carrying value at the date of transition to NZ IFRS.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment at each reporting date.

2.6 Presentation and Functional Currencies

(a) *Presentation currency*

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

(b) *Functional currency*

(i) *Foreign operations*

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

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

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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 are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a currency other than the functional currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in a currency other than the functional currency are stated at fair value and are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

2.7 Valuation of Assets

(a) Land, buildings, plant and equipment

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

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

(b) Inventory

Trading inventory, raw materials and work in progress are valued at the lower of cost or net realisable value and are determined principally on the first-in-first-out basis. Cost includes direct manufacturing costs and manufacturing overheads at normal 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

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

(d) Cash

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

(e) Assets held for sale and discontinued operations

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

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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 allocated to cash-generating units and then to reduce the carrying amount of other assets in the cash-generating unit on a pro rata basis.

The recoverable amount of assets, other than receivables, is the greater of their fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the business. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

2.8 Valuation of Liabilities

(a) *Trade and other payables*

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

(b) *Provisions*

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

(c) *Interest-bearing borrowings*

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

(d) *Deferred income tax*

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

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(e) *Derivative financial instruments*

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

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

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

(f) *Cash flow hedges*

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

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

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

(g) *Fair value hedges*

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

2.9 Income Determination

(a) *Revenue recognition*

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

(b) *Goods sold*

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

(c) *Investment income*

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

Notes to the Financial Statements continued

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(d) *Financing costs*

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

(e) *Leases*

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

(f) *Employee benefits*

Other employee benefits

Long service leave vests to the employee after varying periods of service. The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised in the income statement.

2.10 Segmental Reporting

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

2.11 Goods and Services Tax (GST)

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

2.12 Research and Development Costs

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

2.13 Comparatives

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- (a) Note 15 – Goodwill
 - (b) Note 17 – Provision for Current Taxation and Deferred Taxation.
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Notes to the Financial Statements continued

4 RISK MANAGEMENT

This note presents information about the Group's potential exposure to financial, commercial and environmental risks that the Group has identified; the Group's objectives, policies and processes for managing those risks; the estimation of fair values of financial instruments; and the Group's management of capital. Quantitative disclosures of some of the key financial risks are made in note 19 of the consolidated financial statements.

4.1 Approach to Risk Management

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

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

4.2 Key Financial Risks

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

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

(a) Market risk

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

(i) Price risk (input and output)

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

Product prices, particularly in the US market, can be cyclical and volatile. Prices for the Group's products are influenced by North American housing inventory levels (new and existing), house price movement, housing construction levels, remodelling and renovation expenditure levels and other factors that affect consumer demand, such as employment levels and interest rates. Prices are also influenced by product availability, which can be a function of interest and foreign exchange variation, seasonal factors or supply availability and competition from a number of countries that supply products into the North American market, particularly New Zealand, North and South America and China. US lumber prices are particularly volatile, while US prices for finished products (such as mouldings) tend to be less volatile and on longer-term supplier programmes. Movements in the above factors materially affect the Group's financial performance. A movement of \$50 per thousand board feet in the sales price for Moulding & Better lumber is estimated to affect EBITDA by approximately \$0.75 million per annum assuming the Taupo sawmill is operating at full capacity. The average Moulding & Better 5/4 lumber price, per Crow's, in the 2010 fiscal year was approximately \$1,160 per thousand board feet (2009: \$909 per thousand board feet). Tenon can manage some of this pricing volatility by increasing or decreasing total production and/or internal consumption of the Moulding & Better lumber in the Taupo remanufacturing plant. Actual monthly sales volumes will vary depending on market and operating circumstances.

Notes to the Financial Statements continued

4 RISK MANAGEMENT continued

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

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

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

During the year, the Group was a party to a 3-year electricity commodity contract which provides an economic hedge against approximately 75% of electricity costs incurred at the Taupo site when the site is operating at full capacity. The contract was determined as an effective hedge under NZ IAS 39 (Financial Instruments: Recognition and Measurement), with the 30 June 2010 and 30 June 2009 mark-to-market valuation adjustments being required to be taken to the hedging reserve in Group Equity. In the 2010 and 2009 years, earnings recorded a negative contribution from the contract due to the lower average spot electricity prices that prevailed across the years.

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

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the NZ dollar. Foreign exchange risk arises from future recognised assets and liabilities and net investments in foreign operations. The Group's functional currency is the US dollar. Accordingly, strengthening or weakening in the NZ dollar against the US dollar has had, and could have in the future, a material impact on the Group's financial condition or results of operations. Approximately 19% of the Group's 2010 costs and approximately 6% of the Group's 2010 revenues are incurred in New Zealand dollars, and approximately 3% of the Group's 2010 costs and 3% of the Group's 2010 revenues are incurred in Canadian dollars. In addition, log costs in New Zealand are linked to the US/NZ exchange rate, moving, after some delay, partially in correlation with New Zealand dollar export returns from logs or procured wood products. Movements in the US dollar exchange rate against the currencies of the Group's key non-New Zealand manufacturer competitors could also have a material impact on the Group's financial condition or results of operations. Such movements would be partially offset to the extent the Group's North American operations can leverage lower purchase prices from lower (in US dollars) cost countries. A 1 cent change in the value of the NZ dollar against the US dollar is estimated to have an impact on EBITDA of approximately US\$0.65 million at full operating capacity, assuming key pricing variables remain constant.

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

The Group's policy is to manage currency exchange rate exposure to ensure that changes in foreign exchange rates do not materially impair 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.

Notes to the Financial Statements continued

4 RISK MANAGEMENT continued

(iii) Interest rate risk

The Group's debt facility comprises a mixture of long-term debt and short-term LIBOR loans. Interest on both types of debt is based on LIBOR rates and can be for a term of one, two, three or six months, and borrowings issued at these short term variable rates expose the Group to market interest rate risk. Interest is also paid on a supply chain financing programme sponsored by the Bank of America based on LIBOR rates. The Group's policy is to manage its interest position depending upon underlying interest rate exposures and economic conditions. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts (refer to note 19(a) – exposure to interest rate risk).

(b) Credit risk

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

(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 46% of trade receivables (excluding national retail accounts), thereby reducing the Group's credit risk exposure. The total amount of policy cover is approximately \$5.6 million and is subject to certain blanket deductibles per Group entity and specific cover limits and deductibles for individual customers. The Group establishes a provision for doubtful debts based upon an estimate of losses expected in respect of trade and other receivables (refer to note 19(b), credit risk, exposure to credit risk, for analysis of accounts receivable and note 4.3 commercial risk (a) market demand risk, for customer concentration risk). Tenon's largest customer is Lowe's, the second largest retail home store operator in the US. Whilst there is a degree of customer concentration with Lowe's, its credit rating has remained strong throughout the current US housing down-cycle and global credit crisis. Tenon has minimised the commercial credit risk with this customer by entering into the supply chain financing programme (refer to note 4.2(c), liquidity risk) in respect of most of its receivables exposure with it. In addition, Tenon's strategy is to actively grow pro-dealer business to provide greater diversity of revenue and earnings streams.

(ii) Financial derivatives

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

(c) Liquidity risk

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

The Group's banking facility initially comprised a \$100 million five year facility expiring June 2012, consisting of a term facility of \$25 million amortised over the life of the facility and a revolver facility of \$75 million. Tenon subsequently reduced the size of the revolver facility as described below. The facility is a syndicated facility structured on a group basis with JP Morgan Chase Bank, N.A. ("JP Morgan Chase") as Agent.

On 16 June 2008 Tenon announced the Group's debt levels were to be reduced by the inclusion of some of Tenon's operations within a supply chain financing programme sponsored by the Bank of America. The programme allows Tenon the opportunity to receive payment from the Bank of America for a large portion of its receivables in advance of normal customer credit-payment terms. Tenon's banking syndicate approved Tenon's entry into the programme on the condition that the revolver facility was reduced by \$20 million from the date the programme commenced, reflecting the expected reduction in debt that Tenon would achieve from its inclusion in the programme. The programme commenced on 25 July 2008, at which time the revolver facility size was accordingly reduced by \$20 million to \$55 million.

Notes to the Financial Statements continued

4 RISK MANAGEMENT continued

On 29 May 2009, Tenon announced certain amendments to the Group's banking facility. Under the amendment the funding covenants were revised (see chart below), the size of the revolver facility was reduced to \$35 million (in line with the Group's current needs), and an additional Borrowing Base covenant was added which requires the Group to maintain minimum levels of assets as security for loans under the banking facility. The value of the assets under the Borrowing Base covenant is calculated based on the current value of the Group's inventory and receivables, reported to the Agent on a monthly basis, subject to certain exclusions, reserves and deductions as prescribed in the amendment. The Borrowing Base calculations are subject to periodic examination by the Agent during the remaining life of the credit facility (refer to note 18(1)).

The Group's banking facility is supported by certain financial covenants calculated each calendar quarter. Failure to comply with these covenants would result in a default under the terms of the banking facility giving the banks the right to cancel the commitments under the bank facility and/or demand repayment of the amount borrowed, requiring the Group to source alternative funding. The key financial covenants under the banking facility are the Leverage Ratio and the Interest Cover Ratio (terms as defined in the credit agreement). The Leverage Ratio covenant is calculated based on the net debt at the end of each quarter in proportion to the rolling historic four quarters' earnings before interest, tax, depreciation and amortisation (EBITDA). For this ratio, net debt includes the amount advanced under LIBOR contracts, bank overdrafts and net of cash in hand over \$1 million, but excludes the amount of mortgage debt outstanding on the Ornamental properties (\$3.2 million at June 2010, \$3.9 million at June 2009). The Group was in compliance with the financial covenants throughout the 2010 year. The Interest Cover Ratio covenant is calculated based on the rolling historic four quarters' interest, excluding Deferred Liability amortisation and refinancing costs, in proportion to the rolling four quarters' historic EBITDA.

The chart below shows the financial covenants to be calculated each calendar quarter.

		Current Covenants	
		Leverage	Interest Cover (times x)
2010	June	3.75	3.00
	September	3.75	3.00
	December	3.50	3.50
2011	March	3.50	3.50
	June	3.25	3.50
	September	3.25	3.50
	December	3.00	3.50
2012	March	3.00	3.50
	June	3.00	3.50

The Group also operates to certain negative covenants including a restriction on capital expenditure of \$10 million in any one year with 50% of the unused amount of the limit of \$10 million available to be carried over for one year. The Group is also limited as to the amount of third party borrowing, which cannot exceed \$5 million.

4.3 Commercial Risk

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

- Market demand risk
- Fletcher Challenge separation risk

(a) Market demand risk

Over 90% of the Group's earnings are sourced from the North American market. Material changes in market conditions have had, and will have, a material consequential effect on the Group's business. There is a risk of an adverse impact on the Group's business during periods of prolonged economic downturn in this key market.

Negative factors affecting the housing sector in North America, including credit market conditions, falling house prices, higher levels of housing inventory and reduced mortgage availability, have had and are having a material negative effect on the total consumption of building products and therefore the Group's level of revenue, earnings and cash flow. As at 30 June 2010, it remains uncertain as to how long the current negative market conditions may continue.

Notes to the Financial Statements continued

4 RISK MANAGEMENT continued

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

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

(b) Fletcher Challenge separation risk

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

4.4 Environmental Risk

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

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

The Group has no reason to believe that these costs vary significantly from similar costs incurred by other companies engaged in similar businesses. Assuming that the environmental laws and regulations are applied uniformly, the Group considers that its environmental compliance and remedial costs are not likely to have a material adverse effect on its relative competitive position or its financial position or results of operations.

The precise cost of any future compliance and remedial work will depend on, among other things, the nature and extent of the current and future environmental laws and regulations, the timing and nature of any required remedial work, the extent of any contamination, the technology available to meet the required standards, the determination of any liability in proportion to that of other parties and the extent to which any costs are recoverable from third parties.

Notes to the Financial Statements continued

4 RISK MANAGEMENT continued

4.5 Capital Management

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

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

4.6 Fair Value Estimation

Financial instruments are recorded in the balance sheet at an estimated fair value. In the June 2010 year, foreign exchange contracts, the electricity commodity contract for difference and interest rate swaps are treated as effective hedges under NZ IAS 39 (refer to note 2.8 Valuation of Liabilities, Significant Accounting Policies). The fair value of financial instruments traded in active markets is based on quoted market prices at balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Externally sourced valuations are used to value interest rate swaps and foreign exchange contracts held at balance date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The carrying amount of cash and liquid deposits and bank overdrafts is equivalent to the fair value. Long-term financial liabilities and other receivables are held at amortised cost determined by discounting future cash flows at current market interest rates. It is not practicable to estimate fair values of unlisted investments in Subsidiaries as there are no quoted market prices for those or similar investments. The Group has no unlisted investments in other companies.

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
5 OPERATING EARNINGS				
Operating Earnings from Continuing Operations includes:				
		Depreciation – Plant, Equipment and Buildings		
–	–	Cost of Sales Expense	5	5
–	–	Selling and Distribution Expense	1	2
–	–		6	7
–	–	Net Foreign Exchange (Gain)/Loss	-1	2
–	–	Employee Benefit Costs	59	56
Restructuring Costs ⁽³⁾				
–	–	Asset Impairment	1	–
–	–	Employee Costs	1	–

Other items in Operating Earnings from Continuing Operations were:

- (1) Directors' fees payable were \$0.3 million for the current year (June 2009: \$0.2 million) (refer Key Management Compensation note 24(b)).
- (2) Payments made and accrued to PricewaterhouseCoopers were: Statutory Audit \$0.5 million for the current year (June 2009: \$0.5 million) Additional audit related work was \$0.1 million for the current year (June 2009: less than \$0.1 million).
- (3) Restructuring costs related to the Company's manufacturing activities in North America, including the costs of closing one of five manufacturing facilities and the severance costs incurred related to the reorganisation of senior management within North America manufacturing. The carrying value of the impaired plant has been written down to fair value less estimated costs to sell.

Notes to the Financial Statements continued

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
6 INCOME TAX BENEFIT				
Current Taxation:				
-	-	United States	-1	-1
-	-	Total Current Taxation	-1	-1
-	-	Taxation Benefit (-)	-1	-1
Net Profit/(Loss) before Taxation				
-13	-16	New Zealand	2	1
-	-	United States	-1	-2
-13	-16		1	-1
-4	-5	Taxation at 30 cents per dollar	-	-
Adjusted for:				
-	-	Expenses/(Income) not included in Assessable Income	-1	-1
4	5	Valuation Allowance	-	-
-	-	Taxation Benefit (-)	-1	-1

Imputation Credit Account and Dividend Withholding Payment Account

The Imputation Credit Account and the Dividend Withholding Payment Account for the Group and Tenon Limited as at 30 June 2010 were nil (June 2009: nil).

	Tenon Group	
	2010	2009
7 NET EARNINGS PER SHARE		
Basic and Diluted Net Earnings per Share (cents)		
Continuing Operations	2.9	0.5
Numerator for Basic and Diluted Net Earnings per Tenon Share (\$ millions)		
Continuing Operations	2.0	-
Denominator for Basic and Diluted Net Earnings per Tenon Share (millions), refer to note 8.		
	66.9	66.9

Notes to the Financial Statements continued

	Tenon Group and Parent 2010 US\$m	2009 US\$m
8 CAPITAL		
Capital		
Reported Capital:		
Reported Capital at the beginning of the year	533	533
Reported Capital	533	533

	Tenon Group and Parent 2010	2009
Tenon Ordinary Shares – fully paid⁽¹⁾		
Number of Shares at the beginning of the year	66,850,661	66,850,661
	66,850,661	66,850,661

(1) Includes 182,548 (June 2009: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as Treasury Stock.

Tenon Limited			Tenon Group	
2009 US\$m	2010 US\$m		2010 US\$m	2009 US\$m
9 RESERVES				
Retained Earnings				
-463	-476	Opening Balance	-408	-408
-13	-16	Net Profit/(Loss) after Taxation	2	-
-476	-492		-406	-408
Cash Flow Hedging Reserves⁽¹⁾				
-	-	Opening Balance	-1	1
-	-	Fair Value (Losses)/Gains for the year	1	-4
-	-	Hedge Losses Transferred to Earnings in the year	-	2
-	-		-	-1
Revaluation Reserves⁽²⁾				
-	-	Opening Balance	1	1
-	-		1	1
Net Currency Translation				
-23	8	Opening Balance	4	6
31	-13	Net Variations on Translation of Foreign Currency Financial Statements	-	-2
8	-5		4	4
-468	-497	Total Reserves	-401	-404

(1) The Hedging reserve records the effective portion of the gain or loss on a cash flow hedging instrument that is determined to be an effective hedge. As at 30 June 2010 the balance comprises the effective portion of the fair value gain on foreign exchange contracts, the fair value loss on an electricity hedge contract at the Group's Taupo operation and the fair value loss on an interest rate swap. (The 30 June 2009 balance comprised the effective portion of the fair value gain on foreign exchange contracts, the fair value loss on an electricity hedge contract at the Group's Taupo operation and the fair value loss on interest rate swaps.)

(2) The Revaluation reserve arose in November 2006 when the Group announced that it had exited its 50% investment in AWM and acquired 100% of Ornamental Mouldings. As the Group had previously held an indirect 25% shareholding in OMI through its investment in AWM, the acquisition of Ornamental Mouldings was treated as a two-step acquisition for accounting purposes and accordingly, under NZ IFRS 3 Business Combinations, Tenon's share of the reserves of Ornamental Mouldings when it was an associate was recognised as a revaluation reserve on consolidation.

Notes to the Financial Statements continued

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
10 INVENTORY				
–	–	Raw Materials and Work in Progress	4	3
–	–	Finished Goods	53	46
–	–		57	49

The cost of inventory recognised as an expense and included in cost of sales amounted to \$236 million (June 2009: \$233 million).

11 TRADE AND OTHER RECEIVABLES				
–	–	Trade Debtors ^{(1) (2)}	19	20
–	–	Prepayments	3	3
–	–	Other Receivables	3	4
–	–		25	27

(1) Trade debtors were \$22 million (June 2009: \$16 million) lower than they would otherwise have been as a result of the introduction of the supply chain financing programme in July 2008, refer to note 4.2(c).

(2) The Group's exposures to credit and currency risks and impairment losses related to trade debtors are disclosed in notes 19(a) and 19(b).

12 FIXED ASSETS				
Cost				
–	–	Land and Improvements	5	5
–	–	Buildings	19	19
–	–	Plant and Equipment	79	77
–	–	Total Cost	103	101
–	–	Impairment on Plant and Equipment ⁽¹⁾	-1	–
Accumulated Depreciation				
–	–	Buildings	-6	-5
–	–	Plant and Equipment	-63	-59
–	–	Total Accumulated Depreciation	-69	-64
–	–	Total Fixed Assets at Net Book Value	33	37
Domicile of Fixed Assets				
–	–	New Zealand	16	16
–	–	United States	17	21
–	–	Total Fixed Assets at Net Book Value	33	37

	Land & Improvements US\$m	Buildings US\$m	Plant & Equipment US\$m	Total US\$m
Net Book Value 30 June 2008	5	15	22	42
Additions	–	–	2	2
Depreciation Charge	–	-1	-6	-7
Net Book Value 30 June 2009	5	14	18	37
Additions	–	–	3	3
Impairment ⁽¹⁾	–	–	-1	-1
Depreciation Charge	–	-1	-5	-6
Net Book Value 30 June 2010	5	13	15	33

(1) Asset impairment related to the closure of one of five manufacturing facilities in North America. The carrying value of the impaired plant has been written down to fair value less estimated costs to sell.

Notes to the Financial Statements continued

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
13 INVESTMENTS				
262	262	Investment in Subsidiary Companies (refer to notes 24 and 26)	–	–
262	262		–	–

14 ASSETS HELD FOR SALE

The Company owns approximately 12.5 hectares of bare land at the Taupo manufacturing site surplus to current operational needs which the Company is actively marketing for sale.

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
15 GOODWILL				
–	–	Goodwill at beginning of the year	67	67
–	–	Balance at end of year	67	67
Goodwill is allocated to the Group's cash-generating units (CGUs) as determined at acquisition				
–	–	The Empire Company	31	31
–	–	Southwest Moulding Co	18	18
–	–	Ornamental Mouldings Group	18	18
–	–		67	67

Tenon has allocated goodwill to three Cash Generating Units, being Tenon's 100% ownership interests in The Empire Company, Southwest Moulding Co, and Ornamental Mouldings. All businesses operate within Tenon's primary business segment being the North American geographic market.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use discounted cash flow projections over a five year period. These cash flows assume a recovery from the currently depressed market conditions, such that by year 5 of the projections (ie the terminal year) Tenon's consolidated EBITDA is projected to be \$35 million.

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

(1) For the purposes of the value-in-use calculations, the weak operating environment seen since 2008 is forecast to moderately improve in 2011. Sales growth rate assumptions for the fiscal 2011 year range between 3% and 5% reflecting a gradual recovery in North America market conditions over the next 12 months. Longer term annual sales growth rates of between 5% and 7% are assumed for years 2012 to 2015, consistent with assuming long term growth in the new homes and remodelling markets gradually moving up from the bottom of the economic cycle, together with continued expansion from new stores and growth in market share from new products.

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

(3) The discount rate applied to the cash flow projections was 8.3% pre tax (2009: 8.0%). The increase in the rate is mainly attributable to an increase in the interest rate of 10 year bonds that occurred over the year.

As the value-in-use significantly exceeded the carrying value plus allocated goodwill of the CGUs, no impairment existed at 30 June 2010.

Notes to the Financial Statements continued

15 GOODWILL continued

Sensitivities

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

As Southwest's EBITDA in current market conditions is less than that implied in the acquisition price, a more detailed analysis of the Southwest key value driver assumptions was carried out to ensure there was no goodwill impairment. A sensitivity analysis shows that there would be no goodwill impairment in relation to Southwest even if:

- the discount rate was increased to more than 11% pa; or
- the compound annual sales growth rate assumption was halved to only 2.5%; or
- the gross margin was held constant at current depressed levels.

Taking into account the prospects for growth in new homes and remodelling in the Texas region over the next five years, and Southwest's introduction of new product programmes in 2010, the probability of worse downside sales and gross margin results occurring than these sensitivities remains very unlikely.

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
16 TRADE AND OTHER PAYABLES				
–	–	Trade Creditors	17	14
–	–	Accrued Employee Benefits	6	4
1	1	Other Payables	3	3
–	–	Accruals	4	3
–	–	Derivatives	–	1
1	1		30	25
17 PROVISION FOR CURRENT TAXATION AND DEFERRED TAXATION				
Provision for Current Taxation:				
–	–	Opening Provision for Current Taxation	-1	–
–	–	Current Taxation Benefit in the Consolidated Income Statement	1	1
–	–	Deferred Tax Movement during the year	2	-3
–	–	Net Tax (Refund)/Payments	-2	1
–	–	Provision for Current Taxation Liability (-)	–	-1
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	7	9
–	–	Deferred Tax on Liabilities	1	–
–	–	Deferred Tax Asset	8	9

Notes to the Financial Statements continued

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
18 FINANCIAL COSTS AND DEBT continued				
Summary of Repayment Terms⁽²⁾				
Due for Repayment:				
–	–	less than one year ⁽⁴⁾	6	6
–	–	between one and two years	21	6
–	–	between two and three years	1	27
–	–	between three and four years	1	1
–	–	between four and five years	–	1
–	–	after five years	–	–
–	–	Total Debt	29	41
Non Current Debt				
Summary of Interest Rates by Repayment Period (%)				
Due for Repayment:				
–	–	between one and two years	7.07	5.67
–	–	between two and three years	2.82	7.12
–	–	between three and four years	2.83	2.79
–	–	between four and five years	2.60	2.80
–	–	after five years	–	2.76
–	–	Weighted Average Interest Rate	6.68	6.62
Weighted Average Interest Rate comprises:				
–	–	Weighted average interest rate on debt	4.30	5.49
–	–	Facility fees amortisation % on debt	2.38	1.13
–	–	Weighted Average Interest Rate	6.68	6.62
Current Debt				
Summary of Interest Rates by Repayment Period (%)				
Due for Repayment:				
–	–	less than one year	7.43	5.67
–	–	Weighted Average Interest Rate	7.43	5.67
Weighted Average Interest Rate comprises:				
–	–	Weighted average interest rate on debt	5.07	4.57
–	–	Facility fees amortisation % on debt	2.36	1.10
–	–	Weighted Average Interest Rate	7.43	5.67

(1) Tenon has a bank credit facility provided by a consortium of banks led by JP Morgan Chase Bank, NA (the Agent). The facility, which is structured as a global facility supporting the operations of the Tenon group as a whole, does not expire until June 2012. The facility is secured against the Group's fixed assets (land, buildings, plant and equipment) together with collateral security over the inventory and receivables of the Parent Company and its subsidiaries. The facility is subject to certain financial covenants calculated each quarter, and a Borrowing Base covenant calculated monthly which is subject to periodic examination by the Agent during the remaining life of the credit facility (refer to note 4.2(c)).

The revolver facility is classified as non-current, reflecting the lenders' commitment to the Company for the life of the facility, expiring June 2012. Under the facility the Company can exercise its unconditional right to draw down or repay borrowings from time to time up to the amount of the facility, subject to the Company remaining in compliance with certain facility covenants (refer to note 4.2(c)). The Company was in compliance with all of the covenants and accordingly the amount of debt drawn under the revolver facility as at 30 June 2010 is aged non-current, consistent with the previous year.

Notes to the Financial Statements continued

18 FINANCIAL COSTS AND DEBT continued

(2) The total size of Tenon's syndicated bank credit facility (following the reduction in facility resulting from the Group's inclusion in the Bank of America supply chain financing programme, refer to note 4.2(c)) reduces as a result of the scheduled amortisation of the Term Loan as follows

	\$m		
	Term	Revolver	Total
June 2010 ^(a)	13.75	35.00	48.75
June 2011 ^(a)	8.75	35.00	43.75
June 2012 ^(b)	–	–	–

(a) Scheduled Term Loan amortisation of \$1.250 million per quarter

(b) Scheduled Term Loan amortisation of \$2.1875 million per quarter

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

(4) The current debt of \$6 million reflects next year's amortisation of the Term Loan under the credit facility, one year's principal payments on finances leases and one year's amortisation of the mortgage debt outstanding on the Ornamental properties.

19 FINANCIAL INSTRUMENTS

(a) Market Risk

Exposure to Price Risk

The Group entered into an electricity commodity contract for the purposes of providing an economic hedge against New Zealand electricity costs, this three year contract is due to expire in December 2010. The contract was approved by the Board (refer to note 4.2(a)(i)).

Exposure to Currency Risk

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

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

	Tenon Group					
	Currency of Denomination					
	as at 30 June 2010			as at 30 June 2009		
	USD US\$m	NZD US\$m	CAD US\$m	USD US\$m	NZD US\$m	CAD US\$m
Cash and Liquid Deposits	–	1	–	4	2	–
Trade Debtors	16	3	–	18	2	–
Bank Overdrafts	-1	–	–	–	–	–
Trade Creditors	-12	-5	–	-11	-3	–
Current Debt	-6	–	–	-6	–	–
Non Current Debt	-23	–	–	-35	–	–
Gross Balance Sheet Exposure		<u>-1</u>	<u>–</u>		<u>1</u>	<u>–</u>

The following exchange rates applied during the year:

	Average rate ⁽¹⁾		Reporting date (spot rate)	
	2010	2009	2010	2009
USD/NZD	0.6976	0.6172	0.6936	0.6515
USD/CAD	0.9439	0.8715	0.9653	0.8664

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

Sensitivity Analysis

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

Notes to the Financial Statements continued

19 FINANCIAL INSTRUMENTS continued

Exposure to Interest Rate Risk

The Group's interest rate policy is for interest to be a mixture 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 2010, the Group had one interest rate swap totalling \$6.875 million, covering 24% of total debt (as at 30 June 2009 there were four interest rate swaps totalling \$32.375 million, or 79% of total debt).

As at 30 June 2010, the Group had one interest rate swap of \$6.875 million on which the Group pays a fixed interest rate of 3.42% and receives the current equivalent of the one month USD LIBOR floating rate (0.34719% as at 30 June 2010, 0.31% as at 30 June 2009). This swap amortises in line with the Term Loan over the life of the Term Loan and expires in June 2012.

For the year ended 30 June 2009 the Group had four interest rate swaps. Two swaps entered into in October 2008 were for a period of only one year, one swap of \$10 million matured on 26 October 2009 and the other of \$5 million on 31 October 2009. A swap for \$8 million entered into in February 2008 expired on 27 February 2010.

The profile of the expired interest rate swaps was:

Swap 1: Principal value \$10 million, fixed interest rate payable by the Group 2.66%, floating interest receivable by the Group prior to maturity on 26 October 2009 was 0.24625% (June 2009: 0.31125%)

Swap 2: Principal value \$5 million, fixed interest rate payable by the Group 2.67%, floating interest receivable by the Group prior to maturity on 31 October 2009 was 0.24625% (June 2009: 0.31%)

Swap 3: Principal value \$8 million, fixed interest rate payable by the Group 2.97%, floating interest receivable by the Group prior to maturity on 27 February 2010 was 0.23063% (June 2009: 0.3075%)

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 2010 and 30 June 2009. The net fair value of the interest rate swaps as at 30 June 2010 was a liability to the Group of \$0.2 million (June 2009: liability of \$0.6 million) and was included in other current payables (June 2009: in other current payables). The following table sets out the weighted average interest rate of borrowings and interest rate hedges:

	2010 US\$m	Tenon Group		2009 %
		2010 %	2009 US\$m	2009 %
Interest Rates Repriced (including average interest rate):				
Debt repayable				
within one year	6	7.43	6	5.67
between one and two years	21	7.07	6	5.67
between two and three years	1	2.82	27	7.12
between three and four years	1	2.83	1	2.79
between four and five years	–	2.60	1	2.80
after five years	–	–	–	2.76
	29		41	

Sensitivity Analysis

As at 30 June 2010, a 1% increase in the floating interest rates of the debt outstanding at balance date would have resulted in an estimated \$0.2 million reduction in Profit before Taxation, a 1% decrease in the floating interest rate would have resulted in an estimated increase of \$0.3 million in Profit before Taxation. The 2010 earnings impact was calculated on the actual debt drawn as at 30 June 2010 and was for a full 12 months assuming that 24% of debt was subject to the one interest rate swap in existence as at 30 June 2010 and the swap was the only one for the whole year and taken out at the beginning of the year. The supply chain financing interest cost is also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2010 a 1% change in the floating LIBOR interest rates on the level of debtors de-recognised as a result of the supply chain financing programme (\$22 million as at 30 June 2010) would have had an estimated \$0.2 million impact on Profit before Taxation.

A 1% increase in interest rates would have reduced Equity by \$0.2 million, being the after tax increase in total interest costs partially offset by a reduction in the fair value liability of the interest rate swap. A 1% reduction in interest rates would have increased Equity by \$0.3 million, being the after tax reduction in total interest costs partially offset by an increase in the fair value liability of the interest rate swap.

Notes to the Financial Statements continued

19 FINANCIAL INSTRUMENTS continued

As at 30 June 2009, a 1% change in the floating interest rates of the debt outstanding at balance date would have had an estimated \$0.1 million impact on Profit before Taxation. The 2009 earnings impact was calculated on the actual debt drawn as at 30 June 2009 and was for a full 12 months assuming that 79% of debt was subject to interest rate swaps and those swaps were taken out at the beginning of the year. The supply chain financing interest cost was also based on LIBOR rates and therefore sensitive to interest rate changes. As at 30 June 2009 a 1% change in the floating LIBOR interest rates on the level of debtors de-recognised as a result of the supply chain financing programme (\$16 million as at 30 June 2009) would have had an estimated \$0.2 million impact on Profit before Taxation.

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

(b) Credit Risk

Exposure to Credit Risk

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

	Tenon Group 2010 US\$m	2009 US\$m
Cash and Liquid Deposits ⁽¹⁾	1	6
Trade and Other Receivables	25	27
	26	33

The status of Trade Debtors is as follows:

Neither past due nor impaired ⁽²⁾	17	17
Past due but not impaired ⁽³⁾	2	2
Impaired ⁽⁴⁾	–	1
	19	20
Less provision for doubtful debts ⁽⁵⁾	–	–
Net Trade Debtors	19	20

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

(2) The Group has an excellent history of trade debtor collections and there is no reason to believe that the \$16.9 million (June 2009: \$16.7 million) of "neither past due nor impaired" debtors will not be collected, taking into account the payment history of our 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 2010, \$2.0 million (June 2009: \$2.4 million) of Trade Debtors were past due but not impaired. The ageing of these Trade Debtors is as follows:

	Tenon Group 2010 US\$m	2009 US\$m
Days overdue:		
1 month	2	2
	2	2

Notes to the Financial Statements continued

19 FINANCIAL INSTRUMENTS continued

(4) As at 30 June 2010, \$0.4 million (June 2009: \$0.5 million) of Trade Debtors were impaired. Impaired Trade Debtors relate to customers who have experienced or who are experiencing financial difficulties. A provision for Doubtful Debts of \$0.4 million (June 2009: \$0.3 million) exists to cover the balance of the impaired debtors not expected to be recovered under the credit insurance programme operated by Tenon's US subsidiaries. The other classes of receivables do not contain any impaired asset. The creation and release of provision for doubtful debts are included in Administration Expense in the Consolidated Income Statement.

	Tenon Group	
	2010	2009
	US\$m	US\$m
Days overdue:		
Up to 1 month	–	1
Less provision for doubtful debts	–	–
Fair Value of Impaired Debtors	–	1

(5) Movements in the Group provision for doubtful debts are as follows:

	Tenon Group	
	2010	2009
	US\$m	US\$m
Opening Balance	–	1
Provision Released and Utilised during the period ⁽¹⁾	–	-1
Provision Created during the period ⁽¹⁾	–	–
Closing Balance	–	–

(1) In June 2010, the net provision created through earnings during the period was \$0.5 million. In June 2009, the net provision created through earnings during the period was \$0.2 million. Debtors written off directly against the provision during 2010 were \$0.4 million (June 2009: \$0.2 million).

(c) Liquidity Risk

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

	Carrying value	Fair value	6 months or less	2010 \$m 6-12 months	1-2 years	2-5 years	Over 5 years
Non Derivative Financial Liabilities:							
Bank Overdraft	1	1	1	–	–	–	–
Trade and Other Payables	28	28	26	2	–	–	–
Debt	29	29	3	3	21	2	–
	58	58	30	5	21	2	–
	Carrying value	Fair value	6 months or less	2009 \$m 6-12 months	1-2 years	2-5 years	Over 5 years
Non Derivative Financial Liabilities:							
Trade and Other Payables	23	23	21	2	–	–	–
Debt	41	41	3	3	6	29	–
Derivative Financial Liabilities:							
Interest Rate Swaps	1	1	1	–	–	–	–
	65	65	25	5	6	29	–

Notes to the Financial Statements continued

19 FINANCIAL INSTRUMENTS continued

Interest Rate Swap Cash Flows

As at 30 June 2010 the future gross cash flows of the interest rate swap (refer to note 19(a) market risk, exposure to interest rate risk) are a \$0.5 million cash outflow (being fixed interest paid) and a cash inflow of less than \$0.1 million (being floating interest received). The swap is settled on a net basis monthly. Of the net cash outflow (based on the prevailing floating interest rates as at 30 June 2010) of \$0.4 million, \$0.1 million is expected to occur in the 6 months to December 2010, \$0.1 million in the 6 months to June 2011 and \$0.2 million in the twelve months to June 2012.

As at 30 June 2009 the future gross cash flows of the interest rate swaps (refer to note 19(a) market risk, exposure to interest rate risk) were a \$1.3 million cash outflow (being fixed interest paid) and a \$0.1 million inflow (being floating interest received). 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 2009) of \$1.2 million, \$0.4 million was expected to occur in the 6 months to December 2009, \$0.2 million in the 6 months to June 2010 and \$0.3 million in each of the 2011 and 2012 fiscal years.

(d) Financial Instruments by Category

Cash and liquid deposits and trade and other receivables and intercompany advances are classified as loans and receivables. Bank overdraft, trade and other payables, current and non current debt and deferred settlements and intercompany advances are classified as other financial liabilities. The electricity hedge and interest rate swaps are classified as derivatives used for hedging.

(e) Financial Instruments Measured at Fair Value

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

The Group adopted the amendments to NZ IFRS 7 "Financial Instruments – Disclosures" effective from 1 July 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the Consolidated Balance Sheet. In the first year of application comparative information need not be presented for the disclosures required by the amendment, accordingly disclosure of the fair value hierarchy is only required for the 30 June 2010 year end, however, the Group's financial assets and liabilities as at 30 June 2010 were below levels requiring disclosure.

The parent company had no financial instruments at 30 June 2010.

Tenon Limited			Tenon Group	
2009	2010		2010	2009
US\$m	US\$m		US\$m	US\$m
20 DEFERRED SETTLEMENT				
–	–	Opening Balance	–	9
–	–	Cash Payments made ^{(1) (2)}	–	-9
–	–		–	–

(1) During the 2009 year the Group's equity interest in Southwest Mouldings increased from 75.5% to 100%. The increase of 24.5% was acquired for a total cost of \$8.7 million (refer to note 24(a)(2)).

(2) During the 2009 year the Group paid the final balance due to the former shareholders of Kok's Woodgoods Inc. (refer to note 24(a)(3)).

Notes to the Financial Statements continued

	Tenon Group	
	2010	2009
	US\$m	US\$m
21 COMMITMENTS		
Lease Commitments		
The expected future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 30 June are as follows:		
within one year	8	7
two years	7	6
three years	5	5
four years	3	3
five years	2	2
after five years	2	2
	27	25

Operating lease commitments relate mainly to occupancy leases of buildings and vehicles. There are no renewal options to purchase in respect of any asset held under operating leases. Total lease costs for the year were \$8.1 million (June 2009: \$8.2 million).

There are no lease commitments for Tenon Limited.

Capital Expenditure Commitments

Committed at balance date for expenditure:

within one year ⁽¹⁾	-	-
	-	-

(1) Capital expenditure commitments at 30 June 2010 were nil (June 2009: nil).

There are no capital expenditure commitments for Tenon Limited.

22 CONTINGENT LIABILITIES

The Group has no material contingent liabilities (June 2009: nil).

23 CONTINGENT ASSETS

Central North Island Forest Partnership (CNIFP) Legal Proceedings

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

Notes to the Financial Statements continued

24 RELATED PARTY TRANSACTIONS

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

Services are negotiated with related parties based upon competitive market rates charged to unaffiliated customers for similar goods. Rubicon Limited and its subsidiaries ("Rubicon") own 57.96% of Tenon Limited (June 2009: 57.96%). Two of Tenon Limited's directors are also directors of Rubicon Limited. Directors' fees charged by Rubicon were \$0.1 million (June 2009: \$0.1 million). Tenon's NZ office subleases office space from Rubicon, on an arm's length commercial basis, at market rates. As at 30 June 2010, there were no amounts owing between Tenon and Rubicon for outstanding Directors' fees and office and administration costs for the 2010 year (June 2009 balance: \$0.2 million). Office and administration costs and Directors' fees charged by Rubicon to Tenon for the 2010 year were \$0.2 million (June 2009: \$0.2 million).

	Tenon Group	
	2010 US\$m	2009 US\$m
Tenon Group		
Cross-entity Banking Guarantees ⁽¹⁾	-	-
Purchase of Shareholding		
Increase in interest in Southwest Moulding Co, LP ⁽²⁾	-	9
Settlement of Kok's Woodgoods, Inc Deferred Liability ⁽³⁾	-	-
Tenon Limited		
Royalties and Management Fees received for Services Provided to Subsidiaries by Tenon Limited ⁽⁴⁾	-	-
Finance Charges paid by Tenon Limited on Advance from Subsidiary ⁽⁵⁾	-16	-13
Term Advance Liability from Subsidiary Company ⁽⁵⁾	226	197
Term Advance Asset to Subsidiary Company ⁽⁶⁾	1	1
Investment in Subsidiary Companies ⁽⁷⁾	262	262

(1) The obligations of the Borrowers under the credit facility (Tenon Limited, Fletcher Wood Solutions Inc, The Empire Company, Inc and Ornamental Mouldings Company) are guaranteed by all the Subsidiaries of the Group.

(2) Two of the directors of Southwest Moulding Co, LP were also beneficial owners of the minority shareholders of Southwest. On 1 October 2008, Tenon paid \$4.3 million to the minority shareholders of Southwest Mouldings for an additional 12.25% of the company; this brought Tenon's interest in Southwest Mouldings to 87.75%. On 2 January 2009, Tenon paid \$2.2 million to the minority shareholders for an additional 6.125% shareholding and on 1 April 2009 \$2.2 million was paid for the final 6.125% shareholding in Southwest Mouldings bringing Tenon's interest in Southwest Mouldings to 100%. The two former minority shareholders were directors and employees of Southwest Moulding Co, LP in the 2009 year.

(3) Two employees of Kok's Woodgoods, Inc were also beneficial owners of the minority shareholders of Kok's. On 23 August 2008 Tenon paid \$0.3 million to these employees for the balance outstanding from the purchase of Kok's Woodgoods, Inc in April 2005.

(4) Royalties and management fees charged were \$0.2 million (June 2009: \$0.2 million). These charges are to New Zealand based subsidiaries Tenon Manufacturing Limited and Tenon Industries Limited.

(5) This advance is for no fixed term but represents a long-term funding advance, and bears interest at 7.56% per annum (30 June 2009: 7.2% per annum).

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

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

Notes to the Financial Statements continued

24 RELATED PARTY TRANSACTIONS continued

	2010 US\$m	2009 US\$m
(b) Key Management Compensation		
Salaries and other short-term employee benefits	3	3
Directors' fees paid to Non Executive Directors (refer to note 5(1))	–	–
	3	3

Chief Financial Officer's Incentive Plan

The Chief Financial Officer's remuneration includes a long-term incentive plan (LTI Plan). The LTI Plan was established on 1 July 2009. The LTI Plan has a one-time pay-out date of 1 September 2012. The Chief Financial Officer may earn up to two times his average base salary. Whether or not any payment is made to him, and the quantum of any payment made is dependent upon the Company achieving set targets – the key target being Tenon's EBITDA for the fiscal year to 30 June 2012. Payment may also be triggered in the event of a change of control of the Company. The maximum pay-out under the new LTI Plan will be made if fiscal 2012 EBITDA meets or exceeds \$30 million (inclusive of corporate overhead). The Company has not taken any charge to earnings in respect of the above arrangement.

Empire Incentive Plan

Certain members of the Company's senior management team participated in a long-term incentive plan (Empire LTI Plan). This Plan was introduced on 11 September 2007 for the senior management team at the Empire Company, who were eligible to receive a taxable incentive payment in September 2010 based on the performance of Empire for the period beginning 1 July 2007 through to the period ending 30 June 2010. The key performance metrics measured under the Empire LTI Plan were not met and therefore no incentive payments were made under the Empire LTI Plan, which has now terminated.

25 SEGMENTAL INFORMATION SUMMARY

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

Geographic segmental reporting for the periods ended June 2010 and June 2009 split between North America and New Zealand is shown below.

	North America US\$m	New Zealand US\$m	Total US\$m
June 2010			
Operating Revenue	296	33	329
Non Current Assets – Continuing Operations⁽¹⁾	84	16	100
Capital Expenditure	2	1	3
June 2009			
Operating Revenue	296	26	322
Non Current Assets – Continuing Operations ⁽¹⁾	88	17	105
Capital Expenditure ⁽²⁾	11	–	11

(1) Excludes Deferred Tax and Financial Instruments.

(2) June 2009 includes settlement of deferred liabilities of \$8.7 million for Southwest Moulding Co, LP and \$0.3 million on the settlement of Kok's Woodgoods, Inc.

Revenues of approximately \$167 million (June 2009: \$170 million) are derived from a single external customer; these revenues are attributable to the North American geographic segment.

Notes to the Financial Statements continued

26 PRINCIPAL OPERATIONS

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

	Country of Domicile	Principal Activity	% Holding	
			2010	2009
Principal Subsidiaries				
Tenon Industries Limited	NZ	Funding	100	100
Tenon Manufacturing Limited	NZ	Processing	100	100
Fletcher Wood Solutions Inc	USA	Distribution	100	100
The Empire Company, Inc	USA	Distribution	100	100
Kok's Woodgoods, Inc	USA	Processing	100	100
Southwest Moulding Co, LP	USA	Distribution	100	100
Ornamental Mouldings LLC	USA	Processing	100	100
Ornamental Products LLC	USA	Processing	100	100
Ornamental Mouldings Company	Canada	Processing	100	100

27 DISCONTINUED OPERATIONS

There were no earnings in the current or previous period and the balance sheet items of the discontinued operations are below disclosure thresholds. These operations were previously disclosed as the Structural and the Forests and Supply Segment.

	2010 US\$m	2009 US\$m
Statement of Cash Flows		
for year ended 30 June		
Net Cash to Operating Activities	-	-1
Net Cash to Discontinued Operations	-	-1

Auditor's Report to the Shareholders of Tenon Limited



We have audited the financial statements on pages 13 to 48. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 19 to 26.

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

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The firm carries out other assignments for the Company and certain subsidiaries in the areas of taxation compliance, financial assurance and advisory services. We have no other relationship with or interests in the Company or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 13 to 48:
 - (i) comply with generally accepted accounting practice in New Zealand;
 - (ii) comply with International Financial Reporting Standards and
 - (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 25 August 2010 and our unqualified opinion is expressed as at that date.

A handwritten signature in black ink, appearing to read 'P. McIntosh', with a long horizontal flourish extending to the right.

Chartered Accountants

Auckland

Board of Directors as at 25 August 2010

Simon Luke Moriarty

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

Committees

Audit
Nominations (Chairman)

Last re-elected 2009

Mr Moriarty was appointed Chairman of Directors on 7 October 2005. He is the Chief Executive Officer and an Executive Director of Rubicon Limited. Prior to that he was a member of the Executive Office of the Fletcher Challenge Group, and was instrumental in structuring the financial separation of the Fletcher Challenge Group in 2001. He joined Fletcher Challenge Limited in 1982, and held a number of senior executive roles across the Fletcher Challenge Group Divisions in New Zealand and North America, including Chief Financial Officer of Fletcher Challenge Canada and Director of TimberWest Forests. He is a director of ArborGen LLC. The Board has determined that Mr Moriarty is not an independent Director because he is a director of Rubicon Forests Holdings Limited, the Company's largest shareholder, and the Chief Executive Officer and Executive Director of Rubicon Limited, the holding company of Rubicon Forests Holdings Limited.

Michael John Andrews

MNZIF
Non-Executive Director

Committees

Nominations
Remuneration

Last re-elected 2007

Mr Andrews retired as Chief Executive Officer of Fletcher Challenge Limited in April 2001. He was acting Chief Executive Officer of Fletcher Building Limited until July 2001. He was previously Divisional Chief Executive of Fletcher Challenge Energy, Fletcher Challenge Forests and Fletcher Challenge Paper and previously Chief Executive Officer of the Solid Wood Forestry sector, and before that of the former Energy and Resources Group. He was Chairman of Rubicon Limited until June 2004. He is a director of Orion NZ Limited, the National Centre for Advanced Bio Protection Technologies and CO2 New Zealand Management Company Limited. He is also an advisor to the Board of Tukia Group Limited. The Board has determined that Mr Andrews is an independent Director.

Rodger Herbert Fisher

FCIS, FCIT, FIDNZ, FNZIM
Non-Executive Director

Committees

Audit
Nominations
Remuneration (Chairman)

Last re-elected 2008

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 and Lyttelton Port Company Limited and a director of The Property Group Limited

and Unison Networks Limited. He is a former Chairman of the Civil Aviation Authority, Aviation Security Services and WEL Networks Limited. 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.

Stephen Kasnet

BA University of Pennsylvania (Philadelphia)
Non-Executive Director

Committees

Nominations
Remuneration

Last re-elected 2009

Mr Kasnet is currently Chairman of Rubicon Limited, the holding company of the Company's largest shareholder, Rubicon Forests Holdings Limited. He is also Chief Executive Officer of Calypso Management LLC, Chairman of Directors of Columbia Labs, Inc, Trustee of Stratleade, Inc, President of Ocean Manchester Corporation, director of the First National Bank of Ipswich, Trustee and Vice President of the Governors Academy and director of Two Harbors Investment Corp. He has previously held the roles of President and Chief Executive Officer of Harbor Global, a prime asset of which was a timber harvesting and sales operation in eastern Russia covering over three million acres of concession area, Managing Director of First Winthrop Corporation and Winthrop Financial Associates in the US, President and Chief Executive Officer of Raymond Property Group and Dartmouth Street Company and also Executive Vice President of the Pioneer Group Inc in the US. His responsibilities there covered the global strategic investments for the Pioneer Group, including venture capital and timber operations. The Board has determined that Mr Kasnet is not an independent Director because he is the Chairman of Rubicon Limited, the holding company of the Company's largest shareholder, Rubicon Forests Holdings Limited.

Michael Carmody Walls

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

Committees

Audit (Chairman)
Nominations

Last re-elected 2008

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

Corporate Governance as at 25 August 2010

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

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

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

Code of Business Conduct and Ethics and Company Policies

The Company has written procedures to:

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

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

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

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

Corporate Governance as at 25 August 2010 continued

Role of the Board

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

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

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

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

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

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

The Chairman's role is to manage and provide leadership to the Board and to interact with the Chief Executive Officer. The 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 Chief Executive Officer 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 external auditor, and Management. For example, the external auditor receives copies of Board papers at the time they are sent to Directors, the auditor can and does discuss Company issues with Management outside of formal meetings with the Audit Committee, and the auditor attends Audit Committee meetings.

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

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

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

S L Moriarty and S G Kasnet are not considered by the Board to be independent Directors because they are Directors of the parent company of the Company's largest shareholder, Rubicon Forests 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, the majority of the Board, comprising R H Fisher (who is also the Chairman of the Remuneration Committee), M C Walls (who is also the Chairman of the Audit Committee) and M J Andrews are independent Directors under the NZX corporate governance guidelines, which are used by the Company to determine independence.

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

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

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

Corporate Governance as at 25 August 2010 continued

Board Process

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

The Board of Directors meets periodically without Management present.

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

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

An annual performance evaluation is conducted of the Board and its members. This is conducted by the Chairman of the Board by one-on-one discussions with members and by the use of questionnaires. The results of the evaluation are discussed by the Board.

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

Board Committees

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

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

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

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

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

All non-executive Directors are entitled to attend all Committee meetings. Executive Directors and Management attend Committee meetings by invitation.

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

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

An annual performance evaluation is conducted for each Committee. The results of the evaluation are discussed by the Committee, and by the Board.

Audit Committee

Committee members:

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

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

The Audit Committee oversees all matters concerning:

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

Corporate Governance as at 25 August 2010 continued

The external auditors attend all meetings of the Audit Committee. A majority of the members of the Audit Committee must be independent Directors.

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

The Audit Committee has a formal pre-approval procedure that must be followed for all audit and audit-related services and non-audit services to be provided by the Company's audit firm to ensure that they do not impair the external audit firm's independence from the Company. During the year the auditor did perform a small amount of non-audit related work for the Company in relation to the review of certain internal controls, the Company's Annual Shareholders Meeting and the Company's financing facility. The work was in the nature of assurance and the total fees paid to the audit firm were US\$102,000 which the Company considers did not impair the audit firm's independence from the Company.

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

Remuneration Committee

Committee members:

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

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

The Remuneration Committee ensures that remuneration and recruitment policies and practices are aligned with the creation of shareholder value and the Company's objectives. The Committee makes recommendations to the Board with regard to the remuneration of the Chief Executive Officer and for the executives who report to the Chief Executive Officer. 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 Chief Executive Officer's performance is also reviewed by the full Board.

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

Nominations Committee

Committee members:

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

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.

Corporate Governance as at 25 August 2010 continued

Financial Reporting

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

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

Auditor Quality and Independence

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

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

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

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

Corporate Governance as at 25 August 2010 continued

Remuneration Policy

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

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

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

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

On page 58 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.

The Company does not pay retirement payments to Directors.

Employee Remuneration

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

	US/Canada based Business Number of Employees	NZ based Business Number of Employees
NZ\$100,000 to NZ\$110,000	12	–
NZ\$110,000 to NZ\$120,000	8	2
NZ\$120,000 to NZ\$130,000	13	5
NZ\$130,000 to NZ\$140,000	11	–
NZ\$140,000 to NZ\$150,000	4	1
NZ\$150,000 to NZ\$160,000	8	3
NZ\$160,000 to NZ\$170,000	7	–
NZ\$170,000 to NZ\$180,000	5	–
NZ\$180,000 to NZ\$190,000	3	–
NZ\$190,000 to NZ\$200,000	2	1
NZ\$200,000 to NZ\$210,000	5	–
NZ\$210,000 to NZ\$220,000	4	–
NZ\$220,000 to NZ\$230,000	3	1
NZ\$230,000 to NZ\$240,000	1	–
NZ\$240,000 to NZ\$250,000	1	–
NZ\$250,000 to NZ\$260,000	1	1
NZ\$270,000 to NZ\$280,000	2	–
NZ\$280,000 to NZ\$290,000	2	–
NZ\$310,000 to NZ\$320,000	1	–
NZ\$340,000 to NZ\$350,000	1	–
NZ\$360,000 to NZ\$370,000	1	–
NZ\$370,000 to NZ\$380,000	–	1
NZ\$390,000 to NZ\$400,000	2	–
NZ\$410,000 to NZ\$420,000	2	–
NZ\$440,000 to NZ\$450,000	1	–
NZ\$550,000 to NZ\$560,000	2	–
NZ\$570,000 to NZ\$580,000	1	–
NZ\$620,000 to NZ\$630,000	1	–
NZ\$710,000 to NZ\$720,000	1	–
NZ\$770,000 to NZ\$780,000	1	–
NZ\$800,000 to NZ\$810,000	1	–

Corporate Governance as at 25 August 2010 continued

Controlling and Managing Risk

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

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

Details of many of the risks the Company is exposed to and the way the Company manages those risks are described in note 4 to the financial statements (see pages 27 to 32).

NZX Corporate Governance Principles

The Company's corporate governance process materially differs from the principles set out in the NZX Corporate Governance Best Practice Code in that the Company does not offer any equity security compensation plan to Directors and all Directors may attend meetings of the Audit Committee.

Ensuring the Market is Properly Informed

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

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

The Board examines continuous disclosure issues as an agenda item at each Board meeting.

Securities Commission Corporate Governance Principles

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

Keeping in Touch with Shareholders and Stakeholders

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

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

Statutory Disclosure

Directors' Interests Register

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

Non-Executive Directors' Remuneration

Non-executive Directors' remuneration for the 30 June 2010 year was \$46,216 (NZ\$66,250)⁽¹⁾ per annum per Director, with the Chairman receiving \$90,688 (NZ\$130,000)⁽²⁾ per annum. Directors' base fees were increased by \$1,744 (NZ\$2,500) per annum from 1 January 2010 (the Chairman's fees did not increase). The Chairman of the Audit Committee receives an additional \$4,534 (NZ\$6,500)⁽³⁾ per annum and the Chairman of the Remuneration Committee receives an additional \$3,139 (NZ\$4,500)⁽³⁾ 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 2010 was \$297,389 (NZ\$400,500). Fees, prior to any taxation liability, paid to individual non-executive Directors in the year ended 30 June 2010 were:

	Fee ⁽¹⁾
M J Andrews	46,216
R H Fisher	47,786
S G Kasnet	46,216
S L Moriarty ⁽²⁾	90,688
M C Walls	48,483

- (1) Directors' fees have been translated from New Zealand dollars at an average foreign exchange rate of NZ\$1 = US\$0.6976.
- (2) Total Directors' fees in relation to S L Moriarty (Chairman) were paid directly to Rubicon Limited.
- (3) Chairmen's fees were introduced on 1 January 2010, reflecting the additional responsibilities required of the Chairmen.

Executive Directors' Remuneration

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

Statutory Disclosure continued

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 2010.

Apart from S L Moriarty's position as Director of The Empire Company, Inc, 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 56, where the employee received remuneration and other benefits totalling NZ\$100,000 or more during the year ended 30 June 2010.

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

T B Highley, P M Gillard, J E Paice, A S White, M K Eglinton (R)

Tenon Industries Limited

T B Highley, P M Gillard, J E Paice, A S White, M K Eglinton (R)

Tenon Manufacturing Limited

T B Highley, P M Gillard, J E Paice, A S White, M K Eglinton (R)

Tenon Holdings Limited

T B Highley, P M Gillard, J E Paice, A S White, M K Eglinton (R),

Fletcher Challenge Limited

T B Highley, P M Gillard, J E Paice, A S White, M K Eglinton (R),

Kaingaroa Holdings Limited

P M Gillard

CNI Forest Nominees Limited

T B Highley, P M Gillard, J E Paice, A S White, M K Eglinton (R)

Tenon Retirement Plan Nominees Limited

T B Highley, A S White, P M Gillard, J E Paice, M K Eglinton (R)

Tenon Employee Educational Fund Limited

P M Gillard, A C Grinter, J McDonald

Tenon Welfare Fund Nominees Limited

P M Gillard, G D Niccol, M R Taylor

NACS USA, Inc

T B Highley, A S White, M K Eglinton (R)

Fletcher Wood Solutions, Inc

T B Highley, A S White, M K Eglinton (R)

Tenon USA Holding Company

T B Highley, A S White, M K Eglinton (R)

Tenon Supply, LLC

T B Highley, A S White, P M Gillard

The Empire Company, Inc

T B Highley, P M Gillard, T H Highley, S J Johandes (R), S L Moriarty, A S White, M K Eglinton (R)

The Empire Canada Company Limited

T B Highley, A S White, B Lopez (R), P M Gillard, C Rogers

Kok's Woodgoods, Inc

S R Grossman, T B Highley, T H Highley

Southwest Moulding Co LP

D Bell, T B Highley, T H Highley, R Middleton (R), M K Eglinton (R)

Southwest Moulding Creative Wood Products LP

D Bell, T B Highley, T H Highley, R Middleton (R), M K Eglinton (R)

AWM Acquisitions Corporation

P M Gillard

Ornamental Mouldings Company

T B Highley, A S White, P M Gillard, M J Pearce (R), M K Eglinton (R)

Ornamental Mouldings, LLC

T B Highley, A S White, P M Gillard, M K Eglinton (R)

Ornamental Investments, LLC

T B Highley, A S White, P M Gillard, M K Eglinton (R)

Comanche Investments, LLC

T B Highley, A S White, P M Gillard, M K Eglinton (R)

Fairfield Road, LLC

T B Highley, A S White, P M Gillard, M K Eglinton (R)

Ornamental Products, LLC

T B Highley, A S White, P M Gillard, M K Eglinton (R)

Statutory Disclosure continued

Directors' Interests

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

S G Kasnet		
Raymond Property Group	Resigned	President and Chief Executive Officer
Dartmouth Street Company	Resigned	President and Chief Executive Officer
Two Harbors Investment Corp	Appointed	Director
R H Fisher		
WEL Networks Limited	Resigned	Chairman
Unison Networks Limited	Appointed	Director
Central Capital Investment Fund	Resigned	Member of Investment Committee
M J Andrews		
CO2 New Zealand Management Company Limited	Appointed	Director
Tukia Group Limited	Appointed	Board Advisor

S G Kasnet and S L Moriarty were restricted, in accordance with section 145(2) of the NZ Companies Act 1993, from disclosing to Rubicon Limited any information which either of them may have had in their capacity as a Director of Tenon Limited, except to the extent that such disclosure was allowed under the Act or was specifically approved by the independent Directors for disclosure to Rubicon Limited.

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 2010 the Company effected directors' and officers' liability and statutory liability insurance 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 totalling US\$6,000 were made during the year.

Auditor's Fees

Fees payable to PricewaterhouseCoopers during the year are disclosed on page 32. During the year the auditor was paid US\$102,000 for non-audit related work for the Company, which is discussed on page 54.

Credit Rating

Tenon has not sought a credit rating.

Directors' Holdings – Equity Securities

Tenon Limited Ordinary Shares

	30 June 2010			30 June 2009		
	Beneficial	Non-Beneficial	Associated Persons	Beneficial	Non-Beneficial	Associated Persons
M J Andrews	–	–	11,943	–	–	11,943
R H Fisher	750	–	–	750	–	–
S G Kasnet	–	–	–	–	–	–
S L Moriarty	27,155	–	–	27,155	–	–
M C Walls	10,750	–	–	10,750	–	–
	38,655	–	11,943	38,655	–	11,943

Shareholder Statistics

Largest Shareholders

The 20 shareholders with the largest holdings of shares as at 2 August 2010 were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
Rubicon Forests Holdings Limited	38,747,695	57.96
New Zealand Central Securities Depository Limited	17,235,601	25.78
Leveraged Equities Finance Limited	352,849	0.53
G J Butler & S J Butler	305,740	0.46
Sok Eng Boey & Yeow Ann Chiam & Kay Hong Chiam & Shen Mei Chiam	255,000	0.38
C W Flood	200,000	0.30
Tenon Custodians Limited	182,548	0.27
Chin-Yi Lin & Yu-Ching Lin-Chao	180,150	0.27
Tenon Employee Educational Fund Limited	144,721	0.22
J E C Anderson & B L Denholm	140,000	0.21
Walker Capital Management Limited	106,624	0.16
I G Douglas & B J Cook	81,962	0.12
E A Badham & L J Badham	80,000	0.12
A Kaan & M Kaan & A Blackwood	70,000	0.10
J W Powell	69,791	0.10
FNZ Custodians Limited	62,530	0.09
Fletcher Building Nominees Limited	58,000	0.09
Sing Kwan Lee & Miu Chun Lee Ma	52,362	0.08
Investment Custodial Services Limited	50,461	0.08
D Loo	50,000	0.08
	58,426,034	87.40
Total Shares	66,850,661	

NZCSD

New Zealand Central Securities Depository Limited ("NZCSD") is a depository system which allows electronic trading of securities to its members. At 2 August 2010, the 10 largest shareholdings held through NZCSD were:

	Tenon Ordinary Shares	% of Tenon Ordinary Shares
Accident Compensation Commission	4,612,014	6.90
ANZ Nominees Limited	272,475	0.41
Courtenay Nominees Limited	337	0.00
Citibank Nominees (New Zealand) Limited	1,369,703	2.05
Guardian Trust Investment Nominees (RWT) Limited	2,642	0.00
HSBC Nominees (New Zealand) Limited – A/C State Street	10	0.00
HSBC Nominees (New Zealand) Limited	36,680	0.05
National Nominees New Zealand Limited	10,543,248	15.77
NZ Guardian Trust Investment Nominees Limited	431	0.00
TEA Custodians Limited	398,061	0.60
	17,235,601	25.78
Total Shares	66,850,661	

Shareholder Statistics continued

Distribution of Shares – 2 August 2010

Size of Holdings	Ordinary Shareholders		Ordinary Shares	
	Number	%	Number	%
1 – 200	1,702	24.29	236,578	0.35
201 – 500	1,942	27.71	644,472	0.96
501 – 5,000	3,081	43.96	3,976,210	5.95
5,001 – 10,000	145	2.07	1,048,832	1.57
Over 10,000	138	1.97	60,944,569	91.17
Total	7,008	100.00	66,850,661	100.00

Less than a minimum holding: As at 2 August 2010, 1,702 holders of Ordinary shares held less than the minimum holding of 200 or less shares under the NZX listing rules.

Supplemental Disclosure of Domicile of Beneficial Owners⁽¹⁾

	Ordinary Shares	
	Number	%
New Zealand	54,391,271	81.36
United States of America	11,706,428	17.51
Other	752,962	1.13
Total issued voting shares as at 10 August 2010	66,850,661	100.00

(1) Updated for information received by 10 August 2010 in response to notices under sections 28 and 29 of the New Zealand Securities Markets Act 1988.

Substantial Security Holders

As at 25 August 2010 the following persons have given notice (in terms of the New Zealand Securities Markets Act 1988) that they are substantial security holders in Tenon. In terms of the Act, the number of Tenon ordinary shares shown as held below is as last advised to Tenon by the substantial security holder.

	Tenon Ordinary Shares	% of Tenon Shares
Rubicon Forests Holdings Limited	38,747,695	57.96
Third Avenue Management LLC	10,482,120	15.68
Accident Compensation Commission	4,617,628	6.91
Total	53,847,443	80.55
Total issued voting shares as at 25 August 2010	66,850,661	

Investor Information

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

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

2010-2011 Calendar

- Half Year End: 31 December 2010
- Half Year Results Announcement: February 2011
- Financial Year End: 30 June 2011
- Annual Results Announcement: August 2011
- Mailing of 2011 Annual Report: September 2011

Dividend

There is no 2010 dividend.

Tenon Shares

Tenon Limited has one class of shares, Ordinary shares.

New Zealand Exchange

Ordinary shares TEN

Issued Share Capital (Number of Shares)

Ordinary shares 66,850,661 as at 25 August 2010

Share Registry Enquiries

Enquiries

Computershare Investor Services Limited

Private Bag 92119,

Auckland 1142

159 Hurstmere Road,

Takapuna, North Shore City 0622

New Zealand

Telephone: 64-9-488-8777

Facsimile: 64-9-488-8787

E-mail: enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number.

Managing your shareholding online

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

Company Websites

www.tenonglobal.com

www.empireco.com

www.ornamentalmouldings.com

www.southwestmoulding.com

www.lifespanoutdoor.com

www.fletcherwoodsolutions.com

Other Investor Enquiries/Registered Office

Investor Relations

Tenon Limited

Level 3,

7 Fanshawe Street,

Auckland, 1010

Private Bag 92036,

Auckland, 1142, New Zealand

Telephone: 64-9-368-4193

Facsimile: 64-9-368-4197

E-mail: investor-relations@tenon.co.nz

Forward-Looking Statements

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

Directors

Simon Luke Moriarty (Chairman)

Michael John Andrews

Rodger Herbert Fisher

Stephen Garfield Kasnet

Michael Carmody Walls

See page 50 for details of Directors.

Investor Information continued

Executive Officers

Tom Highley – Chief Executive Officer

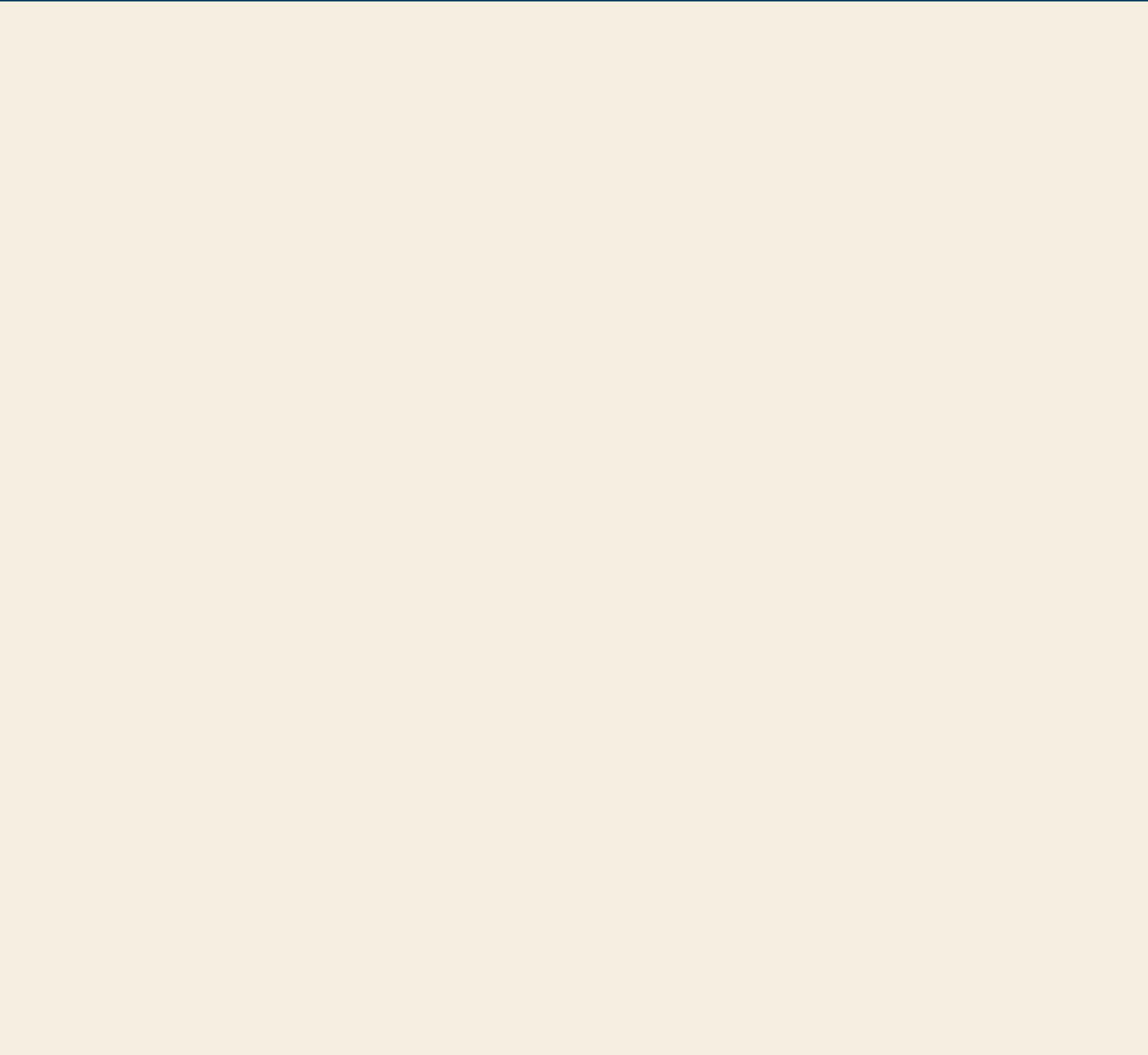
Tom Highley was appointed Chief Executive Officer on 1 September 2009. Tom's previous role was President and Chief Operating Officer of The Empire Company Inc. (a Tenon Group subsidiary), which he had held for five years. Tom joined The Empire Company in 2001 as Vice President of the Pro-Dealer National Chain business. He was promoted to Vice President of the entire Pro-Dealer Division in May of 2002, and subsequently to President of Empire in September of 2004. Prior to Tom's employment with the Tenon Group, he held a number of positions in sales, marketing and management within the consumer products and medical device industries. Tom has a Bachelor degree in International Relations and Economics from the University of Wisconsin in Milwaukee and an MBA from the University of Michigan Ross School of Business.

Adam S White – Chief Financial Officer

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

Paul M Gillard – General Manager, Corporate

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



www.tenonglobal.com