Tenon
Wood Solutions to the World

2013-14

Half-Year Report

Contents

Forward-Looking Statements

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

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

Half-Year Report – 31 December 2013

Tenon's Six Months Highlights -

- **Tenon is leveraged to both new housing and DIY / retail in the US, and will be a beneficiary of the broader recovery in the US housing market as it progresses**
  - US industry activity now only at early cycle recovery levels
  - Upside potential from current industry activity level is therefore significant

- **Announcement of planned resumption of shareholder cash returns in the second half of calendar 2014** (assuming no unforeseen events and Tenon earnings progress to plan)

- **Share price increased 30% across the period**
  - NZX up 7% over the same period
  - Edison analyst report values Tenon at mid-point of NZ$2.40 per share

- **Shareholder Plan introduced and strongly supported by existing shareholders**
  - Number of shareholders buying additional shares exceeded sellers 2:1
  - Number of shares acquired exceed those sold by 10:1

- **New 5-year, $70 million syndicated debt financing facility established**

- **Revenue of $197 million recorded, up $23 million (13%) on the corresponding prior six-month period to December 2012**
  - Revenue from pro-dealer customers up 20%
  - Revenue from DIY / retail customers up 10%

- **In line with market expectations, a breakeven net profit after tax result was recorded (corresponding prior period, $2 million loss), and forecast to move into 'bottom line' profitability in the second half of the 2014 fiscal year (pre any restructuring costs).** The six-month result included costs expensed of
  - $1 million relating to Tenon's new financing facility
  - $1 million relating to a complete in-store decorative line "refresh"

- **Gross Profit of $47 million was an 18% increase on the prior period's $40 million**

- **EBITDA[1] of $5 million was recorded**
  - Up 25% on the six-month period to June 2013
  - Equal to that recorded for the entire 12 months in fiscal 2013

- **Targeting fiscal 2014 EBITDA[1] to double that reported in 2013**

- **Mid-cycle[2] EBITDA[1] potential upgraded to circa $45 million (previously circa $35 million)**

(1) EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisation) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the difference in asset ages, depreciation policies, and debt : equity structures. EBITDA is calculated as Net Profit/Loss after Taxation of $ nil million (2012: $2 million loss), less income tax benefit of $nil million (2012: $nil million), plus financing costs of $3 million (2012: $1 million), plus depreciation and amortisation of $2 million (2012: $2 million). These numbers have been extracted from our 31 December 2013 Interim Financial Statements – please refer to Note 6 to those statements.

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

Kiln dried lumber at the Taupo New Zealand mill, stacked and ready for the surfacer.

Operations and Finance

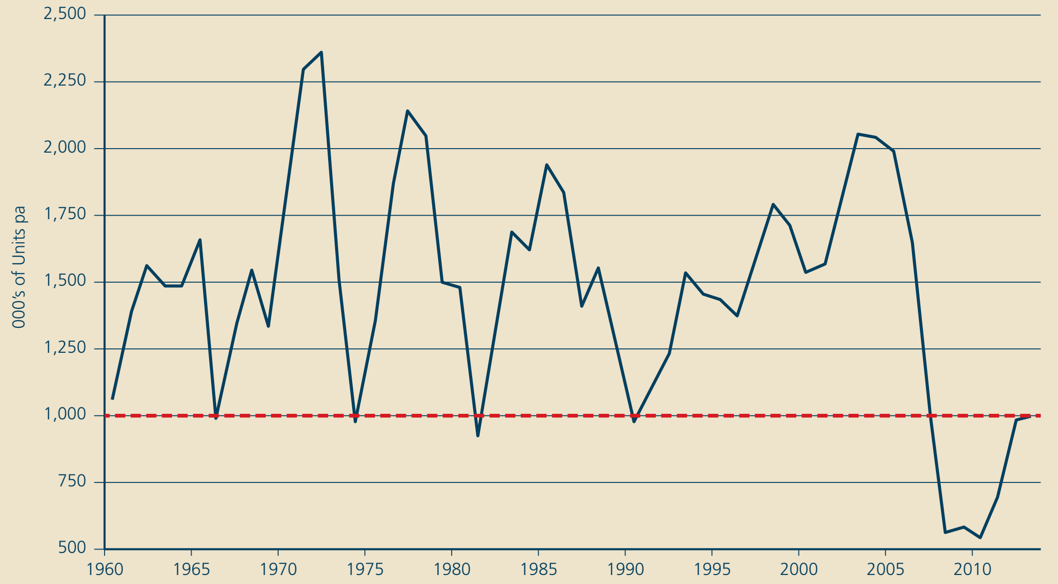
Tenon's financial performance gained momentum in the six months, in line with the continuing recovery in the US housing market now taking place. A quick review of recent US industry data shows –

- Housing starts ended the year 20% up on June '13
- Permits issued for new home construction, at 986,000 (seasonally adjusted annual rate) in December, were up 7% on June '13
- 5.1 million homes were sold in calendar '13, 9.1% higher than in the prior year - the strongest performance since 2006
- The Case-Shiller 20-city composite home price index increased 13.7% year-on-year (November) – the largest 12-month gain in eight years
- Existing home inventory ended the year at 4.6 months of supply, down 10% on the 5.1 months level prevailing at June '13

While there was some softening in conditions during the six months due to rising mortgage rates (a result of the US Federal Reserve's decision to begin its "tapering" programme), and also post balance date (i.e. in January and February) due to severe winter weather conditions, we believe the overall housing market trend remains positive in terms of a continued recovery. Longer-term, this will be supported by strong underlying US household growth and demographics. In the near-medium term, on-going job recovery in the US economy, combined with rising home prices and pent-up housing demand, will be the important factors.

As the new home construction chart on the next page shows, activity levels have only now recovered to the bottom of previous cycles. Put another way, over the past 50+ years housing starts have been above the current level for almost 90% of the time. So clearly we are only in the initial phase of this recovery, and the gap to mid-cycle levels of activity represents a large future opportunity for Tenon. As can be seen from the next chart, quite apart from our own organic growth initiatives, cyclical recovery alone will support strong future earnings growth in each of our underlying businesses.

Total New Privately Owned Housing Units Started December Seasonally Adjusted Annual Rate 1960 - 2013



Although we are only in the early phase of cyclical recovery, we have already begun to benefit from these improved market conditions. A few highlights from our six months' reported financial results show this point -

- **At $197 million, revenue was up $23 million, or 13%, on the previous year.** This growth in top line revenue came primarily from a 20%+ increase over the corresponding prior period to December 2012 ("cpp") in sales to our pro-dealer customers (who supply the new home construction market and who now represent approximately 45% of our total North American revenues), as we expanded our product range into existing customers. Notably, our retail / DIY customer sales also showed good growth, increasing by 10% over the cpp. This is the first six-month period since the beginning of the US housing down-cycle in 2007-8 that we have reported comparable period retail sales growth – a very positive indication that these customers will provide a strong earnings growth engine for Tenon as the US housing sector continues to recover. Revenue in the period also benefited from new and expanded product programmes established towards the end of fiscal '13, including softwood and hardwood boards, plank panelling, and new profiles of hardwood mouldings.

- **In line with market expectations, a break-even net profit after tax result was recorded.** This result included $1 million in costs relating to the establishment of our new bank financing facility (see below). The Company remains on track to achieve bottom line profitability in the second half of fiscal 2014. **Gross profit of $47 million was recorded, up 18% on the cpp.** Importantly, in terms of on-going future market recovery, gross profit was up over 9% on the $43 million recorded in the second half of fiscal '13 (i.e. 30 June 2013). **Operating profit before financing costs of $3 million compares favourably with the loss of $1 million recorded in the prior year.**

  This improved operating profit result reflected not only the benefits of higher volumes, but also the gains from our restructuring activities taken last year. Notably, this result also included the costs associated with the completion of the decorative product line "refresh" (a $1 million expense in the period). The NZD:USD cross rate moved wildly in the period, ranging from just under 78 cents to over 84 cents, and averaged 81 cents. Our FX hedging policy worked well in this environment, securing a hedged rate of 79 cents for the six months, compared with our budgeted rate of 80 cents.

- **EBITDA[1] improved to a profit of $5 million ($1 million cpp).**

  (1) EBITDA (please refer to Note 6 of our 31 December 2013 Interim Financial Statements and also to the footnote to the Highlights on page 3 of this Interim Report for further explanation) is the non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the differences in asset ages and depreciation policies, and by different debt:equity structures.

  This six-months EBITDA result was very pleasing, in so much that it equalled the result reported for the entire 12 months of fiscal '13 (i.e. for the 12 months to 30 June 2013), and it clearly shows the strengthening in Tenon's financial performance as the housing market continues on its recovery path. The result was in line with the EBITDA market guidance announcement the Company made at its ASM in December. As noted above, this result was achieved despite the headwind of a strong NZ dollar, and the $1 million of costs incurred in refreshing Ornamental's decorative product line.

- **New 5-year $70 million financing facility established.** On 5 September we announced that we had signed a new syndicated bank facility led by PNC (as agent bank), with continued participation by two of our existing syndicate banks – BNZ and Comerica. This new five-year $70 million facility provides for 30% greater debt capacity than the $54 million we operated with under the previous facility. The PNC facility does not expire until September 2018, and its terms are outlined in Note 3 to our 31 December 2013 Interim Financial Statements. This new facility will now allow us to advance through the cyclical recovery in the US housing market on a much stronger financial footing.

Governance

Our last ASM was held in Auckland (NZ) on 4 December 2013. Over 80% of the Company's issued shares were voted at the meeting, and all resolutions were passed - each with a majority in excess of 99%. These excellent voting statistics are a reflection not only of the company's consolidated share register, but also of the confidence that shareholders have in Tenon's future.

During the year we put in place a small shareholder Plan. The Plan ended on 31 January, by which time the number of existing Tenon shareholders buying further shares exceeded those wishing to sell by a ratio of 2:1, and the numbers of shares bought by shareholders exceeded those sold by a ratio of 10:1. We are very pleased with the positive shareholder response to the Plan.

Our share price performance during the six months was very strong, increasing over 30%. This compares very favourably with the 7% increase recorded by the NZX50 over this same period. Despite this strong recent performance, we still believe our traded share price is below "fair value" as at this point in the cycle. This view is supported by an Edison Investment Research Limited's equity analyst report (issued December 2013) which values Tenon in a range of NZ$2.24 - $2.57 per share.

To help address this issue, we announced two initiatives at the ASM that we believe will assist in closing this value "gap", including -

- **Our intention to begin making cash returns to shareholders.**
  Assuming no unforeseen events and our earnings profile progressing to plan, we believe we will be in a position to begin making cash returns to shareholders in calendar '14, following the completion of our fiscal year. We have not yet determined the appropriate form these will take (e.g. dividend or share buyback), as that will depend on a number of factors – including our core goal of seeing our share price lift. We will announce our conclusion on this later in the year.

- **Increasing the Company's equity exposure to US investors.**
  90% of Tenon's revenue is derived from the US, where the bulk of our operations are located, yet our equity is NZ-based, where news of the US housing market and the performance of Tenon's competitors is sparse. While one obvious path we will be considering is a dual stock exchange listing (we will be weighing up the "pros and cons" of such an approach), we will also be undertaking a much wider company review to see how the Company can be best positioned to create value for shareholders as the current cyclical recovery progresses.

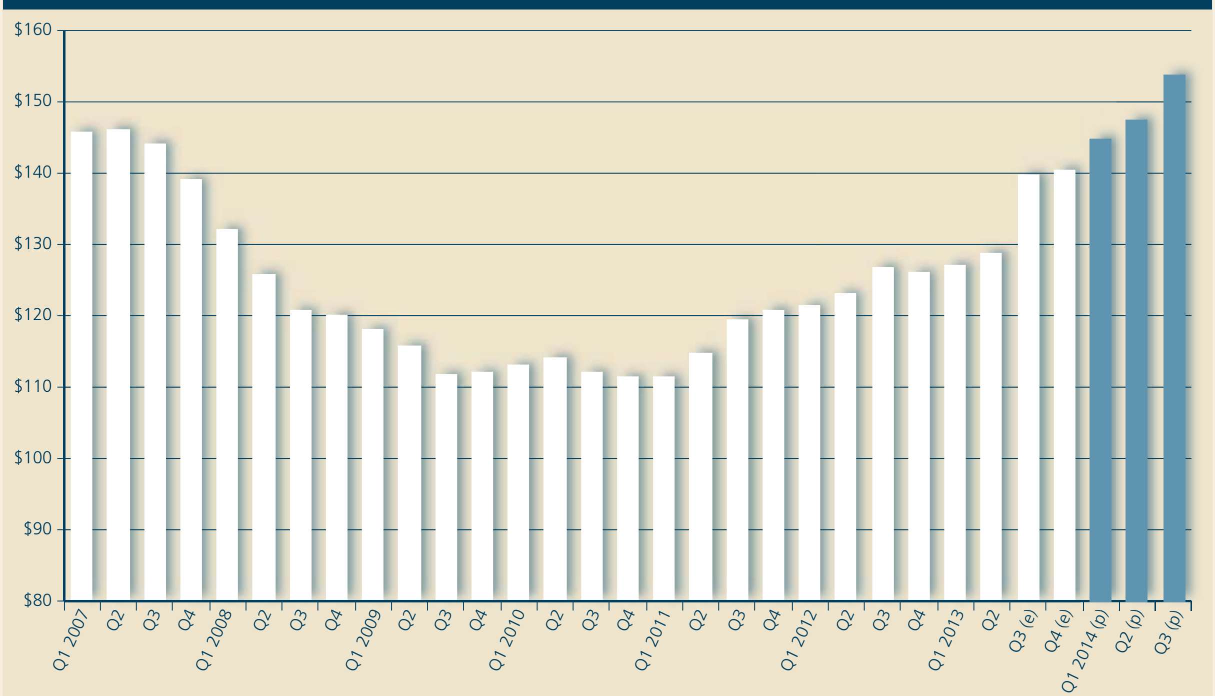
These initiatives are consistent with our goal of lifting our share price performance further, and to close the value gap that we see. These do not stand alone – they are, of course, complementary to our fundamental operating imperatives, which are designed to optimise our operational and financial performance in this fiscal year.

Looking Ahead

In our 2013 Annual Report 'Highlights' to shareholders, we indicated that it was our objective to double our fiscal '13 EBITDA[1] result in our current fiscal '14 year. While we now have some headwinds – namely, the above mentioned US Federal Reserve's "tapering" programme now underway and its impact on mortgage rates, severe snow storms and bad weather in the US throughout January and February affecting activity levels in the short term, and a NZD:USD hovering around 83-84 cents compared with our internally budgeted rate of 80 cents, despite these factors, **our objective remains to double our fiscal '13 EBITDA[1] result in our current fiscal '14 year.** Achieving that goal despite these headwinds, would augur very well for our forward earnings growth profile.

Most industry data points indicate we will be supported in our objective by good underlying industry activity levels – not only in new housing but importantly also in remodelling and renovation. This can be seen in this next chart, Harvard's Housing Studies Leading Indicator of Remodelling Activity (LIRA), which was updated last month (January) and which projects strong growth throughout calendar 2014.

Leading Indicator of Remodelling Activity (LIRA)
Homeowner Improvements 4-quarter moving totals
$ billions - January 2014 projections



In addition to the macro-industry factors that are expected to drive our earnings longer-term, we also expect to reap the benefits from Company specific growth and profit improvement initiatives that continue to be identified and implemented (refer 2013 Annual Report to Shareholders for full discussion). In this respect, due to the growth we have embedded into the Company, the restructuring and efficiency initiatives executed in recent periods, our logistics infrastructure now in place, and stronger mid-cycle activity levels predicted, **we now see Tenon's mid-cycle EBITDA[1] potential to be circa $45 million - a significant upgrade to our previous mid-cycle guidance of circa $35 million.**

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

Sincerely,

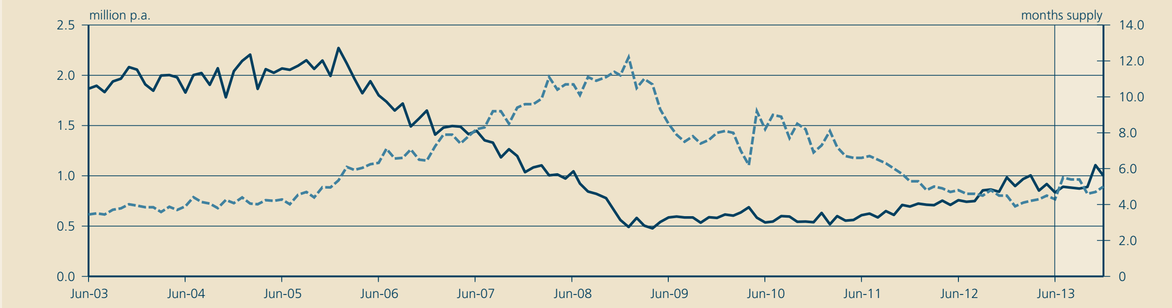
Luke Moriarty (Chairman)

Tony Johnston (Chief Operating Officer)

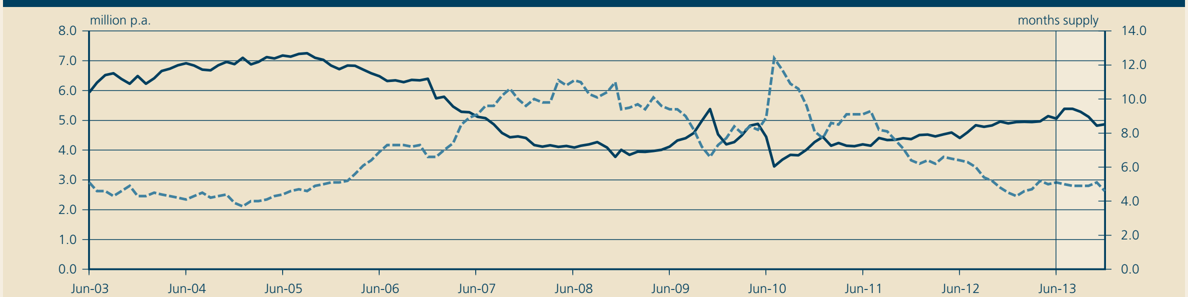
20 February, 2014

(1) Please refer to Note 6 of our 31 December 2013 Interim Financial Statements, and also to footnotes 1 & 2 to the Highlights on page 3 of this Interim Report for further explanation.

New Homes

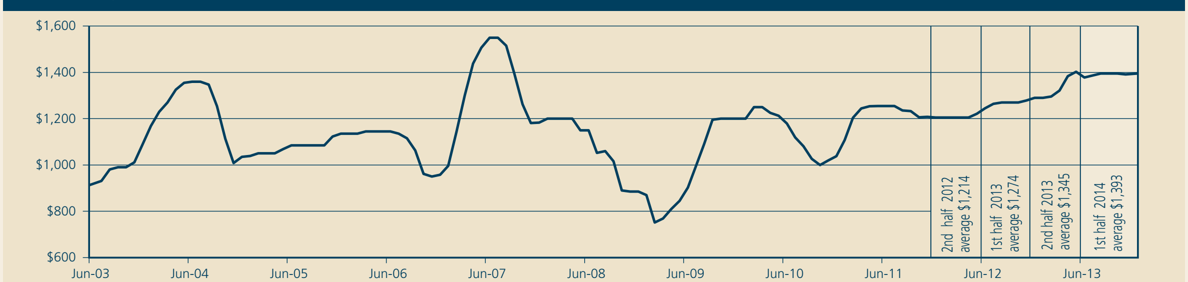


Existing Housing



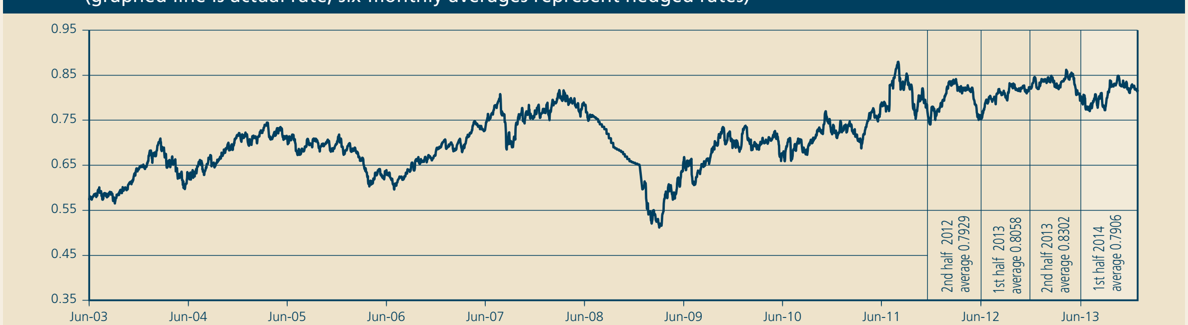
Moulding and Better Lumber Pricing

US$ mbf



NZD/USD Exchange Rate

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



Interim Financial Statements

Consolidated Income Statement for six months ended 31 December 2013

	Six Months Dec 2013 US$m	Tenon Group Year Ended June 2013 US$m	Six Months Dec 2012 US$m
Revenue	**197**	364	174
Cost of Sales	**-150**	-281	-134
Gross Profit	**47**	83	40
Distribution Expense	**-36**	-69	-34
Administration Expense	**-8**	-13	-7
Operating Profit / (Loss) before Financing Costs	**3**	1	-1
Financing Costs	**-3**	-4	-1
Profit / (Loss) before Taxation	**–**	-3	-2
Income Tax (Expense) / Benefit	**–**	–	–
Net Profit / (Loss) after Taxation	**–**	-3	-2

Earnings Per Share Information			
Basic and Diluted Net Earnings per Share (cents)	**0.1**	-4.8	-3.7
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	**65.7**	65.7	65.7

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

Consolidated Statement of Comprehensive Income for six months ended 31 December 2013

	Six Months Dec 2013 US$m	Tenon Group Year Ended June 2013 US$m	Six Months Dec 2012 US$m
Net Profit / (Loss) after Taxation for the period	**–**	-3	-2
Items that may be recycled to the Consolidated Income Statement:			
Net Movement on Cash Flow Hedges net of Tax	**1**	-1	–
Other Comprehensive Income for the year, net of Tax	**1**	-1	–
Total Comprehensive Income for the period	**1**	**-4**	-2

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

Consolidated Statement of Changes in Equity for six months ended 31 December 2013

Tenon Group	Shares US$m	Retained Earnings US$m	Cash Flow Hedge Reserves US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Group Equity & Reserves US$m
As at 1 July 2012	533	-417	–	1	5	122
Net Profit / (Loss) after Taxation for the period	–	-2	–	–	–	-2
Other Comprehensive Income / (Loss) for the period	–	–	–	–	–	–
Total Comprehensive Income Attributable to the Equity holders of the Parent	–	-2	–	–	–	-2
As at 31 December 2012	533	-419	–	1	5	120
As at 1 July 2012	533	-417	–	1	5	122
Net Profit / (Loss) after Taxation for the year	–	-3	–	–	–	-3
Other Comprehensive Income / (Loss) for the year	–	–	-1	–	–	-1
Total Comprehensive Income Attributable to the Equity holders of the Parent	–	-3	-1	–	–	-4
As at 30 June 2013	533	-420	-1	1	5	118
As at 1 July 2013	533	-420	-1	1	5	118
Net Profit / (Loss) after Taxation for the period	–	–	–	–	–	–
Other Comprehensive Income / (Loss) for the period	–	–	1	–	–	1
Total Comprehensive Income Attributable to the Equity holders of the Parent	–	–	1	–	–	1
As at 31 December 2013	533	-420	–	1	5	119

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

Consolidated Balance Sheet as at 31 December 2013

	Note	As at Dec 2013 US$m	Tenon Group As at June 2013 US$m	As at Dec 2012 US$m
ASSETS				
Current Assets:				
Inventory		**73**	72	59
Trade and Other Receivables		**28**	34	27
Current Tax Receivable		**–**	–	1
Total Current Assets		**101**	106	87
Non Current Assets:				
Fixed Assets		**22**	23	25
Forest Assets		**4**	4	4
Goodwill		**67**	67	67
Deferred Taxation Asset		**11**	11	10
Total Non Current Assets		**104**	105	106
Total Group Assets		**205**	211	193
LIABILITIES AND GROUP EQUITY				
Liabilities				
Current Liabilities:				
Bank Overdraft		**–**	2	6
Trade and Other Payables and Provisions		**33**	43	29
Derivative Financial Instruments		**–**	1	–
Current Debt	3	**3**	1	1
Total Current Liabilities		**36**	47	36
Non Current Liabilities:				
Non Current Debt	3	**50**	46	37
Total Non Current Liabilities		**50**	46	37
Total Group Liabilities		**86**	93	73
Group Equity				
Capital	4	**533**	533	533
Reserves		**-414**	-415	-413
Total Group Equity		**119**	118	120
Total Group Liabilities and Equity		**205**	211	193
Net Assets per Share (US$)		**1.81**	1.80	1.83
Net Tangible Assets per Share (US$)		**0.62**	0.61	0.65
Shares used for Net Assets per Share (millions)	4	**65.7**	65.7	65.7

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

Consolidated Statement of Cash Flows for six months ended 31 December 2013

	Six Months Dec 2013 US$m	Tenon Group Year Ended June 2013 US$m	Six Months Dec 2012 US$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	**206**	360	178
Total Provided	**206**	360	178
Payments to Suppliers, Employees and Other	**205**	368	184
Total Applied	**205**	368	184
Net Cash from / (to) Operating Activities	**1**	-8	-6
To Investing Activities:			
Sale of Assets held for sale	**–**	3	3
Total Provided	**–**	3	3
Purchase of Fixed Assets	**1**	2	1
Total Applied	**1**	2	1
Net Cash from / (to) Investing Activities	**-1**	1	2
From Financing Activities:			
Debt Drawdowns	**55**	15	7
Total Provided	**55**	15	7
Debt Settlements	**49**	6	7
Interest and Refinancing Fees paid	**4**	3	1
Total Applied	**53**	9	8
Net Cash from / (to) Financing Activities	**2**	6	-1
Net Movement in Cash Held	**2**	-1	-5
Add Opening Cash, Liquid Deposits and Overdrafts	**-2**	-1	-1
Closing Cash, Liquid Deposits and Overdrafts	**–**	-2	-6

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

Reconciliation of Consolidated Net Earnings to Consolidated Net Cash from Operating Activities for six months ended 31 December 2013

	Six Months Dec 2013 US$m	Tenon Group Year Ended June 2013 US$m	Six Months Dec 2012 US$m
Cash was Provided from:			
Net Profit / (Loss) after Taxation	**–**	-3	-2
Add Net Financing Expense	**3**	4	1
Adjustments:			
Depreciation	**2**	4	2
Other [2]	**–**	-2	-2
Cash Flow from / (to) Operations before Net Working Capital Movements	**5**	3	-1
Net Working Capital Movements	**-4**	-11	-5
Net Cash to Operating Activities[1]	**1**	-8	-6
Net Working Capital Movements:			
Trade and Other Receivables	**8**	-4	4
Inventory	**-1**	-19	-5
Trade and Other Payables	**-11**	12	-4
	-4	-11	-5

(1) As per Statement of Cash Flows

(2) June 2013 and December 2012: Restructuring costs paid and gain on sale of assets

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

Notes to the Condensed Interim Financial Statements

1 GENERAL INFORMATION

Tenon Limited (the Company) and its Subsidiaries (together the Group) is a processing, marketing and distribution business operating in one segment - 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 millwork products with independent Pro-Dealers and with the large home improvement chains in the United States, and supplies appearance grade lumber to a number of US manufacturers. As well as providing a channel to market for Tenon's New Zealand products, its wholly owned distribution businesses in the United States also source significant quantities of finished mouldings and millwork products from other global suppliers.

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

The Company is listed on the New Zealand stock exchange. As at 31 December 2013 the Group was 58.99% owned by Rubicon Limited and its subsidiaries (June 2013: 58.99%).

These condensed consolidated interim financial statements have been reviewed by the Group's Auditor but not audited.

These condensed consolidated interim financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 20 February 2014.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those applied in the audited annual financial statements for the year ended 30 June 2013, as described in those financial statements.

2.1 Basis of Presentation

The condensed consolidated interim financial statements presented are those of Tenon Limited and Subsidiaries (the Group) and have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the years ended 30 June 2013 and 30 June 2012, which have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

2.2 Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and New Zealand Equivalent to International Accounting Standard (IAS) 34, Interim Financial Reporting. The interim financial statements also comply with IAS 34.

The condensed consolidated interim financial statements do not include all of the information required to be disclosed for full annual financial statements. The Group has designated itself as a profit-oriented entity for the purposes of compliance with NZ IFRS.

2.3 Changes in Accounting Policy and Disclosures

The Group adopted NZ IFRS 7, Financial Instruments: Amendments to NZ IFRS 7 Financial Instruments: Disclosures - Transition Disclosures, on 1 July 2013. These amendments remove the requirement for the restatement of comparative period financial statements upon the initial application of the classification and measurement requirements of NZ IFRS 9. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39, Financial Instruments: Recognition and Measurement to those of NZ IFRS 9. The adoption of this standard has had no impact on these condensed consolidated interim financial statements.

The Group adopted NZ IFRS 10, Consolidated Financial Statements, and NZ IFRS 12, Disclosure of Interests in Other Entities, on 1 July 2013. The standard introduces a single definition of control that applies to all entities. NZ IFRS 12 sets out the required disclosures for entities reporting under the new standard, NZ IFRS 10. The adoption of this standard has had no impact on these condensed consolidated interim financial statements.

The Group adopted NZ IFRS 13, Fair Value Measurement, on 1 July 2013. NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The adoption of this standard has had no impact on these condensed consolidated interim financial statements.

The Group adopted the revised NZ IAS 27 on 1 July 2013. NZ IAS 27 is renamed Separate Financial Statements. The adoption of this standard has had no impact on these condensed consolidated interim financial statements.

The Group has not early adopted any of the new standards, amendments and interpretations to existing standards disclosed in note 2.4 (b) of the June 2013 audited financial statements, and there have been no new standards, amendments or interpretations to existing standards issued since June 2013 that are applicable to the Group.

3 CURRENT AND NON CURRENT DEBT

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

The revolver facility is classified as non-current, reflecting the lenders' commitment to the Group for the life of the facility. Under the facility the Group can exercise its unconditional right to draw down or repay borrowings from time to time up to the amount of the facility, subject to the Group remaining in compliance with certain facility covenants (refer paragraph above).

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

As at 31 December 2013, the Company was in compliance with the EBITDA covenant and accordingly the amount of debt drawn under the revolver facility is shown as non-current. Tenon believes it will also be compliant with the EBITDA covenant at 31 March 2014 and the FCCR covenant thereafter.

The total size of Tenon's syndicated bank credit facility reduces as a result of the scheduled amortisation of the Term Loan and the payment of an annual excess cash flow recapture provision (of up to $1 million per annum). The assumption has been made that, commencing in September 2014, the maximum $1 million repayment each year will be made under the excess cash flow provision of the facility.

		$m	
	Term	**Revolver**	**Total**
Sept 2013	11.00	59.00	70.00
Dec 2013	10.72	59.00	69.72
June 2014(a)	10.17	59.00	69.17
June 2015(b)	8.07	59.00	67.07
June 2016(b)	5.97	59.00	64.97
June 2017(b)	3.87	59.00	62.87
June 2018(b)	1.77	59.00	60.77
Sept 2018	–	–	–

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

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

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

The current debt of $3 million reflects Term Loan amortisation of $1.1 million and excess cash flow repayment of $1 million and other loan principal payments of $0.5 million.

(1) EBITDA is a Non-GAAP financial measure, refer to note 6.

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

Notes to the Condensed Interim Financial Statements continued

4 CAPITAL

	Six Months Dec 2013 US$	Tenon Group Year Ended June 2013 US$	Six Months Dec 2012 US$
Capital			
Reported Capital:			
Reported Capital at the beginning and end of the period	**532,947,659**	532,947,659	532,947,659
Reported Capital	**532,947,659**	532,947,659	532,957,659

	Six Months Dec 2013	Tenon Group Year Ended June 2013	Six Months Dec 2012
Tenon Ordinary Shares – fully paid(1)			
Number of Shares at the beginning and end of the period	**65,690,681**	65,690,681	65,690,681
	65,690,681	65,690,681	65,690,681

(1) Includes 182,548 (June 2013: 182,548, December 2012: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as treasury stock.

Notes to the Condensed Interim Financial Statements continued

5 SEGMENTAL INFORMATION SUMMARY

Tenon derives its revenue from and operates within one material operating segment, being the Moulding and Millwork segment. Tenon provides a wide range of Moulding and Millwork products to an extensive number of customers in this one segment. Tenon's Board and the Management team assess Tenon's performance, and review the allocation of resources, from reports presented as a single business operating within this one segment. Consequently no segmental information by business class is disclosed.

Geographic segmental reporting for the periods ended December 2013, June 2013 and December 2012 split between North America and Australasia is shown below.

December 2013 – six months	North America US$m	New Zealand and Australia US$m	Total US$m
Operating Revenue(1)	**173**	**24**	**197**
Non Current Assets(2)	**78**	**15**	**93**
Capital Expenditure	**1**	**–**	**1**

June 2013 – year ended	North America US$m	New Zealand and Australia US$m	Total US$m
Operating Revenue(1)	317	47	364
Non Current Assets(2)	78	16	94
Capital Expenditure	2	–	2

December 2012 – six months	North America US$m	New Zealand and Australia US$m	Total US$m
Operating Revenue(1)	150	24	174
Non Current Assets(2)	79	17	96
Capital Expenditure	1	–	1

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

(2) Excludes Deferred Taxation Asset.

Notes to the Condensed Interim Financial Statements continued

6 NON-GAAP MEASURES

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

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

	Six Months Dec 2013 US$m	**Tenon Group Year Ended June 2013 (1) US$m**	**Six Months Dec 2012 US$m**
Net Profit / (Loss) after Taxation	**–**	-3	-2
Less Income Tax (Expense) / Benefit	**–**	–	–
Plus Financing Costs	**3**	4	1
Operating Profit / (Loss) before Financing Costs	**3**	1	-1
Plus Depreciation and Amortisation	**2**	4	2
EBITDA	**5**	5	1

(1) Includes pre-tax business re-engineering and restructuring costs of $1 million

7 CONTINGENT LIABILITIES

The Group has no material contingent liabilities (June 2013: nil, December 2012: nil).

Investor Information

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

Copies of the Half-Year Reports, Annual Reports and Tenon's announcements to the New Zealand Exchange are available on the Company's website, www.tenonglobal.com.

Dividend

There is no 2014 interim dividend for Tenon shareholders.

Share Registry Enquiries

Shareholders with enquiries about share transactions or changes of address can access the Computershare website www.computershare.co.nz and check their shareholding online. You will need your shareholder number and FIN.

Computershare Investor Services Limited
Private Bag 92 119,
Auckland 1142, New Zealand
Level 2, 159 Hurstmere Road,
Takapuna, Auckland 0622
Telephone: 64 9 488 8777
Facsimile: 64 9 488 8787
E-mail: enquiry@computershare.co.nz

Electronic Communications

You can elect to receive your shareholder communications electronically.

To register, visit www.investorcentre.com/nz. To initially access this website, you will need your CSN or Holder Number and FIN. You will be guided through a series of steps to register your account, including setting up a new user ID and password for on-going use of the website.

Once logged in, click on "My Profile". In the Communication preferences panel, click "update".

Alternatively send your name, address and CSN or holder number to ecomms@computershare.co.nz advising you wish to receive your Tenon shareholder communications by email.

Company Websites

www.tenonglobal.com
www.tenon.co.nz
www.empireco.com
www.ornamentalmouldings.com
www.southwestmoulding.com
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www.fletcherwoodsolutions.com

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