Tenon
Wood Solutions to the World

Half-Year Report 2012 - 2013

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. 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.

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

Half-Year Report 2013

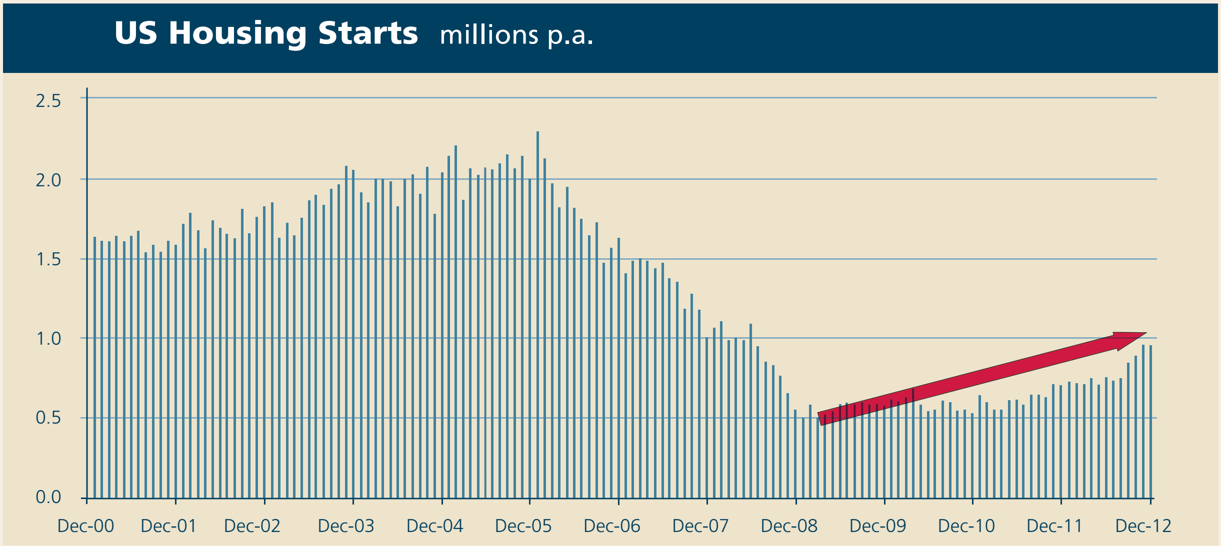
Six Month's Activities to 31 December 2012

This document is an interim report covering the first six months of operation for Tenon's 2013 fiscal year (i.e. for the six months ended 31 December 2012). It addresses in summary form the operational and financial highlights for the period. Our Annual Report for 2012 is available on our website – www.tenonglobal.com. In addition to our shareholder reports, from time to time we make announcements to the New Zealand Exchange. These can be viewed either on the NZX website or on Tenon's own website, where a complete history of our releases is maintained.

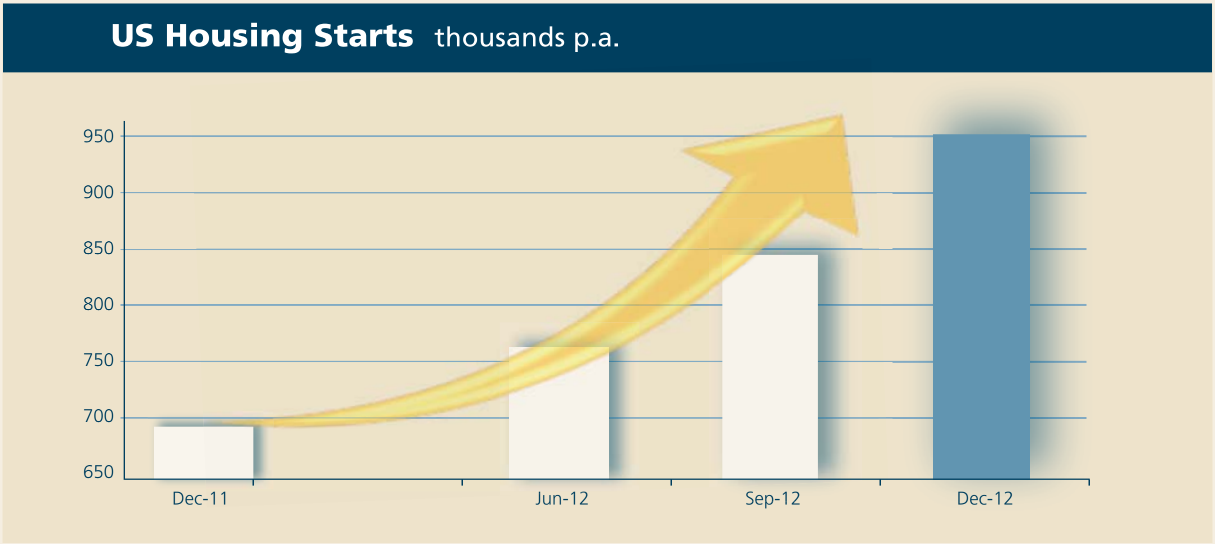
Macro-conditions

The US housing market – Tenon's largest market exposure - is now in the early stages of a full recovery. This is an extremely positive development for Tenon, although it is really only in very recent months that this improvement has occurred in any meaningful way. To date, this recovery has been centred on new house construction, but the forward looking data now indicates that the rebound should also spread into a higher level of renovation and remodelling activity later in this calendar year. Given Tenon is exposed to both segments of the market (but more particularly to the latter segment), we should see the benefit of this broader market recovery reflected in our earnings as the calendar year advances.

The charts on the following page give an idea of the extent of the recovery that has occurred in the new home construction segment. Although still well off its previous peak of 2.3 million homes, you can see that new housing starts have almost doubled now - up from a cyclical and historical low of only 478,000 homes per annum to 954,000 per annum (December 2012).



Importantly, this new housing recovery has been quite sudden relative to the depth and length of the down-turn. This next chart shows this clearly, with December 2012 housing starts being up 37% on the same month a year prior, and up 27% on the number recorded just six months earlier.



This noticeable lift in new housing starts indicates that this segment of the market has now turned for the positive. Other supportive (January 2013) indicators include –

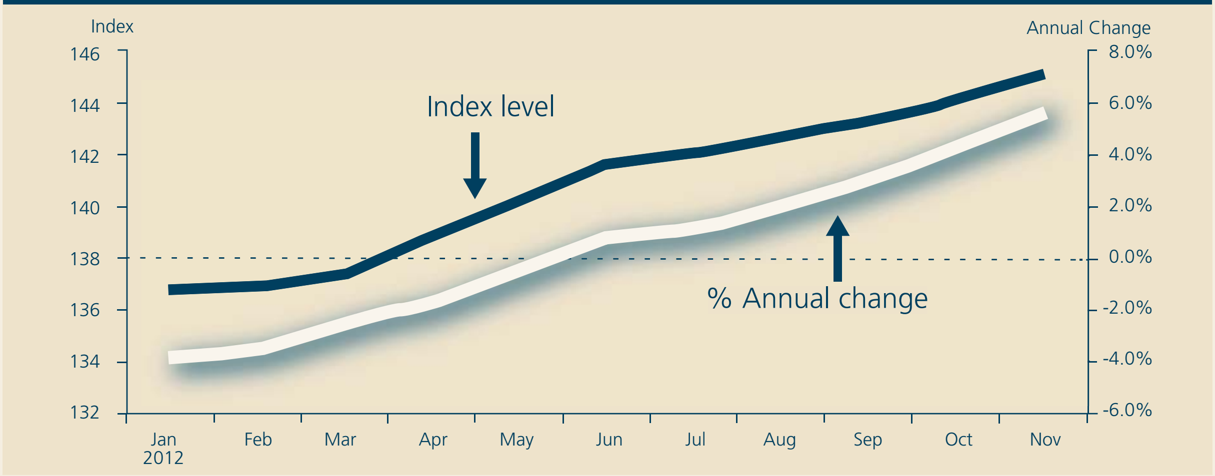
- New home sales - up 9% year-over-year;
- New home prices - up 14% year-over-year; and
- New home inventory - which at 4.9 months of supply, is now well below its peak level of over 12 months of supply.

This segment is also being supported by record low mortgage rates in the US. 30-year (tax deductible) mortgage rates are now at 3.4%, which compares with over 4% a year ago – so it is certainly an affordable time to buy a home.

Indicators are now also turning positive in the renovation and remodelling segment of the market. The two key drivers of this segment are existing home sales (as home buyers tend to renovate nine months or so after purchasing their home) and existing home prices (as home-owners need to be confident that they will recover the value of their remodelling investment, and in some cases increased home equity provides the finance for the remodelling activity). Both of these drivers now appear to be moving in the right direction.

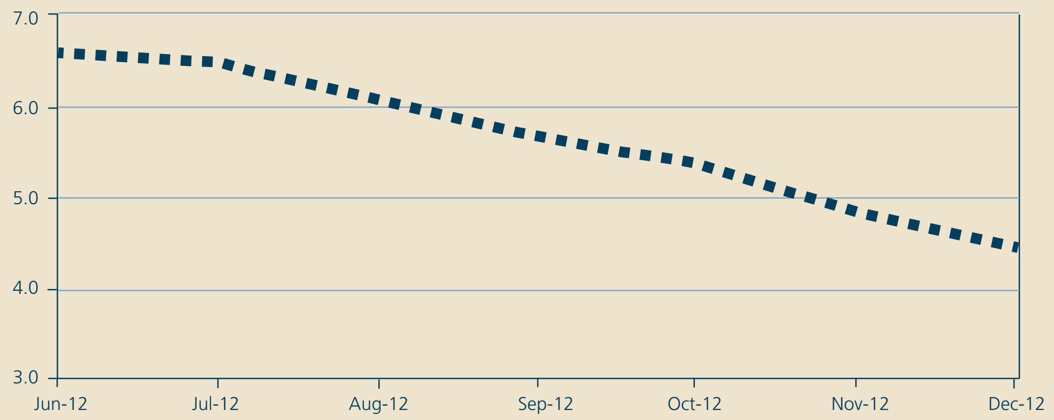
The chart below shows the Case-Shiller index which tracks the path of existing single-family homes sales prices. You can see that this seasonally-adjusted index has moved up every month for each reported month in calendar 2012, and prices are up 6% on the recent low recorded a year ago.

S&P / Case-Shiller 20-city Composite (seasonally adjusted)



This next chart shows the months-of-supply of existing home inventory – a measure which factors in both the rate of home sales and the inventory pool available for sale. You can see that this measure has noticeably and positively trended down, from 6.5 months in June 2012 to only 4.4 months in December, where historically 6-months' supply has been considered to represent a balanced market.

Existing Home Inventory months supply

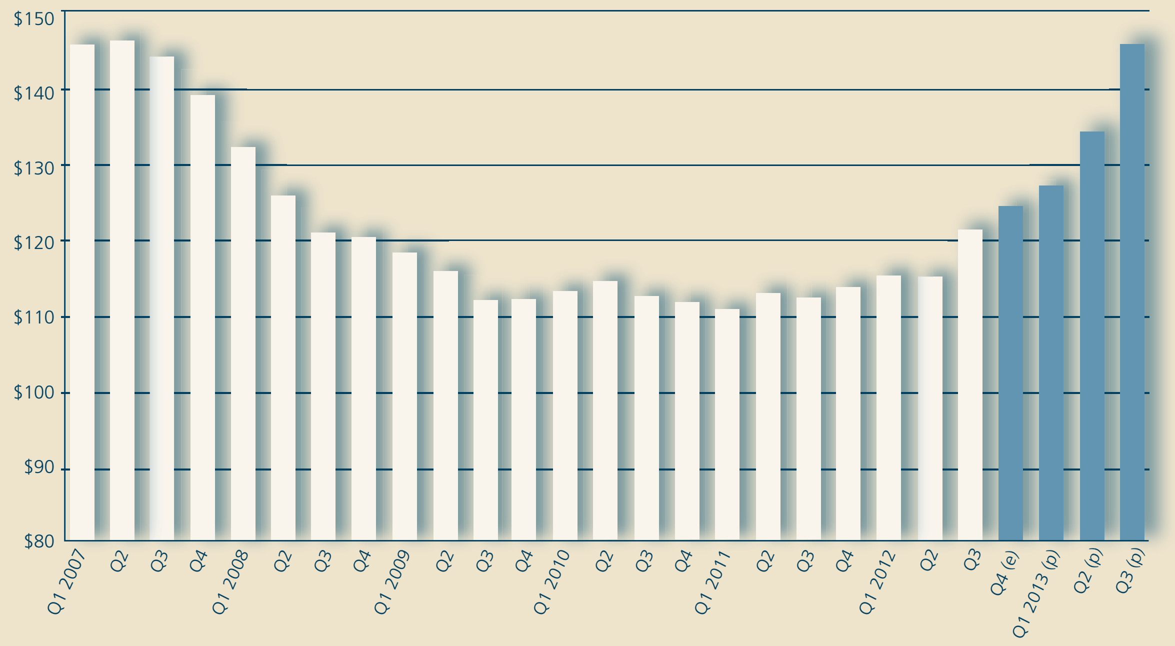


On top of all this, pending home sales in December were up 6.9% year-on-year, and the inventory of existing homes available for sale is now at its lowest point for 12 years. So most reported data is now very favourable to an ongoing cyclical recovery.

Because of the natural lag that exists between these drivers and the resulting remodelling and renovation activity that usually follows in the future, we haven't yet seen demand pick up in this segment in our product categories, beyond the small localised regional lift in activity that resulted from Hurricane Sandy. It should do so however, and in this respect the chart on the following page from Harvard's recent Housing Study shows the strong uplift that is expected to occur in this segment later in calendar 2013, once this timing lag has cleared.

Leading indicator of remodelling activity (LIRA)

Homeowner Improvements 4-quarter moving totals
$ billions - January 2013 projections



When all of the charts above are considered, along with their supporting market data, you can see that the "big picture" environment for Tenon is now changing, and that the US housing cycle is at last turning in our favour. Although there are some notable hurdles to a full US housing market recovery – unemployment, access to mortgage credit, home foreclosures, and resolution of the US "fiscal cliff," being the main concerns – and moving forward the month-to-month data is likely to be a little bumpy, it appears clear now that we are heading out of the deep cycle-trough that has plagued the industry for too many years now.

Six Months Activity and Financial Results

As noted above, it has only been in the relatively recent months that the US housing market recovery has taken hold, and to date it has really only been in one (i.e. new home construction) of the two segments comprising the total market. Accordingly, the six-month financial period under review largely reflects a "pre-recovery" US market for Tenon and its direct competitors. It is important to understand that for that reason it is the forward earnings profile that is now providing positive momentum for listed stocks in our sector, rather than the historic results we discuss in this Report. Having said that, our earnings result for the six months to 31 December 2012 was in line with market expectations for this "pre-recovery" period. In summary –

- At $174 million, consolidated Revenue was up 7.4% on the $162 million recorded for the corresponding six-month period last year. This top line growth came from increased sales in our pro-dealer activities - up more than 20% on the previous period - as this market segment began to recover, and also from the impact of new product introductions launched last year, such as the Creative Stair Parts program which saw stair sales increase by 35%. The price of our highest grade of lumber, moulding and better (M&B), also lifted 5% in the period, reflecting a tightening supply chain and rising demand.

  Sales volumes also benefited from both geographic and product diversification. For example, our Taupo manufacturing operation increased its high-value lumber sales into both China and Europe, rebalanced its product portfolio across lumber, clear board and solid lineal mouldings products to optimise customer sales and margin opportunities, and expanded its activities into Australia.

- The "thinness" of the industry supply chain in a now recovering US housing market saw manufacturers (including our own Taupo operation) place customers (i.e. distributors into the US, such as Empire) on product supply allocation restrictions during the period. Accordingly, our Cost of Sales increased in the period, as our third-party suppliers pushed through product price increases in this very tight supply environment, and also as our absolute volume of purchases increased to match market demand.

  While our gross profit margin did compress slightly in the period by just over 1% (normalised for non-recurring costs), to a large degree this was a direct result of the path of the NZ dollar - particularly the NZD:USD cross rate, which strengthened from 79 cents at 30 June 2012, to 82 cents at balance date, and which as at the timing of writing had increased even further to almost 85 cents.

  Unfortunately, this factor is likely to remain with us for the balance of the year, and we will need to continue to deal with it. Internally, we think of this adverse currency movement as representing a 5% gross profit margin decline in the profitability of our NZ manufacturing activities, which we must make up with further cost-out initiatives across the Group - particularly given that the gains from the $5 million Taupo profit improvement programme put in place only last year have effectively now been "stolen" by the strengthening NZD currency to date. During the period under review, examples of such further cost-out initiatives that were put in place include the –

  - Completion of the consolidation of Ornamental's manufacturing activities onto one US site in North Carolina (NC). The order files and manufacturing lines have now been transferred, the operation has been integrated into Tenon's North American shared services operation, and all surplus Canadian property has now been sold releasing $3 million to debt repayment. The results for the six months just completed include all costs relating to manufacturing "start-up" of the product lines now being produced at the single NC site. Manufacturing efficiencies will be evident in the second six months' results;

    - Relocation of Southwest's Dallas operation to a larger, special purpose warehousing facility. Although the floor space has been expanded to match increased demand forecasts, efficiency gains will allow Southwest to achieve an effective decrease in per square foot warehouse space and a lower overall dollar cost; and

    - Implementation of IT enhancements across the Group, such as to our electronic order confirmation, delivery, and invoicing, which will not only assist in working capital management but also in lowering back-room administration costs.

- Operating Profit before Financing Costs was a loss of $1 million, compared with a loss of $5 million (including $2 million of business re-engineering costs) in the corresponding period last year. However, the earnings figure that equity analysts tend to focus on for company comparative purposes is EBITDA (please refer to note 7 to the Financial Statements), because that number removes distortions caused by differences in asset age and depreciation policies, and by different debt:equity funding structures. EBITDA increased from a $2 million loss last year to a profit of $1 million for the current six-month period.

- Net debt (i.e. interest bearing debt net of cash) increased from $39 million at 30 June 2012 to $44 million at balance date. This increase is a direct result of the increased inventory we need to carry as the market enters its recovery phase and the need to ensure we have no stock-outs with our large delivery-sensitive customers as sales grow in our core product lines *(please also refer to LOOKING AHEAD section on the following page).*

Governance

Our ASM was held in Wellington (NZ) on December 13th, 2012. 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 our shareholders have in Tenon's future.

Our ASM presentations (which are freely available on our website at www.tenonglobal.com) outlined the future potential for the Company in a recovering US housing market environment. As previously noted, US housing data continues to improve as each month passes, indicating that the US market is now clearly in a recovery-mode. All of this news has been positive for our share price performance, which, at the time of writing, had increased by approximately 50% over the two months since our ASM. While this is good news, we still believe our traded share price is well below "fair value" as at this point in the cycle, and this view is supported by an equity analyst report released by the Edison Group which valued Tenon in a range of NZ$1.79 - $2.05 per share (inclusive of tax losses). We will be addressing this issue further as the year continues.

Looking Ahead

At our ASM, we outlined what the earnings potential might look like for Tenon under future mid-cycle conditions – conditions where we see EBITDA of $35 million being achievable (assuming a mid-cycle NZ:USD cross rate of 70 cents, and assuming historic margin levels). Shareholders will understand that this expanded potential is a result of the significant organic growth that we have put in place through the down-cycle (for a discussion of the growth that has now been embedded in the Company please refer to our 2012 Annual Report, which is also available on our website). To date the gains from these growth initiatives have been masked by the extent of the downturn that has taken place, however they should become obvious as the pace of recovery gains momentum and the market progresses towards a mid-cycle path.

In relation to the more immediate term, like most participants in our sector, we will not be giving specific earnings guidance. Put simply, there continue to be too many uncontrollable factors that could affect the projected outcome for us – the frustratingly strong and strengthening NZD:USD cross rate, and resolution to the US "fiscal cliff" issue being the two immediate factors that could chart a significantly different course than we currently anticipate. Those factors aside, our expectation is that the Company's North American financial performance in the second six months of the year will comfortably surpass that recorded for the six months just completed. The final NZ performance however, will largely be determined by the path of the NZD:USD cross rate, which is currently some 8 cents above our budgeted level.

Our growth activities will continue as planned. For example (and as we have previously reported), we will continue with our new product introductions, with the goal of expanding the breadth of our product range into both the retail and pro-builder channels that we have created over the past five years. Examples of this are 'FindIt", a new internally developed proprietary pull-out kitchen cabinet product which we have been asked by Lowe's to distribute into over 900 stores commencing in the first quarter of the current calendar year, Empire's range of "Plank Paneling" products introduced into 600 Lowe's stores, and Southwest's new doors program which will focus on the Texas pro-builder market. We will also be targeting expansion potential in the US pro-builder channel, by way of acquisitions, as opportunities present themselves.

We have previously indicated the importance that we see China will play in Tenon's future. Pleasingly, the NZ Government, through both ministerial involvement and the activities of New Zealand Trade and Enterprise (NZTE), has been very supportive of our China goals and we are very grateful for their on-going assistance. We have also outlined to shareholders our strategic template for China, with the immediate plan being to continue to increase the sale of product out of Taupo directed into the China market, and to take a position in the wholesale market there – a pre-requisite to building an in-market position of size. We plan to be in a position to report positively to shareholders on both of these initiatives in the next six months.

Ravi Nagasamy (NZTE), Louise Upton (MP Taupo), Tony Johnston (Tenon COO), and Tim Groser (Minister of Trade and Climate Change Issues, Associate Minister of Foreign Affairs) discussing Tenon's activities at the Company's large clearwood processing operation at Taupo

At the same time as we have been growing our business through the down-cycle we have also been actively reducing our debt – from a peak of $90 million to $44 million recorded at balance date. We do not now see that level materially declining in the short term, as the market recovery that is now underway will naturally generate a need for increased working capital as our sales lift and as we expand our product categories further. Clearly, we do not wish to artificially constrain Tenon's growth in a recovering market, and we also do want to be in a position to pursue acquisitions that will further strengthen our business activities. Accordingly, we are now actively reviewing our existing funding, to ensure it provides the Company with sufficient flexibility moving forward.

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

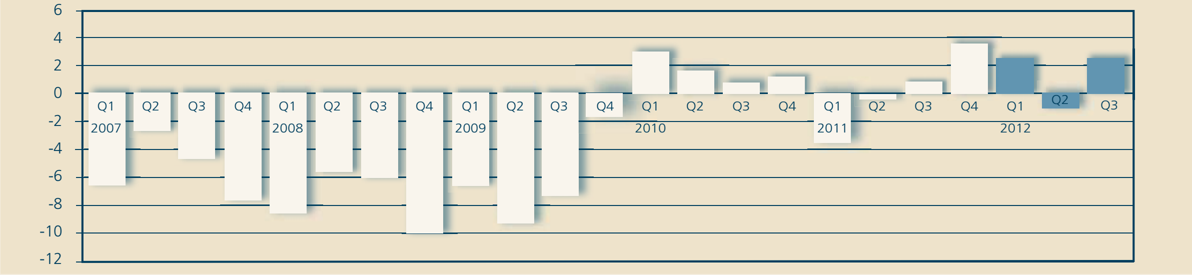
Luke Moriarty (Chairman)

Tony Johnston (Chief Operating Officer)

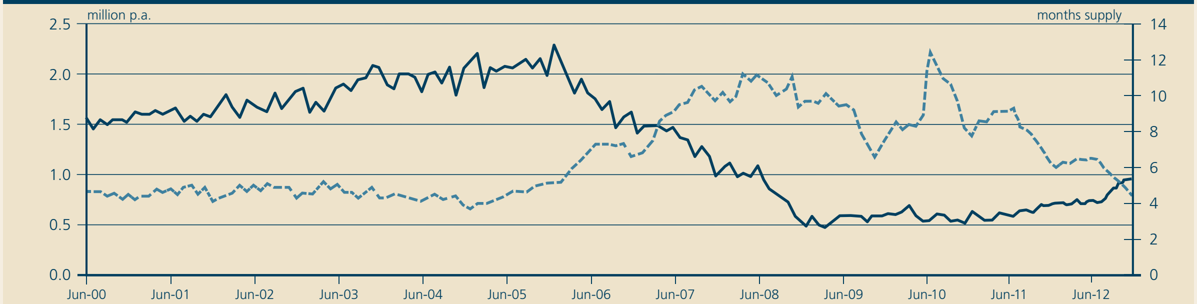
20 February, 2013

"Big Box" Building Retailer Same Store Sales

% change from previous comparable period

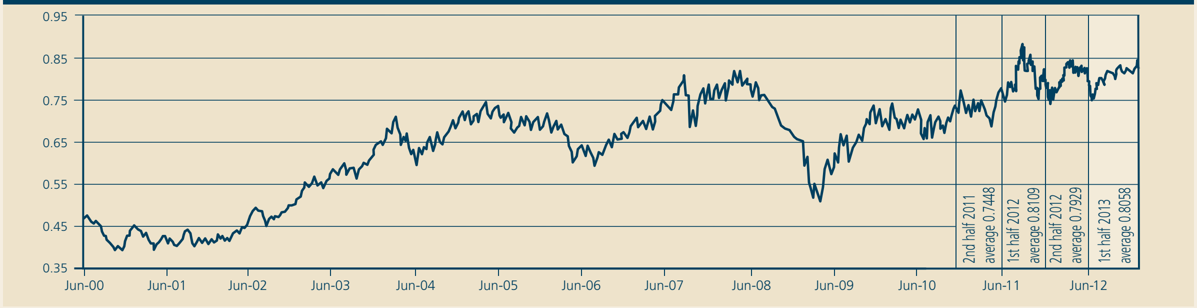


New and Existing Housing



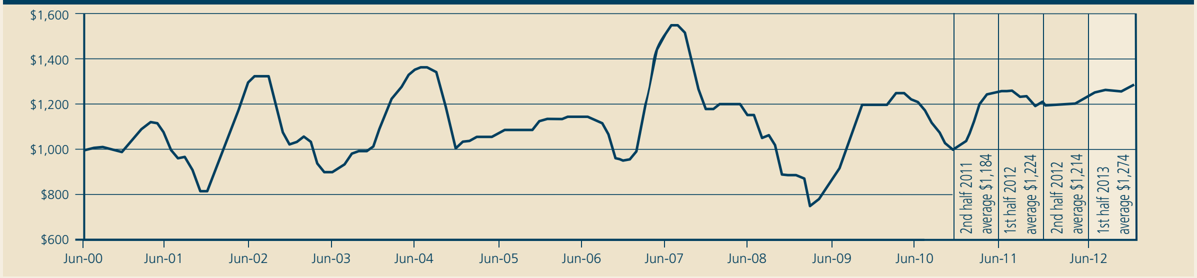
NZD/USD Exchange Rate

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



Moulding and Better Lumber Pricing

US$ mbf



Consolidated Income Statement for period ended 31 December 2012

	Six Months Dec 2012 US$m	Tenon Group Year Ended June 2012 US$m	Six Months Dec 2011 US$m
Revenue	**174**	334	162
Cost of Sales	**-134**	-254	-123
Gross Profit	**40**	80	39
Distribution Expense	**-34**	-71	-36
Administration Expense	**-7**	-14	-8
Restructuring Costs	**–**	-3	–
Operating Profit / (Loss) before Financing Costs	**-1**	-8	-5
Financing Costs	**-1**	-3	-1
Profit / (Loss) before Taxation	**-2**	-11	-6
Income Tax (Expense) / Benefit	**–**	2	–
Net Profit / (Loss) after Taxation	**-2**	-9	-6

Earnings Per Share Information			
Basic and Diluted Net Earnings per Share (cents)	**-3.7**	-13.9	-8.8
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	**65.7**	66.3	66.8

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 period ended 31 December 2012

	Note	Six Months Dec 2012 US$m	Tenon Group Year Ended June 2012 US$m	Six Months Dec 2011 US$m
Net Profit / (Loss) after Taxation for the year		**-2**	-9	-6
Net Movement on Cash Flow Hedges net of Tax	5	**–**	–	–
Movement in Currency Translation Reserve	5	**–**	-1	-1
Other Comprehensive Income for the year, net of Tax		**–**	-1	-1
Total Comprehensive Income for the year		**-2**	**-10**	-7

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 period ended 31 December 2012

	Note	Shares US$m	Retained Earnings US$m	Cash Flow Hedge Reserves US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Group Equity & Reserves US$m
As at 1 July 2011		533	-408	–	1	6	132
Net Profit / (Loss) after Taxation for the period		–	-6	–	–	–	-6
Other Comprehensive Income for the period		–	–	–	–	-1	-1
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-6	–	–	-1	-7
Share Buyback[1]		–	–	–	–	–	–
As at 31 December 2011	5	533	-414	–	1	5	125
As at 1 July 2011		533	-408	–	1	6	132
Net Profit / (Loss) after Taxation for the year		–	-9	–	–	–	-9
Other Comprehensive Income for the year		–	–	–	–	-1	-1
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-9	–	–	-1	-10
Share Buyback[1]		–	–	–	–	–	–
As at 30 June 2012	5	533	-417	–	1	5	122
As at 1 July 2012		533	-417	–	1	5	122
Net Profit / (Loss) after Taxation for the period		–	-2	–	–	–	-2
Other Comprehensive Income for the period		–	–	–	–	–	–
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	-2	–	–	–	-2
As at 31 December 2012	5	533	-419	–	1	5	120

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

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

Consolidated Balance Sheet as at 31 December 2012

	Note	Six Months Dec 2012 US$m	Tenon Group Year Ended June 2012 US$m	Six Months Dec 2011 US$m
ASSETS				
Current Assets:				
Cash and Liquid Deposits		**–**	–	–
Inventory		**59**	53	54
Trade and Other Receivables		**27**	31	23
Assets Held for Sale		**–**	3	2
Current Tax Asset Receivable		**1**	–	–
Total Current Assets		**87**	87	79
Non Current Assets:				
Fixed Assets		**25**	25	28
Forest Assets		**4**	3	3
Goodwill		**67**	67	67
Deferred Taxation Asset		**10**	11	9
Total Non Current Assets		**106**	106	107
Total Group Assets		**193**	193	186
LIABILITIES AND GROUP EQUITY				
Liabilities				
Current Liabilities:				
Bank Overdraft		**6**	1	1
Trade and Other Payables and Provisions		**29**	32	25
Current Debt	3	**1**	1	2
Total Current Liabilities		**36**	34	28
Non Current Liabilities:				
Non Current Debt	3	**37**	37	33
Total Non Current Liabilities		**37**	37	33
Total Group Liabilities		**73**	71	61
Group Equity				
Capital	4	**533**	533	533
Reserves	5	**-413**	-411	-408
Total Group Equity		**120**	122	125
Total Group Liabilities and Equity		**193**	193	186
Net Assets per Share (US$)		**1.83**	1.86	1.90
Net Tangible Assets per Share (US$)		**0.65**	0.67	0.75
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 period ended 31 December 2012

	Six Months Dec 2012 US$m	Tenon Group Year Ended June 2012 US$m	Six Months Dec 2011 US$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	**178**	327	163
Total Provided	**178**	327	163
Payments to Suppliers, Employees and Other	**184**	331	166
Total Applied	**184**	331	166
Net Cash to Operating Activities	**-6**	-4	-3
From Investing Activities:			
Sale of Assets held for sale	**3**	–	–
Total Provided	**3**	–	–
Purchase of Fixed Assets	**1**	2	1
Total Applied	**1**	2	1
Net Cash from / (to) Investing Activities	**2**	-2	-1
From Financing Activities:			
Debt Drawdowns	**7**	7	3
Total Provided	**7**	7	3
Debt Settlements	**7**	1	–
Interest and Refinancing Fees paid	**1**	2	1
Share Buyback	**–**	1	1
Total Applied	**8**	4	2
Net Cash from / (to) Financing Activities	**-1**	3	1
Net Movement in Cash Held	**-5**	-3	-3
Add Opening Cash, Liquid Deposits and Overdrafts	**-1**	2	2
Closing Cash, Liquid Deposits and Overdrafts	**-6**	-1	-1

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 period ended 31 December 2012

	Six Months Dec 2012 US$m	Tenon Group Year Ended June 2012 US$m	Six Months Dec 2011 US$m
Cash was Provided from:			
Net Profit / (Loss) after Taxation	**-2**	-9	-6
Add Net Financing Expense	**1**	3	1
Adjustments:			
Depreciation	**2**	5	3
Taxation	**–**	-2	–
Other [2]	**-2**	2	–
Cash Flow to Operations before Net Working Capital Movements	**-1**	-1	-2
Net Working Capital Movements	**-5**	-3	-1
Net Cash to Operating Activities[1]	**-6**	-4	-3
Net Working Capital Movements:			
Trade and Other Receivables	**4**	-7	1
Inventory	**-5**	-1	-2
Trade and Other Payables	**-4**	5	–
	-5	-3	-1

(1) As per Statement of Cash Flows

(2) Restructuring costs paid in period and gain on sale of real estate (June 2012: restructuring costs provided)

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

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 1, 7 Fanshawe Street, Auckland, New Zealand.

The Company is listed on the New Zealand stock exchange. As at 31 December 2012 the Group was 58.99% owned by Rubicon Limited and its subsidiaries (June 2012: 58.99%).

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

These condensed consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 20 February 2013.

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 2012, 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 2012 and 30 June 2011, 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 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 IAS 1, Amendments Presentation of Items of Other Comprehensive Income, on 1 July 2012. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This did not affect the measurement of any items recognised in the balance sheet or income statement in the current period.

The Group has not early adopted any of the new standards, amendments and interpretations to existing standards disclosed in note 2.4 (a) of the June 2012 audited financial statements and there have been no new standards, amendments or interpretations to existing standards issued since June 2012 that are applicable to the Group.

3 CURRENT AND NON CURRENT DEBT

(1) Tenon has a bank credit facility provided by a consortium of banks led by JPMorgan Chase Bank, N.A. (the Agent). The facility, which is structured as a global facility supporting the operations of the Tenon group as a whole, was entered into on 24 June 2011 and does not expire until June 2016. The facility is an "asset-based" lending facility, whereby the underlying assets and working capital of Tenon secure the obligations to the bank syndicate. The amount available for drawdown at any one time is determined by the value of the assets under a Borrowing Base covenant, based on the current value of the Group's inventory and receivables, reported to the Agent on a monthly basis, subject to certain prescribed exclusions, reserves and deductions. The Borrowing Base calculations are subject to periodic examination by the Agent during the remaining life of the credit facility (refer to note 19 (2) of the notes to the June 2012 Financial Statements).

The Group's banking facility requires a minimum "availability" Borrowing Base of $7.5 million. The Group was at all times in compliance with this minimum availability requirement. At 31 January 2013, the amount of availability was $13.6 million. Should availability fall below $7.5 million at any time, this would result in a default under the terms of the banking facility giving the banks the right to impose certain restrictions on the Group's access to and use of its funds including demanding repayment of the amount borrowed, thereby requiring the Group to source alternative funding. The terms of the facility also include certain negative covenants in relation to acquisitions and dividends, each of which is limited to $5 million per calendar year (without bank approval), and each of which is subject to a minimum availability of $12.5 million existing immediately after the acquisition or the payment of the dividend. With the exception of a provision relating to excess cash flow recapture, the facility is not otherwise subject to earnings or fixed charge based financial covenants.

Refer also to note 4.2 (c) of the notes to the June 2012 Financial Statements.

(2) The proceeds from the sale of the manufacturing facility in Canada were used to repay $2.1 million of the Term Loan in September 2012.

(3) 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. The assumption in the notes to the financial statements has been made that, commencing in September 2014, the maximum $1 million repayment will be made under the excess cash flow provision of the facility.

		$m	
	Term	**Revolver**	**Total**
June 2012	7.08	50.00	57.08
June 2013[(a)]	4.51	50.00	54.51
June 2014[(b)]	4.08	50.00	54.08
June 2015[(c)]	2.65	50.00	52.65
June 2016	–	–	–

(a) Scheduled Term Loan amortisation of $52,000 per month until August, partial loan repayment of $2.1 million in September and then loan amortisation of $36,000 per month from September 2012 to June 2013

(b) Scheduled Term Loan amortisation of $36,000 per month

(c) Scheduled Term Loan amortisation of $36,000 per month and $1 million excess cash flow payment on 30 September.

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

(5) The current debt of $1 million reflects term loan amortisation of $0.4 million (United States dollar denominated debt) and other loan principal payments of $0.5 million (New Zealand dollar denominated debt).

Notes to the Condensed Interim Financial Statements continued

4 CAPITAL

	Six Months Dec 2012 US$	Tenon Group Year Ended June 2012 US$	Six Months Dec 2011 US$
Capital			
Reported Capital:			
Reported Capital at the beginning of the period	**532,947,659**	533,573,563	533,573,563
Share Buyback[1]	**–**	-625,904	-615,904
Reported Capital	**532,947,659**	532,947,659	532,957,659

	Six Months Dec 2012	Tenon Group Year Ended June 2012	Six Months Dec 2011
Tenon Ordinary Shares – fully paid[2]			
Number of Shares at the beginning of the period	**65,690,681**	66,850,661	66,850,661
Share Buyback[1]	**–**	-1,159,980	-1,159,980
	65,690,681	65,690,681	65,690,681

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

(2) Includes 182,548 (June 2012: 182,548, December 2011: 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 RESERVES

	Six Months Dec 2012 US$m	Tenon Group Year Ended June 2012 US$m	Six Months Dec 2011 US$m
Retained Earnings			
Opening Balance	**-417**	-408	-408
Net Profit after Taxation	**-2**	-9	-6
	-419	-417	-414
Cash Flow Hedging Reserves(1)			
Opening Balance	**–**	–	–
Fair Value Gains / (Losses) for the period	**–**	–	–
Hedge Losses Transferred to Earnings in the period	**–**	–	–
	–	–	–
Revaluation Reserves			
Opening Balance	**1**	1	1
	1	1	1
Net Currency Translation			
Opening Balance	**5**	6	6
Net Variations on Translations of Foreign Currency Financial Statements	**–**	-1	-1
	5	5	5
Total Reserves	**-413**	-411	-408

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

Notes to the Condensed Interim Financial Statements continued

6 SEGMENTAL INFORMATION SUMMARY

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

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

December 2012 – 6 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**

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

December 2011 – 6 months	North America US$m	New Zealand US$m	Total US$m
Operating Revenue(1)	143	19	162
Non Current Assets(2)	83	15	98
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

7 NON-GAAP MEASURES

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

The following table reconciles Operating Profit / (Loss) before Financing Costs to EBITDA:

	Tenon Group		
	Six Months Dec 2012 US$m	Year Ended June 2012 US$m	Six Months Dec 2011 US$m
Operating Profit / (Loss) before Financing Costs	-1	-8[1]	-5[2]
Add back depreciation and amortisation	2	5	3
EBITDA	**1**	**-3**	**-2**

(1) Includes business re-engineering and restructuring costs of $5 million

(2) Includes business re-engineering costs of $2 million

8 CONTINGENT ASSETS

Central North Island Forest Partnership (CNIFP) legal proceedings

On 28 November 2012, Tenon announced that the Supreme Court had dismissed its appeal from the decision of the Court of Appeal to strike out the legal proceedings in relation to the Central North Island Forest Partnership (CNIFP) Goods and Services Taxation dispute. The decision had no negative impact on Tenon's existing tax position (including available tax losses) and the matter is now closed.

9 CONTINGENT LIABILITIES

The Group has no material contingent liabilities (June 2012: nil, December 2011: 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 2013 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. You will need your CSN or holder number and FIN to access this service. Select 'View Portfolio' and log in. Then select 'Update My Details' and 'Communication Options'.

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

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