Tenon
Wood Solutions to the World

News Release

TO: **THE BUSINESS EDITOR**

From: Paul Gillard – General Manager Corporate, **Tenon Limited**
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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

INTERIM REPORT

SIX MONTHS ENDED 31 DECEMBER 2014

(released 18 February 2015)

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.

Six Months' Highlights – 31 December 2014

- **US economy continues on recovery path**
  - 11 successive months of job creation > 200,000 per month
  - 1 million jobs created in the 3 months to January

- **US housing industry data shows growth that is now underway**
  - Calendar '14 housing starts of 1.0 million, up 9% on the previous year
  - Builder's confidence index reported 6 successive months >50 (indicating future expansion)
  - Existing home sales (annualised) of 5.0 million recorded in December
  - Case-Shiller 20-city home price index 29% up on 2012 low, and up 4% y-o-y (November)

- **US new home construction is forecast to grow strongly[1] over the next 2-3 years**
  - Industry forecasts ≈ 1.18 million housing starts in calendar 2015, up 18% on 2014
  - Tenon has increased its exposure to the new home construction market
    - This is projected to be ≈ 55% of US distribution revenues in FY '15
    - … up from (approx) 35% at the same point in previous cycle

- **Revenue of $209 million, was up $12 million on the corresponding prior period** ("cpp")
  (i.e. for the six months to December 2013)

- **Net profit after tax was $2 million, compared with a breakeven result for the cpp**

- **EBITDA[2] of $6 million was up 20% on the cpp, and included -**
  - Average effective NZ$:US$ rate of 84 cents (cpp 79 cents)
  - ≈ $1.5 million in retail store major line reset activity expensed
  - … partially offset by a gain of $0.4 million on the sale of a residual forest asset

- **Earnings expected to improve further[1], as -**
  - US macro-economic and housing market conditions continue to improve
  - The effect of the lower NZ$:US$ FX rate begins to flow through
  - Business re-engineering projects in US operations positively impact performance
  - Organic growth (regional and product expansion) is executed

- **Taupo site (NZ) capital projects are underway -**
  - Two manufacturing projects, with total capital investment of $6-7 million
  - Expected cash payback of < 2.5 years
  - Anticipated first project will be completed and operational in Q4 of calendar 2015

- **Closing debt (net of cash) of $49 million (cpp $53 million)**
  - $6 million of cash was generated from operating activities
  - $3 million invested in capital replacement and expansion (e.g. Taupo capital projects)
  - $7.5 million collateral 'reserve' released (January '15) by banking syndicate

- **Share price increased 22% over the six-month period (from NZ$1.52 to $1.85 per share)**
  - Compares with NZX50, ASX and Dow Jones indices up 8%, 1%, and 6% respectively
  - Future upside remains - Edison Research valued Tenon at mid-point of >NZ$2.50 per share [3]
  - Share buyback program in place
  - Dividend policy under active review – intention to announce dividend during fiscal '16 year[1]

1 *Please also refer pages 6-7 of this Interim Report.*
2 *EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisation) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the difference in asset ages, depreciation policies, and debt : equity structures. EBITDA is calculated as Net Profit/Loss after Taxation of $2 million (2013 $nil), less income tax benefit of $nil million (2013 $nil), plus financing costs of $2 million (2013 $3 million), plus depreciation and amortisations of $2 million (2013 $2 million). These numbers have been extracted from our 31 December 2014 Interim Financial Statements – please refer to Note 6 to those statements.*
3 *September 2014 report, adjusted for subsequent change in NZ$:US$ FX rate from 82 cents when the report was released to 75 cents today.*

Operations and Finance

Tenon's financial performance continued its momentum in the six months, in line both with market guidance and the recovery in the US housing market now taking place. In this latter respect, a quick review of recent US industry data shows this succinctly –

- Housing starts for calendar '14 were 1.0 million, up 9% on the previous calendar year. Total starts in the six months to December '14 were up 11% on the cpp. The single-family home component of this figure at 0.7 million was at its highest in seven years.

- Permits issued for new home construction, at 1.0 million (annualised) in December, were up 6% on the June '14 figure. Again, the single-family home component of the total permit issuance was at a six-year high, and the home builder confidence index recorded greater than a 50 (indicating future expansion) for the entire six month period.

- December (annualised) existing home sales of 5.0 million, were up on the cpp figure of 4.9 million.

- The Case-Shiller 20-city composite home price index increased 4.3% year-on-year (November), and is now 29% higher than the 2012 low.

- Existing home inventory ended the year at 4.4 months of supply, down 20% on the 5.5 months level prevailing at June '14. New home inventory, at 5.5 months of supply was also down, by 5% on the 5.8 months reported at June '14.

As these data points indicate, over the past 12 months US new home construction has now begun to lift to a new level, and this improvement in industry activity levels is beginning to flow through into Tenon's financial performance.

For the period under review, **Revenue** was up $12 million compared with the cpp. Gains were made in all the pro-dealer regions we service, and these customers in turn supply the new home construction market. Retail activity (measured by same store comps), which typically lags new home construction, was flat in volume terms during the period, to some extent due to the extensive 700 store resets that we are undertaking. These resets, which began in June '14 and are expected to be completed this October, are major in nature and involve a complete 'revamp' of the layout and physical structure supporting the commodity and decorative moulding aisles we service in the stores. Although store sales are impacted as we undertake the reset activity, once completed we would expect strong year-on-year same store comps to prevail. Revenue from our Australian activities lifted by $2 million, as we began servicing 50 Masters stores.

Net profit after tax of $2 million was recorded for the six months, up on the breakeven result in the cpp. **Gross profit of $49 million** was up on the $45 million recorded in the immediately preceding six-months to June '14, as margin percentage expanded in the period, despite the unfavourable FX conditions experienced (see below). **EBITDA**[2] at $6 million, was up 20% on the cpp. This increase was recorded despite the expensing of $1.5 million in store reset activity in the period, which cost was partially offset by a $0.4 million gain recorded on the sale of a minor residual retained forest. This improved EBITDA result did not include any benefit of the recent weakening in the NZ dollar, as that occurred late in the period and cover taken earlier under our FX hedging policy had not run off. In fact, the average effective NZ$:US$ FX rate for the period was 84 cents, which was some five cents worse than we experienced in the cpp.

We used some of the **$6 million of cash generated from operating activities** (cpp, $1 million) to initiate our previously announced **capital investment** plans, investing $3 million in the period, primarily on the key optimisation projects at Taupo. The first of these projects is designed to maximise the amount of clearwood that can be recovered from a given log. This improved recovery will allow our Taupo site to increase the volume of high value products that it can produce from the same volume of log into the sawmill. The optimisation equipment is expected to be installed and operational in Q4 of calendar '15, and the overall project is targeted to have a $5 million capital payback of less than 2.5 years.

Our debt balance (net of cash) reduced across the period, to $49 million (cpp, $53 million). Our financing costs declined y-o-y as a result.

Our recent financial performance has exceeded that projected when we entered our new Bank Facility in September '13, such that by the end of December we were able to generate **four successive quarters of fixed charge coverage (FCCR) in excess of 1.5 times** (refer note 3 to our 31 December 2014 Interim Financial Statements for explanation of the FCCR). The practical effect of this is that the $7.5 million 'block' reserve that the banking syndicate had previously held against our borrowing collateral has now been released under the terms of the Facility agreement, and is available for collateralised borrowing under our revolver facility. This is just another indication of the financial results that we are now beginning to produce.

We announced at our Annual Shareholders' Meeting (ASM), that we had implemented a complete operational review of our North American manufacturing and distribution operations. This is a fundamental 'nuts and bolts' review, with the goals being to –

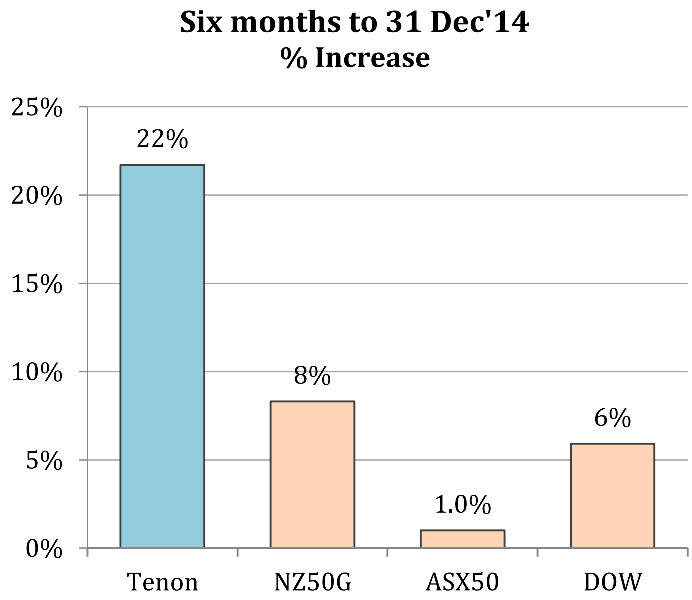
- Identify new opportunities for growth; and
- Improve profitability in our existing activities, whilst at the same time improving the service level we provide to our key customers.

By way of flavour of what we are undertaking here, is the installation of an advanced product procurement system, which combines sophisticated demand-based forecasting with an automated inventory replenishment system. Logistics management is a core Tenon capability – it must be, as we are required to ship more than 8,000 40' containers from around the world (e.g. New Zealand, Chile, Brazil, Mexico) to our North American warehouses, for subsequent delivery to our US national home centre customers (i.e. retail / DIY) who have extremely demanding on-time fulfillment criteria, and to our pro-dealer customers who have similarly demanding short lead time delivery requirements. The growth in the size (volume and product) and complexity of our distribution operations has made this logistics competency even more critical to us than it has been in the past. From product order through to manufacture and delivery can be a 3-4 month lead time, so demand forecasting and inventory management is a fundamental capability in ensuring we can deliver our customer needs more than a quarter forward, based on what we know about demand and market conditions today. The new system we are putting in place is designed to ensure we can do just that, and once operational it should allow us to optimise inventory levels (by product sku), lower operating costs, and increase sales. We will report more fully on this and our other projects at the time of our Annual Result.

Governance

Our last ASM was held in Wellington (NZ) on the 4th of December 2014. Over 84% of the Company's issued shares were voted at the meeting, and all resolutions were passed - each with a majority in excess of 99%. These excellent voting statistics are a reflection not only of the company's consolidated share register, but also of the confidence that shareholders have in Tenon's future.

Our share price performance over the six months was very strong, increasing 22% across the period. This compares very favourably with the 8%, 1% and 6% increases recorded by the NZX50G, the ASX50, and the Dow Jones indices respectively over this same period.



Despite this strong performance, we still believe our traded share price to be below 'fair value' at this point in the cycle, based on comparable trading data. This view is supported by an Edison Investment Research report which implies a Tenon mid-point trading value of in excess of NZ$2.50 per share *(Report issued 22 September 2014, but translated here into NZ$ at the prevailing NZ$:US$ FX rate of 75 cents rather than the 82 cents used by Edison at the time the Report was issued).* We are confident that as we continue to prove out our earnings potential to the market our share price will re-rate further.

During the period we announced that we would be meeting our previously stated intention to begin to return capital to shareholders, by implementing of a series of sequential on-market share buyback programs. We began in August, by putting in place a 400,000 share program, with the intention of making further such announcements in the future. Our objective in implementing the program was to provide more liquidity into the market for small volume daily trading. A buyback is a flexible cashflow program from the Company's perspective, and also from our shareholders' perspective in that shareholders who do not wish to sell will continue to benefit from any share price increase from Tenon's future performance. That is exactly what has happened over the period under review, and we updated shareholders on this at our ASM in December. Over the two months since the ASM, Tenon's buyback has represented a relatively small percentage of the aggregate volume traded on the market, at approximately 11%, however this percentage will change up and down dependent upon 'day-to-day' buy-sell demand for our stock.

Our intention is to also put in place a future dividend stream for shareholders. Our ability to do so will be dependent upon our continued earnings recovery, and of course operating within our bank covenants as we match the cash demand for organic business growth with our desire to reward our shareholders. There is obviously some balancing of requirements to be carried out here, but if things proceed as we currently expect them to - i.e. continued recovery in the US housing market and broader economy, a weaker and more stable NZ currency, with each flowing through to increased Tenon earnings - then we anticipate we will be able to announce the introduction of dividends at some stage during our fiscal ’16 year.

Outlook

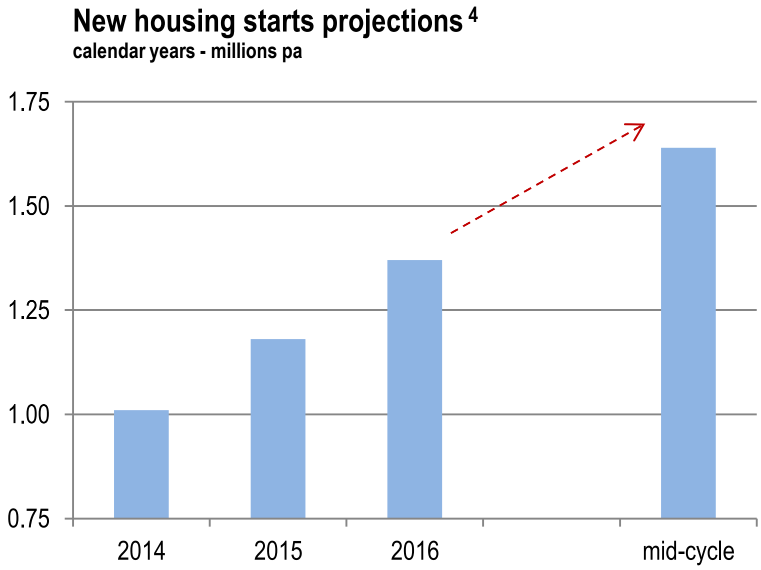
Macro conditions for Tenon are now clearly improving.

The US economy is entering a cyclical upswing, after six years of moribund performance post the global financial crisis. By way of example, last month the US posted its eleventh straight month of 200,000+ job creations – the longest successive ‘run’ of such a figure for almost two decades – and in the three months to January the economy created one million new jobs.

While the strengthening economy will ultimately see interest rates rise in the US, the pace of those increases is expected to be gradual, as is their impact on housing activity. What this will do however, is see the US dollar strengthen, and in the absence of the Reserve Bank of New Zealand lifting domestic interest rates, then the NZ$:US$ FX rate should fall, which would be a strong positive to Tenon’s future earnings and cashflow. In the immediate term, Tenon is currently ‘hedged’ through to the end of March ’15, at an average rate for Q3 of 76 cents. We are unhedged beyond this period, so we will enjoy any falls in the cross rate that occur in respect of Q4 and onwards into fiscal ‘16.

The second half will see us complete much of our required retail store reset activity, and also see us conclude some of the key business re-engineering projects we have underway in our US distribution operations. Each of these will require us to incur costs in the second half of the year, but these will be more than offset by the rewards that will flow in fiscal’16.

We will continue our organic growth initiatives. These are focused on broadening the range of products we supply into our national home centre customers (i.e. retail / DIY), and on expanding the geographic reach of our pro-dealer activities. This latter growth will ultimately see our presence in the pro-dealer market (i.e. new home construction) increase in percentage terms relative to our retail activities. By the end of fiscal ’15, we believe this weighting will have increased to almost 55% of our total distribution activities, from 50% last year, and approximately 35% at the beginning of the previous cycle. As we believe new home construction will likely recover strongly (refer chart on next page) and earlier than DIY/retail, this is the right balance for us at this point in the cycle. Having said that, we are continuing to actively seek growth in both markets, and we will be reporting more on this with our Annual Result later in the year.



While there are always some unknowns that can affect earning projections[5] – the impact of rising interest rates in the US, the path of future log prices, the current labour issue at US West Coast ports, and the FX rate are good examples for us in the immediate outlook. However, absent any surprises with these, we expect our earnings path to continue to improve in the second half of the fiscal year.

Looking further ahead, the completion of our business re-engineering efforts, the installation of the optimisation capital equipment at Taupo, the weaker NZ$:US$ FX rate, and success with our organic growth initiatives, should cumulatively set Tenon up for a strong fiscal '16 year assuming macro conditions are supportive.

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

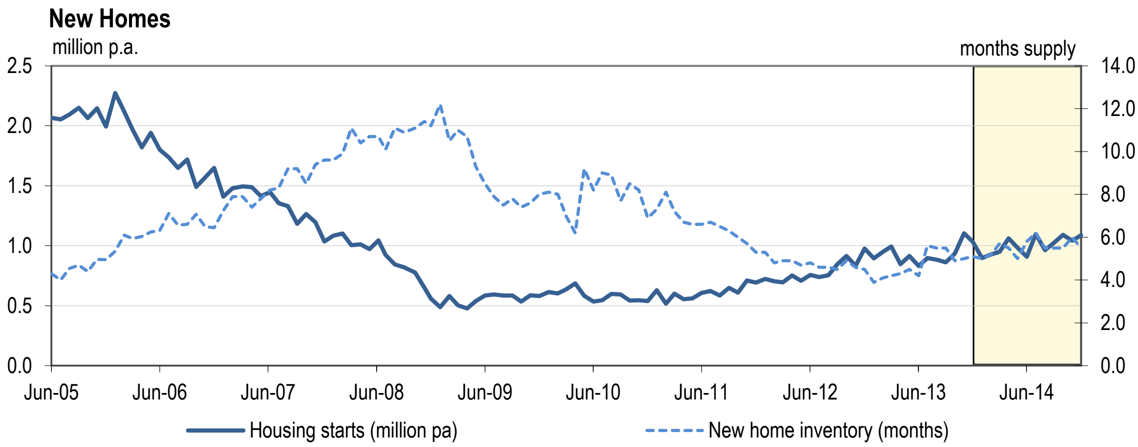
Sincerely,

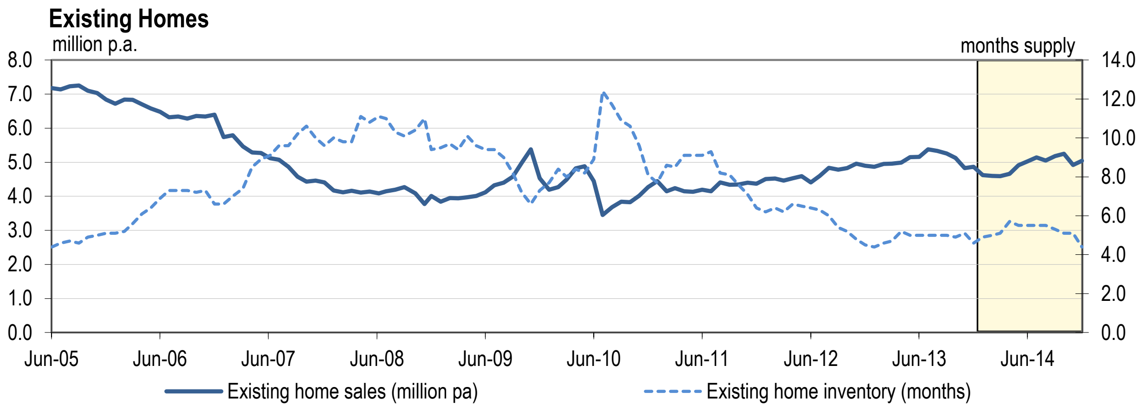
Luke Moriarty (Chairman)

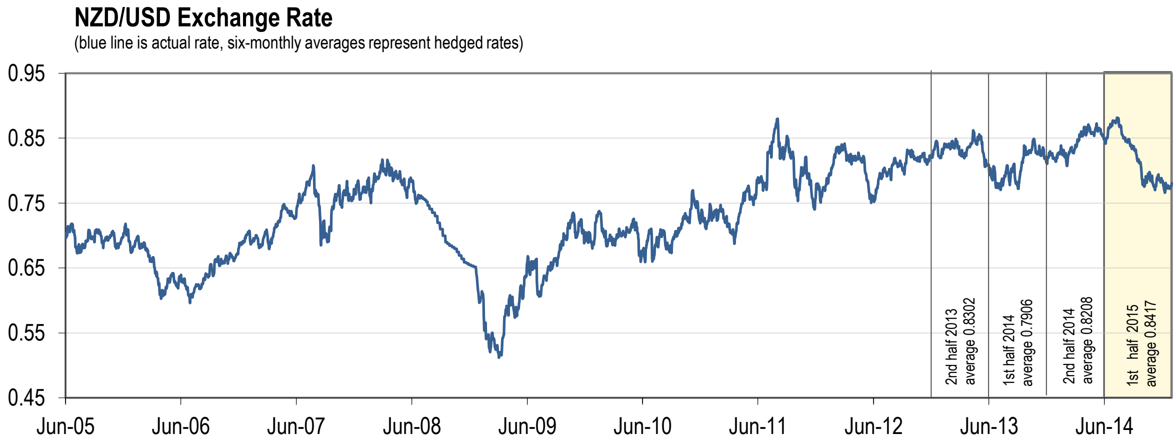
Tony Johnston (Chief Operating Officer)

18 February, 2015

[4] *Projections represent averages taken from the following data sources for the respective years -*
2015 – Fannie Mae, Freddie Mac, National Association of Home Builders, Mortgage Bankers Association, National Association for Business Economics, National Association of Realtors, Forest Economic Advisors, Forisk Consulting, Joint Center for Housing Studies of Harvard University
2016 – Fannie Mae, Freddie Mac, National Association of Home Builders, Forest Economic Advisors
Mid-cycle – Forest Economic Advisors, Forisk Consulting, Joint Center for Housing Studies of Harvard University, Goldman Sachs, Tenon
[5] *Please also refer to Note 4.2(a) Key Financial Risks of our 2014 Annual Report*


New Homes
million p.a.
months supply
2.5
2.0
1.5
1.0
0.5
0.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Jun-05 Jun-06 Jun-07 Jun-08 Jun-09 Jun-10 Jun-11 Jun-12 Jun-13 Jun-14
Housing starts (million pa)
New home inventory (months)


Existing Homes
million p.a.
months supply
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Jun-05 Jun-06 Jun-07 Jun-08 Jun-09 Jun-10 Jun-11 Jun-12 Jun-13 Jun-14
Existing home sales (million pa)
Existing home inventory (months)


NZD/USD Exchange Rate
(blue line is actual rate, six-monthly averages represent hedged rates)
0.95
0.85
0.75
0.65
0.55
0.45
2nd half 2013 average 0.8302
1st half 2014 average 0.7906
2nd half 2014 average 0.8208
1st half 2015 average 0.8417
Jun-05 Jun-06 Jun-07 Jun-08 Jun-09 Jun-10 Jun-11 Jun-12 Jun-13 Jun-14

Consolidated Income Statement

for six months ended 31 December 2014

		Six Months Dec 2014 US$m	Tenon Group Year Ended June 2014 US$m	Six Months Dec 2013 US$m
Revenue		209	396	197
Cost of Sales		-160	-304	-150
Gross Profit		49	92	47
Distribution Expense		-38	-71	-36
Administration Expense		-7	-14	-8
Operating Profit before Financing Costs		4	7	3
Financing Costs		-2	-4	-3
Profit before Taxation		2	3	-
Income Tax (Expense) / Benefit		-	-1	-
Net Profit after Taxation		2	2	-
Earnings Per Share Information				
Basic and Diluted Net Earnings per Share (cents)		3.7	2.4	0.1
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	4	65.3	65.6	65.7

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

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Consolidated Statement of Comprehensive Income

for six months ended 31 December 2014

	Tenon Group		
	Six Months Dec 2014 US$m	Year Ended June 2014 US$m	Six Months Dec 2013 US$m
Net Profit after Taxation for the period	2	2	-
Items that may be recycled to the Consolidated Income Statement :			
Net movement of Cash Flow Hedges net of Tax	-	1	1
Movement in Currency Translation Reserve	-1	1	-
Other Comprehensive Income for the period, net of Tax	-1	2	1
Total Comprehensive Income for the period	1	4	1

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 2014

Tenon Group	Note	Shares US$m	Retained Earnings US$m	Cash Flow Hedge Reserves US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Group Equity and Reserves US$m
As at 1 July 2013		533	-420	-1	1	5	118
Net Profit after Taxation for the period		-	-	-	-	-	-
Other Comprehensive Income 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
As at 1 July 2013		533	-420	-1	1	5	118
Net Profit after Taxation for the year		-	2	-	-	-	2
Other Comprehensive Income for the year		-	-	1	-	1	2
Total Comprehensive Income Attributable to the Equity holders of the Parent		-	2	1	-	1	4
Share Buyback	4	-	-	-	-	-	-
As at 30 June 2014		533	-418	-	1	6	122
As at 1 July 2014		533	-418	-	1	6	122
Net Profit after Taxation for the period		-	2	-	-	-	2
Other Comprehensive Income / (Loss) for the period		-	-	-	-	-1	-1
Total Comprehensive Income Attributable to the Equity holders of the Parent		-	2	-	-	-1	1
Share Buyback	4	-1	-	-	-	-	-1
As at 31 December 2014		532	-416	-	1	5	122

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Consolidated Balance Sheet

as at 31 December 2014

	Note	Tenon Group		
		As at Dec 2014 US$m	As at June 2014 US$m	As at Dec 2013 US$m
ASSETS				
Current Assets:				
Cash and Cash Equivalents		1	-	-
Inventory		73	67	73
Trade and Other Receivables		29	35	28
Total Current Assets		103	102	101
Non Current Assets:				
Fixed Assets		23	21	22
Forest Assets		1	3	4
Goodwill		67	67	67
Deferred Taxation Asset		11	12	11
Total Non Current Assets		102	103	104
Total Group Assets		205	205	205
LIABILITIES AND GROUP EQUITY				
Liabilities				
Current Liabilities:				
Bank Overdraft		1	1	-
Trade and Other Payables and Provisions		33	33	33
Current Debt	3	4	1	3
Total Current Liabilities		38	35	36
Non Current Liabilities:				
Non Current Debt	3	45	48	50
Total Non Current Liabilities		45	48	50
Total Group Liabilities		83	83	86
Group Equity				
Capital	4	532	533	533
Reserves		-410	-411	-414
Total Group Equity		122	122	119
Total Group Liabilities and Equity		205	205	205
Net Assets per Share (US$)		1.87	1.87	1.81
Net Tangible Assets per Share (US$)		0.68	0.66	0.62
Shares used for Net Assets per Share (millions)	4	65.1	65.4	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 2014

	Tenon Group		
	Six Months	Year Ended	Six Months
	Dec 2014	June 2014	Dec 2013
	US$m	US$m	US$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	213	398	206
Total Provided	213	398	206
Payments to Suppliers, Employees and Other	207	391	205
Income Tax Payment	-	1	-
Total Applied	207	392	205
Net Cash from Operating Activities	6	6	1
To Investing Activities:			
Purchase of Fixed Assets	3	2	1
Total Applied	3	2	1
Net Cash to Investing Activities	-3	-2	-1
From Financing Activities:			
Debt Drawdowns	5	55	55
Total Provided	5	55	55
Debt Settlements	5	53	49
Interest and Refinancing Fees paid	1	5	4
Share Buyback	1	-	-
Total Applied	7	58	53
Net Cash from / (to) Financing Activities	-2	-3	2
Net Movement in Cash Held	1	1	2
Add Opening Cash, Cash Equivalents and Overdrafts	-1	-2	-2
Closing Cash, Cash Equivalents and Overdrafts	-	-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 six months ended 31 December 2014

	Tenon Group		
	Six Months Dec 2014 US$m	Year Ended June 2014 US$m	Six Months Dec 2013 US$m
Cash was Provided from:			
Net Profit after Taxation	2	2	-
Add Financing Costs	2	4	3
Adjustments:			
Depreciation	2	4	2
Taxation	-	-	-
Forest Assets	1	1	-
Cash Flow from Operations before Net Working Capital Movements	7	11	5
Net Working Capital Movements	-1	-5	-4
Net Cash from Operating Activities (1)	6	6	1
Net Working Capital Movements:			
Trade and Other Receivables	5	2	8
Inventory	-7	5	-1
Trade and Other Payables	1	-12	-11
	-1	-5	-4

(1) As per Statement of Cash Flows

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

Notes to the Condensed Consolidated 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 2014 the Group was 59.5% owned by Rubicon Limited and its subsidiaries (June 2014: 59.23%).

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 18 February 2015.

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 2014, 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 2013, the Financial Markets Conduct Act 2013 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 2014 and 30 June 2013, 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

There have been no changes in accounting policy in the period and 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 30 June 2014 audited financial statements. Other interpretations and amendments that have been issued in the current period are considered unlikely to have a financial impact on the Group accounts but may require additional disclosures. At this stage the Group does not plan to early adopt any new standards and will implement new standards as they become mandatory.

Notes to the Condensed Consolidated Interim Financial Statements continued

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 facility comprised 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 facility is led by PNC Bank National Association ("PNC") and the syndicate also includes two existing lenders from the previous facility, the Bank of New Zealand and Comerica. The 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 standard quarterly fixed charge covenant (FCCR) (1) of 1.1 times. The revolver line 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.

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

The revolver facility was subject to a $7.5 million "block" reserve deducted from the eligible collateral. On 22 January 2015, PNC advised that the block was permanently released (resulting in availability increasing by up to $7.5 million, depending on the amount of total eligible collateral available), as a result of Tenon having met four successive quarters of 1.5x FCCR coverage and $15 million surplus availability (measured before deducting the block) and the existing Term Loan balance being repaid down to $7.5 million.

The total size of Tenon's syndicated bank credit facility reduces as a result of the scheduled repayment 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 2016, the maximum $1 million repayment each year will be made under the excess cash flow provision of the facility.

During the current fiscal year a (circa) $5 million investment is being made to upgrade the Taupo manufacturing site with new sawmill optimisation equipment. This investment is being partly funded by a new syndicate supplied $3.2 million term loan (the "Capex Term Loan") and the balance funded by the Revolver line. The Capex Term Loan is assumed to be fully drawn by 30 June 2015 and is subject to repayment of $53,333 per month from 1 September 2015.

	Term Loan		$m Capex Term Loan		Revolver Line	Total
Dec 2014	9.62		1.90		59.00	70.52
June 2015	6.95	(a),b)	3.20	(d)	59.00	69.15
June 2016	5.85	(a)	2.67	(e)	59.00	67.52
June 2017	3.75	(c)	2.03	(e)	59.00	64.78
June 2018	1.65	(c)	1.39	(e)	59.00	62.04
Sept 2018	-		-		-	-

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

(b) Term Loan was paid down by $2.125 million to $7.5 million on 5 January 2015.

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

(d) Capex Term Loan assumed fully drawn to $3.2 million by 30 June 2015.

(e) Capex Term Loan repayment of $53,333 per month commencing 1 September 2015.

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

The current debt of $4 million as at 31 December 2014 reflects the annual Term Loan repayment of $1.1 million, the voluntary repayment of $2.125 million made in January 2015, and principal payments of $0.4 million (New Zealand dollar denominated debt).

(1) The FCCR covenant is defined as [(EBITDA - capital expenditure- cash tax paid) / (interest + term loan payments + distributions paid)]. EBITDA is a Non-GAAP financial measure, refer to note 6.

Notes to the Condensed Consolidated Interim Financial Statements continued

4 CAPITAL

	Tenon Group		
	Six Months Dec 2014 US$	Year Ended June 2014 US$	Six Months Dec 2013 US$
Capital			
Reported Capital:			
Reported Capital at the beginning and end of the period	532,565,229	532,947,659	532,947,659
Share Buyback (2)	-398,898	-382,430	-
Reported Capital	532,166,331	532,565,229	532,947,659

	Tenon Group		
	Six Months Dec 2014	Year Ended June 2014	Six Months Dec 2013
Tenon Ordinary Shares - fully paid (1)			
Number of Shares at the beginning and end of the period	65,419,124	65,690,681	65,690,681
Share Buyback (2)	-297,329	-271,557	-
	65,121,795	65,419,124	65,690,681

(1) Includes 182,548 (June 2014: 182,548, December 2013: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as treasury stock.

(2) On 4 December 2013, Tenon announced a share plan, compulsory acquisition of minimum shareholdings and a share buyback. The share plan and compulsory acquisition were completed in early calendar 2014. The share buyback was initially for up to 450,000 shares and on 21 August 2014 was extended by a second share buyback of up to 400,000 shares to be acquired at the discretion of the Board. As at 31 December 2014, 568,886 shares had been acquired under the share buybacks at an average on-market purchase price of NZ$1.56. The shares were cancelled upon acquisition by Tenon Limited. Refer to the Tenon 30 June 2014 audited financial statements on pages 4 and 5 for commentary on the share plan, compulsory acquisition and share buyback.

Notes to the Condensed Consolidated 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. 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 2014, June 2014 and December 2013 split between North America and Australasia is shown below.

December 2014 - 6 months	North America US$m	New Zealand and Australia US$m	Total US$m
Operating Revenue (1)	178	31	**209**
Non Current Assets (2)	77	14	**91**
Capital Expenditure	1	2	**3**

June 2014 - year ended	North America US$m	New Zealand and Australia US$m	Total US$m
Operating Revenue (1)	346	50	**396**
Non Current Assets (2)	77	14	**91**
Capital Expenditure	2	-	**2**

December 2013 - 6 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**

(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 Consolidated 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. Management believes that EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in asset age and depreciation policies.

The following table reconciles Net Profit after Taxation to EBITDA:

		Tenon Group	
	Six Months Dec 2014 US$m	Year Ended June 2014 US$m	Six Months Dec 2013 US$m
Net Profit after Taxation	2	2	-
Plus Income Tax expense	-	1	-
Plus Financing Costs	2	4	3
Operating Profit before Financing Costs	4	7	3
Plus depreciation and amortisation	2	4	2
EBITDA	**6**	11	5

7 Contingent Liabilities

The Group has no material contingent liabilities (June 2014: nil, December 2013: nil).

8 Post Balance date event

On 22 January 2015, the $7.5 million block on the revolver facility was permanently released as a result of Tenon having met four successive quarters of 1.5x FCCR [(1)] coverage and $15 million surplus availability (measured before deducting the block), and the existing Term Loan balance being repaid down to $7.5 million. Refer to note 3.

(1) The FCCR covenant is defined as [(EBITDA - capital expenditure- cash tax paid) / (interest + term loan payments + distributions paid)]. EBITDA is a Non-GAAP financial measure, refer to note 6.