



Half-Year Report 2016-17












Tenon
Wood Solutions to the World

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, 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 New Zealand, Europe, and 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 (particularly the Euro and the US dollar), interest rates and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development, product demand and pricing, input costs, customer concentration risk, and the outcome of the Clearwood sales proposal.

Six Months Ended 31 December 2016

The key subject matter of this Interim Report is the conclusion of the Tenon Strategic Review.

In summary, the Review will have seen –

- Three dividends totalling 17.25 cents per share having been paid
- Sale of Tenon's US operating business for US$110 million in cash
- Repayment of all Tenon's net debt
- (First) pro-rata capital return to shareholders of US$71 million (US$1.10 per share, and cancellation of half of Tenon's shares on issue)
- Announcement (on 14 February 2017) of the proposed sale of Clearwood to a consortium of US / NZ private investors and Rubicon[4], for US$55 million in cash (refer summary of Offer conditions attached)
- Clearwood sale will be combined with a (second) pro-rata capital return to all shareholders, of US$43 million (US$1.327 per share), with an additional (estimated) US$5.8 million (US$.179 per current share) to be made in a subsequent distribution once Tenon is liquidated (see discussion below).

When completed, the total US$ shareholder return (TSR) since the announcement of the Strategic Review 18 months ago, will be circa 50%[1]. In that respect, we believe the Review will have met its fundamental objective of providing the best risk-adjusted value path for Tenon shareholders.

The Clearwood sale and purchase agreement is conditional upon, amongst other things, Tenon shareholders approving the sale at a Special Shareholders' Meeting to be held on 20 March 2017 (refer attached appendix for key terms).

At the same meeting, we will be proposing that (subject to the sale being approved by shareholders) a (second) pro-rata capital return of US$43 million be made to shareholders on closing. It is also proposed that Tenon will seek de-listing from the NZX Main Board, and then for the Company to undertake a voluntary solvent liquidation, returning to shareholders all residual surplus funds (currently estimated to be approximately US$5.8 million). The capital return will be conducted by way of a court approved process, as was the case with first the capital return following the sale of Tenon's US business operations in December 2016.

The timetable is for transaction closing and payment of the (second) capital return to Tenon shareholders to occur on 28 April, 2017, and for the subsequent liquidation of the Tenon Group to commence six months later (once the period for warranty claims under the sale and purchase agreement has expired).

Given Rubicon is a member of the Consortium, the Consortium Offer was considered and negotiated by a sub-committee of the Tenon Board, comprising only the Tenon Independent Directors (Messrs Eglinton and Walker). The Rubicon Directors on the Tenon Board (Messrs Kasnet, Karaplis, and Moriarty) had no involvement in the Company's evaluation, consideration, or negotiation of the Consortium Offer and did not vote on any matter in relation to the Offer.

Deutsche-Craigs ran an exhaustive Clearwood sales process for Tenon, generating expressions of interest from eight parties, domestic and international. Each was fully assessed and the Sub-Committee is comfortable that the Consortium Offer provides the best price, terms and certainty of completion that could have been negotiated with any of those parties.

In assessing these offers, the Sub-Committee took into account an estimated US$6 million (net of cash) in transaction, wind-up and liquidation cost[2]. Approximately half of these costs have been or will be incurred, regardless of whether this sale proceeds, as they relate to the final US business transaction closing or to the 'right-sizing' of Tenon under a continuing business scenario, with a management structure appropriate for a smaller, Clearwood-only, Tenon business (a process already underway with the elimination of the Asia-Pacific President and Group CFO roles).

Grant Samuel was appointed by the Sub-Committee as Independent Advisor to Tenon shareholders (other than Rubicon) on the transaction. Grant Samuel has valued Clearwood in a range of US$52 – US$62.5 million reflecting the acquisition of the business as a whole, incorporating a premium for control. Inclusive of costs[2], they have valued Tenon (under a sale of Clearwood and subsequent liquidation of Tenon), at US$45.8 – US$56.3 million, or NZ$1.99 - NZ$2.45 per share.

Assuming the above US$6 million estimated costs and no material Tenon bank debt to be repaid, the total cash to be returned to Tenon shareholders under the sale of Clearwood and the subsequent liquidation of the Tenon Group, will be approximately US$48.8 million, comprising US$43 million by way of (second) capital return, with an additional (estimated) US$5.8 million in a subsequent distribution once Tenon is liquidated.

Grant Samuel was also asked to value Tenon on a continuing basis, assuming no sale of Clearwood. Under that scenario, they assumed that Tenon would re-leverage the Company and make an immediate US$15 million return to shareholders, and determined the value on a continuing business basis (inclusive of the US$15 million return) to be in a range of NZ$1.74 – NZ$2.08 per share. This valuation includes a 15% trading discount for the relative illiquidity of Tenon shares, on-going corporate costs to continue the public entity, as well as US$3 million of one-off costs to right-size the continuing Tenon business.

By way of further background, particularly as to share price, on 23 December 2016, Tenon announced that it had entered into exclusive negotiations with one party with the intent of concluding a sale and purchase agreement over the Clearwood business. The volume weighted average share price for the 4-month period prior to that announcement was NZ$2.02 per share, and the share price on the day immediately prior to that announcement was NZ$2.12. Given the Consortium Offer, which equates to NZ$2.12 net of costs (NZ$2.39 per share before costs) is within Grant Samuel's recommended sale and liquidation range and exceeds the top end of the value range for a continuing Tenon business and also given an extensive investment bank-led process has been run, Tenon's Independent Directors have accepted the Consortium's Offer and signed the sale and purchase agreement as being in the best interests of Tenon shareholders.

A Notice of Meeting (with full explanatory notes and a detailed transaction and shareholder timeline, and a Grant Samuel Report) was released to the market on 22 February 2017.

Moving to the results, where our financial statements include the results of our (now sold) US operating business for 5 months to 30 November and for our Clearwood operations and corporate costs for the full six month period. They are complicated by the necessary accounting treatment of the US business as discontinued under IFRS. But in summary, the US operations traded very much to plan during the period, right through to deal close. There was a working capital adjustment payment to be made if the final position at 30 November did not align with the estimate we had given Blue Wolf. In the end, this wash-up provision concluded with a small payment to be made by Blue Wolf to Tenon. The Clearwood business recorded revenue of US$47 million for the six months to 31 December, and EBITDA[3] of (approximately) US$5 million. This is consistent with Grant Samuel's assumption of a Clearwood EBITDA for fiscal '17 of US$10.5 million, which was updated for FX, log and operational movements, and their related earnings impacts.

From a balance sheet perspective, all of Tenon's debt was repaid following the completion of the US operation sale, and prior to the first capital return. Accordingly, there is no net debt on Tenon's balance sheet at 31 December.

On a governance note, Rodger Fisher retired from the Board in December, following 17 years of outstanding contribution to the Company. We wish him well in his future endeavours. Rodger has been replaced by Mr Stephen Walker, as a Tenon Independent Director.

Finally, we look forward to seeing those of you who are able to attend the Special Meeting in March in Auckland, where we will update shareholders further on progress. For those of you who are unable to attend, we thank you and all our stakeholders for their continued support – as always, it is very much appreciated.

24 February 2017

NOTES

1. *This is on the basis of a US$ functional currency, for the period from the commencement of the Strategic Review through to its conclusion, adjusting for dividends.*
2. *These costs include advisors' fees relating to the sale, shareholder meeting materials, court fees, the termination of all Tenon corporate staff, 'run-off' insurance, the appointment of liquidators, and the disposal and liquidation of all remaining assets and liabilities.*
3. *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, because that number removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures. Refer also to Note 4 of our 31 December 2016 Interim Financial Statements.*
4. *Rubicon's current effective interest in the Clearwood business is 59.78% through its majority shareholding position in Tenon. Under the proposed transaction, Rubicon's ownership interest in Clearwood will reduce to circa 50%.*

Tenon Summary of Key Consortium Transaction Terms

1. Business being disposed of

Tenon's NZ-based Clearwood manufacturing and related global distribution operations, comprising the net assets (including working capital) of Tenon Manufacturing Limited and the shares in Taupo Wood Solutions LLC, in a debt free transaction.

2. Consideration

US$55 million payable in cash. A future cash payment or receipt may occur if net working capital on closing diverges from US$11 million by more than a US$250,000 band, in which case the adjustment will be the amount outside the band.

3. Key conditions

The sale is subject to the satisfaction or waiver of certain conditions, including –

- The passing of Tenon shareholder resolutions approving the transaction
- Staff and contract transfers
- No material adverse change occurring in the Clearwood business prior to settlement.

The conditions must be satisfied by 3 April 2017 (other than the material adverse change condition which runs to settlement).

If the conditions are satisfied, settlement is set down for 28 April 2017.

4. Potential termination events

In addition to the conditions, the Consortium can also terminate the transaction if –

- The Tenon Board withdraws its recommendation
- Tenon breaches its obligations in relation to non-solicitation of alternative transactions
- There is extensive damage to the Taupo plant after signing.

Tenon can also terminate the transaction if it is entering into an unsolicited alternative transaction as a result of the Tenon Board determining that it is required to do so in order to comply with its fiduciary duties.

Tenon must pay a termination fee of US$1.65 million if –

- It terminates the Sale and Purchase Agreement in order to enter into an alternative transaction, or
- The Consortium terminates the Sale and Purchase Agreement because the Tenon Board has withdrawn its recommendation of the sale.

Tenon must reimburse the Consortium's costs and expenses in the amount of US$500,000 if Tenon shareholders vote against the sale.

5. Representations and warranties

The Sale and Purchase Agreement contains a typical set of representations and warranties concerning Clearwood. Any and all claims must be brought within six months of closing. Other than for breaches of fundamental representations (e.g. title to assets), all claims under the Sale and Purchase Agreement are capped at an aggregate US$1 million.

Interim Financial Statements

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Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Consolidated Income Statement for six months ended 31 December 2016

	Note	Six Months Dec 2016 US$m	Tenon Group Year Ended June 2016 US$m	Six Months Dec 2015 US$m
Gross Revenue	3	**47**	90	47
Cost of Sales		**-36**	-71	-37
Gross Profit		**11**	19	10
Distribution Expense		**-5**	-9	-5
Administration Expense		**-3**	-4	-2
Operating Profit (excluding items below)		**3**	6	3
Impairment		**–**	-2	–
Strategic Review Costs		**–**	-1	–
Profit before Financing Costs		**3**	3	3
Financing Costs		**–**	–	–
Profit before Taxation		**3**	3	3
Tax Expense		**-2**	–	–
Net Profit after Taxation from Continuing Operations		**1**	3	3
Net Profit / (Loss) after Taxation from Discontinued Operations	8	**4**	-24	3
Net Profit / (Loss) after Taxation		**5**	-21	6
Earnings Per Share Information				
Basic and Diluted Net Earnings from Continuing Operations per Share (cents)		**2.0**	4.2	4.1
Basic and Diluted Net Earnings from Discontinued Operations per Share (cents)		**5.5**	-35.9	5.0
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	6	**63.4**	64.8	64.8

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

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Consolidated Statement of Comprehensive Income

for six months ended 31 December 2016

	Tenon Group		
	Six Months Dec 2016 US$m	**Year Ended June 2016 US$m**	**Six Months Dec 2015 US$m**
Net Profit / (Loss) after Taxation for the period	**5**	-21	6
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	**–**	–	–
Other Comprehensive Income for the period, net of Tax	**–**	1	1
Total Comprehensive Income / (Loss) for the period	**5**	-20	7

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

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Consolidated Balance Sheet as at 31 December 2016

		Tenon Group		
	Note	as at Dec 2016 US$m	as at June 2016 US$m	as at Dec 2015 US$m
ASSETS				
Current Assets:				
Cash and Cash Equivalents		**2**	2	1
Inventory		**10**	71	77
Trade and Other Receivables		**7**	35	31
Total Current Assets		**19**	108	109
Non Current Assets:				
Fixed Assets		**17**	26	26
Forest Assets		**–**	1	1
Goodwill		**–**	36	67
Deferred Taxation Asset		**5**	8	10
Total Non Current Assets		**22**	71	104
Total Group Assets		**41**	179	213
LIABILITIES AND GROUP EQUITY				
Liabilities				
Current Liabilities:				
Trade and Other Payables and Provisions		**10**	40	31
Current Debt	5	**–**	3	3
Total Current Liabilities		**10**	43	34
Non Current Liabilities:				
Non Current Debt	5	**2**	35	51
Deferred Rent Liability		**–**	3	–
Total Non Current Liabilities		**2**	38	51
Total Group Liabilities		**12**	81	85
Equity				
Capital	6	**461**	532	532
Reserves		**-432**	-434	-404
Total Equity		**29**	98	128
Total Group Liabilities and Equity		**41**	179	213
Net Assets per Share (US$)		**0.90**	1.51	1.98
Net Tangible Assets per Share (US$)		**0.74**	0.83	0.79
Shares used for Net Assets per Share (millions)	6	**32.4**	64.8	64.8

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

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Consolidated Statement of Changes in Equity

for six months ended 31 December 2016

Tenon Group	Note	Share Capital US$m	Retained Earnings/ (Losses) US$m	Cash Flow Hedge Reserve US$m	Revaluation Reserve US$m	Net Currency Translation US$m	Total Equity and Reserves US$m
As at 1 July 2015		532	-412	-1	1	3	123
Net Profit 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
Dividends Paid	7	–	-2	–	–	–	-2
As at 31 December 2015		532	-408	–	1	3	128
As at 1 July 2015		532	-412	-1	1	3	123
Net Loss after Taxation for the year		–	-21	–	–	–	-21
Other Comprehensive Income for the year		–	–	1	–	–	1
Total Comprehensive Income / (Loss) Attributable to the Equity holders of the Parent		–	-21	1	–	–	-20
Dividends Paid	7	–	-5	–	–	–	-5
As at 30 June 2016		532	-438	–	1	3	98
As at 1 July 2016		532	-438	–	1	3	98
Net Profit after Taxation for the period		–	5	–	–	–	5
Other Comprehensive Income for the period		–	–	–	–	–	–
Total Comprehensive Income Attributable to the Equity holders of the Parent		–	5	–	–	–	5
Dividends Paid	7	–	-3	–	–	–	-3
Capital Return	6	-71	–	–	–	–	-71
As at 31 December 2016		461	-436	–	1	3	29

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

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Consolidated Statement of Cash Flows

for six months ended 31 December 2016

	Note	Tenon Group Six Months Dec 2016 US$m	Year Ended June 2016 US$m	Six Months Dec 2015 US$m
Cash was Provided:				
From Operating Activities				
Receipts from Customers		**202**	428	212
Total Provided		**202**	428	212
Payments to Suppliers, Employees and Other		**198**	392	201
Tax Paid		**–**	1	–
Total Applied		**198**	393	201
Net Cash from Operating Activities		**4**	35	11
To Investing Activities:				
Sale of US Operations	8	**108**	–	–
Total Provided		**108**	–	–
Purchase of Fixed Assets		**1**	5	3
Total Applied		**1**	5	3
Net Cash from / (to) Investing Activities		**107**	-5	-3
From Financing Activities:				
Debt Drawdowns	5	**24**	6	6
Total Provided		**24**	6	6
Debt Settlements	5	**60**	23	7
Interest and Refinancing Fees paid		**1**	3	1
Dividends Paid	7	**3**	5	2
Capital Return	6	**71**	–	–
Total Applied		**135**	31	10
Net Cash to Financing Activities		**-111**	-25	-4
Net Movement in Cash Held		**–**	5	4
Add Opening Cash, Cash Equivalents and Overdrafts		**2**	-3	-3
Closing Cash, Cash Equivalents and Overdrafts		**2**	2	1

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

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Reconciliation of Consolidated Net Earnings to Consolidated Net Cash from Operating Activities for six months ended 31 December 2016

	Tenon Group		
	Six Months Dec 2016 US$m	**Year Ended June 2016 US$m**	**Six Months Dec 2015 US$m**
Cash was Provided from:			
Net Profit after Taxation from Continuing Operations	**1**	3	3
Net Profit / (Loss) after Taxation from Discontinued Operations	**4**	-24	3
Add Financing Costs	**2**	3	2
Adjustments:			
Depreciation	**1**	3	1
Taxation	**3**	3	1
Forest Assets	**1**	–	–
Impairment and other non cash items	**–**	34	–
Cash Flow from Operations before Net Working Capital Movements	**12**	22	10
Net Working Capital Movements	**-8**	13	1
Net Cash from Operating Activities	**4**	35	11
Net Working Capital Movements:			
Trade and Other Receivables	**2**	-2	2
Inventory	**-8**	9	3
Trade and Other Payables	**-2**	6	-4
	-8	13	1

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

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

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Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

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.

On 1 December 2016, Tenon settled the sale of its US Distribution business to Blue Wolf for $113 million. The initial sale price of $110 million was increased by $3 million due to an increase in the level of working capital between signing the sale and purchase agreement in August 2016 and settlement on 1 December 2016. The proceeds of the sale, after repayment of Tenon's debt obligations at 30 November 2016, was repaid to shareholders as a $71.2 million capital return on 23 December 2016. The US operations, previously disclosed as North America in the geographic segmental reporting, have been classified as discontinued (refer to note 8, Discontinued Operations).

Agreement was reached to sell the Australian operations in September 2016, settlement was in October 2016. Australia was a small branch of the New Zealand Clearwood operations and was not considered a separate geographic segment, it has not been treated as a discontinued operation for reporting purposes.

Operating assets remaining after the US business sale are the Group's Clearwood manufacturing operation in New Zealand and its related global sales operations. The New Zealand Clearwood and Australian operations are reported as continuing operations.

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

The Company is listed on the New Zealand stock exchange. As at 31 December 2016 the Group was 59.78% owned by Rubicon Limited and its subsidiaries (June 2016: 59.78%).

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 24 February 2017.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

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 2016, 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 2016 and 30 June 2015, 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 NZ 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 27.1 (c) of the 30 June 2016 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.

2.4 Comparatives

The June 2016 and December 2015 reported income statement has been restated to reflect the separation between continuing and discontinued operations. Interest expense has been allocated between continued and discontinued operations based on a % of net assets, excluding tax balances.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

3 Segmental Information Summary

Tenon derives its revenue from and operates within one material operating segment, being the Moulding and Millwork segment.

On 1 December 2016, Tenon settled the sale of its US Distribution business, and the North America geographic segment shown below represent the businesses sold and disclosed as discontinued. The New Zealand and Australia geographic segment represents the Group's Clearwood manufacturing operation in New Zealand and its related global sales operations and the sold Australian operations.

December 2016 – 6 months	**North America Discontinued[1] US$m**	**New Zealand and Australia Continuing US$m**	**Less Intercompany Revenue [1] [2] US$m**	**Total US$m**
Total Gross Revenue by selling location				
Gross Revenue	160	47	–	**207**
Less Intercompany Revenue [1] [2]	–	–	-7	**-7**
Operating Revenue	160	47	-7	**200**
Non Current Assets [3]	–	17	–	**17**
Capital Expenditure	–	1	–	**1**
June 2016 – year ended				
Total Gross Revenue by selling location				
Gross Revenue	359	90	–	**449**
Less Intercompany Revenue [2]	–	–	-19	**-19**
Operating Revenue	359	90	-19	**430**
Non Current Assets [3]	45	18	–	**63**
Capital Expenditure	1	4	–	**5**
December 2015 – 6 months				
Total Gross Revenue by selling location				
Gross Revenue	173	47	–	**220**
Less Intercompany Revenue [2]	–	–	-10	**-10**
Operating Revenue	173	47	-10	**210**
Non Current Assets [3]	76	18	–	**94**
Capital Expenditure	1	2	–	**3**

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

3 Segmental Information Summary continued

(1) 5 months to 30 November 2016.

(2) Intercompany Revenue relates to sales from the continuing Clearwood operations to the discontinued US operations. Revenue is transacted at competitive market rates charged to unaffiliated customers for similar goods and is eliminated on Group consolidation. The December 2016 intercompany revenue is for the 5 months to November 2016. A supply agreement is in place between Clearwood and the discontinued US operations which will result in the Group's Clearwood operations continuing to sell goods to the sold US distribution business.

(3) Excludes Deferred Taxation Assets.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

4 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 NZ 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 2016 US$m	**Year Ended June 2016 US$m**	**Six Months Dec 2015 US$m**
Net Profit after Taxation from Continuing Operations	**1**	3	3
Net Profit / (Loss) after Taxation from Discontinuing Operations	**4**	-24	3
Plus Loss on Disposal of Discontinued Operations	**1**	–	–
Plus Income Tax Expense	**3**	4	1
Plus Financing Costs	**2**	3	2
Operating Profit before Financing Costs	**11**	-14	9
Plus Depreciation and Amortisation	**1**	3	1
EBITDA (1)	**12**	-11	10
Strategic Review Costs, Impairment and Other Costs (2)	**1**	37	1
EBITDA (1) before Strategic Review Costs and Impairment	**13**	26	11
Less Discontinued Operations EBITDA	**-9**	-19	-7
Less Support Costs (1) and Australia branch operating loss	**1**	5	2
Clearwood EBITDA	**5**	12	6

(1) December 2016 includes FX losses of $0.3 million (June 2016: FX losses of $0.4 million, December 2015: FX losses $0.6 million).

(2) December 2016 comprises Strategic Review costs of $0.2 million and Texas warehouse consolidation costs of $0.6 million. June 2016 comprises Strategic Review costs ($3 million), Goodwill Impairment ($31 million), Australia impairment ($2 million) and Texas warehouse consolidation costs ($1 million). December 2015 includes Strategic Review costs ($1 million).

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

5 Current and Non-Current Debt

As at 31 December 2016, $2 million had been drawn under the new amortising revolving cash advance facility and the Group had a cash balance of $2 million, resulting in a nil net debt position.

On 18 November 2016, Tenon announced that it had signed a new two-year bank facility with the Bank of New Zealand comprising a $20 million amortising revolving cash advance facility and a $5 million working capital facility. This new bank facility replaced the previous syndicated debt financing facility which was repaid on 1 December 2016 concurrent with the sale of Tenon's US operations.

The new cash advance facility limit reduces by $2.5 million on each of 30 June 2017 and 30 June 2018 and the total facility expires on 31 January 2019.

The new facility has standard business covenants relating to business operations and a financial leverage ratio. The financial leverage ratio is calculated as a ratio of Net Debt to EBITDA (1), with the maximum permitted Net Debt being 2.5 times EBITDA (1).

Under the new facility, permitted distributions (dividends and capital returns) are limited depending on the source of funding;

- Distributions funded from the US business sale proceeds have no restrictions,
- Aggregated distributions funded from the cash advance facility is limited to US$20 million over the life of the facility and
- Distributions which are not otherwise funded from the cash advance facility or sale of US business sale proceeds, are restricted to 100% of NPAT if the leverage ratio is less than 2 times and 75% of NPAT is the leverage ratio is greater than 2 times.

(1) EBITDA is a Non-GAAP financial measure, refer to note 4, Non-GAAP measures.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

6 Capital

	Tenon Group		
	Six Months Dec 2016 US$	Year Ended June 2016 US$	Six Months Dec 2015 US$
Capital			
Reported Capital:			
Reported Capital at the beginning of the period	**531,716,189**	531,716,189	531,716,189
Capital Return [(1)]	**-71,231,000**	–	–
Reported Capital at the end of the period	**460,485,189**	531,716,189	531,716,189

	Tenon Group		
	Six Months Dec 2016	Year Ended June 2016	Six Months Dec 2015
Tenon Ordinary Shares – fully paid [(2)]			
Number of Shares at the beginning of the period	**64,814,931**	64,814,931	64,814,931
Cancellation of Shares upon Capital Return [(1)]	**-32,407,021**	–	–
Number of Shares at the end of the period [(2)]	**32,407,910**	64,814,931	64,814,931

(1) On 23 December 2016, Tenon returned $71.2 million return of capital to shareholders under a share cancellation and return of capital programme authorised by shareholders and approved by the High Court. One share out of every two was cancelled, and US$2.20 per cancelled share paid to Tenon shareholders.

(2) Includes 91,274, after share cancellation (June 2016: 182,548, December 2015: 182,548) fully paid Tenon Limited Ordinary Shares held by the Tenon Employee Share Purchase Scheme, accounted for as treasury stock.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

7 Dividends and Equity

	Six Months Dec 2016 US$m	Year Ended June 2016 US$m	Six Months Dec 2015 US$m
Dividends declared and paid by Tenon Limited are as follows:			
Dividend paid (NZ 6.50 cents per share in September 2016, NZ 5.75 cents per share in April 2016 and NZ 5.00 cents per share in November 2015)	**3**	5	2
No Dividend declared post balance date (June 2016: NZ 6.50 cents per share, December 2015: NZ 5.75 cents per share). These dividends were declared subsequent to reporting period and not provided at balance date	**–**	3	2

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

8 Discontinued Operations

North American distribution business

On 1 December 2016, Tenon settled the sale of its US Distribution business to Blue Wolf for $113 million (1). The proceeds of the sale, after repayment of Tenon's debt obligations at 30 November 2016, was repaid to shareholders as a $71.2 million capital return on 23 December 2016. The business was part of Tenon's only reporting segment, the Moulding and Millwork segment. After costs of sale Tenon recorded a $1 million loss on sale in the period, and this is non deductible for New Zealand taxation. The 5 months of trading results of the US business have been treated as a discontinued operation.

	Note	Six Months Dec 2016 US$m	Year Ended June 2016 US$m	Six Months Dec 2015 US$m
Gross Revenue	3	**160**	359	173
Less Intercompany Revenue	3	**-7**	-19	-10
Net Revenue after Intercompany Elimination		**153**	340	163
Operating Expenses (2)		**-147**	-360	-159
Profit / (Loss) before Taxation		**6**	-20	4
Gain / Loss on Disposal (3)		**-1**	–	–
Tax Expense on Profit before Taxation		**-1**	-4	-1
Net Profit / (Loss) after Taxation from Discontinued Operations		**4**	-24	3

(1) The initial sale price of $110 million was increased by $3 million due to an increase in the level of working capital between signing the sale and purchase agreement in August 2016 and settlement on 1 December 2016.

(2) Operating Expenses includes:

Depreciation	–	2	–
Financing Costs (a)	2	3	2

(a) Includes US based specific funding and an allocation of the Group's syndicated debt facility financing costs. The Tenon Group syndicated debt facility was secured over all the assets of the Group, financing costs associated with the Group facility has been allocated between continuing and discontinued operations as a % of net assets, excluding tax provisions.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

Notes to the Condensed Consolidated Interim Financial Statements continued

8 Discontinued Operations continued

(3) Gain / (Loss) on Disposal	Six Months Dec 2016 US$m
Cash inflow on sale of subsidiaries	**113**
Costs of sale	**-5**
	108
Recognised values on sale	
Inventory	**68**
Trade and other receivables	**28**
Fixed assets	**10**
Goodwill	**36**
Trade and other payables	**-32**
Provision for taxation	**-1**
	109
Net loss on sale	**-1**

Statement of Cash Flows for period ended	Six Months Dec 2016 US$m	Year Ended June 2016 US$m	Six Months Dec 2015 US$m
Net Cash from Operating Activities	**1**	27	7
Net Cash from Investing Activities	**108**	-1	-1
Net Cash from Financing Activities [(1)]	**-1**	-3	-1
Net Cash from Discontinued Operations	**108**	23	5

(1) The syndicated debt facility was secured over all the assets of the Group, accordingly non-specific draw-downs and repayments of debt relating to the repaid facility are classified as continuing as they cannot be allocated. Discontinued Financing Activities cash flow relates to interest costs on US specific funding and interest paid on the Group's syndicated debt facility which has been allocated between continuing and discontinuing on a % of net assets, excluding tax provisions.

Notes to the Condensed Consolidated Interim Financial Statements continued

9 Contingent Liabilities

The Group has no material contingent liabilities (June 2016: nil, December 2015: nil).

10 Post Balance Date Event

On 14 February 2017, the Independent Directors of Tenon Limited announced that they had signed an agreement to sell Tenon's Clearwood operations to Tenon Clearwood LP for US$55 million. The purchaser is a group of US and NZ private investors and Rubicon (circa 50%). Rubicon is Tenon's parent company. The proposed sale is subject to shareholder approval which will be sought at a special shareholders' meeting on 20 March 2017, with a settlement date of 28 April 2017. The Tenon Notice of Meeting, which was released to the NZX on 22 February 2017, contains full details relating to the Clearwood sale agreement. At the meeting Tenon will also propose a pro-rata capital return of US$43 million be made to shareholders on settlement date, a voluntary solvent liquidation of the company (to begin approximately six months following completion of the Clearwood sale) and distribution of all surplus funds to shareholders (estimated to be US$5.8 million), and a delisting of Tenon from the New Zealand Stock Exchange on 31 July 2017. As at 31 December 2016, the Tenon Group's interim financial statements have been prepared on a going concern basis, and the Clearwood operation has been classified as a continuing operation as it did not meet the requirements of IFRS 5, "Non Current Assets Held for Sale and Discontinued Operations". The net assets of the Clearwood operation have been valued at cost as at 31 December 2016. The fair value of the offer (offer price less costs to sell and to liquidate the Tenon Group) is in excess of the net assets of the Group and Tenon expects to record a gain on the proposed sale. Tenon's Clearwood assets are reported as the single reporting segment, being the Moulding and Millwork segment.

Tenon Limited and Subsidiaries • Interim Financial Statements (Unaudited)

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.tenon.co.nz

Dividend

There is no interim dividend.

Share Registry Enquiries

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Facsimile: 64-9-488-8787
E-mail: enquiry@computershare.co.nz
Please assist our registry by quoting your CSN or shareholder number.

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

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

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