



## Media Release

**TO: THE BUSINESS EDITOR**

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Information on Tenon Limited can be found at <http://www.tenon.co.nz>.

STOCK EXCHANGE LISTING: NEW ZEALAND (TEN) (TENPA)

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### HALF YEAR RESULTS ANNOUNCEMENT TO 31 DECEMBER 2004

AUCKLAND, 11 February 2005 – Tenon today reported operating earnings for the six months ended December 2004 of \$28 million, compared with \$25 million recorded in the corresponding six months to December 2003.

Commenting on the result the Chief Executive, John Dell, said, “We are obviously very pleased with the strong performance for the first six months. The business delivered earnings growth in a challenging business environment. The adverse impact of foreign exchange rates, period over period, negatively impacted operating earnings by \$14 million, so the headline result masks strong underlying operating earnings growth.”

Highlights during the six month period included:

- Solid earnings contribution from our US distribution businesses, The Empire Company (“Empire”) and American Wood Mouldings (“AWM”)
- Continued strong domestic and Australian demand for lumber products and strong first quarter USA product prices
- Commenced upgrade at the Kawerau sawmill and completed improvements at the Mount Maunganui Plywood plant
- Announcement of the second capital return of \$321 million which equates to \$1.15 per existing share
- Conditional agreement to sell the Structural Consumer Solutions business to Carter Holt Harvey Limited (“CHH”) for \$165 million plus working capital movements

The net profit after taxation for the six months to December 2004 was \$17 million compared to a \$26 million loss for December 2003. The prior year loss included a loss from discontinued activities of \$46 million.

## Operating Performance

Operating revenue for the period totalled \$367 million, up \$155 million (73%) on the corresponding six months to December 2003. The increase was driven by the consolidation of Empire for the full six month period, increased sales volumes to the domestic and Australasian markets, and the inclusion of arising grade log sales that were previously included within discontinued forestry activities.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the six months to December 2004 were \$36 million, compared to \$32 million for the six months to December 2003. The average NZ / US dollar and NZ / Australian dollar exchange rates during the six months to December 2004 were \$0.6756 and \$0.9223 compared to \$0.6036 and \$0.8810 respectively for the six months to December 2003. The earnings impacts of these currency movements were not mitigated by hedging activities (2003: \$6 million pre-tax gain).

EBITDA for the Structural Consumer Solutions segment was \$11 million for the current period, compared to \$13 million for the prior year corresponding period and \$8 million for the six months to June 2004. Sales prices remained firm, however, increased log prices over the prior comparative period reduced earnings.

EBITDA for the Appearance Consumer Solutions segment was \$27 million for the current period, compared to \$13 million for December 2003 and \$24 million for the six months to June 2004. Earnings were adversely impacted by the strong NZ dollar, however, this was offset in the first quarter by strong Moulding and Better sales prices (USD1,355 per mbf). Earnings were also enhanced by the consolidation of Empire for the full six month period, compared to two months in the comparative period to December 2003. Continued revenue growth within Tenon's US distribution companies increased underlying US dollar earnings.

Included within the current period EBITDA is a charge of \$6 million for Support Services costs, interest income of \$6 million and foreign exchange losses of \$2 million. In the comparative period to December 2003, EBITDA included a foreign exchange gain of \$6 million while Support Service costs were included within discontinued activities.

## Cash Flows

Net cash from operating activities for the six months to December 2004 was \$4 million, down from \$9 million in the corresponding period to December 2003 due to increased investment in working capital.

Cash applied to working capital of \$21 million supported revenue growth at Empire, an increased proportion of longer lead time export debtors within Structural Consumer Solutions, additional safety stock at Kawerau sawmill in advance of the commissioning of the front-end upgrade project and higher inventory levels in the USA.

The company invested \$10 million of capital expenditure during the period, primarily for the Kawerau sawmill front-end upgrade project (\$7 million) and the log pre-conditioning upgrade at the Mount Maunganui Plywood plant (\$1 million). The Kawerau sawmill front-end upgrade is in the final stages of commissioning, while the log pre-conditioning upgrade was successfully commissioned in October 2004.

The company has net cash of \$200 million as at 31 December 2004, including the debt owed by Empire of \$14 million.

### **Capital Return**

On 22 December 2004, shareholders approved a capital return of \$321 million by cancellation of three out of every four shares on issue and payment of \$1.5333 per share cancelled which equates to \$1.15 per share prior to cancellation. Shareholders of record at 5:00 pm on Wednesday 16 February 2005 are entitled to the payment, which is expected to be made on or around 23 February 2005.

### **Structural Consumer Solutions Review**

Following credible unsolicited approaches in relation to the Structural Consumer Solutions business, the company undertook a strategic review that resulted in a conditional agreement to sell the Structural Consumer Solutions business to CHH for \$165 million plus working capital movements, all payable in cash. Including additional working capital to be released from log procurement, the cash to be received will increase to approximately \$170 million. The agreement is subject to the completion of the Kawerau Sawmill front-end upgrade project and other standard commercial conditions. Settlement is expected to occur in the first quarter of calendar 2005.

### **Market Outlook / Financial Guidance**

It is expected that while the company's underlying EBITDA for the full year will be in the range of \$60 - \$64 million (before accounting for the sale of the Structural Consumer Solutions business), the composition of earnings will change. It is anticipated that the Appearance Consumer Solutions business' earnings will be lower than forecast in the Target Company Statement released on 12 May 2004, that assumed a NZ / US dollar exchange rate of NZD1.00 = USD0.60, offset by improved earnings from the Structural Consumer Solutions business and interest income.

The company will provide further earnings guidance, following the sale of the Structural business becoming unconditional, to reflect the impact of the sale on the full year's result.

## Segmental Volume Information

<b>Sales Volumes</b>				
<i>(000m<sup>3</sup>)</i>	<i>Six months to</i>	Dec 2004	Jun 2004	Dec 2003
<b>Manufactured Product Sales</b>				
Solid Lineal Mouldings		16	18	13
Laminated and Finger-Jointed Product				
Appearance		0	0	7
Structural		37	33	32
Lumber and Roundwood				
Appearance		77	69	74
Structural		235	222	208
<b>Total</b>		<b>365</b>	<b>342</b>	<b>334</b>
Third Party Lumber Trading		15	15	17
<b>Total</b>		<b>380</b>	<b>357</b>	<b>351</b>

Tenon Limited and Subsidiaries

**Statement of Financial Performance** *(unaudited)*

	Note	Six Months Dec 2004 NZ\$m	Year Ended June 2004 NZ\$m	Six Months Dec 2003 NZ\$m
Operating Revenue	2	367	556	212
Operating Expenses		(339)	(506)	(187)
Unusual Items	3		(2)	
Operating Earnings		28	48	25
Funding Costs	4	(1)	(2)	
Earnings before Taxation		27	46	25
Taxation		(7)	(11)	(4)
Earnings after Taxation		20	35	21
Minority Interest		(3)	(3)	(1)
Net Earnings from Continuing Operations		17	32	20
Net Earnings from Discontinued Operations			(74)	(46)
Net Earnings		17	(42)	(26)

**Per Share Information - Continuing Operations:**

Basic and Diluted Net Earnings per Share (cents)	6.1	11.5	7.2
Net Assets per Share (\$)	1.72	1.69	1.49
Basic and Diluted Weighted Average Number of Shares Outstanding (millions of shares)	279	279	279
Shares used for Net Assets per Share (millions of shares)	279	279	558

Tenon Limited and Subsidiaries

**Statement of Movements in Equity** *(unaudited)*

	Six Months Dec 2004 NZ\$m	Year Ended June 2004 NZ\$m	Six Months Dec 2003 NZ\$m
Net Earnings for the year, comprising:			
Net Earnings from Continued Operations			
Parent Shareholders' Interest	17	32	20
Minority Interest	3	3	1
Net Earnings from Discontinued Operations			
Parent Shareholders' Interest		(74)	(46)
Minority Interest		(1)	
	20	(40)	(25)
Other Recognised Revenues and Expenses for the year			
Movement in Currency Translation Reserve			
Parent Shareholders' Interest	(8)	(3)	(6)
Minority Interest	(1)		
Total Recognised Revenues and Expenses for the year	11	(43)	(31)
(Disposal)/Acquisition of Minority Interest	(19)	6	6
Capital Return - Parent Shareholders' Interest		(349)	
Dividends - Minority Interest		(1)	
Movements in Equity for the year	(8)	(387)	(25)
Total Group Equity at the beginning of the year, comprising			
Parent Shareholders' Interest	470	864	864
Minority Interest	28	21	21
	498	885	885
Total Group Equity at the end of the year, comprising			
Parent Shareholders' Interest	479	470	832
Minority Interest	11	28	28
	490	498	860

Tenon Limited and Subsidiaries

**Statement of Financial Position** *(unaudited)*

	Dec 2004 NZ\$m	June 2004 NZ\$m	Dec 2003 NZ\$m
<b>ASSETS</b>			
Current Assets:			
Cash and Liquid Deposits	214	141	
Stocks	92	83	71
Debtors	70	82	43
Current Assets - Discontinued Operations	10	133	62
<b>Total Current Assets</b>	<b>386</b>	<b>439</b>	<b>176</b>
Term Assets:			
Fixed Assets	118	116	114
Investments	26	34	29
Goodwill	11	12	12
Deferred Taxation Asset	22	22	(3)
Term Assets - Discontinued Operations			750
<b>Total Group Assets</b>	<b>563</b>	<b>623</b>	<b>1,078</b>
<b>LIABILITIES AND GROUP EQUITY</b>			
<b>Liabilities</b>			
Current Liabilities:			
Creditors	55	73	46
Provision for Current Taxation	1	1	1
Current Liabilities - Discontinued Operations	3	17	30
<b>Total Current Liabilities</b>	<b>59</b>	<b>91</b>	<b>77</b>
Term Liabilities:			
Term Debt	14	34	35
Term Liabilities - Discontinued Operations			106
<b>Total Group Liabilities</b>	<b>73</b>	<b>125</b>	<b>218</b>
<b>Group Equity</b>			
Group Equity	479	470	832
Minority Equity	11	28	28
<b>Total Group Equity</b>	<b>490</b>	<b>498</b>	<b>860</b>
<b>Total Group Liabilities and Equity</b>	<b>563</b>	<b>623</b>	<b>1,078</b>

Tenon Limited and Subsidiaries

**Statement of Cash Flows** *(unaudited)*

	Six Months Dec 2004 NZ\$m	Year Ended June 2004 NZ\$m	Six Months Dec 2003 NZ\$m
Total Provided	371	557	202
Total Applied	367	537	193
Net Cash from/(to) Operating Activities	4	20	9
Sale of Investments	9		
Purchase of Fixed Assets	(10)	(12)	(5)
Purchase of Investments		(1)	
Purchase of Subsidiary		(17)	(17)
Net Cash to Investing Activities	(1)	(30)	(22)
Net Debt (Settlements)/Drawdowns	(18)	(94)	13
Capital Return Paid to Shareholders		(349)	
Net Cash (to)/from Financing Activities	(18)	(443)	13
Net Cash from/(to) Discontinued Operations	90	549	(29)
Net Movement in Cash Held	75	96	(29)
Add Opening Cash and Liquid Deposits			
- Continuing Operations	141		
- Discontinued Operations		47	47
Effect of Exchange Rate Changes on Net Cash			
- Continuing Operations	(2)	(1)	
- Discontinued Operations		(1)	(2)
Closing Cash and Liquid Deposits - Discontinued Operations			16
Closing Cash and Liquid Deposits - Continuing Operations	214	141	

Tenon Limited and Subsidiaries

## Reconciliation of Net Earnings to Net Cash from Operating Activities

(unaudited)

	Six Months Dec 2004 NZ\$m	Year End June 2004 NZ\$m	Six Months Dec 2003 NZ\$m
Cash was Provided from:			
Net Earnings from Continuing Operations	17	32	20
Adjustment for Items not involving Cash:			
Depreciation, Amortisation and Provisions	8	7	(1)
Taxation	1	1	2
Minority Interest	3	3	1
Equity Earnings	(4)	(8)	(5)
Cash Flow from Operations before Net Working Capital Movements	25	35	17
Net Working Capital Movements	(21)	(15)	(8)
Net Cash from Operating Activities	4	20	9

### Notes to the Condensed Financial Statements

- These interim Financial Statements have been prepared in accordance with FRS 24 "Interim Financial Statements". The statements should be read in conjunction with the 2004 Annual Report of Tenon Limited. The accounting policies used in these Financial Statements are consistent with those used in the previously published Annual Report.
- Operating revenues includes Equity Earnings from Associate Companies of \$8 million (June 2004: \$15 million, December 2003: \$8 million), including dividends received of \$4 million (June 2004: \$7 million, December 2003: \$3 million), and interest of \$6 million (June 2004: \$4 million, December 2003: \$1million). On 1 November 2003, Tenon increased its stake in The Empire Company from 33% to 67%. From this date the financial results of The Empire Company are fully consolidated.

### 3. Unusual Items

	Six Months Dec 2004 NZ\$m	Year Ended June 2004 NZ\$m	Six Months Dec 2003 NZ\$m
Costs associated with partial takeover	-	(2)	-

- Interest expense for the year ended June 2004 includes a \$2 million mark to market gain on interest rate swaps (December 2003: \$2 million cost).
- The net cash from Discontinued Operations of \$90 million comprises \$97 million for the sale of forestry rights, \$24 million for the sale of forest land and \$2 million forestry debtor receipts, partially offset by the payment of \$14 million to creditors and \$19 million for the purchase of the Tarawera Forests Limited minority equity from Maori Investments Limited and The Crown.
- On 22 December 2004, the company entered into a conditional agreement to sell the Structural Consumer Solutions business to Carter Holt Harvey Limited, for \$165 million plus working capital movements, all payable in cash. The effect of this conditional agreement has not been recognised in these interim financial statements.

### Segmental Information Summary

<b>December 2004</b> <i>Six months to</i>	<b>Structural Appearance</b>		<b>Support<sup>(1)</sup></b>	<b>Other<sup>(2)</sup></b>	<b>Tenon</b>
	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>
Operating Revenue	154	207	6		<b>367</b>
Earnings before Interest, Taxation, Depreciation, Amortisation and Unusual Items	11	27		(2)	<b>36</b>
Depreciation and Amortisation	(4)	(3)	(1)		<b>(8)</b>
Operating Earnings before Unusual Items	7	24	(1)	(2)	<b>28</b>
Unusual Items					-
Operating Earnings					<b>28</b>
<b>June 2004</b> <i>Six months to</i>	<b>Structural Appearance</b>		<b>Support<sup>(3)</sup></b>	<b>Other<sup>(2)</sup></b>	<b>Tenon</b>
	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>
Operating Revenue	143	199	2		<b>344</b>
Earnings before Interest, Taxation, Depreciation, and Unusual Items	8	24	(3)	3	<b>32</b>
Depreciation	(3)	(3)	(1)		<b>(7)</b>
Operating Earnings before Unusual Items	5	21	(4)	3	<b>25</b>
Unusual Items					(2)
Operating Earnings					<b>23</b>
<b>December 2003</b> <i>Six months to</i>	<b>Structural Appearance</b>		<b>Support<sup>(4)</sup></b>	<b>Other<sup>(2)</sup></b>	<b>Tenon</b>
	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>	<b>NZ\$m</b>
Operating Revenue	108	104			<b>212</b>
Earnings before Interest, Taxation, Depreciation, and Unusual Items	13	13		6	<b>32</b>
Depreciation	(4)	(3)			<b>(7)</b>
Operating Earnings before Unusual Items	9	10		6	<b>25</b>
Unusual Items					-
Operating Earnings					<b>25</b>

(1) Relates to interest income on cash (\$6 million) and included within operating expenses are overheads of \$7 million.

(2) Relates to realised foreign exchange losses of \$2 million December 2004 (June 2004: \$3 million, December 2003: \$6 million) not attributed to a specific business segment.

(3) Prior to the sale of the forest assets, shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments were included in the Forests and Supply segment and included in discontinued operations. Includes interest income on cash (\$2 million), also included within the operating expenses from continuing operations are overheads of \$6 million for June 2004 (being support costs post the forest assets sale). Support costs on an annualised basis are estimated at \$15 million.

(4) Prior to the sale of the forest assets, shared service overheads not specific to the Structural Consumer Solutions or Appearance Consumer Solutions segments were included in the Forests and Supply segment and included in discontinued operations.