



Half-Year Report 2007-2008

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### Forward-Looking Statements

There are forward-looking statements included in this document which include, but are not limited to, statements from the Chairman and the Chief Executive Officer in the half-year report. As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Tenon, its operations, the markets in which it competes and other factors (some of which are beyond the control of Tenon). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular Tenon's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes. Fluctuations in industrial output, commercial and residential construction activity, changes in availability of capital, declining housing turnover and pricing, declining levels of repairs, remodelling and additions to existing homes in North America, relative exchange rates, interest rates in each market, and profitability of customers, can have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development and demand and pricing and customer concentration risk.

# Half-Year Report

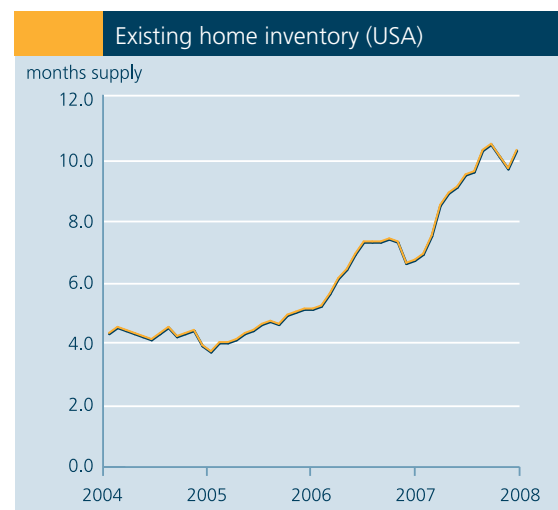
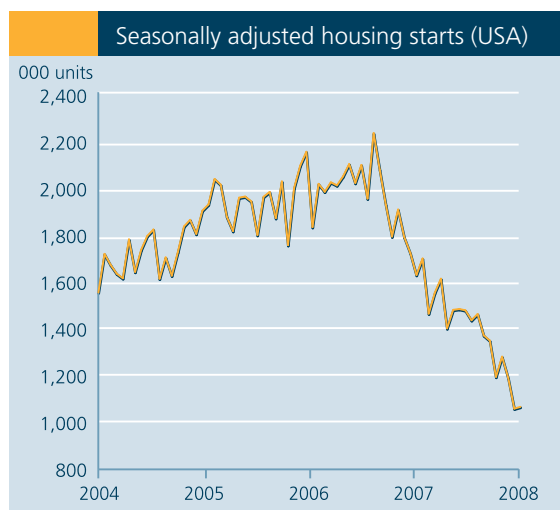
Note: All references in this half-year report to \$ or “dollars” are references to United States dollars unless otherwise stated.

Tenon reported earnings before interest, tax and depreciation (“EBITDA”) for the six months to 31 December 2007 of \$9 million. This was in line with the earnings guidance we had previously provided the market at our Annual Shareholders’ Meeting in November last year. Whilst the result is the same number as was reported for the six months ended December 2006, it was achieved in far more difficult operating conditions.

Our operating environment deteriorated as the six-month period progressed, with new housing starts, housing inventories and house prices in the US all showing a continued negative trend.

These factors, combined with a reduction in the supply of credit to new homeowners and a drop in renovation spending, all acted to make our day-to-day market environment very difficult. In addition, we faced a very strong NZ:US dollar – something our US-based competitors are not so exposed to. So, all things considered, we believe this half-year result is a very creditable performance for the Company.

Net Cash from Operating Activities for the six months was \$15 million (which included a positive net working capital movement of \$5 million). This compares very favourably with the \$6 million



previously recorded in the six-month period to 31 December 2006, and the \$14 million result for the 12 months to 30 June 2007. Apart from the \$8 million spent on the acquisition of an additional 24.5% of Southwest Moulding in August, the remaining capital expenditure of only \$1 million was largely of a maintenance nature. This strong net cash flow performance allowed us to reduce net debt (including deferred liabilities) from \$88 million at 30 June 2007 down to \$77 million at balance date.

While the sector in which we operate continues to experience the fallout from the US sub-prime mortgage market collapse, we have to date been able to maintain our operational earnings performance by continuing our focus on constantly improving our cost competitiveness and service delivery to our customers.

In this environment, the real challenge for participants in our sector is to service customers to their expectations whilst continuing to balance inventory levels throughout the supply chain – a challenge our people deliver on every day.

We are, of course, also determined to continue to advance the strategic positioning and competitiveness of all our businesses. In this respect, in the six-month period we:

- Realigned the operating shifts and staffing levels at all our operating facilities to match production with changing demand conditions;
- Advanced our “One-Company” initiatives, which are designed to streamline the business and reduce costs;
- Continued our focus on supply chain optimisation, in order to manage our inventory and working capital levels to meet both our customer needs and our own internal cash generation targets;
- Furthered the execution of our organic growth programmes, such as our Outdoor products programme and our pre-finished mouldings programme; and
- Completed the acquisition of a further 24.5% of our subsidiary Southwest Moulding for \$8 million, taking our holding to 75.5%.

In addition to these operational and strategic moves, during the period we also made a

significant change to the financing position of the Company, with the announcement (in July) that we had completed the total refinancing of the Group with a banking syndicate in the United States. The new \$100 million 5-year facility, led by JPMorgan Chase, includes all the banks that had previously had banking relationships with the Tenon Group. This refinancing was able to be secured on good terms in difficult financial market conditions.

In terms of the immediate outlook, demand conditions are particularly hard to predict, however we are working on the basis that market conditions will remain very difficult for the balance of our 2008 fiscal year. As we cannot control the macro-drivers that influence our business



Luke Moriarty  
Chairman of Directors  
14 February 2008

– namely the NZ:US exchange rate and the US housing market conditions – in this environment we will be concentrating on those aspects of our activities that we believe can influence our earnings performance in the short-medium term. We will be working to maximise our specialty-sales opportunities, further reduce delivered cost, manage working capital, improve business processes and extract synergies across the entire Group. In addition, we will opportunistically look to sales outside of the US markets for our higher value specialty products.

If we do that, then we can be confident Tenon will be competitively positioned to take advantage of any broad market recovery when the macro-conditions decide to move in our favour.



Mark Eglinton  
Chief Executive Officer

## Statement of Accounting Policies

### Basis of Presentation

The interim financial statements presented are those of Tenon Limited and Subsidiaries (the Group).

### Statement of Compliance

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and New Zealand International Accounting Standard 34, Interim Financial Reporting. In complying with NZIAS 34, the interim financial statements also comply with IAS 34.

The 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-orientated entity for the purposes of compliance with NZ IFRS.

### Basis of Preparation

The interim financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The reporting currency used in the preparation of these interim financial statements is United States dollars.

The preparation of interim financial statements in conformity with NZIAS 34 requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The interim financial statements consolidate the financial statements of subsidiaries using the purchase method, and include the results of associates using the equity method.

The accounting policies used in the preparation of the interim financial statements for the six months ended 31 December 2007 and 31 December 2006 are consistent with those used in preparation of the audited financial statements of the Group for the year ended 30 June 2007.

## Consolidated Income Statement for period ended 31 December 2007

	Note	Tenon Group			
		Six Months Dec 2007 NZ\$m	Six Months Dec 2007 US\$m	Year Ended June 2007 US\$m	Six Months Dec 2006 US\$m
Revenue		249	<b>193</b>	394	196
Cost of Sales		-180	<b>-139</b>	-292	-147
Gross Profit		69	<b>54</b>	102	49
Distribution Expense		-52	<b>-40</b>	-74	-36
Administration Expense		-10	<b>-8</b>	-15	-7
Operating Profit		7	<b>6</b>	13	6
Analysed as:					
EBITDA		11	<b>9</b>	20	9
Depreciation		-4	<b>-3</b>	-7	-3
Operating Profit		7	<b>6</b>	13	6
Operating Profit before Financing Costs		7	<b>6</b>	13	6
Net Financing Expense	6	-4	<b>-3</b>	-7	-3
Profit before Taxation		3	<b>3</b>	6	3
Income Tax Expense		-1	<b>-1</b>	-1	-1
Net Profit after Taxation		2	<b>2</b>	5	2
<b>Earnings Per Share Information</b>					
Basic Net Earnings per Share (cents)			<b>2.7</b>	7.1	2.5
Diluted Net Earnings per Share (cents)			<b>2.7</b>	7.1	2.4
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)			<b>66.9</b>	66.9	66.9

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

The interim financial statements have been translated to New Zealand dollars for information purposes only, refer to note 3.

## Consolidated Statement of Changes in Equity for period ended 31 December 2007

	Note	Six Months Dec 2007 NZ\$m	Tenon Group Six Months Dec 2007 US\$m	Year Ended June 2007 US\$m	Six Months Dec 2006 US\$m
Net Earnings for the period, comprising:					
Net Profit after Taxation		2	2	5	2
Other Recognised Revenues and Expenses for the period					
Revaluation Reserve on Acquisition	9	–	–	1	2
Movement in Currency Translation Reserve		–	–	2	2
Total Recognised Revenues and Expenses for the period		2	2	8	6
Movement in Reported Capital					
Share Buyback	8	–	–	-1	-1
Movements in Equity for the period		2	2	7	5
Total Group Equity at the beginning of the period, comprising:					
Parent Shareholders' Interest		167	129	122	122
Total Group Equity at the end of the period, comprising:					
Parent Shareholders' Interest		169	131	129	127

The accompanying notes form part of and are to be read in conjunction with these interim financial statements.  
The interim financial statements have been translated to New Zealand dollars for information purposes only, refer to note 3.

## Consolidated Balance Sheet as at 31 December 2007

	Note	Tenon Group			
		Six Months Dec 2007 NZ\$m	Six Months Dec 2007 US\$m	Year Ended June 2007 US\$m	Six Months Dec 2006 US\$m
<b>ASSETS</b>					
Current Assets:					
Cash and Liquid Deposits		9	7	3	3
Inventory		91	71	71	81
Trade and Other Receivables		59	46	53	42
Current Tax Asset		–	–	2	–
Current Assets – Discontinued Operations		–	–	–	1
Total Current Assets		159	124	129	127
Non Current Assets:					
Fixed Assets		57	44	45	42
Goodwill		88	68	67	76
Deferred Taxation Asset		9	7	7	8
Total Non Current Assets		154	119	119	126
Total Group Assets		313	243	248	253
<b>LIABILITIES AND GROUP EQUITY</b>					
<b>Liabilities</b>					
Current Liabilities:					
Bank Overdraft		–	–	1	–
Trade and Other Payables		35	27	27	25
Provision for Current Taxation		–	–	–	1
Current Debt		5	4	74	73
Deferred Settlement	4	10	8	16	–
Current Liabilities – Discontinued Operations		1	1	1	2
Total Current Liabilities		51	40	119	101
Non Current Liabilities:					
Non Current Debt	5	93	72	–	4
Provisions		–	–	–	1
Deferred Settlement		–	–	–	20
Total Non Current Liabilities		93	72	–	25
Total Group Liabilities		144	112	119	126
<b>Group Equity</b>					
Capital	8	689	533	533	533
Reserves	9	-520	-402	-404	-406
Total Group Equity		169	131	129	127
Total Group Liabilities and Equity		313	243	248	253

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

The interim financial statements have been translated to New Zealand dollars for information purposes only, refer to note 3.

## Consolidated Statement of Cash Flows for period ended 31 December 2007

	Note	Six Months Dec 2007 NZ\$m	Tenon Group Six Months Dec 2007 US\$m	Year Ended June 2007 US\$m	Six Months Dec 2006 US\$m
Cash was Provided:					
From Operating Activities					
Receipts from Customers		257	<b>199</b>	396	199
Net Income Tax Refund/(Payment)		1	<b>1</b>	-4	-1
Total Provided		258	<b>200</b>	392	198
Payments to Suppliers, Employees and Other					
		239	<b>185</b>	378	192
Total Applied		239	<b>185</b>	378	192
Net Cash from Continuing Operating Activities		19	<b>15</b>	14	6
To Investing Activities					
Purchase of Fixed Assets		2	<b>1</b>	4	2
Settlement of Deferred Liability	4	10	<b>8</b>	-	-
Purchase of Subsidiary		-	-	20	20
Cash Acquired on Purchase of Subsidiary		-	-	-3	-3
Net Cash to Investing Activities		-12	<b>-9</b>	-21	-19
From Financing Activities					
Debt Drawdowns	5	111	<b>86</b>	50	48
Total Provided		111	<b>86</b>	50	48
Debt Settlements	5	108	<b>84</b>	37	31
Interest Paid		4	<b>3</b>	5	2
Share Buyback	8	-	-	1	1
Total Applied		112	<b>87</b>	43	34
Net Cash (to)/from Financing Activities		-1	<b>-1</b>	7	14
Net Cash to Discontinued Operations		-	-	-1	-1
Net Movement in Cash Held		6	<b>5</b>	-1	-
Add Opening Cash, Liquid Deposits and Overdrafts		3	<b>2</b>	3	3
Closing Cash, Liquid Deposits and Overdrafts		9	<b>7</b>	2	3

The accompanying notes form part of and are to be read in conjunction with these interim financial statements.  
The interim financial statements have been translated to New Zealand dollars for information purposes only, refer to note 3.

## Reconciliation of Consolidated Net Earnings to Consolidated Net Cash from Operating Activities for period ended 31 December 2007

	Six Months Dec 2007 US\$m	Tenon Group Year Ended June 2007 US\$m	Six Months Dec 2006 US\$m
Cash was Provided from:			
Net Earnings	2	5	2
Add Net Financing Expense	3	7	3
Adjustments for Items not involving Cash:			
Depreciation	3	7	3
Taxation	2	-3	-
Cash Flow from Operations before Net Working Capital Movements	10	16	8
Net Working Capital Movements	5	-2	-2
Net Cash from Continuing Operating Activities <sup>(1)</sup>	15	14	6

(1) As per Statement of Cash Flows.

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

## Notes to the Interim Financial Statements

### 1 GENERAL INFORMATION

Tenon Limited (the Company) and its subsidiaries (together the Group) is a woodproducts processing, marketing and distribution business. The Group focuses on the high value moulding and millwork markets in the United States. The Group has strong supplier relationships for finished mouldings and boards with the independent pro-dealer segment and has channels into two of the largest home improvement chains in the United States: Lowe's and The Home Depot. The Group also supplies appearance grade lumber to a number of US moulding and millwork manufacturers. As well as providing a channel to market for Tenon's New Zealand products, our wholly-owned distribution businesses, The Empire Company, Inc and the Ornamental Mouldings group of companies, also source significant quantities of finished mouldings and millwork products from other suppliers.

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

The Company is listed on the New Zealand stock exchange. As at 31 December 2007 the Group was 57.49% owned by Rubicon Limited and its subsidiaries (June 2007: 57.37%).

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 14 February 2008.

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### 2 CHANGES IN ACCOUNTING POLICY

There have been no changes in accounting policies during the period.

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### 3 FUNCTIONAL CURRENCY

The United States dollar is both the functional and reporting currency of the Tenon Group. The majority of the Group's revenues and cash flows are generated in United States dollars.

#### **New Zealand dollar supplementary information**

The consolidated financial statements are expressed in United States dollars. The amounts pertaining to the most recent financial period are translated to New Zealand dollars, the latter being supplemental information presented solely for convenience and converted from United States dollars, as a matter of arithmetical computation only, at the closing rate on 31 December 2007 of NZ\$1.00 : US\$0.7740.

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### 4 DEFERRED SETTLEMENT

On 23 August 2007, the put:call arrangement with the minority shareholders of Southwest Moulding was renegotiated and Tenon immediately increased its interest in Southwest Moulding by an additional 24.5% interest to 75.5%. The price of the additional 24.5% shareholding was approximately \$7.8 million. At 31 December 2007, the remaining 24.5% minority interest was recognised as a liability on the balance sheet as a deferred settlement obligation. The minority shareholders retain an option to put the remaining balance of 24.5% to Tenon during the August-October period in either 2008 or 2009. Tenon may purchase the minority interest at any time.

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### 5 DEBT REFINANCING

On 5 July 2007, Tenon completely refinanced its existing bank facilities which were due to expire in August 2007. The new bank credit facility is for an amount of US\$100 million secured for a term of 5 years (from signing) and is provided by a consortium of banks led by JPMorgan Chase Bank, N.A. The new facility is structured as a global facility supporting the operations of the Tenon group as a whole, and replaces the previous separated bank facilities existing within the Group. As at 31 December, \$72 million of drawn debt was classified as non-current.

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Notes to the Interim Financial Statements continued**6 FINANCIAL COSTS**

	Dec 2007 US\$m	Tenon Group June 2007 US\$m	Dec 2006 US\$m
Interest Payable on Debt	3	5	2
Amortisation of Fair Value – Deferred Settlement	–	2	1
	<b>3</b>	<b>7</b>	<b>3</b>

**7 SEGMENTAL INFORMATION SUMMARY**

Tenon Limited (the Company) and its subsidiaries (together the Group) is a woodproducts processing, marketing and distribution business. The Group focuses on the high value moulding and millwork markets in the United States. The Group has strong supplier relationships for finished mouldings and boards with the independent pro-dealer segment and has channels into two of the largest home improvement chains in the United States: Lowe's and The Home Depot. The Group also supplies appearance grade lumber to a number of US moulding and millwork manufacturers. As well as providing a channel to market for Tenon's New Zealand products, our wholly-owned distribution businesses, The Empire Company, Inc and the Ornamental Mouldings group of companies, also source significant quantities of finished mouldings and millwork products from other suppliers.

**8 CAPITAL**

	Dec 2007 US\$m	Tenon Group June 2007 US\$m	Dec 2006 US\$m
<b>Capital</b>			
Reported Capital:			
Reported Capital at the beginning of the period	533	534	534
Share Buyback <sup>(1)</sup>	–	-1	-1
Reported Capital	<b>533</b>	<b>533</b>	<b>533</b>

	Dec 2007	Tenon Group June 2007	Dec 2006
<b>Tenon Ordinary Shares</b>			
Number of Shares at the beginning of the period	<b>66,850,661</b>	67,205,177	67,205,177
Share Buyback <sup>(1)</sup>	–	-354,516	-354,516
	<b>66,850,661</b>	66,850,661	66,850,661

(1) The Company has acquired 2,846,976 shares, representing 4.1% of the issued shares of the Company, under an on-market share buyback announced on 7 March 2006.

Shares held by the Tenon Employee Share Purchase Scheme accounted for under the Treasury Stock method amount to 198,360 (June 2007: 198,360; December 2006: 198,360) fully paid Tenon Limited Ordinary Shares.

Notes to the Interim Financial Statements continued**9 RESERVES**

	Dec 2007 US\$m	Tenon Group June 2007 US\$m	Dec 2006 US\$m
<b>Retained Earnings:</b>			
Opening Balance	-411	-416	-416
Net Profit after Taxation	2	5	2
	<b>-409</b>	-411	-414
<b>Revaluation Reserves:</b>			
Opening Balance	1	-	-
Revaluation Reserve on Acquisition <sup>(1)</sup>	-	1	2
	<b>1</b>	1	2
<b>Net Currency Translation:</b>			
Opening Balance	6	4	4
Net Variations on Translations of Foreign Currency Financial Statements	-	2	2
	<b>6</b>	6	6
<b>Total Reserves</b>	<b>-402</b>	-404	-406

(1) On 3 November 2006, the Group announced that it had exited its 50% investment in American Wood Mouldings ("AWM") and acquired 100% of the Ornamental Mouldings group of companies ('OMI'). As the Group had previously held an indirect 25% share in OMI through its investment in AWM, the acquisition of OMI is treated as a two-step acquisition for accounting purposes and accordingly (under NZ IFRS 3) Tenon's share of the retained earnings of OMI when it was an associate is recognised as a revaluation reserve on consolidation.

## Investor Information

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

Copies of the Half-Year and Annual Reports are available on the Company's website, [www.tenon.co.nz](http://www.tenon.co.nz).

### **DIVIDEND**

There is no 2008 interim dividend for Tenon shareholders.

### **SHARE REGISTRY ENQUIRIES**

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

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Private Bag 92 119,  
Auckland 1142, New Zealand  
Level 2, 159 Hurstmere Road,  
Takapuna, North Shore City 0622  
Telephone: 64 9 488 8777  
Facsimile: 64 9 488 8787  
E-mail: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

### **COMPANY WEBSITES**

[www.tenon.co.nz](http://www.tenon.co.nz)  
[www.tenonusa.com](http://www.tenonusa.com)  
[www.empireco.com](http://www.empireco.com)  
[www.fletcherwoodsolutions.com](http://www.fletcherwoodsolutions.com)  
[www.kokswoodgoods.com](http://www.kokswoodgoods.com)  
[www.lifespanoutdoor.com](http://www.lifespanoutdoor.com)  
[www.ornamentalmouldings.com](http://www.ornamentalmouldings.com)  
[www.southwestmoulding.com](http://www.southwestmoulding.com)

### **OTHER INVESTOR ENQUIRIES/REGISTERED OFFICE**

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