Tenon Interim Report

SIX MONTHS ENDED 31 DECEMBER 2016

(Released 24 February 2017)

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 and Rubicon). 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.

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

In summary, the Review will have seen the –

- 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
- Subsequent (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 (earlier this month) of the 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 creating path for Tenon shareholders.

The Clearwood sale & 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 proceed to undertake a voluntary solvent liquidation, and return of all residual surplus funds (currently estimated to be, as noted above, approximately US$5.8 million) to shareholders. The capital return will be conducted by way of a court approved process, as was the case with the capital return following the sale of Tenon's US business operations in December 2016.

The indicative 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 be commenced 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.

All documentation (which would include a Notice of Meeting with full explanatory notes and a detailed transaction and shareholder timeline, and a Grant Samuel Report) was distributed to shareholders 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.

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 Amortisations) 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.

[Ends]