



News Release

TO: THE BUSINESS EDITOR

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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

TENON ISSUES EARNINGS GUIDANCE

Auckland, 1 November 2005 – Tenon issued earnings guidance today, for its 2006 financial year.

The Company said that it had expected its EBITDA (earnings before interest, tax, depreciation and amortisations) before foreign exchange gains / losses and interest income, for the six months ending 31 December 2005, to be slightly ahead of that recorded in the last six months of the 2005 financial year.

However, price reductions in mouldings put in place by The Home Depot (THD) this week (which will impact on the financial performance of AWM, Tenon's 50% owned North American distribution business), together with freight rate increases and a stubbornly high exchange rate, have resulted in the Company reducing its half year EBITDA expectations to approximately US\$5 million, before foreign exchange gains/losses and interest income – down from the US\$6.8 million reported for the second half earnings in the 2005 financial year.

Luke Moriarty, the Chairman of Tenon, said, "The extent of THD's announced price reductions has come as a complete surprise to vendors and producers alike, as there appears to be little ability for the industry to deliver the price reductions being requested. While the latest pricing move will obviously increase the margin to The Home Depot further, it will also have the effect of moving South American and New Zealand producers, who are already under considerable cost and currency pressures, into a greater loss position, and cause unsustainable margin compression at the distributor level. For this reason, we do not believe the current margin allocation reflects a sustainable industry situation."

The Company said that regardless of the sustainability of the price reductions, AWM has initiatives in place to recover some of the earnings it would be giving up. These initiatives include:

- the implementation of a first phase US\$2.5 million cost-out program;
- addressing AWM's loss-making Mexico operation;
- on a customer-by-customer basis, re-aligning AWM's service levels with the long-term margins it believes it can earn; and

- further developing AWM's growth into the large regional independent lumberyard customers, a strategy well advanced at Tenon's 100% owned subsidiary, The Empire Company.

"In addition to these AWM-specific actions, we will be looking at the wider Tenon group to see whether activities can be reconfigured to provide greater purchasing and logistics benefits from the scale that we currently have," he said.

"Although there is considerable uncertainty in some key factors which drive our forecasts - including the impact and sustainability of this week's mouldings pricing announcements, movements in the New Zealand and South American currencies against the US dollar, the future path for mouldings & better lumber pricing, the growth rate achievable by our large North American retail customers, and demand for our new Armourwood product – our current projections are that our EBITDA for our 2006 financial year will fall in a range of US\$17-20 million, before interest income and foreign exchange gains / losses, compared with US\$24 million recorded in the previous financial year.

This forecast excludes the earnings benefit of any growth moves the Company may choose to make over the course of the year," he said.

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