



News Release

TO: THE BUSINESS EDITOR
From: Paul Gillard – General Manager Corporate, **Tenon Limited**
Telephone: 64-9-368 4193
Fax: 64-9-368 4197

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

STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

TENON MATCHES LAST YEAR'S RESULTS IN EXTREMELY CHALLENGING MARKET CONDITIONS

ANNUAL RESULTS TO 30 JUNE 2007

Note: All references in this release to \$ are references to United States Dollars

AUCKLAND, 27 August 2007 – Tenon today reported an operating profit before interest, tax, depreciation and amortisations (“EBITDA”) of \$20 million for the 12 months ended 30 June 2007, in line with market expectations. Whilst this earnings result was identical to that recorded in the previous financial year, it is notable that it was achieved in a far more difficult operating environment than existed in the comparative period.

The 2007 year saw a sharp decline in building activity in the US, a softening of remodelling spend for millwork products, and a strong appreciation in the New Zealand dollar - each of which had negative implications for earnings in the period. Despite this difficult environment, Tenon continued to execute its plan to grow through selected acquisitions, to develop a platform to extract synergies across the entire Group, to eliminate costs throughout our supply chain, and to grow the breadth of our specialty product offerings.

Highlights have included:

- Stable year-on-year EBITDA of \$20 million, achieved in a much more challenging market environment
- A 6.5% increase in operating revenue for the business from \$370 million in the prior year to \$394 million
- The complete exit from the under-performing 50% investment in American Wood Mouldings
- The purchase of 100% of Ornamental Mouldings (“OMI”) – a manufacturer and distributor of decorative mouldings
- The expansion of the market for our innovative and proprietary Armourwood™ and LIFESPAN™ primed and treated outdoor finishing products

- The establishment of the One-Company platform to better leverage Tenon's scale in the US market and to extract synergies across the Group's operations
- The successful refinancing of Tenon, which resulted in the establishment of a \$100 million, 5-year facility to support the Company's current and future operational and strategic needs
- After the balance date the step-up from 51% to 75.5% in our ownership of Southwest Mouldings ("SouthWest"), a manufacturer and distributor to the Pro-Dealer segment in the large Texas market) for approximately \$ 7.8 million.

Difficult Trading Environment

There was a marked slowing in sales of existing homes recorded in the US market across the period under review. As the propensity for consumers to undertake a major remodelling project increases subsequent to the acquisition of a new home, this metric is an important indicator for our business. The inventory on hand of existing homes in the US increased from 6.9 months sales to 8.8 month's sales at the end of the period. At the same time, new home starts were running at a seasonally adjusted annual rate of 1.47 million, a 19.4% decline on the previous year.

Commenting on the market conditions experienced during 2007, Mark Eglinton, the Chief Executive of Tenon, said "It would be fair to say that the extent of the slowdown we have seen in the remodelling segment of the market had not been anticipated by any market participant - with the softness in Florida and the Mid-West, in particular, having been a material drag on our earnings over the past 12 months."

In addition, Tenon's Taupo operations also had to deal with the appreciation of the New Zealand dollar during the period. In particular, the 6 months to 30 June saw the NZD/USD cross rate averaging 72 cents (before moving even higher to break through 80 cents in the first quarter of 2008) compared with 65 cents in the prior six-month period. Fortunately, in the last quarter of the financial year the impact of the strong NZD was partially offset by a 30% increase in the US dollar price of Moulding and Better lumber in the US, which is a key pricing index for Tenon's business.

Stable Earnings & Strong Cashflows

As a direct result of both the strategic and operational enhancements made to the business during the period, Tenon managed to deliver a flat year-on-year EBITDA of \$20 million - in an environment of unprecedentedly unfavourable macro-economic conditions.

Strategically, the inclusion of the positive earnings from OMI and the exclusion of the negative earnings of AWM (as a result of the transactions that took place in November 2006) have confirmed the Company's view of the long-term significance of those two transactions for the business.

Operationally, the Company focused on the execution of sustainable initiatives to maintain its revenue growth in specialty products and to reduce costs across the Group:

- With the inclusion of OMI revenue and the growth in our outdoor product programme, total operating revenue was \$394 million - up almost \$25 million on the prior year's \$370 million. Excluding OMI, revenue was similar to the previous year.

- Gross profit expanded marginally during the period as a result of the blending of specialty manufacturing margins, the favourable impact of increasing lumber prices, improved recoveries from the New Zealand manufacturing operations, and the US distribution businesses working closely with suppliers to manage volume and costs in line with market conditions.
- Costs savings were achieved by way of:
 - efficiency and rate-savings in shipping and logistics costs in both New Zealand and the US
 - improved effective log input prices relative to log-conversions achieved at the Taupo site
 - reduced IT management costs.

The benefits of these savings were offset by costs incurred to support our long-term growth strategies. These included, by way of example, the full-year cost of operating additional warehousing facilities in Texas which were opened in the final quarter of the previous year, together with the ongoing investment in operations supporting the Group's objective for sustainable growth in Pro-Dealer markets.

- Early benefits were seen from the One-Company platform, including:
 - specialty manufacturing optimisation in North America, with the integration of Koks Woodgoods with Ornamental Mouldings
 - gains from a strategic procurement review across our distribution businesses
 - Group-wide inventory reduction of \$5 million in cash terms (excluding the OMI acquisition and the impact of Foreign Exchange).

Net cash flow from operations for the year (prior to working capital movements) was \$16 million (2006 - \$12 million). The Company invested \$24 million during the period, including the purchase of 50% of OMI for \$20 million, with the remaining 50% interest in OMI being acquired in exchange for Tenon's 50% interest in American Wood Mouldings for equivalent value of \$20 million.

The Company's net bank borrowings over the 12 months increased from \$52 million at 30 June 2006 (excluding any borrowings at the then 50% owned American Wood Mouldings) to \$72 million at 30 June 2007, reflecting the cost of the OMI acquisition.

Positioned for Growth

The Company recently completed the refinancing of its Group operations with a banking syndicate in the United States. The new \$100 million 5-year facility, led by JPMorgan Chase, includes all the banks which previously had banking relationships with the Tenon Group. Having this long term facility in place provides the Tenon Group with the financial stability and funding flexibility to meet its current and future operational and strategic needs. That we have been able to secure this refinancing on good terms in difficult financial market conditions is reflective of the market positioning of Tenon and the strong relationships with the banks that have supported us for many years.

The Company also recently announced that it had signed a contract to increase its percentage ownership of SouthWest from 51% to 75.5%, further strengthening its manufacturing and

distribution activities in the United States market. The purchase price for the 24.5% interest is approximately \$7.8 million, and settlement will take place on 31 August 2007.

The initial 51% purchase of SouthWest was made in 2005, with the purpose of diversifying Tenon's product offering and achieving a more balanced customer mix in North America. The Dallas based business services the large Texas Pro-Dealer market.

The SouthWest minority shareholders retain an option to put the remaining balance (of 24.5%) to Tenon during the period August-October in 2008 or 2009. Tenon may purchase the minority interest at any time.

While we did not invest significant capital in the New Zealand-based processing operations during the year, we are looking to introduce new optimisation technology that would significantly improve the operational efficiency and earnings performance at Taupo. This is scheduled for a calendar 2008 implementation, but exact timing would be dependent upon prevailing macro-economic conditions.

It is naturally disappointing that despite the sound strategic moves made in the period to establish a strong platform for Tenon in the future, the current share price continues to reflect the short-term negatives the Company faces – particularly the on-going strength of the NZ dollar and the difficult trading conditions in the Company's key US market, and, to a lesser degree, the low level of share-liquidity that has resulted from further consolidation of the Company's share register. We continue to remain confident that as the business initiatives we have put in place begin to flow through to our earnings, and as US market conditions begin to improve, our share price will respond positively.

Outlook

The overall results for the year reflect a cyclical low period in the US market. While the Company and most market commentators had anticipated an improvement later in the year off the low base at the beginning of the year, this did not eventuate. This was due in significant part to the now well-publicised collapse of the "sub-prime" mortgage lending market in the US, which has caused a severe tightening in the availability of home finance and an impairment in consumers' ability to finance further consumer spending. This has impacted upon the new housing and remodelling markets in which Tenon operates, and will continue to do so in our 2008 financial year – albeit, we expect, to a lesser degree. We are, therefore, maintaining a cautious yet improving outlook for 2008.

In this environment the Company will be focused on:

- Building revenue in the outdoor products programme and other new products
- Reducing levels of inventory and debt
- Ongoing supply chain and procurement optimisation
- Achieving cost savings across the Group.

We are positioning the business to be able to significantly step up earnings as we return to mid-cycle conditions beyond fiscal year 2008. Commenting on this future recovery, Mr Eglinton said "When we speak of mid-cycle conditions we are talking about the sustainable mid-points of the key macro-economic indicators that impact our business - for example, existing home inventory, remodelling spend, and the NZD/USD cross rate. We remain confident that we will return to mid-cycle conditions in the future – it is only a question of

timing. Supporting our longer-term view of market conditions, the Harvard Joint Housing Study released earlier this year, anticipates 3.8% (inflation adjusted) annual growth in remodelling spend for the next decade. "

Conclusion

The macro-economic conditions the Company operated in over the past twelve months were not conducive to a strong earnings performance for industry participants. Mr Eglinton said "However, delivering a 5% EBITDA margin at or near the bottom of a very tough US building cycle and the peak of the New Zealand dollar exchange rate, must be regarded as a very creditable performance for Tenon. We are certainly very encouraged by what this means for the business when we return to mid-cycle conditions".

Strategically, the Company is very well positioned to benefit from the future cyclical recovery in the US building materials market and the depreciation of the New Zealand currency - with:

- Over two thirds of its business in the remodelling segment, which has historically been far more robust to adverse economic conditions than has the new housing sector
- The great majority, by volume and value, of Tenon's US sales are in specialty millwork products which generally display less pricing volatility
- Best-in-class operations, maintaining leading market shares in the core categories in which we operate
- A unique blend of manufacturing and distribution facilities, which provides key points of leverage in the supply chain and good earnings diversification
- A strong growth profile, with excellent regional and product programs already in place
- Implemented cost management programs at both operational and corporate levels.

Looking ahead to the immediate year, 2008 should show improvement over the market conditions we have experienced in 2007, and we should also benefit from the inclusion of further One-Company initiatives. And beyond that, we are excited about the opportunities for Tenon as we move into a period of broad industry recovery.

ENDS

FORWARD-LOOKING STATEMENTS

Except to the extent that they relate to historical information, there are forward-looking statements included in this release. 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). Accordingly, actual results and conditions may differ materially from those expressed or implied by such statements.

Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)
for year ended 30 June

	June 2007 NZ\$m ⁽¹⁾	Tenon Group June 2007 US\$m	June 2006 US\$m
Revenue	513	394	370
Cost of Sales	-380	-292	-278
Gross Profit	133	102	92
Dividend Income	0	0	2
Distribution Expense	-96	-74	-68
Administration Expense	-20	-15	-11
Operating Profit	17	13	15
Analysed as:			
EBITDA	26	20	20
Depreciation	-9	-7	-5
Operating Profit	17	13	15
Impairment Charge - Zenia House Exit Costs	0	0	-1
Operating Profit before Financing Costs	17	13	14
Net Financing Expense	-9	-7	-3
Profit before Taxation	8	6	11
Income Tax Expense	-1	-1	-3
Net Profit after Taxation	7	5	8

Earnings Per Share Information

Basic Net Earnings per Share (cents)	7.1	12.0
Diluted Net Earnings per Share (cents)	7.1	11.8
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	66.9	69.3

(1) New Zealand dollars shown are supplemental information presented solely for convenience and converted from United States dollars, as a matter of arithmetical computation only, at the closing rate on 30 June 2007 of NZ 1.00 : US 0.7682

Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)
as at 30 June

	June 2007	Tenon Group June 2007	June 2006
	NZ\$m ⁽¹⁾	US\$m	US\$m
ASSETS			
Current Assets:			
Cash and Liquid Deposits	4	3	3
Inventory	92	71	68
Trade and Other Receivables	69	53	40
Current Tax asset	3	2	0
Current Assets - Discontinued Operations	0	0	1
Total Current Assets	168	129	112
Non Current Assets:			
Fixed Assets	58	45	32
Investments	0	0	20
Goodwill	87	67	54
Deferred Taxation Asset	9	7	6
Total Non Current Assets:	154	119	112
Total Group Assets	322	248	224
LIABILITIES AND GROUP EQUITY			
Liabilities			
Current Liabilities:			
Bank Overdraft	1	1	0
Trade and Other Payables	35	27	23
Provision for Current Taxation	0	0	1
Current Debt	96	74	19
Deferred Settlement	21	16	0
Current Liabilities - Discontinued Operations	1	1	2
Total Current Liabilities	154	119	45
Non Current Liabilities:			
Non Current Debt	0	0	36
Provisions	0	0	1
Deferred Settlement	0	0	20
Total Non Current Liabilities:	0	0	57
Total Group Liabilities	154	119	102
Group Equity			
Capital	694	533	534
Reserves	-526	-404	-412
Total Group Equity	168	129	122
Total Group Liabilities and Equity	322	248	224

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Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)
for year ended 30 June

	Tenon Group		
	June 2007	June 2007	June 2006
	NZ\$m ⁽¹⁾	US\$m	US\$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	515	396	367
Dividends Received	0	0	2
Total Provided	515	396	369
Payments to Suppliers, Employees and Other	492	378	376
Income Tax Paid	5	4	7
Total Applied	497	382	383
Net Cash from / (to) Continuing Operating Activities	18	14	-14
To Investing Activities:			
Purchase of Fixed Assets	5	4	5
Purchase of Subsidiary	26	20	17
Cash acquired on purchase of Subsidiary	-4	-3	0
Purchase of Minority Interest	0	0	29
Net Cash to Investing Activities	-27	-21	-51
From Financing Activities			
Debt Drawdowns	65	50	42
Total Provided	65	50	42
Debt Settlements	48	37	0
Interest Paid	7	5	1
Share Buy Back	1	1	6
Total Applied	56	43	7
Net Cash from Financing Activities	9	7	35
Net Cash to Discontinued Operations	-1	-1	-2
Net Movement in Cash Held	-1	-1	-32
Add Opening Cash and Liquid Deposits	4	3	36
Effect of Exchange Rate Changes on Net Cash	0	0	-1
Closing Cash, Liquid Deposits and Overdrafts	3	2	3

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