Tenon
Wood Solutions to the World

News Release

TO: **THE BUSINESS EDITOR**

From: Paul Gillard – General Manager Corporate, **Tenon Limited**
Telephone: 64-9-368 4195
Fax: 64-9-368 4197

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

STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

ANNUAL RESULTS TO 30 JUNE 2008

As Tenon's functional currency is the United States dollar, all dollar numbers in this Report refer to the US dollar (unless otherwise described), and all dollar numbers are rounded to the nearest million.

AUCKLAND, 27 August 2008 - Tenon performed strongly in what proved to be a very difficult operating environment throughout 2008.

The much-publicised decline in the US housing sector, together with the large negative impact of a continuing high NZ:US exchange rate, produced near "perfect storm" conditions for us. Despite these conditions, we still managed to achieve significant gains in our business activities.

In summary, 2008 saw us:

- **Generate** Operating Earnings (i.e. earnings before interest, tax, depreciation and amortisations, or EBITDA) of $16 million;
- **Record** Net Cash from Continuing Operating Activities of $26 million;
- **Reduce** our net interest bearing debt (including deferred liabilities) by $17 million – down from $88 million to $71 million;
- **Renegotiate** our Group financing arrangements, by:
    - Completing the total refinancing of the Group, by way of establishment of a 5-year term loan and revolver bank facility, through a US banking syndicate led by JPMorgan Chase; and
    - Entering into a supply chain financing agreement led by Bank of America, which allows Tenon to receive payment for a large part of its receivables well in advance of normal customer credit payment terms. It should be noted that this agreement did not take effect until following the close of our financial year, and accordingly the financial results and statements for 2008 do not include the positive impact of this initiative. This benefit will, however, be reflected in the 2009 fiscal year;

- **Achieve** cost reductions and efficiency gains of some $4 million, by:
  - Optimising our supply chain to match market demand;
  - Reducing staffing levels by over 13%, to approximately 1,200 full-time employees; and
  - Progressing our One-Company Platform;
- **Advance** the strategic positioning of the Group, through:
  - The acquisition of a further 24.5% of our subsidiary Southwest Moulding Co, for $8 million, taking our holding to 75.5%;
  - Continued execution of both our outdoor products and pre-finished mouldings programmes; and
  - Expansion of our full service distribution into Canada;
- **Maintain** capital expenditure ($3 million in 2008, which excludes the acquisition of our increased ownership interest of Southwest Moulding Co) below our current annual depreciation charge ($7 million in 2008). This reflects the healthy operational-state of our manufacturing facilities Group-wide and our low "business-as-usual" capital needs.

Our 2008 Operating Earnings result of $16 million was down on the $20 million result we recorded in our previous fiscal year, however this needs to be considered in the context of a far less favourable operating environment in 2008 than we experienced in 2007. In this respect, 2008's result was, in relative terms, a strong one – albeit one which will be remembered for the deteriorating macro-conditions.

To help shareholders compare our year-on-year performance, we have prepared the 2008 EBITDA Reconciliation chart (refer to attached Appendix), which reconciles our earnings results as they were impacted by the key drivers of our business. Whilst obviously simplified, the chart is helpful in providing an overview of the changes in our operating environment that have occurred.

You can see from the chart that the strengthening NZ:US cross rate – something we have no control over – was strongly negative to our operating earnings performance in 2008 – to the extent of $6 million in lost earnings. Whilst we do believe the NZ dollar will begin to retreat in future periods – and at the time of writing this report it had already eased back against the US dollar – its strength was clearly a significant "villain" to us in the 2008 year just passed.

The pleasing implication, however, is that the earnings gains we made from the cost and efficiency initiatives put in place during the period more than offset the decline we experienced in the overall US housing market conditions. So, absent the negative movement in the NZ dollar, we would actually have reported higher operating earnings in 2008 than we achieved in the better operating conditions of 2007.

Current Market Conditions

What the year-on-year performance comparison does not show, however, is that the operating environment continued to worsen as the 2008-year progressed. We generated operating earnings of $7 million in the second half of the year, slightly down on the $9 million recorded in the first half. This half-on-half comparison is in contrast to the traditional seasonality of our business, where our second six months' performance is typically stronger than our first six months' performance. Unfortunately, this year, the longer winter and late spring arrival in the US negated the normal spring lift conditions we would have expected, and worked to exacerbate the declining housing market environment we experienced in the second half. In this respect, the impact on Tenon was no different from that experienced by our competitors, other than they had one significant factor less to deal with – the strength of the NZ dollar.

We address the outlook for 2009 and beyond toward the end of this report, but in order to help shareholders gain an understanding of the market conditions we are currently operating under, the four charts (NZD/USD Exchange Rate, Moulding & Better Lumber Pricing, New and Existing Housing and "Big Box" Building Retailer charts in attached Appendix) show the path of the key drivers for our business, and Tenon's earnings sensitivities to changes in those drivers. You can see, not only that the path of these drivers has been volatile for some time now, but also that Tenon's operating earnings sensitivity to changes in these drivers is very large. This all goes to make an accurate prediction of future performance a very difficult exercise.

Strategic Positioning

That we have been able to advance our strategic mandate despite the presence of extremely difficult market conditions over the past 18-24 months, is a reflection of the relatively strong performance Tenon has been able to maintain up to this point in the cycle, and the resultant strong internal cash generation. Both of these reflect the superior market positioning we have established over the past 2-3 years.

In this respect, the:

- Complete exit from our under-performing AWM investment;
- Purchase of 100% of Ornamental Mouldings;
- Increase in our ownership of Southwest Moulding Co to 75.5%;
- Establishment of our innovative and proprietary Armour Wood® and **LIFESPAN®** primed outdoor products;
- Introduction of our One-Company Platform initiatives; and
- Total refinancing of the Group through the new US bank syndicate lending facility and the adoption of the supply chain financing proposal from Bank of America

… have all been strategic moves that have considerably advanced Tenon's business potential.

We are particularly pleased with the growing market for our outdoor products. Despite their initial roll-out having been affected by the US housing downturn, the establishment of the Armour Wood® and **LIFESPAN®** brands is now advancing well. Armour Wood® is now present in over 200 Lowe's stores, and we are looking to expand our product range in this category. It should be remembered that the total outdoor segment is four times the size of Tenon's traditional mouldings category, and we believe there is considerable scope to build a strong growth platform around treated wood products for outdoor use – one capable of generating significant future earnings and value benefits for the Company. We will comment further on this in future reports to shareholders.

We often use the Strategic Positioning chart (refer to attached Appendix) in our business presentations, in order to succinctly summarise Tenon's strategic positioning and strength relative to its competitors. We thought it may be useful to present that chart to our shareholders, here, in our Annual Report, as it gives an excellent "snap-shot" view of exactly what Tenon does and where it ranks in market positioning within its key customer segments. The short report is that we have now created an enviable market position in relation to our preferred product offerings.

We believe this strong market position will be of significant value to Tenon longer-term, when the operating environment returns to a far more favourable "mid-cycle" setting. Under those conditions, which we would define as US housing starts of 1.7 million, remodelling demand growth of 2-3% pa, and a NZ:US exchange rate of around 65 cents, Tenon should be capable of producing operating earnings in the order of $35 million per annum (excluding corporate overhead) – more than twice the 2008 year's result. That level of earnings implies a Tenon share price 4-5 times the current level – something we are very keen to see occur for our shareholders, especially given the impact current industry conditions have had on the share price performance of Tenon, and all other competitor stocks in our sector, to date.

Fiscal 2009 Outlook

In the immediate term – i.e. over our 2009 fiscal year – we will be operating our business on the basis that the very difficult market conditions that prevailed in the second half of fiscal 2008 will continue throughout our 2009 fiscal year. As previously noted, the volatility of some of the key drivers of our business, and our sensitivity to movements in them, makes an accurate prediction of earnings a challenging exercise. However, on what we know today, we believe that absent any material movement in one of the "uncontrollable" factors in our favour – for example, a sustained weakening in the NZ:US dollar cross rate which could significantly change the outcome for us – market conditions are likely to dictate a 2009 earnings result for Tenon below that of 2008.

So, in the current environment, our immediate agenda remains unchanged from that which we reported to you in our Half Year Report. In summary, we will be concentrating on those aspects of our activities that we believe can in the short-term influence our earnings performance and strengthen our financial ability to withstand adverse movements in market conditions should they occur.

We will also be working to maximise our specialty-sales opportunities, gain market share, further reduce delivered cost, manage working capital, improve business processes and extract synergies across the entire Group. In this regard, the continued progress of our One-Company platform is critical, and we now believe we are well on track to achieve our goal of $5 million of annualised savings from this programme over the next two years. Similarly, the introduction of the Bank of America supply chain financing proposal (following our 2008 fiscal year end) significantly reduces our debt balance going forward – on average, by some $17-20 million. However, despite these considerable gains, we continue to operate in volatile market conditions in the immediate term. Accordingly, we will not ease up on our drive for efficiency in the use of our capital and balance sheet, and our tight management of working capital and capital expenditure will continue.

Whilst the immediate environment remains extremely challenging, as long as we can meet our short-term objectives as discussed above, and continue to ensure Tenon is positioned as the leading specialty player in its chosen categories, then we can be confident we will be very well placed to take advantage of a broad market recovery when it occurs. Value increment, and share price gains for shareholders, will follow accordingly.

Luke Moriarty
Chairman

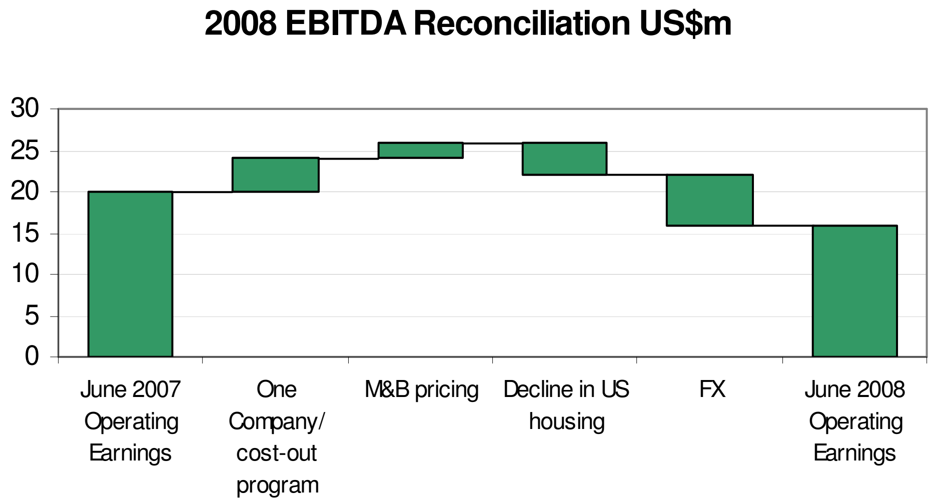
Mark Eglinton
Chief Executive Officer

27 August 2008

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). 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.

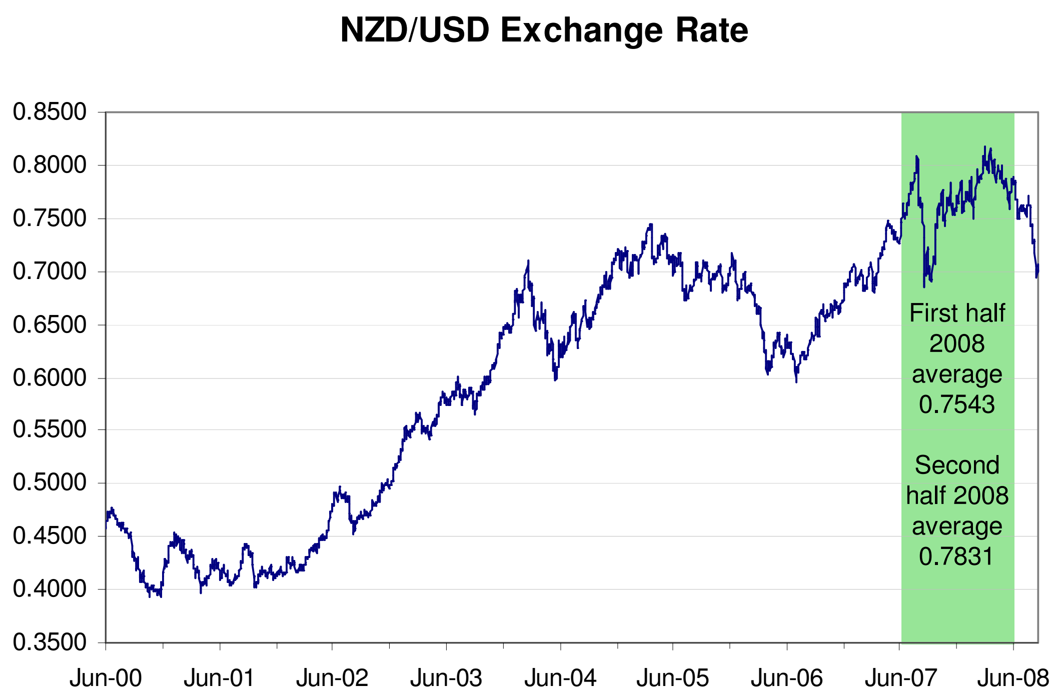
Appendix

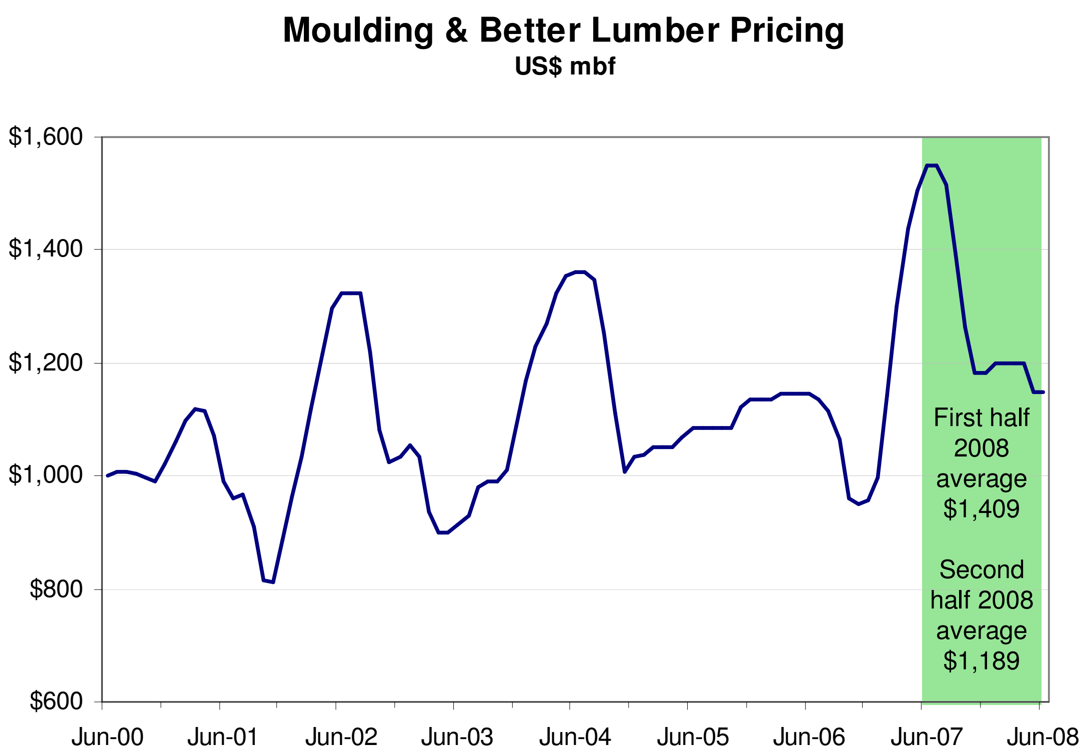

2008 EBITDA Reconciliation US$m
30
25
20
15
10
5
0
June 2007 Operating Earnings
One Company/ cost-out program
M&B pricing
Decline in US housing
FX
June 2008 Operating Earnings

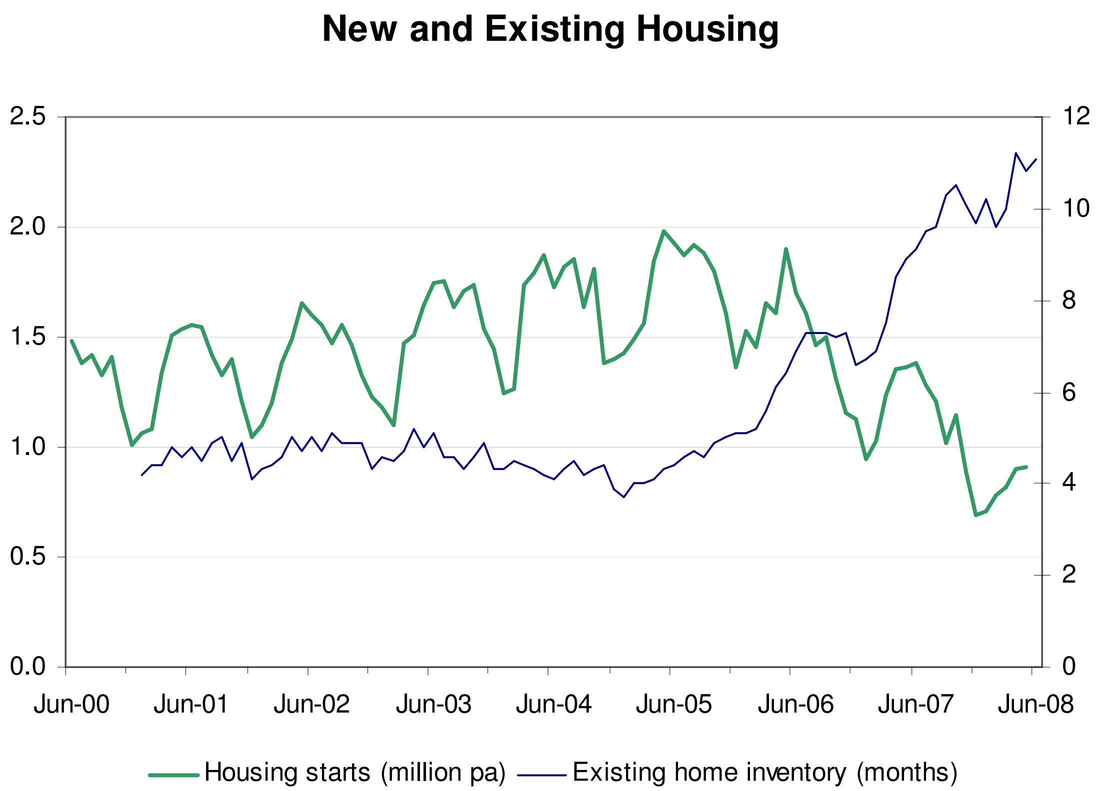
Strategic Positioning

Strategic Positioning

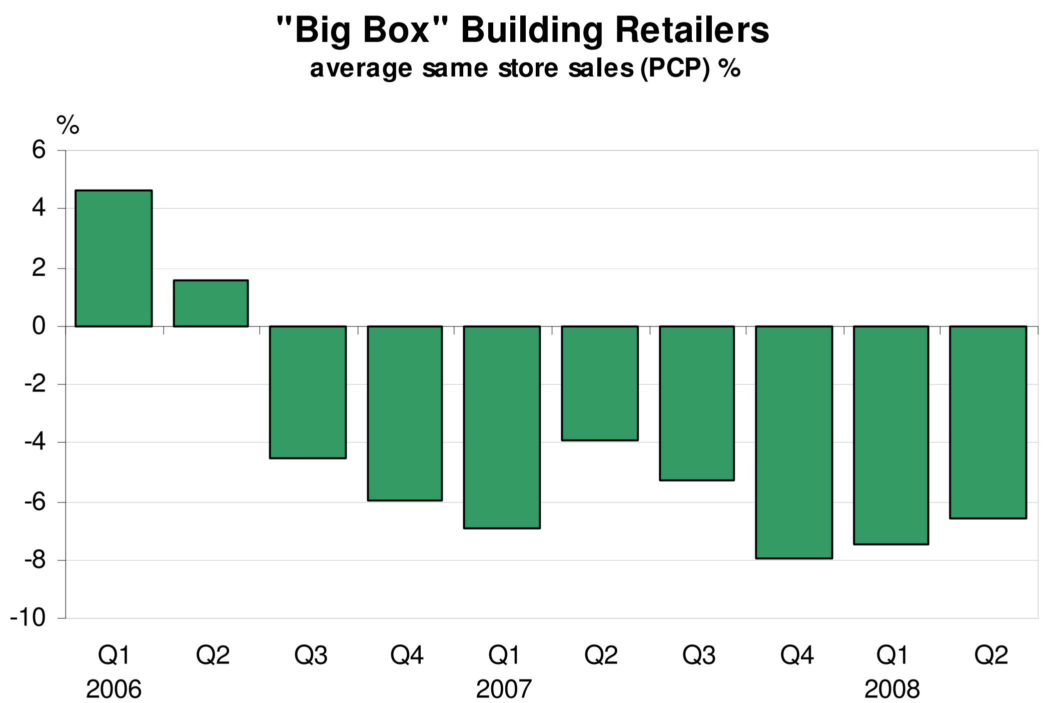
	Segment	Products /Services	Description	Market share		Market position
Wholesale Manufacturing & Distribution	**Fletcher Wood Solutions** FLETCHER WOOD SOLUTIONS *www.tenonusa.com* Tenon ownership: 100%	Armourwood/LIFESPAN Global Procurement Fletcher Boards Fletcher Lumber Fletcher Mouldings	Manufacturing and wholesale distribution of a whole range of moulding, millwork and industrial products.	7% ~20%	Imported clears (includes FJ) Imported solid appearance	Top Five #2
Full Service Distribution	**Empire Company, Inc.** EMPIRE *www.empireco.com* Tenon ownership: 100%	Logistical expertise Inventory management Extensive moulding selection Industry leading EDI capabilities	One of the largest full service millwork distribution companies in the Unites States; major customer is Lowe's.	5% 55%	Interior mouldings Lowe's mouldings	Top Ten #1
Full Service Distribution	**Southwest Moulding Co.** Southwest Moulding Co. *www.southwestmoulding.com* Tenon ownership: 75.5%	Ceiling mouldings Cabinet mouldings Wall mouldings General purpose mouldings Window/door mouldings Floor mouldings Various stairparts	Operates a regional wholesale millwork distribution business along with a manufacturing division. Primary channels of distribution consist of building material dealers, millwork shops, and home centres.	35% 50%	2-Step distribution (Texas) Stair parts (Texas)	#1
Specialty Manufacturing & Customised Distribution	**Ornamental Mouldings** Ornamental mouldings www.ornamental.com *www.ornamentalmouldings.com* **(including Kok's Woodgoods)** Tenon ownership: 100%	Cornices Chair rails Baseboards Casings & accessories Decorative & sundry mouldings Ornamentals & corbels Firelight mantels Aspect Wainscot	Ornamental Mouldings is a leader in the design and manufacture of solid wood architectural mouldings and accessories. Specializes in stain grade embossed and dentil patterns.	6% 39%	Decorative mouldings Big Box decorative mouldings	#1 #1


NZD/USD Exchange Rate
0.8500
0.8000
0.7500
0.7000
0.6500
0.6000
0.5500
0.5000
0.4500
0.4000
0.3500
Jun-00
Jun-01
Jun-02
Jun-03
Jun-04
Jun-05
Jun-06
Jun-07
Jun-08
First half 2008 average 0.7543
Second half 2008 average 0.7831


Moulding & Better Lumber Pricing
US$ mbf
$1,600
$1,400
$1,200
$1,000
$800
$600
Jun-00
Jun-01
Jun-02
Jun-03
Jun-04
Jun-05
Jun-06
Jun-07
Jun-08
First half 2008 average $1,409
Second half 2008 average $1,189



New and Existing Housing
2.5
2.0
1.5
1.0
0.5
0.0
12
10
8
6
4
2
0
Jun-00
Jun-01
Jun-02
Jun-03
Jun-04
Jun-05
Jun-06
Jun-07
Jun-08
Housing starts (million pa)
Existing home inventory (months)



"Big Box" Building Retailers
average same store sales (PCP) %
%
6
4
2
0
-2
-4
-6
-8
-10
Q1 2006
Q2
Q3
Q4
Q1 2007
Q2
Q3
Q4
Q1 2008
Q2