

Tenon Annual Shareholders' Meeting – 4 November 2010

CEO's Presentation

Good afternoon ladies and gentlemen, and thank you for your interest in Tenon.

As we shared with you in our annual letter to shareholders, from a macroeconomic perspective the business climate remained extremely challenging in 2010.

Consumer confidence in North America and related discretionary consumer spending were adversely affected by rising unemployment levels, record home mortgage delinquencies (and foreclosures), and residential home prices that appeared unable to settle at an absolute bottom.

As a result, the US housing market continued to struggle throughout the year, with total housing turnover (the sum of new and existing home sales) improving for a short period of time in the first-home buyer segment, primarily due to the US government's Homebuyer Tax Credit initiative, but eventually falling to new lows following the expiration of that stimulus program. As a result, month's supply of existing homes for sale continued to climb beyond 10 months of inventory, while new housing starts and permits fell to below 40% of the 2006-2007 peak levels.

Sagging consumer confidence levels and another year of poor housing markets once again moderated Tenon's fundamental earnings driver - real dollar spending on home improvements. This is shown graphically in this chart, which reports total dollar spending on residential remodeling activity in the US housing sector.

On a positive note, Big Box retail home centres finally broke into positive year-over-year same-store sales in 2010, however product categories related to big ticket discretionary remodeling continued to experience lower same-store sales levels versus the year prior. Unsettled consumers focused on paying down personal debts and limited home improvement spending to necessary repair and maintenance and smaller (less expensive) remodeling projects. Based on our estimates, Fiscal 2010 home centre same-store sales for products associated with large ticket, discretionary interior and exterior millwork projects fluctuated between mid-double digit and low-single digit negative comparable sales.

As you can see from this next chart, an extremely strong Kiwi to US dollar exchange rate challenged the profitability of our New Zealand manufactured products. The adverse exchange rate impact more than offset the improved moulding and better lumber prices in 2010, reducing our earnings by some \$3 million on a year-on-year comparative basis.

So in summary, the fiscal 2010 macroeconomic environment remained extremely volatile, proving to be a very challenging for companies operating in the US interior and exterior millwork markets.

FY2010 Key Financial Metrics

As we move on to a review of our key financial metrics, the real question is “how did we perform in such a challenging economic environment?” We are pleased to report that Tenon delivered a very respectable performance in this very difficult year. In financial summary:

- Revenue for the year was increased by 2% to \$329m in a down-market environment.
- Gross profit as a percentage of sales was maintained, while total gross profit dollars increased by 4.5%.
- EBITDA pre-restructuring costs (as previously noted) increased by 20% on the previous year, to \$12 million.
- The company generated \$12 million of net cash from Continuing Operating Activities.
- Working capital levels were maintained at just over \$50 million, or 16% of revenues—a level we believe is sustainable through this part of the operating cycle, barring any unforeseen major shocks to the supply chain (such as another major natural disaster or prolonged port strike).
- Interest bearing debt net of cash balances (“net debt”) declined to \$29 million at the end of the fiscal year.

Comparative Industry Performance

We undertake extensive benchmarking exercises to compare our own performance with that of our competitors. In addition, we critically review our own performance from period to period, to ensure we are meeting our internal performance objectives. Sharing these results with you today will hopefully give you greater insight into our performance.

This chart compares Tenon’s revenue performance for each of the past five years using the 2006 (cycle-peak) year as a base to show:

1. The comparable “total store” same-store sales for each year of the two largest big box retail home centers (Lowe’s and The Home Depot) as a percentage of the 2006 base year.
2. Our estimate of the comparable same-store sales of a basket of interior millwork and exterior trim products.

3. And, finally, single-family new housing starts for each year as a percentage of the 2006 base year.

As you can see from this slide, we outperformed all four categories of consumer demand each year, clearly demonstrating our market share gains in customer conversions and new products. This can be more clearly seen on the next slide...

The beige shading on this chart represents the base line of customer business activity in 2006 and follows through the five year trend assuming we have no new customer or product additions. The green shading represents new customer locations we are shipping to, or customer conversions. The dark brown shading represents revenues from new products. As you can see, the year-on-year base customer sales fell off by around 30 percent for all of Tenon from 2006 to 2010. Total new customer activity bridged two-thirds of that deficit, placing Tenon well above the average market performer over the five year period.

We also looked to benchmark our revenue performance against the baseline sales through our customers' operations. We have identified two well respected companies that operate in our industry, with similar customers and similar products, services, and business activities (albeit not precisely the same) – BlueLinx and Universal Forest Products. This next chart directly compares Tenon's revenue and gross profit performance with these two suppliers. As you can see from the left hand chart, while both comparable companies revenue performances from the peak were more in line with our estimated basket of interior millwork and exterior trim products and actual new housing starts trends in the previous chart, it is clear that Tenon has retained far more of the peak revenue dollars throughout the downturn. The right hand chart more clearly demonstrates our ability to maintain our gross profits relative to other industry players through the downturn. Some of this relates to our relative higher concentration in higher value specialty products and intensive service requirements. However, we drove much of this result through disciplined pricing and cost of goods management, and through market share acquisition. It is important to note that we have not only maintained our gross profit percentage in 2010, but we have actually increased our total gross profit dollars over the five year period.

On this very important chart we compare Tenon's total EBITDA dollars performance as a percentage of the 2006 peak. While we have once again retained a higher percentage of EBITDA dollars than the comparable companies, the spread is not as great as the gross profit dollar spread. This is due in great part to the cost structure associated with a high value product, high value service strategy versus a transactional commodity product, price driven strategy. We must maintain our service model throughout the cycle in order to maintain our position of competitive advantage through service. In so far as we have been profitable and covering our fixed costs throughout the downturn, we are confident our market share gains through the cycle will accelerate our earnings recovery.

As you can see from the following slide, we have significantly improved our relative working capital position to 69% of 2006 levels at the end of 2010. You will also observe our net debt position has been reduced (including deferred liabilities) from a peak of almost \$90 million

in 2007 to under \$30 million at the FY10 year-end. I should note today that the upcoming December 10 net debt figure is likely to be slightly higher than that recorded at 30 June, as the industry (both suppliers and retailers) work through the inventory buffer created in response to industry supply concerns arising from the Chilean earthquake. Having said that, we do expect to have worked through this short-term timing issue relatively quickly in the new calendar year, and our goal for June '11 is to be well below the US\$29 million debt level that was recorded at the end of our 2010 fiscal year,

In five year comparative financial summary, we have maintained our gross profits and gained market share throughout the bottom of the cycle, while retaining a greater share of earnings than our industry peers. We have managed our income statement and balance sheet well during a very difficult market downturn. We believe this to be a solid performance.

In addition to the focusing on delivering industry leading financial results, we continued to look for ways to improve strategically and operationally.

Here are some highlights for you:

In 2010 we continued to see significant market share growth through products introduced within the last three years, such as: Royal PVC boards, National Trust™, Flip-Face™, Rapidfit™, Retro-Tread™, ArmourWood™, interior doors (in select southern US markets), and new mantle designs, to name a few. These growth opportunity products continued to contribute to Tenon's overall market outperformance and position the company as an innovator in the minds of the customers.

On a special note, we have recently made the strategic decision to convert all Tenon full service distribution locations over to stocking and selling our own Creative Stair parts program. This change leverages our own internal manufacturing and sourcing capabilities, while simultaneously improving our ability to serve our customers efficiently and effectively.

In 2010 we conducted full strategic business activity reviews for key parts of our business and explored how well each function was positioned relative to others in the market place in terms of cost, quality, and service. We have been using this information to determine the best future pathway for each entity going forward with a focus on setting ourselves apart from others in the market in a measurable way.

The review resulted in the consolidation of our US manufacturing and distribution activities, with the closures of one of two Empire distribution facilities in Florida and of our Kok's Woodgoods (Koks) operating facility in Michigan. These moves are consistent with our desire to match Tenon's productive and logistics capacity to market conditions, and they are also consistent with our wider global sourcing strategy, under which we deliver a high-value product and service to our customers at a market-competitive price. While we were required to incur \$2 million in non-recurring restructuring costs in the period in order to effect these changes, we believe the net gains achieved will quickly recoup the restructuring costs recorded.

The strategic review also allowed us to reinforce the importance of our core operating principles across the Group. Here are the first four for your information: -

1. Serving the customer and beating the competition drives all we do.
2. We know that profitable growth comes from being better than, and different from, our competition.
3. We are primarily a service company, with an overriding commitment to discipline and execution, striving to serve our customers better than anyone else.
4. **Our two primary competitive measures of success are customer satisfaction and earnings performance.**

We are very confident that the business restructuring we have already put in place, the industry leadership position Tenon has created, and the application of these core operating principles to everything we do, will ensure our future success.

Thank you for your time today.

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Forward-Looking Statements

There are forward-looking statements included in this presentation. 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.