

TENON ANNUAL SHAREHOLDERS' MEETING

4 December 2008 (US Eastern Standard Time)

Mark Eglinton – Chief Executive Officer

Thanks Luke and good afternoon ladies and gentlemen, it is a pleasure to be with you in New York at this great time of year.

My address today will concisely review;

- The context of our operating performance by reflecting on the macro economic environment we operate in,
- The fiscal year 2008 result,
- The progress we have made in advancing and adapting our operational strategies in the current operating environment; and
- Our forward agenda.

Environment

It would be an understatement to describe current market conditions, and those that prevailed in 2008, as extremely difficult. The reality is that they were without precedent.

The US building industry began its down-cycle in 2005, following successive years of strong growth. So, even without the finance industry events of the last quarter, the US building industry has been dealing with deteriorating market conditions, year-on-year, for almost three years. For Tenon, this has been exacerbated by record strength of the NZD against the USD – with that exchange rate being a key driver of the profitability of our clear boards, mouldings, and lumber products produced at Taupo and sold into the US market.

So, for just over three years we have been managing a market characterized by rapidly softening demand, fragile pricing structures, significant over capacity throughout the supply chain and a precious approach to working capital. In that environment we were more than happy to have been able to produce operating earnings within 20% of the previous years performance, when most of our competitors showed dramatically declining earnings performance.

Of course, this time last year we anticipated we would be standing here today talking positively of the signs of recovery seen from the bottom of the cycle for the US building industry ... but more recently the woes of the building cycle have been surpassed by the broader collapse of global economic and credit factors that support all industry, delaying any suggestion of an immediate recovery in the building sector, and in our key markets.

These remarkable market conditions are quite unprecedented.

Today we find ourselves in an industry environment where:

- Access to credit – or more correctly, lack of credit – has acted to extend and worsen the backlog of inventory in both new and existing homes – both now running at over 10 months supply, or more than twice a “normal” level. In the absence of mortgage availability, and in an environment of falling house prices, it is no surprise that the inventory overhang built to the level it has.

- We are also in an environment where the traditional counter-cyclical of remodeling spend with new house construction has not occurred. For the first time, we have seen significant declines in both segments simultaneously. Historically remodeling spend has tracked at relatively consistent levels, with steady growth that has survived the “downs” of the new housing cycles. As Tenon’s key driver is remodeling spend, it is that decline that has impacted us most. This is perhaps best demonstrated by a lead indicator, Big Box retailers, Lowe’s and The Home Depot, same store sales. Which as you can see from the chart behind me began trending negative late in 2006 and have now tracked negative for 9 successive quarters. In the most recent quarter ending October 2008, average year-on-year same store sales were negative 7.4 %. This number is of course the performance of all products in the store - in a retail environment, Tenon’s products are predominantly associated with "big ticket" discretionary spending so the negative comps we have been dealing with in our category have for the most part been worse than the store average.

Financial results

Against this backdrop our 2008 operating revenues were \$377m, down 4.3% on the previous period. This was our first reporting period since the repositioning of Tenon as a North American specialty wood products business over 5 years ago that year on year revenue declined, albeit modestly in the context of our trading environment.

Operating earnings, that is, earnings before interest, tax, depreciation and amortisation or “EBITDA” were \$16m down from \$20m or 20% from the prior comparable period – in a far worse operating environment.

Net cash from operating activities was \$26m, up from \$14m in FY 2007, this healthy operating cashflow, coupled with a low capital expenditure of \$3m in 2008 supported a reduction in our net interest bearing debt, including deferred liabilities, from \$88m to \$71m. A reduction of \$17m or 19%.

To help you compare our year on year performance the chart behind me reconciles our earnings results as they were impacted by the key drivers of our business.

You can see from the chart that the strengthening NZ:USD cross rate on the basis of operating at full capacity in our NZ operation at Taupo, was strongly negative to our operating earnings performance in 2008, the extent of \$6m in lost earnings.

The pleasing implication from this chart is that the earnings gains we made from cost out related initiatives more than offset the decline we experienced from the decline in the overall US housing market conditions.

This coupled with the strong pricing environment we had for our Moulding and Better lumber meant that absent any movement in the NZD we would have actually reported higher operating earnings in 2008 than we achieved in better market conditions of 2007.

The Chairman will reflect on the implications of these value drivers for 2009 but due to other changes in market dynamics a direct extrapolation of this reconciliation into 2009 would not be accurate.

One of the reasons for this is the year on year performance does not demonstrate that the operating environment worsened in the second half of fiscal 2008. We generated operating earnings of \$7m in the second half of the year, slightly down on the \$9m generated in the first half of the year. This half on half comparison is in contrast to the traditional seasonality of our business, where our second six months is typically stronger than our first six months performance.

Reflecting on our 6 monthly performance, as the chart behind me shows, over a longer period of time indeed you can see the increasing pressure we have had on our underlying earnings as the market down cycle has strengthened.

A good example of this ongoing pressure is the 35 % fall in M & B prices over the course of the last 12 months to levels that are now keeping most manufacturers out of the market. In our view these are not sustainable levels and as such our operational response has been to reduce our production of this product by 50% over the last 12 months.

Such a rational decision is consistent with the overall approach we are taking to supply and demand challenges faced at the operating entities.

Operational Strategies

In this environment across the group we have been focusing on maximizing earnings and cash generation, at the same time as continuing to invest in the product and service development that has positioned Tenon as a leading provider of specialty millwork products in the North American market.

In managing the down cycle management has made significant advancement in reducing our cost base, optimizing our capacity utilization, reducing our working capital and capital spend requirements, maintaining our margin structures and continuing our organic growth initiatives, specifically:

- Across the business units and through our One Company Platform we have reduced our total cost base by over \$4m through the streamlining of operations and reduction in FTE's;
- In optimizing our supply chain we have reduced operating capacity at all of our manufacturing facilities in some cases by as much as 50%;
- In reducing our total funding requirements we have managed to reduce working capital across the group by \$9m, without any degradation in our service levels. Importantly this has been a function of improved efficiency as well as declining sales as demonstrated by the reduction in inventory days from 67 to 62 on the chart behind me;
- Our capital spend requirements for the ongoing business are being managed down to extremely short payback parameters or essential maintenance requirements are currently running at \$3m annually well below our current annual depreciation of \$7m;
- Through best practice procurement initiatives and ongoing logistics enhancements we have managed to maintain our margin percentage for our US domiciled business at consistent, industry leading, levels over the last three years;

- We have a number of 'swimming against the tide' incremental sales initiatives, which have been very helpful in reducing our revenue degradation. For example we have;
 - extended our full service moulding distribution program to Canada;
 - added new products through distribution;
 - Increased penetration of our innovative outdoor product, Armour Wood®, in the retail sector;
 - Increased our penetration of the NZ manufactured clear Board program.

Looking forward, we remain committed to a very clear agenda – each component of which can add significant value to Tenon as we move through the building cycle. Our immediate objectives are to:

- Continue to cement our traditional position as the leading provider of specialty products and services for use in interior applications in the North American Millwork market – by way of example, since balance date we have moved to acquire the remaining 24.5% interest in Southwest Mouldings we did not already own;
- We plan to extend this position into the exterior (or outdoor) segment of the market. We are very excited about Tenon's involvement in the next generation of wood modification technologies for plantation wood. This technology takes sustainable resource into a completely new performance category by way of example, Radiata pine from Tenon's manufacturing facilities in Taupo was used in the Sneek Bridge project in Holland, pictured behind me. This is the same fibre we would traditionally use for internal applications like mouldings and boards – here after modification being used in a bridge. This significantly enhances the stability and durability properties of the wood. Whilst this bridge is a showcase of the technology, closer to home it will be very applicable to our current and growing position in the large exterior products market;
- In addition, we will continue to reduce debt across the Group. In June 2007, our net interest bearing debt including deferred liabilities was \$88 million. Our target debt for June 2009 is below \$45 million – this would amount to a halving of our debt over only two years;
- And, of course, we will look to increase value through industry rationalization opportunities as they arise.

I would also like to take this opportunity to thank our very committed employees across the group, these are demanding times, we continue to ask a lot of you and you continue to deliver. I thank you for your support.

I will now hand the meeting back to my Chairman, who may well add further "colour" to these comments.