

Tenon Annual Shareholder Meeting
Auckland - 23 November 2009
Luke Moriarty - Chairman's Presentation

I would now like to make a few comments on the outlook for 2010.

On page 3 of our Annual Report we presented some macro value-driver charts. If we look again at those now, and update them for movements since June this year, we will be able to gain some insight into what our 2010 fiscal year might look like.

The most critical to us is the performance of the Big Box retailers. These are the large home supply stores in the US - Lowe's and The Home Depot – which are similar to PlaceMakers and Bunnings here in New Zealand, albeit on a considerably grander scale. As Tom showed you earlier, these key retailers have recorded 12 successive quarters of negative store sales comps through to June. While the 3rd quarter sales announced last week showed another negative quarter result, the store sales data did improve each month as the quarter progressed. While Q4 is expected to show some further improvement, it will not be until calendar 2010 that we can expect to see any noticeable change.

However, the good news is that the months-of-supply of existing housing inventory has declined significantly over the past 4 months – a reflection of increased sales activity resulting from the US government's tax incentive package for first home buyers. It is positive that this tax package, which was due to expire this month, has now been extended out to May next year, and is now also available to second-time home buyers.

The price for our key grade of lumber that we sell into the US - moulding & better lumber - has increased sharply as the volume of available product has dried-up. This pricing improvement is clearly a positive for us, and is a direct result of suppliers like Tenon, slimming down inventory levels in the supply chain, and developing new markets outside the US for this valuable product.

The NZD:USD exchange rate has, unfortunately, once again reconfirmed its strengthening bias. Tenon has taken currency-cover over the first 7 months of production for fiscal 2010, out to January 2010 inclusive, at an average rate of under 68 cents. This compares very favourably with today's rate of 72-73 cents. At this level, our earnings will be approximately \$1 million better off for our actions - so our forward-cover strategy has worked well for us so far this year.

More generally, continued uncertainty around the pace and strength of economic recovery in the US makes predicting our 2010 full year earnings a very difficult exercise. The key concerns are the high level of US unemployment, and the impact that might have on mortgage delinquencies ... and the flow-on impact on home foreclosures, house sales and prices.

Having said that, we do believe that we now have a reasonable understanding of what the first six-months of the year to December '09 might look like.

Absent any material changes to our key value drivers from today's levels, we would expect our Operating Earnings (i.e. EBITDA) prior to restructuring costs for the six months to December 2009 to be, up, approximately 20% on the immediately preceding six months to 30 June 2009. If this can be achieved, then it will be a very good result in the current operating environment, and a reflection of the many customer initiatives that have been put in place over the past 12 months.

And with future earnings recovery so too should come share price recovery. In this respect we are very conscious that the recent unprecedented market conditions have treated share prices in our sector very harshly, and that this has been a rough time for our shareholders. Our objective is to deliver strong absolute returns to our shareholders, however the severity of the US housing market downturn and the impact of the global credit crisis have conspired against us .

There is no hiding from the fact that we are today a long way off the share price level we were at in 2005/6 pre the market downturn. But we do need to put this into perspective, and in this respect it is important to understand that in relative terms, Tenon's share price performance in recent times has actually been good. This chart shows Tenon's share price performance over the past 18 months. As you can see, it compares very favourably with the performance of the NZX50, NASDAQ and DOW indices – each of which was actually negative across this period. And if you add an index for our US competitors over this period, the same story holds true ... and the reason for this is that our earnings performance has been relatively stronger than that of our competitors, as you can see from this next chart.

During the down-phase of this cycle we have been determined to strengthen the positioning of the Company, so that we come out of the cycle in a far stronger position than when we entered it. Although, the earnings benefit of the initiatives we have already put in place are largely “masked” today by the severity of the economic down-turn, we remain confident that shareholders will begin to see the pay-off in earnings and share price performance in future periods.

In addition to the organic growth / earnings initiatives we have spoken of today, we are also looking to grow Tenon through acquisition. However, we do intend to be very selective in our acquisition criteria. Any opportunity must be consistent with the specialty-business model that we have worked extremely hard to establish, and which has been very successful for us to date. If we find an acquisition that would allow us to make a step-change in our earnings or which would significantly advance our market-leadership position, we will not hesitate to bring it to shareholders for approval.

Thank you ladies and gentlemen, that brings my comments to a close.

Ends

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.