



News Release

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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

TENON UPDATES MARKET ON POSITIVE INITIATIVES

AUCKLAND, 16 June 2008 – Tenon gave the following operational update to the market today.

Market Conditions

In our Interim Results, we stated that we would be proceeding “on the basis that market conditions would remain very difficult for the balance of our 2008 fiscal year.” This working assumption has proved to be the case, and the usual spring-lift in market conditions in the US that has historically weighted the Company’s financial results to the second half of the fiscal year has not eventuated this year. In fact, a longer winter and late spring arrival have exacerbated the difficult housing market conditions the sector has been experiencing. In addition, the NZD:USD exchange rate, which averaged 75.5 cents for our first fiscal six months, has strengthened further to average 79 cents for the five months to May of the second half of our fiscal year. Comparing fiscal '08 to date (i.e. up to the end of May this year) with fiscal '07, the average exchange rate strengthened from under 69 cents to around 77 cents. As every 1 cent increase in the NZD:USD exchange rate is equivalent to approximately USD750,000 in lost operating earnings all other factors being constant, this strengthening has negatively impacted our earnings year-on-year to the extent of approximately USD6 million in EBITDA.

Cost Initiatives

Whilst the US housing market conditions and NZD:USD exchange rate are clearly beyond our control, on the positive side we have put in place several key initiatives to address the controllable factors in our business. We have advanced our “One-Company” platform (OCP) during the period, with the completion of the integration of the back office operations of Empire and FWS being just one example. As a result of a series of clearly identified OCP initiatives of this type, we are confident that we are on target to achieve our goal of USD5m of annualised OCP savings over the next two years. In addition, over the last 12 months we have optimised our supply chain to match market demand, and we have reduced overall employee levels by 13% to just over 1,200 people. Importantly this reduction in workforce has been completed with no degradation of our critical success factor - best-in-class service offer to our customers.

These cost reductions and efficiency gains achieved, which amount to some \$3-4 million in additional EBITDA, have more than offset the strong headwinds (e.g. lower sales volumes) we have faced this year from negative US housing market conditions.

Organic Growth

The initial roll-out of Armour Wood® and LIFESPAN® – our emerging outdoor products – have been affected by the US housing downturn, but despite those conditions the establishment of these brands is now advancing well. For example, Armour Wood®, our exclusive outdoor brand for Lowe's, is now present in 150 Lowe's stores, with an agreed further roll-out plan in place.

Overall, the 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, which will generate significant future earnings and value benefits for the Company.

Earnings Update

So, taking all these factors into account, our current expectations are for earnings before interest, tax, depreciation and unusual items (i.e. EBITDA pre-unusals) for the 12 months to 30 June 2008 to be in a range of approximately USD16-17 million. This is in line with current market expectations, and represents a very good performance given the difficult prevailing operating environment and the relative performance of Tenon's competitors.

Debt Reduction

The Company has made excellent progress with its working capital management, particularly in terms of adjusting its inventory levels to the lower level of market activity currently being experienced, whilst at the same time ensuring we meet our customers' high order-fulfilment requirements. Our current expectation is that this focus, combined with strong cash generation across the Company, should see our net interest bearing debt (including all deferred liabilities and mortgages) fall from USD88 million at 30 June 2007 to around USD75 million by 30 June 2008.

From 1 July 2008 (the beginning of the new fiscal year), our debt levels will be able to be significantly reduced even further, through the inclusion of some of Tenon's operations within a supply-chain financing programme ("Programme") sponsored by the Bank of America. The Programme will allow Tenon the opportunity to receive payment from Bank of America for a large portion of its receivables well in advance of normal customer credit-payment terms.

Tenon's bank syndicate has approved Tenon's entry into the Programme, on the condition that our bank facility size is reduced by USD20 million, reflecting the approximate debt reduction expected to result for Tenon from our inclusion in the Programme. As Tenon's goal has been to operate to a lower level of debt (and therefore to a lower use of total facilities) through this point in the business cycle, this requirement is consistent with our own intent and has been agreed to.

Under the Programme (which is non-recourse to Tenon), Tenon will receive 100% of the face value of the receivables bought by Bank of America, less a financing fee that will represent the interest cost for the early receivables payment. As the Programme has a higher credit rating than Tenon's bank facility, the Programme is an economically attractive initiative for Tenon.

The Company said it would next update the market on its performance and operating conditions at its full-year results release in August.

ENDS

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.