Tenon
Wood Solutions to the World

News Release

TO: **THE BUSINESS EDITOR**

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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

Tenon Interim Report

Six Months Ended 31 December 2008

Six Months Performance

Tenon performed well in this last six-month period – a period that saw unprecedented operating conditions for our business activities (refer Current Market Conditions discussion below). It is pleasing that in such a weak market environment, we were still able to advance our operational and strategic agendas for the Company. Specifically, the six-month period saw Tenon:

- **Generate** Net Cash from Continuing Operating Activities of $26 million, which included $21 million of cash generated through working capital improvement initiatives put in place during the period;

- **Enter** into a supply chain financing agreement, which allows Tenon to receive a payment for a large part of its receivables well in advance of normal customer credit payment terms;

- **Reduce** net interest bearing debt and deferred liabilities (inclusive of the impact of the supply chain financing agreement) by $24 million, down to $47 million – a significant achievement;

- **Maintain** capital expenditure at below $3 million on an annualised basis – well below our depreciation and amortisation level, reflecting the healthy operational state of manufacturing facilities and our low "business as usual" capital needs;

- **Further** its presence into the "Big Box" retailers in the core North American market – by way of example, Empire (our full-service distribution business) now services over half (i.e. more than 800) of all Lowe's stores in North America;

- **Increase** its ownership in Southwest Mouldings to 87.75%, with a negotiated agreement in place for Tenon to move to 100% in the second-half of the current 2009 fiscal year;

- **Expand** the presence of its outdoor trim products into the US market – by way of example, Armour Wood® is now a full-service offering into 300 retail stores, and we would like to see this number increase by 50% in calendar 2009;

- **Implement** a number of incremental sales initiatives, including extending our full-service mouldings distribution programme into Canada, increasing the penetration of the NZ-manufactured clear boards programme, and adding new specialty millwork products into our distribution network;

- **Right-size** the business to meet the demands of the current difficult operating environment – this saw reductions in shifts at each of our manufacturing facilities, as well as headcount attrition across the Group, which combined with the continued focus on the "One Company" cost reduction program has reduced our total cost base by in excess of $4 million per annum; and

- **Achieve** Operating Earnings (i.e. earnings before interest, tax, depreciation and amortisations – "EBITDA") of $6 million.

  This earnings result compares with the $7 million EBITDA we recorded in the immediately preceding six-months (the most relevant benchmark period due to the continued deterioration in operating conditions that has occurred over the past 12 months). These earnings were achieved on revenues that were down only 10% on the immediately preceding six months (14% down on the previous comparative period). Given the dramatic decline in operating and macro-market conditions that occurred in this latest six months – the global credit crisis making itself known throughout this period – achieving revenue and earnings performance at these levels is a very creditable achievement, reflecting the strong strategic positioning of the Company and our on-going commitment to both operational cost-reduction and sales growth initiatives.

  The charts in the attached Appendix outline the path of Tenon's key business drivers during the period under review, compared with their historical trends. As can be seen, with the exception of the NZ:US exchange rate, the trend was either flat or deteriorating. Our forward hedging program did not allow us to receive anywhere near the full benefit of the positive exchange rate movement (the cross-rate averaged 64.7 cents across the period, compared with our effective hedge rate of 69.9 cents), however this hedging runs out at the end of March, at which time we will enjoy the full impact of a lower exchange rate in our earnings and cash results. Had we been unhedged, our EBITDA result would have been 20% higher than reported – a reflection of the steepness of decline in the NZ:US cross-rate that occurred during the period.

Current Market Conditions

As already noted, current operating and market conditions for us are quite unprecedented, and our expectation is that the international credit crisis will continue to have an impact on our business throughout 2009. Limited access to mortgage credit has to date been a significant dampner on housing activity in North America, with housing foreclosure activity rising dramatically in calendar 2008. This has contributed to an over-supply of new and existing homes for sale (refer chart in the attached Appendix), which has seen a resultant reduction in house prices – which in turn has fueled more foreclosures as those homeowners with high housing debt see the equity in their homes eliminated.

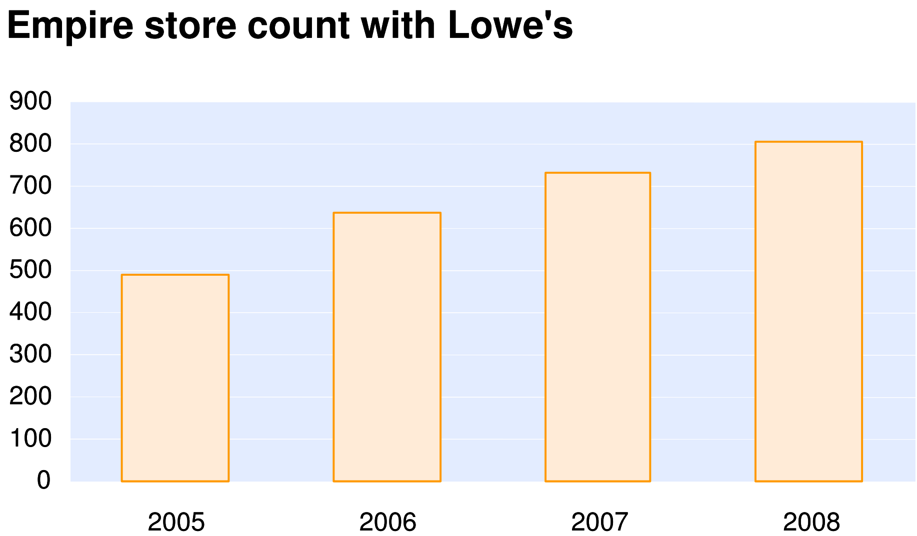
In addition, we find ourselves in an environment where the traditional counter-cyclicality of remodeling spend with new house construction has not occurred. For the first time, significant declines in both market segments have occurred. Historically, remodeling spend has tracked at relatively constant and 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 indicated by the Big Box building retailers same store previous comparable period % sales figures, which are shown in the chart in the attached Appendix – where the data has now been tracking negative for nine successive quarters.

Outlook

There is no doubt that we will be operating in extremely tough market conditions for the remainder of fiscal 2009, with this next six months perhaps proving to be the most difficult for our sector in this cycle. Clearly, the unknown for us relates to the extent of slow-down the US economy will sustain across this next period, with the greatest risk being to unemployment levels and the impact that will have on retail sales and resultant manufacturing activity across the country. Having said that, there are some positives on the horizon, such as an improving availability of mortgage credit for qualified borrowers, an increase in housing affordability resulting from the house price declines that occurred in calendar 2007 and 2008, a significantly lower interest rate environment and potentially a housing stimulus package as part of the Federal Government's overall fiscal stimulus package. Taking all factors into account, the most likely outcome is for a "flattish" second-half earnings performance for Tenon compared with the first-half result reviewed in this report.

Beyond this immediate period we believe the longer-term outlook for the Company remains strong. In summary, Tenon:

- Has built an enviable strategic position – in its chosen categories, it holds the #1 or #2 vendor / market position;
- Is almost exclusively a niche, specialty player – with our exposure being to high-value products used primarily in the remodeling and renovation markets;
- Operates a unique blend of manufacturing and distribution activities – which provide key points of leverage in the supply chain and good earnings diversification; and
- Has a strong long-term growth profile – by way of example, the chart below shows the store count growth that Empire has achieved with Lowe's over the past four years. Despite current market conditions, Lowe's is still anticipating further new store growth, albeit at a reduced rate. As long as Empire continues to provide the high level of service and commitment that Lowe's demands, then it should participate accordingly in Lowe's organic growth.



Quite aside from organic growth, is the growth that product and category expansion through these powerful "Big Box" home-improvement retailers can offer. As we have discussed previously in our reports to Shareholders, Tenon has now moved into the "outdoor" segment with the launch of the Armour Wood® and LIFESPAN® brands. The overall importance and relevance of this new segment is that the exterior trim and sidings market is some ten times the size of Tenon's traditional interior mouldings category, and wood-based products have only scratched the surface of this opportunity. It will be the introduction of new wood-modification technology (refer Sneek Bridge photo below) that will allow much higher growth of wood products into this segment in future. Tenon plans on taking a leadership role in developments in this segment, and we hope to report on these developments later in the year.

In addition to structurally positioning Tenon for growth, it is worth confirming that the longer-term macro-economic conditions for future success in our business activities remain strong – with, in particular, positive household formation statistics and an aging housing-stock both being positive supporting indicators of strong future performance when the market recovers from its current low level of activity.

In the immediate environment however, we remain focused on achieving incremental sales and cost-out opportunities to underpin our operating earnings at the bottom of the cycle. We will also continue our tight control of working capital and capital expenditure to ensure we meet our debt-reduction goals, whilst maintaining our best-in-class service and commitment to our customers. At the same time, we will be looking widely at a number of ways to strategically advance the Company – from product and market growth opportunities right through to participation in sector rationalisation activity where it is sensible for us to do so. This latter activity might require Tenon to establish a more flexible bank funding facility – if this can be achieved, then for the strategic reasons outlined above we believe Tenon would be well-placed to participate in focused sector restructuring activity.

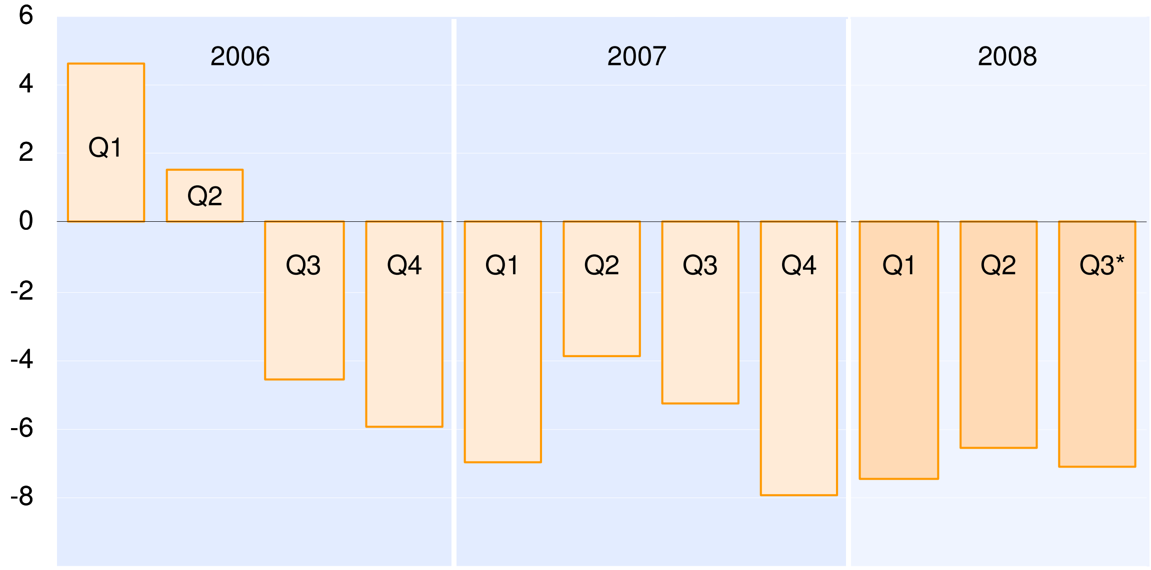
We will report to Shareholders on our progress with all of these goals later in the year.

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

"Big Box" Building Retailers

average same store sales (previous comparable period) %



** Q4 data unavailable at the time of this release*

New and Existing Housing

NZD/USD Exchange Rate

Moulding & Better Lumber Pricing US$ mbf