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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

2010 ANNUAL REPORT **(released 25 August 2010)**

There are statements in this document that are “forward-looking statements”. As these 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.

All references in this document to \$ or “dollars” are references to United States dollars unless otherwise stated.

OVERVIEW

Tenon performed strongly relative to its peers in fiscal 2010, and our results for the year reflected our decision to focus on our core operating disciplines over the past 12 months, in order to maximize our cash generation and earnings potential in a continuing tough market environment.

In financial summary, our operating earnings before interest, tax, and depreciation (i.e. EBITDA) for the 2010 financial year were up 20% to \$12 million (pre restructuring costs) on those recorded in fiscal 2009. Noticeably, the second half of fiscal 2010 (i.e. the six months to 30 June 2010) was more favourable than the first half and than the corresponding prior period, primarily due to an increase in short-term sales activity resulting from the uncertainty introduced into the supply chain caused by an earthquake in Chile (refer Performance and Results section below). This was reflected in EBITDA (pre restructuring costs) for the six months to 30 June 2010, which was up 75% on the comparative six months to 30 June 2009. Although volatility will continue to plague the macro operating environment for some time yet, this hopefully indicates a bottoming of the market (refer THE MACRO-ENVIRONMENT and OPPORTUNITY AND OUTLOOK sections below). In this regard, the next chart shows a summary of our recent six-months EBITDA results.

[CHART – six months earnings historic data]

THE MACRO-ENVIRONMENT

At a macro level, it was a mix of “head” and “tail” winds that influenced US industry conditions throughout the year. Greatly improved home affordability (a result of lower home prices and record low mortgage interest rates), and a continuation of the US Federal Government’s stimulus programs (e.g. the homebuyer tax credit scheme), were notable positives, however these were more than offset by the negative impact of rising unemployment levels, high home foreclosures, and limited consumer access to home mortgages. The net result was a continuation of a low level of consumer confidence, which in turn moderated Tenon’s fundamental earnings driver - real dollar spending on home improvements. This is shown graphically in the next chart, which reports total dollar spending on residential remodelling activity in the US housing sector. As you can see, the current spending level is more than \$30 billion below the peak levels of only three years ago – a dramatic reduction in activity.

[CHART – LIRA historic (only) data]

The charts on the facing page show that this “mixed” macro-market condition story also applied to the more micro-specific drivers of Tenon’s performance.

[4 DRIVER CHARTS – facing page]

For example, the positive earnings uplift from a higher average M&B lumber price that prevailed in 2010 was more than offset by a much stronger NZD : USD exchange rate which reduced earnings by some \$3 million on a year-on-year comparative basis, and although the performance of the “Big Box” retail home centre stores showed clear improvement in the period this was mostly driven by necessary repair and maintenance activity and small “ticket” discretionary spending rather than the mid to large discretionary remodelling spending which is important to Tenon (and which fell well below the overall per-store sales improvement recorded).

So, in summary, the volatility in market conditions that defined 2009, continued through into our fiscal 2010 year. That Tenon was able to record an increase in earnings in this environment is a direct reflection of the continued success we have had in the introduction of new products, in the acquisition of new customers, and in driving operating efficiencies through the business restructuring initiatives we have put in place.

FY10 PERFORMANCE AND MANAGING WHAT WE COULD CONTROL

We shared in our Half Year Report the initiatives we were implementing to directly mitigate the tough macro-operating conditions facing our industry. Difficult times can create some of the greatest opportunities to better position a business, and we have been keen to take advantage of this market opportunity to reposition ourselves as strongly as possible for the future. As William Arthur Ward famously penned, "The pessimist complains about the wind, the optimist expects it to change, the realist adjusts the sails." While we clearly do expect the winds to change, we spent the better part of 2010 adjusting our sails to ensure we are in the best position to come off the bottom of the business cycle faster and stronger than any of our competitors.

Our goal is to continue to provide shareholders with top quartile industry earnings performance throughout the economic cycle. This will always involve a careful balancing of the tradeoffs between running the business efficiently for earnings today, while at the same time making those key strategic investments we believe will yield the greatest possible returns in the future. We believe we have managed this balancing act well through the down-cycle, having prioritised five main operating objectives in 2010:

- serving our existing customers better
- focusing on cash preservation and generation
- exiting non-strategic and non-core business activities
- eliminating redundant costs through the integration of logical functions, and
- taking advantage of the bottom of the market to drive strategic market share acquisition and growth.

We are pleased to report that we have made considerable progress on each one of these major objectives.

Performance and Results

Financial

As previously noted, Tenon outperformed its competitors in 2010, with the following financial highlights worthy of discussion:

- Revenue for the year was up 2% to \$329m in a down-market environment.
- Gross margins were maintained, in a very challenging market.
- EBITDA pre-restructuring costs was (as previously noted) up 20% on the previous year, to \$12 million, on a revenue base largely unchanged.
- A noticeable increase in performance in the second half of the fiscal year (six months to 30 June 2010), with EBITDA pre-restructuring costs up 75% (i.e. from \$4 million to \$7 million) on the comparable period in the previous year. This is largely a reflection of the “one-time” benefit of heightened sales activity for Tenon as a result of an earthquake in Chile. Chile is the largest supplier of finger-joint pine and MDF moulding production in the world and the earthquake closed some of the manufacturing supply base available to the market, resulting in a short-term excess of demand over supply, with consequent increases in the volume of pre-orders by our customers to ensure their security of supply.
- \$12 million of net cash from Continuing Operating Activities was generated in the period.
- Working capital levels were maintained at around \$50 million – a level we believe is sustainable (as a percentage of revenue) through this part of the operating cycle.
- Interest bearing debt net of cash balances (“net debt”) declined to \$29 million, slightly better than our financial year end stretch target of \$30 million that we had previously publicly stated. Tenon has exhibited a consistent ability to reduce debt in extremely difficult operating conditions. This is shown clearly in the chart below, where net debt including deferred liabilities has fallen from a peak of almost \$90 million to under \$30 million at balance date – a significant achievement.

[CHART – Tenon debt reduction]

Strategic Operating Objectives

In 2010, we:

- Continued to expand and develop our product and service offerings to our existing customers, thereby increasing our total existing customer share position at the bottom of the market (refer discussion in the PROFITABLE GROWTH section below).
- Continued to leverage the economies achievable from a more integrated approach in areas such as information technology, accounting and finance, human resources, and common customer service and support teams. We also leveraged our industry leading competencies in product development, global sourcing, retail marketing and retail operations excellence (see the discussion in AN EVOLVING STRUCTURE below).
- Made the decision to exit unprofitable, non-strategic, and redundant business activities that have historically been a drag on earnings performance. This restructuring will result in the consolidation of our US manufacturing and distribution activities, with the closures of one of two Empire distribution facilities in the state of 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.
- Effected a reorganisation of our senior management team, and also integrated our sales and operations teams around our major customers (refer EVOLVING STRUCTURE section below).
- Made strategic resourcing investments in our Asian sourcing capabilities, with the aim of evolving them to a "world class" standard.

AN EVOLVING STRUCTURE – ONE COMPANY EFFICIENCY, MANY COMPANIES EFFECTIVENESS

One of our key strategic goals is to complete Tenon's transformation from a "portfolio of like-industry companies" (i.e. a collection of semi-autonomous, independent business units) into a single, integrated entity with dedicated customer-focused operating teams. Progress has been good. For example, we have now fully implemented a unified shared-services support platform, which includes the finance and accounting, human resources and information technology functions. We are also well down the path of integrating and aligning those functions that directly "touch" our key customers – i.e. sales, marketing, store service, and operational support. This new customer-facing structure will allow us to further improve our performance by allowing us to provide even better coordinated, highly-customized solutions for our strategic customers. At the same time, walls of clear separation have been reinforced to ensure that our various customer support teams protect any unique, proprietary and confidential individual customer programme information. This new shared-services approach will also allow us to employ a lower cost operating model as compared with our smaller, stand-alone competitors, while still affording us the flexibility of a highly customer-focused, entrepreneurial company.

The importance of having a common culture and understanding in place across the entire Tenon Group as a pre-requisite to effective business transformation cannot be underestimated. With this in mind, we have formalised and communicated the following “Tenon Principles” to our employees:

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.
5. We are an entrepreneurial organisation with a minimum of bureaucracy, and a never-ending focus on continuous improvement and efficiency.

We believe corporate principles not only state desired beliefs and guide behaviours for those living inside the organisation, but they also help those on the outside of the organisation - customers, suppliers, and potential new employees - understand the kind of culture they are engaging with.

PROFITABLE GROWTH

In last year’s Annual Report we outlined the growth model we were adopting to ensure the Company was best-positioned for growth, both during the down-cycle and as we enter the business up-cycle. This growth model, in schematic form, is shown below.

[SCHEMATIC– Tenon Growth Model]

The next sections of this report expand on this model, by way of discussion of specific examples of just some of the growth initiatives we have actively underway.

DRIVING VALUE AND GROWTH THROUGH CUSTOMER PERFORMANCE MANAGEMENT (CPM)

One way of countering a shrinking or static market “pie” is the acquisition of a greater share of the pie through new product and service offerings, or through new customer conversions. Tenon executed on all three approaches this past fiscal year. In fact, we benefitted from the highest level of company-wide new product dollar growth in the past five years. The following are noteworthy examples of this success.

Exterior Trim Boards - The Efficient Delivery of a Complete Programme

Over the past three years, our Fletcher Wood Solutions (FWS) service platform has quickly grown into a North American market force in the supply of exterior trim board (Outdoor) products to both the retail home centres and professional contractor yards. The success of the outdoor programme has confirmed that the proprietary Customer Performance Management (CPM) system we have developed and used for many years in our full-line interior millwork offering (i.e. interior wood mouldings and stair parts) is very transferable to other product categories in both our retail and wholesale market channels. It is now quite clear that our CPM service model is a key driver of our competitive advantage, in that it allows Tenon to deliver a fully technologically-integrated vendor-managed in-store service, and a formal and disciplined approach to customer-led market research. We see our proprietary CPM system

as a key platform for our future growth. It allows us to clearly differentiate our service offering from our competition and allows us to expand our product and service offerings in our current retail channels, while at the same time offering us similar growth opportunities in our wholesale business (refer PRO DEALER discussion below).

Our CPM business model is focused on ensuring we have the right product, in the right place, at the right time, at the right retail cost and price, and with the right rate of inventory turns. To drive optimal programme productivity we have employed a “good-better-best” complete product offering in our outdoor boards programme, based on a well-researched selection of product types and price points. This means that we have a complete range of product offering within the outdoor category, comprising a selection of untreated primed finger-jointed boards, primed and treated ArmourWood™ boards, and Royal PVC (synthetic) boards. In this way, our outdoor product offering provides virtually every consumer with a price point and product type that will meet their needs. All three product categories have benefitted from greater than 100% revenue growth over the past 24 months, with nearly half of that growth occurring in FY2010.

National Trust Mouldings

As with our outdoor boards offering, we continue to focus on those programmes and products that offer the opportunity to move the consumer up the continuum to premium product offerings. By offering improved design, functionality, and brand association, we are providing options that bring greater customer satisfaction while also positively impacting our retail customers’ (and Tenon’s) profitability. We are moving the consumer out of low-level entry products to higher ground. A recent example of our branded programme successes is our National Trust Mouldings offering.

Two years ago, we partnered with Lowe’s and the National Historic Trust for Historic Preservation to introduce an authentic moulding collection, inspired by the landmark homes recognised by the Trust. The goal was to celebrate America’s rich heritage by documenting historic moulding styles and adapting them for today’s homes. A portion of every sale has been donated to the National Trust for Historic Preservation, to enable the Trust to further its objectives. We currently have eight unique families of mouldings, each associated with an historic property, and there are further opportunities to increase our involvement in this important initiative.

This innovative concept allows our customers to make an emotional connection with history and at the same time enjoy a premium product purchase. The success of the National Historic Trust programme has been immediate, with the product already being present in 400 retail stores. The latest two families, Lincoln Cottage and Grand Hotel, will become part of our extended offering for FY2011.

Pro Dealer: Growth in a Wholesale Channel

We made considerable progress in the period, in pursuit of our goal of complementing and balancing our retail home centre market leadership position by becoming the North American market leader in the supply of interior and exterior millwork products to the professional trade. As discussed above, we took advantage of the slow housing market to enhance the way we add value to these important customers, and, in the process, generated increased visibility in the professional (Pro Dealer) channel.

Our Southwest Mouldings team maintained their market leadership position in the important and large Texas market, and we experienced material market share growth and improved operational efficiencies in the sum of the other regional markets we serve. We increased revenues by 5% year-over-year with Pro Dealer customers in an overall market that witnessed year-over-year new home sales decline of 17% in the period. From an efficiency perspective, we improved both gross margin dollar per-head and gross margin dollar per-delivery metrics by more than 30%, through increased market penetration and efficiencies. We put a major focus on improving our customers' experience, while simultaneously increasing the competitiveness of our cost position and executing on our cash generation goals. We rationalized underperforming SKUs, consolidated trucking (without adversely impacting customer service), and invested in new programmes that would drive the profitable growth for our customers. We are very pleased with the progress we have made in the Pro Dealer channel, at the bottom of the cycle, and we believe FY2011 will be a year of continued growth and expansion in this business.

GEOGRAPHIC EXPANSION – LOGICAL “STEP-OUTS”

United States

Our full service marketing and distribution operations are well positioned in core markets throughout the Eastern half of the United States. As we continue to gain market share in the professional channel and as the residential home construction market recovers, we will have additional opportunities for distribution operation expansion in Eastern US markets.

Also, at present, we do not provide full service marketing and distribution to the Western half of the United States. At the right point in time, and at the right entry point, a combination of acquisition and green field activity will naturally fill this void.

Canada

The housing recession in Canada was later, milder and shorter than the US housing recession. In contrast to the US, Canada does not have a serious problem with underwater mortgages, high and rising foreclosures, or with consumer access to mortgage financing. Tenon experienced noteworthy successes in Canada in fiscal 2010, including with the introduction of an expanded high value decorative mouldings programme. We believe we will continue to see new store openings and new product opportunities in this growing and very important market over the next several years.

Australia

With major US based retail home centres exploring the market potential of Australia and given the country's close proximity to our Taupo production operation, it is natural for us to be interested in this geographic expansion opportunity. We have initiated and completed extensive market research in Australia in the past 12 months, and we do see opportunity to develop the market and to support retail customers there. We will, in future periods, consider strategic opportunities to enter this market, and we believe our first phase opportunities will involve Radiata pine clear-product offerings from our Taupo, New Zealand operation.

Asia

Emerging markets are increasingly becoming not only a source of production activity, but also a potential outlet for our own productive output. In this regard, in 2010 we made positive progress in investigating the size of the opportunity for our clear radiata products in the Asian markets. We also made the decision to increase our focus on “low-cost country” sourcing activity, and we are now actively building the competency and reach of our team – the end objective being a much more efficient and cost-effective total programme solution for our customers.

FY 2011 OPPORTUNITY AND OUTLOOK

We made significant and very pleasing progress growing both market share and profitability in fiscal year 2010.

In the very immediate term it is likely that we will continue to face challenging macro-economic headwinds – particularly from high US unemployment, the effect of the removal of the US Federal Government’s homebuyer tax credit scheme, and the “shadow” housing inventory that exists from the potential for further bank-enforced home mortgage foreclosures. However, it is positive that even in this environment the large US home centre retailers – Lowe’s and The Home Depot – are predicting comparable store sales to improve by approximately 2% year-over-year for the current year (after three years of negative store performance), and most forecasters concur with an estimated range of 2%-3% in projected store sales improvement. Much of the improved purchasing activity is likely to be associated with home maintenance and repair expenditure, rather than with expenditure in Tenon’s “sweet spot” - i.e. the larger discretionary remodelling activity – which is likely to lag overall total store performance in the short term. So, in summary, the immediate period (i.e. the next six months) is likely to show on-going market volatility and a continuation of the current difficult operating conditions, with industry earnings performance continuing to be dictated by the macro-economic fundamentals in the US. Given this environment, we will once again focus on what we can control. We will leverage our strengths and continue to drive out inefficiencies in our operating model, and we will continue to look for strategic growth through effective execution of product and service innovation. Our goal is not only to make Tenon easy to do business with, but to also make our customers’ businesses better off for having done so. As we continue to execute on our core strategic operating model we believe customer and Tenon value will follow.

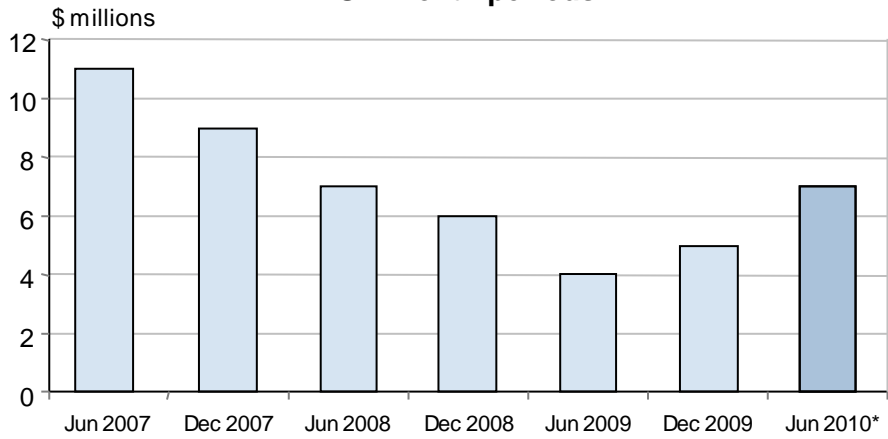
We remain positive about longer-term market recovery in the housing sector, and, most importantly, we are confident as to Tenon’s market-leadership position and earnings performance in that recovery. While forecasting experts and industry participants each have different views as to the exact timing, they do all agree that as the US economy enters its recovery phase and the unemployment situation eases, then the home improvement markets will also begin to grow again - and this will positively impact Tenon’s future earnings performance.

Data released by the Joint Center For Housing Studies at Harvard University in July this year, projects a “bottoming” in remodelling spending this year and a clear upturn in calendar 2011, stating: *“Absent a reversal of recent economic progress, there should be a healthy upturn in home improvement activity by [this] year-end and into next year ... The recovery in home improvement activity appears to be moving beyond simple replacement projects ... to broader remodels and upgrades ... A wider activity base would help generate the expected growth in the quarters ahead.”* If the JCHS outlook proves to be true, then the second half of fiscal 2011 should provide a stronger earnings platform for Tenon going forward.

[CHART – LIRA data historic and forecast]

As a final and very important note, we would like to thank all of our shareholders, employees and customers for their continued support throughout this past fiscal year. It is very much appreciated.

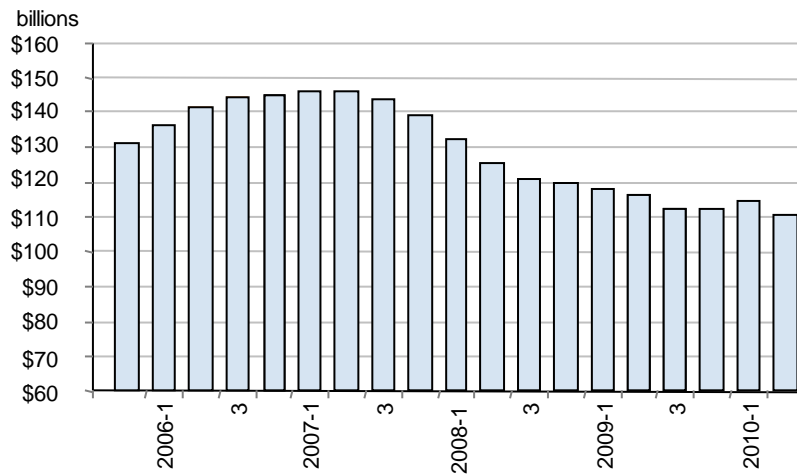
Tenon EBITDA Six-month periods



* Excludes \$2m in restructuring costs

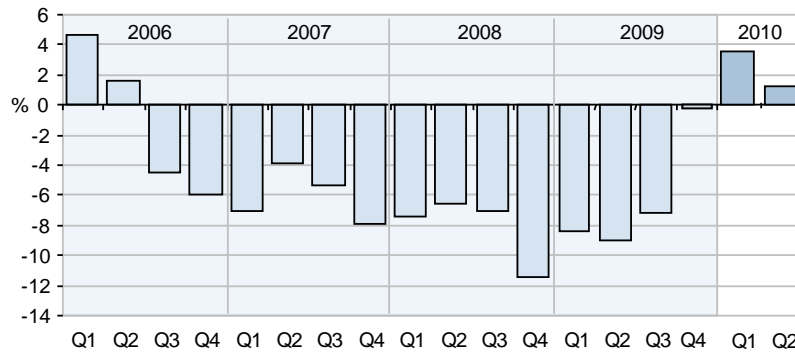
Leading indicator of remodelling activity (LIRA)

Homeowner improvements 4-quarter moving totals

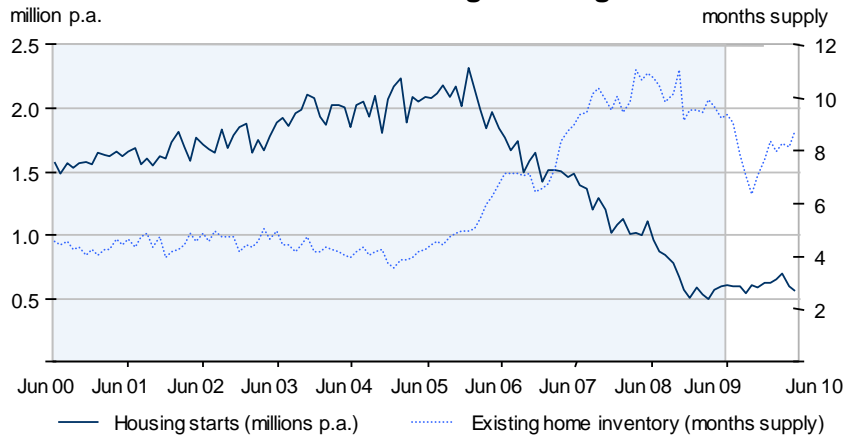


"Big Box" Building Retailers Average Same Store Sales

% change from previous comparable period



New and Existing Housing

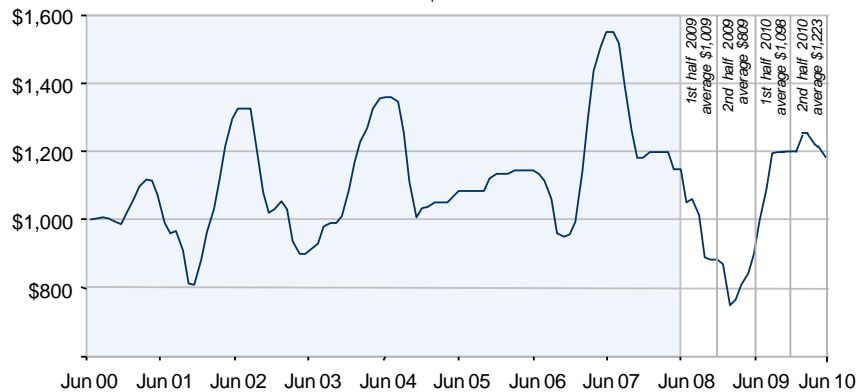


NZD/USD Exchange Rate

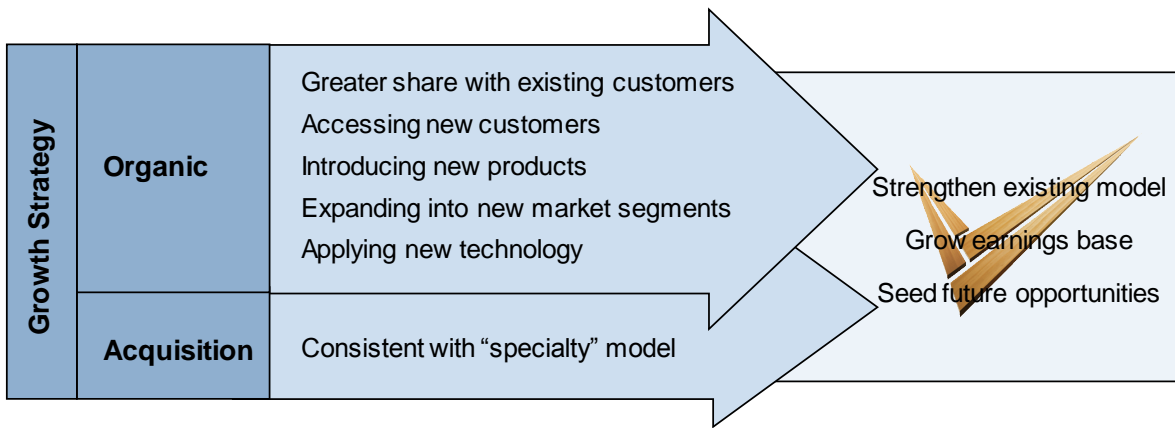
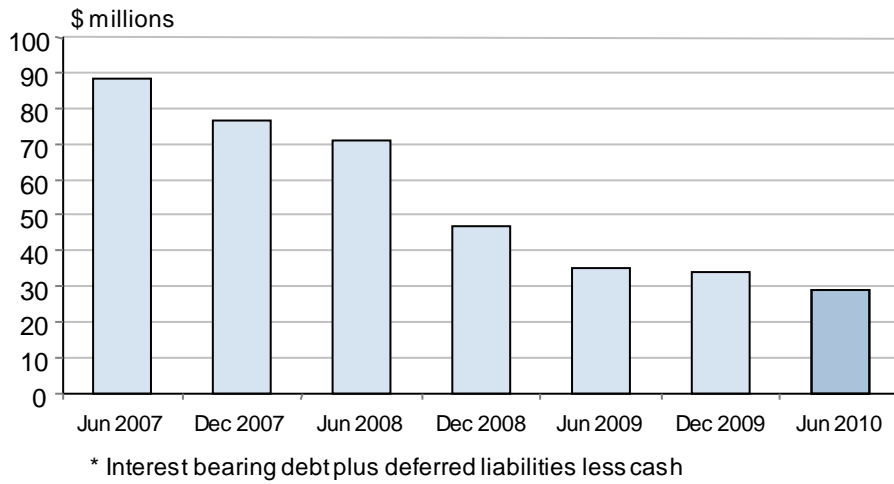


Moulding & Better Lumber Pricing

US\$ mbf



Tenon Group Net Debt*



Leading indicator of remodelling activity (LIRA)

Homeowner improvements 4-quarter moving totals

