Tenon Annual Shareholders' Meeting – 4 November 2010
Chairman's Presentation

I would now like to take a few moments to comment on some important items that I know you will want discussed today – namely:

* The operating and earnings environment for our fiscal 2011 year;
* The outlook beyond the immediate period;
* Share price performance; and
* Dividends and distributions.

Dealing first with the operating environment …

The good news is that last year the US emerged from one of the deepest recessions since the 1930s, and since then the US economy has grown at greater than 2% on a per annum basis ... although this has yet to translate into widespread job growth. And in this respect, it is fair to say that many of the key concerns we had as we entered fiscal 2010 – i.e. the high level of US unemployment, the impact that might have on mortgage delinquencies, and the flow-on impact on home foreclosures, house sales and prices – are, unfortunately, still with us as we enter 2011. And these factors continue to weigh heavily on our immediate operating environment.

Indeed, the first six months of fiscal 2011 will prove to be a much more difficult operating environment than that which prevailed in either of our two immediately preceding six month periods. The reason for this is, quite simply, that our key drivers – both at the macro level and at the day-to-day operating level – are proving to be tougher for us now than they were in either of those two immediately prior periods.

By way of example, this chart from the Harvard Joint Housing Studies Report, shows home improvement spend over the past 5 years. As you will understand, Tenon has performed well to maintain earnings over the past two years (and indeed increase them as we did in fiscal 2010) when the key demand driver for our products and services has shown a $25+ billion reduction in annual spend. If we update this chart for the September quarter just released, and also for the projection for the upcoming December quarter, you can see that shows that the first six months of our fiscal 2011 year (i.e. the last six months of calendar 2010) will be very tough for us.

On top of this we also continue to face unfavourable volatility in some of our key short-term drivers. Since 30 June, the price for our key grade of lumber that we sell into the US - moulding & better lumber - has fallen more than 15% – a reflection of the "thinness" of market demand and also the usual seasonal fluctuation that occurs around this time of year as the US winter approaches. On an annualised basis, if the current price were to hold for the entire year, this would amount to some US$3 million in lost earnings for us when compared with fiscal 2010.

And once again the NZD:USD exchange rate has reconfirmed its strengthening bias. The current cross rate of 77+ cents against the US dollar is more than 8 cents higher than the average rate that prevailed in our 2010 fiscal year. If the current rate were to prevail for a full year, this would equate to some US$5 million in lost earnings as compared with fiscal 2010. Whilst we do have a very strict USD hedging policy in place, and this has probably protected our earnings to the extent of US$1 million dollars this past four months alone, there is a limit to what we can do given the extent of the strengthening in the NZ dollar that is now occurring.

On a positive note, existing home sales (another underlying demand driver for Tenon) rose 10% in the September monthly data just released. Given the housing tax credit program expired several months ago this is very encouraging, as it indicates that buyers are responding to the very favourable affordability conditions that are now prevailing.

So, as you can imagine, the extreme volatility on all of these factors make it very difficult to forecast fiscal 2011 earnings for you with any accuracy – so we won't take that risk today, and like all of our competitors in our sector we will not be giving earnings guidance for the 2011 year right now. Of course, as the year progresses and we have greater visibility than we do today, then we will be able to update you on our view.

However, looking <u>beyond this immediate six months</u>, we, like most commentators, are positive on the longer-term prospects for the US housing market. This optimism is underpinned by some positive fundamentals - including:

- US housing affordability at 40-year highs;
- US new home inventories at 40-year lows;
- US mortgage rates also at 40-year lows;
- Robust population growth in line with long-term trends;
- Housing starts per head of population at 50 year lows;
- An aging US housing stock, with two thirds of the total being at least 25 years old;
- And, US housing activity at well below underlying long-term demand.

This latter point is shown in this next chart ... where you can see that the historic average new housing starts figure of 1.5 million houses compares with a long-run underlying demand level of 1.7-1.8 million houses, and with the current depressed level of only slightly over 600,000 houses. So the US is currently running at more than 1 million homes pa below the underlying, long-run, required level of hew house construction.

A return to trendline spending is reflected in the data released just two weeks ago in Harvard's Joint Housing Studies Report, which predicts a very strong lift in home improvement expenditure in early calendar 2011 – as you can see in the [gold] bars here. If this increased spending does occur, and if it flows into the larger discretionary home improvement projects, then it should provide very strong positive momentum for increased earnings for Tenon in calendar 2011 – and in terms of fiscal 2011 earnings it would then very much be a story of two distinctly different six-month periods.

And with future earnings recovery so too should come share price recovery – and this is the second item I wanted to touch on. 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 shareholders. There is no hiding from the fact that we are today a long way off the share price level we were at prior to the market downturn and the global credit crisis. But we do need to put this into perspective – so is everyone else's share price in our sector. And in this respect it is important to understand that while we can't fight the macro-operating environment in which we are competing, we <u>can</u> ensure that <u>our</u> performance is better than that of our competitors. And although not where we would want it to be in absolute share price terms, we can say that, in <u>relative</u> terms, Tenon's share price has performed at the head of the pack in recent times. This chart shows Tenon's share price performance over the past fiscal year up to this week – firstly in NZ dollars, and then adjusted for the NZD:USD movement across the period (given Tenon's functional currency is the US dollar). As you can see, Tenon's performance compares favourably with the returns recorded by the NZX50, NASDAQ and DOW indices – particularly when you consider that Tenon's industry sector has been much harder impacted than the market averages represented by these three indices. This point is more obvious when you add in an index for our US competitors over this same period ... and the reason for Tenon's sector out-performance is, as Tom has just explained, that our earnings results have been relatively stronger than those of our competitors throughout the housing down-turn, as you can see from this next chart.

Of course, future share price performance is probably of more interest to us all than past performance … and the story here is a simple one, our share price growth will be determined by our future earnings performance. In this respect we are well placed – a result of the business restructuring we have put in place, the success of our balance sheet de-leveraging programme, and the strong organic growth we have achieved over the past three years. Unfortunately, the extent of the market downturn that we have faced has largely "masked" the benefits of these restructuring initiatives.

Some positives to contemplate on in this regard, include:

- The fact that our full-service distribution business services 50% more retail stores today than it did at the peak of the cycle
- We have successfully initiated our entry into outdoor products – a segment which is 10x the size of our traditional interior mouldings and millwork market - and we are currently progressing the next level of technology for these applications
- We have extended the reach of our wholesale (i.e pro-dealer) activities and grown our position in a down-market
- We have reduced our balance sheet debt down to only one third of its peak level
- And we have been able to maintain our gross margin % throughout the down-cycle at the same level we had at the cycle peak

So, we have clearly extended our leadership position during the current market down-turn. What we now need is a pick-up in market demand, in order to show the earnings leverage that we have now created to a cycle recovery. We have done everything we can to position Tenon for profitable growth – we now need that one "uncontrollable" to move in our favour. When it does, and our volumes begin to lift again, we are very confident shareholders will quickly begin to see the pay-off in earnings and share price performance.

Finally – a few comments on dividends and distributions. And the succinct summary here is that the operating environment over the past 3+ years has been so brutal that we have, quite simply, been unable to make dividend distributions to our shareholders. Our focus throughout this period has instead been on meeting our banking obligations at all times, and repaying that debt as quickly as we could, to better position us for the future when we enter the business-cycle upswing. We feel we have achieved these objectives very well – as this chart on our debt reduction shows. Unlike some of our competitors, we have at all times met all our debt covenants, and we have a secured syndicated debt facility that does not expire until June 2012 – a good position to be in.

We have also been very determined throughout this extended down-cycle to manage the Company's balance sheet such that we would not need to come back to our shareholders and ask them for new capital – and I am sure you know that many companies did just that, with the onset of the recent global credit crisis. We just did not see the logic in asking shareholders for $10 in new capital only to give it back to them in dividends at the rate of $1 per year for the next ten years. Unfortunately, not receiving a dividend is the price our shareholders have had to pay for our decision to internally manage our balance sheet prudently, to ensure we met our bank obligations over this difficult period, and to avoid the need to ask shareholders for a fresh capital injection into the Company.

And whilst market conditions are uncertain, we believe this has been, and still remains, the right decision. Having said that, if the Harvard home-improvement projections I showed you earlier prove to be true and Tenon's earnings and share price begin to respond accordingly, then we will be in a better position to reconsider this question in 2011.

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.