TENON ANNUAL SHAREHOLDERS' MEETING

4 December 2008 (US Eastern Standard Time)

Excerpt from Chairman's presentation – Luke Moriarty

I would now like to take a few moments to comment on the future.

The extremely difficult US housing market conditions that were evident in fiscal 2008, would, under a typical housing cycle, have implied an industry positioned somewhere around here on this chart. Even in that poor operating environment, with the key value drivers as shown, Tenon's market positioning still allowed it to record EBITDA of USD16 million.

Under more favourable <u>mid-cycle</u> conditions – again, as outlined here - Tenon is capable of generating EBITDA around twice this level – certainly well in excess of USD30 million. On a 7.0 times multiple, adjusting for net debt of around $50 million, this implies a share price of more than NZD4.00 per share – some 7+ times Tenon's current price ... so we are quite comfortable that the future value is there.

And under normal circumstances we might be inclined to simply "wait it out" until mid-cycle conditions returned, and this value uplift occurred. However, the world is not currently in a position where normal circumstances prevail. In fact, it is possible that the current housing cycle will not resemble the wave pattern as drawn here, but instead it may prove to be more like this – placing Tenon at or about this point currently. On that basis, 2009 will be the most demanding year on record for Tenon – representing the very bottom of the extremely difficult market conditions the industry will face in this cycle.

In our Annual Report we outlined Tenon's key value drivers and sensitivities, as well as some of the earnings and balance sheet initiatives we have put in place to lift bottom-of-the-cycle performance … so I won't slavishly repeat them again today. Needless to say, all avenues for profit improvement are being extremely aggressively pursued.

However, in today's very restrictive environment, operating the business hard is a necessary but not sufficient condition for success.

Industry rationalisation and m&a activity is likely to be increasingly evident in the next calendar year, and we would like to see Tenon participate in this process. Through synergy extraction, cost-reduction, and complementary strategic positioning, this activity has the potential to create considerable value at the bottom of the cycle … bridging some of the value gap that exists between today's Tenon share price and its mid-cycle valuation, while we await for more favourable market conditions to return and lift earnings.

In order to take advantage of these rationalisation opportunities as they arise, Tenon may need to establish a more flexible bank funding facility. Assuming it can do this, then it will be well placed to participate in industry consolidation activity.

Three key reasons for this belief.

First - Tenon has built an enviable strategic position. As this slide shows, Tenon operates from wholesale manufacturing and distribution, through to full service distribution, and specialty manufacturing and customized distribution. However more importantly, you can see that in most cases <u>in its chosen categories, Tenon occupies the #1 or #2 vendor / market position</u>.

Second - with the exception of limited volumes sold into the mouldings & better lumber market, Tenon is almost exclusively a niche, specialty player – with its exposure being to high-value, high-margin products used primarily in the remodeling and renovation markets.

Third - and it may seem strange to talk about this at this point of the cycle, but it does go to the heart of the valuation question, Tenon has a strong long-term growth profile. By way of example, this chart shows the store count growth that Empire, Tenon's full service distribution business, has achieved with Lowe's over the past three years. Through Empire, Tenon is now present in over 50% of Lowe's total store locations in the Unites States and Canada. Despite current market conditions, Lowe's is still anticipating further new-store growth – albeit at a reduced pace. As long as Empire continues to provide the high level of service and commitment that Lowe's requires, then it should participate accordingly in Lowe's organic growth.

This market access is not limited to Empire. Ornamental Mouldings' offerings are also represented in some 1,200 Lowe's stores, and across the Group Tenon's products are also sold into well over 700 Home Depot stores. So clearly Tenon is well "wired" into future recovery in the two largest renovation and remodeling channels in this market.

Quite aside from that organic growth, is the growth that product and category expansion through these powerful channels can offer. As you know, Tenon has now moved into the "outdoor" product space, with the launch of the Armour Wood® and LIFESPAN® brands. By the end of the fiscal year, Armour Wood® (our Lowe's-exclusive product) will be present in more than 300 Lowe's stores. And with LIFESPAN®, a national distribution arrangement with BlueLinx offers us access to BlueLinx's 20,000 plus customer base.

The overall importance and relevance of the outdoor example 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 that will allow much higher growth of wood products into this segment in future. And as Mark has just explained, Tenon plans on taking a leadership role in developments in this sector. More on this at a later date.

So, to repeat, we believe these three factors – Tenon's leading market position, its specialty product focus, and its strong growth profile – will make it an attractive and natural participant in industry rationalisation and consolidation activity. We see considerable opportunity for such activity in calendar 2009.

A quick word now on the current earnings outlook. At the time of our 2008 full year results, we said that worsening market conditions were likely to dictate a 2009 result less than that of 2008. Whilst the NZ:US exchange rate has fallen significantly since making that statement, we will not record the benefit of that fall until our hedging program runs out in the first quarter of calendar 2009. In addition, it is fair to say that product prices and volumes have also continued to fall as market conditions for the industry have continued to deteriorate across the period. This makes it extremely difficult to forecast earnings with any accuracy. However as a guide, we see our first half operating earnings (EBITDA) being around USD6 million, plus or minus 10%. This compares with our immediately preceding six months result to June 2008 of USD7 million, which was recorded in more favourable market conditions than we face today. We believe this is in line with market expectations.

That brings my comments to a close.