

Tenon Annual Shareholder Meeting
Auckland - 23 November 2009
Tom B Highley - Chief Executive Officer's Presentation

Good afternoon ladies and gentlemen. I am pleased to be with you this afternoon.

As the Chairman stated, I will be providing you with the operating and financial review for the 2009 fiscal year. I will also be sharing with you what we believe to be the primary external drivers of the business and the leading indicators we use in the business to provide us with some sense of where we are and where we might be heading in the cyclical remodeling and housing market recoveries. I will close with a brief discussion of how I believe the company is positioned today and what we are doing to optimize the company's future potential.

2009 proved to be an extremely challenging year for every company competing in the North American home improvement and housing markets. As was expressed by the Chairman in the 2009 annual report, these have been extremely difficult macroeconomic conditions and have no historic precedent.

We have had record declines in the housing sector from the peak of 2006, which has been impacted further by the global financial crisis, resulting in growing unemployment levels and tightening credit markets.

US new home production has declined from a 2006 peak of 2.3 million houses to a recent low of under 500,000. Months of supply of existing housing peaked at 11.2 months during the year, and this compares with an equilibrium level of below 6 months of supply. The "big box" retailers – these are The Home Depot and Lowe's home supply chains in the US – have recorded 12 successive quarters of negative same store sales comps.

In summary, the macroeconomic environment was very challenging in FY09.

In these challenging times, we must determine what the primary drivers of the business are in order to identify relevant industry trends and to assist management in making better business decisions.

Tenon's largest customer segment is the big box home improvement retailer or "home center". The home center industry has divided product sales into two large categories, "repair and maintenance" products and "discretionary remodeling" products. The lion's share of Tenon's products fit well within the "discretionary remodeling" categorization.

The major leading indicators, or "drivers", of remodeling spend are:

- Existing home sales
- Median existing single family home sales price
- Owner equity in household real estate
- Share of project cost recovered from remodeling projects, and
- Home foreclosures.

Unemployment is also a big driver as it relates to spending on discretionary remodeling.

Remodeling activity has proven to be greatly stimulated by housing turnover. Home sellers invest in sprucing up homes for sale in order to increase the selling price and reduce time on market, and new home buyers like to take on remodeling projects in the interest of customizing the home to fit their personal style. In a healthy housing market, existing home turnover represents more than five times new home turnover, and much more in a cyclical downturn.

For these reasons, we believe that existing home sales recovery will be the driver to remodeling spend recovery. We also believe existing home price stability will drive consumer confidence in purchasing existing homes and subsequently investing in remodeling projects. Home price stability will require a reduction in home mortgage defaults and foreclosures, which currently represent nearly one-third of all home sales. As this problem-mortgage issue is resolved and the recently high unemployment levels subside, home price stability and growth will inevitably return.

In the face of this very challenging macroeconomic environment, we consider that benchmarking our performance against our industry peer companies is the best indicator of market performance. Tenon's leadership position in the less severely impacted retail home improvement market, combined with new product initiatives, market share gains, and efficient management practices, allowed Tenon to generate a performance that out-paced most of our industry peers.

In 2009:

- We maintained our capital expenditure spend at only \$2m, well under our annual depreciation level – reflecting our low on-going maintenance capital needs
- We “right-sized” the business to meet lower demand conditions, while preserving the customer service model that has positioned the company so well. This unfortunately saw some headcount attrition, resulting primarily from a reduction in operating shifts at our manufacturing sites. Our overall staffing levels are now around 200 lower than at their peak in 2006/7
- The company generated \$26 million of cash from operating activities
- We entered into a supply chain financing program that allowed us to reduce receivables by a further \$16m.
- Through efficient supply chain management, we reduced inventory by \$12 million, to just under \$50 million, and
- We renegotiated bank covenants to achieve greater flexibility. Tenon has a secured facility, which does not expire until June 2012.

This focus on cash generation allowed the company to reduce net interest bearing debt and deferred liabilities by \$36m in the period. Our present net debt position is \$35m, down \$55m from the nearly \$90m of two years ago.

Notably, while our sales volumes have been reduced with the industry downturn, our gross margin levels have been maintained. This much lower level of activity was largely responsible for the decline in our operating earnings from \$16 million in FY08 to \$10 million in 2009.

This was a respectable performance, in a market where many of our peers posted consecutive annual losses. In addition to these financial achievements we took the opportunity to strategically invest in areas we knew would advance our strategic positioning.

Here are some highlights for you:

- We completed the acquisition of Southwest, for \$9 million, bringing this investment to 100% Tenon ownership. With this acquisition completed, and led by Southwest's well-respected management team, Tenon is now the full-service mouldings distribution leader in the Texas and Oklahoma markets
- In 2009, we continued to grow business with key customers. For example, Tenon has grown its Home Centre business to more than 2,000 North American stores

- We continued our market innovation initiatives in 2009, with the introduction of our exclusive, patented RapidFit®, easy to install, mouldings. This market innovation allows the consumer to install upgraded mouldings without the requirement of removing and disposing of the existing moulding. The RapidFit® product is affixed over the top of the existing moulding - a perfect product solution for the do-it-yourself consumer
- We also introduced the exclusive National Trust® for Historic Preservation's series of trademarked mouldings and mantels of historic American Homes
- We continued to expand our presence in the outdoor segment with our LIFESPAN® and Armour Wood® products – the numbers of Lowe's stores in which Armour Wood® is carried has grown from less than 30 two years ago to more than 500 stores today. Based on the initial success of the program, we are now exploring the expansion of the product offering to meet the wider opportunity set. We see tremendous potential in the product.

There is a vast array of potential applications for a product like Armour Wood®. At \$30 billion per year, the total outdoor market shows great potential for us.

As we look to the future, we will continue to build on our existing growth model, focusing on innovation, earnings and cash generation. Tenon is well-positioned in regional growth markets.

Tenon has six full service distribution facilities and six manufacturing facilities in North America. The majority of Tenon's revenues today come from the eastern two-thirds of the United States. Whilst the major markets in the west have been severely challenged in the recent downturn, these markets will recover in future, and may offer us future expansion opportunity.

Strategically, Tenon is a customer driven organization with an overriding emphasis on delivering optimal customer performance in all of the product categories offered. We strive to be a catalyst in driving our customers' market positions and earnings performance through better total end-to-end value chain support.

Tenon's full service distribution operations are focused on product categories that require the active management of complex, global supply chains and challenging retail operations, while Tenon's manufacturing operations are focused on higher value products, such as clear moulding and boards and decorative hardwood mouldings.

We believe Tenon's discipline in managing and executing complex business solutions, combined with the company's strategic ownership of high-value manufacturing operations, positions the company well for sustainable market differentiation and continued profitable growth.

Thank you for your time today.

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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.