

News Release

TO: THE BUSINESS EDITOR
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Information on Tenon Limited can be found at <http://www.tenon.co.nz>.

STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

Tenon Results Release for 12 Months Ending 30 June 2011

Released 19 August 2011

Forward-Looking Statements

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.

Fiscal 2011

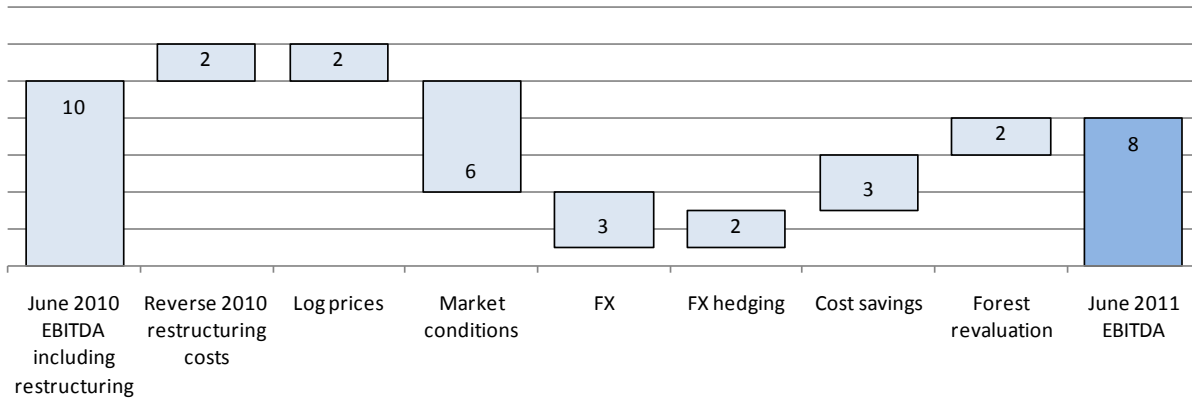
Today, Tenon announced Operating Earnings (or EBITDA – i.e. earnings before interest, taxation, depreciation and amortisations) for the 12 months ended 30 June 2011 of US\$8 million. This Audited result is exactly in line with the earnings guidance that had previously been issued by the Company, and, therefore, is consistent with market expectations.

The EBITDA result was down \$2 million on the \$10 million (including restructuring costs) that was recorded in the prior year, and is a reflection of the extremely difficult operating conditions that prevailed over the period. In 2011, the US macro-environment deteriorated as uncertainty as to the strength of the US economic recovery grew. This was reflected in lower consumer confidence, with many preferring debt reduction as a better use of discretionary income than investment in housing – whether that be house purchasing or home remodelling. Expenditure on housing was constrained further by the removal of the home buyer tax credit incentive, tightening access to credit, and falling house prices – important factors which ‘slowed’ new buyers entering the market. The second half of the year saw a lower level of demand than the first – a result of particularly bad storms in the important spring spending months, and a worsening in general US economic conditions. This was reflected in US GDP data, which showed average GDP growth of 2.4% for the first six months of fiscal 2011 but only 0.8% for the second six months.

The appended charts capture some of the key US housing data that Tenon tracks, and which show the ‘year-on-year’ movements against a long-term background. However, in a much simplified form, the chart below translates the impact of these (and other) movements into a format that reconciles fiscal 2011 EBITDA performance with fiscal 2010.

EBITDA Reconciliation

US\$m



As this reconciliation shows, targeted initiatives were in place to address the lower level of demand that was faced during the year. For example, Tenon has retained some residual forest assets as a partial natural hedge to movements in log (i.e. feedstock) prices into the Taupo sawmill, and the revaluation of these forest assets in the period offset the increase in the average log cost recorded across the year. Similarly, Tenon's foreign exchange hedging strategy offset two thirds of the adverse NZ:US exchange rate movement (69 cents to 76 cents) that occurred in the period. However, the extensive cost-out programme that we have been continuously 'renewing,' was only able to address 50% of the impact from a decline in market conditions, and it was primarily this difference that flowed through to reduce the earnings result for 2011.

Looking to other financial highlights, revenue of \$326 million was recorded, which although relatively flat year-on-year (\$329 million in 2010), was pleasing given the decline experienced in the wider US operating environment. Operating profit before financing costs was \$2 million (2010, \$4 million), and this combined with a favourable working capital movement, contributed to \$5 million of net cash from operating activities being generated in very difficult market conditions.

At \$52 million, year end working capital was in line with the levels reported at both December and June 2010, indicating that the debt improvement to be gained from working capital reductions has largely been optimised now. To this point, Tenon closed fiscal 2011 with net debt of \$30 million, which compares with the \$29 million reported in June 2010 and the \$30 million level at December 2010.

On 24 June this year a new five-year \$57.5 million (plus a \$12.5 million 'accordion' feature) syndicated debt facility was put in place. This new facility provides far greater operational flexibility than Tenon has previously had, particularly in that it has no fixed charges (e.g. interest) or leverage coverage ratio requirements. Although Tenon's previous facility did not expire until June 2012, the opportunity was taken to put in place the new facility well ahead of time in order to take advantage of a refinancing 'window' for asset-based financing of this type in Tenon's segment of the market. The timeliness of closing this deal is clear, given tumultuous global financial market movements since then. The terms of the new facility will be fully disclosed in the full financial statements in the upcoming Annual Report.

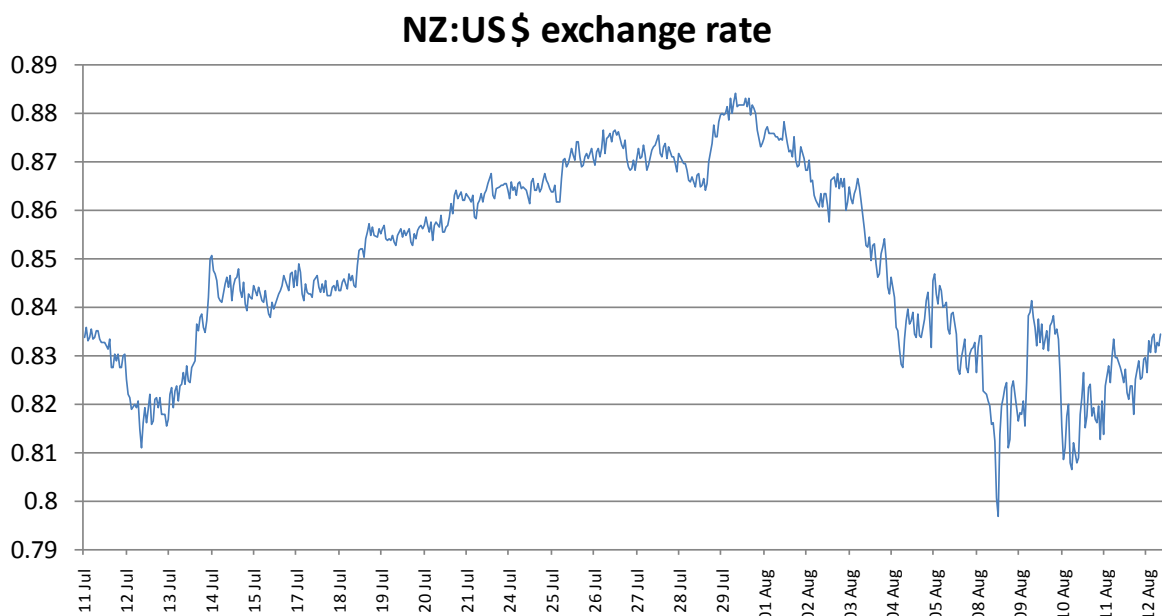
Looking Ahead

There are some strong positive fundamentals that will support, and drive, a recovery in the US housing sector. These include –

- US housing affordability at 40-year highs;
- US new home inventories at 40-year lows;
- US mortgage rates at 40 year lows;
- Robust population growth in line with long-term trends;
- Housing starts per head of population growth at 60 year lows;
- An aging US housing stock, with two-thirds of the total being greater than 25 years old; and
- US housing activity at well below underlying long-term demand.

To these last two points, US new home building is currently running at slightly over a third of the projected 1.7 million long-run level, and the median age of US homes is now over 35 years - so there is significant pent-up demand accumulating.

However, there are also some considerable hurdles to be overcome before a recovery can occur. These include the high unemployment level in the US, the back-log of foreclosed properties and unsold existing housing inventories, home prices that have not yet stabilised, and restricted access to mortgage credit. These factors dictate that the outlook for the immediate 12 months period will remain uncertain. Indeed, there are so many moving variables that could make a significant difference to Tenon in the short term, that it is extremely difficult to predict the course of the next fiscal year. By way of illustration, the chart below tracks the NZ:US exchange rate over the past month. You can see that the volatility is extreme, and on an annualised basis the difference between the peak and the low in this chart translates into more than \$5 million +/- in EBITDA to Tenon (assuming all other variables are held constant).



Accordingly, at this time Tenon will not be giving earnings guidance for fiscal 2012.

However, in saying that, it is important to understand that Tenon's result will be positively affected by 'controllable' earnings initiatives put in place during this last year, which although not impacting the fiscal 2011 result, will generate benefits for Tenon in future periods. Examples of these include –

- Reducing the number of physical inventory locations used in Fletcher Wood Solutions' US wholesale distribution activities, from 18 separate warehouse sites down to 11;
- Restructuring and strengthening the Asian sourcing function, which services (ex-China) our Empire, Southwest, and Ornamental operations in the US;
- At Ornamental, exiting lower contribution retail SKUs, and launching a new range of cabinetry products targeted at the kitchen cabinet professional contractors;
- Introducing new products for the budget conscious DIY consumer, such as RetroTread™ and Easy Mantle; and
- Launching the 'Creative Stairparts' program, which replaces an existing third-party source, allowing the program to be brought 'in-house;'

Each of these will produce earnings benefits in 2012.

In addition, Tenon will continue to advance opportunities that will expand its earnings base by leveraging its existing specialty business model. In this respect, shareholders can expect to see the following types of activities in 2012 –

- New product innovation in high growth applications – particularly in the large outdoor segment where the total market size is ten times that of Tenon's traditional indoor mouldings segment. The intention is to announce a major new initiative this year;
- A restructuring of the NZ operations – to ensure they can operate profitably at a high NZD:USD exchange rate. Whilst this is likely to result in a short-term restructuring cost, any charge will be fully recovered well within a 12 month period;
- Active participation in emerging supply trading opportunities – which may involve investment in wholesale markets in order to provide greater supply chain visibility; and
- Growth into non-US markets – particularly, China, Australia and Europe. By way of example, from its market beginnings only a couple of years ago, the volume of manufactured product out of our Taupo site being sold into the China market already represents over 15% of all of our third-party sales from New Zealand.

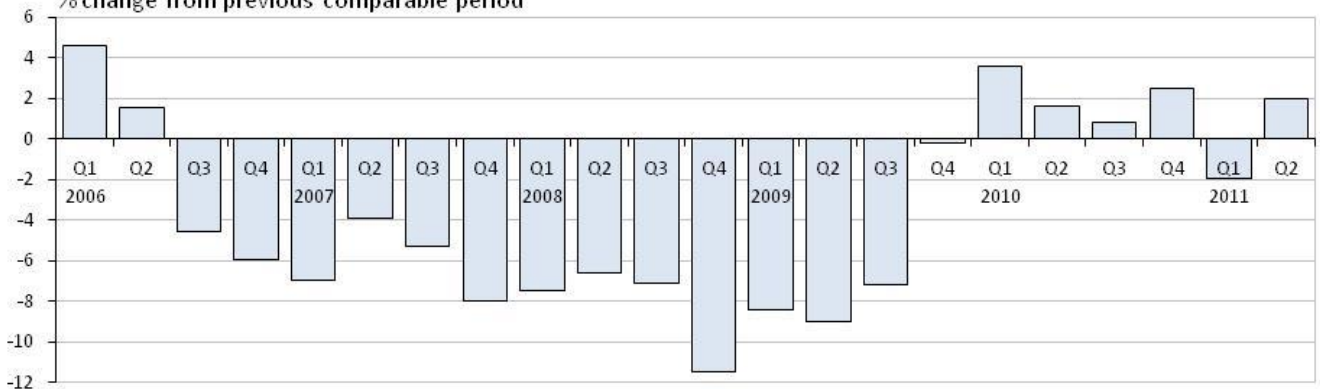
Beyond the immediate earnings outlook, the real value focus for Tenon must now lie with those 'controllable' things that have the potential to strongly 'move the dial' in terms of value for shareholders. In this regard, in order to drive efficiencies, industry consolidation and aggregation is something in which Tenon can, and should, now play a key role. With an industry-leading position established, strong customer and channel relationships in place, 'best in class' full service capabilities expanded, long-term debt financing recently secured for another five years, and management structure settled, Tenon is now well positioned to actively participate in this process – and it intends to do so over the coming period.

Shareholders will be updated on progress as events unfold through the year.

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"Big Box" Building Retailers Average (Total) Same Store Sales

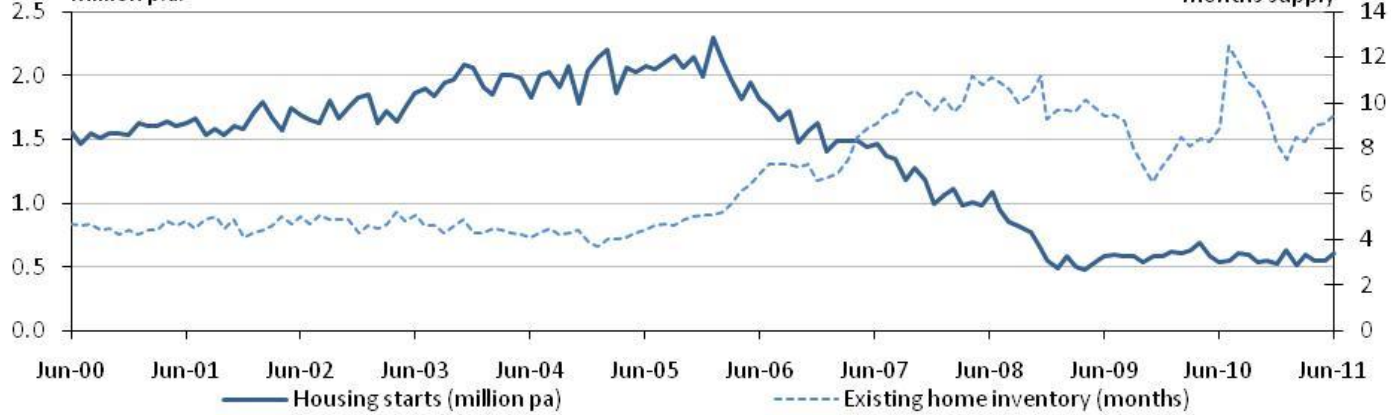
% change from previous comparable period



New and Existing Housing

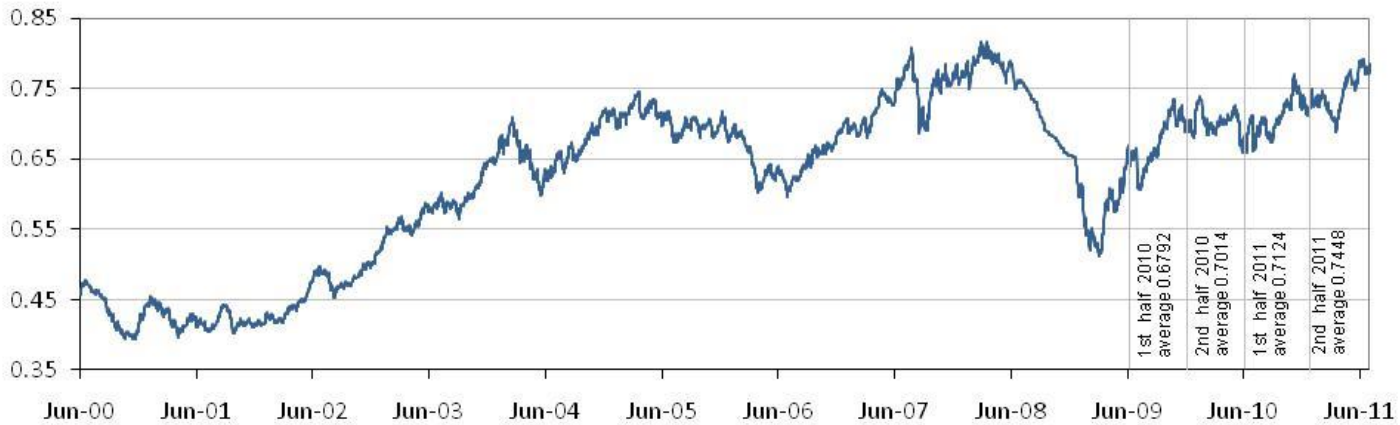
million p.a.

months supply



NZD/USD Exchange Rate

NZD/USD exchange rates shown are effective rates (i.e. hedged)



Moulding & Better Lumber Pricing

US\$ mbf

