News Release

TO: **THE BUSINESS EDITOR**

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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

ANNUAL REPORT

YEAR ENDED 30 June 2014

(released 21 August 2014)

There are forward-looking statements included in this document. 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, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, and profitability of customers, can each 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. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.

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

2014 Summary Highlights

- **Tenon is leveraged to both new housing and DIY / retail in the US, and will be a beneficiary of the broader recovery in the US housing market as it progresses**
    - US industry activity now only at early cycle recovery levels
    - Upside potential from current industry activity level is therefore significant

- **New 5-year, $70 million syndicated debt financing facility established**

- **Advancement of Australian strategy with the establishment of a new business relationship with the Masters Home Improvement chain**

- **Announcement of $5 million optimisation upgrade at Taupo manufacturing site**

- **Revenue of $396 million recorded, up $32 million, or 9%, on the corresponding year -**
    - Revenue from US pro-dealer customers up 15%+
    - Revenue from US DIY / retail customers up 5%+
    - Revenue from Europe and Australia up $4 million

- **A return to bottom line profitability was recorded** (net profit after tax of $2 million, corresponding prior period $3 million loss). This result included -
    - $1 million of expenses relating to establishment of new financing facility
    - $1+ million earnings foregone from severe US winter weather storms

- **Operating Profit before financing costs increased to $7 million (2013, $1 million)**

- **EBITDA[1] for the 12 months more than doubled (i.e. up 120%) to $11 million**

- **EBITDA[1] is projected to increase again in fiscal 2015,[3] as US housing market recovers**

- **Potential mid-cycle[2] EBITDA[1] upgraded to circa $45 million (previously circa $35 m)**

- **Share price increased 37% across the period**
    - NZX50, ASX50 and Dow Jones up 16%, 12% and 13% respectively

- **Shareholder Plan (completed) strongly supported by shareholders**

- **Announcement of new share buyback program**

[1] *EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisation) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the difference in asset ages, depreciation policies, and debt : equity structures. EBITDA is calculated as Net Profit/Loss after Taxation of $2 million (2013 $3 million loss), plus income tax expense of $1 million (2013 $nil million), plus financing costs of $4 million (2013 $4 million), plus depreciation and amortisation of $4 million (2013 $4 million). Please refer also to Note 3 of our Condensed Financial Statements..*

[2] *Mid-cycle assumptions include US housing starts circa 1.7 million per annum and NZD:USD of 70 cents.*

[3] *Eventual earnings outcome will be dependent upon continued US housing market recovery, interest rates, and NZ:US FX rate (amongst other drivers).*

Strategy, Operations and Finance

Tenon's financial performance gained momentum in the year, as the US housing market continued along its initial recovery path. In this respect, a quick review of recent US industry data shows housing starts, home permits, new home sales, home prices, and builder confidence, all up year-on-year (y-o-y). However, market conditions across the year were not as plain sailing as perhaps the year-on-year data suggests, with the US housing recovery continuing very much on a saw-tooth upward trend, and with highly variable month-to-month industry data being recorded. This can be seen in the housing starts data, which although declining in the month of June, showed that the moving annual average for housing starts (which removes month-to-month data volatility) reached its highest level in June since October 2008. Similarly, existing home sales, which declined in March to 4.59 million pa, were up in June by 10% to over 5 million homes pa. This data volatility has been caused by, amongst other factors, movements in mortgage rates (a result of the US Federal Reserve's decision to begin the tapering of its quantitative easing program, which is currently targeted for completion in October this year), and severe winter weather conditions which negatively impacted industry activity in the January to April period. Indeed, the weather was so extreme that it is estimated to have reduced US GDP by the equivalent of 1% pa in the first quarter alone.

Despite the saw-tooth nature of the recovery, and despite the fact that we are only in the early phase of cyclical recovery, we have now begun to benefit from improving market conditions. A few highlights from our reported earnings results for 2014 illustrate this.

- **At $396 million, revenue was up $32 million, or 9%, on the previous year.**
  This growth came primarily from a 15%+ increase over the corresponding prior period to June 2013 ("cpp") in sales to our pro-dealer customers (who supply the new home construction market and who now represent over 50% of our total North American distribution revenues), as we expanded our product range into existing customers.

  Notably, our retail / DIY customer sales also showed good growth, increasing by 5%+ over the cpp. This is the first year since the beginning of the US housing down-cycle in 2007-8 that we have been able to report comparable period retail sales growth – a very positive indication that these customers will provide a source of earnings growth for Tenon as the US housing sector continues to recover.

  Outside of the US, expansion of our European and Australian (see below) activities, as we continued our geographic growth and rebalancing program, resulted in top line revenue growth of $4 million.

- **Consistent with previous market guidance, we returned to bottom line profitability.**
  Net Profit after tax of $2 million was recorded, which compares with a loss of $3 million in 2013. This result was after expensing $1 million of costs relating to the establishment of our new bank financing facility (see below), and $1+ million in earnings foregone as a result of the extreme US weather conditions that prevailed in the second half of the fiscal year (as noted above).

- **Gross profit of $92 million was recorded, up 11% or $9 million on the cpp, and operating profit before financing costs of $7 million compares favourably with the $1 million recorded in the prior year**.
  This improved operating profit result reflected not only the benefits of higher volumes and improved product mix, but also the gains from our restructuring activities taken last year. The NZ$:US$ cross rate moved wildly in the period, ranging from 77 cents to 88 cents, averaging 83 cents. Our FX hedging policy worked well in this environment, securing a hedged rate in line with our budgeted rate of 80 cents.

- **EBITDA[1] more than doubled to $11 million ($5 million cpp).**
  [1]*EBITDA (please refer to Note 3 of our Condensed Financial Statements, and also to the footnote to the Highlights on page 2 of this Report for further explanation) is the non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis, because that number removes distortions caused by the differences in asset ages and depreciation policies, and by different debt:equity structures.*
  The EBITDA result for the 12 months was up 120% on the result reported for the prior year, and clearly showed the strengthening in Tenon's financial performance as the housing market continued on its recovery path. The result was in line with previous market guidance given that our goal was to at least double our fiscal 2013 EBITDA[1] result in 2014. As already noted, this result was achieved despite the headwind of a strong NZ dollar, and the $1+ million in lost earnings from the severe weather conditions experienced in the second half of the fiscal year.

Stepping back from the detailed operational and financial results, in terms of strategic developments in the period, the following initiatives were put in place to advance the Company's competitive positioning -

- **The establishment of a new 5-year $70 million bank financing facility.**
  We have signed a new syndicated bank facility, led by PNC (as agent bank), with continued participation by two of our existing syndicate banks – Bank of New Zealand and Comerica. This new 5-year facility provides for 30% greater debt capacity than the $54 million we operated with under the previous facility. The PNC facility does not expire until September 2018, and its terms are outlined in Note 3 to our Condensed Financial Statements. This new facility will allow us to advance through the cyclical recovery in the US housing market on a much stronger financial footing.

- **The announcement of a $5 million sawmill optimisation upgrade, to our large clear-wood manufacturing operation at Taupo, NZ.**
  In order to support our Australia market expansion, and also to meet the demands of a recovering US housing market and on-going product growth into Europe, we have made the decision to upgrade our Taupo manufacturing site with new sawmill optimisation equipment. This (circa) $5 million investment, which will allow Taupo's production of high-value clearwood product to increase without additional log-in requirement, is expected to generate a (approx) 2.5 year payback on investment once fully installed and commissioned. Given the lead time from manufacture to equipment installation, this capital expenditure is unlikely to impact earnings until the second half of calendar '15. Financing, which has been approved by Tenon's banking syndicate, will be provided from an increase in term loan borrowings of $3.2 million with the balance coming from our existing revolver facility.

- **The expansion of our Australian strategy with the announcement of a new business relationship with the Masters Home Improvement chain.**
  Last month we expanded our business in Australia by entering into a new agreement with Masters Home Improvement ("Masters") to supply and service a full range of interior moulding and millwork products to all of Masters current and future stores, Australia wide. Masters is a joint venture between Woolworths and Lowe's Home Improvement ("Lowe's"), currently with 49 large-format home centre stores across the country, and with an aspiration to grow this store count at a rate of 10-15 stores per year for the next several years.

  To conduct this new business, we have established Empire Mouldings Australia as a new operation (alongside the existing Tenon Australia operation that we established in 2012), to provide our unique proprietary service model and extensive product range to Masters. Empire Mouldings Australia will replicate the service offering provided to Lowe's in North America by our 100% US-based subsidiary, The Empire Company. Product will be supplied primarily from Tenon's large clearwood manufacturing site in Taupo (NZ) and from our Tenon Australia manufacturing operation in Victoria, with supplemental product sourced from the Tenon global supply chain as required.

Governance

Our last Annual Shareholders' Meeting was held in Auckland (NZ) on 4 December 2013. The presentations to that meeting focused on the future of the Company. These are available for download from our website at www.tenonglobal.com. Approximately 85% of the Company's issued shares were voted at the meeting, and all resolutions were passed - each with a majority of in excess of 99%. The resolutions included the appointment of our former CEO, Mark Eglinton, as a Director of the Company, following the retirement of Michael Andrews and Michael Walls from the Board after more than a decade of valuable service. These excellent voting statistics are a reflection not only of the company's consolidated share register, but also of the confidence that shareholders have in Tenon's future.

During the year we put in place a small shareholder plan. The plan ended on 31 January, by which time the number of existing Tenon shareholders buying further shares exceeded those wishing to sell by a ratio of 2:1, and the numbers of shares bought by shareholders exceeded those sold by a ratio of 10:1. This was a pleasing response. As part of the Plan, we also undertook a small on-market share buy-back program of 450,000 shares. As at this announcement, some 385,000 shares had been bought back under this program.

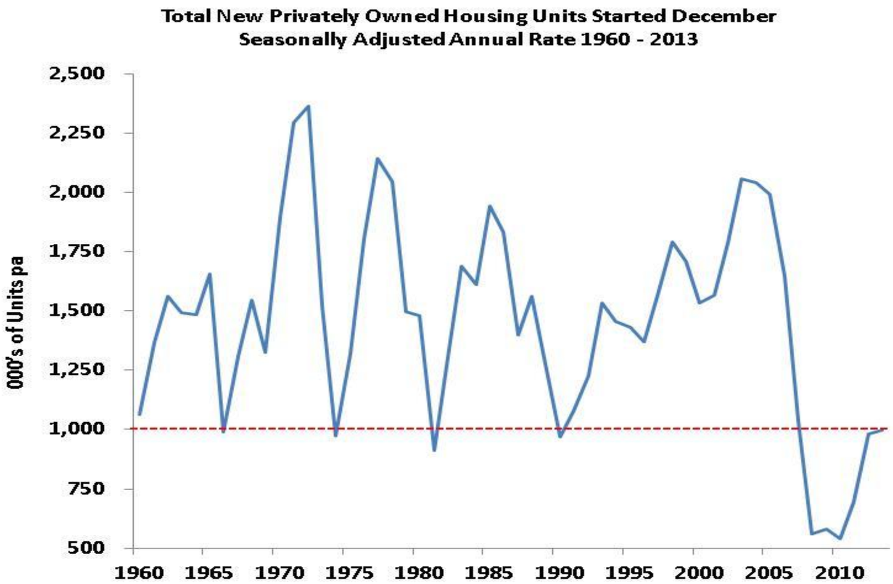
Our share price performance in 2014 was very strong, increasing 37% across the fiscal year. This is more than double the 16% recorded on the NZX50, the 12% on the ASX50, and the 13% on the Dow Jones Industrial Average, over the same period. While we are pleased with this performance, we still believe that the current price is well below fair value for the Company at this point in the cycle, and we have operational, strategic (discussed above), and structural initiatives in place to help close this value-gap.

In this respect, the Board has determined that in addition to reinvestment in the Company's growth projects (e.g. the Masters new business opportunity and the Taupo sawmill optimisation capital project mentioned above), an appropriate use of the Company's capital in the current environment is to begin to return surplus cash to shareholders. Delivering cash returns by way of dividends would not be tax effective to shareholders, given that Tenon does not have imputation credits to attach to dividend flows. Accordingly, the Board has instead determined that the best way to effect its cash return objective is through the announcement of sequential on-market share buyback programs. The Board considers the buyback mechanism to be a flexible one, allowing the Company to alter the dollar amount expended according to its cash flow position at any point in time. It is also consistent with the Company's objective of providing more liquidity in the market for small volume daily trading. A buyback program offers shareholders the opportunity to sell into the buyback if they require cash, and those shareholders who do not wish to sell will benefit from any share price increase arising from the Company's future financial performance. Consistent with this conclusion, the Company has announced a (new) further buyback, commencing 27 August 2014, for the purchase of an additional 400,000 shares on-market, with the intention that further announcements of this type will be made in the future.

The other structural initiative relates to increasing the Company's equity exposure to US investors. Some 90% of the Tenon's revenue is derived from the US, where the bulk of our operations are located, yet our equity is NZ-based, where news of the US housing market and the performance of Tenon's competitors is sparse. We are continuing our consideration of all viable alternatives as to how best to address this issue.

Looking Ahead

As the new housing starts graph (as extracted from our Interim Report) below shows clearly, we are only now at the very bottom, or "floor," of previous US housing cycles. Put another way, over the past 50+ years, US housing activity has been at a higher level than today's level for almost 90% of the time. Clearly, the gap to a mid-cycle level of activity represents a large future opportunity for Tenon.



So, based on previous cycles, we are only now just entering early cyclical recovery, and most industry data points (including the July new housing starts (1.09 million pa) and building permits (1.05 million pa) data released this week) indicate good underlying industry activity levels moving forward. So, quite apart from our own organic growth initiatives, cyclical recovery alone should drive strong future earnings growth in each of our underlying businesses.

In support of future demand levels, long-run household formation activity – a key driver of new housing starts, is forecast to be strong, with a projected increase in young adults entering household formation years. Similarly, the continued ageing of US homes (with more than 40% of homes today being at least 40 years old), the recent appreciation in US home prices, and on-going job market recovery, are each supportive of future remodelling and renovation spend.

In terms of the immediate outlook, we are conscious that there are some large 'uncontrollables' at play that could materially change our earnings outcome, up or down. Our basic concerns reside in the macro-conditions likely to prevail over the next 12 months. The US Federal Reserve's plan to eliminate its quantitative easing program by October this year, and the impact that may have on mortgage interest rates next year and housing demand as a result, will be a key macro driver. Closer to home, the NZD:USD exchange rate continues to operate at a level that is unsustainable on fundamentals, and its forward path will similarly be a determinant of Tenon's short-term earnings profile.

On the positive side, and as we summarised in our Interim Report to shareholders, outside of these uncontrollable macro-factors, we do expect to reap the benefits from Company-specific growth and profit improvement initiatives that continue to be identified and implemented. In addition to cyclical recovery, market share growth, continued product expansion with existing customers (e.g. stairparts and doors programs), new product introductions (e.g. refreshed decorative moulding profiles noted above), improved manufactured product mix, operational efficiency gains, and increased exposure to the pro-dealer segment, will each support Tenon's earnings growth.

These initiatives do not come without some initial costs however. In this respect there will be some higher than normal costs reflected in 2015, in particular marketing and merchandising spend supporting extensive product reset activity across all the core product categories we service - however this will deliver stronger retail store performance in future periods. Despite these costs and a higher FX rate today than prevailed in fiscal 2014, **our internal budget is for our Revenue and EBITDA[1] performance in 2015 to show yet further improvement again on our 2014 result** (subject to the 'uncontrollables' comments noted above).

As a result of the growth we have embedded into the Company, the new Masters and Taupo clearwood optimisation initiatives outlined in this Report, the restructuring and efficiency programs executed in recent periods, and stronger mid-cycle activity levels predicted, **we now see Tenon's mid-cycle EBITDA[1] potential to be circa $45 million.** This earnings potential excludes the upside that might come from acquisitive growth. As the US industry recovers, merger & acquisition activity will expand, and the opportunity for synergistic transactional growth will similarly increase. Growth by merger and/or acquisition remains firmly on the Tenon agenda.

Finally, we would like to thank all of our stakeholders for their continued support. As always, it is very much appreciated.

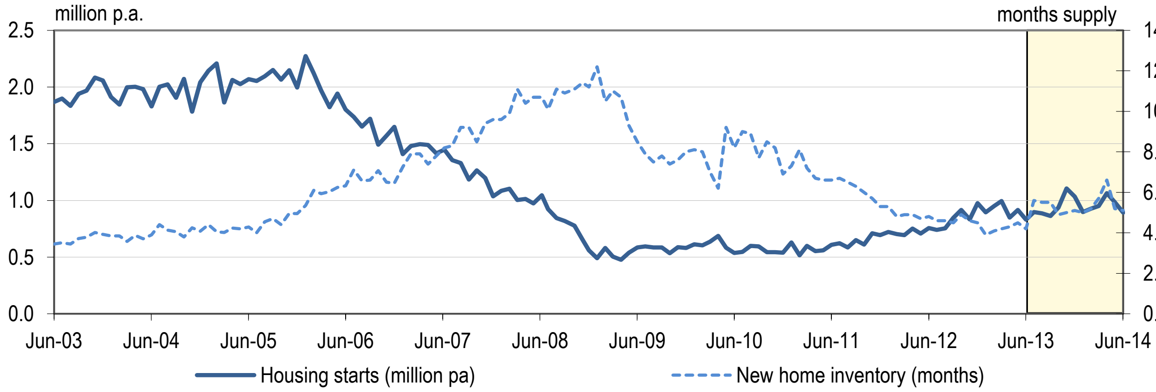
Sincerely,

Luke Moriarty (Chairman) Tony Johnston (Chief Operating Officer)

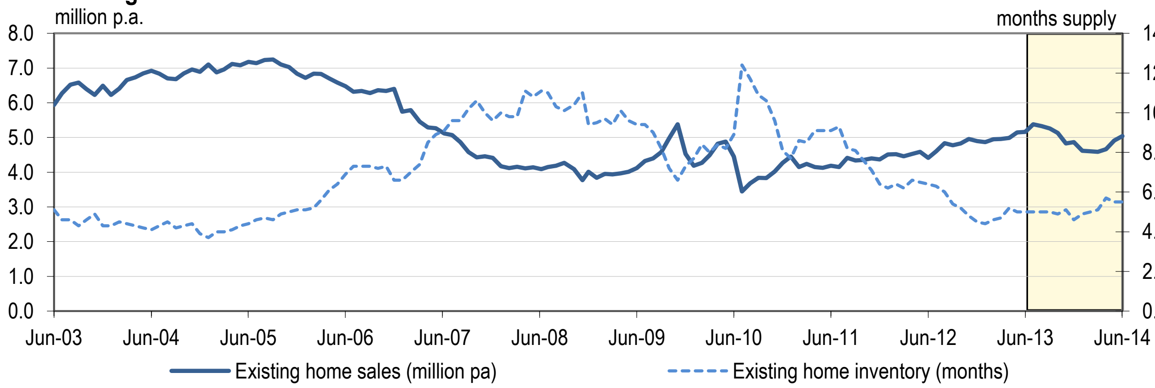
21 August, 2014

[1] Please refer Note 3 of our Condensed Financial Statements, and also to footnotes 1, 2 and 3 to the Highlights on page 2 of this Annual Report for further explanation.

New Homes



Existing Homes



Moulding & Better Lumber Pricing

NZD/USD Exchange Rate

(blue line is actual rate, six-monthly averages represent hedged rates)