

TO: THE BUSINESS EDITOR

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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

REVIEW OF THE FISCAL YEAR ENDED 30 JUNE 2013 (released 27 August 2013)

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 repair and remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, 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 2013 - Highlights

New Zealand based wood products manufacturer and distributor, Tenon, today confirmed a strong turnaround in financial performance for year ended 30 June 2013 based on a recovering US housing market.

Tenon reported revenue of \$364 million, up 9% on the previous year, and gross profit of \$83 million was recorded. EBITDA¹ increased from a loss of \$3 million (including restructuring costs) in 2012 to a profit of \$5 million in fiscal 2013. This is at the top end of the Company's guidance range given in May. It was achieved despite the headwind of a strengthening NZ dollar, which saw the average NZD/USD cross rate rise to average 82 cents across the year, and which resulted in a \$1 million negative impact on EBITDA in fiscal 2013. Of further note, was the significant improvement in EBITDA achieved in the second half of fiscal 2013 compared with the first half – i.e. \$4 million compared with \$1 million.

Chairman Luke Moriarty said: "The US housing market is in the early stages of recovery, and this is an extremely positive development for us as the US is our largest market. Among the key indicators pointing to a broad housing recovery in the US were housing starts up 25% in the period under review, sales up 26%, and existing home prices up 12%. As a result, we saw a pickup in activity, with a particular bias towards the second half, indicating a clear momentum shift."

"The turnaround in the US housing market has given us confidence to target a doubling of EBITDA in the current 2014 financial year. Should we achieve that our shareholders can expect a further appreciation in our share price," he said.

Tenon's share price has more than doubled over the past year, as the US housing market has begun to recover and Tenon released market earnings guidance. Tenon is leveraged both to the new housing (45%) and DIY / retail (55%) segments of the US housing market, and will be a beneficiary of the broader recovery in each segment as it occurs.

Adam White, Tenon's CFO, said: "To ensure we are well positioned to capitalise on the uplift in activity, we are currently well advanced in negotiations to increase the size of our current banking facility. We believe we will be in a position to make a positive announcement to the market on this in the very near future."

¹ EBITDA (please refer note 26 of our Financial Statements) is the 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, depreciation policies, and debt : equity structures.

About Tenon

Tenon is a wood-products processing, marketing and distribution business, focusing on high-value markets in North America. Tenon has strong supplier relationships with the independent pro-dealer (i.e. new housing) segment, and channels into the world's largest (DIY) home improvement centre stores. As well as providing a channel to market for product made at Tenon's large clear-wood remanufacturing facility in Taupo (NZ), its distribution business sources significant quantities of finished product from other international suppliers for sale into North America. Tenon ships over 8,000 40' containers annually, through an internal logistics system that sources specialised product from China, Chile, Brazil, United States, Canada, and New Zealand. In addition to Tenon's Taupo operation selling product into the North American market, it also has an export presence into Europe, China and Australia.

Annual Report – Fiscal Year 2013



The 2013-Year Reviewed

In our December Interim Report to shareholders we wrote –

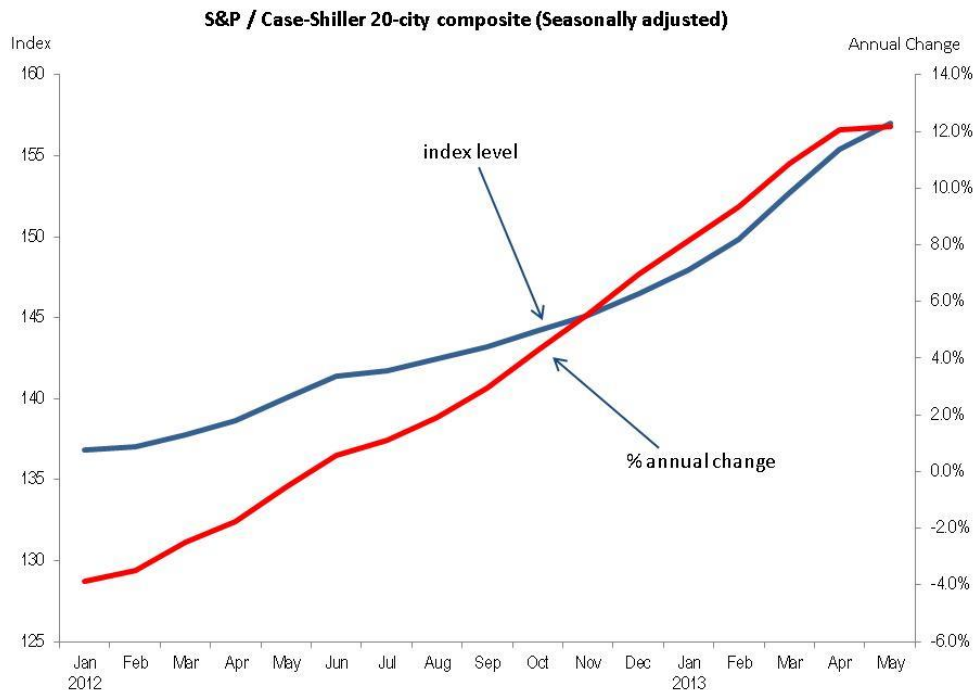
“The US housing market – Tenon’s largest market exposure – is now in the early stages of a full recovery. This is an extremely positive development for Tenon, although it is really only in very recent months that this improvement has occurred in any meaningful way. To date this recovery has been centred on new house construction, but the forward looking data now indicates that the rebound should also spread into a higher level of renovation and remodelling activity later in this calendar year. Given Tenon is exposed to both segments of the market (but more particularly the latter segment), we should see the benefit of the broader market recovery reflected in our earnings as the calendar year advances.

Although there are some notable hurdles to a full US housing market recovery ... and moving forward the month-to-month data is likely to be a little bumpy, it appears clear now that we are heading out of the deep cycle-trough that has plagued the industry for too many years now.”

These statements proved to be absolutely true for the balance of fiscal 2013. This can be seen from a quick review of US industry data for the fiscal 2013 year, which showed –

- US housing starts up more than 25% on fiscal 2012;
- Permits issued for new house construction, at 918,000 (seasonally adjusted annual rate) in June, up 17% year-over-year (“y-o-y”);
- New homes sold up 26% y-o-y;
- New home inventory (measured in months of supply) at year-end was 4.3 months;
- New home average price up 11% y-o-y;
- Home builder confidence ending the year at the highest level recorded since 2006;
- Existing home sales up 15% y-o-y, to 5.1 million units;
- Existing home inventory down 20% to 5.1 months of supply, compared with 6.4 months a year ago;
- The pending home sales index (a forward looking indicator of existing home sales) at its second highest level since December 2006, and 11% higher than the prior year; and

- Existing home price (as measured by the Case-Shiller index) up 12% y-o-y.



Each of these, individually, represents a very positive data point, but when taken in the aggregate they are reflective of a much broader housing recovery that is now underway in the US. It is pleasing to report that although we are only in the initial phase of this recovery, Tenon has already begun to benefit from these improved market conditions. A few highlights from our fiscal 2013 reported financial results show this point -

- At \$364 million, Revenue was up \$30 million, or 9%, on the previous year.** Notably, Revenue recorded in the second half of the fiscal year was \$190 million - up on the \$174 million recorded in the first half, reflecting the acceleration in activity that occurred as the fiscal year progressed.

This growth in top line revenue came primarily from a 25%+ increase in sales to our pro-dealer customers (a segment which now represents approximately 45% of our total North American revenues), who in turn supply the new home construction market. Tenon has seen a strong recovery in the pro-dealer regional markets it services, and it is now beginning to benefit from the growth in market share that has been achieved in this segment over the past five years.

Whilst to date the recovery in remodelling activity (as represented by sales into the large national home improvement centres) has lagged new home construction activity, this was as expected, and our large retail distribution operation that supplies this segment (i.e. Empire) began to show comparable store sales growth in the latter part of fiscal 2013.

In addition, sales revenue in the period also benefited from geographic expansion and favourable product mix changes undertaken late in the year. In particular, our Taupo manufacturing operation rebalanced its product portfolio across lumber, clear boards and solid lineal mouldings products to optimise customer sales and margin opportunities.

- **Gross profit of \$83 million was recorded.** Importantly, in terms of on-going future market recovery, gross profit recorded in the second half of fiscal 2013 was 8% higher than in the first half of the year.

The “thinness” of the industry supply-chain in a recovering US housing market saw manufacturers (including our own Taupo operation) place customers (i.e. distributors into the US, such as Empire) on product supply allocations during the period. Accordingly, our Cost of Sales increased in the period, as our third-party suppliers were able to push through product price increases in this very tight supply environment, and also as our absolute volume of purchases increased to match market demand. While our gross margin compressed slightly in the period by just over 1%, we believe this can be recovered as we continue to take costs out of the business (see below) and as the housing recovery cycle matures.

- **Operating Profit before Financing Costs of \$1 million compared favourably with the loss of \$8 million recorded in the prior year** (including \$3 million of Restructuring Costs).

This much improved result was assisted by our on-going efforts to re-engineer our activities in order to improve efficiency and take costs out, which resulted in Distribution and Administration Expenses falling by \$3 million y-o-y, despite sales volumes increasing over the period. These business re-engineering initiatives included -

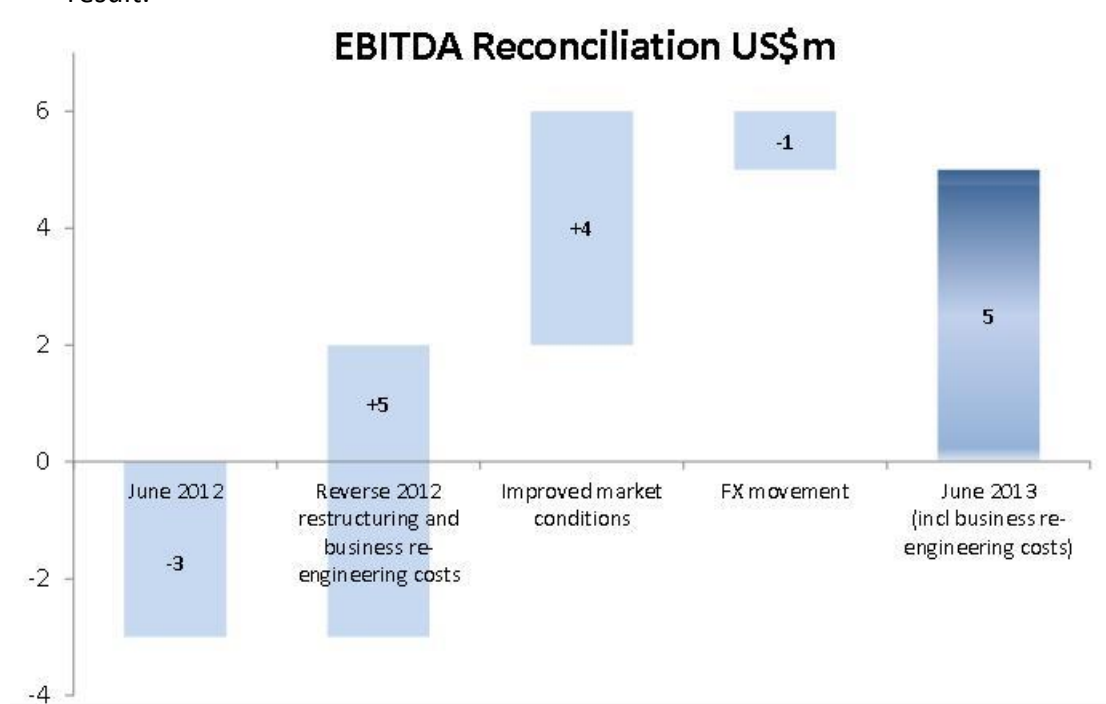
- Completion of the consolidation of Ornamental’s manufacturing activities onto one US site in North Carolina. The order files and manufacturing lines have now been transferred, functions have been integrated into Tenon’s North American shared services operation, and all surplus Canadian property has now been sold releasing \$3 million of cash. The results for the year include all costs relating to manufacturing “start-up” of the product lines now being produced at the single North Carolina site;
- Relocation of Southwest’s Dallas pro-dealer operation to a larger, special purpose warehousing facility. Although the overall floor space has been expanded to match increased demand forecasts, efficiency gains allowed Southwest to improve its warehouse space utilisation and lower its overall costs in the second half of the year;
- Implementation of IT enhancements (e.g. electronic order confirmation, delivery and invoicing) across the Group which will assist in both improving working capital management and lowering back-office administration costs;
- Cost-out and efficiency improvement initiatives at our Taupo manufacturing facility, including the renegotiation of more favourable shipping contracts, the achievement

of improved sawmill conversion and clear-wood recovery rates resulting in significant cost savings; and

- Cost reduction initiatives in our North American distribution operations, including the restructuring of field services and product delivery activities, resulting in improved (i.e. more efficient) store service management, and reduced transportation and labour costs.
- **EBITDA improved from a loss of \$3 million last year (including restructuring costs) to a profit of \$5 million in fiscal 2013.** EBITDA is the earnings figure that equity analysts tend to focus on (please refer to Note 26 of the Financial Statements), because that number removes distortions caused by the differences in asset age and depreciation policies, and by different debt : equity structures. This EBITDA result was in line with the \$4-\$5 million EBITDA market guidance announcement the Company made in May this year, and included business re-engineering costs of \$1 million which were fully expensed in the period. This result was also achieved despite the headwind of a strengthening NZ dollar, which saw the average NZD : USD cross rate rise to average 82 cents across the year, and which resulted in a \$1 million negative impact on EBITDA in fiscal 2013.

Of further note was the significant improvement in EBITDA achieved in the second half of fiscal 2013 compared with the first half – i.e. \$4 million compared with \$1 million. This is entirely consistent with the guidance we gave in last year's Annual Report to shareholders, when we said that any short-term lift in Tenon's earnings as a result of market recovery was unlikely to be felt until the second half of fiscal 2013.

This next chart shows the fiscal 2013 EBITDA summary reconciliation from last year's result.



Debt Refinancing

Net debt (i.e. interest bearing debt net of cash) increased from \$39 million at 30 June 2012 to \$49 million at balance date. This increase is a direct result of the higher inventory we need to carry as the market enters its recovery phase, in order to ensure we have no stock-outs with our delivery-sensitive customers as sales grow in our core product lines.

We do not see this level materially declining in the short term. Indeed, in order to continue to grow and expand our product categories, to meet our existing customers' needs, and to provide us with greater day-to-day operational flexibility, we determined a need to increase the size of our existing debt funding facility. Our objective is to put in place a bank facility that will allow Tenon to advance through the cyclical recovery in the US housing market on a much stronger financial footing. As at the date of this Review, negotiations to this end were well advanced, and we believe we will be in a position to make a positive announcement to the market on this in the very near future.

Governance

Our last ASM was held in Wellington (NZ) on 13th of December 2012. Over 80% 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%. 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.

Our ASM presentations (which are available on our website at www.tenonglobal.com) outlined the future potential for the Company in a recovering US housing market environment. As discussed above, US housing market data has been very positive showing healthy year-over-year gains, indicating that the US market is now clearly in a recovery-mode. All of this news, coupled with our earnings guidance announcement in May, has been positive for our share price performance, which, at the time of writing, had increased 85% since our ASM, and which has more than doubled off last year's low. This is well above the 15% recorded by the NZX50 over the same period (since our ASM).



While this is good news, we still believe our traded share price is well below “fair value” as at this point in the cycle. This view is supported by an equity analyst report released by the Edison Group early this calendar year which valued Tenon up to NZ\$2.05 per share (inclusive of tax losses), and more recently (in a June Update Note) Edison made the comment that upwards share price moves by Tenon’s US peer group comparators “suggests upside above NZ\$2.00.”

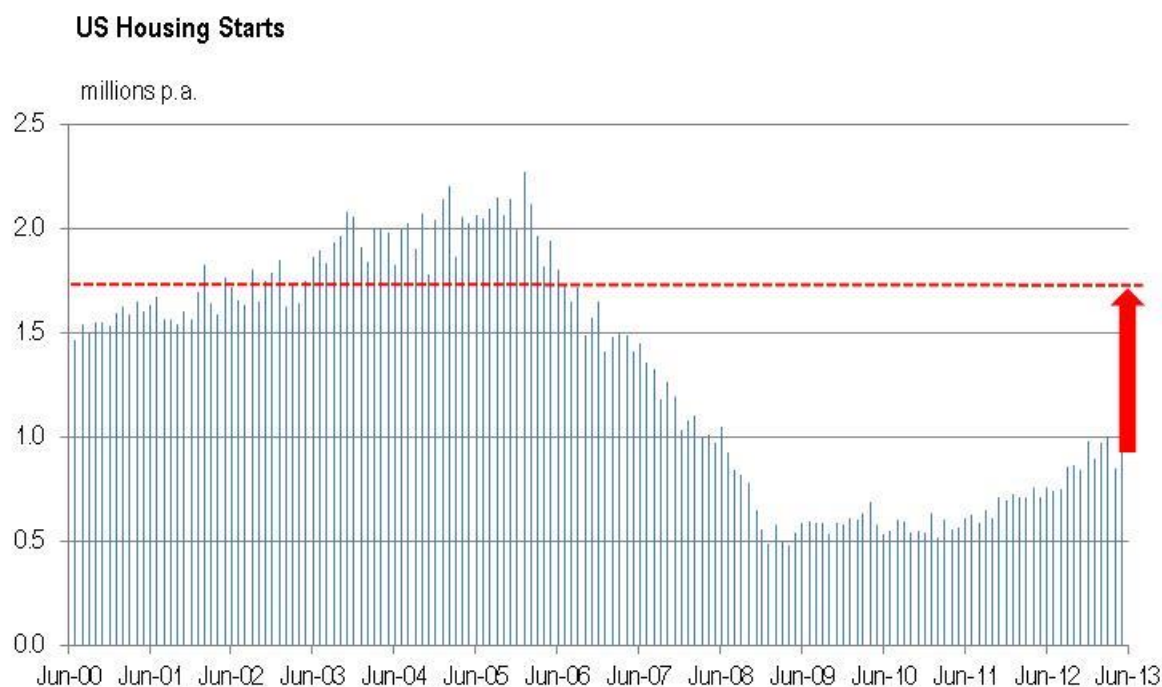
The Company’s next ASM will be held in December 2013. We will separately advise shareholders of the exact time and venue at a later date. For those shareholders who are able to join us, we would of course very much appreciate your attendance.

Looking Ahead

In our last Report we discussed the opportunity to also grow Tenon outside our core North American market, with Europe and China being specifically targeted. Operationally, we have more than tripled our clear-wood sales volumes into Europe over the past 12 months, and we have identified specific opportunities to take some of our Taupo manufactured products directly into retail channels in China rather than through the traditional wholesale market there. We have also identified new innovative products manufactured in China that we may be able to take directly into our US distribution channels. While this marketing work will continue, we have made the difficult short-term decision to slow our strategic advance into China in order to take full advantage of a quickly recovering US market. Although we had identified an entry point acquisition that would have placed us directly into the China wholesale market, we have determined that in the immediate term the risk : reward trade-off overwhelmingly now favours us focusing the bulk of our financial resources on the US marketplace.

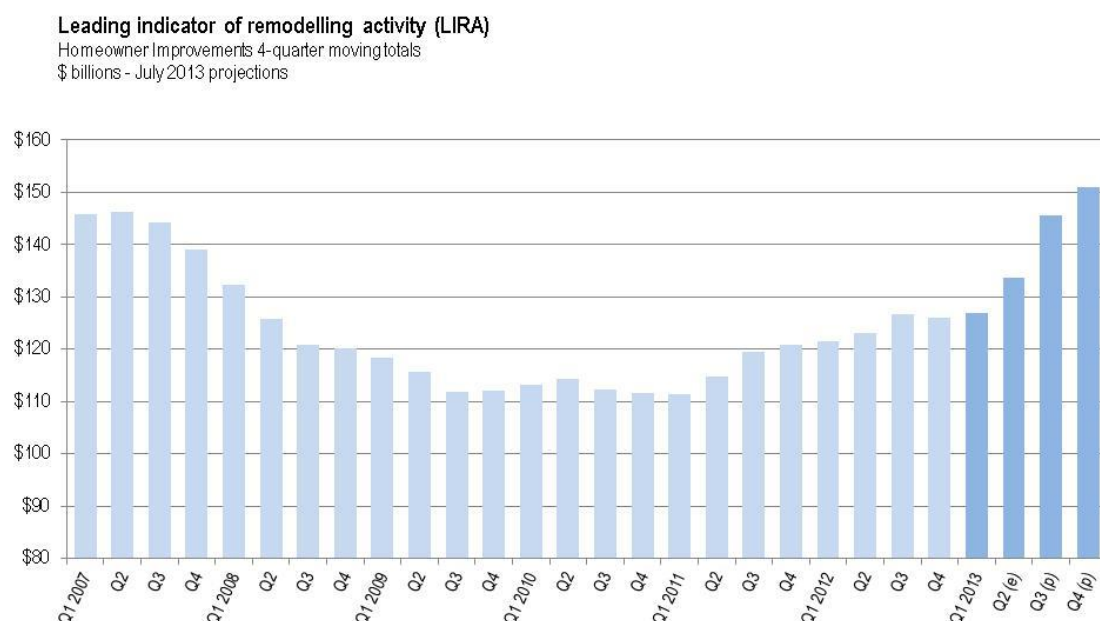
Tenon has significant market exposure to US housing through our activities in both the new home construction and remodelling segments (now representing approximately 45% and 55% of Tenon's total North American revenues, respectively), and the continued recovery in each of these segments will support our future earnings performance. While the future month-to-month US housing data is likely to be bumpy (with the lower July new house sales data being such an example), an overall upward trend is expected to continue. However, access to mortgage credit, and the potential for rising mortgage rates resulting from a tighter US Federal Reserve monetary stance, must be considered as very real potential risks to a smooth recovery – each being a factor beyond Tenon's control. However, on the basis that the US housing recovery proceeds as we predict and the NZ : US cross rate does not strengthen from recent levels, then **our immediate earnings objectives are to more than double our fiscal 2013 EBITDA result in the current fiscal 2014 year, and to materially improve that result again in the calendar 2014 year. If we can achieve these outcomes, then the Tenon share price should appreciate accordingly, continuing the price gains that have been made over the past 6-9 months.**

As we have previously noted, while this first phase of cyclical recovery in the US housing market is very encouraging, the forecast 2014 activity levels will still be a long way away from projected industry mid-cycle levels. By way of example, the chart below succinctly shows the “gap” that exists between today's construction level and the projected future mid-cycle new house construction level (the dotted red line), based on underlying demand supported by strong population growth and demographics.



A similar story holds true for the renovation and remodelling segment, where pent-up demand arising from the past five years of below average residential spending / investment is expected to see this segment expend more in the next mid-cycle than it did in the previous

cycle peak. This can be seen in this next chart, Harvard's Housing Studies Leading Indicator of Remodelling Activity (LIRA), which projects strong growth through the balance of calendar 2013.



Quite apart from these positive broader macro-industry factors that are expected to drive our earnings, we do also expect to reap the benefits from Company specific growth and profit improvement initiatives that continue to be identified and implemented. Examples of benefits expected to accrue from initiatives implemented this current fiscal year include -

- Annualised contribution to sales and earnings of new products launched during the second half of fiscal year 2013 (e.g. hardwood boards and plank panels);
- A significant lift in clear select pine board sales in fiscal year 2014, resulting from the substantial pick-up in Lowe's volume requirements for this product - to be distributed via Empire, and sourced exclusively from our Taupo manufacturing facility;
- Strengthened relationships in Australia with the Mitre 10 and Danks chains, which are expected to deliver growth in this region, particularly in the specialist small moulding category where we have a clear competitive advantage; and
- Launch of new, smaller profile decorative hardwood moulding product lines into the North American home centre channels, targeted to occur in this fiscal year.

At our ASM in December, we outlined what our earnings potential might look like under future mid-cycle conditions – conditions where we see EBITDA of \$35 - 40 million being achievable (assuming a mid-cycle NZ : US cross rate of 70 cents, and historic margin levels). Shareholders will understand that this expanded potential is a result of the significant organic growth that we have put in place through the down-cycle (refer 2012 Annual Report

for a discussion of the growth that has been embedded in the Company). To date the gains from these growth initiatives have been masked by the extent of the downturn that has taken place, however they will become obvious as the market progresses to a mid-cycle path and the pace of recovery gains momentum.

Acquisitions remain on the agenda, and these opportunities will be focused on the large North America market, where we already have scale and where we have the ability to quickly integrate and leverage new activities into our existing business model.

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)

27 August, 2013

