News Release

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STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

ANNUAL REPORT

YEAR ENDED 30 JUNE 2015

(released 28 August 2015)

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.

Tenon's financial year is 30 June.

Tenon Highlights - 2015

Shareholder Value Announcements

- **Tenon share price increased 32%**[6]
    - Outperformed the NZX50 index which was up only 10%, and also the ASX50 and Dow Jones indices which were down -3% and -2% respectively
    - Considerable future value upside remains –
        - Edison Research (Mar '15) valued Tenon at NZ$3.75 - NZ$4.99 per share

- **Formal Tenon Strategic Review initiated**
    - Purpose is to determine best value path forward for Tenon shareholders
    - Deutsche Craigs and Deutsche Bank have been appointed as Tenon's exclusive advisors
    - Shareholders will be kept up to date on progress

- **Dividend payments to begin immediately**
    - First dividend of NZ5.0 cps[10] declared in respect of fiscal '15 – payment in Nov '15
    - Intention is to make two dividend payments per year
    - Next dividend[3] to be in relation to the 2016 interim result period – payment in April '16
    - Future dividend rates (i.e. cents per share) yet to be determined[3]
    - Future payments will also be subject to[3] the outcome of Strategic Review

Macro-Conditions Improving

- **US economy continues on recovery path**
    - 2.9 million jobs created in FY '15
    - Unemployment rate fell to 5.3% (June)

- **US housing gains further strength, with last quarter's (i.e. June qtr) data showing -**
    - 1.06 million new housing starts in FY '15, up on the 953,000 in 2014
    - New home sales reached a 7-year high
    - Building permits reached an 8-year high
    - Builders confidence index at a 9-year high
    - Existing home sales (annualised) of 5.48 million recorded (June), an 8-year high
    - Pending home sales reached a 6-year high

- **US new home construction is forecast[7,8] to grow strongly over the next 2-3 years**
    - Industry forecasts ≈ 11% growth y-o-y in calendar '15 (CY)
    - Even that increased level is still half a million homes p.a. short of mid-cycle estimates
    - Tenon has increased its exposure to the new home construction market recovery
        - ≈ 55% of US distribution revenue in FY '15
        - … up from approx 35% at the same point in the previous cycle

__Tenon 2015 Financial Results__

- **Revenue[1] of $406 million reported** (2014, $396[1] million)
    - New home construction market now represents ≈ 55% of US distribution revenues

- **Net profit after tax trebled to $6 million** (2014, $2 million)

- **Gross margin % expanded** in all US distribution activities

- **EBITDA[2] of $13 million** (up 18% on 2014), including –
    - $3 million extensive upgrade programme to 500 retail stores (≈ 200 remaining)
    - Sales lost from the US West coast port strike
    - Earnings foregone from severe US winter storms
    - Costs associated with the now completed US distribution business restructuring
    - An average effective NZ$:US$ exchange rate of 79 cents (2014, 80 cents)

- **New business won, territories expanded** – benefit to be realised in FY'16

- **Taupo (NZ) manufacturing capital projects are well-advanced, and proceeding to plan**
    - The $5 million optimising edger is to be commissioned in Q3 of CY '15
    - The $2 million ripline project is to be commissioned in Q1 of CY '16
    - Financial metrics are very favourable
        - Projects have an ≈ 18 months payback
        - Full benefit of optimising edger will not be realised until ripline project is completed

- **Senior management roles realigned according to customer channels**
    - Objective is to maximise the profitability and opportunity of each channel
    - Strong growth mandate exists for each

- **Expanded Syndicated Bank Facility, and improved terms**
    - Facility extended out to May 2020 (i.e. 5 years)
    - Facility size increased to $75 million
    - More favourable funding rates agreed
    - Elimination of fixed charge covenant unless availability[5] falls below minimum limits
    - Increased flexibility in relation to shareholder distributions (i.e. dividends and buyback)

- **Closing debt (net of cash) of $58 million** (2014, $50 million), reflecting -
  - Expenditure on the two Taupo manufacturing projects
  - Working capital growth to meet the recovering US housing market
  - Absent any acquisitions, FY '16 closing debt level projected to be ≈ $50 million[3]

Tenon 2016 Outlook

- **EBITDA[2] and Net Earnings targeted to materially improve**[3] (refer Macro Conditions above)
  - FY '16[9] internal earnings target is for EBITDA[2] to exceed $20 million (excluding FX gains and losses, and assuming continued market recovery and current FX rates)
  - Mid-cycle[4] EBITDA[2] guidance of ≈ $50 million

Strategy, Operations and Finance

Tenon's financial performance in 2015 continued the momentum that began in the prior year, with **Net Profit After Tax trebling year-on-year** ('y-o-y'). Two of the key drivers of Tenon's performance – the US housing market activity and the NZ$:US$ cross rate – both improved noticeably in the last quarter of the fiscal year. Although neither materially impacted Tenon from an earnings perspective in 2015 (the improvement in the US housing market occurred later into the fiscal year, and the benefit of the weakening NZ currency was not felt due to expiring FX cover taken earlier in the year), both of these will be significant positives to Tenon's earnings in the new fiscal '16 year.

In relation to FX, we have covered the first four months of the new fiscal '16 year at circa 68 cents (NZ$:US$), but are unhedged beyond that horizon and we will then be the full beneficiary of the lower currency level y-o-y now prevailing.

To give an understanding of the extent to which the US housing market improved towards the end of the year, data for the June quarter period showed –

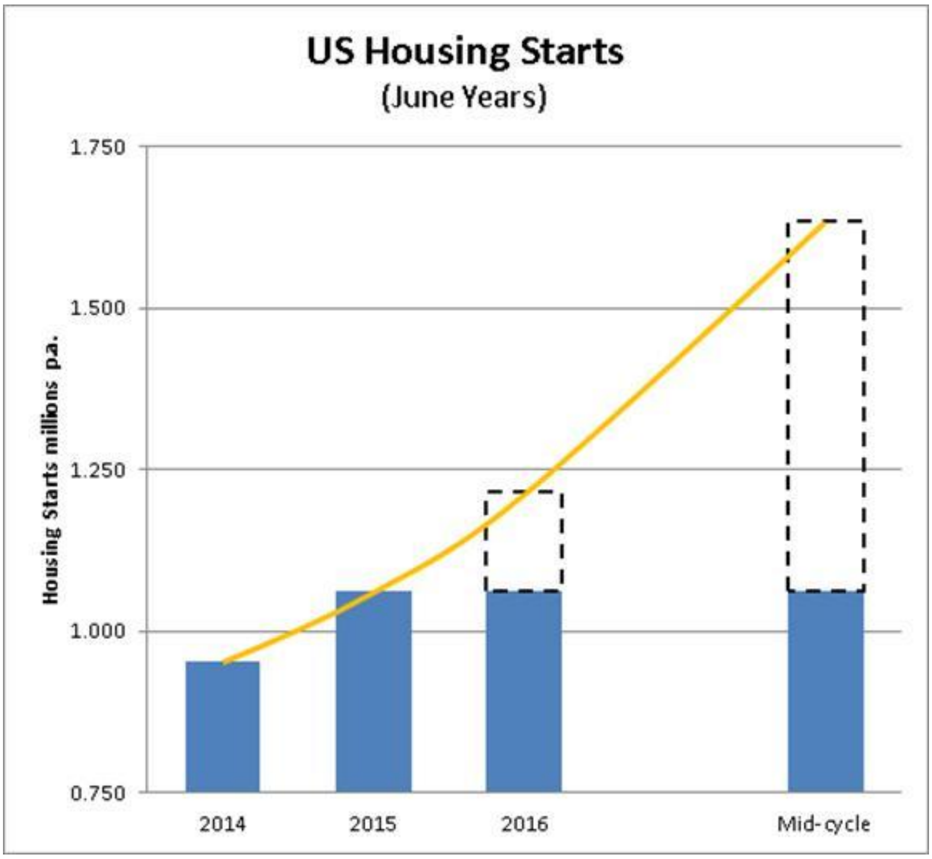
- New home permits at an 8-year high
- New home sales at a 7-year high
- Existing home sales at an 8-year high
- Pending home sales at a 6-year high
- Builder's confidence index at a 9-year high

Tenon is leveraged to recovery in both the new home construction (i.e. pro-dealer) and DIY (i.e. retail) markets in the US. These markets share some common drivers – job security and job growth, real wage growth, credit availability, home prices, affordability, homes available for sale, and existing house sales levels, are all key to both markets. Almost all of these drivers are now supportive of a continued recovery in new home construction <u>and</u> in improved retail activity.

By way of further explanation of the current macro housing situation, this next chart (which we have shown before) succinctly summarises the upside that currently exists in the first of these markets – new home construction. As can be seen, the gap that exists between current new home construction activity and what is generally accepted[8] as being the next mid-cycle housing level, is very large. Moving forward, as the market continues to recover, Tenon's earnings profile will reflect the closing of this gap, and the considerably higher activity levels that mid-cycle will represent.

As noted above, the noticeable improvement in housing data recently observed is indicative of much stronger future activity levels rather than a reflection of those that were present in fiscal '15. For example, the increase in new home construction permits and pending house sales are lead indicators of future activity, rather than being indicative of past conditions.

In that respect, the chart below shows the y-o-y improvement now projected[7] in new home construction activity in 2016 – a growth rate of circa 14% p.a. Similarly, DIY and remodelling spend is projected to grow circa 5% p.a. supported by increased existing home sales activity.



Although 2015 was still early in the US housing cyclical recovery, the period under review saw **Revenue[1] increase to $406 million**. Revenues from our pro-dealer customers (i.e. new home construction market) were up 8% y-o-y, and gains were made in all of the territories we service. By year end, our exposure to the recovering new home construction cycle represented approximately 55% of our total US distribution revenues – up considerably on the 35% at this point in the previous cycle, and also up on the 50% of last year. This is a reflection not only of the faster recovery of this market relative to the DIY / retail market that has occurred to date, but also of the strong organic growth initiatives we had put in place to grow our pro-dealer activities, which have been focused primarily on product expansion and territorial growth. We believe a 60% weighting to new home construction is the right customer target mix for Tenon through this next stage of the cycle, given the strong recovery path forecast for this market, and given we operate in US States that represent approximately 60% of all housing permits issued annually.

Our retail-based revenue was up only slightly y-o-y – a reflection not only of the fact that recovery in DIY / retail has lagged new home construction, but also of the first four bulleted EBITDA factors noted below. In particular, the 700 store major upgrade programme that is currently being undertaken had a negative impact on financial performance, as foot traffic in the store aisles was adversely impacted by this activity during the period. Major retail store refurbishments of this nature are rare, so the expenditure we have incurred on them ($3 million expensed in 2015, and $1 million to be expended in 2016) is quite atypical and should not recur any time soon. The positive side of the refurbishment programme is that customer traffic and store 'comp' performance should increase post store completion, and this should in turn feed directly into Tenon's revenue performance in 2016 and beyond.

Gross margin % improved in all our US distribution activities – both in the pro-dealer and DIY / retail markets. This was a direct result of the outputs of the operational review of our North American activities that we outlined at our ASM we were undertaking in 2015. This review was extensive, covering logistics, support, consolidation opportunities, and procurement, amongst other things. A core objective of the review was to align our activities around the two key customer channels we participate in, and to reinforce our best-in-class service and product delivery processes in each – thereby further strengthening the platforms for profit growth in existing activities and organic growth in future opportunities. The financial benefits of these review initiatives will be reflected in 2016, although some of the larger initiatives (e.g. procurement) will phase in progressively as the new fiscal year proceeds.

EBITDA[2] rose 18% y-o-y to $13 million. As noted in the Highlights section of this Report, this result included –

- $3 million in an extensive upgrade programme to circa 500 US retail stores (with some 200 remaining)
- The negative impact of the US West coast port strike
- Earnings foregone from severe US winter storms
- Costs associated with the now completed US distribution business restructuring
- An average effective NZ$:US$ exchange rate of 79 cents

The decline in the NZ$:US$ cross rate towards more normal levels (currently around 65 cents) has been long awaited, and Tenon will be a direct beneficiary of this in 2016 (refer Looking Ahead, below). However, due to the run-off of FX hedging cover previously taken, this decline had limited impact on our results in 2015, as the effective exchange rate for us in the period was 79 cents – very much in line with 80 cents reported in 2014.

During the year we expanded our product range in both markets, as **new customers were acquired and new business won**. Examples of this were the introduction of a new pre-finished mouldings range, a broader integrated stairparts programme, and a new door shop programme. Most of this new business occurred towards year end, and will be reflected in fiscal '16.

The two clearwood optimisation projects at Taupo (NZ) are proceeding to plan. These two exciting projects, which have a combined cost of $7 million and a payback of circa 18 months upon full commissioning, are critical to Taupo expanding its supply of high-value clearwood products – particularly clear pine boards, where market demand today significantly exceeds our ability to supply. The first project is currently in its commissioning phase and will be fully operational by the end of next month. The second project will be commissioned in Q1 of CY'16. The equipment being installed is proven industry technology, and no start-up issues are envisaged. The full benefits of these capital upgrades will not be realised until the second project is completed early next calendar year.

In April, **we expanded the size and improved the terms of our syndicated bank facility,** in order to allow for the Taupo capex upgrades, to meet our working capital demands as cyclical recovery continues, and also to provide us greater flexibility as to future shareholder distributions. The facility was increased in size to $75 million, the end-date extended out to 2020, and more favourable borrowing rates obtained.

Our debt (net of cash) at year end was $58 million, up $8 million in the year. This increase was primarily a result of expenditure on the Taupo capex projects outlined above ($4.5 million), and cyclical working capital expansion. Working capital expanded further than normal in the last quarter in order to meet the initial inventory stocking levels required for new programmes and organic growth, however these initial levels are expected to quickly reduce in the new fiscal year as normalised inventory turns are met on this business. In the absence of any acquisitive growth moves, the expectation is that net debt at end of fiscal'16 will be lower, particularly as our positive cash flow and earnings expand. Beyond the two major Taupo projects discussed above, our manufacturing assets are in excellent shape and require little in the way of ongoing expenditure. Indeed, our annual capex requirements are limited primarily to IT expenditure to support our logistics and customer delivery platforms.

Shareholder Value Initiatives

Tenon employees have a strong shareholder value focus. In that respect, it was pleasing for employees and shareholders alike to see **Tenon's share price move up strongly**, increasing 32%[6]. This increase far exceeded the performance of the NZX50 index, which was up only 10%, and the ASX50 and Dow Jones indices, which declined -3% and -2% respectively over the same period. Although this relative share price performance is positive, we are obviously disappointed that in absolute terms the price is still well below external views of value. In this respect Edison Research issued a report on Tenon in March that, based on comparable equity market earnings multiples and the NZ$:US$ cross rate at the time, valued Tenon at NZ$3.75 – NZ$4.99 per share. The Board is very keen to quickly close this gap and has today announced two value initiatives aimed at increasing shareholder value.

Strategic Review - The Board has determined a Strategic Review will be immediately undertaken. The underlying goal of the Review is to come up with the risk-adjusted path most likely to close the share price value gap and thereby achieve better value recognition for all shareholders. Deutsche Craigs and Deutsche Bank have been appointed as Tenon's exclusive advisors for the purpose of this Review.

Introduction of dividend payments - We had previously announced our intention to begin making regular dividend payments to shareholders in fiscal '16. The Board has now determined that the Company will immediately follow through on that intention, by declaring a final dividend payment in respect of Tenon's fiscal '15 year just completed. The dividend is NZ5.0 cps[10], and payment will be made on 6 November to shareholders on the Tenon share register as at 5pm on 30 October.

The Board has also determined that moving forward, the intention[3] is to make two dividend payments per year (subject to Tenon's financial performance, capital needs, and the outcome of the Strategic Review) following the completion and announcement of each of the Company's interim and annual results. The Board has not decided what the dividend rate will be for fiscal '16, and that will be determined after the completion of the Strategic Review (see below). As is always the case with dividend payments, they will ultimately be dependent upon financial performance, competing needs for the Company's capital, and broader macro market conditions and considerations. Having said that, your Board and management believe that **the share price growth that should come from Tenon's future earnings profile (i.e. a recovering US housing market, falling NZ$:US$, organic growth initiatives, and the benefits from completion of the Taupo capex projects) together with the implementation of regular dividend payments, makes a compelling investor proposition.**

Our last Annual Shareholders' Meeting was held in Wellington (NZ) on the 4th December 2014. Over 84% of the Company's issued shares were voted at the meeting, and all resolutions were passed – each with a majority in excess of 99%. These excellent voting statistics reflect not only the Company's consolidated share register, but also the confidence shareholders have in Tenon's future. We believe the announcements made today reflect that alignment of interests.

Looking Ahead

Whilst lower global activity and the potential for interest rate rises in the US remain as broader macro risks, we do still see continued recovery in the US housing market in 2016 as the most likely outcome. This view is supported by the majority of industry and economic commentators[7]. This, combined with a series of positive earnings factors in the new fiscal year – e.g. a much more favourable FX environment closer to accepted long-run NZ$:US$ equilibrium, the benefit of the North American restructuring put in place this past year, completion of the Taupo manufacturing optimisation upgrades, gains made from new business won in 2015, non-repetition of the one-off events that occurred this past year (e.g. West Coast port strike), and the major store refurbishment costs largely behind us - should see a much stronger earnings result for Tenon in 2016**. In this respect, we are internally targeting EBITDA[2,3] in excess of $20 million for fiscal '16** (excluding FX gains / losses)**.** This target reflects Tenon's sensitivity to small improvements in macro conditions, as it lifts volume and revenue off an established distribution infrastructure cost base.

At the same time, we repeat **our mid-cycle[4,8] EBITDA[2] projection of** circa **$50 million,** reflecting a mid-cycle NZ$:US$ exchange rate assumption of 65 cents.

We strongly believe this earnings growth profile should convert into **continued share price out-performance in 2016.** Share price performance will be supported by the **commencement of dividends** which has been announced today, and also by the outcome of the **Strategic Review** process (also announced today) later in the fiscal year.

2016 will be an extremely busy year for the Company, and we look forward to delivering strong value gains to shareholders. On behalf of Board and management I would like to thank all our stakeholders for their continued support. As always, it is very much appreciated.

Sincerely,

Luke Moriarty
Chairman

28 August, 2015

Footnotes -

[1] Revenue includes the sale of logs at the NZ (Taupo) manufacturing site under back-to-back forest stumpage arrangements. As planned, these arrangements terminated during the 2015 year. Whilst additive to revenue, these log sales were carried out at zero margin and did not contribute to Net Earnings. The log sales number included in revenue in 2015 was $6 million (2014, $11 million).

[2] EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisations) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance, because that number removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures. Refer also to Note 1 of our 30 June 2015 Condensed Financial Statements. Tenon's EBITDA is calculated as Net Profit after Taxation of $6 million (2014 $2 million), plus Tax Expense of $nil (2014 $1 million), plus Financing Costs of $4 million (2014 $4 million), plus depreciation and amortisations of $3 million (2014 $4 million).

[3] Eventual earnings, cash flow, net debt and dividend payment outcomes will be dependent upon continued US housing market recovery, interest rates, NZ$:US$ cross rate, and the Strategic Review (amongst other drivers, many of which are beyond Tenon's control).

[4] Tenon defines mid-cycle as 1.6 million housing starts, NZ$:US$0.6500, projected FY'16 gross margin % held flat, benefit of current Taupo optimisation capex, and limited organic growth (i.e. product programme expansion and pro-dealer territorial expansion).

[5] Availability is the difference between the amount drawn and the borrowing limit under the Facility (as adjusted by available collateral).

[6] For the period from 1 July '14 through to the time of writing this report.

[7] 2016 projection represents an average derived from information and reports publicly released by Fannie Mae, Freddie Mac, Mortgage Bankers Association, National Association for Business Economics, National Association of Home Builders, Forest Economic Advisors, Survey of Professional Forecasters, Goldman Sachs, and Deutsche Bank.

[8] Mid-cycle housing starts represents an average derived from information and reports publicly released by Forest Economic Advisors, Forisk Consulting, Joint Center for Housing Studies of Harvard University, Goldman Sachs, Deutsche Bank, and from Tenon's own internal research.

[9] Tenon's fiscal year is 30 June, so FY'16 refers to the 12 months ending 30 June 2016.

[10] Imputation credits will not be attached to the dividend, due to Tenon's current non-tax paying position in New Zealand.