Tenon
Wood Solutions to the World

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)

ANNUAL RESULTS TO 30 JUNE 2006

TENON REPORTS SUBSTANTIAL INCREASE IN SECOND HALF EARNINGS

Note: All dollar amounts are United States dollars.

AUCKLAND, 22 August 2006 – Tenon today reported (under New Zealand International Financial Reporting Standards – "NZ IFRS") an operating profit before interest, tax, depreciation and amortisations ("EBITDA") of $20 million for the 12 months ended 30 June 2006. The result was prior to the one-off impairment charge of $0.7 million recorded in the first half of the year, relating to the Company's complete exit from its European furniture development business.

Largely as a result of profit improvement initiatives undertaken to lift earnings performance (and some non-recurring first half costs) and the positive contribution from the inclusion of Southwest Mouldings' ("SWM") earnings from November 2005, Tenon completed the 2006 financial year with a significant increase in its second half EBITDA, recording earnings of $14 million for the six months to June 2006 - up 133% on the Company's first half reported EBITDA of $6 million.

Revenue from operations for the 12-month period was $370 million, up from $276 million in the prior year (a 34% increase), demonstrating the impact of Tenon's more focused presence in North America.

Commenting on the result, Tenon's Chief Executive, Mr Mark Eglinton, said "The end of year results reflect an excellent turn around in the business, with second half EBITDA much stronger than that achieved in the first half, and materially in line with earnings guidance we had previously given to the market. That this second half result was achieved in the environment of a stubbornly strong New Zealand dollar is also very positive. Overall this is a very pleasing earnings outcome for us given the conditions the business faced throughout the year."

In summary, highlights for the year include:

- Full year EBITDA of $20 million, compared with $6 million for the first half, a 133% increase in the second six months over the first six months

- A return to profitability in the second six months for our NZ-based operations
- A 34% increase in operating revenue for the business from $276 million in the prior year to $370 million;
- The US$17 million acquisition of 51% of SWM – a Texas-based mouldings, stair parts and millwork manufacturer and pro-dealer distribution business;
- Further investment in our USA distribution network through the purchase of the remaining one-third equity in Empire for $29 million;
- The introduction of the Company's Armourwood™ and Lifespan innovative primed and treated outdoor finishing products for the US housing market, which are now gaining sound market acceptance;
- The implementation of cost and service initiatives at 50% owned American Wood Mouldings ("AWM"), to improve its disappointing first six months result. These have included the implementation of $2.5 million of cost reductions and the re-engineering of its Mexico activities;
- Energy cost savings due to the commissioning (on 3 May 2006) of the geothermal energy project at the Taupo site;
- The completion of the move of our executive office to Maryland USA, and the reduction in our corporate cost base appropriate to the location, size and complexity of the ongoing business;
- The exit from our European furniture market development with Zenia House in Denmark. An impairment charge of US$0.7 million was made in the first half to provide for all exit costs; and
- Commencement of a share buy back programme for up to 5% of the company's shares.

Operating Performance

Total operating revenue was $370 million, up 34% on the prior year with the inclusion of SWM revenue ($39 million for the eight months following acquisition) and stronger revenue at Empire. Empire revenue increased 27% for the 12 months to June.

The pricing environment in 2006 was relatively stable for both lumber and moulding products manufactured in Taupo, demonstrating that the global supply chains selling to the high value US market were reasonably well balanced.

The Company's performance over the first six months to 31 December 2005 was negatively affected by a continuation of the very high NZ dollar exchange rate against the US dollar (averaging almost NZD70 cents over the first six months, and down to NZD64.5 cents in the second half) which impacted our Taupo manufacturing operations, and by the very difficult trading conditions encountered by our 50% owned joint venture AWM.

Operating revenue for the second half of the year to 30 June 2006 of $203 million was up $36 million (21%) on the preceding six months to December 2005. The increase in revenue was due to the ongoing growth of our US distribution businesses, the inclusion of SWM from November 2005 and the launch of our range of outdoor treated products in the U.S.

Cash applied to working capital of $26 million included an increase in inventory of $14 million across the group excluding working capital acquired through SWM. This higher level of inventory was necessary to support revenue growth at Empire (including Empire's expansion into new US regional markets) and the initial rollout of the new Armourwood/Lifespan product range in the US. We expect total inventory and related working capital levels to reduce in 2007, as both these issues normalise over the year.

The Company invested $51 million during the period, primarily for the purchase of the remaining 33% equity interest in Empire ($29 million), the purchase of 51% of the equity and refinancing of Southwest Mouldings ($17 million) and various capital projects ($5 million).

Financial Position and Cash Flows

Net cash flow from operations for the year (prior to working capital movements) was $12 million.

The Company's borrowings over the 12 months increased from $8 million to $55 million at 30 June 2006 (excluding AWM which is not consolidated on the Company's Balance Sheet) in order to fund the Company's growth strategy - including the significant acquisitions of Empire (the remaining one third interest was purchased for $29 million) and Southwest Moulding (51% purchased for $17 million) - together with funding the increase in working capital of $14 million in support of the group's organic growth initiatives.

We are currently progressing discussions with our bankers in relation to renewed financing facilities to meet funding requirements for both our existing activities and our growth plans.

The modest level of reinvestment in the New Zealand-based processing operations, principally in the geothermal energy project, is representative of the continued difficult New Zealand operating environment, notwithstanding some relief from the high USD that has been experienced. The foreign exchange benefit noted above arising from the slightly weaker second half New Zealand dollar largely did not flow through to our second six months performance – instead, it will arise in the FY07 year as current inventory is sold into the market.

Capital management

Despite the sound strategic moves the company made in the period to establish a strong platform for Tenon in the future, the share price has reflected the short-term negatives the Company has faced – particularly the on-going strength of the NZ dollar and the difficult trading conditions at AWM.

While it is the Company's view that these issues are of short-term impact only, it is clear that, together with a lack of liquidity in the stock, they have placed a degree of price pressure on Tenon's shares in the market. As the Board believed the share price to be below Tenon's true value, and that the use of the Company's funding capacity to acquire Tenon shares would be significantly value-creating for shareholders, in April this year the Company implemented an on-market share buy-back of up to 5% of its issued shares. Information outlining the buy-back was included in the printed Interim Report sent to shareholders earlier this year. As at 17 August 2006, 2.8 million shares had been purchased by the company under the buyback programme at an average cost of NZ$3.71, representing 4.1% of the company's shares prior to commencement of the buy-back programme. As a consequence of the buy-back, our major shareholder, Rubicon, has increased its percentage holding in the company to 57.4%.

While our average per share buy-back cost has been approximately 10% above the current Tenon share price, and we would naturally have liked to have acquired the shares more cheaply, the Board remains of the view that the Company's future performance will show the average buy-back acquisition cost to be good value for Tenon shareholders.

Due to its strong Balance Sheet and improved earnings profile, the Company is comfortable that it will have sufficient financing capability to complete the share buy-back and undertake further acquisitions which are consistent with its growth agenda.

Strategic Priorities

The Company's well-established strategy will see us continue to expend cash resources to grow and strengthen our market position, by:

- Increasing the innovative product offerings we provide to our existing National Home Centre customers in North America, and maintaining our best-in-class service levels;
- Expanding our distribution activities beyond existing customers and into the high volume independent lumber yard and national pro-dealer segments, including by way of acquisition where appropriate; and
- Ensuring we have a low-cost manufacturing and sourcing network, able to provide high quality products at internationally competitive prices.

In order to meet the Company's current and forecast cash needs for the effective implementation of these strategic priorities, a dividend payment to shareholders cannot be made at this time, or indeed in the immediate future. However, the Board reiterates its intention to revisit dividend policy once the growth phase of the Company's life is largely complete.

Market Outlook

Commenting on current market trends and the immediate outlook, CEO Mark Eglinton said, "In summary, overall market activity levels in the US remain neutral. Higher interest rates are softening the new home market, but to date this is being largely offset by solid underlying growth in the renovation market. In addition, some of the higher level of expenditure needed to repair hurricane damage from the 2005 hurricane season will carry forward into 2007 and later years, given the enormous amount of reconstruction required. Therefore, we continue to see a good balance of supply and demand in the overall moulding and millwork markets and this is creating a reasonably stable pricing environment for our products. Tenon is well positioned in this environment with a far greater exposure to the growing renovation market than the new home construction market. Some channels to market continue to grow at stronger rates than others and again Tenon is well positioned to enjoy that organic growth.

"Although we were pleased with the much stronger second half performance we achieved in 2006, overall we would still only characterise the second half result as 'solid.' We believe there are a number of further opportunities for improvement both within our New Zealand manufacturing operations and US specialty distribution activities, which will provide future earnings performance much closer to our targeted level.

"Assuming stable market conditions, we see the positive earnings performance we achieved in the second half of the 2006 year carrying forward into our 2007 financial year, with our earnings being seasonally weighted to the second half of the year," he said.

ENDS

Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)
for year ended 30 June

		Tenon Group	
	June 2006	June 2006	June 2005
	NZ$m [1]	US$m	US$m
Revenue	613	370	276
Cost of Sales	-461	-278	-210
Gross Profit	152	92	66
Dividend Income	3	2	5
Share of Profit of Associates			4
Distribution Expense	-113	-68	-48
Administration Expense	-18	-11	-10
Impairment Charge - Zenia House Exit Costs	-1	-1	
Operating Profit before Financing Costs	23	14	17
Financial Income			6
Financial Costs	-5	-3	-4
Net Financing (Expense) / Revenue	-5	-3	2
Profit before Taxation	18	11	19
Income Tax Expense	-5	-3	-6
Profit after Taxation	13	8	13
Net Profit from Continuing Operations	13	8	13
Net Profit from Discontinued Operations			28
Net Profit after Taxation	13	8	41

Earnings Per Share Information

Basic Net Earnings per Share (cents) - Continuing Operations	12.0	18.8
Diluted Net Earnings per Share (cents) - Continuing Operations	11.8	18.8
Basic and Diluted Net Earnings per Share (cents) - Discontinued Operations	n/a	39.7
Basic and Diluted Weighted Average Number of Shares Outstanding (millions)	69.3	69.7

(1) New Zealand dollars shown are supplemental information presented solely for convenience and are converted from United States dollars, as a matter of arithmetical computation only, at the closing rate on 30 June 2006 of NZ 1.00 : US 0.6029.

Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)
as at 30 June

		Tenon Group	
	June 2006	June 2006	June 2005
	NZ$m [1]	US$m	US$m
ASSETS			
Current Assets:			
Cash and Liquid Deposits	5	3	36
Inventory	113	68	42
Trade and Other Receivables	66	40	35
Current Assets - Discontinued Operations	2	1	5
Total Current Assets	186	112	118
Non Current Assets:			
Fixed Assets	53	32	28
Investments	33	20	20
Goodwill	90	54	32
Deferred Taxation Asset	10	6	5
Total Non Current Assets:	186	112	85
Total Group Assets	372	224	203
LIABILITIES AND GROUP EQUITY			
Liabilities			
Current Liabilities:			
Trade and Other Payables	38	23	31
Provision for Current Taxation	2	1	3
Current Debt	32	19	
Current Liabilities - Discontinued Operations	3	2	9
Total Current Liabilities	75	45	43
Non Current Liabilities:			
Non Current Debt	59	36	8
Provisions	2	1	1
Deferred Settlement	33	20	30
Total Non Current Liabilities:	94	57	39
Total Group Liabilities	169	102	82
Group Equity			
Capital	886	534	540
Reserves	-683	-412	-419
Total Group Equity	203	122	121
Total Group Liabilities and Equity	372	224	203

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Tenon
CONDENSED FINANCIAL STATEMENTS
(Extracted from Audited Financial Statements)
for year ended 30 June

	Tenon Group		
	June 2006 NZ$m (1)	June 2006 US$m	June 2005 US$m
Cash was Provided:			
From Operating Activities			
Receipts from Customers	609	367	272
Dividends Received	3	2	5
Total Provided	612	369	277
Payments to Suppliers, Employees and Other	624	376	264
Income Tax Paid	12	7	5
Total Applied	636	383	269
Net Cash (to) / from Continuing Operating Activities	-24	-14	8
From Investing Activities			
Repayment of loan by Associate			6
Total Provided			6
Purchase of Fixed Assets	8	5	3
Purchase of Investments			1
Purchase of Subsidiary	28	17	3
Purchase of Minority Interest	48	29	
Total Applied	84	51	7
Net Cash to Investing Activities	-84	-51	-1
From Financing Activities			
Debt Drawdowns	70	42	91
Interest Received			6
Total Provided	70	42	97
Debt Settlements			105
Interest Paid	2	1	2
Share Buy Back	10	6	
Capital Return Paid to Shareholders			229
Total Applied	12	7	336
Net Cash from / (to) Financing Activities	58	35	-239
Net Cash (to) / from Discontinued Operations	-3	-2	164
Net Movement in Cash Held	-53	-32	-68
Add Opening Cash and Liquid Deposits	60	36	89
Movement in Presentation Currency			14
Effect of Exchange Rate Changes on Net Cash	-2	-1	1
Closing Cash and Liquid Deposits - Continuing Operations	5	3	36

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