Question and Answer

Operator

Emily?

Emily Behncke

I just have a couple of questions, firstly on insulation, just wondering if you think that obviously, following the drive down that you think from FY '12, you should start to deliver more normal growth there. And on, secondly, Jonathan, on the Christchurch rebuild starting in the second half, but at slow pace, are you, therefore, expecting FY '13 to probably be the year where it really starts to impact significantly? And just finally in terms of the Distribution business, would you -- those earnings -- will you place with those earnings? Or would you expect an improvement in 12?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Well first, perhaps, so I start off with insulation. And I think FY '12 is still going to be a difficult year for insulation. We still have the massive oversupply of stock. And even though we've written it off in the shareholders' interest, we still got to maximize the value add of it. I actually think the reality is that it will take some time for insulation to recover. And as you'd expect in the impairment reviews that we have to do, that's done over a 5-year period with a discounted cash flow analysis. And the reason the impairments are there, the medium-term outlook for that industry is actually quite poor. In terms of Christchurch, for -- I think the rebuild is starting to happen. I think what we're starting to see now is momentum's started to gain. I know you all had a tour down there when it was a few weeks ago. But interestingly, the commentary I'm hearing is that the seismic activity is starting to stabilize and slow down. That will help the trades people, and the resources now are in place to really start to affect the rebuild. And there are a few insurance issues that still need to be sorted out. But I'm comfortable, confident that the industry and the governor came to do that and that will progress quite well. So, yes, I think there's every possibility that the Christchurch rebuild will be in full swing by 2013. I suppose the other comment I should make is that you saw down in the CBD, quite a lot of demolition work is still got to be done. And you'd like to see that most of that will be done in this FY '12 year. And again, I'll be confident that it'd be in full swing in 2013. In terms of the PlaceMakers' result, I thought that was a very, very good result. When we saw the overall reduction in volumes in the marketplace, that the revenues were only down by 3%. I think it implies they have gained market share. And I think that's a very good thing. And I think the other side to PlaceMakers in a falling volume market to both maintain margin and cost reductions to match inflation and improve earnings was a very strong result. I think their marketplace is pretty tough in the first half. And their obviously -- their volumes are very dependent on new house activity. And that would require a lift in second half to -- that requires a lift in the second half to sort of improve earnings in the FY '12 year. Bill, do you want to add another comment?

Willem Jan Roest
Former Chief Financial Officer

No.

Operator

Our next question comes from Hugh Dive of Citigroup.

Hugh Dive
Citigroup Inc, Research Division

Just looking at the Formica result, a pretty good result in a very tough environment in the U.S. and also U.K. markets in Spain and the U.K. You said you're more than halfway towards your $100 million EBITDA target. Are you still on track for -- to do that in 2013? And secondly, looking at the infrastructure, I know that Wiri prison is going ahead and that the Waterview bypass is being announced tomorrow. Given the message and the scale of the Christchurch rebuild, are you seeing any sort of other smaller project out of the national infrastructure plan?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Just on the first question in terms of Formica, it is very much on track in its recovery program. We're very comfortable, as is Mark Adamson, that he will deliver his $100 million of EBIT in 2013. So there's no reason to think at this stage that he won't do that. I think as we've said all the way along, he does need a little bit of market improvement to achieve that. And we're still confident that, that will happen in the duration of those couple of years. In particular, we have been very, very pleased with the Asian business in Formica. Since acquisition, it has performed very well. It's starting to accelerate its earnings now. And as I've mentioned, I think at the half year, we're also turning our mind to start to invest in capacity in organic growth in Asia. In terms of the infrastructure division and Fletcher Construction, in particular, yes, we will know the Waterview project in -- on Friday this week. So we're forever hopeful. It is a very large project. It will be that $1.2 billion in the contract that we had bid, remembering that the project is divided into 2 contracts, one for $1.2 billion that includes the tunnel; and the other for about $600 million, which is the associated roadways that go with it. And it will be the single largest contract ever leased in New Zealand. So -- and I suppose even if we were not to win the actual construction contract, from the point of view of the Concrete and Steel and the like, we won't see much impact to -- until the very end of 2012, but it certainly bodes well for 2013. In terms of some of the other little projects, there's quite a number that we had picked up in hospitals, roading and the like, and universities, which has been good. But as -- with all those sorts of things, you get sort of the ebbs and flows. And we had periods where a few go ahead and that's terrific, and we have a few that are delayed. But we don't see any material change in that infrastructure market in the short term or certainly, the duration of FY '12.

Operator

And the next question comes from Rob Mercer of Forsyth Barr.

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

Jonathan, just in terms of the Crane Group, just looking at New Zealand from your restructuring and [indiscernible], but now that your portfolio got quarries, mass trades, micro -- sorry, PlaceMaker now, have you made any decisions as to what gains you could make in consolidating some of those brands, to sort of overlap with mass trades and PlaceMakers? [indiscernible] sharing this in the [indiscernible] business.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Okay. For Crane, as we said at acquisition, we have elected to leave it as the Crane division for the first year, and our intention is still to do that. And once we really understand the businesses in 12 months' time is to really sit down and work out what is the best organization structure. Having said that, just going back to Crane, you will recall that we said that the corporate restructuring was the first priority, and that is pretty much complete. second priority was to focus on our flex pipes and make sure that we made the most out of the opportunities in those special projects that are starting to emerge, particularly on Australia. And that is going exceptionally well and well on track. Interestingly, there are a number of other contracts that are coming up in that space. And we would be hopeful of winning some of those and also investing in the next 6 or 12 months. When it comes to the CDNZ or distribution business, obviously, we are looking very intently on how it needs to be restructured and repositioned so that, in particular, we get the operating efficiencies well and truly up. The profit in that part of the business has been disappointing over the last few years. And we are very confident that we will be taking the necessary steps over the coming months in terms of getting it there -- cost-to-income ratio back in line with the current marketplace. And the other thing that I'd probably add is that trade link [ph] has had a very good start for us in the first few months. Obviously, they are starting to look at some headwinds in Australian marketplace. But overall, we have been very pleased where they are. Did that answer the question, Hugh -- sorry, Rob?

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

Yes. It does.

Operator

The question comes from Kar Yue Yeo of First New Zealand Capital.

Kar Yue Yeo
Jarden Limited, Research Division

I apologize if this question has been asked because the call got dropped earlier on. In relation to second half EBIT on an x Crane and excluding the sudden [ph] leaseback gain of $16 million, by my calculation, those numbers came to about $266 million. That contrasts to, I think, about $285 million in the first half. Has the second half numbers or financial performance, I guess, in the full course of the downturn that we've seen in both New Zealand, Australia housing? Or is that yet to be sort of fully reflected in the second half numbers? And second question is in relation to working capital requirement, for Bill, whether the increase of roughly about $150 million in working capital will be sufficient, I guess, to meet any recovery to come through in the next 12 to 24 months? Or should we expect to see further increases in that department?

Willem Jan Roest
Former Chief Financial Officer

Okay. I think just on the 2011, I should have just point out, as I did in the presentation, that also included in the second half is the bidding cost, which was expense of $7 million. And so also included is the full impact of the Christchurch, which is a donation, the insurance excess and the downturn. And I think in our release in March, we estimated that at around $14 million to $24 million after tax, which I'm thinking today, I would say, it was probably, obviously, about $20 million. So I think you just need to adjust for that when you do the comparison on first half, second half. And the other result probably reflects the current level of activity for New Zealand. And it hasn't really got the full impact of the Australian decline in residential into it yet.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

And just going back on to our working capital, we sort of shifted our focus a little bit. We'll recover most to that $150 million, $140 million, $150 million in working capital in the course of the 12 months.

Operator

[Operator Instructions] I would like to advise there are no further telephone questions at this time.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

So perhaps if we then revert to the floor with any questions on the floor?

Unknown Analyst

I just wanted to clarify with regards to the $20 million that you've mentioned additional costs around the Canterbury quake. I think as you said they'll add to the $19 million that you mentioned earlier in the year. The way that I read it, well, I just want to ask the question...

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

No, that isn't. That isn't the same numbers.

Unknown Analyst

So that compares to the $14 million?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

$24 million.

Unknown Analyst

$24 million, okay. And the second question was around Australia, the Building the Education Revolution, I think it's called. I think you mentioned had kind of extended into this half. Is it now kind of fully complete? And also on the Queensland floods, are you sort of seeing any early signs there in Laminex of a pickup in activity?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Do you want to get this?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I guess going on to the education program, in its full impact in Laminex, 3 years ago, it was about $19 million from a revenue point of view. For the prior year, it dropped to about $10 million or $11 million. And essentially in this year, it's dropped to about $1 million. So it has sort of essentially, padded [ph] out. What was the other question?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

It's Queensland floods. It's very hard to tell actually because the Southeast Queensland market is very, very depressed from a building and construction situation at the moment. So to the extent it's related to the market -- to the extent that it's related to the Queensland floods is very hard to tell. Even Laminex's sales in Queensland, which should expect in terms of kitchens and laundries, would have seen a bit of a pickup. I think we are seeing quite a lot of repair activity. But at best, all it's done is offset the declines in the marketplace. And particularly, if you go around the gulf coast and some of those areas, they are I guess, both overbuilt and the demand is lower than it's been for decades. So those -- question was it?

Unknown Analyst

Two questions, Jonathan. I'm a bit confused by all of these adjustments that you're making to your actual reported earnings. For example, the $16 million one-off gain on the property for the building sector. But my question is what are staff bonuses and incentives based on? What are the figures that you're basing the bonuses and incentives that you pay your management?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

That's yet to be determined by the remuneration committee, first, I must say. That usually reported earnings is the basis on which the policy is set. And so this year, it is a little confusing, so I accept that. Things like the sale of property is usually included in our trading earnings as we have done in prior years. But this year, even things like the mark-to-markets and earnings on the prepaid stake that we had in Crane, that's excluded. We put into unusuals this year, so there's some pluses.

Unknown Analyst

But how about the write-off in the insulation business in Australia, will it be net or gross of that of that? Any incentives that you give?

Jonathan Peter Ling

Former Director and Executive Director of Fletcher Building Finance Limited

Generally speaking, the incentive programs are excluding all of the payments.

Unknown Analyst

Okay, my second question relates to Christchurch. A lot of the messages we're getting from Christchurch is going to be a lot slower due to insurance problems and through resource consent and planning commission consent. You indicated that because you said if I could get you right a possibility that it would be in full swing by 2013. That seemed to be pushing it out quite a bit, because you only talked about a possibility by 2013, which is really 2 years away.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I think there are -- well, first of all, I think, for the progress that we're making at the moment is very much in the Green Zone. For those on the line, the areas down in Christchurch have been classified into Red Zone, won't be built on again. Green Zone, it's okay. White Zone, still not sure yet and Orange Zone, still to be decided, that's sort of with caution. And as time goes on, those classifications will become clearer and -- but the work in the Green Zone is where the work's happening at the moment. There's no doubt that there are very complex insurance, I suppose, negotiations and things to be sorted out down in Christchurch. I'd like to think that, that would be sorted out between the 12-month period. And I think when that happens, that will release a whole lot of work. There's no doubt the other big issue is the settling down of the seismic activity in Christchurch. And we're talking last night at one of the -- had a function with some of the Christchurch people. And I was saying pleasingly, as looking like it is starting to settle down. But once it does, 2 things will happen. First, one issue that AA [ph] is the environment for stability to actually start rebuilding. But the second thing is for a lot of the new insurance. And most rebuild projects need new insurance. At the moment, a lot of insurers are saying, "Until the GNS, the geotechnical something service, has a probability of less than, I think, it was about, don't quote me on this, 20% for in another major earthquake in the next 12 months, the new insurers won't ensure new jobs. And so getting that cleared is also very important. So a lot of these, I would argue, are administrative error -- not error, administrative delays. But once we actually get those cleared, the rebuild will start very quickly.

Unknown Analyst

Okay. And when you -- 2013 was that year or was it calendar year?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

We're not talking about 2013. I'm sort of talking the 2013 financial year as well.

Unknown Analyst

Which starts in July.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Which is starting about halfway through next year. And again, I'm not an expert of an exact crystal ball and all the sort of stuff. So a lot those sort of that stuff is out of our control.

Unknown Analyst

I was just wondering if you could put a little bit of color on a couple of previous questions. One of them was on Australia. And you are able to give us sort of sense on what you've seen in the last few months in terms of slowdown, whether it's quarter-over-quarter or year-over-year? And the other one was just around the Crane Group facilities. Can you give us a sense of what that is on a run rate basis?

Jonathan Peter Ling

Former Director and Executive Director of Fletcher Building Finance Limited

Yes. Just starting off with an outlook in Australia, you will see the data is certainly the new house consents had fallen dramatically over the last few months. Like New Zealand, it's more a confidence issue than I think anything else. And I think with the announcements that are coming out of Europe and North America, in particular, that has the consumers just nervous at the moment. I think things could actually turn around quite quickly because there's not a structural impediment to that, I think. But nonetheless, there need to be return of confidence. Having said that, you sort of saw on the data earlier infrastructure in Australia, that's continuing along quite nicely. Certainly the CapEx spend for mining resources is very strong. I think the industrial side of CapEx, companies like us, is progressing quite nicely. But like, again, in New Zealand, the property development markets, second-tier finance, that's looking very tough at the moment, while there are concerns around financing in the second-tier market. So overall, I think there's probably more downward pressure in Australia than there is here at the moment. But who knows which way it'll go. And I think the big issue for us is being prepared for whatever the world throws in front of us at the moment. And for those of you who have been following us for a while, we very -- have always very much had the philosophy of planning for the worst and hope for something better. But I don't think -- it's been a long time since we've said at this time of the year, with the uncertainties that we have in front of us looking forward. And if I remind you, that particularly in New Zealand, we have dropped to levels of residential housing that is below the 2009 GFC. Just going to the second question in terms of the Crane head office, we said that initially, we expected to get annualized savings of around $15 million. And we have achieved those. also said that we thought there was probably going to be another few million in procurement. But that would probably take a year or 2 to deliver, as certain contracts and things went out of Crane, and we're on track to do that.

Unknown Analyst

Jonathan, can you give me -- give us some idea of what sort of uplift in volumes do you expect from the leaky home repair work over the next few years?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

It's very hard to tell at this stage, because it is quite a complex scheme. Just to remind those on the line, the government legislation has been passed. The scheme has been introduced. Essentially, the national government provides 25% subsidy for leaky home repair. The council, if it is liable, will provide another 25%, and the homeowner needs to finance the other 50%. And the government has come to an arrangement with the banks that they'll provide a partial guarantee on that loan for the repairs. At this stage, it's very hard to tell how many houses will take up that scheme. It's very early days. It was only announced a week or so ago, but certainly, not very long ago. Just to remind people that the PwC, PriceWaterhouse report that the government had commissioned a few years ago, estimated the total cost of the repairs at about $11 billion. So it is a very large amount. But the extent to which homeowners will take up the subsidy, and I guess in some cases, take extra borrowings to repair their homes at this stage is pretty unclear. I think it's fair enough to assume that all those houses will be repaired in time, because you end up with safety and structural issues. And in terms of being able to resell their house, et cetera, et cetera, et cetera, it's impossible to do it without repairing it. So the repairs will happen quickly, but will take up in the first year or so. I'm sorry, I can't really. I don't know.

Unknown Analyst

In terms of the Laminex division in Australia and New Zealand, do you expect sort of an uplift in volumes this year, given the state of the housing market? And also what do you expect in terms of cost pressures there in terms of risen costs and stuff of that.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I'll go the back way. In terms of cost pressures, at the moment, it looks like a fairly stable environment. Remember, we are very good at integrated [ph]. Fiber is the main cost, and that is on long-term contracts and that has rise and fall, but that's generally quite stable. The volatile input is resins or resins and energy. We will see some increase in energy, I think, in the period as we've seen in the last year or so. Resins interestingly, coming up -- probably coming up a little bit at the moment. They are very dependent on the oil price. And a few years ago, we are seeing oil price at USD $150 a barrel. I think it's currently around that -- what are we doing in, $90-ish? Somewhere around there. So there's not a lot of pressure there at the moment. So I'm not expecting major inflation in the Laminex business. Having said that, they have done a terrific job over the last few years in getting their cost price down. Over the 2010 and '11 years, they've reduced, they've taken something like $50 million of costs out of their business. And listening to them the other day, they're going to do similar sorts of things in this coming year as well. So what we've learned out of the Formica North America business, and again, I tell that story is where they have reduced their breakeven point by something like 40% in what a high fixed-costs business with declining volumes. And some of the lessons that we've taken out of that, we apply to other parts of the group despite the fact that they are high fixed-costs businesses. So cost reduction remains very much the theme for earnings enhancement going forward, and it won't change.

Willem Jan Roest
Former Chief Financial Officer

Just the question on the volumes. For New Zealand, year-on-year we'd expect probably a slight volume uplift. We'd probably have a view that the residential will start to return in the second half. Australia, year-on-year, we'd expect to decline.

Unknown Analyst

I just have a question with regards to the insurance, and you're talking about obviously, a $300 million of excess. What's happened to the cost of insurance for you? And what's happened to the excess? Can you get insurance on things going forward?

Willem Jan Roest
Former Chief Financial Officer

We just take our general renewed insurance, I think, probably premiums gone up about 25%. But year-on-year, our overall premiums are only up about 10% because we've incorporated the Crane operation into our portfolio. So I think we've done quite a good job on insurance. We've been with excess Lloyds [ph] for last, I think, 5 to 6 years. We've done a lot of impairment work with a guidance on their sides and things and we've got the benefit, I think. And so we thought that was, under circumstances, a pretty modest increase. And we've got no exclusion, I don't think, on any of their properties.

Unknown Analyst

And your excess?

Willem Jan Roest
Former Chief Financial Officer

Excess is still $10 million. And from an events perspective, it's $10 million in the first event, $10 million in the second event and nothing after that. So we have a maximum exposure of $20 million excess.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I'm thinking that, that's quite high. In absolute percentage -- absolute terms, the increase is quite modest.

Willem Jan Roest
Former Chief Financial Officer

It's about $1 million.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

No more questions? Okay. We believe we have a couple more questions on the telephone.

Operator

First question comes from Andrew Scott of RBS.

Andrew Scott

Apologies if these were asked previously. I just missed the first part of the call. Just firstly, Jonathan, you just [indiscernible] sale and leaseback, if you can just -- from a strategic view, was this a one-off or something that would be you've done in past, making this in the future?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

In terms of sale and leaseback, we're always doing those. We run our property portfolio of about $2 billion. About 1/3 of it is owned and about 2/3 of it is leased. Generally speaking, we will own the strategic properties. We tend to lease everything else us because it gives us a bit of return on funds. And the sale and leaseback of the Auckland plasterboard factory was just an alignment of that portfolio, very much focused on improving return on funds. And that is a one-off. Again, within the $2 billion property portfolio, we're always -- what's the words -- making adjustments to it. And I think for the 5 years that I've been here, typically, we'll have between $10 million and $20 million of gains each year on the refinement or the adjusting the portfolio.

Andrew Scott

Next, [indiscernible].

[Technical Difficulty]

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Sorry, Andrew, you're breaking up. Can you repeat the question?

Andrew Geoffrey Scott
JP Morgan Chase & Co, Research Division

Just on the utilization market in Australia, what [indiscernible] we saw couple of years ago?

[Technical Difficulty]

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Andrew, I think you're asking whether we're getting conversations with the government for the cancellation of the schemes. Is that correct? If that was the question, the answer is we have a plan with the Australian government as to CSR with the other incumbent manufacturer there. And that's all in a process of negotiation inquiry, and we won't know the answer for a while.

Operator

Next question comes from Emily Behncke of Deutsche Bank.

Emily Behncke

Just a couple of questions on -- I've noticed that in September 2010, you had a nice increase increment. Just wondering if there is expectation for increments on price increases [indiscernible] that you could share with us. And maybe another question in terms of CapEx guidance for FY '12.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Well I'll take the one on Smith [ph] and Bill can have a bit about on CapEx. We've been pretty good with particularly in [indiscernible] of just small increases year-on-year, and I don't see any reason why that wouldn't continue. We don't have anything announced at this point. But I think we have a demonstrated track record of net contrast so inflation. And this year, I don't expect that, that will change.

Emily Behncke

[indiscernible] for the change $11 a pound is quite a big increase [indiscernible].

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Yes, I think from memory, in September, that was about 4% or $8 a ton.

Willem Jan Roest
Former Chief Financial Officer

Yes, that's right.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

And I expect it to be of similar levels.

Willem Jan Roest
Former Chief Financial Officer

Just on CapEx guidance, Emily, putting aside acquisitions of over, say, $50 million or a new development in, say, a new plant for Formica in China, we'd expect to get a small growth and spend business CapEx. We're trying to get it under depreciation. It's our target at the moment. And we're very much trying to limit expenditure in central items, so that we conserve cash at this point in time.

Emily Behncke

So should we factor in depreciation of roughly $100 million also [indiscernible]?

Willem Jan Roest
Former Chief Financial Officer

I think our depreciation is forecasted for that $250 million or thereabouts, including Crane.

Emily Behncke

And just what you mentioned on the plant in China, when do you expect some sort of decision that on that?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Soon.

Operator

There are no further telephone questions. Thank you.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited
Was that the -- no more questions? Okay, we might conclude the session then. And thank you for your attendance and your continuing support.