Question and Answer

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

We will go with Emily as it's the tradition, Emily, I think, for you get the first one.

Emily Smith
Deutsche Bank AG, Research Division

I just have a couple of questions around the guidance of $610 million to $650 million. I guess what would you need to see to be at the top end of that range? And I think if you look at the first half to second half growth, I think it's about in part around 25% EBIT growth versus the $23 million -- 23% that you achieved in FY '13. And I'm just sort of wondering what sort of restructuring costs are you factoring in for the second half, and what sort of activity levels do you need to see to be at that $650 million?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Sure. I'll probably answer the second part of that first in terms of the run rate. I think it will always be an issue with Fletcher's, given some of our Northern Hemisphere exposure where we do have significant seasonality. I think some of the businesses up there have a 40% first half, 60% second half, just as a matter of course. We probably, in aggregate, have about 45% first half, 55% second half traditionally. But what you do have is improving New Zealand, the improving benefits coming through of FBUnite. So it does look very skew to the second half. And there is no doubt that some of those businesses are being put under strong challenges from our chief executives to deliver stronger second half earnings. But we're fairly confident around reiterating that guidance. In terms of what we would have to see to get to the top end, I think we'd have to see not just improvements in Australia, but an acceleration from the current run rates in New Zealand across all of our business units. We consciously have decided, and we will do this again next financial year, to do a lot of the restructuring in the first half of the financial year and to take the costs of restructuring through the first half. So we have a cleaner second half, and it gives a chance for that restructuring to pay itself back within the fiscal year. We'll probably do the same again and go for another tranche in restructuring the first half of the next fiscal year. However, there will be some restructuring necessary, just opportunities that we can't ignore. If we decide to ignore those, maybe the result will be a little bit higher. But I just don't think that's the right thing to do. I think that if there's opportunities there, we will take them. And that's probably what will more likely suppress that number and challenge the top-half expectation.

Emily Smith
Deutsche Bank AG, Research Division

Sure. And just on FBUnite, you mentioned that your manufacturing savings, you're looking to replicate some of the work that you did in Cincinnati. Could you remind us of the savings you achieved there? And if you could just also say that $100 million, when are you expecting to achieve that by?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, in terms of Cincinnati, I think we all have to remember it. It was by the time we got involved with, particularly broken. None of our plants are broken. We've got good plants. We just don’t have world class plants. So the manufacturing strategy is to take us from good to great. Cincinnati have taken us from pretty poor to great. It's had about a $25 million price tag in terms of the benefit overall from the Cincinnati turnaround. Don't times that by the 200 plants, we've got inflections. So you're not going to get that again. We'll probably saw it in 2s and 3s at some of the major plants. And in aggregate, though, it will be tens of millions of dollars. We genuinely haven't spread-sheeted it yet because it's such a difficult thing to do. We're working on that at the moment. We've actually recruited some finance people into that function to do it. It is likely in the long term, and I'm talking 5 to 6 years, that we'll see the $100 million number exceeded. But until we can actually quantify it and satisfy ourselves within the management team we're not quoting a number. In terms of what we can see, we've talked procurement, we've talked property headcount reductions in shared service. We would expect to be at a run rate in terms of that $100 million sometime in the middle of FY '16.

Emily Smith
Deutsche Bank AG, Research Division

And just finally, your ROW fee for the first half, I think, was 11%. Where do you see this ROW fee number being in the medium term, say, in sort of 3 time when you achieve those FBUnite earning?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

It's about FBUnite, and we haven't talked a lot about it this morning, but it's also about portfolio rationalization. And as part of -- as you've seen in the last half an hour, it is an extremely complex business. We do have a number of business units that are challenged from a ROW fee point of view. So the Pacific Steel divestment was part of that portfolio rationalization, if you like. So I think performance, generically, I think economy and I think FBUnite will drive the ROW fee higher. But I think we also will do some swapping out of our asset base eventually hopefully some acquisitions. And I would see us driving to at least 15% over the next 3, 4 years.

Simon Thackray
Citigroup Inc, Research Division

Simon Thackray from Citi. Just actually a follow-up question from Emily. On the FBUnite, that $100 million run rate, I presume, is in FY '14 in terms of I mean -- what -- how do we think about it in terms of future run rate net of inflation?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, we've always quoted a number that we hope to drop to the bottom line. In reality, that number's probably a little bigger, but we're conscious that there is inflation that we have to wean. There are other programs, and things were wrong in business. And businesses go back with whatever extraneous external reasons. So we try and stick to quoting that number because that's what we believe will eventually drop through to the bottom line. We'll probably hit a run rate now in the 20s [ph], albeit most of that was hidden by the cost of effecting that. And my experience from, and this isn't the turnaround, but I'll use the turnaround term. In my experience from turnarounds in the past is you tend to get a slow start, you tend to get a little disappointed. Eventually, it tends to come in a big wave when year -- late 2, year 3. So as I said to Emily, I think in terms of that overall number of run rate drop through would be more likely to be FY '16.

Simon Thackray
Citigroup Inc, Research Division

Okay. So just -- so I'm clear on this. You made the point that you've taken the costs to the bottom line into the divisional EBIT in the first half, and that will be a feature probably of each the first half where possible. What was the quantum [ph]? I'm trying to understand. I know you've mentioned $20 million was taken to the EBIT line, but you're also saying you got $20 million in benefits. Is that -- or that's the run rate?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Within the fiscal year, there will probably be about $20 million of benefit. So by the time we get to June -- and as I said, it was a deliberate strategy to try and pay for itself within the fiscal year.

Simon Thackray
Citigroup Inc, Research Division

Got you. So the first half is either stated in terms of the cost and has led to the benefit. Second half will have none of the cost, but will have the benefit?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, exactly. In terms of, just to build on your point there, this won't go on forever, but we certainly see a similar magnitude of restructuring and cost in the first half of the next fiscal. The following, fiscal FY '16, that starts to tail off and you start to get the benefits really coming through.

Simon Thackray
Citigroup Inc, Research Division

Okay, that's excellent. In terms of a couple other things. Insulation, you made a point about that’s still weak price was difficult [ph]. Could you just give us a bit color on having the insulation? The competitors have got rid of their inventory and kind of, I don't know, we don't really talk much about insulation anymore. So...

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

No, it's a good point. It is a business unit that has got a lot of our attention at the moment. And you'll remember our branding stand and fight, we decided not to exit the business, and following various write-downs we made about 3 years ago, after the insulation scheme here. And a lot of the standard fight activity that we did around cost and efficiency improvement, all of it worked. I can show you some great bridges with lots of small green bars. And then it has a massive red buckled [ph] price because it brought new entrants into the marketplace, it was ourselves and CSR can now, for now, here [ph] with their supply chain out of North America. And we decided to stand and fight. We've decided to win back share. And we've consciously -- and we rarely do this. We don’t do it in many business units. We took price to the market to try and win some share back, and the belief in the long term that the market would normalize. The demand is still reasonably subdued, Knauf [ph] have not gone away. They are still a very valid competitor in the marketplace. And it would appear that price has reset itself down to a level. That makes us question, if I was perfectly candid, what the future is for insulation for Fletcher Building in this part of the world. And that is part of the portfolio review that we're having.

Simon Thackray
Citigroup Inc, Research Division

That's very helpful. Just one more quick one. On Slide 10, you talked about the sectoral exposure, which was helpful. Just to confirm, in the infrastructure, you've got rural mining, commercial government. I assume that's non-res, commercial non-res end roads. Is that where you put the roads?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, and we don't actually do the blacktop ourselves, but Rocla Pipes do have the -- all the culverts and piping, et cetera. But don't underemphasize the importance of our poles and sleeper business. We've tended not to discuss it too much in recent years because it was running so well. You tend to focus on negative, not the positive. But that's been a great revenue and EBIT stream for us in recent years. And that is particularly quiet given, I think, the constraints around federal and state budgets.

Simon Thackray
Citigroup Inc, Research Division

So just in terms of you getting some state color then, just so we're clear, because obviously, this housing recovery is not uniform across Australia. Have we got any sort of detail on the state-by-state exposure? Or I see your resi exposure is 52% for Australia, but is it overweighed in particular states?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, we are overweighed in Victoria. We have a number of our brands, our business head offices and our production facilities in Vic. And I don't think we're particularly skewed. We are present in Queensland, New South Wales, Western Australia, but traditionally Fletcher Building, through course of acquisition, et cetera, has been a big Victorian base business. So until we see Victoria start to pick up, we'll get our fair share of New South Wales and pockets of Queensland, but we really need and hope for Victoria to start to show recovery.

Simon Thackray
Citigroup Inc, Research Division

That's helpful. And then just 2 quick financial ones, the CapEx expectations for the year '14 and I guess where the gearing metrics you expect us to end up at balanced state this year given your discussion of the covenants?

Nicholas J. Olson
Former Group Finance Director

I'll take the second question first, gearing. We've had a modest decrease in debt from the first half. I'll expect to see about the same in the second half. So modest decrease in debt. So I don’t think the gearing will change dramatically. And sorry, back to the first question, CapEx, again, I think probably into the range as the strongest guidance we can give at the moment.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Just to add to next point on CapEx. I think, going forward, we do enjoy some fairly well-invested assets. The manufacturing footprint, the various assets within Fletcher is quite strong. I think a lot of the CapEx going forward will move more from physical assets in engineering into IT spend. We've quoted some fairly significant numbers. It's a big part of our strategy to invest in digital technology. And even with that, we think we can keep the CapEx number to round about the depreciation figure going forward.

Okay, I think we'll now go to the calls online.

Operator

The first question comes from Henry from Goldman Sachs.

Matthew Allan Henry
Goldman Sachs Group Inc., Research Division

Mark, Nick, I just had a follow-up question on restructuring. I was just wondering if you could provide a breakdown by division and geography, where that cost heads in the first half. And I guess, I presume that would indicate where the benefits would also be derived in the second half?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, sure. And I don't know whether Nick does it. I don’t carry the exact details in my head. We'll certainly can get it to you, retrospectively. Just talking about some of the big chunks, though, Iplex in Australia, for example, Henry, has $6 million for the site rationalization, where we're 6 sites in total into 2. We've had a big chunk of $3 million down in Winstone Wallboards in Christchurch. And I think the rest is probably fairly evenly split. There is no one particular business unit that is either benefited from or suffered from the headcount reduction. But as I say -- and do you have any more...

Nicholas J. Olson
Former Group Finance Director

No, that's right in the money, Mark, yes.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

We will probably, if you would like, get some more details of that, retrospectively, Henry.

Operator

Next question comes from James Rutledge from Morgan Stanley.

James R. Rutledge
Morgan Stanley, Research Division

Just firstly, sorry to stomp on this, but the restructuring charges, for the second half, are you effectively saying that's net neutral [indiscernible]?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

You were breaking up there, but I'm going to piece that question together. I think what you said was is FBUnite neutral for the fiscal year. The answer to that is it will be, I mean, roughly, maybe a few million either side. And there is just over $20 million of restructuring, and a bulk of that was taken in the first half. And therefore, it has a negative drag on earnings in the first half. There will be positives coming through the second. But net-net, over the 12 months, it will be roughly breakeven.

James R. Rutledge
Morgan Stanley, Research Division

And sorry, looking into fiscal '15, how should we be thinking about the run rate, ramp of those one-off, but extending further [ph] in fiscal '15, you're looking at least a $40 million benefit on a run rate base?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I think in terms of run rate, we've probably got in the bank executed the moment mid-20s. I think, whatever we get by way of additional run rate next year, and there will be quite a lot. We will probably spend in terms of restructuring again in the first half. So next year's activity will kind of pay for itself, but the run rates from this year will come through to EBIT. And that is roundabout the mid-20s, maybe a little higher.

James R. Rutledge
Morgan Stanley, Research Division

[indiscernible]

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I'm going to have to pass on the question. I'm in danger of answering incorrectly because we're losing you.

Operator

Next question comes from Andy Bowley from Forsyth Barr.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Mark, Nick, turning back the clock 6 months or so, you were talking about the Australian business for fiscal '14 is having a broadly flat outcome for the year, certainly in local currency terms, first half somewhat soft. But then if I look at the outlook commentary, not too indifferent now to what it was at the end of the last financial year? What are your expectations for the second half in Australia?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I think if we try and discuss the Australian business in terms of Aussie dollars and not kiwi dollars because it really is significant. It takes some business units from going backwards to going forwards, depending on which currency you look at. I think it was roughly flat in the first half. We do, however, see the pockets of improvement in terms of where our product offer matches the residential improvements, particularly in New South Wales and Queensland, driving an improved second half. We see the Tradelink recovery, albeit slow, continuing to pass [ph]. We are fairly strong in the buoyant Western Australian residential market with some of our products. So we think, Australia, for us, in terms of local currency, will be better in the second half than it was in the first. And from an outlook perspective, that should continue into the next fiscal year.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

And then if I speak a little bit further in terms of Australia and think about the pricing environment, how much a part of your confidence over second half is around pricing, in particular, in light of the Aussie dollar in a cost range and import parity [ph], et cetera?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, we've assumed very little in terms of price. And you don’t like to bet the farm on price because you just can't guarantee it. So a lot of the improvement that we've put in the Australian businesses, and as Emily alluded to, there's a big run rate improvement, second half over first, are down to making our own look, some of the benefits of FBUnite coming through as we've discussed, some business unit-specific programs that we are running. So it isn't really a price situation. We see prices very, very difficult. Even though the economy is undoubtedly better here in Australia than it was a year ago, there is still a big overhang of capacity from the good days that did bring in new entrants. And once those new entrants adhere in and can have a poster child [ph] for that, they don't leave easily. And that is on the context of the conversation on insulation, is why the price is depressed and probably will continue to be so.

Operator

Next question comes from Andrew Johnston from CLSA.

Andrew Ian Johnston
CLSA Limited, Research Division

A couple of questions. Mark, insulation, you mentioned, you haven't talked about it much. Can I just come back to insulation? And just implicate some possible implications or read through into your plasterboard business. You mentioned that pricing in insulation now down to a point where you're questioning whether you should be there. Now unless your cost is much, much higher than what Knauf [ph]. It would seem that Knauf [ph] was prepared to earn very little on this business. If I then take a read-through into plasterboard, where you've got the stand competitively. What -- how concerned are you that you end up in a situation in plasterboard like you are in insulation, with Knauf [ph] as the same competitor?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, that's really great question. IEM, as a legacy of my days, running European business. I'm very used to German strategy when it comes to building businesses. And they undoubtedly will, lastly [ph], for a period of time, particularly if they have a base of earnings which Knauf [ph] can outdo in Europe and in North America. Now I don’t know what the dynamic the P&L account of Knauf [ph] is. So I wouldn't want to comment on that. But certainly, when they come, they tend to stay. And we've met them and have said as much. They will stay through whatever economic cycle. They will not come and go. So certainly, in terms of insulation, we believe they are here to stay. What enables them to come is partly the product. Technological advances in recent years allows you to compress the product a lot smaller than we used to, meaning the shipping costs are lesser than issued per unit than they were. And hence, Knauf [ph] can import profitably from their West Coast plant. They do have massive economies of scale. I visited that West Coast plant before and it's one of the biggest factories I've ever been. It's absolutely huge. We could fit our plants and CSRs plants in 5 times over. And economies of scale in manufacturing do drive cost efficiencies. Now clearly, the decline in the Aussie dollar relative to the U.S. dollar will have affected their profitability, but again, I don't think to the extent that they're about to withdraw. If you take that across the Tasman to New Zealand and plasterboard. Plasterboard is a very different product, no disrespect to the great insulation brands of the world, but none of us really care what's in our loft. Is it R [ph] ratings, et cetera, most of us still don't understand it. It's not structural. Plasterboard, we see every day. It's part of the structural construction of the house. If it goes wrong, it's a major issue. And it doesn't transport well. So there are all sorts of different scenarios around plasterboard than there are insulation, which gives us confidence that we will continue to be able to compete and service the customers in New Zealand. And whilst -- we're not arrogant. We're certainly not complacent. We have this debate on an almost weekly basis, Knauf [ph] we hope will not be as successful in that penetration as they have been in insulation in Australia.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay. Are you worried that -- I've got some feedback here. But just on -- just one more question on there and we'll move on to something else, but to what extent are you concerned that they'll end up doing a plant in New Zealand, a plasterboard plant in New Zealand?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Parts of the economics and the whole competitive dynamic, which is clearly is as they say [ph] of a New Zealand business front and center, we often get investigated and featured in the press regarding our market shares on Winstone Wallboards. The dynamic, however, is that it is a country of 4 million, 4.5 million people. And the demand for plasterboard would be satisfied in one of Knauf's [ph] northern hemisphere plants in a few days. So the economics of setting up plants are not particularly favorable. So I don't necessarily see compelling economics for them to settle the plant. But they do have facilities here in Australia and in Asia. And they can, and are successfully, shipping that product in. Getting a product into New Zealand is one thing. Getting it to the customer, the quantity he wants, the time he wants, the day he wants, the room he wants, in the case of our product offer and service offer with Winstone Wallboards, is very difficult indeed. So as I say, we are not complacent. The consequences of them taking market share or a price war be very significant in the tens of millions of dollars for us. But we do have an extremely compelling service offer, that all of the builders and merchants really seem to enjoy.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay, good. Just a question, perhaps to Nick, just around that comment on the $20 million cash impact of the -- I think it's from market [ph] plant in China. Is that a -- would that have gone through the operating cost line? Or was that a -- is that a CapEx item? Just trying to understand where on the P&L or the balance sheet that would appear?

Nicholas J. Olson
Former Group Finance Director

That's inventory stock. That's stock.

Andrew Ian Johnston
CLSA Limited, Research Division

It's stock.

Nicholas J. Olson
Former Group Finance Director

Yes.

Andrew Ian Johnston

CLSA Limited, Research Division

Right, okay, okay. So that really is a working, indirect working capital item.

Nicholas J. Olson
Former Group Finance Director

Yes, it is.

Andrew Ian Johnston
CLSA Limited, Research Division

And then finally, the $20 million cost to reduce staff numbers by 1,000 seems incredibly small. It's like about 1/3 of average annual salaries on a very rough calc. Maybe I've made that number wrong, but is that -- can you just confirm that $20 million with you?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, I mean, the 1,000 is a number that's left the business since I started, which is nearly 18 months ago now. So some of the costs were taken in the previous fiscal year. So it would be a higher number. I think last year, we took nearly $10 million from memory. So it's more like $30 million. And you've also got to remember that they're not all Aussies. So we have reduced heads in Asia, in Europe and parts of New Zealand. They're not all management heads, neither some are direct labor heads. So in terms of the blend, it's about $30 million. And we've done it in a fairly smart way, in some cases, where people have took early retirements, et cetera. So that explains why it does look fairly decent value for money.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay, I understand. So you've got some natural attrition there as well?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, when you're reducing heads, it makes sense not to bring more in the other end.

Simon Thackray
Citigroup Inc, Research Division

Simon Thackray again from Citi. Just a follow-up question for Nick on the working capital given Andrew's question, the $20 million for marker in China and the inventory build. Yes, we've got a $49 million positive working capital benefit here on Slide 30 for the cash flow. So does that mean net of the full market build You actually had a $69 million improvement in working capital?

Nicholas J. Olson
Former Group Finance Director

Do you want to answer that, then?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Just in terms of clarifying the number, the $20 million we quoted wasn't inventory in Jiujiang. That was the residential lands purchase, correct?

Nicholas J. Olson
Former Group Finance Director

Well, the 3 items that we've called out, and there are other items, obviously, Jiujiang, $20 million; timing [ph] construction project's $29 million. And the residential incremental -- residential land from the $39 million. So can you just target your question again?

Simon Thackray
Citigroup Inc, Research Division

Yes. I'm just -- you mentioned the inventory build. And I'm looking at working capital slide there, plus $49 million. So the Jiujiang, $20 million, where is that? Is that -- because that's pre-working capital. The cash from operations was down and then working capital was going up.

Nicholas J. Olson
Former Group Finance Director

Yes, well, working capital has a whole range of component.

Simon Thackray
Citigroup Inc, Research Division

So net of Jiujiang, it was actually an improvement in working capital, is that what you're saying. That's what that's implying. that slide is saying $69 million improvement.

Nicholas J. Olson
Former Group Finance Director

Yes, but there are other things coming into play, for instance. While you can see the $49 million, the $39 million make up the $88 million.

Simon Thackray
Citigroup Inc, Research Division

No, I've got that. I'm only focused on the working capital?

Nicholas J. Olson
Former Group Finance Director

I was just trying to complete [ph] your question. At improvement, when I look at the whole group, change period on period, construction is the bulk of the change in working capital. There's a $25 million change from period to period. And $40 million of that actually is in construction. So there is actually a small decline across the rest of the group. Now if you took out Jiujiang, probably about flat on that basis.

Operator

Next question comes from Kar Yue Yeo.

Kar Yue Yeo
Jarden Limited, Research Division

A question regards to resourcing, I guess both these are for Mark, yourself, and Nick. What -- if you think that, and New Zealand, certainly in New Zealand, whether you'll be constrained by what resources that might be available to grow in the market as a whole, as more and more work comes to stream?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, I think, in terms of resources in the sense of capital resources, Kar Yue, I think we said in the past that our capacity is pretty good. It can flex quite considerably when the upturn does come, both here and Australia. In terms of human resources, you're always on the lookout for more and better folks. We've recruited not a lot of good ones recently. In terms of particularly construction and Christchurch, clearly, it is an issue. However, we currently employ over 800 people in the EQR program in Christchurch, which as I said, comes to an end at the end of this year. So we have a natural bank of good talented people down in Christchurch that we can retrain and migrate onto the other activities that are coming through there in the next few years. And we're actively working with people in terms of what their expectations and aspirations are. In terms of how it affects the P&L, clearly, there will eventually be an impact on wages. But to-date, the wage increases that we're seeing are pretty much similar to recent years. So I think we've got a reasonable handle on it. We're aware it could become an issue, but to-date, we are managing it.

Operator

Next question comes from Stephen Hudson from Macquarie Securities.

Stephen Hudson
Macquarie Research

Mark, just a quick question for you. The infrastructure backlog grew by quite a bit over the 6 months, which I saw was positive. How real is that in terms of how that might translate through into earnings in the next 12 months? I know, obviously, the recognition of construction earnings can bounce around a bit, but how much of a kick could we see in the next sort of 6 to 12 months from this? And secondly, I know you've answered a few questions about pricing, but can you just talk a little bit more specifically about what you're expecting in New Zealand for pricing in the second half and what sort of major price increases or not that you've got in the market? And then maybe just a quick question for Nick, just in terms of the Pacific Steel transaction, can you give us an idea of the discontinued EBIT in regards to the Steel Mill [ph] and the downstream businesses that you're still in?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I'll start, if I can, Stephen, in terms of work put in place. And just to quantify the question, we had a work put in place at the beginning of the year about $1.2 billion, $1.3 billion. And it's now up to $1.6 billion. We've run some roading contracts on the south of the north island. All of that is real work. It's all contracted. In terms of the earnings, we take earnings around about 20% completion. So that big hike in the work put in place number will probably not see us booking earnings, certainly not in the current fiscal year that we're in. And it probably won't start to flow through till the back end of the first half of next fiscal and even into the second half of the next fiscal year. A lot of those projects, a lot of that increase are really recent wins. The ink's barely dry on the contracts. So we won't see earnings within the next, probably, 8 to 12 months. In terms of pricing in New Zealand, I think insulation is challenged. We've actually seen some price decreases as a result of what we're doing with the merchants. In terms of the other products, we would still seek to recover our inflation costs through pricing, albeit we don't think pricing, we would be able to drive ahead of inflation. So it will be EBIT-neutral.

Nicholas J. Olson
Former Group Finance Director

And in terms of Pacific Steel, we will forgo about $12 million of EBIT a year eventually. There is a commercial arrangement where we share some of the earnings, but that will be offset by accelerated depreciation over the next 2 years. So essentially, we go from about $12 million to flat for the next couple of years. So with positive earnings, but accelerated depreciation.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

In terms of the other part of that question, Stephen, the assets that we will be looking to impair, there really is only one which is the shed that the current steel mill operates in. We were able to get reasonable value for the rolling mill and the wire mill in the transaction with BlueScope. And really, that was predicted less on an earnings issue. It was predicated more on a strategic move. The steel industry, clearly, is a very global industry. We are not. We are a tiny, tiny part of that. And we didn't see a long-term future for Fletcher in that business. And that is why we decided to divest. And it was a business that did consume capital, and our prognosis going forward, that there was some fairly major elements of capital spend we would have to consume in the next 5 years. So we looked at it from a strategic and a cash flow point of view, which is why we were happy to make the announcement on Monday.

Stephen Hudson
Macquarie Research

And sorry, gents, just to clarify, the $12 million of foregone EBIT expense, predominantly in the downstream business, so we could assume the actual Steel Mill [ph] was broadly breakeven at the moment?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, that's right.

Operator

Next question comes from Jason Steed from JPMorgan.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Mark, Nick, just a quick question from us with respect to the quarter cost spends, they increased quite significantly in the half to about $80 million. Can you just give us a bit more color around that, and where you see that number going to in the full year? Was it to do with redundancy and the life of something else?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

No, I think -- obviously, we have individual sessions over the years and I've explained to you the corporate scenario that I inherited, where I think the corporate costs for Fletcher Building, $9 billion with a global reach worth 40 people, half of whom were secretaries or receptionists. We didn't have corporate cost. So we talked to the board. They underwrote our strategy to build a more active corporate center. We're never going to run the business from the corporate center, but the procurements department I talked about before was a recruit of 20 people that we didn't have before. We have a manufacturing strategy division now of 6 or 7 people of procurements -- sorry, a property section of about 18 people. These are all new hires all redeployed within the business. And we've categorized them as corporate cost. We see that sustainably being around about $40 million of corporate cost. That will not go away. That is the new way we run the business, but just to give you a bit of a cameo in terms of where that costs comes out. Although we brought in 20 people in the procurement function, 40 people within the procurement function in the business units have left. So as it looks like, we've incrementally increased the corporate cost significantly. Far more people who operated within property, within legal, within purchasing have left from within the business units.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. So it's essentially redistribution on whatever it was in the division into a separate line at the moment. And net-net, that number has probably declined?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

It's a redistribution. Net-net, it has declined in this part of the FBUnite servings. And it does bring a functional competence far ahead of what we have before.

Operator

There's a follow-up question from Kar Yue Yeo.

Kar Yue Yeo
Jarden Limited, Research Division

Question around Sims Metals JV with the sale of your -- of PSG. Where does that leave you in terms of your thinking for Sims Metal JV going forward?

Mark Duncan Adamson

Former CEO, MD & Non-Independent Executive Director

We looked at that. And the product, the scrap metal that went into the -- our furnace, we will probably divert, probably to exports. There is a ready market for the output of that plant. So it could be left alone to continue to generate reasonable returns. However, it is part of the strategic portfolio review. In terms of steel products, we like to coated steel products. We're heavily invested in Stramit roof tiles, and we expect to continue to be so. However, things like Sims, we are currently reviewing.

Operator

Next question comes from Andrew Scott from CIMB.

Andrew Geoffrey Scott
CIMB Research

Just a quick one from me, maybe for Nick or Mark, I'm not sure. Just you've spoken a lot about the EQR work coming to a close, and obviously hopefully rolling into this CBD [ph] rebuild. But EQR has obviously been a huge project, a bit of infrastructure, in terms of project offers put in place and whatever. Is there a cost to unwind that? And how do we see that play out when we get to that sort of turn of the calendar year at the end of this year?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

There's not actually a cost to unwind it because people went in with their eyes wide open in terms of how we contracted with our employees. It was always going to come to an end. There may be cost in terms of retention because we have recruited some great folks who've done a good job, and they're a big asset for us going forward. So some of the ones we want to keep. There might be some small retentions, but there isn't a wind-out redundancy severance-type situation.
Okay. I think that's it. Thanks, all, for your time, and see you again next time.