Question and Answer

Operator

[Operator Instructions] The first question comes from Emily Behncke of Deutsche Bank.

Emily Behncke

I just had a couple of questions, Jonathan just in relation to the guidance. Obviously, you haven't materially moved your guidance, notwithstanding the earthquakes. Some of the benefit from the earthquakes being pushed out to FY '12. Just wondering if FY'12, if you can give us some sort of indication, given the $440 million in infrastructure projects that you've already won? If you can try and give us some sense around the potential benefit there?

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

I'm struggling to figure out what's happening in the next six months, let alone another year out. I think probably there's no doubt that the government infrastructure work will be stronger in '12 than it is in '11. That recovery is coming along nicely. I think commercial markets will pick up. What we're seeing is a lot of companies with good balance sheets now starting to invest, and we're seeing that pick up in the retail space and industrial sector. I think the hard question is around residential housing in New Zealand and Australia. We're very confident we'll recover at some time, but the extent that, that might happen in 2012 is the area that's hard to pick at the moment. It looks -- I think having said that in residential, there's no doubt in my mind that the Christchurch or the Canterbury rebuild will be in full swing in the 2012 year. As we said earlier, the first six months since the earthquake had been around putting in the planning and assistance and the government's mechanisms, and I know there's been a frustration around that in the Canterbury area, but there's no doubt in my mind that the rebuild will be in full swing in 2012. I think the other likely impact will be in New Zealand in the leaky-house government subsidization program for the leaky house. That's just taking a little longer I think for them to get the governments mechanisms in place, but we're highly confident that, that will be in place also for the 2012 year. So there's a lot of pluses and minuses in all that but I think by and large, we remain, what's the word, cautiously optimistic for the 2012 year.

Emily Behncke

And just in terms of your Pipeline business, I think volumes were down 19%. Just wondering if you can give us some color as to whether or not in terms you think that's as bad as it gets in that business, given your recently announced acquisition?

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

Yes, I think, first of all, the pipe volumes are down. They've done a good job in a lot of the non-pipe products, which have been performing well and the concrete sleepers in the renewal with that contract in particular has gone well. I think the biggest beneficiary of one of the biggest beneficiaries of the Queensland floods is going to be Rocla pipelines again. So we are reasonably optimistic for the 2012 year for Rocla as the Queensland recovery and rebuild will be in pretty good swing by the 2012 year. So again, on balance, we're reasonably optimistic with Rocla.

Emily Behncke

And just finally in New Zealand, the aggregate and concrete prices you mentioned were under a little bit of pressure. Do you feel that pricing pressure has slowed?

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

Sorry, I didn't quite get that question. Do you mind?

Emily Behncke

The part you indicated in your remarks that New Zealand and concrete prices were under a bit of pressure, just wondering if you can make a couple of remarks about that?

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

Yes. They're a little different -- well first of all, cement prices have been good. And so there are no issues there, the margins are good. The ready mix concrete prices had been under a fair bit of pressure as you expect in a subdued market, and very competitive markets, particularly in Auckland has seen margins in ready-mix, very tight. Aggregate prices have actually not been that bad. And I think one of the things that we will see, particularly with some of the roading projects, Waterview in particular, coming on stream, particularly in 2012, that outlook looks pretty good. And the demand for aggregate in the land remediation in Christchurch is also going to be pretty strong. So I expect that ready-mix will subdue margins so the pricing will stay pretty tight, but aggregates, we'll continue to see improvement in their performance.

Operator

The next question comes from Andrew Scott of RBS.

Andrew Geoffrey Scott
JP Morgan Chase & Co, Research Division

Jonathan, just the first one, I wonder if you could take us through or try and put a number on the insulation impact year-on-year?

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

In Australia only, I'm just looking now, last year's result, you've got to remember there was an EBIT and there was also the $80 million write-off that we had write off and restructuring costs that we had through the year. Bill just got the numbers.

Willem Jan Roest
Former Chief Financial Officer

My quick recollection was that in the first half, we probably had a gain of $15 million to $18 million and we had a write-offs in the second half of that $18 million. So the end result for the year is about zero. But the first half impact was of that order. But I'm happy to just check that and come back to you if it's any different.

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

And the current running rate this year is well down on what the EBIT is on the sort of a mid-cycle sustained level if you use, say the 2009 year as the sort of the base year. But the earnings are well down. We're still working through the stock pile that was built up through the stimulus program and we don't expect that the Insulation business will be back to sort of normal operating earnings until probably the second half of the 2012 year. Those guys there have been doing a terrific job in restructuring the business, they've got a number of new products coming online and, in particular, unbonded loosefill insulation for the volume housing market and are doing a good job around some of the initiatives. But it's a very tough market and industry to be in at the moment.

Andrew Geoffrey Scott
JP Morgan Chase & Co, Research Division

And just one more if I can. A next year guidance or caveat was additional Crane cost. Bill you mentioned the Crane cost in your cash, but I wonder if you could put a number on that for us, first half?

Willem Jan Roest

Former Chief Financial Officer

In the first half, the cost renewal of about $3 million, I think, from memory.

Operator

And the next question comes from Hugh Dive of Citi Investment Research.

Hugh Dive
Citigroup Inc, Research Division

What we're seeing in Australia with the Queensland floods is some projects are being delayed and/or canceled, just upon the reconstruction. To what extent are we seeing this in New Zealand? And just give us a bit of a color on the impact on Fletcher's Infrastructure workload?

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

From a government infrastructure workload, there are no delays as far as the Christchurch work is concerned. If not anything, there's an increase you might have reportedly announced I commented about awhile ago that we'd won $190 million contracting joint venture with McConnell Dowell on repairing pipes and some of the infrastructure in Christchurch. So that government rebuilding Christchurch will increase rather than decrease. There's a whole lot of other work that's being planned now around the repair of the port and some of the other infrastructure. So there will be further contracts in that area. I think what we're seeing in reference to just the timing and the phasing, what we've seen in Christchurch in the first six months has been seeing a lot of the planning and the systems and those sort of things being set up to do the repair work. And as a consequence, a lot of the new house build projects had been delayed and there has been very subdued activity. Having been through that sort of planning process and most of that I think is now nearing completion. What we're expecting to see in both housing repairs and commercial and infrastructure repairs, really starting to gain momentum pretty much from now onwards. I don't know exactly what's going to happen in Queensland but it wouldn't surprise me if we didn't see a similar impact. In other words, straight after the floods and straight after the cyclone, new houses in progress and a lot of the repair works and projects in progress, will stop, or restored or suspended until they assess damage in those sorts of things. They will be probably a few months or a number of months of just trying to assess the damage, figure out what's insured and what's not and how it's going to be funded and what needs to be rebuilt and repaired. I think there will be some delays in the short term. But there's no doubt that in the longer-term, the rebuild in Queensland is going to be a very strong emphasis for the building industry.

Hugh Dive
Citigroup Inc, Research Division

Jon, what I was referring to, a project elsewhere that had been canceled or delayed in order to fund the reconstruction in Christchurch?

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

In New Zealand, there's no indication that I've had that the government is going to divert funds from other projects into Canterbury. The Earthquake Commission, for example, who are funding the bulk of the residential repairs from a government's point of view in Canterbury has already got the cash and the assets and the money to pay for it. We don't see any relaxation in some of the major projects like Waterview, which is the extension of the freeway from the Auckland airport into the city. Wiri prison is a $500 million prison [indiscernible] in New Zealand. We don't see any delay to that. There's a lot of roading projects going on in the North Island, in particular around Wellington. And we're not seeing any delays in government projects. What is actually causing some of the phasing is actually just the large size of some of the projects. The Waterview freeway is going to be the single largest contract ever let in New Zealand. The Wiri prison is the single largest prison contract ever let in New Zealand. And I think the government in terms of just financing those large projects means that you have bit of a lull. The government spend on infrastructure is actually increasing rather than decreasing. It's just that they've got to finance some big ones.

Operator

The next question comes from Rob Mercer from Forsyth Barr.

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

On a technical front, we are sort of hearing more and more that insurance companies are being more problematic and I guess [indiscernible] in that market but also you're maturing properties on some of the very damaged sites. The other issue I guess is more short term, but just the type, the pressure on demand now that you've got potential vanquished activity for [indiscernible] in the Queensland area? And what sort of things are you doing to manage the potential pressure there of lowering the [indiscernible] in the Queensland area without actually impacting costs?

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

First of all, I think a comment that the insurance companies are becoming problematic is probably a little harsh. As you'd expect in something as big as this and it won't be any different in Queensland or Victoria is these insurance companies get caught a little on the hop with this quantity of claims. And what they have done is spent quite a considerable amount of time and effort, trying to put in the government's processes and just the sheer quantum of assesses to actually assess claims. And that does take a little bit of time. And I think one of the things that we will see over the next few months is a much better performance by the insurance companies in their own right, and secondly, the coordination between EQC and the insurance companies. And remembering that EQC pays the first hundred thousand dollars of claims that are in excess of the $100,000. There's no doubt in my mind that the national government are absolutely intent and focused as we are on making sure that the Christchurch rebuild happens smoothly, effectively and meets the community expectations. But I think one of the things that we learned from things like the Australian insulation subsidized stimulus program is that if you don't get the governance and the planing and the systems in place to measure it and monitor it, the cost and efficiency or effectiveness of it blow out of the water very, very quickly. Secondly, in terms of the trades down in Christchurch, at the moment, the Christchurch trades are more than meeting the demand. I expected that probably will be sufficient to cater for most of the workload down there. Yes, it's pretty tough being down in the trades in Christchurch at the moment, but I think those that have survived so far and that has been the bulk of the industry as we look forward, the workload is going to pick up quite quickly. Does that answer the question, Rob?

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

And just on Laminex. No price increase but things [indiscernible] prices this year, what is the terms, sort of their ideal of terms or pricing for that market [indiscernible]?

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

Yes, I think probably in the short term, there's a bit of a pressure on Laminex on pricing. But having said that, they've done a good job in maintaining margins and I think that will be maintained. We'll see what happens to demand in the short term. I think that pricing pressure will remain. But as both the Queensland recovery sort of kick in and the commercial, particularly for Laminex, kick in, I think we'll see pricing return to sort of more normal increases.

Willem Jan Roest
Former Chief Financial Officer

Particularly the recovery, resin cost increases is a bit of a strength in resin prices demand that we would be looking to recover that.

Operator

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

Kar Yue Yeo
Jarden Limited, Research Division

A couple of questions in relation to raw material price increases. Could you quantify the extent of that might have impacted on your first half results. I know you talked about resin in particular, just in -- and those are secondly in terms of potential cost savings that is still to come through in the second half?

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

Yes, I think probably on balance there are some, in commodities like the resins and things that we refer to. On probably on balance, you've really got to go through on a business-to-business point of view. It hasn't been a big issue, I'd say in a group overall. Because while you do have things like resin, fuel, the coal cost fuel haven't gone up because they're on contracted prices. It's also offset by a good example would be Golden Bay Cement, you might remember at the start of the emissions trading a couple of years ago, we're talking about coal prices. And at that stage, we were starting to substitute coal for wood waste out of the forest, which is a biomass. And at the time, we talked about trying to get to levels of about 5%. Pleased to say that now in Golden Bay Cement, we've replaced 30% of our coal with wood biomass at considerable cost savings. So I think my answer to the question would be on balance, albeit see raw materials as being pretty much in line with a fairly low inflation.

Willem Jan Roest
Former Chief Financial Officer

I agree with that Kar Yeo the path of long steel which changes almost daily. And the price on raw materials has been minor. And we're just starting to see a little bit of strength in the resin prices. And our exchange rate is sort of offset little bit of the fence some of the imported prices increases.

Operator

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 now we open up the questions on the floor. We've got the microphone at the back and would appreciate it if you just speak into the microphone because that allows those on the teleconference and webcast to hear the questions.

Stephen Hudson
Macquarie Research

Jonathan and Bill, Steve Hudson from Macquarie. The project management office down in Christchurch, I think you've said that it will be handling about 60,000 homes with a cost of somewhere between $10,000 and $100,000. Obviously that gives quite a wide range of potential costs outcomes. Do you have any sort insight in terms of where those average costs are going to land within that range?

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

We don't. We really don't at this point. As you'd expect where the focus is in the early days is on some of the simpler and probably lower cost repairs, and that's getting underway pretty quickly now. I think probably average will increase as we progress through some of the more complex jobs will happen later in the place. And so at the moment, I don't know about the question but I really don't know.

Stephen Hudson
Macquarie Research

I think the EQC is sort of waking on about $30,000.

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

And it probably crept up a little rather than down, but nonetheless, I don't think we really know until it really gets underway.

Stephen Hudson
Macquarie Research

And just maybe a question for Bill, was there any QU this half and are you expecting any QU for the full year?

Willem Jan Roest
Former Chief Financial Officer

No. And our property numbers which we're showing here is $13 million. The bulk of that is residential housing. I think a very small, probably $1 million or so or less of them quarry land disposals.

Stephen Hudson
Macquarie Research

And then just last question, just on Long Steel, the rebound scrap margin has -- looks to have spiked recently. Are you a little bit more optimistic about Pacific Steels' fortunes coming into the second half?

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

I have learned not to try and predict what scrap prices are going to get. They are very volatile. And yes, it does look like in the short term its peaked, and the Steel guys are saying that we think for the next few months that, that actually is probably looking a little more optimistic. And we also think that there's every chance of some reasonable Long Steel price increases, particularly in Australia that have been announced by One Steel recently, but that had to be delivered in one of the things that the Long Steel business in particular, this is an international business, it is subject to imports from Asia. So we find that it can change very quickly. But yes, I think probably on balance, the outlook for the second half is potentially a little better than it was for the first half.

Brian Gaynor

Brian Gaynor, Milford Asset Management. Jonathan, all your questions today had been from broker analyst. I'm a New Zealand institutional shareholder. I'd like to know the position regarding the imputation credits regarding dividends paid to New Zealand. I noticed that the full franking credits on the Austrian dividend but no imputations on the New Zealand. What's the position regarding imputations available for New Zealand shareholders, and what do you see as being the position regarding the dividend for the second half of the year in terms of imputations and for next year?

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

For some of you, you might have seen the announcement that went out about two weeks ago, and the change in our dividend policy. Essentially what that said was that at the interim dividend, we will fully frank the dividend and there will be no New Zealand imputation credits. At the full year dividend, there will be full imputation credits and no franking credits. Now obviously, if there is a surplus of franking or imputation, we'll apply it to the dividend that is not fully imputed or fully franked. What that means is that on an annualized basis, for our New Zealand shareholder, the imputation credit is the same as it has been for the last several years. And the only change is in the timing where rather than a partial credit, there won't be any at the interim and there'll be full imputation at the following year. But the net change is zero. For an Australian shareholder, what it means is that full franking at the half year, but at the full year when we fully impute the New Zealand dividend, they will get the supplementary dividend which is effectively the credit from the non-resident withholding tax, which means that what this change will do is make the supplementary dividend much more efficient for Australian shareholders.

Brian Gaynor

Could you explain the logic, why not have 50% of each of them for each of the interim period rather than having them the way you are where you've got full franking for the first half in Australia, none in the second half and the other way around.

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

Why we don't do that is because effectively what it does is waste the supplementary dividends for the Australians when it's fully franked. And then, that's what it was all about effectively. It was actually about using the supplementary dividend far more efficiently for the Australian shareholders. And again, we're not trying to bias it towards the Australian shareholders but they -- these tags represent about 35% of our shareholder base. And obviously, it was a reasonably important thing in the Crane acquisition.

Analyst

Jonathan Angel[ph], of Morgan Brooke[ph] Asset Management. Just three quick ones, I noticed the revenue growth within expansion in Australia is very strong around 10%, and margins were obviously due to significantly impaired. Just wondering, and volumes are strong, I'm just wondering if you could maybe put more color around that? And related, I'm just wondering what the impacts on the revenue division might be from Queensland, given I mentioned it's quite a bit [indiscernible]. And just the third question is as the competitive environment, you noticed in the Wallboard business and given your market share, just wondered where that might be coming from?

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

Okay. In terms of revenue growth in Laminex, a lot of it actually has come from Wallboard and a commodity sort of product and that product mix tends to bring the margin down a little bit. The other side to it is that with some of the subdued volumes in Australia, we're exporting a little, even though we cut down our exports with the closure of West Port. They're exporting a little bit more. So there's product mix issue rather than anything else. And those margins will return. In terms of the impact on Laminex on Queensland, there's probably three things I think I'd say. The first is that in the short term, January, February, March volume, laminate, Queensland is a very strong state for Laminex and so there will be some negative impact and so in Victoria is also strong for them. So some negative impact on trading and work getting done. The second thing I'd say is that as you know, our main India production facility on mill is in MP[ph] in Queensland, so it's had a fair bit of disruption in just through the cyclone and the floods. Fortunately, there's no structural damage, or property damage or stock damage to any MP[ph] but they are having a lot of trouble at the moment getting wood fiber out of the forest. As you'd expect with the floods and the cyclones, the forest harvesting has been suspended for actually during the floods and the cyclone. And it's only sort of just starting to cut back on stream now, but it's a very soggy forest. And so productivity is down and so I think we can expect some raw material issues as we go forward. Probably on a more positive note, one of the things about flood damage, kitchen cupboards, laundry cupboards, wardrobes and particularly for those who've got decorated particleboard and end up probably the dominant material in those things, it swells and so in probably the short term, the lifting, the recovery and rebuild, whether it be insurance-funded or just privately funded, is going to be very strong. Interestingly, what happens normally with Laminex is that the rebuild of those seems to happen at the end of the cycle, as you rebuild a house. But I think in terms of just repair work and operations conditions, we'd say that starting to rebound quite strongly very quickly. People get very irritated not having kitchens and bathrooms and laundries, and particularly, those that will just get in and fix them, that will rebound quickly.

Willem Jan Roest
Former Chief Financial Officer

I'll just comment. I thought the turn of the question was that the margin in Laminex has gone down. But if you adjust for the one-offs and the prior period, you'll find that margin, the best, just the same if not slightly better.

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

And then we'll go to Wallboards. The big issue there is really import price parity from the strong New Zealand dollar, import competition is primarily from Thailand. And the parity just has us under a bit of pressure at the moment. And also, you might be aware that the British passed the boards now and Bach Hawkins[ph] and so of course, they've got a slightly stronger channel to market on some jobs. And so, but I think where we are in terms of market share, we're not really seeing a loss in market share, we're just seeing a little bit price pressure on pricing at the moment.

Willem Jan Roest
Former Chief Financial Officer

We think it's more self-supply rather than competitive.

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

Having said that, I think of the other things is probably important to note, we mentioned in the announcements on the presentation about new product developments in Winstone Wallboards. They've come out now with a new light-weight, life-size board, which is as a standard board, which has gone into the market exceptionally well. What it means is that a plasterer can carry around a larger board because it's about the same weight as a board that was about 30% smaller. And what it will enable to do, it creates productivity improvement for the plasterers they're putting up, plaster particularly in past lots and big jobs and we expect that to do very well. What we're very focused on in plaster, in Winstone wallboards at the moment is triggering how we actually get the new wave of innovation and competitive advantage as we did in the early 2000s with the performance board. What we're very keen to do now is take the performance board to a new level.

Analyst

I just have a couple of questions. The guidance implies I guess some reasonable half-on-half growth for the second half. Could you just comment on where you expect that improvement to come from? And the second is just, do you have any sense at all about how much contribution to Laminex, but also your wide Australian businesses, stimulus programs, may have had during the half, particularly this school's program?

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

I've got to go backwards on that. The school's program is probably the biggest impact on Laminex and stremit[ph], color-coded steel roofing and Laminex for the interior fit outs of the schools. We're coming to the tail end of that, but that will still go for another six months as they -- for the second half, as they continue with those projects. Talking about where we see lift from the second half, I think the three that will drive it Formica clearly has a bias towards the second half. And if you look at what we've done in, I'll say last year, I think from roughly it was about $10 million of EBIT New Zealand in the first half, $23 million, in the second half or something of that order. You'll see a similar split this year. Laminex, we expect to be stronger in the second half. It typically is anyway. Infrastructure division, we expect to see a strength in the second half, they're actually doing. The ones that will be under pressure, Building Products will stay under pressure. Insulation as we mentioned earlier is a pretty tough market. Don't expect to see much lift in Plasterboards, although they're tough. And then the ones, what's the word, we're confident of a lift would be in Steel, and as we talked earlier, through Long Steel, color-coded steel is doing very well anyway. I think there were already about a 26% lift in the first half. So we're expecting to do reasonably well in those. And PlaceMakers, not sure, steady.

Willem Jan Roest
Former Chief Financial Officer

Steady.

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

And what we'll see in PlaceMakers, I think, is we'll see some softening probably up in Auckland, which has reasonably strong on the North Island. That we will see improvement in the South Island. And as repairs get underway and I think we'll see them probably offsetting each other.

Analyst

Nati[ph] here from Wellingston [ph] what was the contribution from ACP in the first half for Australian Construction Products, the acquisition that you made?

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

Small. And it was due to do about $5 million on EBIT on an annualized basis.

Willem Jan Roest
Former Chief Financial Officer

It would have done a couple.

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

And we had 2 months. So may be it will be $1 million or $2 million.

Analyst

And in terms of your export to the Queensland market, what does it constitute in terms of your revenues in Australia, as opposed to Australian revenues [indiscernible] in the mix as well, total exposure?

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

7.5% of our global revenues are Queensland. And with Crane, I don't know, they split in Queensland.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited
Anymore questions? Well, thank you everybody for attending and I'm sure we'll see many of you in the weeks to come. So thank you. And we'll close the session now.