

Laminates & Panels

The Laminates & Panels division comprises the Laminex Group and Formica Corporation. These two businesses have strong international brand profiles and leading market positions.

In Australasia, the Laminex Group is the leading manufacturer, marketer and distributor of decorative surface laminates, component products, particleboard and medium density fibreboard (MDF). It has 13 manufacturing facilities and an extensive distribution network in major population centres.

Formica is a global manufacturer, marketer and distributor of decorative surface products, with businesses in North America, Europe and Asia. It has 12 manufacturing and 33 distribution facilities spread throughout its regions of operation, with its main geographical markets being the United States, Canada, Mexico, the United Kingdom, Spain, France, the Nordic regions, the Benelux countries, Taiwan, China and Thailand.

Operating earnings were up by 8 percent to \$141 million, reflecting the impact of a full year's contribution from Formica and a 5 percent reduction in earnings by Laminex. Sales were up 101 percent to \$2.1 billion, almost entirely due to the Formica acquisition.

Operating performance in North America was extremely disappointing, as a severe downturn in the US housing market and a slowdown in commercial activity compounded operational issues at the major manufacturing facility at Evendale, Ohio.

US housing commencements were 28 percent lower than for the 2007 financial year, and a further 25 percent lower against the 2006 year. Historically, when housing commencements have declined there has been increased activity in the refurbishment sector. On this occasion, there has been a reduction of refurbishment activity as mortgage foreclosures and declining house prices, coupled with the economic outlook, have dissuaded home owners from renovating or upgrading.

The US commercial sector was relatively strong in the first half of the year, but declined substantially during the second half, with a commensurate effect on sales of high pressure laminates (HPL) and on financial performance. Total US HPL sales for the 2008 year were down by 9 percent.

Formica had embarked on a rationalisation of its North American manufacturing facilities during the 2007 year to address the excess capacity in its HPL plants in California, Ohio and Canada. With most customers in the Eastern part of the US, it was decided to close the plant in California and recommission idle machines in Ohio. This was intended to improve the cost structure, and provide better customer service by reducing lead times and improving distribution.

The production increase in Ohio created a number of problems which brought a short-term increase in costs, for labour, outsourcing of key production requirements, and extra maintenance. The expected savings from the closure in California were delayed. The business also faced escalating costs in key categories such as freight, resins and kraft paper.

Sales	\$2,132 million
Operating earnings	\$141 million
Funds	\$2,094 million
Employees	6,355
Key Brands	Essa Stone Formica Greenfirst Laminex Melteca O'Brien Laminates Trade Essentials Wespine

Formica Corporation

One of the key features of high pressure laminates (HPL) is the surface finish, which can range from a smooth high gloss to a rough patterned or textured finish resembling granite, stone or various other natural finishes.

FORMICA'S PLATE PRINTING MACHINE BEING DELIVERED TO THE PLATE MANUFACTURING FACILITY IN QUILLAN, FRANCE

Upgrade for plate manufacturing plant



The HPL finish is created by using textured steel plates during the laminate manufacturing process. Each plate is individually etched with the required finish – a time consuming and labour intensive process. The ability to continually design new finishes and release them to the market is crucial in the decorative surface industry, where demand for new fashionable surface finishes is high.

Formica is the only manufacturer of HPL with its own plate manufacturing facility, located in the South of France. In the latest year an investment project was undertaken to upgrade and streamline the manufacturing process by acquiring a state-of-the-art digital printer. The equipment was installed in July 2008 and will allow the replacement of several manual processes and shorten significantly the time required to manufacture plates – increasing the ability to launch new finishes ahead of other laminate manufacturers. It will also increase the annual throughput of the plant.

For relatively low volume manufacturers of HPL the investment in steel plates can be prohibitive and the alternative is to use a disposable sheet of etched aluminium foil. This increases the cost of the manufacturing process and also involves significant costs as the used paper is disposed of at landfill. Laminex has always used the aluminium foil process at its Australian plant, but since the acquisition of Formica it has commenced the process of converting the facility to use only steel press plates.



The Formica plant in France has just started manufacturing up to 200 plates, which will provide Laminex with considerable savings as well as eliminating environmental issues around landfill and costly waste disposal. Laminex has started using them in the current financial year. The total project is expected to be completed during the latter part of the financial year.

Laminex Group

The Laminex Group has a long history of delivering innovation to the Australasian market.

A SELECTION OF EASY TO USE COLOURS AND DESIGNS FOR INTEGRATED DESIGN SOLUTIONS

Laminex introduces new Formica products



The acquisition of Formica, with its rich history of technological leadership and innovation in product design, provided Laminex with access to this technology and the Formica brand in Australia and New Zealand.

Laminex has responded to this opportunity by developing its latest innovation – the New Formica – in Australasia. It has been able to source new colours and designs quickly and efficiently through access to the Formica colour palette and is now able to be more responsive to changing market needs and design directions.

In July 2007 a joint project team established product specifications to suit the Australasian market with a view to supplying high pressure laminate product from China. The new range was launched successfully in July 2008.



The New Formica is tailored to both the commercial furniture market and the residential market, with a key focus on making design accessible to the general public to make it easy for users to work with colour and design. Formica's new colours, designs and tools create a strong brand identity to position the range in the Australasian market.

During the second half of the year the Formica global corporate office was closed and various functions were restructured in the North American business. These changes will result in cost savings of approximately US\$10 million per year.

The European business performed well. Economic conditions in Europe were varied, with the larger markets such as Spain and the UK also facing slowdowns in housing and commercial activity. Spain was the worst affected economy in the region, with volumes down on previous years. Volumes in the UK were in line with those for the previous year despite a continued slowing in the housing market. Shortfalls in revenue in those countries were offset by strong performances in the Benelux countries and the Nordic and Eastern European markets.

Trading conditions remained solid in the main Asian markets. Those in Thailand and Taiwan performed in line with expectations, and conditions in China were solid in the lead up to the Olympics. China is the site of the company's newest plant, built in 2006. This plant successfully took on some production requirements for Laminex, enabling it to close its HPL plant in Papakura, New Zealand, and realise synergies identified at the time of the Formica acquisition.

Operating earnings in Australasia were down slightly from the previous year, affected by challenging conditions experienced in the second half. Sales were higher, but earnings were constrained by pressure on margins, incremental sales of commodity and distributed products, and increasing manufacturing input and distribution costs.

Earnings in Australia for the final month of the year were affected by reduced gas supply following an explosion at a processing plant off the coast of Western Australia. Further restriction of gas supply is anticipated in the current half-year, but alternate energy and supply strategies will reduce the earnings impact.

Sales in New Zealand were constrained by restructuring at the Penrose hardboard and softboard facility and the lack of MDF export sales after the closure of the Taupo facility in 2006. Most of the New Zealand MDF requirements were met by Dongwha Patinna NZ, a Southland manufacturer in which a 20 percent share was purchased during the year.

Trading volumes of MDF from Australia to South East Asia were down, and improved pricing and lower distribution costs were offset by the appreciation of the Australian dollar against the US dollar. The Wespine sawmilling and Dynea resin plant joint ventures improved operating performance and earnings.

Looking to the fundamentals

A number of new products and designs were launched during the year, including laminates with enhanced wear, structural properties and aesthetic features, as well as fashionable product designs and finishes.

A new commercial finish titled Sculpted was released, while the Asia and North America operations added several commercial woodgrain finishes. The Europe operations released a benchtop finish called Lustre for the bonded benchtop programme, and a new benchtop finish called Radiance, which resembles a high-gloss surface of real stone.

Laminates with new 'colour through' features were introduced, in the form of a reformulated ColorCore2 and ColorThru Compact. These use matching coloured cores that blend with the surface finish. A hard wearing, scratch resistant gloss laminate, the High Gloss AR +, was also introduced.

The Formica brand HPL and decorated board product range was relaunched in Australasia in July 2008, sourcing a significant proportion of the product from China.

The Laminex range of high and low pressure laminates is undergoing an update based on Australasian interpretations of European trends. The business continued its commitment to premium benchtop products through initiatives in the Essa™ engineered stone brand and Freestyle™ solid surface brand.

The Gympie MDF facility in Queensland commissioned a new heat energy plant and associated equipment with a total project cost of \$16 million. The Australian operation also completed a new distribution centre in Perth and a sales branch in Bunbury for a total cost of \$4 million.

Steel

The division comprises three business streams – rollforming and coatings (including sheds), long steel products, and a steel product distribution business – with leading market positions and widely recognised brands.

Performance

Operating earnings before unusual items were ahead of expectations – up 26 percent to \$101 million, reflecting a strong improvement in the second half of the year. Sales rose by 10 percent to \$1,279 million.

Operating earnings in the second half were assisted by the exit of unprofitable businesses, restructuring to tighten management focus, and acquisitions in the Australian rollforming business. Results were also aided by one-off gains on the sale of scrap. Operating earnings for the same period of the 2007 year had been affected by poor selling prices for steel products while there was high availability of imported alternatives.

The rollforming business enjoyed a successful year in a more competitive trading environment, both in Australia and New Zealand. Eziform Sheetmetals (acquired before the start of the year) and Fair Dinkum Homes and Sheds (acquired 1 August 2007) performed ahead of expectations. Earnings from the other Australian operations were down slightly, reflecting conditions in the first three quarters, when prices were affected by pressure from imported product. Current conditions are the opposite, with supply constraints and little imported product available.

The New Zealand rollforming operations struggled in a competitive marketplace, and operating earnings were down substantially after additional costs were incurred to refocus the business.

The long steel business experienced an unprecedented increase in the price of ferrous scrap, which was only partially recovered through price increases. A new management team took control of the business in July 2007, and some benefits accrued in the second half of the year. In addition, a downsizing of the galvanised wire manufacturing operation at the end of the first half minimised the negative returns from that business.

The Sims Pacific Metals joint venture lifted operating earnings by 30 percent, benefiting from the high scrap prices in the second half and an increased recovery rate following the upgrade of its Auckland shredder.

Sales	\$1,279 million
Operating earnings	\$101 million
Funds	\$587 million
Employees	3,282
Key Brands	Colorcote CSP Cyclone Dimond Eziform Fair Dinkum Homes and Sheds Fletcher Easysteel Fletcher Reinforcing Garage World Pacific Steel Pacific Wire Seismic Shed Boss Stramit Wiremark