



# James Hardie

## FY04 1<sup>st</sup> Quarter Results

12 August 2003

# Agenda

- Overview – Peter Macdonald, CEO
- Financial Review – Phillip Morley, CFO
- Operating Review – Peter Macdonald, CEO
- Questions and Answers

# Strong Performance

## 1<sup>st</sup> Quarter

Net Sales <sup>1</sup>	up	24%
Gross Profit <sup>1</sup>	up	30%
EBIT <sup>1</sup>	up	38%
Operating Profit <sup>1, 6</sup>	up	47%
Net Operating Profit <sup>2, 7</sup>	down	54%

<sup>1</sup> Continuing operations only

<sup>2</sup> Includes discontinued operations and profit on sale of Gypsum in Q1 FY03

# Highlights

## 1<sup>st</sup> Quarter

- USA Fibre cement EBIT up 39%
- Australia and New Zealand Fibre Cement EBIT up 14%
- Philippines – small profit
- Chile – breakeven
- Commenced operations in UK and France



**James Hardie**

# **Financial Review**

**Phillip Morley, CFO**

# Results – Q1

US\$ Million	<u>Q1 '04</u>	<u>Q1 '03</u>	<u>% Change</u>
Net Sales	241.5	194.6	24
Gross Profit	89.3	68.5	30
SG&A	(36.2)	(30.1)	20
Research & Development	(4.8)	(3.3)	45
EBIT	48.3	35.1	38
Net Interest Expense	(2.3)	(2.9)	(21)
Other Income, Net	-	0.3	-
Income Tax Expense	(13.1)	(10.1)	30
Operating Profit <sup>5</sup>	32.9	22.4	47

Continuing businesses only

# Segment Net Sales – Q1

US\$ Million	<u>Q1 '04</u>	<u>Q1 '03</u>	<u>% Change</u>
USA Fibre Cement	186.8	152.5	22
Asia Pacific Fibre Cement	50.1	40.7	23
Other Fibre Cement	4.6	1.4	229
Total	241.5	194.6	24

Continuing businesses only

## Segment EBIT – Q1

US\$ Million	<u>Q1 '04</u>	<u>Q1 '03</u>	<u>% Change</u>
USA Fibre Cement	54.1	38.8	39
Asia Pacific Fibre Cement	8.6	7.5	15
Other Fibre Cement	(3.7)	(2.7)	(37)
R & D	(3.3)	(2.5)	(32)
Total Segment EBIT	55.7	41.1	36
Corporate Costs	(7.4)	(6.0)	(23)
Total EBIT	48.3	35.1	38

Continuing businesses only

R&D includes “core” R&D expenses and administrative expenses, but excludes product development expenses

See Note 3



# Corporate Costs – Q1

US\$ Million	<u>Q1 '04</u>	<u>Q1 '03</u>
Stock Options Expense	2.1	1.7
Corporate Costs	5.3	4.3
Total	<hr/> 7.4 <hr/>	<hr/> 6.0 <hr/>

# Interest and Tax Expense

## Net Interest Expense

US\$ Million	<u>Q1'04</u>	<u>Q1'03</u>	<u>% Change</u>
Net Interest Expense	(2.3)	(2.9)	(21)

## Income Tax Expense

US\$ Million	<u>Q1'04</u>	<u>Q1'03</u>	<u>% Change</u>
Income Tax Expense	(13.1)	(10.1)	30
Rate	28.5%	31.1%	-

# EBITDA – Q1

	Q1'04	Q1'03	% Change
<b>EBIT<sup>3</sup></b>			
USA Fibre Cement	54.1	38.8	39
Asia Pacific Fibre Cement	8.6	7.5	15
Other Fibre Cement	(3.7)	(2.7)	(37)
R & D	(3.3)	(2.5)	(32)
Corporate	(7.4)	(6.0)	(23)
<b>Depreciation and Amortization</b>			
USA Fibre Cement	4.9	4.8	2
Asia Pacific Fibre Cement	2.3	2.1	10
Other Fibre Cement	0.1	0.0	-
<b>Total (EBITDA)</b>	<b>55.6</b>	<b>42.0</b>	<b>32</b>

Continuing businesses only  
See Note 4

# Capital Expenditure – Q1

	<b>Capital Expenditure</b>		<b>Depreciation</b>	
US\$ Million	<u>Q1 '04</u>	<u>Q1 '03</u>	<u>Q1 '04</u>	<u>Q1 '03</u>
USA Fibre Cement	18.5	6.6	4.9	4.8
Asia Pacific Fibre Cement	1.2	0.9	2.3	2.1
Other Fibre Cement	1.1	0.2	0.1	-
<b>Total Segments</b>	<b>20.8</b>	<b>7.7</b>	<b>7.3</b>	<b>6.9</b>

Continuing businesses only

# Key Ratios

	<u>Q1 '04</u>	<u>FY '03</u>	<u>FY '02</u>	<u>FY '01</u>	
EPS (Basic) <sup>1</sup>	7.2c	18.7c	6.4c	7.3c	
Return on Shareholders Funds <sup>2</sup>	29.6%	42.3%	8.9%	14.7%	
Return on Capital Employed <sup>1,2</sup>	29.7%	21.2%	8.6%	8.6%	
EBIT/Sales <sup>1</sup>	20.0%	16.4%	8.0%	7.6%	
Gearing	$\frac{\text{Net debt}}{\text{Net debt \& Equity}}$	18.2%	21.4%	44.7%	56.1%
Net Interest Cover <sup>1</sup>	21.0x	6.6x	3.0x	3.1x	

<sup>1</sup>Continuing businesses only

<sup>2</sup>EBIT for Q1'04 annualised



**James Hardie**

# **Operating Review**

**Peter Macdonald, CEO**

# USA Fibre Cement



## USA Fibre Cement

### Strong 1st Quarter Result

Net Sales	up	22% to US\$186.8 million
Sales Volume	up	14% to 387.5 mmsf
Average Price	up	7% to US\$482 per msf
EBIT	up	39% to US\$54.1 million
EBIT Margin	up	3.6 pts to 29.0%



# USA Fibre Cement

## 1st Quarter Trading Conditions

- Housing construction remained healthy
  - Low interest rates
  - Strong house prices
  - Improved consumer confidence
  - Low housing inventory levels
- Poor spring weather in some regions

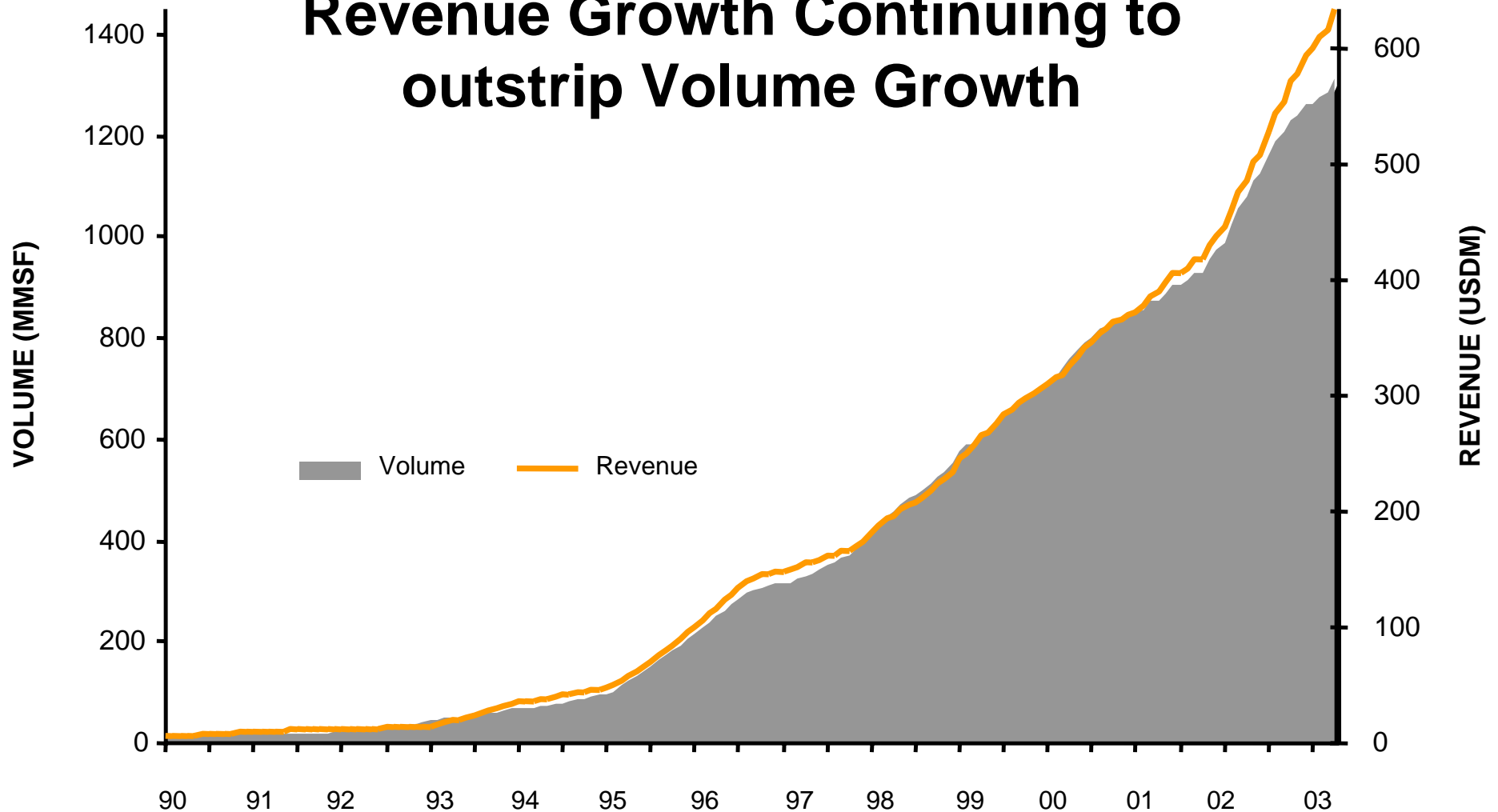
# USA Fibre Cement

## Key Points

- Continued strong demand for fibre cement
- Increased penetration of northern and southern regions
- Increased penetration of exterior and interior markets
- Strong growth in differentiated, higher-priced products
- Margin improvement
- Completed upgrade to Blandon, Pennsylvania plant
- Commissioned panel line at Waxahachie, Texas plant

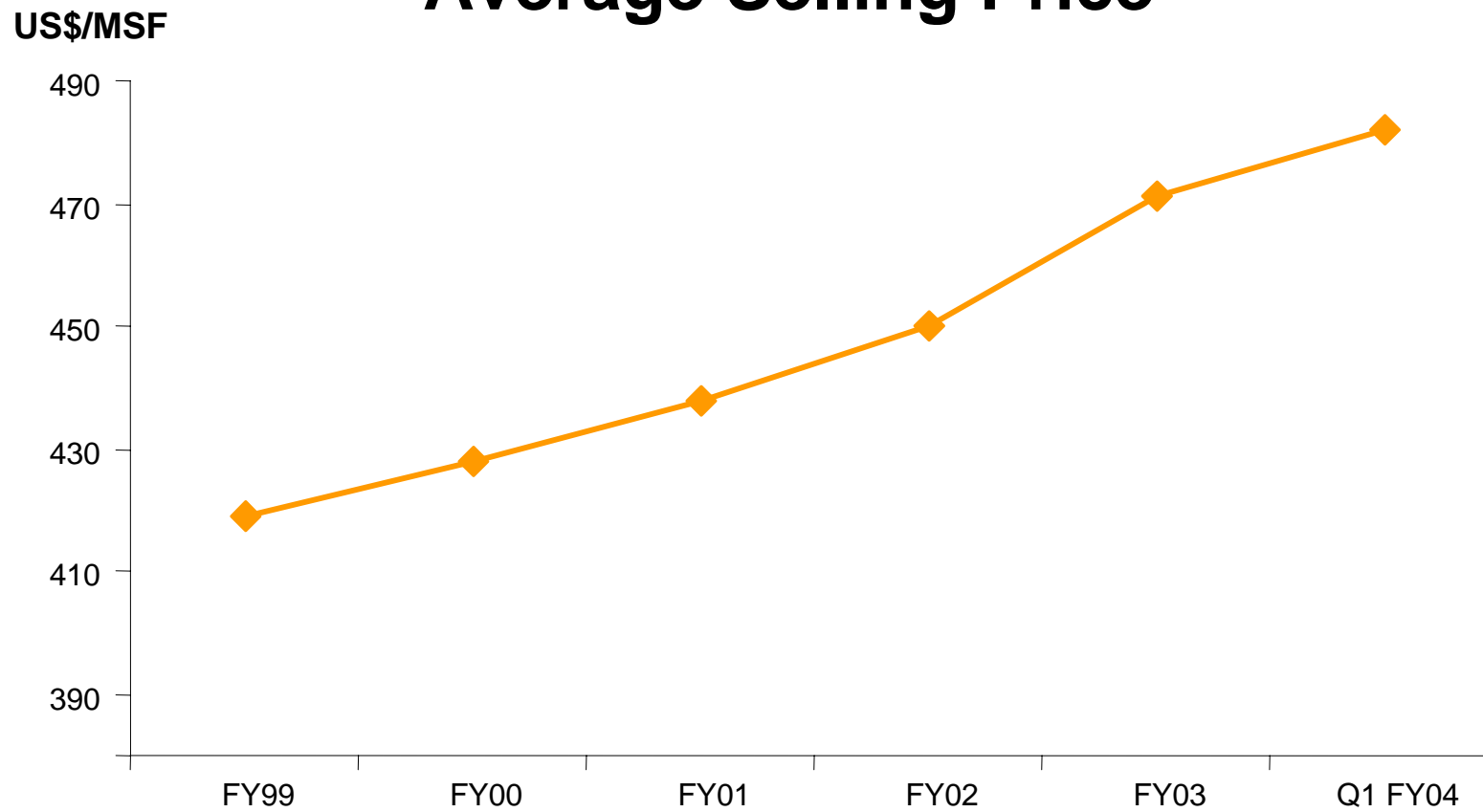
# USA Fibre Cement

## Revenue Growth Continuing to outstrip Volume Growth



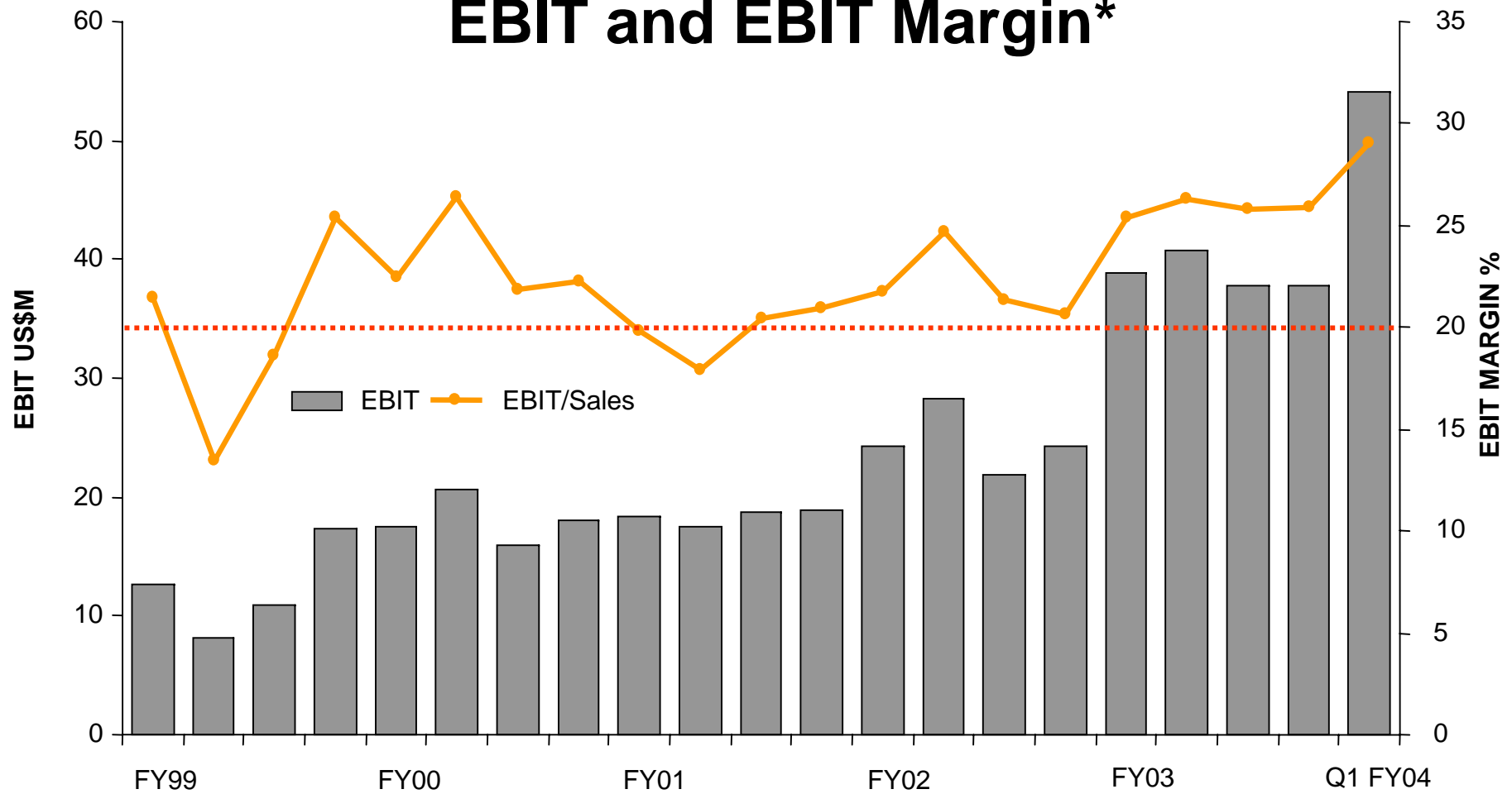
# USA Fibre Cement

## Average Selling Price



# USA Fibre Cement

## EBIT and EBIT Margin\*



\*Excludes restructuring and other operating expenses  
See Note 5

# USA Fibre Cement - Capacity Expansion

## New Flat Sheet Plant - Sacramento, California

- 300 mmsf design capacity to meet rapidly growing demand
- US\$47.5 million cost
- 50% more capacity
- One third lower capital cost/unit
- Plank, panel and backer products
- Expected completion – mid 2004

# USA Fibre Cement - Capacity Expansion

## New Trim Line – Peru, Illinois

- 160 mmsf design capacity
- Required to meet demand in mid-west and northeast
- US\$49.9 million cost
- Next generation of low density technology
- Expected completion – mid 2004

# USA Fibre Cement

## Strategy

- Aggressively grow market for fibre cement
- Grow our overall market position while defending our share in existing market segments
- Offer products with superior value to that of our competitors, introducing differentiated products to reduce direct price competition
- Optimise earnings with desired rate of market penetration



# USA Fibre Cement

## Outlook

- Continued strong demand for fibre cement
- Housing construction to remain buoyant over short to medium term
  - Low interest rates, house prices strong, new economic stimulus bill, improved consumer confidence
  - Approvals up, low inventories, large order backlogs
- Further market share gains in the north, south and across product range
- Continued growth in differentiated, higher price products
- Good growth and EBIT performance expected to continue

# Asia Pacific Fibre Cement



# Asia Pacific Fibre Cement

## 1st Quarter Result

Net Sales	up	23% to US\$50.1 million
Sales Volume	up	12% to 98.2 mmsf
EBIT	up	15% to US\$8.6 million
EBIT Margin	down	1.2 pts to 17.2%

# Asia Pacific Fibre Cement

## Strategy

- Grow primary demand for fibre cement
- Vigorously protect and grow category share in existing market segments
- Leverage our superior technology to offer differentiated products and systems with superior value to those of competitors
- Ongoing manufacturing improvements to further lower cost of production
- Grow the Asian market through participation in strategic markets

# Asia Pacific Fibre Cement

## Australia – Key Points

- New housing construction slowed but healthy renovations activity
- Volumes up 7%
- Temporary decline in manufacturing performance at Rosehill, NSW plant
- Launched ExoTec Facade Panel – our new premium panel for commercial applications
- Gross profit up 5%, EBIT up 5%, EBIT Margin 19.3%

# Asia Pacific Fibre Cement

## Australia – Outlook

- Housing sector to continue to slow
- Renovation and commercial segments to remain buoyant
- Manufacturing cost savings
- New strategies to increase demand
- Stronger EBIT performance

# Asia Pacific Fibre Cement

## New Zealand – Key Points

- New residential housing activity remained healthy – but signs of softening
- Renovations activity weaker
- Increased demand from key residential and commercial markets lifted volumes 3%
- Further strong demand for Linea weatherboard cladding and trim products
- Manufacturing cost savings
- Gross profit up 40%, EBIT up 70%, EBIT Margin 18.5%

# Asia Pacific Fibre Cement

## New Zealand – Outlook

- Housing sector to remain relatively healthy
- Strong demand for higher-priced, differentiated products
- Further manufacturing cost savings
- Further EBIT improvement



# Asia Pacific Fibre Cement

## Philippines – Key Points

- Net sales up 38% in local currency
- Volumes up 38% helped by strong export sales
- Manufacturing cost savings
- Small operating profit

# Asia Pacific Fibre Cement

## Philippines – Outlook

- Better economic conditions
- Stronger domestic sales and share growth
- Continued penetration against plywood
- Further cost savings

## Other Fibre Cement

### Chile Fibre Cement – Key Points

- Signs of recovery in construction activity
- Domestic prices for base products remained low due to competitors
- Continued penetration of domestic market
- Sales more than trebled
- Increased demand for differentiated, higher-priced products
- Performance above breakeven

## Other Fibre Cement

### Chile Fibre Cement – Outlook

- Entering normal seasonal industry slowdown
- Further market penetration and share growth
- Increased sales of differentiated, higher-priced products
- Prices for base products to remain low due to competitors

## Other Fibre Cement

### USA Hardie Pipe – Key Points

- Continued to penetrate the south-east market
- Sales and volumes more than trebled
- Improved manufacturing performance and lower costs
- Manufacturing costs still above our targets
- Prices remained low due to competitors

## Other Fibre Cement

### USA Hardie Pipe – Outlook

- Continued market penetration and share growth
- Further manufacturing improvements and cost savings
- Prices to remain affected by competition

# Europe

- Commenced operations in UK and France
- Launched Hardibacker and pre-painted siding
- Distribution outlets secured
- Positive response from distributors, builders and contractors
- Demand expected to grow as awareness of products increases

## Roofing

- Commissioned pilot plant at Fontana, California in June 2003
- Commenced manufacturing trials
- Building inventory levels to meet initial demand
- Sales expected in second quarter



# Research and Development

- Key driver of growth
- Core projects
  - engineered raw materials
  - product formulations
  - engineering and process technologies
  - lightweight and durable products for all climates
- Sustainable competitive advantage continuing to be built
- Announced US\$2.8 million expansion of R&D centre at Fontana, California
  - New laboratories and workspace for scientific, engineering, manufacturing and logistics personnel

# Outlook

- Strong results in Q1 continuing into Q2
- Prospects for good growth over the full year are encouraging

# Disclaimer

*This presentation contains forward-looking statements. Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, which are further discussed in our reports submitted to the Securities and Exchange Commission on Forms 20-F and 6-K and in our other filings, include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical construction markets; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.*

# Notes

- 1. Unless otherwise stated, results are for continuing operations only and comparisons are of the 1st quarter of the current fiscal year versus the 1<sup>st</sup> quarter of the prior fiscal year.*
- 2. This Management Presentation forms part of a package of information about the company's results. It should be read in conjunction with the other parts of this package, including Management's Discussion and Analysis (MD&A), a Media Release, a Financial Report and Results at a Glance document.*
- 3. EBIT is defined as operating income. EBIT margin is defined as EBIT as a percentage of our net sales. We believe EBIT and EBIT margin to be relevant and useful information as these are the primary measures used by our management to measure the operating profit or loss of our business. EBIT is one of several metrics used by our management to measure the cash generated from our operations, excluding the operating cash requirement of our interest and income taxes. Additionally, EBIT is believed to be a primary measure and terminology used by our Australian investors. EBIT and EBIT margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. EBIT and EBIT margin, as we have defined them, may not be comparable to similarly titled measures reported by other companies.*

*The use of EBIT and EBIT margins in this document are equivalent to the US GAAP measures of operating income and operating income margin.*

## Notes cont...

4. *EBITDA is not a measure of financial performance under US GAAP and should not be considered as an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by US GAAP or as a measure of our profitability or liquidity. All companies do not calculate EBITDA in the same manner and, accordingly, EBITDA may not be comparable with other companies. We have included information concerning EBITDA because we believe that EBITDA is commonly used by investors to evaluate the ability of a company's earnings from its core business operations to satisfy its debt, capital expenditure and working capital requirements.*
5. *Presentation of EBIT and EBIT Margin before restructuring and other operating (expense) income are not measures of financial performance under US GAAP and should not be considered to be more meaningful than EBIT and EBIT Margin. The Company has included these financial measures to provide investors with an alternative method for assessing the Company's operating results in a manner that is focused on the performance of the Company's ongoing operations. The Company's management uses these non-GAAP measures for the same purposes.*
6. *Operating profit from continuing operations is equivalent to the US GAAP measure of income from existing operations.*
7. *Net operating profit including discontinued operations is equivalent to the US GAAP measure of net income.*



# James Hardie

## FY04 1<sup>st</sup> Quarter Results

12 August 2003