



# James Hardie

## FY06 3<sup>rd</sup> Quarter and Nine Months Results 27 February 2006

*In this Management Presentation, James Hardie may present the financial measures, sales volume terms, financial ratios, and Non-US GAAP financial measures included in the Definitions section of this document starting on page 48. The company presents financial measures that it believes are customarily used by its Australian investors. Specifically, these financial measures include "EBIT", "EBIT margin", "Operating profit from continuing operations", and "Net operating profit including discontinued operations". James Hardie also presents other terms for measuring its sales volumes ("million square feet (mmsf)" and "thousand square feet (msf)"); financial ratios ("Gearing ratio", "Net interest expense cover", "Net interest paid cover", "Net debt payback", "Net debt/cash"); and Non-US GAAP financial measures ("EBIT and EBIT margin excluding SCI and other related expenses", and "Operating profit from continuing operations excluding SCI and other related expenses"). Unless otherwise stated, results are for continuing operations only and comparisons are of the 3rd quarter and first nine months of the current fiscal year versus the 3rd quarter and first nine months of the prior fiscal year.*

# Agenda

- Overview and Operating Review – Louis Gries, CEO
- Financial Review – Russell Chenu, CFO
- Asbestos-related compensation funding proposal – Russell Chenu, CFO
- Questions and Answers

# Overview

- Results
  - Q3 FY06 operating profit of US\$40.7 million
  - Q3 FY06 EBIT of \$64.4 million
  
- Results excluding SCI and other related expenses
  - Q3 FY06 operating profit of US\$45.1 million, up 43%
  - Q3 FY06 EBIT of US\$69.2 million, up 41%

# Overview

- Strong 3<sup>rd</sup> Quarter results
  - Very strong top-line growth
  - Significant EBIT improvement despite higher costs
  - On track to meet business targets for the year
  - Strong cash flow generation
  - Further strengthening of balance sheet
  - Continuing discussions on conditions precedent to SPF
  - No provision booked at this quarter end

# Overview

## 3<sup>rd</sup> Quarter and Nine Months FY06

	Q3 FY06 %	9 Mths FY06 %
Net Sales	up 26	up 23
Gross Profit	up 33	up 35
EBIT	up 93	up 73
EBIT excluding SCI and other related expenses	up 41	up 55
Operating Profit from Continuing Operations excluding SCI and other related expenses	up 43	up 56

# Highlights

## 3<sup>rd</sup> Quarter

- Top line growth of 26% to US\$362.7 million
- Gross profit up 33%
- USA Fibre cement sales up 35%
- USA Fibre Cement EBIT up 52%

# Exceeding Targets

	<u>9 Mth FY'06</u> <u>Actual</u>	<u>Long Term</u> <u>Target</u>
Revenue Growth	23%	>15% pa
EBIT <sup>1</sup> /Sales	22%	>15% pa
Return on Assets <sup>2</sup>	17%	>15% pa

<sup>1</sup> Excludes SCI and other related expenses

<sup>2</sup> Net income divided by total average assets



# **Operating Review**

**Louis Gries, CEO**



# USA Fibre Cement



# USA Fibre Cement

## 3<sup>rd</sup> Quarter Result – Very Strong Sales Growth

Net Sales	up	35% to US\$297.9 million
Sales Volume	up	22% to 527.5 mmsf
Average Price	up	11% to US\$565 per msf
EBIT	up	52% to US\$79.7 million
EBIT Margin	up	3.1 pts to 26.8%

# USA Fibre Cement

## 3<sup>rd</sup> Quarter Trading Conditions

- New housing construction and repair and remodelling remained at very solid levels
  - Low interest rates
  - Increased owner equity
- Freight and energy costs remained high

# USA Fibre Cement

## Key Points

- Growth in both emerging and established markets
- Both interior and exterior products growing strongly
- Continued market penetration against alternative materials
- Strong sales growth in higher-priced differentiated products
- ColorPlus™ strategy continuing to progress well
- More paint lines being built
- High cement, energy and freight costs continue

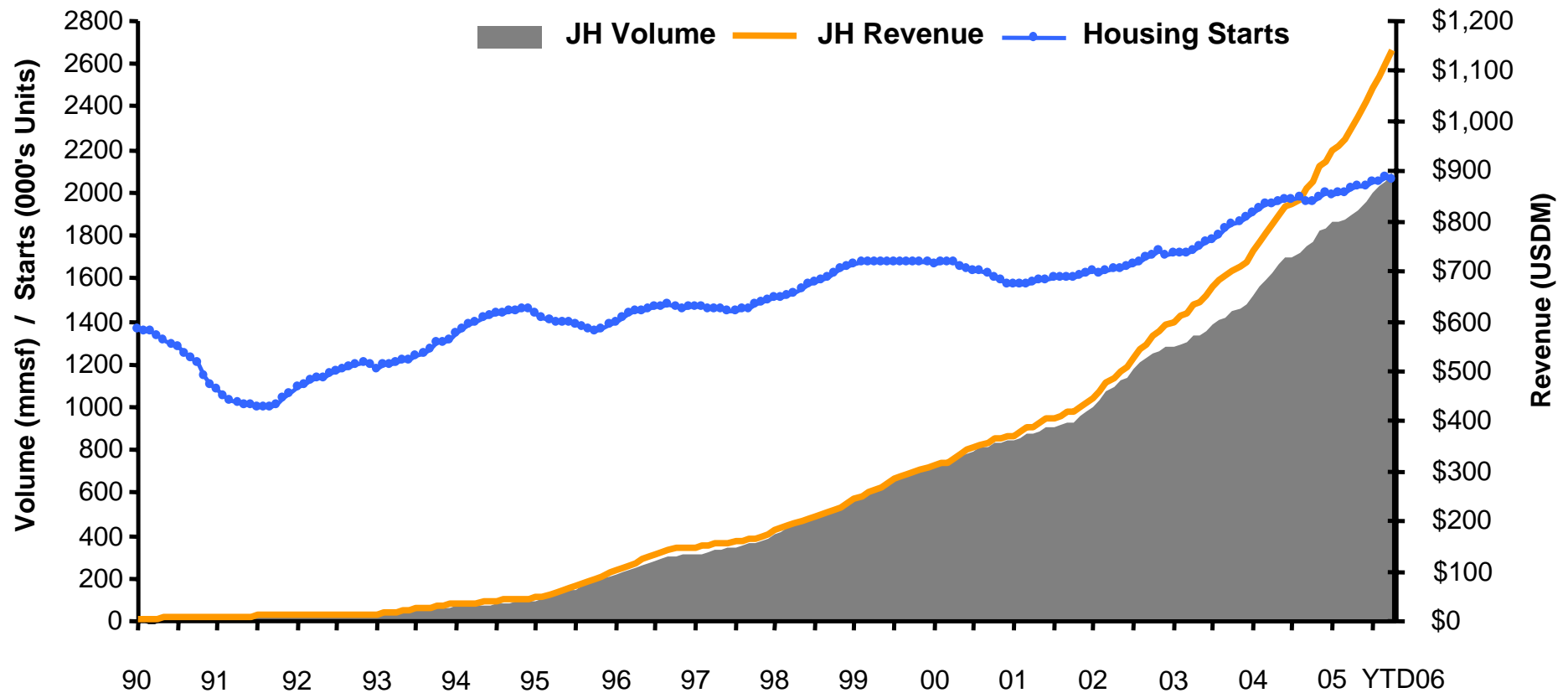
# USA Fibre Cement

## Outlook

- New housing construction activity to slow, but stay at healthy levels
  - Gradual increase in interest rates
  - Permits expected to remain strong
- Repair and remodelling activity to remain healthy
- Further growth in primary demand for fibre cement and value-added specialty products
- More market share gains against alternative materials
- Cement, energy and freight costs to remain high
- Strong sales growth and EBIT performance to continue

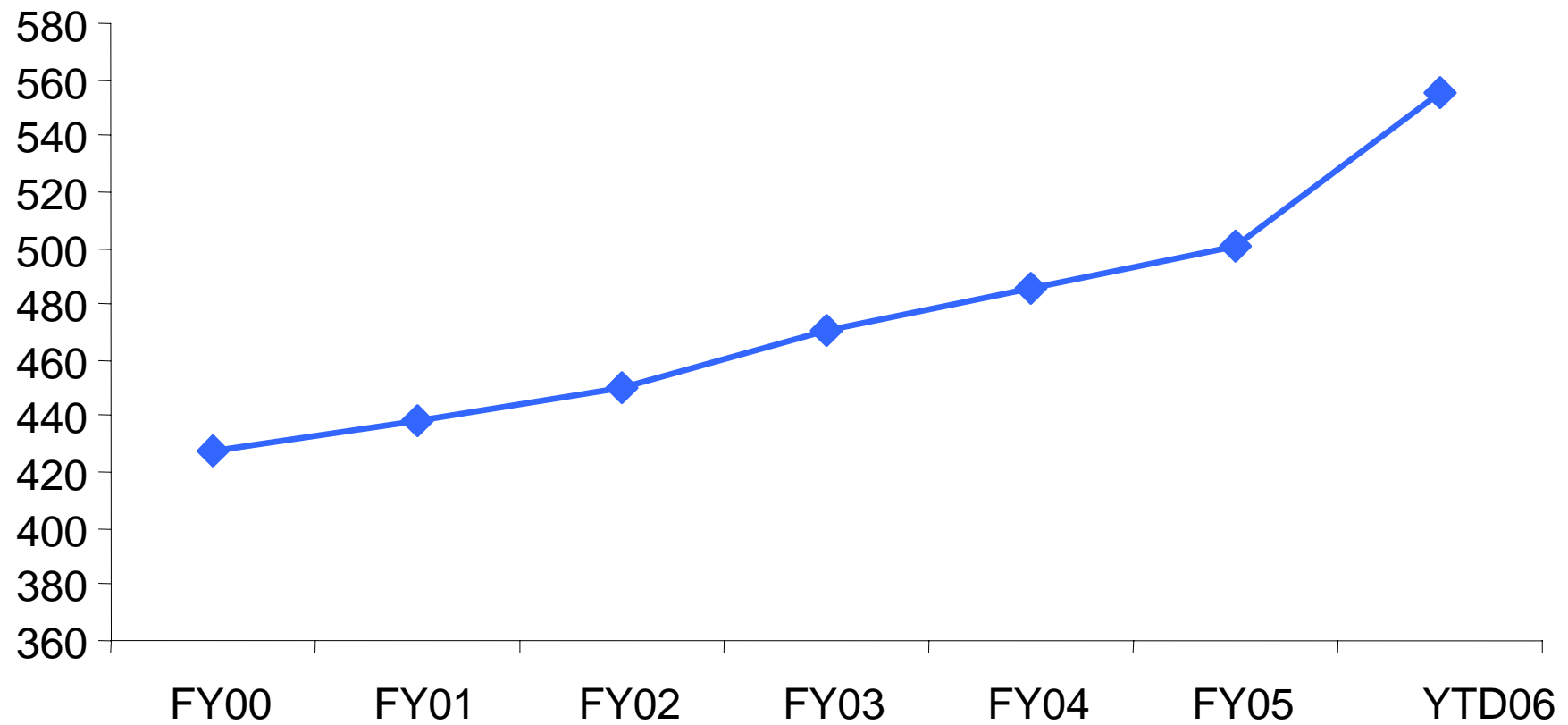
# USA Fibre Cement

## Top Line Growth



# USA Fibre Cement

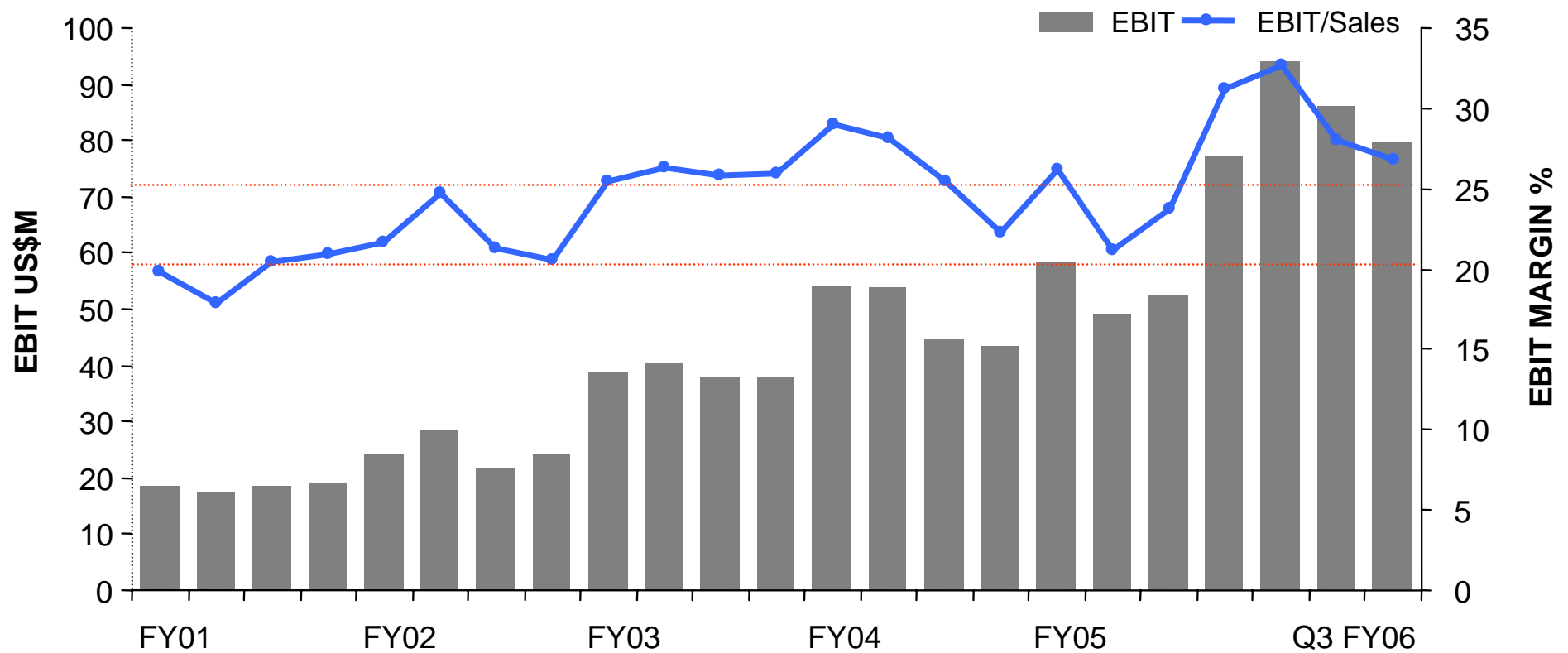
## Average Selling Price





# USA Fibre Cement

**EBIT and EBIT Margin\***



\*Excludes restructuring and other operating expenses of US\$12.6 million in Q3'FY02



# USA Fibre Cement

## Strategy – Unchanged

- Aggressively grow primary demand for fibre cement in our targeted markets
- Increase our share of exterior cladding and backer board market while maintaining our existing category share
- Leverage our superior technology to offer differentiated, segment-specific products
- Offer products with superior value to that of our competitors to reduce direct price competition

# Asia Pacific Fibre Cement



# Asia Pacific Fibre Cement

## 3<sup>rd</sup> Quarter Result

Net Sales                      up                      2% to US\$59.4 million

Sales Volume                up                      2% to 92.3 mmsf

EBIT                            down                  22% to US\$8.0 million

EBIT Margin                 down                  4.1 pts to 13.5%

# Asia Pacific Fibre Cement

## Strategy – Unchanged

- Grow primary demand for fibre cement
- Vigorously protect and grow category share in existing market segments
- Leverage our superior technology to offer differentiated products with greater value than those of competitors
- Offer lowest delivered cost for manufactured product

# Asia Pacific Fibre Cement

## Australia and New Zealand – Key Points

- New housing construction remained weaker in both Australia and New Zealand
- Results affected by industrial action in Australia and New Zealand; issues resolved in NZ and discussions underway in Australia
- Market strategies helped Australian business increase market share over quarter and nine months
- Net sales up 3% to US\$53.1 million
- EBIT down 20%, EBIT margin 13.7%

# Asia Pacific Fibre Cement

## Australia and New Zealand – Outlook

- New housing construction and renovation activity expected to remain flat in Australia, decline in New Zealand
- Growth expected in primary demand for fibre cement in Australia and New Zealand, largely driven by Linea® weatherboards
- Cost reductions planned across business

# Asia Pacific Fibre Cement

## Philippines - Key Points

- Domestic construction continues to be affected by political and economic uncertainty
- Net sales flat, sales volume down - partially offset by higher selling prices
- EBIT down

## Outlook

- Conditions to remain difficult
- Market share will continue to be aggressively pursued by competitors
- On-going political and economic uncertainty

# Other

## USA Hardie Pipe - Key Points

- Non-residential construction activity in Florida remained buoyant, driven by internal migration
- Expanded market within Florida
- Improved manufacturing performance
- Sales volume down, partially offset by stronger selling price
- EBIT loss flat for quarter



## Other

### Europe Fibre Cement

- Strong demand
- Increased average net sales price
- Market expansion

### Artisan™ Roofing

- On-going refinement of business strategy and manufacturing operation

# Overall Outlook

- Housing construction and repair and remodelling activity in North America to slow, but remain healthy
  - Further market penetration against alternative materials
  - Increased share of US exterior cladding and backer board markets
  - Confident of achieving 15%-25% revenue growth for FY06
  - Expect to run above EBIT<sup>1</sup> margin target over short-term
- No material improvement to market conditions in Asia Pacific businesses expected over short-term
- SCI and other related expenses expected to continue into FY 2007

<sup>1</sup> Excluding SCI and other related expenses



# **Financial Review**

**Russell Chenu, CFO**

# Overview

- US continued to drive significant earnings growth
- Company continued to generate strong operating cash flow
  - Nine months up 43% to US\$217.1 million
- Financial position further strengthened
  - Net cash US\$27.3 million v US\$45.8<sup>1</sup> million net debt at 31 March 2005

<sup>1</sup> Includes Chile debt of US\$11.9 million

# Results – Q3

<u>US\$ Millions</u>	<u>Q3 '06</u>	<u>Q3 '05</u>	<u>% Change</u>
Net Sales	362.7	287.0	26
Gross profit	128.7	96.7	33
SG&A expenses	(51.2)	(41.5)	23
R & D	(8.3)	(6.1)	36
SCI & other related expenses	(4.8)	(15.9)	(70)
Other operating expense	-	0.1	-
EBIT	64.4	33.3	93
Net interest income (expense)	0.8	(0.7)	-
Other income, net	-	0.4	-
Income tax expense	(24.5)	(13.2)	86
<b>Operating profit from continuing operations</b>	<b>40.7</b>	<b>19.8</b>	<b>106</b>
EBIT excluding SCI and other related expenses	69.2	49.2	41
Operating profit from continuing operations excluding SCI and other related expenses	45.1	31.5	43

# Results – Nine Months

<u>US\$ Millions</u>	<u>9 Mths '06</u>	<u>9 Mths '05</u>	<u>% Change</u>
Net Sales	1,098.7	894.0	23
Gross profit	411.3	305.1	35
SG&A expenses	(146.4)	(132.1)	11
R & D	(21.7)	(16.4)	32
SCI & other related expenses	(14.7)	(24.4)	(40)
Other operating expense	(0.8)	(0.6)	33
EBIT	227.7	131.6	73
Net interest expense	(0.9)	(4.5)	-
Other expense, net	-	(1.5)	-
Income tax	(82.6)	(44.0)	88
<b>Operating profit from continuing operations</b>	<b>144.2</b>	<b>81.6</b>	<b>77</b>
EBIT excluding SCI and other related expenses	242.4	156.0	55
Operating profit from continuing operations excluding SCI and other related expenses	158.3	101.8	56

# Segment Net Sales – Q3

<u>US\$ Millions</u>	<u>Q3 '06</u>	<u>Q3 '05</u>	<u>% Change</u>
USA Fibre Cement	297.9	220.3	35
Asia Pacific Fibre Cement	59.4	58.1	2
Other	5.4	8.6	(37)
Total	362.7	287.0	26

# Segment Net Sales – Nine Months

<u>US\$ Millions</u>	<u>9 Mths '06</u>	<u>9 Mths '05</u>	<u>% Change</u>
USA Fibre Cement	892.8	692.0	29
Asia Pacific Fibre Cement	184.6	177.9	4
Other	21.3	24.1	(12)
Total	1,098.7	894.0	23



# Segment EBIT – Q3

<u>US\$ Millions</u>	<u>Q3 '06</u>	<u>Q3 '05</u>	<u>% Change</u>
USA Fibre Cement	79.7	52.3	52
Asia Pacific Fibre Cement	8.0	10.2	(22)
R & D	(4.6)	(3.9)	(18)
Other	(3.2)	(2.6)	(23)
General Corporate	(15.5)	(22.7)	32
<b>EBIT</b>	<b>64.4</b>	<b>33.3</b>	<b>93</b>
<b>Add back:</b>			
SCI and other related expenses	4.8	15.9	(70)
EBIT excluding SCI and other related expenses	69.2	49.2	41

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

# Segment EBIT – Nine Months

<u>US\$ Millions</u>	<u>9 Mths '06</u>	<u>9 Mths '05</u>	<u>% Change</u>
USA Fibre Cement	259.9	164.4	58
Asia Pacific Fibre Cement	32.4	34.5	(6)
R & D	(11.8)	(11.4)	(4)
Other	(9.3)	(10.1)	8
General Corporate	(43.5)	(45.8)	5
<b>EBIT</b>	<b>227.7</b>	<b>131.6</b>	<b>73</b>
<b>Add back:</b>			
SCI and other related expenses	14.7	24.4	(40)
EBIT excluding SCI and other related expenses	242.4	156.0	55

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

# Corporate Costs – Q3 and Nine Months

<u>US\$ Millions</u>	<u>Q3'06</u>	<u>Q3'05</u>	<u>9 Mths '06</u>	<u>9 Mths '05</u>
SCI and other related expenses	4.8	15.9	14.7	24.4
Stock compensation expense	1.9	0.8	4.2	1.5
Other costs	8.8	6.0	24.6	19.9
Total	15.5	22.7	43.5	45.8

# Net Interest Expense

US\$ Millions

Q3'06

Q3'05

Net interest income (expense)

0.8

(0.7)

9 Mths '06

9 Mths'05

Net interest expense

(0.9)

(4.5)

# Income Tax

US\$ Million

	Q3'06	Q3'05	% Change
Effective income tax rate	37.6%	40.0%	-
Income tax expense	24.5	13.2	86
Income tax benefit related to SCI and other related expenses	0.4	4.2	(90)
Income tax expense excluding tax benefit related to SCI and other related expenses	24.9	17.4	43
Operating profit from continuing operations before income taxes	65.2	33.0	98
SCI and other related expenses	4.8	15.9	(70)
Operating profit from continuing operations before income taxes excluding SCI and other related expenses	70.0	48.9	43
Effective income tax rate excluding SCI and other related expenses	35.6%	35.6%	-

# Income Tax

US\$ Million

	9 Mths'06	9 Mths'05	% Change
Effective income tax rate	36.4%	35.0%	-
Income tax expense	82.6	44.0	88
Income tax benefit related to SCI and other related expenses	0.6	4.2	(86)
Income tax expense excluding tax benefit related to SCI and other related expenses	83.2	48.2	73
Operating profit from continuing operations before income taxes	226.8	125.6	81
SCI and other related expenses	14.7	24.4	(40)
Operating profit from continuing operations before income taxes excluding SCI and other related expenses	241.5	150.0	61
Effective income tax rate excluding SCI and other related expenses	34.5%	32.1%	-

# EBITDA – Q3

<u>US\$ Millions</u>	<u>Q3'06</u>	<u>Q3'05</u>	<u>% Change</u>
<b>EBIT</b>			
USA Fibre Cement	79.7	52.3	52
Asia Pacific Fibre Cement	8.0	10.2	(22)
Other	(3.2)	(2.6)	(23)
R&D	(4.6)	(3.9)	(18)
General Corporate	(15.5)	(22.7)	32
<b>Depreciation and Amortisation</b>			
USA Fibre Cement	6.7	5.4	24
Asia Pacific Fibre Cement	2.7	2.5	8
Other segments	0.7	0.8	-
<b>EBITDA</b>	<b>74.5</b>	<b>42.0</b>	<b>77</b>
<b>Add back:</b>			
SCI and other related expenses	4.8	15.9	(70)
<b>EBITDA excluding SCI and other related expenses</b>	<b>79.3</b>	<b>57.9</b>	<b>37</b>

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

Other segments, Depreciation and Amortisation includes Other, R&D and General Corporate

# EBITDA – 9 Months

<u>US\$ Millions</u>	<u>9 Mths'06</u>	<u>9 Mths'05</u>	<u>% Change</u>
<b>EBIT</b>			
USA Fibre Cement	259.9	164.4	58
Asia Pacific Fibre Cement	32.4	34.5	(6)
Other	(9.3)	(10.1)	8
R & D	(11.8)	(11.4)	(4)
General Corporate	(43.5)	(45.8)	5
<b>Depreciation and Amortisation</b>			
USA Fibre Cement	23.0	17.0	35
Asia Pacific Fibre Cement	7.4	7.3	1
Other segments	2.2	2.3	(4)
<b>EBITDA</b>	<b>260.3</b>	<b>158.2</b>	<b>65</b>
<b>Add back:</b>			
SCI and other related expenses	14.7	24.4	(40)
<b>EBITDA excluding SCI and other related expenses</b>	<b>275.0</b>	<b>182.6</b>	<b>51</b>
<b>Net cash provided by operating activities</b>	<b>217.1</b>	<b>151.9</b>	<b>43</b>

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

Other segments, Depreciation and Amortisation includes Other, R&D and General Corporate



# Capital Expenditure – Nine Months

<u>US\$ Million</u>	<b>Capital Expenditure</b>		<b>Depreciation</b>	
	<u>9 Mths FY06</u>	<u>9 Mths FY05</u>	<u>9 Mths FY06</u>	<u>9 Mths FY05</u>
USA Fibre Cement	118.0	119.6	23.0	17.0
Asia Pacific Fibre Cement	4.4	2.8	7.4	7.3
Other segments	1.4	3.5	2.2	2.3
<b>Total</b>	<b>123.8</b>	<b>125.9</b>	<b>32.6</b>	<b>26.6</b>

Other segments includes Other, R&D and General Corporate

# Key Ratios

	<u>9 Mths'06</u>	<u>FY'05</u>	<u>FY'04</u>
EPS (Diluted)	31.0c	27.7c	27.2c
Dividend paid per share	10.0c	3.0c	5.0c
Return on Shareholders' Funds <sup>1,2</sup>	28.2%	22.4%	27.6%
Return on Capital Employed <sup>2</sup>	32.6%	23.6%	23.4%
EBIT/ Sales (EBIT margin)	20.7%	16.2%	17.5%
Gearing Ratio	(3.8)%	6.8%	17.0%
Net Interest Expense Cover	253.0x	38.5x	17.2x
Net Interest Paid Cover	56.9x	18.3x	14.8x
Net Debt Payback	(0.1) years	0.2 years	0.6 years

<sup>1</sup> Total company

<sup>2</sup> Annualised



# **Asbestos-related compensation funding**

**Russell Chenu, CFO**

# Asbestos Compensation Funding Proposal

## Update

- Final Funding Agreement (FFA) signed 1 December 2005
- Focus now on satisfying conditions precedent
- Continuing to discuss tax deductibility of payments to Special Purpose Fund and tax exempt status of SPF with Australian Taxation Office and Commonwealth Treasury
- James Hardie is reviewing Federal Government's proposed legislation for business black hole expenditure and will apply for private ruling
- Provision not booked at quarter end
  - Still not probable or estimable under US GAAP (SFAS 5)
- Not possible to reliably estimate date for shareholder meeting

# Summary

- Strong operating performance
- The company's financial position remains strong
- Tax deductibility of payments to the SPF remains a key issue for “affordability”
- SCI and other related expenses continue to be a significant cost burden

# Questions & Answers

# Disclaimer

*This Management Presentation contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports filed with or furnished to the United States Securities and Exchange Commission on Forms 20-F and 6-K, in our annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of forward-looking statements include:*

- *expectations that the conditions precedent to the Final Funding Agreement will be satisfied;*
- *expectations about payments to a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;*
- *projections of our operating results or financial condition;*
- *statements regarding our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;*
- *statements about our future performance; and*
- *statements about product or environmental liabilities.*

*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, some of which are discussed under "Risk Factors" beginning on page 6 of our Form 20-F filed on 7 July 2005 with the Securities and Exchange Commission, include but are not limited to: all matters relating to or arising out of the prior manufacture of products that contained asbestos by current and former James Hardie Australian subsidiaries; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which we operate; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; general economic and market conditions; the supply and cost of raw materials; the success of our research and development efforts; our reliance on a small number of product distributors; compliance with and changes in environmental and health and safety laws; risks of conducting business internationally; compliance with and changes in laws and regulations; foreign exchange risks; the successful implementation of new software systems; and the successful transition of our new senior management. 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 in forward-looking statements. Forward-looking statements speak only as of the date they are made.*

# Endnotes

## DEFINITIONS

### Financial Measures – US GAAP equivalents

**EBIT and EBIT margin** - EBIT is equivalent to the US GAAP measure of 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 earnings generated by our operations, excluding interest and income tax expenses. 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.

**Operating profit from continuing operations** - is equivalent to the US GAAP measure of income from continuing operations.

**Net operating profit including discontinued operations** - is equivalent to the US GAAP measure of net income.



### **Sales Volumes**

**mmsf** – million square feet, where a square foot is defined as a standard square foot of 5/16” thickness.

**msf** – thousand square feet, where a square foot is defined as a standard square foot of 5/16” thickness.

### **Financial Ratios**

**Gearing Ratio** – Net debt divided by net debt/cash plus shareholders’ equity.

**Net interest expense cover** – EBIT divided by net interest expense.

**Net interest paid cover** – EBIT divided by cash paid during the period for interest.

**Net debt payback** – Net debt/cash divided by annualized cash flow from operations times 12 months.

**Net debt/cash** – short-term and long-term debt less cash and cash equivalents.

### Non-US GAAP Financial Measures

**EBIT and EBIT margin excluding SCI and other related expenses** – EBIT and EBIT margin excluding SCI and other related expenses are not measures of financial performance under US GAAP and should not be considered to be more meaningful than EBIT and EBIT margin. We have included these financial measures to provide investors with an alternative method for assessing our operating results in a manner that is focussed on the performance of our ongoing operations and provides useful information regarding our financial condition and results of operations. We use this non-US GAAP measure for the same purposes.

<b>US\$ Million</b>	<b>Q3 FY06</b>	<b>Q3 FY05</b>	<b>9 Mth FY06</b>	<b>9 Mth FY05</b>
EBIT	\$64.4	\$33.3	\$227.7	\$131.6
SCI and other related expenses	4.8	15.9	14.7	24.4
EBIT excluding SCI and other related expenses	69.2	49.2	242.4	156.0
Net Sales	\$362.7	\$287.0	\$1,098.7	\$894.0
EBIT margin excluding SCI and other related expenses	19.1%	17.1%	22.1%	17.4%

**Operating profit from continuing operations excluding SCI and other related expenses** – Operating profit from continuing operations excluding SCI and other related expenses is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than Operating profit from continuing operations. We have included this financial measure to provide investors with an alternative method for assessing our operating results in a manner that is focussed on the performance of our ongoing operations. We use this non-US GAAP measure for the same purposes.

<b>US\$ Million</b>	<b>Q3 FY06</b>	<b>Q3 FY05</b>	<b>9 Mth FY06</b>	<b>9 Mth FY05</b>
Operating (loss) profit from continuing operations	\$40.7	\$19.8	\$144.2	\$81.6
SCI and other related expenses, net of tax	4.4	11.7	14.1	20.2
Operating profit from continuing operations excluding SCI and other related expenses	45.1	31.5	158.3	101.8

**EBITDA** – is not a measure of financial performance under US GAAP and should not be considered 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. Not all companies calculate EBITDA in the same manner as we have and, accordingly, EBITDA may not be comparable with other companies. We have included information concerning EBITDA because we believe that this data 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.