

# Chief Executive Officer's Report



“We have created a platform for strong growth.”

PETER MACDONALD, CHIEF EXECUTIVE OFFICER

The company ended the year on a particularly strong note.

While there were costs to establish our new corporate structure and reconfigure our operations, these expenses are already yielding the desired returns and we expect this to continue.

We are now focussed on expanding our fibre cement business, in existing and new markets, to generate strong growth and sustainable high returns on our investments.

## Key Points

Our US Fibre Cement business recorded another year of strong growth and is well-positioned to expand further.

Sales from our Asia Pacific Fibre Cement segment increased in Australian dollars and our Philippines business achieved its first ever profit during the last quarter of the year.

We increased spending on research and development so that we can accelerate development of new technologies that have attractive commercial potential.

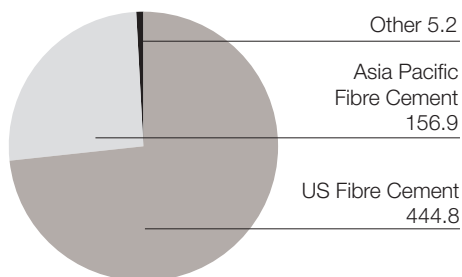
We continued to evaluate markets for fibre cement around the world with a view to further expanding our geographic presence.

## USA

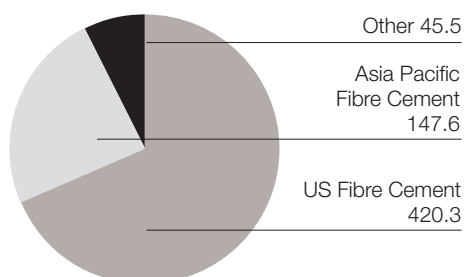
Demand for our fibre cement continued to grow strongly. Sales revenue and volume increased markedly and, combined with a higher average selling price, EBIT\* increased 34% to US\$98.4 million. Housing activity in the United States remained at high levels and we see no signs of an imminent slowdown.

We continued to expand production capacity to accommodate growing demand for our products. In Texas, we commissioned a new 200 mmsf per annum capacity production line at our plant at Waxahachie to give us additional capacity. In December 2001, we acquired the fibre cement manufacturing plants in Pennsylvania and South Carolina from Cemplant Inc. This will help us grow sales in important regional markets within the USA, as well as reducing our logistics costs.

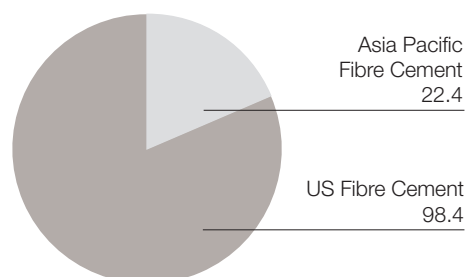
Net Sales (US\$ million)



Assets (US\$ million)



EBIT\* (US\$ million)



Operational EBIT of R&D and other was a loss of US\$18.2 million



The completion of a second production line at our plant in Peru, Illinois later this year will take our total annual production capacity in the USA to more than 2 billion square feet.

In the coming year, we will start commercial production trials of a new generation of roofing products for the United States market using James Hardie-developed technology which has significant proprietary value. The market for roofing is larger than the siding market in which we have already been highly successful, and therefore offers us a significant growth opportunity.

To generate further growth in demand for fibre cement in the United States, and sustain attractive margins, we will continue to introduce differentiated products. We are also implementing strategies to increase sales of fibre cement for repair and remodelling applications.

**Australia**

Sales revenue fell due to more competitive pricing, but sales volume was almost unchanged. These results reflect the downturn in the new housing market, which affected results in the first quarter of the year. Performance trends in the latter part of the year showed significant improvement over the first half and these trends are continuing.

EBIT increased 212% to US\$18.4 million after allowing for restructuring expenses associated with the cessation of manufacturing at the Welshpool site in the prior year. Disregarding restructuring expenses in the prior year, EBIT fell by 14%.

We expect the current high level of residential building activity to moderate somewhat as interest rates, although relatively low, have increased and the Government's First Home Owner's Scheme will be reduced from June.

We will effectively target this market using the new, differentiated products we introduced during the year. With additional manufacturing and supply chain efficiencies, we expect to deliver higher sales revenues and improved profitability.

**New Zealand**

Sales revenue remained unchanged, a satisfactory result given subdued demand from the new residential housing market. This was partly offset by increased sales to the commercial building market.

EBIT increased 30% from US\$4.0 million to US\$5.2 million, primarily due to changes in our sales mix and lower manufacturing costs. We expect strong growth in residential building in the coming year, with new housing starts forecast to be up 11% compared to the last year.

We also expect sales growth from the launch of two new products, Monotek® and Linea®, both of which are generating a positive response from customers.

**Philippines**

Sales revenue increased due to higher sales volumes in domestic and export markets and an increase in the average selling price. The business was cashflow positive for the full year, reducing the EBIT loss of the previous year by US\$4.3 million to US\$1.2 million. The business made its first ever profit in the 4th quarter of the year.

**Chile**

Our Chilean operation began commercial production in March 2001 and is still in start-up mode, which resulted in a full-year operating loss. Despite this, it has successfully captured around 20% of the country's fibre cement flat sheet sales with its EconoBoard™ and DuraBoard™ products.

As expected, we are encountering strong competition, and we have employed pricing strategies accordingly. We expect steady growth in sales volumes to continue as the business builds brand awareness and further develops its distribution channels.

**US FRC Pipes**

FRC Pipes commenced production at a new plant in Florida in March 2001 and is increasing sales volumes each quarter. Start-up costs resulted in an operating loss for the year.

Larger diameter pipes have been added to the range, enabling the business to compete for a larger number of construction projects. Significant improvements have also been incorporated into the manufacturing process.

The business has secured major distributors, increasing sales in the south-east, and is well-positioned to take advantage of growing demand as construction contractors realise the benefits offered by FRC pipes.

**Future**

Most businesses improved their operating performance during the latter half of the fiscal year, and we expect this performance trend to continue. Our businesses have strategies in place to deal with the economic and trading conditions they will encounter, and all have plans to launch new, differentiated products designed to increase sales. Sales of existing products are also expected to grow. We are planning additional improvements in manufacturing, aimed at reducing costs further. Revenue growth and lower costs are expected to lead to increased profitability.

*\* Before restructuring and other operating expenses*

Peter Macdonald  
Chief Executive Officer

Images left to right – Linea®, a new weatherboard, has been launched in New Zealand. James Hardie siding is ideally suited to traditional American architectural styles. Cemplant's Blandon, Pennsylvania, plant was acquired in December 2001.