

## CEO's Report

Our goal is to capitalise on our unique fibre cement technology so we can sustain our strong competitive advantage and achieve high rates of profitable growth. Our fibre cement manufacturing plants are built to our own designs and incorporate engineering and process technology that is unique to James Hardie.

Our product formulations are developed in-house and are proprietary. In addition, key aspects of our process and product technology are patented or have other forms of intellectual property protection. Put simply, we can make products our competitors can't. We can build and commission manufacturing plants at less than half the cost of our competitors, our plants are 2-3 times larger than theirs, and operating costs are 20-30% lower.

We make the widest range of fibre cement products in the industry and many are unique and highly differentiated. The value these products create for customers allows us to sustain higher selling prices and grow our share of targeted markets at the expense of alternative materials.

These are the basic elements of the business model we are pursuing to achieve high rates of growth and above-average returns on invested capital.

### Market growth

We continue to gain market share in the United States and in Canada, in both exterior and interior product categories.

Our share of the 10 billion square feet USA exterior products market has grown from less than 1% in 1994 to about 11% in 2003. By 2007, we believe this total market will have grown to about 11 billion square feet and our share could grow to about 20%.

The market for decorative trim is 3 billion square feet a year and sales of Harditrim® are growing at more than 50% a year.

The USA repair and remodel market is projected to account for up to 55% of the total market by 2007. By then, we believe it could account for up to 30% of our USA sales, up from around 20% today.

Similarly, we see good growth potential in the northern half of the United States.

## STRONG GROWTH PROSPECTS



20%

Increase in operating profit (continuing operations)

By 2007, we think it could account for 30% of our sales, up from 20% today.

The market for backerboards could grow even faster. In 2002, we held a 20% share of this market, estimated to be almost 1 billion square feet a year. By 2007, we believe this segment will have grown by about 10% and our share could grow to about 40%.

We have strong growth targets in the USA - which today accounts for around 80% of our sales - coupled with significant further growth potential in Australia and New Zealand as we introduce new products that have been proven in the United States. In Australia, in particular, we believe there is significant potential to increase demand for our products and reclaim market share that has been lost in recent years.

#### Capacity Growth

We continue to invest in production capacity so we can meet rapidly growing demand. In the past year, we spent over US\$42 million to add capacity in Texas, Illinois and Pennsylvania. Further capacity expansion is being considered.

#### Product growth

Our investment in research and development allows us to develop products with improved durability and aesthetics, and for new applications. Some of these new products will reach the market this year; others are still in development.

We see strong potential for our fibre reinforced cement pipes due to the considerable cost and performance advantages they offer over plastic and conventional steel reinforced concrete pipes. The USA pipe markets we are targeting generate total sales of US\$2 billion a year. Our goal is to improve the performance of our first plant in Florida, where we already have a 15% share of the market, then expand into other states. In Australia, we also have a 15% share of our target market and aim to grow this further.

We have recently launched new tile backer boards in the USA and Australia and expect these to further increase sales. In New Zealand, our new low-density Linea® weatherboards have been more successful than expected and we plan to launch similar products in other markets.

Australia is also the site of an exciting development in our commercial facade products, with the launch of the more durable ExoTec™ Facade Panel.

This year, we will launch our new generation roofing product in southern California. This product was developed by our in-house R&D team and will be made on a new type of fibre cement plant that was also developed in-house. Over 13 billion square feet of residential roofing material is installed in the USA each year and our initial target market alone is about 2 billion square feet.

#### Geographic growth

We have just started selling fibre cement in Europe, a market that could offer significant potential over the long term. In the following pages you can read more about our unique technology and how we are planning to use it to generate high rates of growth.



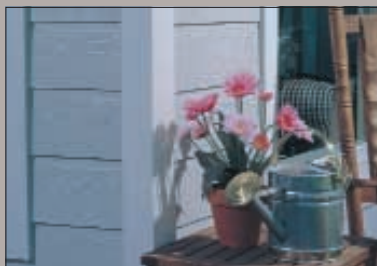
Peter Macdonald, CEO



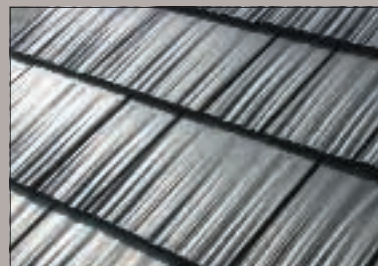
PETER MACDONALD  
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