



## Operating Review

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The full year operating result was very satisfactory, although the bottom line was significantly affected by the costs of the SCI and other related issues.

Our Chairman, Meredith Hellicar, has discussed the asbestos issue in her report, and events surrounding the SCI are described in more detail on pages 12 – 17. My report deals with the operations of the business for the past year.

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#### **USA Fibre Cement**

Our USA Fibre Cement net sales grew 27% to achieve annual net sales of US\$939.2 million. Sales volume was up 22%, average net sales price was up 4%, EBIT was up 24%, and our EBIT margin of 25.7% was down slightly on last year. These results reflect strong growth in primary demand across all of our major US markets.

These results were assisted by higher prices and product margin expansion. Our increased net sales price reflects both the impact of market increases and the product mix benefits we get from growth in higher priced differentiated products.

Our ColorPlus® technology strategy, a key growth initiative in our emerging markets, is progressing well as our capacity builds and demand increases.

We continue to successfully implement our US market strategy to grow demand for fibre cement and maintain a high category share through a differentiated product strategy.

#### **Asia Pacific Fibre Cement**

We achieved a very good result, with net sales up 1% in Australian dollars, and 7% in US dollars; sales volume up 4%; EBIT up 25%; and EBIT margin up to 19.8%.

Our Asia Pacific strategy is now very similar to that in the US, in that we are attempting to shift this business into one that can grow primary demand roughly 5% a year.

Our aim is to grow demand for fibre cement and increase category share through a more intense focus on differentiated product opportunities.

Australia and New Zealand Fibre Cement net sales increased 8% to US\$210.1 million, due to higher average net sales price and favourable foreign currency movements.

The Philippines had a good year: net sales were up 25% to US \$26.0 million; EBIT doubled.

#### **Other Fibre Cement**

The Chilean business has also been doing a good job, generating EBIT improvements and top-line growth.

We are close to EBIT break-even in the USA Hardie Pipe business, as we continue to focus on the fundamentals of product positioning and manufacturing capability.

Europe Fibre Cement is progressing as planned, with net sales building as we work to develop a market opportunity with enough scale to pursue longer term.

The Artisan™ Roofing product, made from a new lightweight concrete roofing technology, was launched during the year, and we are currently working on market development, further technology advancements and ramping-up our manufacturing capability.

#### **Research and Development**

We continue to invest heavily in basic fibre cement R&D, spending US \$27.1 million this past fiscal year. This is a key driver of our sustainable competitive advantage. We continue to invest more in fibre cement related R&D than all other industry participants combined.

#### **Looking ahead**

The outlook in North America is good, with continued growth. Although the housing market forecasts are for flat to slightly down activity levels, we expect to continue to grow from increased primary demand by capturing market share from alternative materials, which we expect will provide solid EBIT and net sales growth.

We expect the Australian market to be fairly soft, but we have some new product initiatives that we hope will offset this. The New Zealand housing market is strong and we expect this to continue. Finally, we will continue to get manufacturing gains from Australia and New Zealand.



Louis Gries  
Chief Executive Officer