



Louis Gries, Chief Executive Officer



While the company's financial results this year are surrounded by complex accounting issues that are covered in considerable detail in the *Financial Review* on pages 8 – 9 and elsewhere, I intend to focus primarily on the outstanding year we had operationally, especially in the US where strong results were achieved within an organic-growth business that generates enough cash to invest in future capacity without increasing its debt.

On the asbestos front, we entered into the FFA, and booked the asbestos provision at year-end. More details about asbestos compensation are covered on pages 10 – 11 and in Note 12 to the consolidated financial statements.

To focus on the underlying business performance, my comments are based on our consolidated results without taking into account the US\$715.6 million

asbestos provision:

- net sales were up 23% to US\$1,488.5 million;
- gross profit was up 29% to US\$550.8 million; and
- operating profit was up 63% to US\$208.9 million.

Several years ago, we set long-term targets for the company of Net Sales growth of greater than 15% and EBIT margin and Return on Assets of greater than 15%. We continued to exceed these targets, achieving 23% Net Sales growth, 18.9% EBIT margin and 17% Return on Assets in fiscal year 2006.

USA Fibre Cement

Our major growth business - USA Fibre Cement - increased sales by 30% to US\$1,218.4 million, and EBIT by 42% to US\$342.6 million, exceeding our targets in both those areas. The US results were also characterised by significant capacity expansion in ColorPlus® product lines, as well as in Harditrim® XLD® boards, from our facility in Peru, Illinois.

We continue to grow primary demand for our products against alternative materials and we are moving more of our products toward a differentiated position, whether

that is to ColorPlus® products, trim or a post-production process like the manufacture of vented soffit or Hardibacker® EZ Grid® boards and G2 Technology®. We recently completed our ColorPlus® line in Blandon, Pennsylvania, joining the lines we have in Peru, Illinois, and those we are installing in Pulaski, Virginia and Reno, Nevada.

Our US strategy of growing primary demand, leveraging our superior technology and offering products with superior value, continues to work well for our exterior and interior products.

Asia Pacific Fibre Cement

While net sales increased 2% to US\$241.8 million, EBIT declined by 11% to US\$41.7 million, primarily as a result of higher costs, including costs related to equipment upgrade at Rosehill, Sydney. The EBIT margin was down 2.6 percentage points, to 17.2%.

Our strategy for this business – which is the same as our US strategy – remains unchanged, because it is still a sound business strategy. We want to create a differentiated, value-added position, and be paid for the value we add.

Australia New Zealand Fibre Cement recorded an acceptable result. It re-gained some market share lost in previous years, and grew net sales by 4%, although EBIT

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was down 8%. While the business' EBIT as a percentage of sales is good, we will be aiming for more improvement in the future.

Philippines Fibre Cement had a challenging year in a tough environment. Although we have a highly differentiated position in this market, it is difficult to get paid for the additional value we provide, and our decision to hold our products at a certain price level dampened demand. Despite that, the business continues to be EBIT positive and it remains an important material source, and a low-cost supplier in some of the regional markets.

Other segment

In our USA Hardie Pipe business, we increased our prices to reflect our differentiated position, although sales volume suffered as a result. We also gained additional benefits from an overall improvement in market price. Despite being cash positive, the business continues to be just below EBIT positive, and we are working to improve this.

Our European market development continues according to plan. After successfully setting up a business capability in the region, our emphasis is now shifting more to market penetration and product development.

As reported to the market at the time, and covered elsewhere in this report, we closed our pilot roofing plant in California in April 2006 because the costs of manufacture and potential market for the roofing product made it a less attractive investment for us than other fibre cement growth opportunities. We also sold our small Chilean fibre cement business in July 2005.

Research and Development

We continued our investment in our Research and Development capabilities, spending US\$32.1 million this year. This continued investment helps us to sustain and expand our differentiated product strategy and, therefore, our competitive advantage. We see investing in new technology platforms which can result in new processes or products as a way of extending the US model of strong financial returns and business profitability.

Looking ahead

The North American housing market is forecast to slow, but still remain healthy, and we expect the Asia Pacific market to be softer. We expect that we will continue to grow faster than our competitors, and we will continue to seek ways to offset raw material and

energy input cost increases through better manufacturing efficiencies.

While the Special Commission of Inquiry (SCI) and other related expenses of US\$17.4 million were lower than last year, we expect they will continue at a sustained level until the FFA is approved by lenders and shareholders and funding for the SPF is in place.

Our people

Our results are a credit to the people who work in our business and I appreciate their commitment to James Hardie. We are working hard to ensure our people feel appreciated and rewarded for the work they do. In this context, we started a major initiative this year to more clearly define the values and behaviours that we want to characterise our workplace. Understanding this will allow us to create personal training and development, and improved work-life balance, that will enable us to retain – and continue to attract – the high calibre people that make James Hardie the company it is.

Louis Gries
Chief Executive Officer