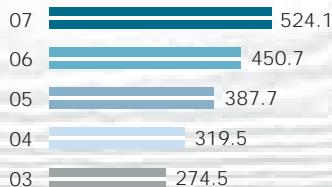


EBIT/Employee  
(Thousands of US dollars)



Net Sales/Employee  
(Thousands of US dollars)

# CEO'S REPORT



**Louis Gries**  
Chief Executive Officer

The business performed well throughout the year, despite a significant decline in new housing construction in the US, our largest market. One of the keys to delivering a strong full year financial result was staying ahead of the US housing downturn. Throughout the year, we planned for lower levels of housing starts than were externally forecasted, knowing that our business model would allow us to flex-up capacity quickly if the opportunity arose.

Several years ago, the company set itself long-term targets for Annual Net Sales Growth, EBIT Margins and Return on Assets of 15% each. The decline in US housing starts contributed to revenue growth of only 4% for the year, with the other two targets being exceeded. This is the first time one of the targets was not met on an annual basis, but we still consider 15% a good net sales growth target over a typical US housing cycle.

#### USA Fibre Cement

The US business increased sales by 4% to US\$1,262.3 million, and EBIT by 6% to US\$362.4 million, despite a declining residential construction market. While interest rates remained low by historical

standards, they did increase, and credit has been tightened by the mortgage industry, reducing demand from the very high levels of the last several years. The repair and remodelling market remained relatively steady.

The EBIT margin of 28.7% for the year remains ahead of our long-term range of 20-25%, reflecting our success in resetting the business before we felt the major impact of the housing market downturn on our sales volumes.

Sales of our exterior products were more affected by the decline in housing starts than our interior products, although two of our products – XLD® trim and the ColorPlus® collection – achieved real growth in the down market. We are now moving to a bigger-scale launch of the ColorPlus® collection in key markets of our Western and Southern Divisions.

Our market development efforts have become more difficult in a declining market as builders have been resetting their business models and have been intensely focussed on cutting costs. Since our products are generally more expensive than those that we compete



against, this does not play to our advantage. The challenge we currently face is to refine our segmentation model to reflect current conditions. In this market we need to continue to work on delivering cost-efficiencies to builders currently using James Hardie® products. We also need to reach builders who are using vinyl siding, and who might be receptive to making a product decision that involves a cost increase that is offset by a significantly greater value increase they can market to home buyers.

Our US strategy of growing primary demand and defending our existing category position through a differentiated product position has not changed. It remains a very sound business strategy that we think will continue to create value for James Hardie shareholders.

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

Net sales for this division increased 4%, from US\$241.8 million to US\$251.7 million, although EBIT decreased 6%, from US\$41.7 million to US\$39.4 million. The EBIT margin fell 1.5 percentage points to 15.7%.

The reduced EBIT performance resulted from a combination of increased costs and reduced prices on core products in the Australian business. We continue to invest in new product development and market launches in Australia that are intended to grow primary demand for our products and further differentiate us from direct competitors.

#### **Other**

The US Hardie Pipe business was EBIT positive for the full year and the European market development initiative continued to result in increased sales, although volumes are still quite small.

#### **Outlook**

We expect the US housing market to decline further before it flattens out at a much lower level than we have experienced over the past several years. Our business model is positioned to perform well financially in this market, and we will continue to fund long-term growth initiatives.

Our short to medium-term focus remains to:

- 1) Expand our market share by growing primary demand for James Hardie fibre cement products against alternative building materials;
- 2) Support our differentiated product strategy through investments in research and development, and market, product and process development;
- 3) Increase our very significant manufacturing advantages against direct competitors that attempt to buy their way into our markets with basic commodity products; and
- 4) Continue to upgrade our organisational capability by enhancing the James Hardie business culture.

Louis Gries  
Chief Executive Officer