



**James Hardie**

# **4<sup>th</sup> Quarter and Full Year Results**

## **13 May 2004**

*Unless otherwise stated, results are for continuing operations only and comparisons are of the 4th quarter of the current fiscal year versus the 4th quarter of the prior fiscal year.*



# Agenda

- Overview – Peter Macdonald, CEO
- Financial Review – Phillip Morley, CFO
- Operating Review – Peter Macdonald, CEO
- Questions and Answers

# Strong Performance

## 4th Quarter and FY04

		<u>Q4'04 %</u>		<u>FY'04 %</u>
Net Sales	up	29	up	25
Gross Profit	up	16	up	23
EBIT <sup>2</sup>	up	25	up	34
Operating Profit <sup>5</sup>	up	35	up	50
Net Operating Profit*, <sup>6</sup>	down	(41)	down	(24)

\* Includes discontinued operations and profit on sale of Gypsum land in FY'03

# Highlights

## 4th Quarter

- USA Fibre Cement EBIT<sup>2</sup> up 14%
- Australia and New Zealand Fibre Cement EBIT<sup>2</sup> up 57% in A\$
- Philippines – positive EBIT<sup>2</sup>
- Chile – positive EBIT<sup>2</sup>

# Highlights

## Full Year

- USA Fibre Cement EBIT<sup>2</sup> up 26%
- Australia New Zealand Fibre Cement EBIT<sup>2</sup> up 5% in A\$
- Philippines – positive EBIT<sup>2</sup>
- Chile – first full year positive EBIT<sup>2</sup>

## Exceeding Targets

	Long Term Target p.a.	FY'94 Actual
Revenue Growth	>15%	25%
EBIT <sup>2</sup> /Sales	>15%	18%
ROA (EBIT <sup>2</sup> /GCE)	>15%	23%

# Dividend and Capital Management

- Final dividend of US 3.0 cents a share
  - Paid in July 2004
  
- Commitment to efficient capital management
  - Cash flows exceeding capital requirements
  - Gearing ratio below target
  - Interest cover 17x
  - Further capital returns from Gypsum proceeds less advantaged
  - Decision deferred



# **Financial Review**

**Phillip Morley, CFO**



## Results – Q4

US\$ Million	<u>Q4 '04</u>	<u>Q4 '03</u>	<u>% Change</u>
Net Sales	251.3	194.3	29
Gross Profit	89.7	77.1	16
SG&A	(46.3)	(43.7)	6
Research & Development Expenses	(6.5)	(5.5)	18
Other Operating Expense	(2.1)	-	-
EBIT <sup>2</sup>	34.8	27.9	25
Net Interest Expense	(2.5)	(2.1)	19
Other Income, Net	6.9	0.6	-
Income Tax Expense	(7.9)	(3.3)	139
Operating Profit <sup>5</sup>	31.3	23.1	35
Net Operating Profit Including Discontinued Operations <sup>6</sup>	32.0	54.5	(41)



## Results – Full Year

US\$ Million	<u>FY '04</u>	<u>FY '03</u>	<u>% Change</u>
Net Sales	981.9	783.6	25
Gross Profit	358.9	290.8	23
SG&A	(162.0)	(144.9)	12
Research & Development Expenses	(22.6)	(18.1)	25
Other Operating Expense	(2.1)	1.0	-
EBIT <sup>2</sup>	172.2	128.8	34
Net Interest Expense	(10.0)	(19.9)	(50)
Other Income, Net	3.5	0.7	-
Income Tax Expense	(40.4)	(26.1)	55
Operating Profit <sup>5</sup>	125.3	83.5	50
Net Operating Profit Including Discontinued Operations <sup>6</sup>	129.6	170.5	(24)

## Segment Net Sales – Q4

US\$ Million	<u>Q4 '04</u>	<u>Q4 '03</u>	<u>% Change</u>
USA Fibre Cement	185.1	146.2	27
Asia Pacific Fibre Cement	59.0	44.3	33
Other Fibre Cement	7.2	3.8	90
Total	251.3	194.3	29

## Segment Net Sales – Full Year

US\$ Million	<u>FY '04</u>	<u>FY '03</u>	<u>% Change</u>
USA Fibre Cement	738.6	599.7	23
Asia Pacific Fibre Cement	219.8	174.3	26
Other Fibre Cement	23.5	9.6	145
Total	981.9	783.6	25

## Segment EBIT<sup>2</sup> – Q4

US\$ Million	<u>Q4 '04</u>	<u>Q4'03</u>	<u>% Change</u>
USA Fibre Cement	43.2	37.8	14
Asia Pacific Fibre Cement	8.3	4.4	89
Other Fibre Cement	(4.1)	(2.5)	(64)
R & D	(5.6)	(4.1)	(37)
Total Segment EBIT	41.8	35.6	17
Corporate Costs	(7.0)	(7.7)	(9)
Total EBIT	34.8	27.9	25

Note: R&D includes “core” R&D expenses and administrative expenses, but excludes product development expenses

## Segment EBIT<sup>2</sup> – Full Year

US\$ Million	<u>FY '04</u>	<u>FY'03</u>	<u>% Change</u>
USA Fibre Cement	195.6	155.1	26
Asia Pacific Fibre Cement	37.6	27.3	38
Other Fibre Cement	(15.9)	(10.7)	(49)
R & D	(17.6)	(13.0)	(35)
Total Segment EBIT	199.7	158.7	26
Corporate Costs	(27.5)	(29.9)	(8)
Total EBIT	172.2	128.8	34

Note: R&D includes “core” R&D expenses and administrative expenses, but excludes product development expenses

# Corporate Costs

US\$ Million	<u>Q4'04</u>	<u>Q4'03</u>	<u>FY'04</u>	<u>FY'03</u>
Economic Profit				
Compensation Expense	1.3	2.7	3.2	7.1
Fixed Stock Option Expense	1.3	1.7	3.2	1.7
Corporate Costs	4.4	3.3	21.1	21.1
Total	7.0	7.7	27.5	29.9



## Net Interest Expense

US\$ Million	<u>Q4'04</u>	<u>Q4'03</u>	<u>% Change</u>
Net Interest Expense	(2.5)	(2.1)	19

	<u>FY'04</u>	<u>YTD'03</u>	<u>% Change</u>
Net Interest Expense	(10.0)	(19.9) <sup>(a)</sup>	(50)

(a) Includes US\$9.9 million long-term debt prepayment penalty



# Income Tax Expense

US\$ Million	<u>Q4'04</u>	<u>Q4'03</u>	<u>% Change</u>
Income Tax Expense	(7.9)	(3.3)	139
Rate	20.2%	12.5%	
	<u>FY'04</u>	<u>FY'03</u>	<u>% Change</u>
Income Tax Expense	(40.4)	(26.1)	55
Rate	24.4%	23.8%	

# EBITDA<sup>3</sup> – Q4

	<u>Q4'04</u>	<u>Q4'03</u>	<u>% Change</u>
<b>EBIT<sup>2</sup></b>			
USA Fibre Cement	43.2	37.8	14
Asia Pacific Fibre Cement	8.3	4.4	89
Other Fibre Cement	(4.1)	(2.5)	(64)
R & D	(5.6)	(4.1)	(37)
Corporate	(7.0)	(7.7)	9
<b>Depreciation and Amortisation</b>			
USA Fibre Cement	6.8	4.5	51
Asia Pacific Fibre Cement	2.7	2.8	(4)
Other Fibre Cement	0.7	0.1	-
<b>Total EBITDA</b>	<b>45.0</b>	<b>35.3</b>	<b>27</b>

Note: R&D includes “core” R&D expenses and administrative expenses, but excludes product development expenses

# EBITDA<sup>3</sup> – Full Year

	<u>FY'04</u>	<u>FY'03</u>	<u>% Change</u>
<b>EBIT<sup>2</sup></b>			
USA Fibre Cement	195.6	155.1	26
Asia Pacific Fibre Cement	37.6	27.3	38
Other Fibre Cement	(15.9)	(10.7)	(49)
R & D	(17.6)	(13.0)	(35)
Corporate	(27.5)	(29.9)	(8)
<b>Depreciation and Amortisation</b>			
USA Fibre Cement	25.1	18.2	38
Asia Pacific Fibre Cement	9.7	8.7	11
Other Fibre Cement	1.5	0.4	275
Corporate	0.1	0.1	-
<b>Total EBITDA</b>	<b>208.6</b>	<b>156.2</b>	<b>34</b>

Note: R&D includes “core” R&D expenses and administrative expenses, but excludes product development expenses

# Capital Expenditure – Full Year

	<b>Capital Expenditure</b>		<b>Depreciation</b>	
US\$ Million	<u>FY '04</u>	<u>FY '03</u>	<u>FY '04</u>	<u>FY '03</u>
USA Fibre Cement	56.2	81.0	24.6	18.0
Asia Pacific Fibre Cement	8.4	6.6	9.7	8.7
Other Segments	10.2	2.6	1.6	0.6
<b>Total Segments</b>	<b>74.8</b>	<b>90.2</b>	<b>35.9</b>	<b>27.3</b>

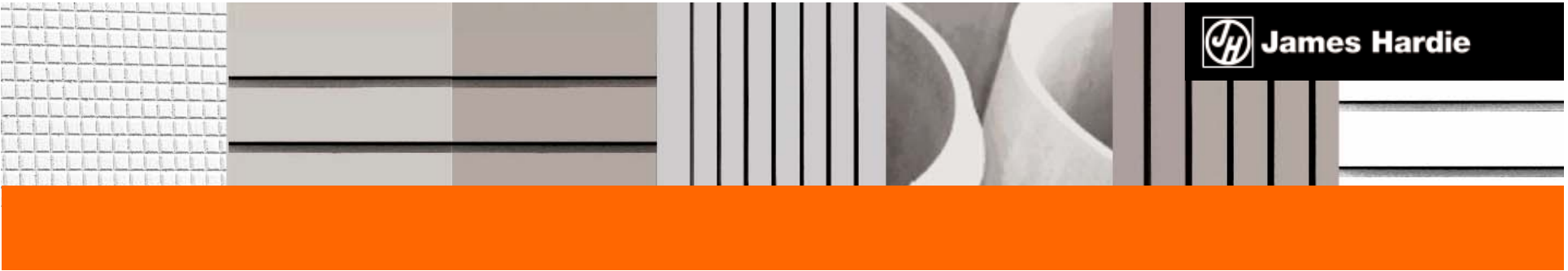
Note: Capital Expenditure is equivalent to the US GAAP measure, purchases of property, plant and equipment, in the consolidated statements of cashflows. Other segments includes Hardie® Pipe, Chile Fibre Cement, Europe Fibre Cement, Roofing, R&D and Corporate.

# Key Ratios

	<u>FY '04</u>	<u>FY '03</u>	<u>FY '02</u>
EPS (Basic)	27.4c	18.3c	6.2c
Return on Shareholders Funds*	27.6%	42.3%	8.9%
Return on Capital Employed	23.4%	20.9%	8.4%
EBIT <sup>2</sup> /Sales	17.5%	16.4%	7.9%
Gearing* $\frac{\text{Net debt}^{**}}{\text{Net debt}^{**} \text{ \& \ Equity}}$	17.0%	21.4%	44.7%
Net Interest Cover	17.2x	6.5x	2.9x

\* Total Company

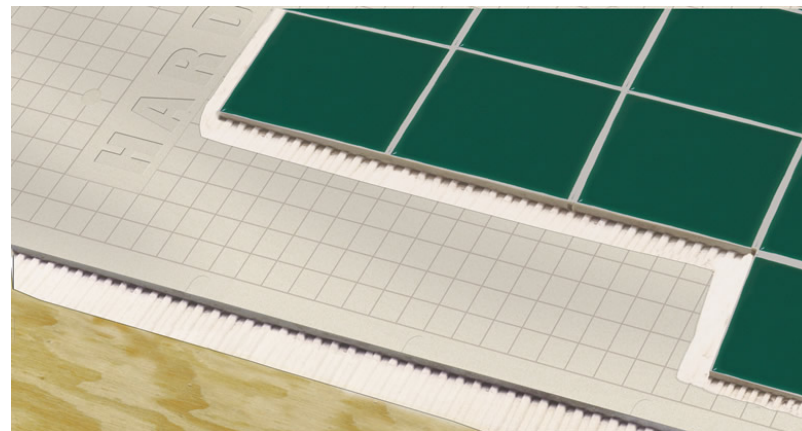
\*\* External debt net of cash on hand



# **Operating Review**

**Peter Macdonald, CEO**

# USA Fibre Cement



## USA Fibre Cement

### 4th Quarter Result – Strong Sales Growth

Net Sales up 27% to US\$185.1 million

Sales Volume up 29% to 383.6 mmsf

Average Price down 2% to US\$483 per msf

EBIT<sup>2</sup> up 14% to US\$43.2 million

EBIT Margin<sup>2</sup> down 2.6 pts to 23.3%





# USA Fibre Cement

## Full Year Result

Net Sales up 23% to US\$738.6 million

Sales Volume up 19% to 1519.9 msf

Average Price up 3% to US\$486 per msf

EBIT<sup>2</sup> up 26% to US\$195.6 million

EBIT Margin<sup>2</sup> up 0.6 pt to 26.5%

# USA Fibre Cement

## 4th Quarter Trading Conditions

- Housing construction activity remained buoyant:
  - Low interest rates
  - Strong house prices
  - Low inventories of houses for sale
  - Strengthening domestic economy
  - Consumer confidence
  
- Repair and remodel activity remained healthy

# USA Fibre Cement

## Key Points

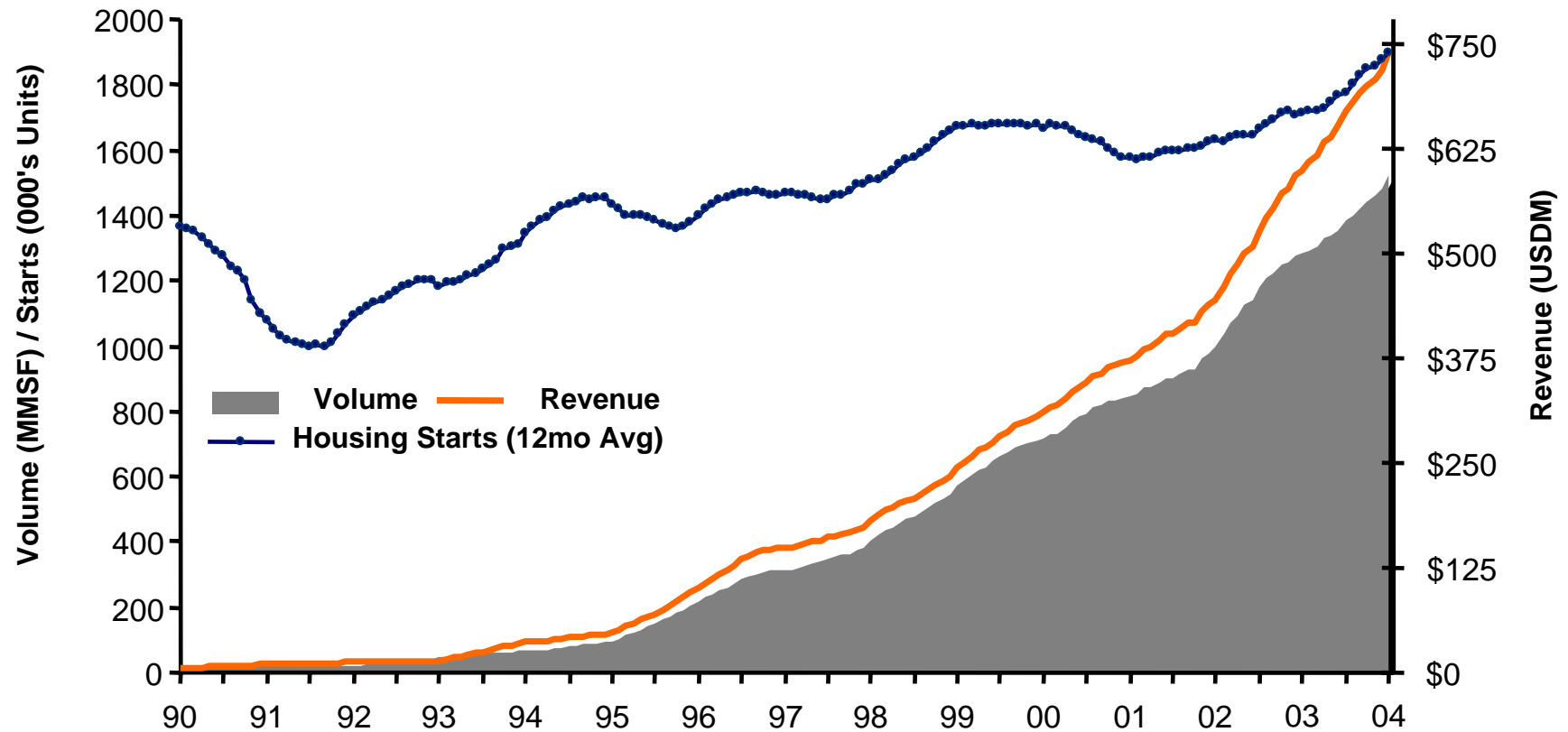
- Continued growth in demand for fibre cement
- Strong sales performance
- Growth rate significantly ahead of housing construction
  - Increased penetration in emerging and established markets
  - Share gains in interior and exterior product categories
- Increased growth in lower priced products - affected average price
- Commenced construction of 300mmsf plant at Reno, NV

# USA Fibre Cement Margin

- Pricing strategy unchanged
- Higher costs
  - pulp
  - ramp up – Blandon, Waxahachie and Peru
  - freight
  - Investment in infrastructure to support future growth  
(58 staff added in Q4, 267 for year – mainly sales and marketing)

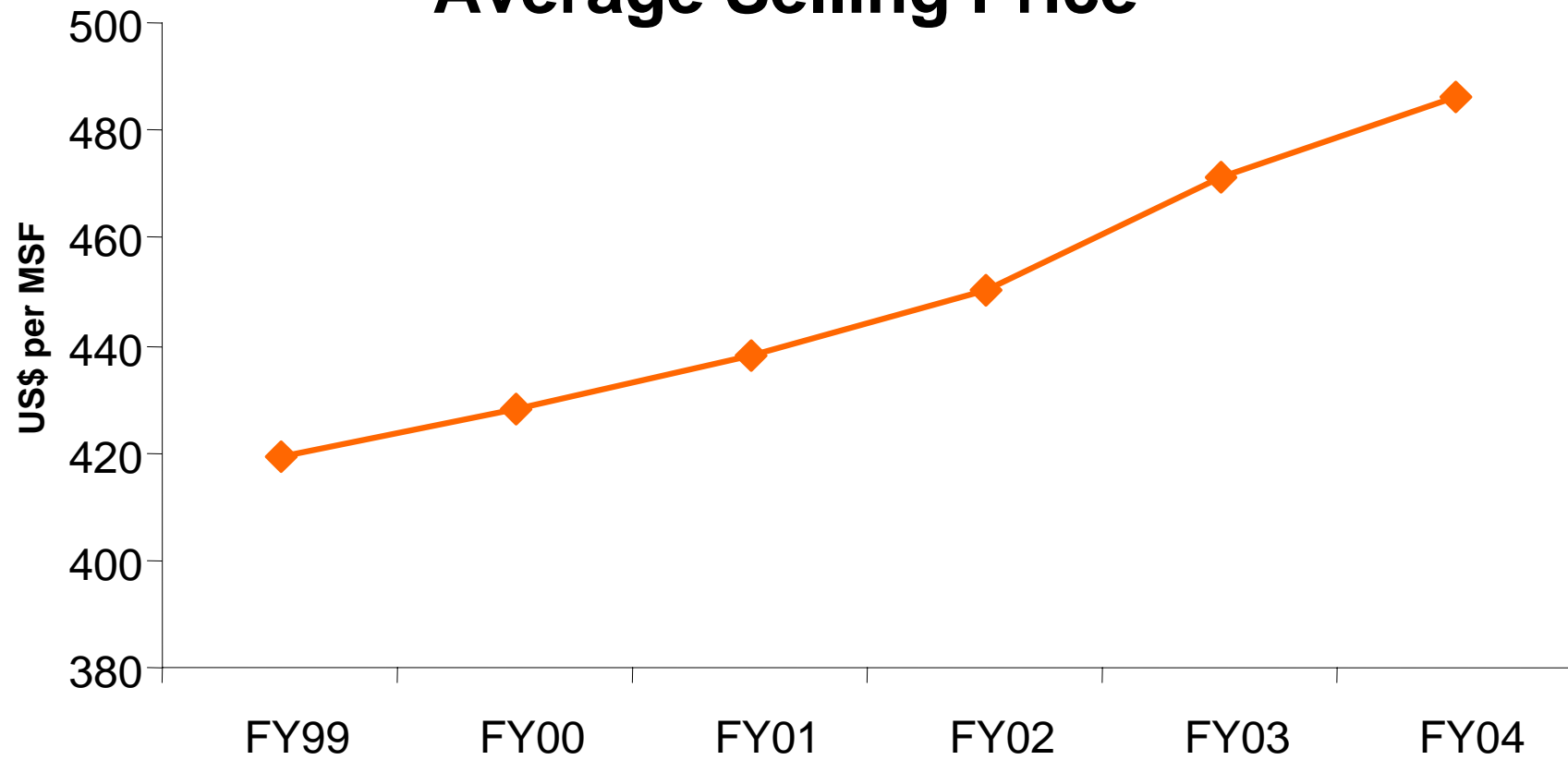
# USA Fibre Cement

## Revenue Growth Continuing to Outstrip Volume Growth



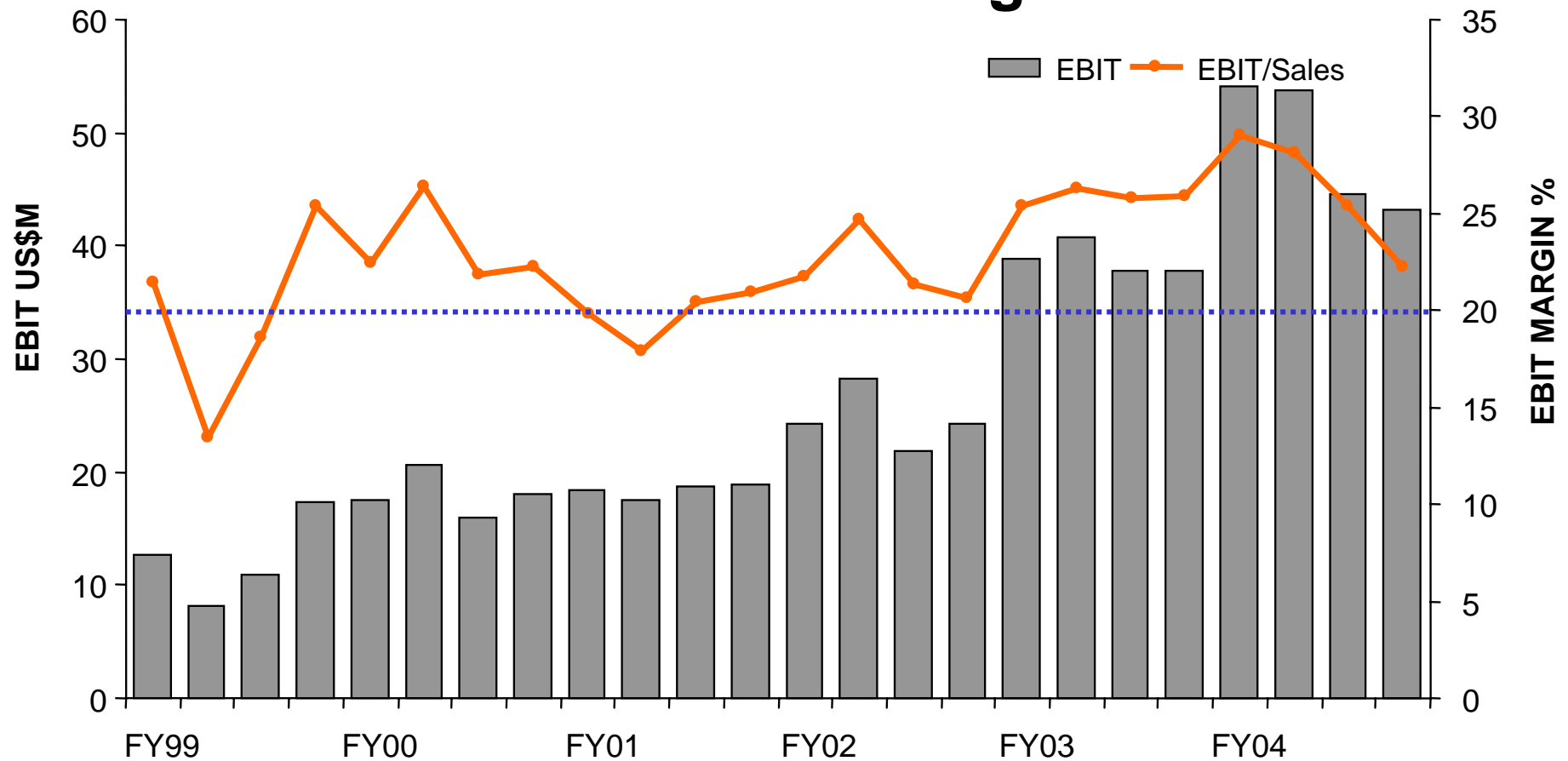
# USA Fibre Cement

## Average Selling Price



# USA Fibre Cement

## EBIT and EBIT Margin<sup>\*,4</sup>



\*Excludes restructuring and other operating expenses

# USA Fibre Cement

## Strategy

- Aggressively grow market for fibre cement
- Grow our overall market position while defending our share in existing market segments
- Offer products with superior value to that of our competitors, introducing differentiated products to reduce direct price competition



# USA Fibre Cement

## Outlook

- Continued strong demand for fibre cement
- Bouyant housing market to continue over short to medium term
  - Low interest rates, house prices strong, recovering domestic economy
  - Approvals strong, low inventories, large order backlogs
- Further share gains in emerging and established markets, and across product range
- Higher pulp costs
- Good growth and EBIT<sup>2</sup> performance expected to continue

# Asia Pacific Fibre Cement



# Asia Pacific Fibre Cement

## 4<sup>th</sup> Quarter Result

Net Sales	up	3% to A\$77.0 million
Sales Volume	up	10% to 101.1 mmsf
EBIT <sup>2</sup>	up	48% to A\$10.5 million
EBIT Margin <sup>2</sup>	up	4.2 pts to 14.1%



# Asia Pacific Fibre Cement

## Full Year Result

Net Sales	up	2% to A\$316.9 million
Sales Volume	up	9% to 402.1 mmsf
EBIT <sup>2</sup>	up	12% to A\$54.2 million
EBIT Margin <sup>2</sup>	up	1.4 pts to 17.1%

# Asia Pacific Fibre Cement

## Strategy

- Grow primary demand for fibre cement
- Vigorously protect and grow category share in existing market segments
- Leverage our superior technology to offer differentiated products and systems with superior value to those of competitors
- Ongoing manufacturing improvements to further lower cost of production

# Asia Pacific Fibre Cement

## Australia and New Zealand – Key Points

- Significant positive exchange rate impact
- Australian new housing weaker, but renovations and commercial buoyant
- New Zealand housing healthy
- Net sales up 34% – up 4% in A\$
- Volumes up 1% – stronger domestic demand – weaker exports
- Average selling price up 3%
- EBIT<sup>2</sup> up 57% in A\$

# Asia Pacific Fibre Cement

## Australia and New Zealand – Outlook

- Positive exchange rate impacts may not continue
- New housing in Australia to further soften, but renovations and commercial to remain healthy short term
- New housing and renovations in New Zealand to remain bouyant short term
- New products
- Manufacturing cost savings
- Further EBIT<sup>2</sup> improvement

# Asia Pacific Fibre Cement

## Philippines – Key Points

- Stronger demand for fibre cement
- Net sales up 29% in local currency
- Average price lower due to sales mix
- Manufacturing cost savings
- Positive EBIT<sup>2</sup> for quarter and full year



# Asia Pacific Fibre Cement

## Philippines – Outlook

- Increased building and construction activity
- Stronger demand for fibre cement
- More cost savings and EBIT<sup>2</sup> improvement

## Other Fibre Cement

### Chile Fibre Cement – Key Points

- Net sales up 44% in local currency
- Further lift in domestic construction activity
- Further penetration of domestic market
- Lower average selling prices in local currency - mix changes
- Another quarterly positive EBIT<sup>2</sup> – first full year positive EBIT<sup>2</sup>

## Other Fibre Cement

### Chile Fibre Cement – Outlook

- Entering seasonal slow-down period
- Improved domestic construction activity
- Further market penetration and share growth
- Increased domestic sales of higher-priced, differentiated products
- Domestic competition to remain intense

## Other Fibre Cement

### USA Hardie® Pipe – Key Points

- Sales up 70% from increased penetration of SE market
- Further manufacturing performance and cost improvements - but costs still above target
- Average prices up slightly vs Q3, but still low due to competition

## Other Fibre Cement

### USA Hardie® Pipe – Outlook

- Continued market penetration and share growth
- Improved plant operating efficiency and more manufacturing cost savings
- Competitive pressure remains intense – Florida prices still well below national averages

# Europe

- Demand continues to grow as awareness increases among distributors, builders and contractors
- Significant sales growth – but off low base
- More distribution outlets added – UK / France

## Artisan Roofing

- Further production trials and commissioning work
- More sales of new shake product in 1<sup>st</sup> quarter
- Target market interest remains strong



## Research and Development

- Key driver of growth
- Core projects
  - engineered raw materials
  - product formulations
  - engineering and process technologies
  - lightweight and durable products for all climates
- Sustainable competitive advantage continuing to be built



## Inquiry Update

- NSW Special Commission of Inquiry report due 30 June 2004
  - oral evidence scheduled to conclude 31 May
  - written submissions in June
- NSW Government then considers recommendations
- No change to our stated legal position



# Outlook

- Growth momentum continuing into 1<sup>st</sup> quarter
- Another good year is in prospect
- Continued strong cash flow



## Disclaimer

*This presentation contains forward-looking statements. Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, which are further discussed in our reports submitted to the Securities and Exchange Commission on Forms 20-F and 6-K and in our other filings, include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical construction markets; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.*

# Notes

- 1. This Management Presentation forms part of a package of information about the company's results. It should be read in conjunction with the other parts of this package, including Management's Discussion and Analysis (MD&A), a Media Release, a Financial Report and Results at a Glance document.*
- 2. EBIT is defined as operating income. EBIT margin is defined as EBIT as a percentage of our net sales. We believe EBIT and EBIT margin to be relevant and useful information as these are the primary measures used by our management to measure the operating profit or loss of our business. EBIT is one of several metrics used by our management to measure the cash generated from our operations, excluding the operating cash requirement of our interest and income taxes. Additionally, EBIT is believed to be a primary measure and terminology used by our Australian investors. EBIT and EBIT margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. EBIT and EBIT margin, as we have defined them, may not be comparable to similarly titled measures reported by other companies.*

*EBIT and EBIT margin, as used in this document, are equivalent to the US GAAP measure of operating income and operating income margin.*



## Notes cont...

3. *EBITDA is not a measure of financial performance under US GAAP and should not be considered as an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by US GAAP or as a measure of our profitability or liquidity. All companies do not calculate EBITDA in the same manner and, accordingly, EBITDA may not be comparable with other companies. We have included information concerning EBITDA because we believe that EBITDA is commonly used by investors to evaluate the ability of a company's earnings from its core business operations to satisfy its debt, capital expenditure and working capital requirements.*
4. *Presentation of EBIT and EBIT Margin before restructuring and other operating (expense) income are not measures of financial performance under US GAAP and should not be considered to be more meaningful than EBIT and EBIT Margin. The Company has included these financial measures to provide investors with an alternative method for assessing the Company's operating results in a manner that is focused on the performance of the Company's ongoing operations. The Company's management uses these non-GAAP measures for the same purposes.*
5. *Operating profit from continuing operations is equivalent to the US GAAP measure of income from continuing operations.*
6. *Net operating profit including discontinued operations is equivalent to the US GAAP measure of net income.*



**James Hardie**

# **4<sup>th</sup> Quarter and Full Year Results**

## **13 May 2004**

*Unless otherwise stated, results are for continuing operations only and comparisons are of the 4th quarter of the current fiscal year versus the 4th quarter of the prior fiscal year.*