



**James Hardie**

**FY04 3rd Quarter Results**  
**12 February 2004**

*Unless otherwise stated, results are for continuing operations only and comparisons are of the 3rd quarter of the current fiscal year versus the 3rd 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

## 3rd Quarter and Year to Date

		<u>Q3'04 %</u>		<u>YTD'04 %</u>
Net Sales	up	23	up	24
Gross Profit	up	22	up	26
EBIT <sup>2</sup>	up	36	up	36
Operating Profit <sup>5</sup>	up	89	up	56
Net Operating Profit*, <sup>6</sup>	up	94	down	(16)

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

# Highlights

## 3rd Quarter

- USA Fibre Cement EBIT<sup>2</sup> up 31% (a)
- Australia and New Zealand Fibre Cement EBIT<sup>2</sup> up 43%  
- up 12% in A\$
- Philippines – small profit
- Chile – small profit

(a) Before a US\$3.8 million rebate add-back included in prior year revenue



## Management Change

- CFO Phillip Morley will retire as planned in May 2004
- Peter Shafron, SVP Finance and Legal appointed CFO, effective May 2004



# **Financial Review**

**Phillip Morley, CFO**

## Results – Q3

US\$ Million	<u>Q3 '04</u>	<u>Q3 '03</u>	<u>% Change</u>
Net Sales	237.5	192.6	23
Gross Profit	87.5	71.6	22
SG&A	(40.6)	(37.6)	8
Research & Development	(5.7)	(4.8)	19
Restructure & Other Operating Expenses	-	1.0	(100)
EBIT <sup>2</sup>	41.2	30.2	36
Net Interest Expense	(2.8)	(12.4)	(77)
Other Expense, Net	(0.1)	-	-
Income Tax Expense	(10.0)	(2.8)	257
Operating Profit <sup>5</sup>	28.3	15.0	89
Net Operating Profit Including discontinued Operations <sup>6</sup>	30.1	15.5	94

## Results – Year To Date

US\$ Million	<u>YTD '04</u>	<u>YTD '03</u>	<u>% Change</u>
Net Sales	730.6	589.3	24
Gross Profit	269.2	213.7	26
SG&A	(115.7)	(101.2)	14
Research & Development	(16.1)	(12.6)	28
Restructuring and Other Operating Expenses	-	1.0	-
EBIT <sup>2</sup>	137.4	100.9	36
Net Interest Expense	(7.5)	(17.8)	(58)
Other (Expense) Income, Net	(3.4)	0.1	-
Income Tax Expense	(32.5)	(22.8)	43
Operating Profit <sup>5</sup>	94.0	60.4	56
Net Operating Profit Including Discontinued Operations <sup>6</sup>	97.6	116.0	(16)



## Segment Net Sales – Q3

US\$ Million	<u>Q3 '04</u>	<u>Q3 '03</u>	<u>% Change</u>
USA Fibre Cement	175.3	146.3	20 <sup>(a)</sup>
Asia Pacific Fibre Cement	55.9	44.4	26
Other Fibre Cement	6.3	1.9	232
Total	237.5	192.6	23

(a) USA Fibre Cement net sales increased 23% excluding a US\$3.8 million rebate add-back in prior year revenue.

## Segment Net Sales – Year To Date

US\$ Million	<u>YTD '04</u>	<u>YTD '03</u>	<u>% Change</u>
USA Fibre Cement	553.5	453.5	22
Asia Pacific Fibre Cement	160.8	130.0	24
Other Fibre Cement	16.3	5.8	181
Total	730.6	589.3	24

## Segment EBIT<sup>2</sup> – Q3

US\$ Million	<u>Q3 '04</u>	<u>Q3'03</u>	<u>% Change</u>
USA Fibre Cement	44.6	37.8	18
Asia Pacific Fibre Cement	11.3	7.3	55
Other Fibre Cement	(3.8)	(3.1)	(23)
R & D	(4.6)	(3.5)	(31)
Total Segment EBIT	47.5	38.5	23
Corporate Costs	(6.3)	(8.3)	(24)
Total EBIT	41.2	30.2	36

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

## Segment EBIT<sup>2</sup> – Year To Date

US\$ Million	<u>YTD '04</u>	<u>YTD'03</u>	<u>% Change</u>
USA Fibre Cement	152.4	117.3	30
Asia Pacific Fibre Cement	29.3	22.9	28
Other Fibre Cement	(11.8)	(8.2)	(44)
R & D	(12.0)	(8.9)	(35)
Total Segment EBIT	157.9	123.1	28
Corporate Costs	(20.5)	(22.2)	(8)
Total EBIT	137.4	100.9	36

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

# Corporate Costs

US\$ Million	<u>Q3'04</u>	<u>Q3'03</u>	<u>YTD'04</u>	<u>YTD'03</u>
Economic Profit				
Compensation Expense	0.6	1.6	1.9	4.4
Fixed Stock Option Expense	0.8	0.8	1.9	1.1
Employee Share Plan and Other Variables	0.6	0.2	2.7	1.8
Corporate Costs	4.3	5.8	14.0	15.0
Total	6.3	8.4	20.5	22.3

# Net Interest Expense

US\$ Million	<u>Q3'04</u>	<u>Q3'03</u>	<u>% Change</u>
Net Interest Expense	(2.8)	(12.4) <sup>(a)</sup>	(77)

	<u>YTD'04</u>	<u>YTD'03</u>	<u>% Change</u>
Net Interest Expense	(7.5)	(17.8) <sup>(a)</sup>	(58)

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

# Income Tax Expense

US\$ Million	<u>Q3'04</u>	<u>Q3'03</u>	<u>% Change</u>
Income Tax Expense	(10.0)	(2.8)	(257)
Rate	26.1%	15.7%	
	<u>YTD'04</u>	<u>YTD'03</u>	<u>% Change</u>
Income Tax Expense	(32.5)	(22.8)	43
Rate	25.7%	27.4%	

# EBITDA<sup>3</sup> – Q3

	<u>Q3'04</u>	<u>Q3'03</u>	<u>% Change</u>
<b>EBIT<sup>2</sup></b>			
USA Fibre Cement	44.6	37.8	18
Asia Pacific Fibre Cement	11.3	7.3	55
Other Fibre Cement	(3.8)	(3.0)	(27)
R & D	(4.6)	(3.5)	(31)
Corporate	(6.3)	(8.3)	24
<b>Depreciation and Amortisation</b>			
USA Fibre Cement	7.1	4.5	58
Asia Pacific Fibre Cement	2.5	2.0	25
Other Fibre Cement	0.4	0.1	300
<b>Total EBITDA</b>	<b>51.2</b>	<b>36.9</b>	<b>39</b>



# EBITDA<sup>3</sup> – Year To Date

	<u>YTD'04</u>	<u>YTD'03</u>	<u>% Change</u>
<b>EBIT<sup>2</sup></b>			
USA Fibre Cement	152.4	117.3	30
Asia Pacific Fibre Cement	29.3	22.9	28
Other Fibre Cement	(11.8)	(8.2)	(44)
R & D	(12.0)	(8.9)	(35)
Corporate	(20.5)	(22.2)	(8)
<b>Depreciation and Amortisation</b>			
USA Fibre Cement	18.3	13.7	34
Asia Pacific Fibre Cement	7.1	6.0	18
Other Fibre Cement	0.8	0.4	100
<b>Total EBITDA</b>	<b>163.6</b>	<b>121.0</b>	<b>35</b>

## Capital Expenditure – Year To Date

US\$ Million	Capital Expenditure		Depreciation	
	<u>YTD '04</u>	<u>YTD '03</u>	<u>YTD '04</u>	<u>YTD '03</u>
USA Fibre Cement	41.8	53.3	17.8	13.6
Asia Pacific Fibre Cement	6.3	6.1	7.1	6.0
Other Segments	8.4	0.8	0.8	1.3
<b>Total Segments</b>	<b>56.5</b>	<b>60.2</b>	<b>25.7</b>	<b>20.9</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>YTD '04</u>	<u>FY '03</u>	<u>FY '02</u>	
EPS (Basic)	21.0c	18.7c	6.4c	
Return on Shareholders Funds*	28.7%	42.3%	8.9%	
Return on Capital Employed*	26.2%	21.2%	8.6%	
EBIT <sup>2</sup> /Sales	18.8%	16.4%	8.0%	
Gearing	$\frac{\text{Net debt}}{\text{Net debt \& Equity}}$	22.9%	21.4%	44.7%
Net Interest Cover	18.3x	6.6x	3.0x	

\* Annualised



James Hardie



**James Hardie**

# **Operating Review**

**Peter Macdonald, CEO**

# USA Fibre Cement



# USA Fibre Cement

## Strong 3rd Quarter Result

Net Sales <sup>(a)</sup>	up	23% to US\$175.3 million
Sales Volume	up	20% to 358.3 mmsf
Average Price <sup>(a)</sup>	up	2% to US\$489 per msf
EBIT <sup>2 (a)</sup>	up	31% to US\$44.6 million
EBIT Margin <sup>2</sup>	up	2.2 pts to 25.4%

(a) Excludes a US\$3.8 million rebate add-back in prior year revenue.

# USA Fibre Cement

## 3rd Quarter Trading Conditions

- Housing construction activity remained solid
  - Low interest rates
  - Strong house prices
  - Low housing inventory levels
  - Recovering domestic economy
  - Consumer confidence
- Strong repair and remodel activity

# USA Fibre Cement

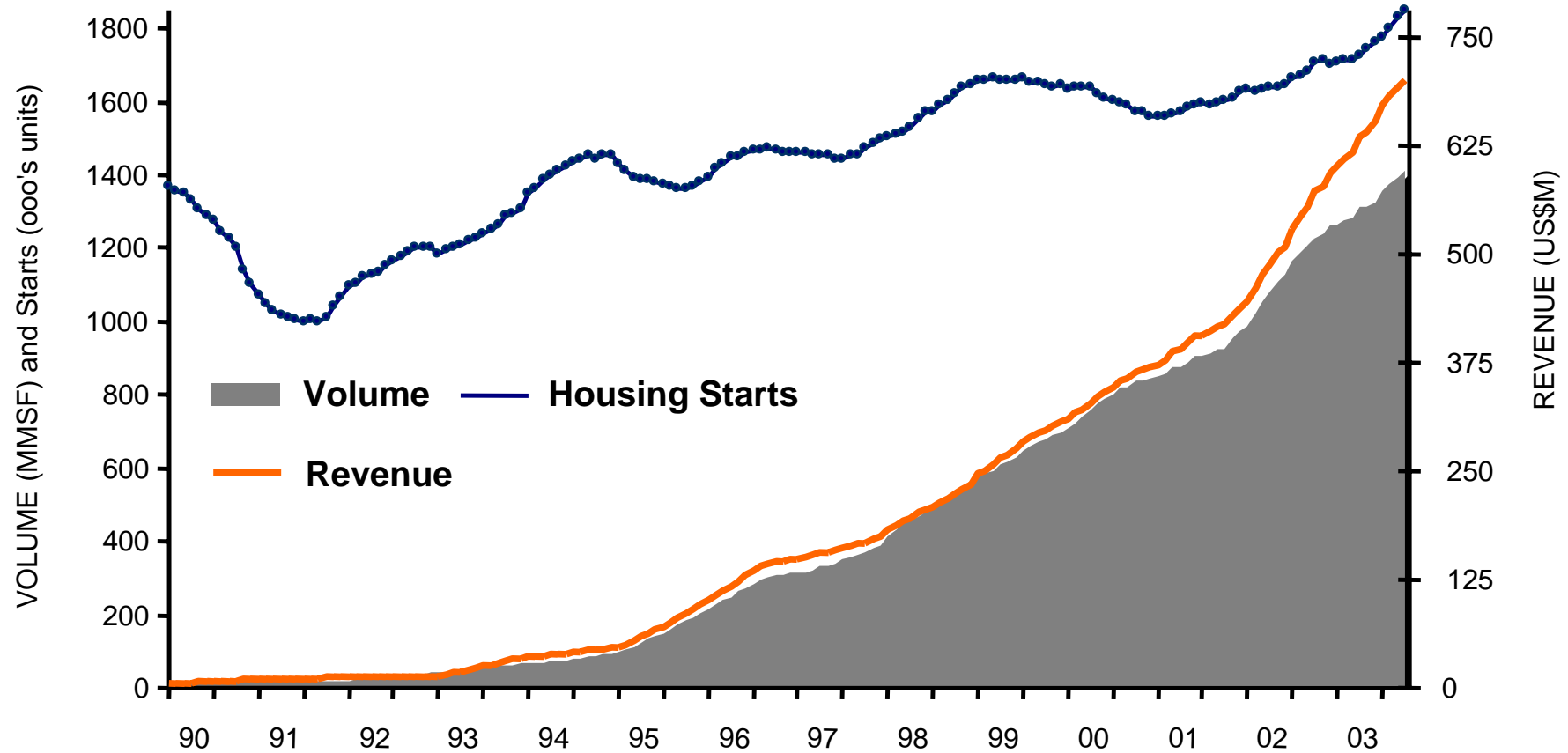
## Key Points

- Continued strong demand for fibre cement
- Strong growth in emerging and established markets
- Further penetration of external and interior product markets
- Growth in sales of higher-priced differentiated products
- Increased investment in infrastructure to support future growth
  - 88 new staff added in Q3 – mainly sales and operations
- Higher pulp costs
- Continued ramp up of capacity at Blandon, Waxahachie and Peru
- Location of new 300 mmsf plant moved from Sacramento, CA to Reno, NV



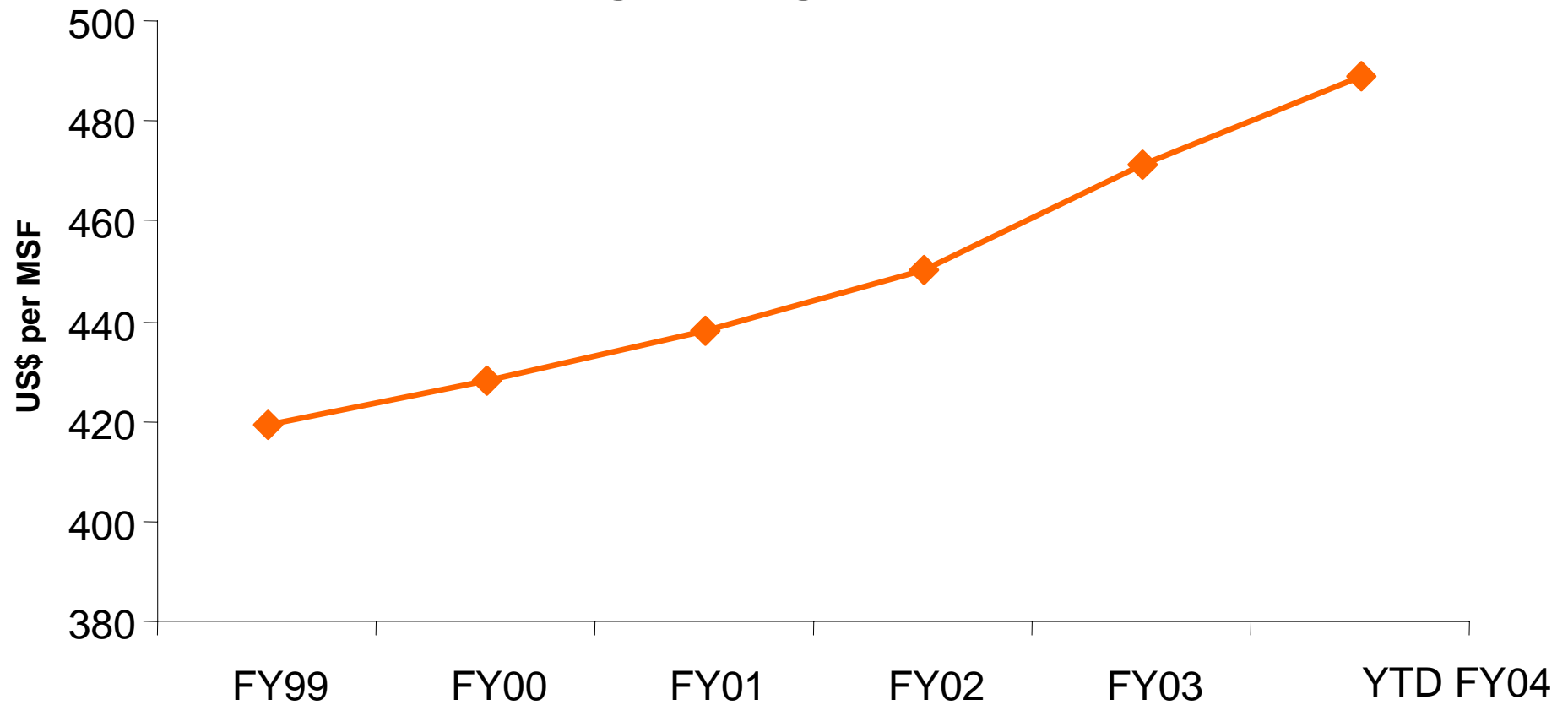
# USA Fibre Cement

## Revenue Growth Continuing to Outstrip Volume Growth



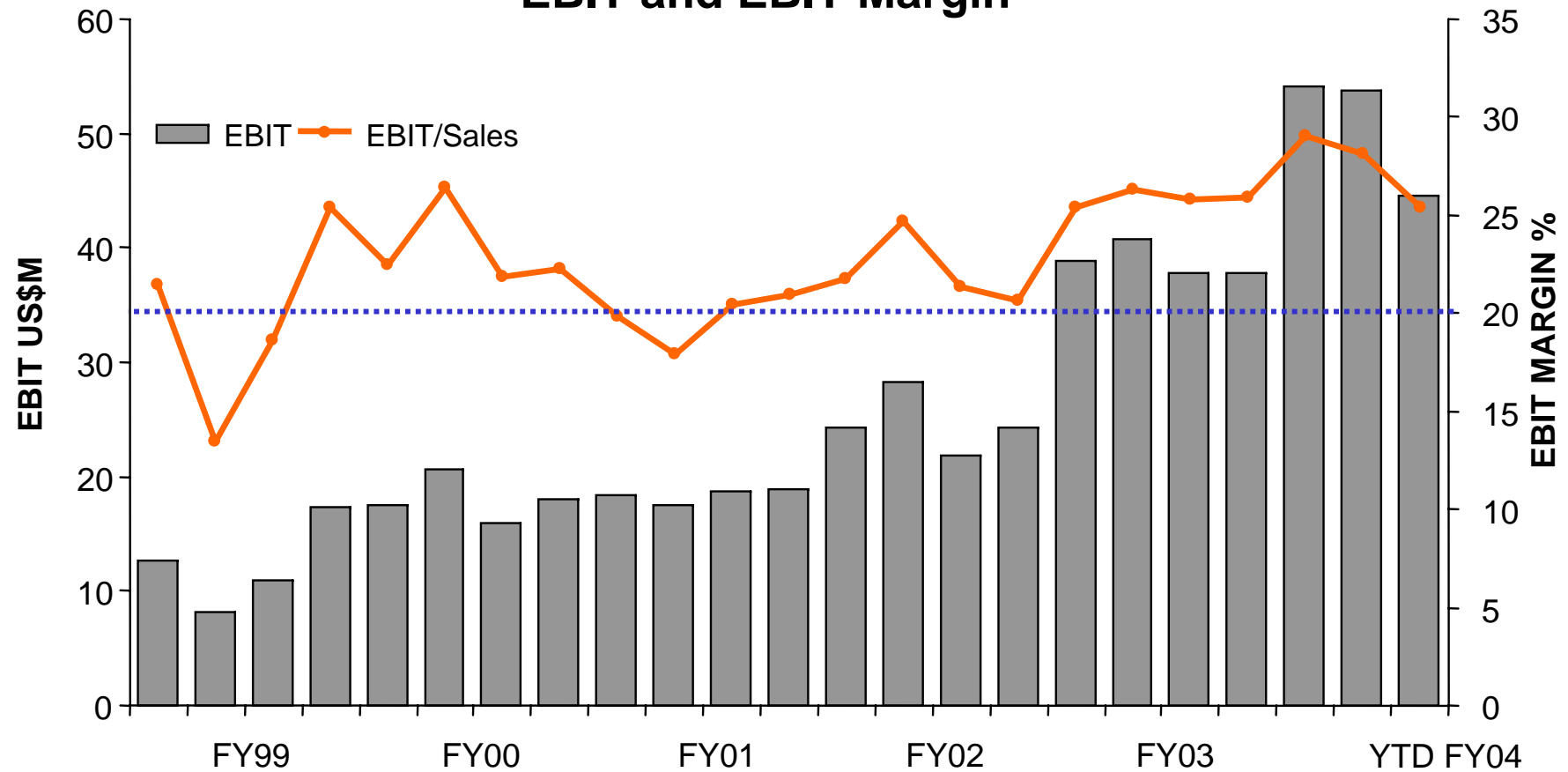
# USA Fibre Cement

## 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
- Housing construction to remain buoyant over short to medium term
  - Low interest rates, house prices strong, recovering domestic economy,
  - Approvals strong, low inventories, large order backlogs
- Continued investment in market development
- Further share gains in emerging and established markets, and across product range
- Continued growth in differentiated, higher-priced products
- Good growth and EBIT<sup>2</sup> performance expected to continue

# Asia Pacific Fibre Cement





## Asia Pacific Fibre Cement

### 3<sup>rd</sup> Quarter Result

Net Sales up 26% to US\$55.9 million

Sales Volume up 5% to 98.3 million

EBIT<sup>2</sup> up 55% to US\$11.3 million

EBIT Margin<sup>2</sup> up 3.8 pts to 20.2%

# 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 and commercial segments weaker – renovations buoyant
- New Zealand housing healthy
- Net sales up 26%, but down 1% in A\$
- Volumes up 1% – stronger domestic demand – weaker exports
- Average selling prices 2% lower – mix changes in FRC Pipes
- EBIT up 43%, up 12% in A\$

# Asia Pacific Fibre Cement

## Australia and New Zealand – Outlook

- Positive exchange rate impacts may not continue
- Softer new housing in Australia, renovations to remain buoyant
- New housing and renovations in New Zealand to remain healthy
- Share gains for differentiated products
- More manufacturing costs savings
- Further EBIT improvement

# Asia Pacific Fibre Cement

## Philippines – Key Points

- Net sales up 27% in local currency
- Sales volume up 26%
- Stronger export sales
- Average price up slightly due to sales mix
- Another operating profit

# Asia Pacific Fibre Cement

## Philippines – Outlook

- Increased building and construction activity
- Stronger demand for fibre cement
- Further share gains against plywood
- Stronger export sales

## Other Fibre Cement

### Chile Fibre Cement – Key Points

- Net sales up 282% in local currency
- Improved domestic construction activity
- Further penetration of domestic market
- Growth in sales of higher-priced, differentiated products
- Increased export sales
- Higher average selling prices

## Other Fibre Cement

### Chile Fibre Cement – Outlook

- Stronger 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

- Increased penetration of SE market lifted sales 82%
- Lower costs and improved manufacturing performance - but costs still above target
- Higher average prices, but still low due to competition

## Other Fibre Cement

### USA Hardie® Pipe – Outlook

- Continued market penetration and share growth
- Further manufacturing improvements and cost savings
- Competitive pressure remains intense – Florida prices still well below national averages





## Europe

- Continued to build awareness and sales among distributors, builders and contractors
- More distribution outlets added – UK / France
- Rate of penetration in line with expectations



## Artisan Roofing

- Production trials and commissioning work continuing
- First commercial sales of new shake product
- Strong interest from targeted market



## 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

# Foundation Update

- No change to our stated position
- Further activity by others can't be ruled out
  - legal options
  - government / unions / media



## Outlook

- Growth momentum continuing into 4<sup>th</sup> quarter
- No threat to satisfactory full year result
- 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.*

*The use of EBIT and EBIT margins in this document are equivalent to the US GAAP measures 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.*





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