

CEO's Report

The theme of this year's report is performance, and I am pleased to report on the details of the company's performance for the year to 31 March 2004.

USA Fibre Cement

Our USA Fibre Cement business continued its outstanding performance, finishing the year with increases in net sales of 23% and EBIT of 26%. One of the most pleasing features of our performance was the growth in demand for fibre cement. We differentiate between growth that occurs because of market movements, and growth that occurs via penetration into established markets. Over the course of the year, we grew our sales volumes by around 245 million standard feet (or 19%). Around 155 million standard feet, or two-thirds of that growth, was via penetration into established markets rather than market growth. Growth through penetration has been the

predominant form of growth for many years and reduces our exposure to cyclical movements in our end-markets.

During the year we began constructing our plant in Reno, Nevada, with 300 million square foot annual design capacity. The Reno plant will supply rapidly-growing demand in the west coast region of the United States.

We continue to invest in people and infrastructure to support further growth. Over the year, we added a significant number of employees, with a strong bias in those additions towards sales and marketing roles. Through activities such as this, we are building a strong foundation for future growth.

Our average net selling price improved 3% on the prior year and sales of more differentiated and higher-priced products continued to grow well. Longer-term, we expect modest, average net selling price improvement to continue as sales of higher-priced products grow at a faster rate than that of our more established products.

We continue to achieve very strong EBIT performance improvement and our EBIT margin continues to be in a range well above our 20% long-term target for the USA Fibre Cement business.

Our USA Fibre Cement business strategy is unchanged. We seek to:

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

This has been, and we believe will continue to be, a very successful strategy, which is achieving strong growth and strong returns for the company.



Asia Pacific Fibre Cement

Our Asia Pacific Fibre Cement business recorded very solid performance, with net sales up 2% in Australian dollars and 26% in US dollars, sales volumes up 9%, and EBIT up 12% in Australian dollars and up 38% in US dollars. Our strategy in Asia Pacific remains intact, because it is delivering solid performance and growth in markets that do not have high levels of underlying growth. We enjoyed a significant positive exchange rate impact when translating Australia and New Zealand results to US dollars.

Chile Fibre Cement

Chile delivered a strong performance, for what is still a relatively small business for us, with net sales up 139% in local currency and a full-year EBIT positive result. We achieved strong penetration into a market that enjoyed a lift in domestic construction activity.

Hardie® Pipe

Our USA Hardie® Pipe business achieved very strong net sales growth, up 95%, as we continued to penetrate markets in Florida, and customers continued to choose our fibre cement pipe over competing products. We are improving performance in our pipes production plant, but costs are not yet at the required levels. Average net selling prices improved slightly towards the end of the year, but are still low and further price improvement is required. We made an EBIT loss in the USA Hardie® Pipe business.

Europe Fibre Cement

In Europe, our business has just completed its first year since start up. It is very early days, but we have made acceptable progress. A weaker US dollar is aiding our import costs.

Artisan® Roofing

Our Artisan® Roofing business is making good progress refining the manufacturing process in the pilot plant in Fontana, California. Trial installations have been successful and we believe end-market interest in the product is strong.

Research and Development

Research and Development continues to be one of the key investments we make in our business and it is the key driver of our long-term growth and our ability to sustain a competitive advantage. R&D gives us the highest return that we get from any discretionary expenditure. Over the year, we spent US\$17.6 million in our core and administrative R&D activities and US\$8.5 million in product development in our business units, taking our total spend for the year to US\$26.1 million, an increase of around 25% over the prior year.



Peter Macdonald
Chief Executive Officer

OUR USA FIBRE CEMENT BUSINESS CONTINUED ITS OUTSTANDING PERFORMANCE



“We have good growth momentum into the new financial year and the prospects for good growth and superior performance for fibre cement over the upcoming year are encouraging.”

GROWTH THROUGH PENETRATION HAS BEEN THE PREDOMINANT FORM OF GROWTH

WE CONTINUE TO INVEST IN PEOPLE AND INFRASTRUCTURE TO SUPPORT FURTHER GROWTH

R&D GIVES US THE HIGHEST RETURN THAT WE GET FROM ANY DISCRETIONARY EXPENDITURE