Management's Discussion and Analysis

Overview

We intend this discussion to provide information that will assist in understanding our 31 March 2004 consolidated financial statements, the changes in significant items in those consolidated financial statements from year to year, and the primary reasons for those changes. This discussion includes our critical accounting policies and how these policies affect our consolidated financial statements, and information about the consolidated financial results of each business segment to provide a better understanding of how each segment and its results affect our financial condition and operating results as a whole. Our 31 March 2004 consolidated financial statements and the notes accompanying those consolidated financial statements should be read in conjunction with this discussion.

The company and the building product markets
We are the largest manufacturer of fibre cement products and systems for internal and external building construction applications in the United States, Australia, New Zealand and the Philippines, and the second largest manufacturer of flat sheet products in Chile. Our current primary geographic markets include the United States, Australia, New Zealand, the Philippines, Chile and Europe. Through significant research and development expenditure, we develop key product and production process technologies that we patent or hold as trade secrets. We believe that these technologies give us a competitive advantage in the markets in which we sell our products.

We manufacture numerous types of fibre cement products with a variety of patterned profiles and surface finishes for a range of applications including external siding and soffit lining, trim, roofing, internal linings, facades, floor and tile underlayments, drainage pipes and decorative columns. Our products are used in various markets including new residential construction, manufactured housing, repair and remodel and a variety of commercial and industrial construction applications. We believe that in certain construction applications, our fibre cement products and systems provide a combination of distinctive performance, design and cost advantages over competing building products and systems.

Our products are primarily sold to residential housing markets. Residential construction fluctuates based on the levels of new home construction activity and the repair and remodelling of existing homes. These levels of activity are affected by many factors including home mortgage interest rates, inflation rates, unemployment levels, existing home sales, the average age and the size of housing inventory, consumer home repair and remodel spending, gross domestic product growth and consumer confidence levels. These factors were generally favourable during fiscal year 2004, resulting in healthy levels of residential construction and home repair and remodel activity.

Fiscal 2004 key results
Total net sales increased 25% to US$981.9 million in fiscal year 2004, EBIT[1] increased 34% to US$172.2 million, and operating profit from continuing operations increased 50% to US$125.3 million.

Our largest market is North America, where fibre cement is one of the fastest growing segments of the external siding market. USA Fibre Cement net sales contributed 75% of total net sales, and its EBIT[1] was the primary contributor of total company EBIT[1], during fiscal year 2004. Both net sales and EBIT[1] increased from the prior year due mainly to healthy levels of residential construction and repair and remodel activity, and strong penetration against competing products, in the United States.

Asia Pacific net sales contributed 22% of total net sales, and its EBIT[1] was the second largest contributor of total company EBIT[1]. Net sales increased in fiscal year 2004 in both our Australia/New Zealand and our Philippines Fibre Cement businesses. In Australia/New Zealand, this increase was primarily due to favourable foreign currency exchange rates and less to factors that affected that segment's markets. EBIT[1] increased primarily due to favourable foreign currency exchange rate differences and cost savings initiatives that we implemented during fiscal year 2004 that caused a decrease in SG&A expense.

In our emerging businesses of Chile Fibre Cement and Hardie® Pipe, we continued to make good progress. We also commenced our fibre cement business in Europe and commissioned a pilot roofing plant at Fontana, California to test our proprietary manufacturing technology and to provide product for market testing in Southern California. Our investment in these emerging businesses is expected to provide good growth over the medium to longer-term.

(Millions of US dollars)	2004	2003	% Change
Net sales			
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 net sales	**981.9**	783.6	25
Net sales	**$ 981.9**	$ 783.6	25
Cost of goods sold	**(623.0)**	(492.8)	26
Gross profit	**358.9**	290.8	23
Selling, general and administrative expenses	**(162.0)**	(144.9)	12
Research and development expenses	**(22.6)**	(18.1)	25
Other operating (expenses) income	**(2.1)**	1.0	–
EBIT[1]	**172.2**	128.8	34
Net interest expense	**(10.0)**	(19.9)	(50)
Other income, net	**3.5**	0.7	–
Operating profit from continuing operations before income taxes[1]	**165.7**	109.6	51
Income tax expense	**(40.4)**	(26.1)	55
Operating profit from continuing operations[1]	**$ 125.3**	$ 83.5	50
Net operating profit including discontinued operations[1]	**$ 129.6**	$ 170.5	(24)
Effective tax rate from continuing operations	**24.4%**	23.8%	
Volume (mmsf[1])			
USA Fibre Cement	**1,519.9**	1,273.6	19
Asia Pacific Fibre Cement	**402.1**	368.3	9
Average net sales price per unit (per msf[1])			
USA Fibre Cement	**US$ 486**	US$ 471	3
Asia Pacific Fibre Cement	**A$ 788**	A$ 843	(7)

All results are for continuing operations unless otherwise stated.

[1]Definitions

EBIT and EBIT Margin – 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 measures of operating income and operating income margin.

Operating profit from continuing operations before income taxes – equivalent to the US GAAP measure of income from continuing operations before income taxes.

Operating profit from continuing operations – equivalent to the US GAAP measure of income from continuing operations.

Net operating profit including discontinued operations – equivalent to the US GAAP measure of net income.

mmsf – million square feet

msf – thousand square feet

Reconciliation of Adjusted EBITDA to income from continuing operations –

(Millions of US dollars)	2004	2003	2002	2001	2000
Income from continuing operations	**$ 125.3**	$ 83.5	$ 27.3	$ 29.5	$ 23.7
Income tax expense (benefit)	**40.4**	26.1	3.1	(0.6)	13.0
Net interest expense	**10.0**	19.9	16.0	13.2	20.5
Other (income) expense, net	**(3.5)**	(0.7)	0.4	(1.6)	1.6
Depreciation and amortisation	**36.4**	27.4	23.5	20.6	20.8
Asset impairment	**–**	–	–	7.5	–
Adjusted EBITDA	**208.6**	156.2	70.3	68.6	79.6
Restructuring and other operating expenses (income)	**2.1**	(1.0)	28.1	8.0	4.1
Adjusted EBITDA before restructuring and other operating expenses (income)	**$ 210.7**	$ 155.2	$ 98.4	$ 76.6	$ 83.7

Adjusted 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 Adjusted EBITDA in the same manner and, accordingly, Adjusted EBITDA may not be comparable with other companies. We have included information concerning Adjusted EBITDA because we believe that Adjusted 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. To permit evaluation of this data on a consistent basis from period to period, Adjusted EBITDA has been adjusted for noncash charges such as goodwill and asset impairment charges, as well as nonoperating income and expense items.

Total Net Sales

Total net sales increased 25% compared to the previous year, from US$783.6 million to US$981.9 million.

Net sales from USA Fibre Cement increased 23% from US$599.7 million to US$738.6 million due to continued strong growth in sales volumes and higher average net selling prices.

Net sales from Asia Pacific Fibre Cement increased 26% from US$174.3 million to US$219.8 million due to increased sales volumes and favourable currency exchange rate differences.

Net sales from Other Fibre Cement increased 145% from US$9.6 million to US$23.5 million as the Chilean flat sheet business, the USA-based Hardie® Pipe business and the Europe Fibre Cement business continued to grow strongly.

USA Fibre Cement

Net sales increased 23% from US$599.7 million to US$738.6 million.

Sales volume increased 19% from 1,273.6 million square feet to 1,519.9 million square feet due to strong growth in primary demand for fibre cement and a favourable housing construction market.

Residential housing activity remained healthy during the year buoyed by low mortgage rates, strong house prices, low inventory levels of new homes for sale and a recovering domestic economy.

Strong growth continued in both the interior and exterior product markets and in our emerging and established markets as our products continued to take share from alternative materials, mainly wood-based and vinyl siding.

The average net selling price increased 3% compared to the previous year from US$471 per thousand square feet to US$486 per thousand square feet. This was due to an increased proportion of sales of higher-priced, differentiated products and a price increase in some regions implemented in the first quarter of this fiscal year.

In the exterior products market, there was continued strong growth in sales of higher-priced, differentiated products such as vented soffits, Heritage® panels, the ColorPlus™ Collection of pre-painted siding and Harditrim® XLD™ planks.

In the interior products market, sales of our Hardibacker 500™ half-inch backerboard grew strongly as it further penetrated its target market, helping to lift our share of the interior cement board market.

During the fourth quarter, we commenced construction of our new 300 million square foot green-field fibre cement plant at Reno, Nevada. The plant will service the rapidly growing demand in the west-coast region of the United States, and construction is expected to be completed by the end of calendar year 2004.

During the year, we completed the upgrade and began ramping-up our Blandon, Pennsylvania plant acquired from Cemplank in December 2001. The upgrade increased design capacity of the plant from 120 million square feet to 200 million square feet. We also completed the upgrade and began ramping-up our 160 million square foot panel production line at our Waxahachie, Texas plant.

Also during the year, we commissioned and commenced ramping-up our new proprietary pre-finishing line at our Peru, Illinois plant. This is expected to significantly reduce painting costs for our ColorPlus™ Collection of exterior siding, and help accelerate our market penetration in the northern region. Also at our Peru, Illinois plant, we commenced construction of the new 160 million square foot trim line, which is expected to be completed in calendar year 2004.

Asia Pacific Fibre Cement

Net sales for this segment increased 26% from US$174.3 million to US$219.8 million. Net sales increased 2% in Australian dollars. Sales volume increased 9% from 368.3 million square feet to 402.1 million square feet. Net selling price decreased by 7% primarily due to the increase in the Philippines' product mix in overall Asia Pacific net sales.

Australia and New Zealand Fibre Cement

Net sales increased 25% from US$156.3 million to US$195.5 million, primarily due to favourable foreign exchange rate differences. In Australian dollars, net sales increased 1%.

The increase in net sales in local currency was due to a 1% increase in sales volume from 298.7 million square feet to 303.0 million square feet. The average net selling price was flat compared to the previous year.

In Australia, new residential housing activity slowed during the year, but was better than industry forecasts. The impact of this was partly offset by strong residential renovation and commercial activity.

FRC™ Pipes continued to penetrate its targeted market and increased sales volumes compared to the prior year. During the year, FRC™ Pipes was successful in tendering to supply storm drainage pipes for the Sydney Orbital road project. The project involves the supply of a significant volume of FRC™ pipes over the next year.

A new pipe standard was released by Standards Australia during the year. This will enable our fibre cement pipes to compete more effectively against steel reinforced concrete pipes.

During the year, we launched ExoTec™ Facade Panel, our new premium facade panel incorporating the next generation of fibre cement composites. The new product is designed for commercial applications.

In New Zealand, new residential housing activity remained at healthy levels and demand was strong for soffits and weatherboards, including our Linea® range of weatherboards, which uses proprietary low-density technology.

Philippines Fibre Cement
Net sales increased 34% from US$18.0 million to US$24.2 million. In local currency, net sales increased 41%. This was due to a 42% increase in sales volume compared to the prior year, from 69.7 million square feet to 99.1 million square feet, partly offset by a lower average net selling price.

The average net selling price decreased 1% compared to the prior year due to a less favourable product mix between domestic and export sales.

Other Fibre Cement

Chile Fibre Cement
Our Chilean operation continued to increase its penetration of the local market in line with its targets.

Net sales increased 167% compared to the prior year due to a 103% increase in sales volume and a higher average net selling price.

The level of construction activity in Chile improved during the period after being stagnant since the end of 2001.

The average net selling price increased due to strong export sales and growth in sales of higher-priced, differentiated products.

Hardie® Pipe
Our USA Hardie® Pipe business continued to penetrate the south-east market of the United States and improve its manufacturing efficiency.

Net sales increased 95% compared to the prior year due to a 95% increase in sales volume. The average net selling price was flat compared to the previous year.

Market acceptance of our fibre cement pipes continued to grow strongly and we further increased our share of the market for our targeted diameter range of drainage pipes in Florida.

The manufacturing performance of the plant continued to improve during the period, reducing costs and increasing output, particularly of the larger diameter pipes. Despite this, manufacturing costs remain higher than our targets.

The competitive response to our entry into the south-east market remains intense.

Europe Fibre Cement
Our Europe Fibre Cement business commenced operations during the year with the launch in the United Kingdom and France markets of our Hardibacker® range of interior products and our proprietary pre-painted siding products.

Awareness of our product range among distributors, builders and contractors is growing and sales of Hardibacker® tile backer and our pre-painted siding products are in line with our expectations.

In June 2003, we commissioned a new coating line near Southampton in England. The line is used to apply the finishing coat to siding products imported from our United States business.

Artisan® Roofing
In June 2003, we commissioned our pilot roofing plant at Fontana, California. The pilot plant, which has a design capacity of 25 million square feet, was built to test our proprietary manufacturing technology and to provide product for market testing in Southern California.

Plant testing and manufacturing trials commenced during the year and the first on-site installations of the new roofing product were completed. The first commercial sales of our Artisan® Roofing product were made in the second half of the current year and further sales are expected in the first quarter of the fiscal year 2005. Interest in our roofing product within our targeted market is strong.

Gross Profit

Gross profit increased 23% from US$290.8 million to US$358.9 million due to improvements in all our major businesses. The gross profit margin decreased 0.5 of a percentage point to 36.6%.

USA Fibre Cement gross profit increased 24% due to higher sales volumes and a higher average net selling price, partly offset by an increase in unit cost of sales and higher freight costs. The higher unit cost of sales resulted primarily from higher pulp costs, increased sales of higher-priced differentiated products and the ramp-up of the new manufacturing lines at the Blandon, Pennsylvania; Waxahachie, Texas; and Peru, Illinois plants. The gross profit margin increased 0.2 of a percentage point.

Asia Pacific Fibre Cement gross profit increased 19% following improvements from Australia and New Zealand Fibre Cement, and Philippines Fibre Cement, which increased 16% and 70%, respectively. The improved result for Australia and New Zealand was due to a favourable foreign exchange difference. In the Philippines, increased sales and reduced manufacturing costs resulted in the stronger gross profit performance. The Asia Pacific Fibre Cement gross profit margin decreased 2.1 percentage points.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 12% compared to the prior year, from US$144.9 million to US$162.0 million. The increase in SG&A expenses was due mainly to sales and marketing expenses associated with growth initiatives in the USA. However, as a percentage of sales, SG&A expenses were 2.0 percentage points lower, at 16.5%.

Research and Development Expenses

Research and Development includes costs associated with “core” research projects that are aimed at benefiting all fibre cement business units. These costs are recorded in the Research and Development segment rather than being attributed to individual business units. These costs increased 36% for the period to US$14.1 million. Our Research and Development segment includes these costs and US$3.5 million of Research and Development administration expenses classified as SG&A expense.

Other research and development costs associated with commercialisation projects in business units are included in the business unit segment results. In total, these costs increased 10% to US$8.5 million.

Other Operating (Expenses)/Income

Other operating expenses of US$2.1 million in the current fiscal year mainly reflect an increase in cost provisions for our Australia and New Zealand business. In the prior year, we realised a US$1.0 million gain from the settlement of a pulp hedge contract.

EBIT [1]

EBIT increased 34% from US$128.8 million to US$172.2 million. The EBIT margin increased 1.1 percentage points to 17.5%.

USA Fibre Cement EBIT increased 26% from US$155.1 million to US$195.6 million. The increase was due to strong growth in net sales, partly offset by an increase in unit cost of sales, freight and SG&A expenses. The EBIT margin increased 0.6 of a percentage point to 26.5%.

Asia Pacific Fibre Cement EBIT increased 38% from US$27.3 million to US$37.6 million. The EBIT margin increased 1.4 percentage points to 17.1%.

Australia and New Zealand Fibre Cement EBIT increased 30% from US$27.2 million to US$35.4 million primarily due to favourable foreign exchange rate differences. In Australian dollars, EBIT increased 5% mainly due to lower SG&A expenses, partly offset by a temporary decrease in manufacturing performance at the Rosehill, NSW plant during the year and increased freight costs. The EBIT margin was 0.7 of a percentage point higher, at 18.1%.

Our Philippines business recorded a US$2.2 million EBIT for the year compared to a US$0.1 million EBIT for the prior year.

The Chile Fibre Cement business recorded its first full year positive EBIT since commencing commercial production in 2001.

Despite continued strong volume growth and improved manufacturing performance, our USA Hardie® Pipe business incurred an operating loss for the year due to low prices and higher than targeted unit costs.

Our Europe Fibre Cement business became operational during the year and incurred an operating loss, as expected.

General corporate costs decreased by US$2.4 million from US$29.9 million to US$27.5 million. This decrease was primarily due to a reduction in employee bonus plan expense and a US$1.6 million gain from the positive resolution of a vendor dispute, partly offset by changes in a number of other corporate expenses.

Net Interest Expense

Net interest expense decreased by US$9.9 million from US$19.9 million to US$10.0 million. In the prior year, we incurred a US$9.9 million make-whole payment from the early retirement of US$60 million of long-term debt. Interest expense decreased further by US$2.7 million due to lower average borrowings. These decreases in net interest expense were partially offset by a US$2.7 million decrease in interest income due to lower average cash balances compared to the previous year.

Other Income, net

We realised a gain before income tax of US$4.5 million on the sale of property formerly owned by one of our New Zealand subsidiaries. Additionally, a previously recorded liability related to potential contingent legal claims was reversed, resulting in income of US$4.3 million. We also realised US$0.1 million in net investment income. These income items were partially offset by an impairment charge of US$2.2 million that we recorded on an investment in a company that filed a voluntary petition for reorganisation under Chapter 11 of the US bankruptcy code. Additionally, we incurred an expense of US$3.2 million primarily due to a capital duty fee paid in conjunction with our Dutch legal structure. We incurred this to extend the scope of our international finance subsidiary to lend to global operations.

Income Tax Expense

Income tax expense increased by US$14.3 million from US$26.1 million to US$40.4 million due to the increase in profit. We expect the effective income tax rate to be in the 25-30% range in fiscal year 2005.

Operating Profit from Continuing Operations[1]

Income from continuing operations increased by 50% or US$41.8 million, from US$83.5 million for the prior year to US$125.3 million this year.

Discontinued Operations

We recorded income from discontinued operations of US$4.3 million in 2004 compared to US$87.0 million in the prior year. The current year amount primarily includes a favourable outcome from matters related to our former Gypsum business and a gain on the sale of our New Zealand Building Systems business, net of other wind-up costs of Gypsum and other discontinued businesses. The previous fiscal year primarily consisted of net profit related to the sale of our Gypsum operations and Las Vegas land related to our Gypsum operations.

[1] See **Definitions** on page 47

Liquidity and Capital Resources

We have historically met our working capital needs and capital expenditure requirements through a combination of cash flow from operations, proceeds from the divestiture of businesses, credit facilities and other borrowings, proceeds from the sale of property, plant and equipment and proceeds from the redemption of investments. Seasonal fluctuations in working capital generally have not had a significant impact on our short-term or long-term liquidity. We believe that we can meet our present working capital requirements for at least the next 12 months based on our current capital resources.

We had cash and cash equivalents of US$72.3 million as of 31 March 2004. At that date we also had credit facilities totalling US$446.0 million of which US$175.8 million was outstanding. Our credit facilities are all uncollateralised and consist of the following:

(Millions of US dollars)

Description	Interest Rate at 31 March 2004	Total Facility at 31 March 2004	Principal Outstanding at 31 March 2004
US$ notes, fixed interest, repayable annually in varying tranches from November 2004 through November 2013	7.09%	$ 165.0	$ 165.0
A$ revolving loan, can be drawn down in either US$ or A$, variable interest based on US$ LIBOR or A$ bank bill rate plus margin, can be repaid and redrawn until maturity in November 2006	N/A	152.0	–
US$ stand-by loan, can be drawn down in either US$ or A$, variable interest based on US$ LIBOR or A$ bank bill rate plus margin until maturity in April 2005	N/A	117.5	–
US$ line of credit, can be drawn down in Chilean Pesos, variable interest based on Chilean Tasa Activa Bancaria rate plus margin until maturity in October and December 2004	3.24%	11.5	10.8
Total		**$ 446.0**	**$ 175.8**

Cash Flow

Net operating cash inflows increased by US$97.8 million to US$162.6 million during the fiscal year compared to the prior fiscal year. Net income, after adjusting for the gain on disposal of subsidiaries and businesses and for a gain on sale of land and buildings, increased by US$35.6 million. Adjusting further for non-cash items included in net income, cash flows from operations increased additionally by US$36.7 million. Other working capital changes caused a net increase in cash of US$25.5 million.

Net investing activities produced a cash outflow of US$58.0 million during the year compared to a cash inflow of US$237.9 million for the prior year. The decrease was primarily due to proceeds from the sale of our Gypsum business and from the Las Vegas land sale, which was partially offset by a US$57.1 million payment related to the transfer of control of ABN 60 in fiscal 2003 that did not recur in fiscal 2004. In addition, we spent US$15.4 million less on capital expenditure during the year compared to the previous year.

The US$5.0 million from the sale of businesses resulted from the sale of our New Zealand Building Systems business in May 2003. The US$10.9 million from property sold resulted primarily from land and buildings of our Australia/New Zealand segment that we sold for cash in March 2004. The US$74.8 million capital expenditures in the current period resulted primarily from continued operating plant expansions and construction and new property purchases.

Net financing activities resulted in an outflow of US$87.9 million for the year compared to a US$279.4 million outflow in the prior year. The current year outflow resulted primarily from the return of capital of US$68.7 million and the dividends paid of US$22.9 million. In the prior year, the return of capital was higher by US$26.1 million. Additionally, in the prior year, we repaid US$160.0 million of bank debt, which did not recur in the current year. Net proceeds from borrowings decreased by US$5.0 million to US$0.5 million. The proceeds of US$3.2 million represent stock option exercises during the year.

Capital Requirements and Resources

Our capital requirements consist of expansion, renovation and maintenance of our production facilities and construction of new facilities. Our working capital requirements consisting primarily of inventory and accounts receivable and payables fluctuate seasonally and increase prior to and during months of the year when overall construction and renovation activity volumes increase. We have historically funded cash flow shortfalls with cash generated from divestiture of non-fibre cement business operations and other business assets and from available cash under bank debt facilities.

During fiscal year 2004, our continuing businesses generated cash in excess of our capital requirements. As we continue expanding our fibre cement businesses, we expect to use cash primarily generated from our operations to fund capital expenditures and working capital. We expect to spend significantly during fiscal year 2005 on capital expenditures that include facility upgrade and new facility construction. Upgrades generally include required expenditures to maintain our facilities and expenditures for implementing new fibre cement technologies. If we do not generate sufficient cash from operations to fund our planned capital expenditures and working capital requirements, we believe the cash and cash equivalents, and cash available at 31 March 2004 of approximately US$270.2 million under debt facilities, will be sufficient to meet any cash shortfalls during the next two to three years.

Beyond three years, we intend to rely, for the most part, on increased market penetration of our products and increased profitability from a more favourable product mix to generate cash to fund our growth. Historically, our products have been well accepted by our market and our product mix has changed towards higher priced differentiated products that generate higher margins. We are relying on the markets for our products to continue recognising that value to achieve sufficient market penetration and a product-mix sufficiently profitable to fund our growth plans. We also intend to maintain sufficient levels of available cash under bank debt facilities to offset any cash shortfall.

We believe that we will be able to continue increasing our market share by further market penetration against competing products. Generally, over the past three years, a large part of our growth resulted from market share increases, especially in our major market of North America. We have historically acquired market share from vinyl and wood-based products in this market and believe that our success is based primarily on our superior and proprietary product and production technologies that give us competitive product advantages. We expect to continue our research and development activities over the short and long-term to maintain, improve and increase our technology advantages. Based on our market penetration history, technology benefits from our research and development activities, and other factors, we expect that our market penetration trend will continue over the short and longer-term.

We believe our business is affected by general economic conditions and interest rates in the United States and in other countries since these factors may affect the number of new housing starts and the level of housing prices and household income levels. We believe that housing prices, which may affect available owner equity, and household income levels are contributors to the currently robust renovation and remodel markets for our products. We believe continued improvements in general economic conditions and continued low mortgage interest rates will maintain new housing starts and the renovation and remodel markets at historically high levels, which we expect will result in our operations generating cash flow sufficient to fund the majority of our planned capital expenditures. It is possible that a decline in residential housing starts in the United States and in other countries, in which we manufacture and sell our products, would negatively impact our growth and current levels of revenue and profitability and therefore decrease our liquidity and our ability to generate sufficient cash from operations to meet our capital requirements. The anticipated interest rate increase in the United States during calendar year 2004 may slow down new housing starts in the United States and decrease housing prices, which may reduce demand for our products.

Pulp is a primary ingredient to our fibre cement formulation and affects our working capital requirements. Pulp prices have risen during fiscal year 2004 and it is possible that they will continue rising. To minimise additional working capital requirements caused by rising pulp prices, we may seek to enter into contracts with suppliers for the purchase of pulp that could fix our pulp prices over the longer-term. However, if pulp prices do not continue rising, our cash generated from operations may be negatively impacted if pulp pricing is fixed over the longer-term.

Freight costs have increased due to higher fuel prices and an increase in the average length of haul of our products from our facilities to our customers' facilities. We expect fuel costs to remain higher, which will increase our working capital requirements as compared to fiscal year 2004.

We anticipate that, during our involvement with the Special Commission of Inquiry, we will incur increased administration expenses of approximately US$1.0 million each month.

The collective impact of the foregoing factors, and other factors, may affect our ability to generate sufficient cash flows from operations to meet our short and longer-term capital requirements. We believe that we will be able to fund any cash shortfalls with cash available under our bank debt facilities and that we will be able to maintain sufficient cash available under those facilities. Additionally, we could determine it necessary to scale back or postpone our expansion plans to maintain sufficient capital resources over the short and longer-term.

Capital Expenditures

Our total capital expenditures, including amounts accrued, for continuing operations for fiscal year 2004 was US$74.1 million. The capital expenditures were primarily used to create additional low cost, high volume manufacturing capacity to meet increased demand for our fibre cement products and to create new manufacturing capacity for new fibre cement products.

Significant capital expenditures in fiscal year 2004 included the completion of: (i) our upgrade to our Blandon, Pennsylvania plant, (ii) our panel production line at our Waxahachie, Texas plant, (iii) our new pre-finishing line at our Peru, Illinois plant and (iv) our pilot roofing plant in Fontana, California. In addition, we commenced construction on our new green-field plant at Reno, Nevada and on our new trim line at our Peru, Illinois plant.

Contractual Obligations

The following table summarises our significant contractual obligations at 31 March 2004:

		Payments due During Fiscal Year Ending 31 March			
(Millions of US dollars)	Total	2005	2006 to 2007	2008 to 2009	After 2009
Long-Term Debt	$ 165.0	$ 17.6	$ 52.8	$ 54.3	$ 40.3
Interest on Long-Term Debt	55.6	11.7	19.2	13.1	11.6
Operating Leases	128.3	12.5	22.0	18.6	75.2
Purchase Obligations[1]	26.8	26.8	–	–	–
Line of Credit	10.8	10.8	–	–	–
Total	$ 386.5	$ 79.4	$ 94.0	$ 86.0	$ 127.1

1 Purchase Obligations are defined as agreements to purchase goods or services that are enforceable and legally binding on the company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions. Purchase obligations listed above primarily represent commitments to purchase capital expenditures. The company did not have any agreements with variable price provisions.

The table above does not include amounts related to our future funding obligations for our Australian defined benefit plan. We estimate that our pension plan funding will be approximately US$3.0 million for fiscal year 2005. Projected payments beyond fiscal year 2005 are not currently determinable. See Note 9 to our consolidated financial statements on page 82.

See Notes 11 and 14 to our consolidated financial statements on pages 84 and 86 for further information regarding long-term debt and operating leases, respectively.

Off-Balance Sheet Arrangements

As of 31 March 2004 and 2003, we did not have any material off-balance sheet arrangements.

Inflation

We do not believe that inflation has had a significant impact on our results of operations for fiscal year 2004.

Seasonality and Quarterly Variability

Earnings are seasonal and typically follow activity levels in the building and construction industry. In the United States, the quarters ending December and March reflect reduced levels of building activity depending on weather conditions. In Australia and New Zealand, the quarter ending March is usually affected by a slowdown due to summer vacations. In the Philippines, construction activity diminishes during the wet season from June to September. In Chile, we also experience decreased construction activity from May through September due to weather. Also, general industry patterns can be affected by weather, economic conditions, industrial disputes and other factors.

Outlook

In North America, housing construction continues to be buoyed by low interest rates and strong house prices and the short-term outlook remains positive with indicators of future activity including housing starts, permits and builder confidence all at high levels.

Despite expectations of higher interest rates later in the year, the fundamental drivers of housing demand continue to look positive. The US domestic economy is strengthening and demographic factors such as immigration, internal migration and household formation all suggest healthy levels of housing demand over the medium to longer-term.

Our North American business is expected to generate further top-line and market share growth as it continues to penetrate its exterior and interior product categories across its established and emerging markets.

In Australia and New Zealand, the renovations and commercial segments are expected to remain buoyant over the short-term, but new housing activity in Australia is expected to further soften. Increased sales and improved plant operating efficiencies are expected.

In the Philippines, stronger domestic and export demand is expected from increased construction activity, reflecting more favourable economic conditions in the region. Increased demand and more cost savings should further improve operating performance.

In Chile, the business is entering its seasonal slow down period, but construction activity is expected to be stronger during this period than a year ago. Further market penetration and share growth is expected as awareness of our expanded product range among builders, distributors and contractors continues to increase.

The USA Hardie® Pipe business is continuing to grow sales as it penetrates the south-east market and is lifting production to meet growing demand. Further progress is expected to improve plant operating efficiency and lower manufacturing costs.

In Europe, further market penetration is expected as the business continues to build awareness of its products among builders, contractors and distributors.

Critical Accounting Policies

Our accounting policies affecting our financial condition and results of operations are more fully described in Note 2 to our consolidated financial statements on page 76. Certain of our accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying value of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

Sales

We record estimated reductions to sales for customer rebates and discounts including volume, promotional, cash and other rebates and discounts. Rebates and discounts are recorded based on management's best estimate when products are sold. The estimates are based on historical experience for similar programs and products. Management reviews these rebates and discounts on an ongoing basis and the related accruals are adjusted, if necessary, as additional information becomes available.

Accounts Receivable

We evaluate the collectibility of accounts receivable, based on historical bad debts, customer credit-worthiness, current economic trends and changes in our customer payment activity, on an ongoing basis and an allowance for doubtful accounts is provided for known and estimated bad debts. While credit losses have historically been within our expectations, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our accounts receivable are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any of these customers could impact their ability to make payments and result in the need for additional allowances which would increase our SG&A expenses.

Inventory

Inventories are recorded at the lower of cost or market. In order to determine market, management regularly reviews inventory quantities on hand and evaluates significant items to determine whether they are excess, slow-moving or obsolete. The estimated value of excess, slow-moving and obsolete inventory is recorded as a reduction to inventory and an expense in cost of sales in the period it is identified. This estimate requires management to make judgments about the future demand for inventory, and is therefore at risk to change from period to period. If our estimate for the future demand for inventory is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory reserves, which would have a negative impact on our gross profit.

Accrued Warranty Reserve

We offer various warranties on our products, including a 50-year limited warranty on certain of our fibre cement siding products in the United States. Because our fibre cement products have only been used since the early 1980s, there is a risk that these products will not perform in accordance with our expectations over an extended period of time. A typical warranty program requires that we replace defective products within a specified time period from the date of sale. We record an estimate for future warranty related costs based on an analysis of actual historical warranty costs as they relate to sales. Based on this analysis and other factors, we adjust the adequacy of our warranty provisions as necessary. While our warranty costs have historically been within its calculated estimates, if our experience is significantly different from our estimates, it could result in the need for additional reserves.

Accounting for Income Tax

We account for income taxes according to SFAS No. 109, "Accounting for Income Taxes," under which we compute our deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We must assess whether, and to what extent, we can recover our deferred tax assets. If full or partial recovery is unlikely, we must increase our income tax expense by recording a valuation allowance against the portion of deferred tax assets that we cannot recover. We believe that we will recover all of the deferred tax assets recorded (net of valuation allowance) on our consolidated balance sheet at 31 March 2004. However, if facts later indicate that we will be unable to recover all or a portion of our net deferred tax assets, our income tax expense would increase in the period in which we determine that recovery is unlikely. Additional information regarding accounting for income taxes is included in Note 16 to the consolidated financial statements on page 89.