

Boycotts bite into Hardie's bottom line

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23 November 2004

Australian Financial Review

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JAMES HARDIE has admitted that council boycotts are starting to bite into its profits and the publicity over its asbestos scandal is encouraging more people to make claims.

The company also revealed that disgraced former boss Peter Macdonald could receive nearly \$700,000 over the next 18 months, despite an official finding that he may have criminally misled investors.

In a surprise half-year result yesterday, Hardie downgraded profit expectations although this was largely blamed on higher costs at its US plants unrelated to the scandal over its reluctance to fully fund asbestos claims.

Shares dived nearly 10 per cent, the biggest fall in five months.

The company said product boycotts by local councils and state governments were posing a threat and \$11 million in asbestos-related legal costs that may not be tax-deductible had hit its bottom line.

"Customers have been pretty loyal to the product but we have been impacted in the last couple of months by the bans by the councils," acting chief Louis Gries said.

An actuarial report released yesterday also revealed a significant increase in mesothelioma and asbestosis claims since March, "far beyond anything previously seen".

But KPMG said lower claim costs offset an estimated 1440 extra claims, leaving the total cost at \$1.53 billion, slightly down on \$1.57 billion last year. Estimates vary between \$1 billion to \$2.3 billion based on assumptions used.

KPMG said the "considerable air time" given to asbestos and Hardie may have led to jumps in claims in May and September.

"It's too soon to know if this is a sustainable trend or an aberration," Hardie chairman Meredith Hellicar said.

She said the internal investigation was complete and would have no impact on financial statements, although further "material" costs related to resolving the asbestos issue and co-operating with the corporate regulator's investigation are expected on top of the \$11 million to date.

Unions have boycotted Hardie since an inquiry found Mr Macdonald may have misled

investors about the foundations's funding. He was given an \$8.3 million payout when he quit last month and the company has now said he will earn \$76,000 a month in consultancy fees for up to six months and \$13,000 a month for another 18 months.

Unions criticised the further payments to Mr Macdonald as "obscene" and promised the boycotts would continue.

"We want to see the company come through this but everybody in the community believes Hardie must do the right thing," Australian Manufacturing Workers Union secretary Paul Bastian said.

"If there's been an agreement reached that the victims support, the boycotts would be called off."

An ACTU spokesman said Mr Macdonald's presence on the Hardie payroll was a "slap in the face" for victims.

Hardie has offered to meet its moral obligation to cover claims against its former asbestos subsidiaries, which a new estimate yesterday put as high as \$2.3 billion.

Ms Hellicar said Hardie has made "much progress" in agreeing to the structure and financing of a special-purpose fund to resolve the crisis with unions and asbestos victims.

RISING COSTS

What the asbestos scandal cost James Hardie in the 6 months to September

* \$750,000 - maximum payable to former CEO Peter Macdonald for consulting over * the next two years.

* \$US6.3m - lawyers at the NSW government inquiry including Tony Meagher SC * and Allens Arthur Robinson.

* \$US1.1m - internal investigation by US law firm Scadden Arps.

* \$US700,000 - resolution advisory fees to Calburn Partnership , Arnold Bloch * Leibler, Atanaskovic Hartnell, and Allens.

* \$US400,000 - other costs including the Asic investigation and public * relations advisers Jackson Wells Morris, Gavin Anderson, and Third Person.

"We have retained [Peter Macdonald] for a further two years to provide us with the benefit of his knowledge and experience as required."

James Hardie chairman Meredith Hellicar

“The guy has been rewarded for doing the wrong thing. His strategy has brought the company into disrepute ... it's just obscene, particularly given the negotiations have continued to drag on and on.”

AMWU NSW secretary Paul Bastian

Source: Company statements

Production woes rock Hardie Martin Pretty 495 words 23 November 2004 Australian Financial Review First 14 English © 2004 Copyright John Fairfax Holdings Limited. www.afr.com Not available for re-distribution.

James Hardie Industries' asbestos issues have been compounded by a downturn in its operating performance and a more conservative stance on its tax payments.

Shares in James Hardie dived almost 10 per cent yesterday, closing 62 ¢ lower at \$6.13, after the fibre-cement company said its Australian operations have been hit by boycotts and local government bans and some of its US operations had struggled.

The operational issues caused Hardie to downgrade its operating profit forecast for the year ending March 31 to a range of between \$US135 million and \$US145 million (\$172 million to \$185 million), compared with analysts' estimates of about \$US155 million.

James Hardie's net profit for the six months ended September 30 fell 9 per cent to \$US61.1 million.

“Despite continued strong top line growth in the second quarter, the bottom line was affected by a number of non-recurring items and a dip in the operating performance of some of our US plants,” James Hardie's interim chief executive, Louis Greis, said.

“There are two ways to look at it, as either a temporary misstep or as a worrying slip in execution,” BT Financial analyst Misha Collins said. “It's hard to tell.”

One figure that concerned some institutional investors was the rise in James Hardie's tax rate to 33.3 per cent for the half-year, compared with 25.5 per cent for the same portion of the previous financial year.

A further concern is a tax treaty being negotiated between the US and the Netherlands, the latter being James Hardie's corporate base.

This treaty could come into effect in January 2006 and James Hardie said it was evaluating potential implications.

Acting chief financial officer Russell Chenu was thought to have taken a more

conservative stance than his predecessors.

While operational earnings declined, James Hardie felt a further sting in the form of \$US5.6 million worth of costs incurred during the September quarter as a result of the NSW government's inquiry into the Medical Research and Compensation Foundation.

An updated report on the MRCF's future position from accounting firm KPMG was released by James Hardie yesterday. It served as a highlight for the uncertainties over future asbestos liabilities.

With James Hardie and the Australian union movement still negotiating over how the company should cover its moral responsibilities to victims of asbestos diseases, shareholders are not going to receive a dividend payment for the quarter.

The company also confirmed that former chief executive Peter McDonald had secured a consultancy deal with the company under which he would be paid \$US60,000 a month for the first six months before his work tails away and his pay drops to \$US10,000 a month.

Mr Macdonald's base salary as chief executive of James Hardie was \$US822,500 last year, which equated to \$US68,541 a month.