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Ansell Limited recently announced an on-market buy-back of 10 million shares following a capital management review by the board. What were the parameters and outcome of the review?

CEO Harry Boon

The process was thorough. It involved forecasting our cash flows through to June 2005, as well as reviewing our projected balance sheet, including levels of net interest-bearing debt, over this period. We also took into account the board's guideline of maintaining key credit ratios consistent with an "investment grade" financial profile.

Our analysis showed we'd generate funds surplus to the requirements of the business. And out of this, we've chosen to adopt a "balanced capital management strategy", which allows us to return some surplus cash to shareholders through the share buy-back after retaining adequate funds for internal growth, capital expenditure, working capital needs, and capacity for bolt-on acquisitions. The board has also indicated it would review our dividend policy after the full-year results were available.

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In February, you indicated the core Healthcare segment was on track to achieve the targeted double-digit earnings growth for the current year, that is segment EBITA close to US\$93 million. Segment EBITA for the first half ended

December 2002 was US\$43 million, up only 4 percent on the prior year. What has been the performance of the business so far in the second half?

CEO Harry Boon

Although we don't report quarterly, I can confirm that third-quarter EBITA was up more than 10 percent from the same quarter last year. And so far, it's looking like we'll have double-digit growth in EBITA in the second half. That is, double-digit EBITA growth compared with the second half last year and double-digit EBITA growth compared with the recent first half.

Based on a strong third quarter, April's sales trend, and anticipated further improvements in plant operations, the core Healthcare segment continues to track towards the previously published target of double-digit US dollar EBITA growth for the full year. Of course, trading results over the remaining months will determine the final outcome.

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To what extent has Ansell's cost base been impacted by the recent sharp rises in the price of latex, your key raw material, and petroleum based products?

CEO Harry Boon

Along with all our competitors, we've felt the impact of higher latex and oil prices, although we've partly offset this through forward purchasing and hedging arrangements, as well as contractual price increases with some of our leading customers.

While latex prices have risen steadily this financial year, historically, prices spike upwards during the December to March period, when latex production falls due to the seasonal effect known as wintering. We don't expect the most recent seasonal increases to continue, although prices should remain firm. More than half our products contain no natural latex, while key products like surgeons' gloves and condoms contain a lot of packaging value added and relatively low amounts of latex. Only exam gloves are heavily impacted by latex costs, and this affects all producers.

General fuel oil prices have increased this year, but this is not a major cost in the overall structure. Additionally, our synthetic nitrile gloves are made from oil-based derivatives, and we have fixed price contractual purchasing arrangements in place.

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In the first half, your Professional Healthcare business saw sales and EBITA fall versus the prior year, partly due to the slow ramp-up of the Shah Alam factory in Malaysia and the impact of the two-month long US Food and Drug Administration (FDA) detention order on surgeons' gloves from Shah Alam. To what extent has your US surgeons' glove business been able to recover since the lifting of the order in January?

CEO Harry Boon

Third-quarter US surgical glove sales were well above the first half's monthly average, and, including new orders and back order fulfillment, haven't been materially different from the first quarter, that is before the FDA detention.

When the detention was lifted on January 6, we'd accumulated more than US\$7 million in worldwide back orders for surgeons' gloves, of which 60 percent was fulfilled during the third quarter. This involved running our plants "24-7", and significant air-freighting to reduce transport times. We expect to eliminate the remaining back orders during the current quarter, after which normal ordering patterns will become re-established. We've already launched an ongoing program aimed at restoring relationships with many of the hospitals and distributors who left us, and the good news is that only about 5 percent of the original back orders have been cancelled, indicating firm customer support for our products.

However, order intake usually declines as supplies flow into the market following a period of significant back orders. There's also a time lag before hospital evaluations can be resumed and new business won. We've certainly had some short-term loss of US surgical glove customers, but only when remaining back orders are cleared, and normal ordering patterns are re-established, will we be able to assess the full impact.

To put this all in perspective, surgeons' gloves account for just over 20 percent of Ansell's total revenue, and the US surgical glove business is less than half of that. We also have significant sales into the European and Asia/Pacific markets, and we've had uninterrupted production and shipments from our surgeons' gloves plants in Colombo and Melaka, even while Shah Alam was experiencing problems that are now resolved.

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What has been the trend in margins in the Professional business? Have you had to cut prices to win back any of your US surgeons' glove customers?

CEO Harry Boon

I'm pleased to confirm that we've experienced no unusual pricing pressure on surgeons' gloves as a result of the supply situation. With the additional air-freight costs to re-supply the US market, EBITA margins in the Professional business have been slightly lower than the first half's 12.8 percent. Air-freight should return closer to normal levels during the fourth quarter. Improved sales volumes should result in second-half Professional EBITA being higher than the first half.

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One of Ansell's major competitors, SSL International plans to refocus on its core businesses, which include condoms. Ansell's Consumer Healthcare business performed strongly in the first half. How is the business positioned against a potentially stronger competitor?

CEO Harry Boon

SSL has several other consumer products besides condoms that require time and effort. We don't believe SSL has been holding back in its condom business in recent times, so there's no reason to anticipate a significant change in the competitive environment if SSL proceeds with its announced plan to focus solely on its consumer business.

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Ansell's Occupational Division grew strongly in the first half. To what extent is the business being affected by the US economic slowdown?

CEO Harry Boon

The Occupational Division represents more than half of Ansell's total revenue, and the Division's performance is a key component of Ansell's improved results this year.

Occupational's sales increased again in the third quarter and, even more importantly, we continued to improve our margins. The focus on new generation ergonomic gloves and lower cost production has led to a consistent improvement in the division's performance.

We believe Occupational's strategy to diversify its distribution and customer base serves to reduce our exposure to economic cycles. For example, demand from industries such as meat and food processing should help offset any future economic impact on the automotive and general manufacturing sectors.

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In February, you indicated that Ansell is proceeding with the Occupational Value Proposition (OVP), and hoped to sign its second major customer, after Ford USA, during the second half. Are you still on track to sign another major contract in the current half?

CEO Harry Boon

We've continued aggressively testing the OVP concept, and have had a strong and positive response from potential customers to the idea of working in partnership to reduce the total cost of hand protection and injuries, and share in the benefits.

A leading US non-automotive manufacturer is the most advanced in negotiations with us, and we expect to sign a formal agreement on a pilot OVP program covering six of its plants during the current quarter. Assuming the program proves successful over the pilot period, we'll progressively roll out OVP to its remaining facilities over the following 12 to 18 months.

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When you announced Operation Full Potential (OFP) more than a year ago, you indicated Ansell might need to take some asset write-offs to complete the

transition of manufacturing from the US to Asia and Mexico and the consolidation of your marketing and sales operations into fewer locations in Europe and the US. Do you expect to incur any of these write-offs during the current year?

CEO Harry Boon

As we indicated last year, we've continued to monitor the condition of our assets and make appropriate decisions. Among these assets is our investment in Ambri, which is on our books at the original cost of AUD\$9.3 million. However, Ambri's share price has been trading at much lower levels in recent months, and this will be reviewed at year-end.

As we've also said, we're now focused on the consolidation of our offices in the US, and this will be ongoing for the next 18 months. During the current year, we've booked against our profit over US\$1 million in one-off charges relating to the first stage of consolidating one of our US marketing locations to New Jersey from Ohio.

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Ansell's first-half tax rate was unusually high following a decision to accelerate the recovery of deferred US tax assets. In February, you indicated that the second-half tax rate would return to a more "normal" rate of around 20 percent. Has the tax rate been in line with expectations so far in the second half?

CFO Rustom Jilla

Ansell's effective tax rate is affected by the geographic spread of our profits each year. So far this half, we're experiencing relatively greater profit flows from our European businesses, which are generally subject to higher tax rates. As most of our available tax losses are in the US and Australia, the effective book tax rate for the second half is more likely to come in around 22 percent.

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Less than 6 percent of Ansell's revenue is earned in Australian dollars, yet this is your reporting currency. Given any future buy-backs or dividend payments will have to be made in Australian dollars, is it your intention to adopt any hedging to protect your earnings in Australian dollar terms?

CFO Rustom Jilla

We fully recognise future share buy-backs or dividend payments would need to be funded in Australian dollars, and take a range of US-Australian dollar exchange rates into consideration when projecting future cash flows. With so little of Ansell's trading revenue booked in Australian dollars, there's little scope or need for hedging. And as a matter of policy, we don't believe there's any sense in hedging for the translation of accounts to Australian dollars, which is purely a book entry exercise.

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Thank you Harry and Rustom.

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