Chairman's Report

Just over a year ago, the company completed its transformation into a focussed fibre cement business. The benefits of this have been significant on almost all fronts and have been realised in the first full year since our restructuring. Operating performance improved substantially, validating the decision to concentrate solely on fibre cement.

We have three long-term performance targets: 15% growth in sales revenue a year, EBIT margins of 15% or better and Returns on Capital Employed of 15% or more. All were exceeded. Sales increased 32%, EBIT rose 71%, with margins at 16%, and the return on capital was 21%. Operating profit from continuing operations more than doubled to US$85.4 million.

The sale of our gypsum assets yielded an after-tax profit of US$85.3 million. As a result, the Board has recommended a return of capital to shareholders of US 15 cents per share (based on Euro 13.05 cents per share). If approved at the AGM in August, dividends and capital returns for shareholders since December 2001 will total US 50 cents a share. The sale of the gypsum assets also allowed the company to retire debt of $US60 million. This will reduce interest costs in the years ahead. Investors have responded positively to all of these changes, with the company's share price outperforming all major indices in the past year.

Today, the company is strong financially and is well-positioned for further growth. The balance sheet is conservatively geared, we expect to be able to fund our growth from operating cash flow and there are good prospects of attractive cash returns to shareholders.

In recent months, regulators in several countries have moved to strengthen corporate governance frameworks. While we generally support these initiatives, we believe there is a risk that some of the new guidelines being introduced in Australia and the United States could lead to some unintended consequences that might not be in the best interests of shareholders.

We believe that the primary focus of good corporate governance should be clearly fixed upon the achievement of outstanding performance in an ethical manner where high quality outcomes are

STRONG PERFORMANCE

achieved and where integrity is clearly evident. The Board's role is to create the conditions that allow this to occur.

An article by Jeffrey A Sonnenfield in the September 2002 edition of *Harvard Business Review* supports our belief that, in reviewing a Board's effectiveness, it is more appropriate to assess the performance of directors by the way they work and the results that are achieved.

We agree with Sonnenfield's conclusion that a Board's most critical need is to be a strong, high-performing team that operates in a climate of openness, trust and candour and where respectful dissent and rigorous debate routinely occur. Similarly, directors should engage directly with senior managers on critical strategies and issues so that they are all involved with and accountable for outcomes on behalf of the shareholders. I believe this is an accurate description of your Board at James Hardie. Even though the directors of James Hardie satisfy those aspects of good governance that have been defined by the Australian Stock Exchange, the New York Stock Exchange and the US Securities and Exchange Commission, we do not believe that high performance can be guaranteed by guidelines about, for example, the age, tenure or independence of directors.

As a team, the James Hardie Board brings together widespread experience, spanning general management, finance, law, accounting and marketing as well as science and technology. International experience is also of value to James Hardie as it expands geographically and each director has this.

In the past year, the Board has met in the USA, Australia, New Zealand and Europe; territories where we either have large business interests or emerging opportunities. Three Board meetings included extended visits to our operations and meetings with employees and customers to provide directors with greater exposure to our business operations and markets that will help them make decisions about the company's future.

Our approach is designed to achieve a high level of corporate governance, beyond that which is simply prescribed by legislation. We are assisted by our multi-national structure. This exposes James Hardie to a number of governance and regulatory regimes and requires us to comply simultaneously with rules and community expectations in several different countries.

It is gratifying to note that our long-standing governance arrangements have required only modest changes to documentation to accommodate the recent reforms and best practice recommendations that have been developed in Australia and the United States. As advocates of good governance, we welcome the opportunity to contribute to the important debates now occurring. To this end, more information about corporate governance appears on pages 30-31 and 51-55 of this report.

On behalf of the Board, I would like to thank the company's management and employees for their efforts in achieving the operating success that is described in this report.

Alan McGregor AO, Chairman

ALAN MCGREGOR AO
CHAIRMAN

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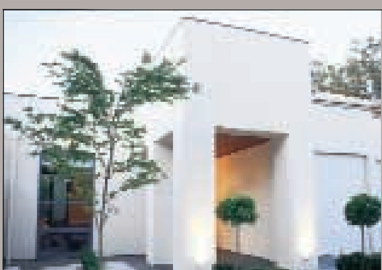

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