



The 2004-2005 year was one of contrast for James Hardie. Operationally the company performed exceptionally well, particularly in the United States, where we experienced significant growth in sales volume, revenue and earnings. However, the year was an extraordinarily challenging one for James Hardie at the corporate level, especially in Australia.

The year saw confirmation by a Special Commission of Inquiry (SCI) that the fund set up in 2001 to compensate sufferers of asbestos related diseases caused by the products manufactured in the past by the company's former Australian subsidiaries was under-funded.

The issue of asbestos compensation has had a major impact, so it is appropriate that we dedicate space in this Annual Report to providing you with a factual account of the recent events and decisions concerning James Hardie and asbestos compensation. We do this on pages 12-17.

The release of our Annual Report is determined by reporting deadlines and not by the satisfactory resolution of events that have significant bearing on the future of the business. As I write this review, work is still progressing on the proposed Principal Agreement intended to be signed by James Hardie and the NSW State Government. I am hopeful this signing is not far off, although there are still several significant issues to be resolved. Your Board remains committed to a resolution, despite the many complexities involved. The proposed voluntary asbestos compensation arrangements, to be contained within the Principal Agreement, will need to be approved by you, our shareholders, and we expect the proposal to be the subject of an Explanatory Memorandum, an Independent Expert's Report and a shareholder vote at an Extraordinary General Meeting, the details of which will be communicated to you separately.

We took the SCI and the criticisms made in its report very seriously. However, it is important to point out that the report did not dispute that the intended objective of the Board at the time was to properly fund the Medical Research and Compensation Foundation (the Foundation) established in 2001, and that it specifically acknowledged the legality of the establishment of the Foundation.

However, this has always been far more than an issue of legal right or

Corporate Review

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wrong. From a corporate governance point of view, it is about the very real and complex difficulties directors may face when they attempt to deal responsibly with community expectations and, at the same time, ensure the company continues to operate successfully and with the ongoing support of its shareholders for the benefit of all stakeholders.

For those of us on your Board, it was particularly hard to reconcile many of the extensively reported allegations made during the inquiry with what we know to be the intentions of directors in the establishment of the Foundation.

Nevertheless, we believed it important to confirm the underlying health of the company's governance. So, as we continued to seek a workable long-term compensation funding solution and to ensure that business performance was maintained, we commissioned two independent reviews to examine various aspects of the company's governance.

First, even before the release of the SCI findings, the Board's Audit Committee instigated an independent investigation into whether allegations raised during the inquiry had any impact on the company's accounts to date. We were reassured to be advised that the integrity of our accounting processes remained intact and there was no impact on the accounts.

Second, we commissioned a global review of the company's approach to corporate governance in each of the jurisdictions in which we operate. Again, this report reassured us that the policies and practices we use to guide our decisions and operations are sound and comply with the requirements of the jurisdictions in which we operate.

In addition, in light of recent changes to the Dutch Civil Code and Corporate Governance Code and consistent with best practice, we have decided to put forward proposed amendments to our Articles of Association for your approval at our AGM this year.

The company has seen a number of significant changes to the senior management team over the past year. In October 2004, our Chief Executive Officer, Peter Macdonald, and Chief Financial Officer, Peter Shafron, resigned from the company. I thank them for their contributions

to the company's growth.

The Board was delighted to have such a strong and experienced internal candidate as Louis Gries to appoint as Managing Director and CEO. Louis's achievements for James Hardie over a very long period of time have been outstanding. He is well-known to directors, shareholders and employees and we all place great trust in his business expertise, his personal integrity and his forthrightness. We appointed Russell Chenu as CFO at the same time, and Louis has since recruited a new General Counsel and appointed to the Company's General Management Team a number of other outstanding executives whose talents and values contribute to an already highly-skilled and effective leadership team.

At the last AGM, I spoke of a program of Board renewal. The search is underway for new directors with business experience in both the USA and Europe and the personal qualities and values important for contributing to the balanced composition of this demanding Board. The addition of new directors will inject new ideas and approaches and allow for the planned transitions in a way that ensures the continued stability of your company. In this context, whilst Greg Clark, Michael Brown and James Loudon will be standing for re-election at the AGM this year, both Michael and James have indicated that, if re-elected, they plan to retire from the Board at an appropriate time during their forthcoming terms, following the appointment of new directors. As both are members of the Audit Committee – Michael Brown is its Chairman – and both designated financial experts under the Sarbanes Oxley Act of 2002, we will be ensuring that their replacements also possess the requisite financial expertise.

It is appropriate to note here that shareholders will be asked at the upcoming AGM to approve an increase in the directors' fee pool and a new long-term equity program to increase the proportion of fees to be paid to directors in shares in James Hardie so that we can remain competitive in our remuneration for non-executive directors.

I record the Board's appreciation to James Hardie's employees for their outstanding work in the past year.

The excellent operating results described in this Annual Report are evidence of the passionate focus and commitment with which those who work for the company, at every level, have applied themselves.

I include in this record of thanks our CEO, Louis Gries, our senior managers, my fellow Board members and our external advisers. I am indebted to you all for your support and guidance through the extensive schedule of meetings and other conversations required to enable us to find a way to develop the asbestos compensation proposal and ensure that the company continues to grow for the benefit of all stakeholders.

I also include in this group our former chairman, Alan McGregor AO, who retired from the Board in August 2004 and who died in February this year. We are all indebted to Alan for the underlying strength of the company. He was a courageous, intelligent and highly ethical person who provided unstintingly generous and effective leadership to our Board and the company. He was also absolutely committed to finding a resolution to the asbestos issue in the best interests of all those involved.

Finally, I thank you, our shareholders, for your patience and continued support of the company. Your ability to see beyond the media headlines, to understand the very real complexities involved in the asbestos issue and to recognise that your Board is committed to finding a sustainable long-term solution has been invaluable.

There is no doubt that, in the past year, we have faced challenges of great significance and enormous consequence. I believe that the results described in this Annual Report and the proposal that we anticipate putting to you shortly in an Explanatory Memorandum, are testimony to the extent to which this outstanding company, and its people, have risen to meet these challenges and learned from them.



Meredith Hellicar
Chairman