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Strong top-line growth Bottom line lower due to SCI related costs

James Hardie today announced a 21% increase in revenue and an operating profit from continuing operations of US\$19.8 million for the three months ended 31 December 2004.

Despite strong top-line growth, earnings for the quarter were 30% lower than the same period last year due to significant costs related to the NSW Government Special Commission of Inquiry into the Medical Research and Compensation Foundation (SCI) and associated developments. Excluding these costs, the 3rd quarter operating profit from continuing operations was 11% higher, at US\$31.5 million¹.

Gross profit was up 11% and EBIT (excluding SCI and associated developments costs) was up 19% to US\$49.2 million¹ for the quarter.

The USA Fibre Cement business was the standout performer for the quarter, lifting net sales 26% and EBIT 17% compared to the same period a year ago. In Asia Pacific Fibre Cement, net sales increased 4% due to favourable foreign currency movements, and EBIT fell 10% due to a softer Australian housing market, higher raw material prices and the impact of product bans and boycotts in Australia.

The 3rd quarter result lifted operating profit from continuing operations for the nine months ended 31 December 2004 to US\$81.6 million, but this is 13% lower than the same period last year mainly due to costs related to the SCI and associated developments. Excluding these costs, operating profit from continuing operations was up 8% to US\$101.9 million¹. EBIT from USA Fibre Cement and Asia Pacific Fibre Cement segments were up 8% and 18% respectively for the nine months.

Diluted earnings per share from continuing operations decreased from US 6.1 cents to US 4.3 cents for the 3rd quarter and from US 20.4 cents to US 17.7 cents for the nine months.

The 3rd quarter and nine months net operating profit including discontinued operations includes additional costs related to business and property sales disposed of in prior periods.

3rd Quarter and Year-To-Date at a Glance

US\$ Million	Q3FY05	Q3FY04	%+(-)	YTD FY05	YTD FY04	%+(-)
Net Sales	\$287.0	\$237.5	21	\$894.0	\$730.6	22
Gross Profit	96.7	87.5	11	305.1	269.2	13
Special Commission of Inquiry related expenses	(15.9)	-	-	(24.4)	-	-
EBIT ¹	33.3	41.2	(19)	131.6	137.4	(4)
Net Interest Expense	(0.7)	(2.8)	(75)	(4.5)	(7.5)	(40)
Income Tax Expense	(13.2)	(10.0)	32	(44.0)	(32.5)	35
Operating Profit from continuing operations ¹	19.8	28.3	(30)	81.6	94.0	(13)
Net Operating Profit including discontinued operations ¹	19.5	30.1	(35)	80.6	97.6	(17)

Unless otherwise stated, results are for continuing operations only and comparisons are of the 3rd quarter of the current fiscal year versus the 3rd quarter of the prior fiscal year

Note: Please refer to Definitions for explanation of certain financial terms used within this document.

Commentary

James Hardie CEO, Louis Gries, said: "The 3rd quarter results reflect a continuation of the growth momentum evident in the first half and a return to normal operating performance for our US plants.

"Early indications are that the growth momentum of the first nine months is continuing into the 4th quarter and a solid and satisfactory full year operational result is in prospect.

"The bottom line for the quarter was again affected by costs related to the SCI and other associated matters, including our involvement in preparing the landmark Heads of Agreement with the NSW Government, Unions NSW and asbestos representative groups, which was signed by all parties in December.

"We expect that the Heads of Agreement will lead to a long-term funding proposal for asbestos compensation being put to shareholders around the middle of this year, but there are still a number of steps to complete – and this means more costs are expected to be incurred," Mr Gries said.

USA Fibre Cement – Continued Strong Top-Line Growth

Net sales increased 26% to US\$220.3 million in the 3rd quarter due to a 21% increase in sales volumes to 432.4 million square feet and a 4% increase in the average net sales price to US\$509 per thousand square feet.

Strong demand for fibre cement continued and market share increased in the exterior and interior product categories and in both our emerging and established markets.

The increase in average sales price reflects a price increase on some products implemented on 1 July 2004 and sales of higher-priced, differentiated products representing an increased proportion of total sales. A further price increase for certain products became effective on 1 January 2005.

Plant manufacturing performance returned to acceptable levels during the quarter.

Strong top-line growth more than offset increased raw material and freight costs and spending on ramping-up growth initiatives, and helped lift EBIT 17% to US\$52.3 million for the quarter. The EBIT margin improved over the 2nd quarter to 23.7%.

For the nine months, net sales are up 25% and EBIT increased 8% to US\$164.4 million. The EBIT margin was lower for the nine months, at 23.8%.

Australia and New Zealand (ANZ) Fibre Cement

Net sales increased 2% to US\$51.8 million due to favourable foreign currency movements. Sales volumes were down 6% to 68.2 million square feet reflecting a softer Australian housing market and the impact of product bans and boycotts in Australia. Housing activity in New Zealand was flat compared to the 3rd quarter last year.

ANZ EBIT fell 15% to US\$9.1 million for the quarter due to lower sales and higher raw material prices, but was up 13% for the nine months at US\$31.2 million. The EBIT margin decreased to 17.6% for the quarter but was also up for the nine months at 19.6%.

Philippines – Positive EBIT¹

The Philippines recorded an increased positive EBIT in both the quarter and for the nine months due to higher sales and manufacturing cost savings.

Chile – Small Positive EBIT¹

The business recorded a small positive EBIT for the quarter and nine months as it continued to penetrate the domestic flat sheet market.

USA Hardie Pipe – Sales Growth and More Manufacturing Efficiencies

Strong volume growth and higher prices resulted in a significant lift in 3rd quarter net sales. However, as expected, the business incurred an EBIT¹ loss for the quarter and for the nine months, albeit considerably lower than for the same periods last year due to a stronger sales performance and the achievement of further manufacturing efficiency gains in the 3rd quarter and nine months.

Europe Fibre Cement

Net sales for the quarter were up again as awareness of our backer and siding products increased among distributors, builders and contractors following the launch of these products in the UK and French markets in the first quarter last year.

Artisan™ Roofing

Commercial sales of our new generation of fibre cement roofing products were made during the quarter. The business continues to focus on market development and manufacturing cost savings initiatives.

Heads of Agreement – voluntary asbestos compensation funding arrangement

On 21 December 2004, the company announced that it had entered into a non-binding Heads of Agreement with the NSW Government, The Australian Council of Trade Unions, Unions NSW and various groups representing asbestos claimants which is expected to form the basis of a proposed binding agreement (the “Principal Agreement”) to establish and fund a special purpose fund to provide funding on a long-term basis for asbestos claims against Amaba and Amaca (former James Hardie subsidiaries). The company is currently in negotiations related to the Principal Agreement.

The principles set out in the Heads of Agreement on which the company and/or member(s) of the Group would provide funding include:

- the establishment of a special purpose fund (“SPF”) to compensate asbestos victims;
- initial funding of the SPF by the company on the basis of the November 2004 KPMG Actuaries’ report (which provided a net present value of A\$1.5 billion in present and future claims at 30 June 2004). The actuarial assessment is to be updated annually;
- a two year rolling cash buffer in the SPF and an annual contribution in advance based on actuarial assessments of expected claims for the next three years, revised annually;
- a cap on the annual payments made by the company to the SPF, initially set at 35% of annual net operating cash flow (defined as cash from operations in accordance with US GAAP) of the company for the immediately preceding year, with provisions for the percentage to decline over time depending upon the company’s financial performance and claims outlook; and
- no cap on individual payments to claimants.

The Heads of Agreement is expected to form the basis of a Principal Agreement to be settled between the company and the NSW Government which, in turn, will require the support of the company’s lenders and shareholders. The Principal Agreement will be a legally binding agreement.

The Principal Agreement will be subject to a number of conditions precedent, including the approval of the company's shareholders and lenders and the adoption by the NSW Government of reforms following a review, announced on 18 November 2004, of legal and administrative costs in dust diseases compensation. A copy of the company's announcement made on that date welcoming the development can be downloaded at www.irjameshardie.com.au.

The parties have announced their intention to execute the Principal Agreement by the end of March 2005, depending on the timing of the NSW Government review, and for the binding agreement to commence around the middle of 2005.

As part of the discussions surrounding the Principal Agreement the company is examining all relevant options in relation to the establishment of the special purpose fund referred to above, including the possibility of reacquiring all of the share capital of Amaba, Amaba and/or ABN 60.

The Heads of Agreement contains an agreement from the NSW Government to provide releases to the James Hardie group and to its directors, officers and employees from all civil liabilities other than the liabilities of James Hardie to be set out in the Principal Agreement. These releases may well take the form of legislation passed by the NSW Parliament. The precise form of the releases remain to be settled.

If an agreement is reached with the NSW Government and approved by the company's lenders and shareholders, the company may be required to make a substantial provision in its accounts at a later date, and it is possible that the company may need to seek additional borrowing facilities. Additionally, it is possible that any future resolution of this issue may result in the company having negative shareholders' equity, which may restrict its ability to pay dividends to its shareholders. If the terms of a future resolution involve James Hardie making payments, either on an annual or other basis, pursuant to a statutory scheme or other form of arrangement, James Hardie's financial position, results of operations and cash flows could be materially adversely affected.

As noted above, the NSW Government is conducting a review of legal and administrative costs in dust diseases compensation in NSW. The intention of this review is primarily to determine ways to reduce legal and administrative costs, and to consider the current processes for handling and resolving dust diseases compensation claims. The review is expected to report to the NSW Government in March 2005. The company is unable to predict the outcome of this review.

Accordingly, the company has not established a provision for asbestos-related liabilities as of 31 December 2004 because at this time it is neither probable nor estimable.

Readers are referred to note 8 of the company's financial statements for further information on the SCI and associated developments.

Outlook

In North America, indicators of future housing construction activity remain positive with unused building permits, builder confidence and positive trends in employment and household income suggesting a continuation of buoyant conditions.

Interest rates remain low and anticipated increases for the year are expected to have a modest impact only on demand for new housing. The US-based National Association of Home Builders is expecting a decline of 3-4% in housing starts for the 2005 calendar year, off near record levels in 2004.

Further strong top-line growth is expected as we continue to grow primary demand for fibre cement and win share from alternative materials in our emerging and established markets. Raw material and freight costs are expected to remain high over the short term.

In the ANZ business, a drop in building approvals in Australia over recent months suggests a further softening in new housing and renovations activity over the short term. In New Zealand, housing construction activity is expected to remain at previously high levels. Demand and profitability for the ANZ business may continue to be adversely affected by product bans and boycotts.

In the Philippines, increased domestic demand is expected as we move into the seasonally stronger building months. Further market share gains are expected as the plywood industry continues to slow down due to raw material supply issues.

In our emerging Chile Fibre Cement, Europe Fibre Cement and US Hardie Pipe businesses, further sales growth and market share are expected as awareness of their products increases among builders, contractors and distributors.

The company is continuing to incur costs associated with SCI related developments including: preparation and negotiation of a Principal Agreement with the NSW Government to provide long-term funding of asbestos related claims for proven Australian personal injury claimants against former Australian James Hardie subsidiary companies; participation in the NSW Government's Review; and in co-operating with the Australian Securities and Investments Commission's investigation into the circumstances surrounding the establishment of the MRCF. These costs are likely to be material over the short term.

Strong sales growth in North America is continuing into the 4th quarter and there is good prospect for satisfactory full year operating results for the company. Further costs related to the SCI and associated developments are expected to continue to have an adverse impact on reported earnings.

Excluding SCI and related developments costs, operating profit from continuing operations for the year ending 31 March 2005 is expected to fall within the range of US\$135 million to US\$145 million.

Ends.

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The release and the accompanying management's analysis of results and management presentation, along with the audio webcast of the presentation, are available from the Investor Relations section of the company website at www.jameshardie.com

This media release forms part of a package of information about the company's results. It should be read in conjunction with the other parts of this package, including Management's Analysis of Results, a Management Presentation, a Financial Report and a Results at a Glance document.

¹Definitions

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 earnings generated by our operations, excluding interest and income tax expenses. 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.

EBIT excluding SCI and associated developments costs - is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than EBIT. The company has included this financial measure to provide investors with an alternative method for assessing the company's operating results in a manner that is focused on the performance of the company's ongoing operations. The company's management uses this non-GAAP measure for the same purposes.

Operating profit from continuing operations excluding costs related to the SCI and associated developments - is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than operating profit. The company has included this financial measure to provide investors with an alternative method for assessing the company's operating results in a manner that is focused on the performance of the company's ongoing operations. The company's management uses this non-GAAP measure for the same purposes.

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

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

Disclaimer

This Media Release contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports filed with the Securities and Exchange Commission on Forms 20-F and 6-K, in our annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of such forward-looking statements include:

- projections of our operating results or financial condition;
- statements of our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;
- statements about our future economic performance or that of the United States, Australia or other countries in which we operate; and
- statements about product or environmental liabilities.

Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to: all matters relating to or arising out of the prior manufacture of asbestos by ABN 60 and certain former subsidiaries; competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with and possible changes in environmental and health and safety laws; the successful transition of new senior management; the success of our research and development efforts; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; risks of conducting business internationally; compliance with and changes in tax laws and treatments; and foreign exchange risks. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements. Forward-looking statements speak only as of the date they are made.