

Our investment in R&D

The superior performance of James Hardie's differentiated fibre cement products is supported by the unique production technology we have developed, and on which we continue to capitalise.

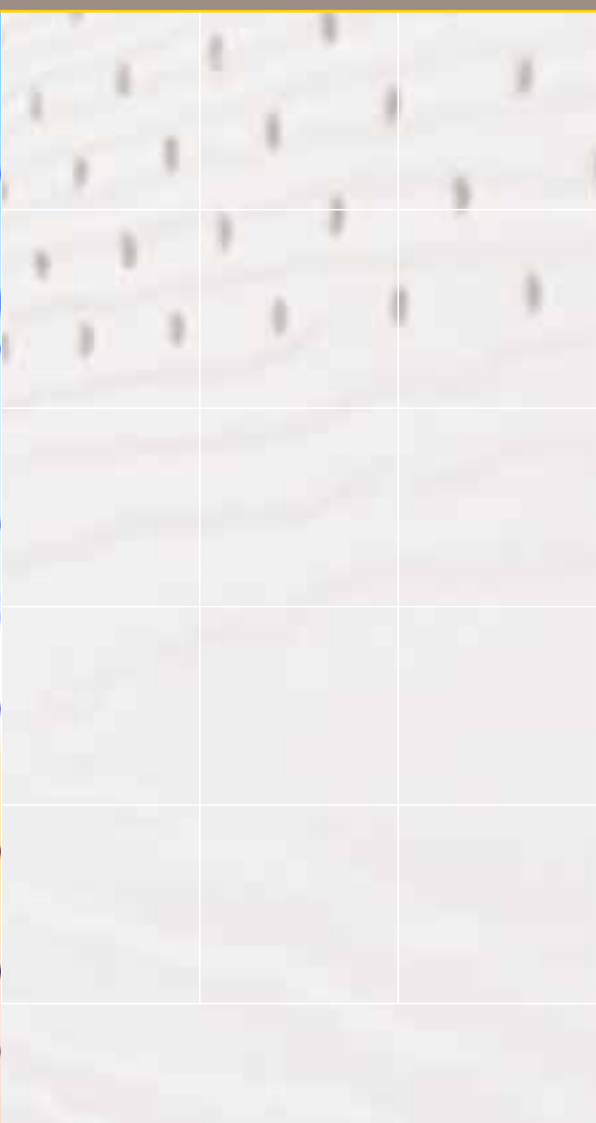
Last year, we increased our expenditure in research and product development by 25% to US\$26.1¹ million, or 2.7% of our sales. We employ over 110 scientists, engineers and technicians in the areas of Core Research and Product & Process Development. Over 50% of our scientists have advanced degrees, and 45% have worked for James Hardie for over five years.

We have Research and Development Centres in Sydney, Australia, and Fontana, California, where we:

- conduct core research;
- develop new manufacturing technology platforms; and
- develop products for specific markets and applications.

By investing in production technology, we aim to keep reducing our capital and operating costs, and at the same time find new ways to make existing products, and new products.

HOW WE MAKE FLAT SHEET PRODUCTS



Over the past ten years, advances in process technology have allowed us to reduce the incremental cost of additional capacity at existing sites.

At the same time, we have reduced the cost of raw materials through yield improvements in the plants; by providing technological support to drive process improvements in our suppliers' operations; and from our increased business scale.

We also benefit from superior economies of scale, since we operate plants that are two to three times larger than our fibre cement competitors'.

Our goals are to:

- continue to lower the capital cost of each unit of production at new plants by learning from past projects, and through continuing innovation in engineering, and
- reduce operating costs at each plant by improving manufacturing processes, raw material yields, and machine productivity.

Efficient, low-cost manufacturing, combined with our unique technology, will allow us to generate higher returns on invested capital because we will be able to sell our products at prices that are attractive to our customers, and achieve a profit margin that is attractive to shareholders.

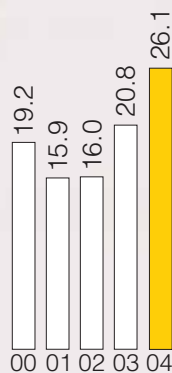


25%

INCREASE IN RESEARCH AND DEVELOPMENT EXPENDITURE¹



Research and Development Expenditure¹
(Millions of US dollars)



¹ Research and Development expenditure includes US GAAP Research and Development expense and amounts classified as selling, general and administrative expense under US GAAP in the amounts of US\$3.5 million, US\$2.7 million, US\$1.9 million, US\$1.4 million, and US\$0.9 million for the years ended 31 March 2004, 2003, 2002, 2001 and 2000, respectively