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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended March 31, 2007
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Date of event requiring this shell company report For the transition period from to

Commission file number 1-15240

JAMES HARDIE INDUSTRIES N.V.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Atrium, 8th floor

Strawinskylaan 3077

1077 ZX Amsterdam, The Netherlands

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Table with 2 columns: Title of Each Class, Name of Each Exchange on Which Registered. Rows include Common stock, CHES Units of Foreign Securities, and American Depositary Shares.

\* Listed, not for trading, but only in connection with the registered American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 467,295,391 shares of common stock at March 31, 2007.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes [ ] No [X]

Note — Checking the box will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not Required.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Item 3. Key Information**

*In this annual report, unless the context otherwise indicates, James Hardie Industries N.V., a “naamloze vennootschap,” or a Dutch public limited liability company incorporated and existing under the laws of The Netherlands, is referred to as JHI NV. JHI NV together with its direct and indirect wholly owned subsidiaries as of the time relevant to the applicable reference, are collectively referred to as the James Hardie Group. JHI NV and its current direct and indirect wholly owned subsidiaries are collectively referred to as “we,” “us,” “our,” “JHI NV and its wholly owned subsidiaries” or the “Company.”*

*The term “fiscal year” refers to our fiscal year ended March 31 of such year; the term “dollars” or “\$” refers to U.S. dollars; the term “A\$” refers to Australian dollars; the term “NZ\$” refers to New Zealand dollars; the term “PHP” refers to Philippine pesos; and the term “CLP” refers to Chilean pesos. The term “msf” or “thousand square feet” refers to thousands of square feet, where a square foot is defined as a standard square foot of 5/16” thickness and the term “mmsf” or “million square feet” refers to millions of square feet, where a square foot is defined as a standard square foot of 5/16” thickness.*

*As a company incorporated under the laws of The Netherlands, we have listed our securities for trading on the Australian Securities Exchange, or ASX, through the use of the Clearing House Electronic Subregister System, or CHESSE, Units of Foreign Securities, or CUFS. CUFS are a form of depositary security that represents a beneficial ownership interest in the securities of a non-Australian corporation. Each of our CUFS represents the beneficial ownership of one share of common stock of JHI NV, the legal ownership of which is held by CHESSE Depositary Nominees Pty Ltd. The CUFS are listed and traded on the ASX under the symbol “JHX.”*

*We have also listed our securities for trading on the New York Stock Exchange, or NYSE. We sponsor a program, whereby beneficial ownership of five CUFS is represented by one American Depositary Share, or ADS, which is issued by The Bank of New York. These ADSs trade on the NYSE in the form of American Depositary Receipts, or ADRs, under the symbol “JHX.” Unless the context indicates otherwise, when we refer to ADRs, we are referring to ADRs or ADSs and when we refer to our common stock we are referring to the shares of our common stock that are represented by CUFS.*

**Selected Financial Data**

We have included in Item 18 of this annual report the audited consolidated financial statements of JHI NV, consisting of our consolidated balance sheets as of March 31, 2007 and March 31, 2006, our consolidated statements of changes in shareholders’ equity as of March 31, 2007, March 31, 2006 and March 31, 2005 and our consolidated statements of operations and cash flows for the years ended March 31, 2007, 2006 and 2005, together with the related notes thereto. The consolidated financial statements included in this annual report have been prepared in accordance with accounting principles generally accepted in the United States of America, or “U.S. GAAP.”

The selected consolidated financial information summarized below has been derived in part from JHI NV’s financial statements. You should read the selected consolidated financial information in conjunction with JHI NV’s financial statements and related notes contained in Item 18 and with the information provided in the section of this report entitled “Operating and Financial Review and Prospects” contained in Item 5. Historic financial data is not necessarily indicative of our future results and you should not unduly rely on it.

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	Fiscal Years Ended March 31,				
	2007	2006	2005	2004	2003
(In millions, except sales price per unit and per share data)					
<b>Consolidated Statements of Operations Data:</b>					
Net Sales					
USA Fiber Cement	\$ 1,262.3	\$ 1,218.4	\$ 939.2	\$ 738.6	\$ 599.7
Asia Pacific Fiber Cement(1)	251.7	241.8	236.1	219.8	174.3
Other(2)	28.9	28.3	35.1	23.5	9.6
Total net sales	<u>\$ 1,542.9</u>	<u>\$ 1,488.5</u>	<u>\$ 1,210.4</u>	<u>\$ 981.9</u>	<u>\$ 783.6</u>
Operating (loss) income(3)	\$ (86.6)	\$ (434.9)	\$ 196.2	\$ 172.2	\$ 128.8
Interest expense	(12.0)	(7.2)	(7.3)	(11.2)	(23.8)
Interest income	5.5	7.0	2.2	1.2	3.9
Other (expense) income(4)	—	—	(1.3)	3.5	0.7
(Loss) income from continuing operations before income taxes	(93.1)	(435.1)	189.8	165.7	109.6
Income tax benefit (expense)	243.9	(71.6)	(61.9)	(40.4)	(26.1)
Income (loss) from continuing operations	<u>\$ 150.8</u>	<u>\$ (506.7)</u>	<u>\$ 127.9</u>	<u>\$ 125.3</u>	<u>\$ 83.5</u>
Net income (loss)	<u>\$ 151.7</u>	<u>\$ (506.7)</u>	<u>\$ 126.9</u>	<u>\$ 129.6</u>	<u>\$ 170.5</u>
Income (loss) from continuing operations per common share — basic	\$ 0.32	\$ (1.10)	\$ 0.28	\$ 0.27	\$ 0.18
Net income (loss) per common share — basic	\$ 0.33	\$ (1.10)	\$ 0.28	\$ 0.28	\$ 0.37
Income (loss) from continuing operations per common share — diluted	\$ 0.32	\$ (1.10)	\$ 0.28	\$ 0.27	\$ 0.18
Net income (loss) per common share — diluted	\$ 0.33	\$ (1.10)	\$ 0.28	\$ 0.28	\$ 0.37
Dividends paid per share	\$ 0.09	\$ 0.10	\$ 0.03	\$ 0.05	\$ 0.08
Return of capital per share	\$ —	\$ —	\$ —	\$ 0.15	\$ 0.20
Weighted average number of common shares outstanding					
Basic	464.6	461.7	458.9	458.1	456.7
Diluted	466.4	461.7	461.0	461.4	459.4
<b>Consolidated Cash Flow Information:</b>					
Cash flows (used in) provided by operating activities	\$ (67.1)	\$ 240.6	\$ 219.8	\$ 162.6	\$ 64.8
Cash flows (used in) provided by investing activities	\$ (92.6)	\$ (154.0)	\$ (149.8)	\$ (58.9)	\$ 237.2
Cash flows (used in) provided by financing activities	\$ (136.4)	\$ 116.5	\$ (27.6)	\$ (87.0)	\$ (278.7)
<b>Other Data:</b>					
Depreciation and amortization(5)	\$ 50.7	\$ 45.3	\$ 36.3	\$ 36.4	\$ 27.4
Adjusted EBITDA(6)	\$ (35.9)	\$ (389.6)	\$ 232.5	\$ 208.6	\$ 156.2
Capital expenditures(7)	\$ 92.1	\$ 162.8	\$ 153.0	\$ 74.1	\$ 90.2
Volume (million square feet)(8)					
USA Fiber Cement	2,148.0	2,182.8	1,855.1	1,519.9	1,273.6
Asia Pacific Fiber Cement(1)	390.8	368.3	376.9	362.1	349.9
Average sales price per unit (per thousand square feet)					
USA Fiber Cement	\$ 588	\$ 558	\$ 506	\$ 486	\$ 471
Asia Pacific Fiber Cement(1)	A\$ 842	A\$ 872	A\$ 846	A\$ 862	A\$ 887
<b>Consolidated Balance Sheet Data:</b>					
Net current assets(9)	\$ 259.0	\$ 150.8	\$ 180.2	\$ 195.9	\$ 159.4
Total assets	\$ 2,128.1	\$ 1,445.4	\$ 1,088.9	\$ 971.2	\$ 851.8
Long-term debt(10)	\$ 105.0	\$ 121.7	\$ 147.4	\$ 165.0	\$ 165.0
Common stock	\$ 251.8	\$ 253.2	\$ 245.8	\$ 245.2	\$ 269.7
Shareholders' equity	\$ 258.7	\$ 94.9	\$ 624.7	\$ 504.7	\$ 434.7

- (1) Asia Pacific Fiber Cement includes all fiber cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand, Asia and the Middle East (Israel, United Arab Emirates, Kuwait and Qatar).

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- (2) Includes fiber cement manufactured and sold in Chile (for fiscal year 2002 to July 2005 only), fiber reinforced concrete pipes manufactured and sold in the United States, fiber cement operations in Europe and a roofing pilot plant in the United States. Our Chilean business was sold in July 2005. Our roofing pilot plant was closed and the business ceased operations in April 2006. See Note 15 to our consolidated financial statements in Item 18 for further information regarding the sale of our Chile Fiber Cement business.
- (3) For fiscal years 2007, 2006 and 2005, operating (loss) income includes Special Commission of Inquiry and other related expenses of \$13.6 million, \$17.4 million and \$28.1 million, respectively. In addition, operating loss in fiscal year 2007 includes \$405.5 million related to asbestos adjustments. For additional information on the asbestos adjustments see Item 5, "Operating and Financial Review and Prospects." Operating loss in fiscal year 2006 includes \$715.6 million related to the establishment of an asbestos provision and \$13.4 million related to the impairment of our former roofing plant.

Operating (loss) income also includes restructuring and other operating income/expenses as follows: (i) for fiscal year 2006, an \$0.8 million loss related to the disposal of our Chilean fiber cement business; (ii) for fiscal year 2005, \$6.0 million consisting of a settlement loss of \$5.3 million related to an employee retirement plan and a \$0.7 million loss on the sale of land in Sacramento, California; (iii) for fiscal year 2004, \$2.1 million expense primarily related to an increase in cost provisions for our Australian and New Zealand business; and (iv) for fiscal year 2003, \$1.0 million income related to the settlement of a terminated derivative contract.

- (4) Consists primarily of the following: (i) for fiscal year 2005, the \$1.3 million expense consisted of a \$2.1 million impairment charge that we recorded on an investment in a company that filed a voluntary petition for reorganization under Chapter 11 of the U.S. bankruptcy code, partly offset by a \$0.8 million gain on a separate investment; (ii) for fiscal year 2004, the net gain achieved after accounting for income items, including a \$4.5 million profit on the sale of our New Zealand property, was partially offset by expense items, including \$3.2 million primarily due to a capital duty fee paid in conjunction with our Dutch corporate structure; and (iii) for fiscal year 2003, investment income of \$0.7 million.
- (5) Information for depreciation and amortization is for continuing businesses only.
- (6) Adjusted EBITDA represents income from continuing operations before interest income, interest expense, income taxes, other nonoperating expenses, net, described in footnote four above, cumulative effect of change in accounting principle and depreciation and amortization charges as follows:

	Fiscal Years Ended March 31,				
	2007	2006	2005	2004	2003
	(In millions)				
Net cash (used in) provided by operating activities	\$ (67.1)	\$ 240.6	\$ 219.8	\$ 162.6	\$ 64.8
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities	4.5	(791.3)	(61.2)	(51.1)	62.1
Change in operating assets and liabilities, net	214.3	44.0	(31.7)	18.1	43.6
Net income (loss)	151.7	(506.7)	126.9	129.6	170.5
Loss (income) from discontinued operations	—	—	1.0	(4.3)	(87.0)
Cumulative effect of change in accounting principle	(0.9)	—	—	—	—
Income tax (benefit) expense	(243.9)	71.6	61.9	40.4	26.1
Interest expense	12.0	7.2	7.3	11.2	23.8
Interest income	(5.5)	(7.0)	(2.2)	(1.2)	(3.9)
Other expense (income)	—	—	1.3	(3.5)	(0.7)
Depreciation and amortization	50.7	45.3	36.3	36.4	27.4
Adjusted EBITDA	<u>\$ (35.9)</u>	<u>\$ (389.6)</u>	<u>\$ 232.5</u>	<u>\$ 208.6</u>	<u>\$ 156.2</u>

Adjusted EBITDA is not a measure of financial performance under U.S. GAAP and should not be considered an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by U.S. GAAP or as a measure of our profitability or liquidity. Not all companies calculate Adjusted EBITDA in the same manner as we have and, accordingly, Adjusted EBITDA may not be comparable with other



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companies. We have included information concerning Adjusted EBITDA because we believe that this data is commonly used by investors to evaluate the ability of a company's earnings from its core business operations to satisfy its debt, capital expenditure and working capital requirements. To permit evaluation of this data on a consistent basis from period to period, Adjusted EBITDA has been adjusted for noncash charges, as well as nonoperating income and expense items.

- (7) Information for capital expenditures includes both cash and credit purchases, and is for continuing businesses only.
- (8) Fiber cement volume is measured in 5/16" thick square feet, which are referred to as standard feet.
- (9) Total current assets less total current liabilities.
- (10) Includes current portion of long-term debt.

### Risk Factors

***Our wholly owned Australian subsidiary, James Hardie 117 Pty Ltd, is required to make payments to a special purpose fund that provides compensation for Australian asbestos-related personal injury claims against certain former companies of the James Hardie Group. Such payments have reduced, and future payments will reduce, our funds available for capital expenditures on existing and new business opportunities, repayments of debt, payments of dividends or other distributions and may restrict our ability to access equity or debt capital markets. Such payments have also adversely affected, and will adversely affect, our financial position, liquidity, results of operations and cash flows.***

On November 21, 2006, JHI NV, the Asbestos Injuries Compensation Fund, or AICF, the Government of the State of New South Wales, Australia, which we refer to as the NSW Government, and our wholly owned Australian subsidiary, James Hardie 117 Pty Ltd, which we refer to as the Performing Subsidiary, have entered into a Final Funding Agreement (as amended), which we refer to as the Final Funding Agreement, to provide long-term funding to the AICF, a special purpose fund that provides compensation for Australian asbestos-related personal injury claims against certain former companies of the James Hardie Group, including ABN 60, Amaca Pty Ltd (which we refer to as Amaca) and Amaba Pty Ltd (which we refer to as Amaba), which we collectively refer to as the Former James Hardie Companies.

As a result of our obligation to make payments under the Final Funding Agreement, our funds available for capital expenditures (either with respect to our existing business or new business opportunities), repayments of debt principal, or distributions to our shareholders and for other corporate purposes have been, and will be, reduced by the funding paid to the AICF, and consequently, our financial position, liquidity, results of operations and cash flows have been, and will be, reduced or materially adversely affected.

Our obligation to make these payments could also affect or restrict our ability to access equity or debt capital markets. For example, had we not prepaid in full the outstanding amount of our US\$ non-collateralized notes prior to making the decision to record the asbestos provision, we would not have been in compliance with certain restrictive covenants pertaining to those notes. If our financial position deteriorates, we may not be able to access the capital markets to replace those notes on terms as advantageous as those that were applicable to those notes and as a result our financial position and liquidity will be materially adversely affected. See Item 4, "Information on the Company — Legal Proceedings" for additional information concerning the Final Funding Agreement.

***Even though the Final Funding Agreement has been implemented, we may be subject to potential additional liabilities (including claims for compensation or property remediation outside the arrangements reflected in the Final Funding Agreement) because certain current and former companies of the James Hardie Group previously manufactured products that contained asbestos.***

Up to 1987, two former subsidiaries of ABN 60, Amaca and Amaba, which are now owned and controlled by the AICF, manufactured products in Australia that contained asbestos. In addition, prior to 1937, ABN 60, which is also now owned and controlled by the AICF, manufactured products in Australia that contained asbestos. ABN 60 also held shares in companies that manufactured asbestos-containing products in Indonesia and Malaysia, and held minority shareholdings in companies that conducted asbestos-mining operations based in Canada and Southern

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Africa. Former ABN 60 subsidiaries also exported asbestos-containing products to various countries around the world. The AICF is designed to provide compensation only for certain claims and to meet certain related expenses and liabilities, and the legislation introduced in New South Wales in connection with the Final Funding Agreement seeks to defer all other claims against the Former James Hardie Companies. The funds contributed to the AICF will not be available to meet any asbestos-related claims made outside Australia, or claims made arising from exposure to asbestos occurring outside Australia, or any claim for pure property loss or pure economic loss or remediation of property. In these circumstances, it is possible that persons with such excluded claims may seek to pursue those claims directly against us. Defending any such litigation could be costly and time consuming.

Prior to 1988, a New Zealand subsidiary in the James Hardie Group manufactured products in New Zealand that contained asbestos. In New Zealand, asbestos-related disease compensation claims are managed by the state-run Accident Compensation Corporation, or ACC. Our New Zealand subsidiary that manufactured products that contained asbestos contributed financially to the ACC fund as required by law via payment of an annual levy. All decisions relating to the amount and allocation of payments to claimants in New Zealand are made by the ACC in accordance with New Zealand law. The Injury Prevention, Rehabilitation and Compensation Act 2001 (NZ) bars compensatory damages for claims that are covered by the legislation which may be made against the ACC fund. However, we may be subject to potential liability if any of these claims are found not to be covered by the legislation and are later brought against us.

Apart from the funding obligations arising out of the Final Funding Agreement, it is possible that we could become subject to suits for damages for personal injury or death in connection with the former manufacture or sale of asbestos products that have been or may be filed against the Former James Hardie Companies. Although the ability of any claimants to initiate or pursue such suits is restricted by the legislation enacted by the NSW Government under the terms of the Final Funding Agreement (see Item 4, “Information on the Company — Legal Proceedings”), we cannot predict with any certainty the outcome of any future claims or allegations that may be made, how the laws of various jurisdictions may be applied to the facts or how the laws may change in the future. If a court of competent jurisdiction relying on applicable law at the time were to find JHI NV, our New Zealand subsidiary or another James Hardie Group subsidiary liable for damages connected with existing or former subsidiaries or their past manufacture of asbestos-containing products, we may incur significant liabilities in connection with any damages that may be awarded in the legal proceedings, in addition to the costs associated with defending against such claims.

***We have agreed to indemnify the buyer of our former Gypsum manufacturing facilities for certain asbestos-related claims.***

When we sold our former United States gypsum wallboard manufacturing facilities in April 2002, we agreed to indemnify the buyer from certain future liabilities, including, for a period of 30 years, liabilities arising from asbestos-related claims related to injuries to persons or property arising from our former gypsum business. See Item 10, “Additional Information — Material Contracts.”

***The Final Funding Agreement imposes certain non-monetary obligations which could materially adversely affect our financial position, results of operations, cash flows and outlook.***

Under the Final Funding Agreement, we are also subject to certain non-monetary obligations that could prove to be onerous or to otherwise materially adversely affect our ability to undertake proposed transactions or to pay dividends. For example, the Final Funding Agreement contains certain restrictions that generally prohibit us from undertaking transactions that would materially adversely affect the relative priority of the AICF as a creditor, or that would materially impair our legal or financial capacity and that of the Performing Subsidiary, in each case such that we and the Performing Subsidiary would cease to be likely to be able to meet the funding obligations that would have arisen under the Final Funding Agreement had the relevant transaction not occurred. Those restrictions apply to dividends and other distributions, reorganizations of, or dealings in, share capital which create or vest rights in such capital in third parties, or non-arm’s length transactions. While the Final Funding Agreement contains certain exemptions from such restrictions (including, for example, exemptions for arm’s length dealings; transactions in the ordinary course of business; certain issuances of equity securities or bonds; and certain transactions provided

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certain financial ratios are met and certain amounts of dividends), implementing such restrictions could materially adversely affect our financial position, results of operations, cash flows and outlook.

***The Final Funding Agreement does not eliminate the risk of adverse action being taken against us.***

There is a possibility that, despite certain covenants agreed to by the NSW Government in the Final Funding Agreement, adverse action could be directed against us by one or more of the NSW Government, the government of the Commonwealth of Australia, governments of the states or territories of Australia or any other governments, unions or union representative groups, or asbestos disease groups with respect to the asbestos liabilities of Amaba, Amaca and ABN 60. Any such adverse action could materially adversely affect our financial position, results of operations, cash flows and outlook.

***We incurred substantial costs in connection with the events leading up to the negotiation and implementation of the Final Funding Agreement and may in the future continue to incur substantial costs or be subject to further legal proceedings.***

In February 2004, the NSW Government established a Special Commission of Inquiry, which we refer to as the SCI, to investigate, among other matters, the circumstances in which the Medical Research and Compensation Foundation, which we refer to as the Foundation, was established. The SCI issued its report on September 21, 2004. The SCI found that there was a significant funding shortfall. In part, this was based on actuarial work commissioned by us. As of March 31, 2007, an updated actuarial study completed by KPMG Actuaries Pty Ltd, or KPMG Actuaries, estimated that the undiscounted value of the central estimate of the asbestos-related liabilities of Amaba and Amaca was approximately A\$2.8 billion (\$2.3 billion). See Note 12 to our consolidated financial statements in Item 18 for additional information. The SCI found that the net assets of the Foundation, Amaba, Amaca and the ABN 60 Foundation (a newly established company into which the shares in ABN 60 were transferred) were not sufficient to meet these prospective liabilities and were likely to be exhausted in the first half of 2007. The SCI's findings are not binding and if the same issues were presented to a court, the court might come to different conclusions on one or more of the issues.

In fiscal years 2007, 2006 and 2005, we incurred \$13.6 million, \$17.4 million and \$28.1 million, respectively, of expenses related to the events and negotiations leading to the signing of the Final Funding Agreement, including the SCI. We expect to continue to incur material costs associated with the Final Funding Agreement and other related matters, including costs related to: cooperating with an ongoing investigation and proceedings by the Australian Securities and Investments Commission, or ASIC, into the circumstances surrounding and leading up to the establishment of the Foundation, the corporate reorganizations in 2001 and 2003 and associated matters; and associated legal and advisory costs.

***If the Final Funding Agreement is terminated, the NSW Government may pass legislation that would seek to impose liability on us for asbestos claims.***

If the Final Funding Agreement is terminated for any reason, the NSW Government has indicated that it may pass or attempt to pass legislation to impose liability on us for certain asbestos claims of the former James Hardie subsidiaries. The Australian Commonwealth Government and governments of other states and territories in Australia could also seek to introduce legislation seeking to have a similar effect. However, the Company has no detailed information as to the content of any such legislation. Any such legislation could materially adversely affect our financial position, results of operations, cash flows and outlook.

In addition, if the Final Funding Agreement is terminated without a suitable alternative having been reached, our share price and access to capital markets may be adversely affected due to uncertainties surrounding our potential exposure to the asbestos-related liabilities of the Former James Hardie Companies, and any related liability which may arise by legislation which may be introduced by one or more of the Australian Commonwealth Governments, the NSW Government and other state and territory governments.

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*Since our revenues are primarily derived from sales in U.S. dollars and payments pursuant to the Final Funding Agreement are made in Australian dollars, unfavorable fluctuations in the U.S. dollar (and other currencies from which we derive our sales) compared to the Australian dollar, will require us to pay more of our revenues to discharge our obligations under the Final Funding Agreement. In addition, since our results of operations are reported in U.S. dollars, unfavorable fluctuations in the U.S. dollar compared to the Australian dollar will require us to expense the difference in the reported period in order to increase the amount of our asbestos liability on our balance sheet.*

Approximately 11% of our net sales in fiscal years 2007 and 2006 were derived from sales in Australia. Payments pursuant to the Final Funding Agreement are required to be made to the AICF in Australian dollars. In addition, annual payments to the AICF are calculated based on various estimates that are denominated in Australian dollars. To the extent that our future obligations exceed our Australian dollar cash flows, and we do not hedge this foreign exchange exposure, we will need to convert U.S. dollars or other foreign currency into Australian dollars in order to meet our obligations pursuant to the Final Funding Agreement. As a result, any unfavorable fluctuations in the U.S. dollar (the majority of our revenues is derived from sales in U.S. dollars) and other currencies from which we derive our sales compared to the Australian dollar will require us to convert more U.S. dollars and other currencies from which we derive our sales to pay the same amount of Australian denominated annual payments to the AICF.

In addition, since our results of operations are reported in U.S. dollars and the asbestos liability is based on estimated payments denominated in Australian dollars, unfavorable fluctuations in the U.S. dollar compared to the Australia dollar will significantly affect our reported results of operations since we will be required to expense any such fluctuations in the reported period in order to increase the reported value of the asbestos liability on our balance sheet. For example, due to the strengthening of the Australian dollar compared to the U.S. dollar, we recorded a \$94.5 million expense during fiscal year 2007 related to the impact of foreign exchange rate movements.

At March 31, 2007, there were no material forward exchange contracts outstanding to mitigate this risk. Accordingly, due to the size of the asbestos liability recorded on our balance sheet, fluctuations in the exchange rate will cause unpredictable volatility in our reported results for the foreseeable future and any unfavorable fluctuation in U.S. dollar and the other currencies from which we derive our sales compared to the Australian dollar would have a significant negative impact on our business, earnings, results of operations and financial condition. See Item 11, “Quantitative and Qualitative Disclosures About Market Risk.”

***Regulatory action and continued scrutiny resulting from ongoing investigations may have an adverse effect on our business.***

Statutory notices previously issued by ASIC indicate that ASIC is conducting an investigation into suspected contraventions of certain provisions of Australian corporations and crimes legislation concerning the affairs of ABN 60, Amaca, Amaba and the Company during the period July 1, 1994 to October 31, 2004.

On February 14, 2007, ASIC commenced civil proceedings in the Supreme Court of New South Wales, which we refer to as the Court, against the Company, ABN 60 and ten then-present or former officers and directors of the James Hardie Group. While the subject matter of the allegations varies between individual defendants, the allegations against the Company are confined to alleged contraventions of provisions of the Australian Corporations Act/Law relating to continuous disclosure, a director’s duty of care and diligence, and engaging in misleading or deceptive conduct in respect of a security.

In the proceedings, ASIC seeks:

- declarations regarding the alleged contraventions;
- orders for pecuniary penalties in such amount as the Court thinks fit up to the limits specified in the Corporations Act;
- orders that Mr. Michael Brown, Mr. Michael Gillfillan, Ms. Meredith Hellicar, Mr. Martin Koffel, Mr. Peter Macdonald, Mr. Philip Morley, Mr. Geoffrey O’Brien, Mr. Peter Shafron, Mr. Gregory Terry and Mr. Peter Willcox be prohibited from managing an Australian corporation for such period as the Court thinks fit;

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- an order that the Company execute a deed of indemnity in favor of ABN 60 in the amount of A\$1.9 billion or such amount as ABN 60 or its directors consider is necessary to ensure that ABN 60 remains solvent; and
- its costs of the proceedings.

ASIC stated in February 2007 that it would not pursue the claim for indemnity if the conditions precedent to the original Final Funding Agreement as announced on December 1, 2005, which we refer to as the Original Final Funding Agreement, were satisfied. The Company and the other parties to the agreement provided certification to ASIC in March 2007 that the conditions precedent to the Final Funding Agreement dated November 21, 2006 have been satisfied. ASIC is still considering its position and has not yet taken any step to withdraw the indemnity claim.

ASIC has indicated that its investigations continue and may result in further actions, both civil and criminal. However, it has not indicated the possible defendants to any such actions. Any such further actions could have a material adverse effect on our financial position, results of operations, cash flows and outlook. For further information, see Item 4, “Information on the Company — Legal Proceedings.”

***Our board of directors and senior management continue to devote significant attention to seeking to implement the Final Funding Agreement and associated issues.***

Our board of directors, senior management and others within our organization continue to devote a significant amount of time and resources to investigating the allegations raised in the report of the SCI, producing documents to and complying with requests from governmental and regulatory authorities and others, implementing the Final Funding Agreement, and making submissions relating to the NSW Government’s review of legal and administrative costs. ASIC’s investigation is ongoing and the Company is now a party to proceedings ASIC has commenced against the Company, ABN 60 and ten former officers or directors of the James Hardie Group. To the extent our board of directors and management are required to devote time and resources to dealing with such issues rather than solely focusing on conducting the business of the Company, this could adversely affect our results of operations.

***Negative publicity may continue to adversely affect our business.***

As a result of the events that were considered by the SCI, we have been the subject of negative publicity, both in Australia and elsewhere in the world which we believe has contributed to declines in the price of our publicly traded securities in recent years. While such negative publicity has been significantly less frequent following our entry into the Original Final Funding Agreement, the potential for such negative publicity to increase in the future cannot be eliminated. Any uncertainty created by future negative publicity or by the events underlying such negative publicity could have a material adverse effect on our results of operations, staff morale and the market price of our publicly traded securities and create difficulties in attracting or retaining high caliber staff.

***We may have insufficient Australian taxable income to utilize tax deductions.***

We may not have sufficient Australian taxable income in future years to utilize the tax deductions resulting from payments made to the AICF. Further, if as a result of making such funding payments we incur tax losses, we may not be able to fully utilize such tax losses in future years of income. Any inability to utilize such deductions or losses could adversely affect our financial position or results of operations.

***Potential escalation in proven claims made against, and associated costs of, the AICF could increase our annual funding payments required to be made under the Final Funding Agreement, which may cause us to have to increase our asbestos liability in the future.***

The amount of our asbestos liability is based, in part, on actuarially determined, anticipated (estimated), future annual funding payments to be made to the AICF on an undiscounted and uninflated basis. Future annual payments to the AICF are based on updated actuarial assessments that are to be performed as of March 31 of each year to determine expected asbestos-related personal injury liabilities to be funded under the Final Funding Agreement for the financial year in which the payment is made and the next two financial years. Estimates of actuarial liabilities are based on many assumptions, which may not prove to be correct, and which are subject to considerable uncertainty, since the ultimate number and cost of claims are subject to the outcome of events that have not yet



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occurred, including social, legal and medical developments as well as future economic conditions. For instance, it is possible that the categories of payable claims could be extended to include claims that are not presently compensable or legally recognized. Further, estimating the future extent and pattern of asbestos-related diseases that will arise from past exposure to asbestos and the proportion of those claims that will be successful is inherently difficult and therefore could materially differ from actual results. If future proven claims are more numerous or the liabilities arising from them are larger than that currently estimated by KPMG Actuaries, it is possible that pursuant to the terms of the Final Funding Agreement, we will be required to pay higher annual funding payments to the AICF than currently anticipated and on which our asbestos liability is based. If this occurs, we may be required to increase our asbestos liability which would be reflected as a charge in our consolidated statements of operations at that date. Any such changes to actuarial estimates which require us to increase our asbestos liability could have a material adverse effect on our business, results of operations and financial condition.

***We have experienced product bans and boycotts and have been subject to other measures taken in response to the events investigated by the SCI and could continue to experience product bans and boycotts in the future.***

Following the release of the SCI report, the Australian Council of Trade Unions, which we refer to as the ACTU, UnionsNSW (formerly known as the Labour Council of New South Wales), and a representative of the asbestos claimants, which we collectively refer to as the Representatives, and others indicated that they would encourage or continue to encourage consumers and union members in Australia and elsewhere to ban or boycott the Company's products, to demonstrate or otherwise create negative publicity toward the Company in order to influence the Company's approach to the discussions with the NSW Government or to encourage governmental action if the discussions are unsuccessful. As previously disclosed, our financial position, results of operations and cash flows were affected by such bans and boycotts.

Pursuant to the Final Funding Agreement, the Representatives agreed to use their best endeavors to achieve forthwith the lifting of all bans or boycotts on any products manufactured, produced or sold by the Company, and the Company and the Representatives signed a deed of release in December 2005 under which the Company agreed to release the Representatives and the members of the ACTU and UnionsNSW from civil liability arising in relation to bans or boycotts instituted as a result of the events described above. Such releases did not extend to any new bans or boycotts, if applicable, implemented after the date of the signing of the Final Funding Agreement, or to any bans or boycotts which persisted beyond January 1, 2006. All bans and boycotts have now been lifted. However, if the Final Funding Agreement is terminated, new bans or boycotts could be implemented against the Company's products. Any such measures, and the influences resulting from them, could have a material adverse impact on the Company's financial position, results of operations and cash flows.

***The complexity and long-term nature of the Final Funding Agreement and related legislation and agreements may result in litigation as to their interpretation or one or more of the parties to the agreements may seek to renegotiate their terms.***

Certain legislation, the Final Funding Agreement and related agreements which govern the implementation and performance of the Final Funding Agreement are complex and have been negotiated over the course of extended negotiation periods between various parties. There is a risk that, over the term of the Final Funding Agreement, some or all parties may become involved in disputes as to the interpretation of such legislation, the Final Funding Agreement or related agreements. We cannot guarantee that no party will commence litigation seeking remedies with respect to such a dispute, nor can we guarantee that a court will not order other remedies which may adversely affect the Company.

Due to the long-term nature of the Final Funding Agreement, unforeseen events may result in one or more of the parties to the Final Funding Agreement (including the Company) wishing to renegotiate the terms and conditions of the Final Funding Agreement or any of the related agreements. Any amendments to the Final Funding Agreement or related agreements in the future would require the consent of the Company, the NSW Government and the AICF, and therefore may not be achieved.

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***We may be liable for costs, penalties, fees or expenses incurred by current or former directors, officers or employees of the James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the James Hardie Group to those persons.***

We may be liable for costs, penalties, fees or expenses incurred by current or former directors, officers or employees of the James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the James Hardie Group to those persons. To date, with respect to the application of our indemnity obligations to proceedings of the SCI and other regulatory bodies, we have paid legal fees and costs incurred on behalf of certain current or past employees, officers or directors who have been involved in such proceedings. In addition, our indemnification obligations would generally cover costs incurred by a director or officer in responding to an ASIC investigation or any other investigation conducted by a governmental agency or a liquidator. We or a relevant subsidiary may be reimbursed under directors' and officers' insurance policies taken out by us or a relevant subsidiary. However, there is no guarantee that such insurance will cover the nature of such claims or will completely insure any claims that are covered. If such costs are not insured or substantially exceed the amount of the insurance that we maintain, our business, financial condition, results of operations and liquidity could be adversely affected.

***Our subsidiary, RCI Pty Ltd, has been required to post a substantial cash deposit and may incur substantial expenses in order to pursue an appeal of an assessment by the Australian Taxation Office, which we refer to as the ATO, and, if it is unsuccessful in its appeal, our financial position, liquidity, and cash flow will be materially and adversely affected.***

In March 2006, RCI Pty Ltd, a wholly owned subsidiary of the Company, which we refer to as RCI, received an amended assessment from the ATO. The amended assessment is based on the ATO's calculation of RCI's net capital gains arising as a result of an internal corporate restructuring carried out in 1998. The amended assessment originally was for A\$412.0 million (\$332.4 million). However, after two subsequent remissions of general interest charges by the ATO, the total assessment was changed to A\$368.0 million (\$296.9 million), which includes: A\$172.0 million (\$138.8 million) as the primary tax after allowable credits; A\$43.0 million (\$34.7 million) in penalties (representing 25% of the primary tax); and A\$153.0 million (\$123.4 million) in general interest charges, or GIC.

RCI is appealing the amended assessment. On July 5, 2006, pursuant to an agreement negotiated with the ATO and in accordance with the ATO Receivable Policy, the Company made a payment of A\$189.0 million (\$152.5 million) being 50% of the amended assessment, and guaranteed the remaining unpaid 50% of the amended assessment, pending the outcome of the appeal of the amended assessment. The Company also agreed to pay general interest charges accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis.

At the end of May 2007, the ATO disallowed our objection to RCI's notice of amended assessment for RCI for the year ended March 31, 1999. We will continue to pursue all avenues of appeal to contest the ATO's position in this matter. RCI may incur substantial legal and other expenses in pursuing this appeal.

As of March 31, 2007, we had not recorded any liability for the remainder of the amended assessment and have accounted for the payments made to the ATO on July 5, 2006 and October 16, 2006 as a deposit, see the line item "Deposit with Australian Taxation Office" in our consolidated balance sheets in Item 18. In addition, it is our intention to treat any payments to be made at a later date as a deposit. Even if RCI is successful in appealing the amended assessment and the amount paid to the ATO is ultimately refunded to RCI, the requirement to initially pay 50% of the amended assessment and ongoing payments of accruing general interest charges pending the outcome of the appeal could materially and adversely affect our financial position and liquidity, as the cash required to make these payments is not available during the appeals process for ordinary corporate purposes. If RCI is unsuccessful in appealing the amended assessment, RCI will be required to pay the remaining 50% of the unpaid amended assessment, reverse the "Deposit with Australian Taxation Office" amount and recognize an expense amount for the total amended assessment and general interest charge payments. In which case, our financial position, liquidity and cash flow will be materially and adversely affected. See Item 4, "Information on the Company — Legal Proceedings" and Note 14 to the notes to our consolidated financial statements included in Item 18 for more information.

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### ***Exposure to additional income tax liabilities could materially adversely affect our financial position, results of operations, cash flows, and liquidity.***

Due to our size and the nature of our business, we are subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions we assert on our income tax returns. We accrue for tax contingencies based upon our best estimate of the taxes ultimately expected to be paid, which we update over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. We record additional tax expense in the period in which we determine that the recorded tax liability is less than the ultimate assessment we expect.

Relevant tax authorities from various jurisdictions in which we operate are in the process of auditing our respective jurisdictional income tax returns for various ranges of years. In particular, the ATO is auditing our Australian income tax return for the year ended March 31, 2002. The ATO has indicated that further investigation is required and is working with us and our advisors to conclude its inquiries.

Of the audits currently being conducted, none have progressed sufficiently to predict their ultimate outcome. We accrue income tax liabilities for these audits based upon our knowledge of all relevant facts and circumstances, taking into account existing tax laws, our experience with previous audits and settlements, the status of current tax examinations and how the tax authorities view certain issues.

The amounts ultimately paid upon resolution of these examinations could be materially different from the amounts included in taxes payable or other non-current liabilities and result in additional tax expense which could materially adversely affect our financial position, results of operations, cash flows, and liquidity.

### ***Under the U.S.-Netherlands income tax treaty and Dutch tax law, we derive tax benefits from the group finance operations of our Netherlands-based finance subsidiary, and changes in either the treaty or laws applicable to the finance subsidiary, including the recent changes to the tax treaty, could increase our effective tax rate and, as a result, reduce our future profits and cash flows.***

On December 28, 2004, the United States and The Netherlands amended the U.S.-Netherlands Income Tax Treaty (prior to amendment, the "Original U.S.-NL Treaty;" post amendment, the "New U.S.-NL Treaty"). We believe that, based on the transitional rules set forth in the New U.S.-NL Treaty, the Original U.S.-NL Treaty applied to us and to our Dutch and U.S. subsidiaries until January 31, 2006. We believe that, under the Original U.S.-NL Treaty, a 5% U.S. withholding tax applied to dividends, and no U.S. withholding tax applied to interest or royalties that our U.S. subsidiaries paid to JHI NV or our Dutch finance subsidiary. The Original U.S.-NL Treaty had various conditions of eligibility for reduced U.S. withholding tax rates (and other treaty benefits), all of which we satisfied. If, however, we do not qualify for the benefits under the New U.S.-NL Treaty, such dividend, interest and royalty payments would be subject to a 30% U.S. withholding tax.

Companies eligible for benefits under the New U.S.-NL Treaty qualify for a zero percent U.S. withholding tax rate on dividends. However, the New U.S.-NL Treaty has a number of new, more restrictive eligibility requirements for reduced U.S. withholding tax rates and other treaty benefits. We have changed our organizational and operational structure as of January 1, 2006 to satisfy the requirements of the New U.S.-NL Treaty and believe we are eligible for benefits under the New U.S.-NL Treaty commencing on February 1, 2006. We have requested a formal determination from the U.S. tax authorities regarding whether our recent organizational and operational changes meet the requirements of the New U.S.-NL Treaty provisions. We met with the Internal Revenue Service, which we refer to as the IRS, on April 19, 2007 to initiate an audit process that will result in a determination of whether we continue to be eligible for benefits under the New U.S.-NL Treaty. We cannot assure you that we will receive a favorable determination from the IRS. As a result, we cannot guarantee that we will continue to receive the treaty benefits. If, during this tax audit the IRS determines that these changes do not meet the new requirements, we may not qualify for treaty benefits, and our effective income tax rate could significantly increase beginning in the fiscal year that such determination is made, and we could be liable for taxes owed from the effective date of the amended treaty provisions.

We have previously concentrated our finance and treasury activities in our Dutch finance subsidiary located in The Netherlands. In addition to providing financing to our various subsidiaries, the finance subsidiary owns and



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develops intellectual property that it licenses to our operating subsidiaries. Under the Netherlands International Group Finance Company rules, we have obtained a ruling from the Dutch Revenue authority that allows the finance subsidiary to set aside, in a Financial Risk Reserve, or FRR, a portion of its taxable profits from financing and from licensing its intellectual property. The amounts set aside in the FRR are free of current Dutch income tax.

Consequently, the finance subsidiary will generally incur a tax rate of approximately 13% to 15% on its qualifying financing and licensing income and a 25.5% statutory rate on all other income (25.5% is the Dutch statutory rate for calendar year 2007 and subsequent years), including any amounts involuntarily released from the FRR to cover any risks (including currency, bad debt and foreign branch losses) for which the FRR was established. The tax rate on qualifying income may be reduced to as low as approximately 5% to 7% depending on the extent to which amounts from the FRR pay for capital expenditures of our operating companies and result in a tax exempt release from the FRR. However, the effective tax rate may also be higher than 13% to 15% if (1) the risks for which the FRR was formed materialize or (2) if there are insufficient opportunities to obtain tax exempt releases from the FRR. The Dutch revenue ruling became effective on July 1, 2001 and, when issued, was to apply for 10 years so long as we satisfy the requirements of the International Group Finance Company provisions under Dutch tax law. As discussed below, the Dutch revenue ruling is set to expire on December 31, 2010.

The European Commission, the Commission, the executive arm of the European Union, or EU, also reviewed the tax regimes of its member countries to identify tax concessions that the Commission considered to be a form of “prohibited state aid” and, therefore, contrary to the provisions of the European Community Treaty. In February 2003, the Commission concluded that the existence of special tax concessions in certain countries, including the Netherlands International Group Finance Company regime, cannot be reconciled with EU rules regarding state aid. Accordingly, the European Commission banned certain concessionary tax regimes, including the Netherlands International Group Finance Company regime, but allowed companies then operating under that regime, including our Dutch finance subsidiary, to continue to operate under the regime until December 31, 2010.

### ***Substantial and increasing competition in the building products industry could adversely affect our business.***

Competition in the building products industry is based largely on price and, to a lesser extent, quality, performance and service. Our fiber cement products compete with products manufactured from natural and engineered wood, vinyl, stucco, masonry, gypsum and other materials as well as fiber cement products offered by other manufacturers. Some of our competitors may have greater product diversity and greater financial and other resources than we do and, among other factors, may be less affected by reductions in margins resulting from price competition.

Some of our competitors have lowered prices of their products to compete for sales. In addition, we expect our competitors to continue to expand their manufacturing capacities, to improve the design and performance of their products and to introduce new products with competitive price and performance characteristics. Increased competition by existing or future competitors could adversely impact fiber cement prices and could require us to increase our investment in product development, productivity improvements and customer service and support to compete in our markets.

Fiber cement product prices in the United States, Australia and New Zealand have fluctuated for a number of years due to the entry into the market of new producers and competition from alternative products, among other reasons, and these prices could continue to fluctuate in the future. Because of the maturity of the Australian and New Zealand markets, we believe that prices in those markets may decline and that sales volumes may not increase significantly or may decline in the future.

Historically, in addition to the manufacturing costs associated with our products, the overall costs of our products have been affected by changes in our product mix, the addition of proprietary products to our product mix and the operating efficiencies of our manufacturing facilities. For instance, unanticipated technical problems could impair our efforts to commission new equipment aimed at improving operating efficiencies. Additionally, the current state of the U.S. housing industry increases the possibility of further price pressures. Increased competition into any of the markets in which we compete, would likely cause pricing pressures in those markets. Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

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***If damages resulting from product defects exceed our insurance coverage, paying these damages could result in a material adverse effect on our business, results of operations and financial condition.***

The actual or alleged existence of defects in any of our products could subject us to significant product liability claims. Although we do not have replacement insurance coverage for damages to, or defects in, our products, we do have product liability insurance coverage for consequential damages that may arise from the use of our products. Although we believe this coverage is adequate and currently intend to maintain this coverage in the future, we cannot assure you that this coverage will be sufficient to cover all future product liability claims or that this coverage will be available at reasonable rates in the future. The successful assertion of one or more claims against us that exceed our insurance coverage could require us to incur significant expenses to pay these damages. These additional expenses could have a material adverse effect on our business, results of operations and financial condition.

***If one or more of our fiber cement products fail to perform as expected or contain a design defect, such failure or defect, and any resulting negative publicity, could result in lower sales and may subject us to claims from purchasers or users of our fiber cement products.***

Because our fiber cement products have been used only since the early-1980s, we cannot assure you that these products will perform in accordance with our expectations over an extended period of time or that there are no serious design defects in such products. If our fiber cement technology fails to perform as expected or a product is discovered to have design defects, such failure or defects, and any resulting negative publicity, could result in lower sales of our products and may subject us to claims from purchasers or users of defective products, either of which could have a material adverse effect on our business, results of operations and financial condition.

***Warranty claims resulting from unforeseen defects in our products and exceeding our warranty reserves could have a material adverse effect on our business, results of operations and financial condition.***

We have offered, and continue to offer, various warranties on our products, including a 50-year limited warranty on certain of our fiber cement siding products in the United States. Although we maintain reserves for warranty-related claims and legal proceedings that we believe are adequate, we cannot assure you that warranty expense levels or the results of any warranty-related legal proceedings will not exceed our reserves. If our warranty reserves are significantly exceeded, the costs associated with such warranties could have a material adverse effect on our business, results of operations and financial condition.

***We may incur significant costs in the future in complying with applicable environmental and health and safety laws and regulations. A failure to comply with or a change in these laws and regulations could subject us to significant liabilities, including, but not limited to, damages and penalties.***

In all the jurisdictions in which we operate, we are subject to environmental, health and safety laws and regulations governing, among other matters, our operations, including the air and water quality of our plants, and the use, handling, disposal and remediation of hazardous substances currently or formerly used by us or any of our affiliates. Under these laws and regulations, we may be held jointly and severally responsible for the remediation of any hazardous substance contamination at our or our predecessors' past or present facilities and at third-party waste disposal sites. We may also be held liable for any claims arising out of human exposure to hazardous substances or other environmental damage and our failure to comply with air, water, waste, and other environmental regulations. We will continue to be liable for any environmental problems that occurred while we owned or operated any of the three gypsum facilities that we sold in April 2002. See Item 10, "Additional Information — Material Contracts."

In addition, many of our products contain crystalline silica, which can be released in a respirable form in connection with manufacturing practices and handling or use. The inhalation of respirable crystalline silica at certain exposure levels is known or suspected to be associated with silicosis, potentially causing lung cancer and other adverse human health effects. We may face future costs of engineering and compliance to meet new standards relating to crystalline silica if standards are made more stringent. In addition, there is a risk that claims for silica-related health effects could be made against us. We cannot assure you that we will have adequate resources, including adequate insurance coverage, to satisfy any future silica-related health effect claims. In addition, our sales could decrease if silica-related health effect claims are made against us and as a result potential users of our products

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decide not to use our products. Any such claims may have a material adverse effect on our financial condition. See also Risk Factor above captioned “If damages resulting from product defects exceed our insurance coverage, paying these damages could result in a material adverse effect on our business, results of operations and financial condition.”

The costs of complying with environmental and health and safety laws relating to our operations or the liabilities arising from past or future releases of, or exposure to, hazardous substances or product liability matters, or our failure to comply with air, water, waste, and other existing environmental regulations may result in us making future expenditures that could have a material adverse effect on our business, results of operations or financial condition. In addition, we cannot make any assurances that the laws currently in place will not change. Also, if applicable laws or judicial interpretations related to successor liability or “piercing the corporate veil” were to change, it could have a material adverse effect on our business, results of operations and financial condition. See Item 4, “Information on the Company — Legal Proceedings.”

***Our business is dependent on the residential and commercial construction markets and we expect a slow down in housing construction in the markets we serve, including the U.S., Australia and New Zealand, over the short to medium term.***

Demand for our products depends in large part on residential construction markets and, to a lesser extent, on commercial construction markets. The level of activity in residential construction markets depends on new housing starts and residential remodeling projects, which are a function of many factors not within our control, including general economic conditions, finance availability, mortgage and other interest rates, inflation, unemployment, demographic trends, gross domestic product growth and consumer confidence in each of the countries and regions in which we operate. Residential construction in the U.S. weakened significantly during calendar year 2006, coming off a more than 30 year high in 2005. The National Association of Home Builders, or NAHB, and other market analysts expect the new construction single-family residential segment to slow further in calendar year 2007. In Australia and New Zealand, we do not expect an improvement to the weak residential housing and renovations markets in the short-term. Any slow down in the markets we serve could result in decreased demand for our products and cause us to experience decreased sales and operating income. In addition, the level of activity in construction markets also depends on our ability to grow primary demand for fiber cement and convert sales of alternative materials to sales of fiber cement. Historically, in periods of economic decline, both new housing starts and residential remodeling also decline. The level of activity in the commercial construction market depends largely on vacancy rates and general economic conditions. Because residential and commercial construction markets are sensitive to cyclical changes in the economy, downturns in the economy or a lack of substantial improvement in the economy of any of our geographic markets could negatively affect operating results. Because of these and other factors, our results of operations may be subject to substantial fluctuations and the results for any prior period may not be indicative of results for any future period.

***Because demand for our products in our major markets is seasonal, our quarterly results of operations may vary throughout the year.***

In the United States, a large proportion of our fiber cement products are sold in the Southeastern, South Central and Pacific Northwest regions of the country. Demand for building products in these regions is seasonal because construction activity diminishes during the winter season. In addition, the September 2005 hurricanes that caused considerable damage along the Gulf Coast in the United States had some impact on carrier availability and transportation costs through the initial phases of the hurricane relief efforts. In Australia, New Zealand and the Philippines, demand for building products is also seasonal because, in Australia and New Zealand, construction activity diminishes during the summer period of December to February, and in the Philippines, construction activity diminishes during the wet season from June to September and the last half of December due to the slowdown in business activity over the holiday period. Because of these and other factors, our quarterly results of operations may vary throughout the year and the results for any quarterly period may not be indicative of results for any future period.

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***We may experience adverse fluctuations in the supply and cost of raw materials necessary to our business. A significant reduction or cessation of shipments from an important supplier could adversely affect our business if we are unable to secure alternative supplies within a short time or on reasonable terms.***

Our fiber cement business periodically experiences fluctuations in the supply and costs of raw materials, and some of our supply markets are concentrated. For example, during both fiscal years 2007 and 2006 in the United States, natural gas costs increased significantly, and to a lesser extent, we also experienced increases in costs associated with electric power and some of our major material components including cement. Cellulose fiber, silica, cement and water are the principal raw materials used in the production of fiber cement. Cellulose fiber and cement have been subject to significant price fluctuations in the past. Price fluctuations or material delays may occur in the future due to lack of raw materials or suppliers. The loss or deterioration of our relationship with a major supplier, an increase in demand by third parties for a particular supplier's products or materials or delays in obtaining materials could have a material adverse effect on our business, results of operations and financial condition.

***If our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall, which would have an adverse effect on our results of operations and financial condition. In addition we may incur substantial expenses related to unsuccessful research and development efforts.***

We invest significantly in research and development because we believe that such efforts are key to sustaining and growing our existing market leadership position in fiber cement. Because profit margins for fiber cement products and building products generally erode the longer a product has been on the market, innovation is particularly important. We rely on our research and development efforts to generate new products and processes to increase demand and to protect profit margins. If our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall, which would have an adverse effect on our results of operations and financial condition. In addition, we may incur substantial expenses related to unsuccessful research and development efforts.

***Demand for our products is subject to changes in consumer preference.***

The continued development of builder and consumer preference for our fiber cement products over competitive products is critical to sustaining and expanding demand for our products. Therefore, the failure to maintain and increase builder and consumer acceptance of our fiber cement products could have a material adverse effect on our growth strategy as well as our business, results of operations and financial condition.

***We rely on only a few distributors to distribute our fiber cement products and the loss of any distributor could adversely affect our business.***

Our top three distributors in the United States represented approximately 60% of our total USA Fiber Cement gross sales in fiscal year 2007. Our top three distributors in Australia and our top three distributors in New Zealand accounted for approximately 31% and 69% of our total gross sales of fiber cement in Australia and New Zealand, respectively, in fiscal year 2007. We generally do not have long-term contracts with our large distributors. Accordingly, if we were to lose one or more of these distributors because our competitors were able to offer distributors more favorable pricing terms or for any other reasons, we may not be able to replace distributors in a timely manner or on reasonable terms. The loss of one or more distributors could have a material adverse effect on our business, results of operations and financial condition.

***Changes in, or failure to comply with, the laws, regulations, policies or conditions of any jurisdiction in which we conduct our business could result in, among other consequences, the loss of our assets in such jurisdiction, the elimination of certain rights that are critical to the operation of our business in such jurisdiction, a decrease in revenues or the imposition of additional taxes or other costs.***

Because we own assets, manufacture and sell our products internationally, our activities are subject to political, economic, legal and other uncertainties, including:

- changing political and economic conditions;

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- changing laws and policies;
- the general hazards associated with the assertion of sovereign rights over certain areas in which we conduct our business; and
- laws limiting or conditioning the right and ability of subsidiaries and joint ventures to pay dividends or remit earnings to affiliated companies.

Although we seek to take applicable laws, regulations and conditions into account in structuring our business on a global basis, changes in, or our failure to comply with, the laws, regulations, policies or conditions of any jurisdiction in which we conduct our business could result in, among other consequences, the loss of our assets in such jurisdiction, the elimination of certain rights that are critical to the operation of our business in such jurisdiction, a decrease in revenues or the imposition of additional taxes. Therefore, any change in laws, regulations, policies or conditions of a jurisdiction could have a material adverse effect on our business, results of operations and financial condition.

***Because some of our intellectual property and other proprietary information may be publicly available, we are subject to the risk that competitors could copy our products or processes.***

Our success depends, in part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. To the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain adequate legal or equitable relief. Also, the laws of some foreign countries may not protect our intellectual property to the same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. To safeguard our confidential information, we rely on employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which could harm our results of operations and competitive position.

***Natural disasters could have an adverse effect on our overall business, results of operations and cash flows.***

Our plants and other facilities are located in places that could be affected by natural disasters, such as hurricanes, typhoons, cyclones, earthquakes, floods, tornados and other natural disasters. Natural disasters that directly impact our plants or other facilities could adversely affect our manufacturing or other operations and, thereby, harm our overall business, results of operations and cash flows.

***We rely on a continuous power supply and availability of utilities to conduct our operations, and any shortages or interruptions could disrupt our operations and increase our expenses.***

In the manufacture of our products, we rely on a continuous and uninterrupted supply of electric power, water and natural gas as well as the availability of water, waste and emissions discharge facilities. Any future shortages or discharge curtailments could significantly disrupt our operations and increase our expenses. We currently do not have backup generators to maintain power and do not have alternate sources of power in the event of a blackout. In addition, our current insurance does not provide coverage for any damages that we or our customers may suffer as a result of any interruption in our power supply. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at the affected facilities. Any future interruption in our ability to continue operations at our facilities could damage our reputation, harm our ability to retain existing customers or obtain new customers and could result in lost revenue, any of which could have a material adverse effect on our business, results of operations and financial condition.



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***Because we have significant operations outside of the United States and report our earnings in U.S. dollars, unfavorable fluctuations in currency values and exchange rates could have a significant negative impact on our earnings.***

Because our reporting currency is the U.S. dollar, our non-U.S. operations face the additional risk of fluctuating currency values and exchange rates. Such operations may also face hard currency shortages and controls on currency exchange. Approximately 17% of our net sales in fiscal years 2007 and 2006 were derived from sales outside the United States. Consequently, changes in the value of foreign currencies (principally Australian dollars, New Zealand dollars, Philippine pesos, Euros, U.K. pounds and Canadian dollars) could significantly affect our business, results of operations and financial condition. We generally attempt to mitigate foreign exchange risk by entering into contracts that require payment in local currency, hedging transactional risk, where appropriate, and having non-U.S. operations borrow in local currencies, particularly that of the Philippines. Although, we may enter into such financial instruments from time to time to manage our market risks, we did not have any material interest rate swaps or forward exchange contracts outstanding as of March 31, 2007. There can be no assurance that we will be successful in these mitigation strategies, or that fluctuations in foreign currencies and other foreign exchange risks will not have a material adverse effect on our business, results of operations and financial condition. See also Risk Factor above captioned "Since our revenues are primarily derived from sales in U.S. dollars and payments pursuant to the Final Funding Agreement are made in Australian dollars, unfavorable fluctuations in the U.S. dollar (and other currencies from which we derive our sales) compared to the Australian dollar, will require us to pay more of our revenues to discharge our obligations under the Final Funding Agreement. In addition, since our results of operations are reported in U.S. dollars, unfavorable fluctuations in the U.S. dollar compared to the Australian dollar will require us to expense the difference in the reported period in order to increase the amount of our asbestos liability on our balance sheet."

***Information technology systems integration issues could disrupt our internal operations, which could have significant adverse effects on our profitability.***

In fiscal year 2006, we commenced our implementation of a new enterprise resource planning, or ERP, software system. Our ongoing systems integration work could cause portions of our information technology infrastructure to experience interruptions, delays or cessations of service and produce system errors. We may not be successful in timely implementing these new systems, and transitioning data and other aspects of the process could be expensive, time consuming and disruptive. Any disruptions that may occur in the implementation of this new system could adversely affect our ability to accurately and timely report the financial results of our operations and otherwise efficiently operate our business, which could have a significant adverse effect on our profitability.

***Our Articles of Association and Dutch law contain provisions that could delay or prevent a change of control that may otherwise be beneficial to you.***

Our Articles of Association contain several provisions that could have the effect of delaying or preventing a change of control of our ownership. Our Articles of Association generally prohibit the holding of shares of our common stock if, because of an acquisition of a relevant interest (including interests held in the form of shares of our common stock, CUFs or ADRs) in such shares, the number of shares in which a person holds relevant interests increases from 20% or below to over 20% or from a starting point that is above 20% and below 90%. However, this prohibition is subject to exceptions, including acquisitions that result from acceptance under a takeover bid as described in our Articles of Association. Although these provisions in our Articles of Association may help to ensure that no person acquires voting control of us without making an offer to all shareholders, these provisions may also have the effect of delaying or preventing a change of control that may otherwise be beneficial to you. See Item 10, "Additional Information — Key Provisions of our Articles of Association — Limitations on Right to Hold Common Stock."

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***Because we are incorporated under Dutch laws, you may not be able to effectively seek legal recourse against us or our management and you may have difficulty enforcing any U.S. judgments or rulings in a foreign jurisdiction.***

We are incorporated under the laws of The Netherlands. In addition, many of our directors and executive officers are residents of jurisdictions outside the United States and a substantial portion of our assets are located outside the United States. As a result, it may be difficult to effect service of process within the United States upon such persons, or to enforce outside the United States judgments obtained against such persons in U.S. courts, or to enforce in U.S. courts any judgments obtained against such persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts located in jurisdictions outside the United States, rights predicated upon the U.S. securities laws.

The rights of shareholders and the responsibilities of directors under the laws of The Netherlands may not be as clearly established as under statutes or judicial precedent in existence in certain U.S. jurisdictions, and such rights under the laws of The Netherlands may differ substantially from what those rights would be under the laws of various jurisdictions in the United States. Therefore, our shareholders may have more difficulty in challenging the actions by our directors than they would otherwise as shareholders of a corporation incorporated in the United States.

***The issuance of shares of common stock or the grant of options to acquire shares of common stock could dilute the value of your shares and adversely affect the price of our common stock.***

The authority to issue shares and to grant rights (e.g. options) to subscribe for shares, up to the amount of authorized share capital has been delegated to our Supervisory Board. Accordingly, our Supervisory Board could decide to issue shares or grant rights to subscribe for shares, such as options, up to the amount of our authorized share capital, without shareholder approval, which could dilute the value of your shares and adversely affect the price of our common stock.

In addition, if we issue a large number of our equity securities, the trading price of our equity securities could decrease. We may pursue acquisitions of businesses and may issue equity securities in connection with these acquisitions, although we do not currently have specific acquisitions planned. We may also issue equity securities to satisfy other liabilities of the Company. We cannot predict the effect, if any, that future sales or issuances of our equity securities or the availability of such securities for future sale will have on our securities market price from time to time.

***If we experience labor disputes or interruptions, as we have from time to time in the past, our operations may be disrupted and our business, financial condition and results of operations may be adversely affected.***

As of May 31, 2007, approximately 30%, or 180, of our employees in Australia<sup>1</sup> and approximately 56%, or 96, of our employees in New Zealand were represented by labor unions. Our unionized employees are covered by a range of federal and state-based agreements in Australia and other agreements in New Zealand. Two Australian labor agreements applying to our NSW operation expired in June 2006, one of which was subsequently renewed for two years (until June 2008) and the other is still in negotiation. In addition, we renegotiated one labor agreement for our Queensland (Meeandah) plant last year, which now expires in October 2008. Our New Zealand labor agreement expires in September 2007. We cannot assure you that any of these agreements will be renewed on reasonable terms, or at all. During the past three years, we experienced occasional strikes and work interruptions lasting up to 5 days in Australia. In each case the strike action was confined to a small group of employees and had minimal impact on the operation. If we were to experience a prolonged labor dispute at any of our facilities, any strikes or work interruptions associated with such dispute could have a material adverse effect on our business, financial condition and results of operations.

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<sup>1</sup> Under Australian law, we cannot keep records of union members. The number quoted is the number of people who work in our factories that have union participation and therefore may be represented by a union.

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### ***Our effective income tax rate could increase and adversely affect our operating results.***

We operate in multiple jurisdictions and pay tax on our income according to the tax laws of these jurisdictions. Various factors, some of which are beyond our control, determine our effective tax rate, including changes in or interpretations of tax laws in any given jurisdiction, our ability to use net operating losses and tax credit carry forwards and other tax attributes, changes in geographical allocation of income and expense, and our judgment about the realizability of deferred tax assets.

### ***If we are classified as a “controlled foreign corporation” or a “passive foreign investment company,” our shareholders could be subject to increased tax liability as a consequence of their investment in our securities.***

Our U.S. citizen and resident shareholders could incur adverse U.S. federal income tax consequences if, for federal income tax purposes, we are classified as a “controlled foreign corporation” or a “passive foreign investment company.” For information regarding these consequences, see Item 10, “Additional Information — Taxation — United States Taxation.” In addition, shareholders could be adversely affected by changes in the current tax laws, regulations and interpretations thereof in the United States and The Netherlands, including changes that could have retroactive effect.

### ***We may acquire or divest businesses from time to time, and this may adversely affect our results of operations and financial condition and may significantly change the nature of the company in which you have invested.***

In the past, we have divested business segments. In the future, we may acquire other businesses or sell some or all of our assets or business segments. Any significant acquisition or sale may adversely affect our results of operations and financial condition and could change the overall profile of our business. As a result, the value of our shares may decrease in response to any such acquisition or sale and, upon any such acquisition or sale, our shares may represent an investment in a company with significantly different assets and prospects from the Company when you made your initial investment in us.

## **Forward-Looking Statements**

This annual report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports filed with or furnished to the United States Securities and Exchange Commission, or SEC, 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 forward-looking statements include:

- expectations about the timing and amount of payments to the AICF, a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;
- expectations with respect to the effect on our financial statements of those payments;
- statements as to the possible consequences of proceedings brought against us and certain of our former directors and officers by the ASIC;
- expectations that our credit facilities will be extended or renewed;
- projections of our results of operations or financial condition;
- statements regarding our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;
- statements about our future performance; and
- statements about product or environmental liabilities.



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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 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, the risk factors discussed under “Key Information — Risk Factors” beginning on page 6, and: all matters relating to or arising out of the prior manufacture of products that contained asbestos by current and former James Hardie subsidiaries; required contributions to the AICF and the effect of foreign exchange rates on the amount recorded in our financial statements as an asbestos liability; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which we operate; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; general economic and market conditions; the supply and cost of raw materials; the success of our research and development efforts; our reliance on a small number of product distributors; compliance with and changes in environmental and health and safety laws; compliance with and changes in environmental and health and safety laws; risks of conducting business internationally; compliance with and changes in laws and regulations; foreign exchange risks; the successful implementation of new software systems; and the effect of natural disasters. We caution 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.

### Item 4. *Information on the Company*

#### **History and Development of the Company**

Our legal name was changed to James Hardie Industries N.V. from RCI Netherlands Holdings B.V. in July 2001 when our legal form was converted from a “*besloten vennootschap met beperkte aansprakelijkheid*” (a “B.V.”), or private limited liability company, to a “*naamloze vennootschap*” (a “N.V.”), or a public limited liability company whose stock, unlike a private limited liability company, may be transferred without executing a notarial deed if such company is listed on a recognized stock exchange. We operate under Dutch law. Our corporate seat is located in Amsterdam, The Netherlands. The address of our registered office in The Netherlands is Atrium, 8<sup>th</sup> floor, Strawinskylaan 3077, 1077 ZX Amsterdam. The telephone number there is +31 20 301 2980. Our Company Secretary is Mr. Benjamin Butterfield who is based in The Netherlands.

#### ***Corporate Restructuring***

On July 2, 1998, James Hardie Industries Limited, or JHIL, now called ABN 60, which was then a public company organized under the laws of Australia and listed on the Australian Securities Exchange, or ASX, announced a plan of reorganization and capital restructuring, which we refer to as the 1998 Reorganization.

James Hardie N.V., or JHNV, was incorporated in August 1998 as an intermediary holding company, with all of its common stock owned by indirect subsidiaries of ABN 60. On October 16, 1998, the shareholders of ABN 60 approved the 1998 Reorganization. We began our restructuring in November 1998, primarily to address the structural imbalance and resulting operational, financial and commercial issues associated with the increasing significance and growth opportunities of our U.S. operations and the location of corporate management and our shareholder base in Australia. At that time, we successfully completed:

- the formation of JHNV;
- the transfer to subsidiaries of JHNV of all of our fiber cement businesses, our U.S. gypsum wallboard business, our Australian and New Zealand building systems business and our Australian windows business, all of which, except for fiber cement, were subsequently sold;
- a debt financing, consisting of an issuance of notes to U.S. purchasers, and the arrangement of an Australian credit facility; and

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- the relocation of most of our senior executives and managers to our operational headquarters in the United States.

In February 2001, ABN 60, formerly known as James Hardie Industries Limited, or JHIL, established the Foundation by gifting A\$3.0 million (\$1.7 million) in cash and transferring ownership of Amaca and Amaba to the Foundation.

On July 24, 2001, ABN 60 announced a further plan of reorganization and capital restructuring, which we refer to as the 2001 Reorganization. On October 19, 2001, we completed our 2001 Reorganization. This restructuring was done to provide us with a more efficient financial structure in light of potential global expansion, to allow us to use our stock for acquisitions if necessary and to increase overall returns to our shareholders. The 2001 Reorganization consisted of the following:

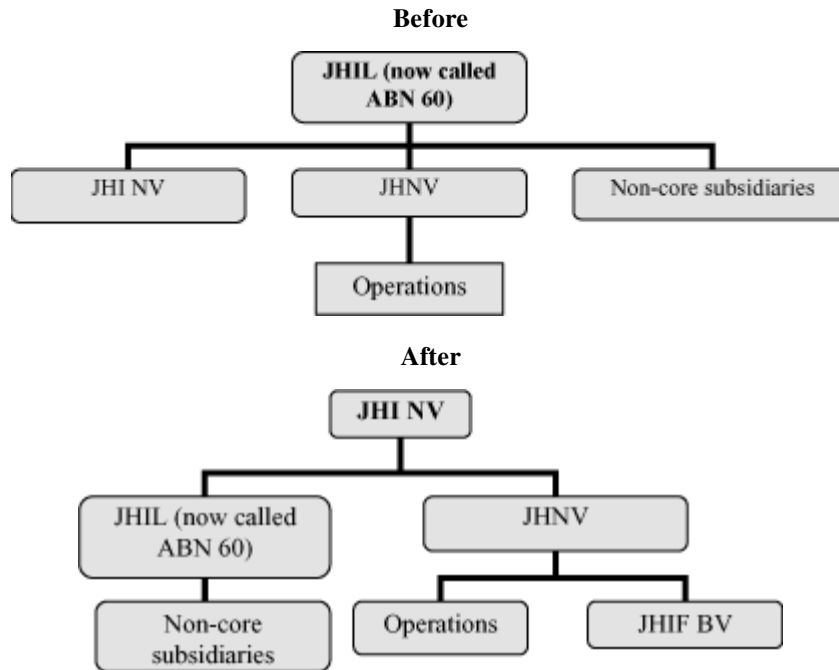
- the issuance of shares of JHI NV common stock represented by CUFS to substantially all ABN 60 shareholders in exchange for their shares of ABN 60 common stock pursuant to an approved Australian scheme of arrangement;
- the transfer by ABN 60 of all of the outstanding shares of JHNV (which directly or indirectly held substantially all of the assets of the James Hardie Group at that time) to JHI NV;
- a capital reduction and payment of a dividend by ABN 60 to its then sole shareholder, JHI NV;
- the issuance by ABN 60 of 100,000 partly-paid ordinary shares to JHI NV for a total issue price approximately equal to the market value of the James Hardie Group immediately prior to the scheme's implementation (which equaled approximately A\$1.9 billion). There was an initial subscription price paid of A\$50 per partly-paid ordinary share (that is, for a total subscription price for such shares of A\$5 million), and the remainder was left uncalled. A partly-paid share is a share that is issued with only part of its value paid by the owner of the share. The partly-paid shares were issued by ABN 60 to enable it to call on JHI NV for funds in the future if ABN 60 needed such funds to maintain its solvency;
- the listing of the shares of JHI NV represented by CUFS on the Australian Securities Exchange and the listing of ADRs, representing CUFS, which in turn represent shares of JHI NV, on the NYSE; and
- the establishment of a Dutch financing subsidiary, James Hardie International Finance B.V., or JHIF BV.

As a result of the share exchange, ABN 60 shareholders ceased to hold any direct interest in ABN 60 and instead became the holders of interests in JHI NV common shares, receiving substantially their same proportional ownership interests in the Company as they had in ABN 60 before exchanging their shares.

In addition, as a result of the exchange, ABN 60 and JHNV became direct subsidiaries of JHI NV.

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The 2001 Reorganization is generally depicted in the following simplified diagrams:



Following the 2001 Reorganization, JHI NV controlled the same assets and liabilities as ABN 60 controlled immediately prior to the 2001 Reorganization.

During fiscal year 2003:

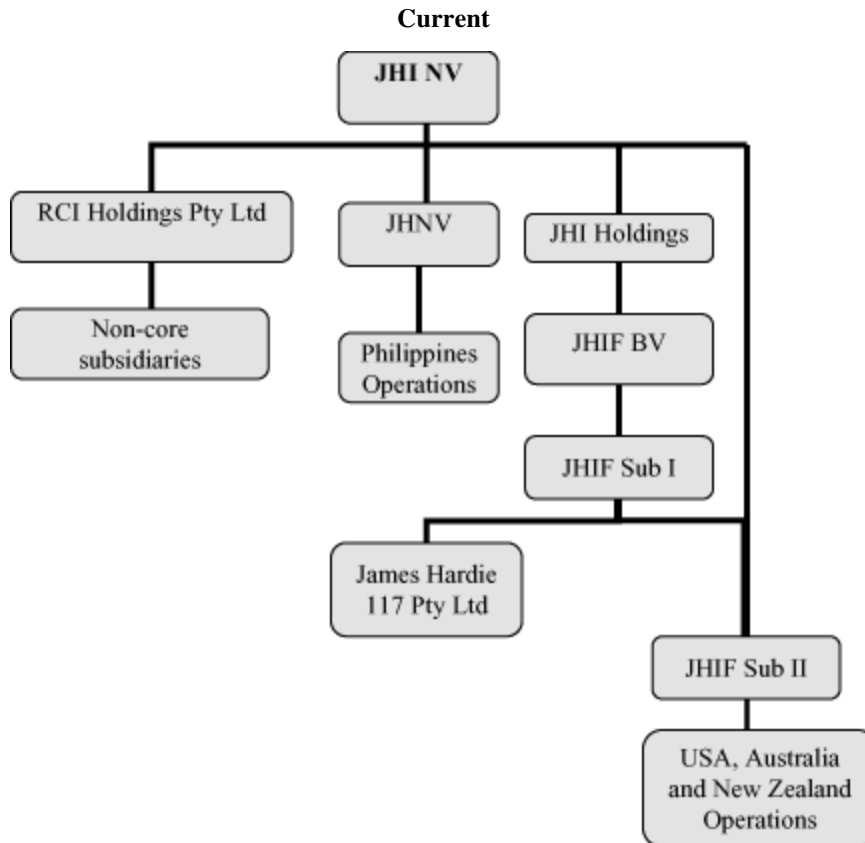
- JHI NV and ABN 60 cancelled the partly-paid shares. The decision to cancel the partly-paid shares was taken by the directors of ABN 60 who did so based on a determination that the reduction in capital would not materially prejudice ABN 60's ability to pay its creditors, including Amaba and Amaca, which, under the terms of the Deed of Covenant and Indemnity, were creditors of ABN 60 only to the extent of the limited financial obligations under that Deed. The directors of ABN 60, after due consideration of ABN 60's financial position, determined that the reduction in capital would not materially prejudice ABN 60's ability to pay its creditors;
- ABN 60 transferred control of all of its non-operating subsidiaries to RCI Holdings Pty Ltd, a wholly owned subsidiary of JHI NV, to distinguish between the operating group of companies and non-operating subsidiaries; and
- Following the consolidation of the operating assets of the James Hardie Group under JHI NV and JHNV in fiscal year 2003, the principal activity of ABN 60 was paying amounts in accordance with the Deed of Covenant and Indemnity. At that time, the cash position of the Company had improved significantly as a result of the sale of the Company's Gypsum business in the United States and the impending sale of a gypsum mine in Nevada. On March 31, 2003, following a review of all available options to address this issue and after a thorough review had been conducted to determine that the funds available to ABN 60 would be sufficient to meet the claims of all creditors, the shares in ABN 60 were transferred to the ABN 60 Foundation. ABN 60 Foundation was established to be the sole shareholder of ABN 60. ABN 60 was managed by independent directors and operated entirely independently of the Company.

During fiscal year 2006, we completed a further restructuring which we believe will maximize our ability to continue paying dividends and continue realizing benefits available under the Dutch Financial Risk Reserve regime. See Item 3, "Key Information — Risk Factors."

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The 2006 reorganization consisted of the following: The subsidiary that owns our United States operations issued a second series of shares to a new subsidiary of JHIF BV. Our United States operations are now partly owned by JHI NV and the new subsidiary of JHIF BV. We expect that dividends paid to the new subsidiary of JHIF BV will be used to fund our ongoing obligations pursuant to the Final Funding Agreement (as amended), which we refer to as the Final Funding Agreement, to the Asbestos Injuries Compensation Fund, or AICF, through James Hardie 117 Pty Ltd, which we refer to as the Performing Subsidiary, while dividends paid to JHI NV will be available for other corporate purposes.

The following is a simplified diagram of our current corporate structure:



### *Consolidation of the AICF*

In February 2007, the Final Funding Agreement was approved by our shareholders to provide long-term funding to the AICF, a special purpose fund that provides compensation for Australian-related personal injury claims against certain former companies of the James Hardie Group, including ABN 60, Amaca and Amaba. After the Final Funding Agreement was approved, shares in Amaca and Amaba were transferred from the Foundation to the AICF. In addition, shares in ABN 60 were transferred from the ABN 60 Foundation to the AICF.

Although we have no legal ownership in the AICF, we have contractual and pecuniary interests in the AICF as a result of funding arrangements outlined in the Final Funding Agreement. The Final Funding Agreement results in the Performing Subsidiary having a contractual liability to pay the initial funding and ongoing annual payments to the AICF, subject to the terms and conditions of the Final Funding Agreement, including application of the cash flow cap. These payments to the AICF will result in us having a pecuniary interest in the AICF. The interest is considered variable because the potential impact on us will vary based upon the annual actuarial assessments obtained by us with respect to asbestos-related claims.

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Due to our variable interest in the AICF we consolidate the AICF in accordance with the Financial Accounting Standards Board (“FASB”) Interpretation No. 46R, “Consolidation of Variable Interest Entities.” See Note 2 to our consolidated financial statements in Item 18.

### **Recent Developments**

#### ***Board and Management Changes***

On April 1, 2007, Mr. Donald DeFosset was appointed Chairman of our Joint and Supervisory Boards.

On June 29, 2007, Ms. Cathy Wallace resigned from her position as Vice President — Global Human Resources and from the Company.

Effective July 1, 2007, Ms. Catherine Walter was appointed as a non-executive director of our Joint and Supervisory Boards.

#### **General Overview of Our Business**

Based on net sales, we believe we are the largest manufacturer of fiber cement products and systems for internal and external building construction applications in the United States, Australia, New Zealand, and the Philippines. Fiber cement is currently one of the fastest growing segments of the U.S. residential exteriors industry. Based on our knowledge, experience and third-party data regarding our industry, we estimate that total U.S. industry shipments of fiber cement siding, trim, soffit and fascia were between 1.8 to 1.9 billion square feet during fiscal year 2007, a decrease of approximately 5% from fiscal year 2006. Based on our knowledge, experience and third-party data, we estimate that we have 35% to 45% of the U.S. Interior Cement Board Market. We market our fiber cement products and systems under various Hardie brand names and other brand names such as Cemplank<sup>®</sup> siding (we also formerly marketed siding under the brand name Sentry<sup>®</sup> siding). We believe that, in certain applications, our fiber cement products and systems provide a combination of distinctive performance, design and cost advantages when compared to other fiber cement products and alternative products and systems that use solid wood, engineered wood, vinyl, brick, stucco or gypsum wallboard.

The sale of fiber cement products in the United States accounted for 82%, 82% and 78% of our total net sales from continuing operations in fiscal years 2007, 2006 and 2005, respectively.

Our fiber cement products are used in a number of markets, including new residential construction (single and multi-family housing), manufactured housing (mobile and pre-fabricated homes), repair and remodeling and a variety of commercial and industrial applications (stores, warehouses, offices, hotels, motels, schools, libraries, museums, dormitories, hospitals, detention facilities, religious buildings and gymnasiums). We manufacture numerous types of fiber cement products with a variety of patterned profiles and surface finishes for a range of applications, including external siding and soffit lining, internal linings, facades, fencing, pipes and floor and tile underlayments.

In contrast to some other building materials, fiber cement provides durability attributes, such as strong resistance to moisture, fire, impact and termites, requires relatively little maintenance and can be used as a substrate to create a wide variety of architectural effects with textured and colored finishes. Based on our knowledge, experience and third-party data regarding our industry, we estimate that, in fiscal year 2007, we sold approximately 12%<sup>2</sup> of the estimated total 11.5 billion square foot<sup>2</sup> U.S. exterior siding market (all types of siding; excludes fascia, trim and soffit).

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<sup>2</sup> Actual siding usage reports from NAHB for calendar year 2006 will not be available until August and November 2007.

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The breakdown of our net sales by operating segment for each of our last three fiscal years is as follows:

	Fiscal Year Ended March 31,		
	2007	2006	2005
	(In millions)		
USA Fiber Cement	\$1,262.3	\$1,218.4	\$ 939.2
Asia Pacific Fiber Cement	251.7	241.8	236.1
Other	28.9	28.3	35.1
Total	<u>\$1,542.9</u>	<u>\$1,488.5</u>	<u>\$1,210.4</u>

### Industry Overview

#### *U.S. Housing Industry, Fiber Cement Industry and Pipe Industry*

In the United States, fiber cement is principally used in the residential building industry. Such usage fluctuates based on the level of new home construction and the repair and remodeling of existing homes. The level of activity is generally a function of interest rates and the availability of finance to homeowners to purchase a new home or make improvements to their existing homes, inflation, unemployment levels, demographic trends, gross domestic product growth and consumer confidence. Demand for building products is also affected by residential housing starts and existing home sales, the age and size of the housing stock and overall home improvement expenditures. According to the U.S. Census Bureau, annual domestic housing starts decreased from approximately 2.07 million in calendar year 2005 to approximately 1.80 million in calendar year 2006 and residential remodeling expenditures increased from approximately \$215.0 billion in calendar year 2005 to approximately \$228.2 billion in calendar year 2006.

Based on our knowledge, experience and third-party data regarding our industry, we estimate that total U.S. industry shipments of fiber cement siding, trim, soffit and fascia were between 1.8 and 1.9 billion square feet during fiscal year 2007, down approximately 5% from fiscal year 2006. The future growth of fiber cement products will depend on overall demand for building products and on the rate of penetration of fiber cement products against competing materials such as wood, engineered wood (hardboard and oriented strand board), vinyl, masonry and stucco. See Item 3, “Key Information — Risk Factors.”

In the United States, the largest application for fiber cement products is in the external siding industry. Fiber cement is one of the fastest growing segments of the siding industry. Siding is a component of every building and it usually occupies more square footage than any other building component, such as windows and doors. Selection of siding material is based on installed cost, durability, aesthetic appeal, strength, weather resistance, maintenance requirements and cost, insulating properties and other features. Different regions of the United States show a decided preference among siding materials according to economic conditions, weather, materials availability and local taste. The principal siding materials are vinyl, masonry, stucco, fiber cement, solid wood, and engineered wood. Vinyl has the largest share of the siding market. In recent years, fiber cement has been gaining market share against vinyl and wood, and this is believed to be due to a number of reasons, including aesthetics, durability concerns and lower maintenance requirements compared to wood.

In the U.S. civil construction market, large diameter pipes are used for major public infrastructure projects such as storm water, sewer, water distribution and other non-pressurized drainage applications. According to the most recent Freedonia Report on Large Diameter Pipes, in 2005 there was demand for approximately 191 million linear feet of large diameter pipes in the United States. Of this amount, approximately 46% was used for storm sewer applications, approximately 19% was used in drainage and irrigation applications, approximately 14% for water distribution and approximately 21% for a variety of other applications. According to the report, demand for large diameter pipes in the United States is expected to grow at a rate of approximately 2.3% annually.

#### *International Fiber Cement Industry*

In Australia and New Zealand, fiber cement building products are used in both the residential and commercial building industries with applications in external siding, internal walls, ceilings, floors, soffits and fences. The residential building industry represents the principal market for fiber cement products. We believe the level of



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activity in this industry is generally a function of interest rates, inflation, unemployment levels, demographic trends, gross domestic product growth and consumer confidence. Demand for fiber cement building products is also affected by the level of new housing starts and renovation activity. According to the Australian Bureau of Statistics, or ABS, total dwelling commencements in Australia declined from 167,993 in calendar year 2003 to 151,682 in calendar year 2006. Renovation activity, as measured in local currency expenditures by the ABS has increased from calendar year 2003 to calendar year 2006 for a total increase over this period of approximately 13%. According to Statistics New Zealand, new dwellings authorized in New Zealand declined from approximately 29,914 in calendar year 2003 to 25,952 in calendar year 2006. Residential renovation activity in New Zealand has increased from calendar year 2003 to calendar year 2006 for a total increase over this period of approximately 32%. The Housing Industry Association of Australia and InfoMetrics New Zealand believe new housing construction and renovation activity are expected to soften over the short to medium term in Australia and New Zealand, respectively.

Fiber cement products have, across a range of product applications, gained broader acceptance in Australia and New Zealand than in the United States, primarily due to earlier introduction in Australia and New Zealand. Former subsidiaries of ABN 60 developed fiber cement in Australia as a replacement for asbestos cement in the early 1980s. Asbestos sheet production ceased in the early 1980s and asbestos pipe production ceased in early 1987. Competition has intensified over the past decade in Australia. In addition to competition from solid wood, engineered wood, wallboard, masonry and brick, two Australian competitors have established fiber cement manufacturing facilities in Australia and fiber cement imports are also available. Competition continues to intensify in New Zealand as fiber cement imports have become more cost competitive with the strengthening New Zealand dollar, resulting in increasingly competitive market pricing. See Item 3, “Key Information — Risk Factors.”

Management believes that fiber cement has good long-term growth potential in some Asian markets because of the benefits of framed construction over traditional masonry construction. In addition, we believe the opportunity to replace wood-based products, such as plywood, with more durable fiber cement will be attractive to consumers in these markets.

### Products

We manufacture fiber cement products in the United States, Australia, New Zealand and the Philippines. In July 2005, we sold our Chilean fiber cement business. In fiscal year 2004, we commenced our European fiber cement business by distributing our fiber cement products in the U.K. and France. Our total product offering is aimed at the building and construction markets, including new residential construction, manufactured housing, repair and remodeling and a variety of commercial and industrial building applications.

We offer a wide range of fiber cement products for both exterior and interior applications, some of which have not yet been introduced into the United States. In the United States and elsewhere, our products are typically sold as planks or flat sheets with a variety of patterned profiles and finishes. Planks are used for external siding while flat sheets are used for internal and external wall linings and floor and tile underlayments. At our Plant City, Florida facility, we manufacture fiber reinforced concrete pipes for use as large diameter storm water and non-pressurized drainage applications. Outside the United States, we also manufacture fiber cement products for use in other applications such as building facades, lattice, trim, fencing, decorative columns, flooring, soffit lining and ceiling applications. We also manufacture fiber cement pipes in Australia.

We have developed a proprietary technology platform that enables us to produce thicker yet lighter-weight fiber cement products that are generally lighter and easier to handle than traditional building products. The first application of this technology has been our Hardietrim™ plank. Hardietrim plank is a fiber cement trim product that is used on the exterior of residential and commercial construction to replace traditional wood and engineered wood trim. Hardietrim plank was launched in fiscal year 1999, with the introduction of Hardietrim HLD® plank, from our Cleburne, Texas plant and demand has been strong since that time. A new production process for manufacturing Hardietrim plank was completed at the Cleburne plant and production commenced in fiscal year 2002. Additional trim capacity was added in the Peru plant in fiscal years 2004 and 2005.

We believe that our products provide certain performance, design and cost advantages. The principal fiber cement attribute in exterior applications is durability, particularly when compared to competing wood and wood-based products, while offering comparable aesthetics. Our fiber cement products exhibit superior resistance to the

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damaging effects of moisture, fire, impact and termites compared to wood and wood-based products, which has enabled us to gain a competitive advantage over competing products. Vinyl siding products generally have better durability characteristics than wood-based products, but typically cannot duplicate the superior aesthetics of fiber cement and lack the characteristics necessary for effectively accepting paint applications.

Our fiber cement products provide strength and the ability to imprint simulated patterns that closely resemble patterns and profiles of traditional materials such as wood and stucco. The surface properties provide a superior paint-holding finish to wood and engineered wood products such that the periods between necessary maintenance and repainting are longer. Compared to masonry construction, fiber cement is lightweight, physically flexible and can be cut using readily available tools. This makes fiber cement suitable for lightweight construction across a range of architectural styles. Fiber cement is well suited to both timber and steel-framed construction.

In our interior product range, our ceramic tile underlayment products provide superior handling and installation characteristics compared to fiberglass mesh cement boards. Compared to wood and wood-based products, our products provide the same general advantages that apply to external applications. In addition, our fiber cement products exhibit less movement in response to exposure to moisture than many alternative competing products, providing a more consistent and durable substrate on which to install tiles. In internal lining applications where exposure to moisture and impact damage are significant concerns, our products provide superior moisture resistance and impact resistance than traditional gypsum wet area wallboard and other competing products.

Our USA Hardie Pipe business manufactures fiber-reinforced concrete pipes at a custom-built facility in Plant City, Florida. The pipes are used for below-ground stormwater drainage in civil and commercial construction projects and in the development of residential subdivisions. Our strategy in our USA Hardie Pipe business is to establish Hardie™ pipe as the preferred solution for stormwater applications that use pipes with diameters ranging from 12” to 36”. We believe that Hardie™ pipe offers this market significant installation and performance benefits because our product features span those offered by traditional concrete pipes and newer flexible pipes. We provide the initial crush strength of rigid pipes, combined with the lighter-weight, longer-lengths and ease of installation of flexible pipes. We also manufacture fiber cement pipes in Australia.

We seek to emphasize the performance attributes of our products and continue to develop new products that, due to the materials used and the process technology employed in their manufacture, may be difficult for competitors to emulate. While no assurances can be given, we believe that the proprietary nature of these products, our ability to competitively source raw materials for these products and the economies of scale that are derived from their manufacture should assist our efforts to maintain our leadership and low cost competitive position. See “Research and Development.” Also see Item 3, “Key Information — Risk Factors.”

During fiscal year 2002, we introduced James Hardie® building products with ColorPlus® technology, a new finished product available in specific lap siding, panels, shingles, trim, and soffit products. Since then, we have added pre-finished trim accessories, several new colors and more board profiles. With ColorPlus® pre-finished products, customers are saved the trouble or expense of finding tradesmen to finish their siding. We added a further enhancement to ColorPlus® products by fitting a laminate to all ColorPlus® pre-painted siding so it can be delivered and installed in the best possible condition.

During fiscal year 2003, we expanded our new ColorPlus® line of pre-finished exterior products with the addition of several new colors, and successfully launched a new all-weather low density trim product utilizing our new proprietary XLD® trim low density fiber cement technology. In that same year, we also launched our new improved proprietary grid quarter-inch backer product EZGrid® underlayment.

During fiscal year 2004, we introduced pre-finished trim accessories to further expand our ColorPlus® collection line.

During fiscal years 2005 and 2006, after considerable market research, we re-launched the ColorPlus® collection of products with additional colors, board profiles, and pallet sizes. In addition, we expanded our manufacturing capacity and capabilities to meet increasing demand for our siding, trim and soffit products with ColorPlus® Technology.



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During fiscal year 2006, we added Moldblock™ Protection to our EZGrid® underlay and Hardiebacker™ sheets. Additionally, in the past five years, we launched many new textures, styles and coatings in fiber cement siding products in the United States to capitalize on demand for a variety of styles among homebuilders and homeowners. In Australia and New Zealand, new products released over the past five years include EziGrid® tile underlay, Eclipsa™ eaves lining, Linea™ cladding, ExoTec® facade panel, Axon® cladding, Matrix™ cladding, and Scyon® Wet Area Flooring (in Australia only) and Monotek® facade panel and ShingleSide panel (in New Zealand only).

In the Philippines, new products released over the past five years include Hardisenepa™ fascia board, Hardiplank® siding and Hardifloor™ Boards. More generally, during the past five years, we have introduced many new textures, styles and coatings to our fiber cement siding products in North America to capitalize on homeowners' and homebuilders' demands for a variety of cladding styles. At the same time, research and development has enabled us to find the optimum balance between low maintenance and appearance.

### Seasonality

Our earnings are seasonal and typically follow activity levels in the building and construction industry. In the United States, the calendar quarters ending in December and March generally reflect reduced levels of building activity depending on weather conditions. In Australia and New Zealand, the calendar quarter ending in March is usually affected by a slowdown due to summer holidays. In the Philippines, construction activity diminishes during the wet season from June through September and during the last half of December due to the slowdown in business activity over the holiday period. Also, general industry patterns can be affected by weather, economic conditions, industrial disputes and other factors. See Item 3, "Key Information — Risk Factors."

### Raw Materials

All of the raw materials required in the manufacture of our fiber cement products are available from a number of sources and we have not experienced any shortages that have materially affected our operations. The principal raw materials used in the manufacture of fiber cement are cellulose fiber (wood-based pulp), silica (sand), portland cement and water.

*Cellulose Fiber.* Reliable access to specialized, consistent quality, low cost pulp is critical to the production of fiber cement building materials. Cellulose fiber is sourced from New Zealand, the United States, Canada, and South America (Chile) and is processed to our specifications. It is further processed using our proprietary technology to provide the reinforcing material in the cement matrix of fiber cement. We have developed a high level of internal expertise in the production and use of wood-based pulps. This expertise is shared with pulp producers, which have access to appropriate raw wood stocks, in order to formulate superior reinforcing pulps. The resulting pulp formulas are typically proprietary and are the subject of confidentiality agreements between the pulp producers and us. Moreover, we have obtained patents in the United States and in certain other countries abroad covering certain unique aspects of our pulping formulas and processes that we believe cannot adequately be protected through confidentiality agreements. However, we cannot assure you that our intellectual property and other proprietary information will be protected in all cases. See Item 3, "Key Information — Risk Factors." Although we have entered into contracts to hedge pulp prices in the past, we currently have none in effect. However, we continue to evaluate options on agreements with suppliers for the purchase of pulp that could fix our pulp prices over the longer-term.

*Silica.* High purity silica is sourced locally by the various production plants. In the majority of locations, we use silica sand as a silica source. In certain other locations, however, we process quartz rock and beneficiate silica sand to ensure the quality and consistency of this key raw material.

*Cement.* Cement is acquired in bulk from local suppliers and is supplied on a just-in-time basis to our manufacturing facilities. The silos at each fiber cement plant hold between one and three days of our cement requirements. During fiscal years 2007 and 2006 we experienced cost increases related to increases in the price of cement. We continue to evaluate options on agreements with suppliers for the purchase of cement that could fix our cement prices over longer periods of time.

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*Water.* We use local water supplies and seek to process all wastewater to comply with environmental requirements.

### Sales, Marketing and Distribution

The principal markets for our fiber cement products are the United States, Australia, New Zealand, the Philippines, Canada, the United Kingdom and France. In addition, we sell fiber cement products in South Korea, China, Hong Kong, Taiwan, East Timor, India, Singapore, Indonesia, Malta, Guam, Sri Lanka, Vietnam, Turkey, the Middle East (Israel, United Arab Emirates, Kuwait, and Qatar), Ireland, Spain, Switzerland, Belgium, The Netherlands, Denmark, Norway, Germany, Papua New Guinea and the Pacific Islands (including, for example, Fiji, New Caledonia, and Western and American Samoa). Our brand name, customer education in comparative product advantages, differentiated product range and customer service, including technical advice and assistance, provide the basis for our marketing strategy. We offer our customers support through a specialized fiber cement sales force and customer service infrastructure in the United States, Australia, New Zealand, the Philippines, Europe and Canada. The customer service infrastructure includes inbound customer service support coordinated nationally in each country, and is complemented by outbound telemarketing capability. Within each regional market, we provide sales and marketing support to building products dealers and lumber yards and also provide support directly to the customers of these distribution channels, principally homebuilders and building contractors.

In the United States, we sell fiber cement products for new residential construction predominantly to distributors, which then sell these products to dealers or lumber yards. This two-step distribution process is supplemented with direct sales to dealers as a means of accelerating product penetration and sales. Our top three U.S. distributors accounted for approximately 60% of our total USA Fiber Cement gross sales in fiscal year 2007. Repair and remodel products in the United States are typically sold through the large home center retailers and specialist distributors. In Australia and New Zealand, both new construction and repair and remodel products are generally sold directly to distributor/hardware stores and lumber yards rather than through the two-step distribution process, which is generally used in the United States. In the Philippines, a network of thousands of small to medium size dealer outlets sells our fiber cement products to consumers, builders and real estate developers. Physical distribution of product in each country is primarily by road or sea transport, except for in the United States where transportation is primarily by road and a small use of rail.

We maintain dedicated regional sales management teams in our major sales territories. As of May 31, 2007, the sales teams (including telemarketing staff) consisted of approximately 300 people in the United States and Canada, 59 people in Australia, 20 people in New Zealand, 29 people in the Philippines, and 22 people in Europe. We also employ one person based in Taiwan who functions as a regional export salesperson, and who covers markets such as South Korea, Hong Kong, Macau, China and the Middle East (Israel, United Arab Emirates, Kuwait, and Qatar). Our national sales managers and national account managers, together with the regional sales managers and sales representatives, maintain relationships with national and other major accounts. Our sales force includes skilled trades people who provide on-site technical advice and assistance. In some cases, sales forces manage specific product categories. For example, in the United States, there are separate sales forces for siding products, interior products, and pipes. The interior products sales force provides in-store merchandising support for home center retailers.

We also use trade and consumer advertising and public relations campaigns to generate demand for our products. These campaigns usually explain the differentiating attributes of our fiber cement products and the suitability of our fiber cement products and systems for specific applications.

Despite the fact that distributors are generally our direct customers, we also aim to increase primary demand for our products by marketing our products directly to homeowners, architects and builders. We encourage them to specify and install James Hardie® products because of the quality and craftsmanship of our products. This “pull through” strategy, in turn, assists us in expanding sales for our distribution network as distributors benefit from the increasing demand for our products.

Geographic expansion of our fiber cement business has occurred in markets where framed construction is prevalent for residential applications or where there are opportunities to change building practices from masonry to framed construction. Expansion is also possible where there are direct substitution opportunities irrespective of the

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methods of construction. Our entry into the Philippines is an example of the ability to substitute fiber cement for an alternative product (in this case plywood). With the exception of our current major markets, as well as Japan and certain rural areas in Asia, Scandinavia, and Eastern Europe, most markets in the world principally utilize masonry construction for external walls in residential construction. Accordingly, further geographic expansion depends on our ability to provide alternative construction solutions and for those solutions to be accepted by the markets.

Because fiber cement products were relatively new to the Philippines, the launch of our fiber cement products in the Philippines in fiscal year 1999 was accompanied by strategies to address the particular needs of local customers and the building trade. For example, we established a carpenter training and accreditation program whereby Filipino carpenters who are unfamiliar with our products are taught installation techniques. We have also put greater emphasis on building our relationships with new home developers and builders in order to educate the market on the benefits of our products in this particular sector.

Fiber cement products manufactured in Australia, New Zealand and the Philippines are exported to a number of markets in Asia, the Pacific, and the Middle East (Israel, United Arab Emirates, Kuwait, and Qatar) by sea transport. A regional sales management team based in the Philippines is responsible for coordinating export sales into Asia and the Middle East (Israel, United Arab Emirates, Kuwait, and Qatar). A regional sales coordinator based in New Zealand is responsible for export sales to the Pacific and Papua New Guinea.

### **Research and Development**

We pioneered the successful development of cellulose reinforced fiber cement and, since the 1980s, have progressively introduced products resulting from our proprietary product formulation and process technology. We have capitalized on our strong market positions to maintain leadership in product research and development and process technology enhancements. Our product differentiation strategy, and our quest to maintain our position as one of the low cost manufacturers of fiber cement, is supported by our significant investment in research and development activities. In fiscal year 2007, we spent \$30.0 million or approximately 1.9% of total net sales, in research and development activities. This amount included \$4.1 million of amounts classified as selling, general and administrative expenses for U.S. GAAP purposes. In fiscal year 2006, we spent \$32.1 million, or approximately 2.2% of total net sales, in research and development activities. This amount included \$3.4 million of amounts classified as selling, general and administrative expenses for U.S. GAAP purposes. In fiscal year 2005, we spent \$27.1 million, or approximately 2.2% of total net sales, in research and development activities. This amount included \$5.5 million of amounts classified as selling, general and administrative expenses for U.S. GAAP purposes.

### **Dependence on Trade Secrets and Research and Development**

Our current patent portfolio is based mainly on fiber cement compositions, associated manufacturing processes and the resulting products. Our non-patent technical intellectual property consists primarily of our operating and manufacturing know-how, which is maintained as trade secret information. We have increased our abilities to effectively create, manage and utilize our intellectual property and have implemented a strategy that increasingly uses patenting, licensing, trade secret protection and joint development to protect and increase our market share. However, we cannot assure you that our intellectual property and other proprietary information will be protected in all cases. In addition, if our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall. We do not materially rely on intellectual property licensed from any outside third parties. See Item 3, “Key Information — Risk Factors.”

### **Governmental Regulation**

#### ***Environmental Regulation***

Our operations and properties are subject to extensive federal, state and local and foreign environmental protection and health and safety laws, regulations and ordinances. These environmental laws, among other matters, govern activities and operations that may have adverse environmental effects, such as discharges to air, soil and

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water, and establish standards for the handling of hazardous and toxic substances and the handling and disposal of solid and hazardous wastes. In the United States, these environmental laws include, but are not limited to:

- the Resource Conservation and Recovery Act;
- the Comprehensive Environmental Response, Compensation and Liability Act;
- the Clean Air Act;
- the Occupational Safety and Health Act;
- the Emergency Planning and Community Right to Know Act;
- the Clean Water Act;
- the Safe Drinking Water Act;
- the Surface Mining Control and Reclamation Act;
- the Toxic Substances Control Act;
- the National Environmental Policy Act; and
- the Endangered Species Act,

as well as analogous state statutes and local regulations. Other countries also have statutory schemes relating to the protection of the environment.

Some environmental laws provide that a current or previous owner or operator of real property may be liable for the costs of removal or remediation of environmental contamination on, under, or in that property or other impacted properties. In addition, persons who arrange, or are deemed to have arranged, for the disposal or treatment of hazardous substances may also be liable for the costs of removal or remediation of environmental contamination at the disposal or treatment site, regardless of whether the affected site is owned or operated by such person. Environmental laws often impose liability whether or not the owner, operator or arranger knew of, or was responsible for, the presence of such environmental contamination. Also, third parties may make claims against owners or operators of properties for personal injuries, property damage and/or for clean-up associated with releases of hazardous or toxic substances pursuant to applicable environmental laws and common law tort theories, including strict liability.

Environmental compliance costs in the future will depend, in part, on continued oversight of operations, expansion of operations and manufacturing activities, regulatory developments and future requirements that cannot presently be predicted. See Item 3, “Key Information — Risk Factors.” Also see “Legal Proceedings” below.

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### Organizational Structure

JHI NV is incorporated in The Netherlands, with its corporate seat in Amsterdam.

The table below sets forth our significant subsidiaries, all of which are 100% owned by JHI NV, either directly or indirectly, as of May 31, 2007.

<u>Name of Company</u>	<u>Jurisdiction of Establishment</u>
James Hardie 117 Pty Ltd.	Australia
James Hardie Aust Holdings Pty Ltd.	Australia
James Hardie Austgroup Pty Ltd.	Australia
James Hardie Australia Management Pty Ltd.	Australia
James Hardie Australia Pty Ltd.	Australia
James Hardie Building Products Inc.	United States
James Hardie Europe B.V	Netherlands
James Hardie Fibre Cement Pty Ltd.	Australia
James Hardie International Finance B.V	Netherlands
James Hardie International Finance Holdings Sub I B.V	Netherlands
James Hardie International Finance Holdings Sub II B.V	Netherlands
James Hardie International Holdings B.V	Netherlands
James Hardie N.V.	Netherlands
James Hardie New Zealand Limited	New Zealand
James Hardie Philippines Inc.	Philippines
James Hardie Research (Holdings) Pty Ltd.	Australia
James Hardie U.S. Investments Sierra Inc.	United States
N.V. Technology Holdings A Limited Partnership	Australia
RCI Pty Ltd.	Australia

### Capital Expenditures and Divestitures

#### Capital Expenditures

The following table sets forth our capital expenditures, calculated on an accrual basis, for each year in the three-year period ended March 31, 2007.

	<u>Fiscal Years Ended March 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>(In millions)</u>		
USA Fiber Cement	\$80.3	\$154.5	\$144.8
Asia Pacific Fiber Cement	10.5	6.6	4.1
Chile, U.S. Pipes, U.S. Roofing and Europe(1)	1.3	1.7	4.1
Total Capital Expenditures	<u>\$92.1</u>	<u>\$162.8</u>	<u>\$153.0</u>

(1) In July 2005, we sold our fiber cement business located in Chile. See Note 15 to our consolidated financial statements in Item 18. In April 2006, we closed our roofing pilot plant located in Fontana, California.

The significant capital expenditure projects over the past three fiscal years in our USA Fiber Cement business include:

- construction of a new fiber cement manufacturing plant in Pulaski, Virginia which began in March 2005. The plant includes two manufacturing lines, each with an annual design capacity of 300 million square feet. At the end of fiscal year 2006, we completed construction on the first manufacturing line and, in April 2006, we

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commenced commercial production on this line. In May 2006, we completed construction on the second manufacturing line. However, we have not yet commissioned or commenced commercial production on this second manufacturing line. The plant produces external siding and interior backerboard products for new residential construction, repair and remodel and manufactured housing markets. As of March 31, 2007, we have incurred \$104.8 million related to the construction of our Pulaski, Virginia plant;

- the continued implementation of our ColorPlus® strategy. This strategy includes constructing additional ColorPlus® coating capacity inside our existing plants. In fiscal year 2006, we completed construction of, and commenced production on, a new ColorPlus® line at our Blandon, Pennsylvania plant. In fiscal year 2007, we completed construction of, and commenced production on, new ColorPlus® lines at our Reno, Nevada and Pulaski, Virginia plants. As of March 31, 2007, we have incurred \$51.0 million related to our ColorPlus® strategy;
- commencement of a new finishing capability on a new product line at a cost of \$16.3 million in fiscal year 2007;
- the addition of a new fiber cement plant in Reno, Nevada at a cost of \$58.0 million, which occurred during fiscal years 2006, 2005 and 2004;
- the addition of a new trim line at our Peru, Illinois plant. As of March 31, 2005, we were in pre-production and in fiscal year 2006 we commenced the ramp-up of this new trim line. As of March 31, 2007, we incurred a total cost of \$59.0 million related to the construction of this new trim line. These expenditures primarily occurred during fiscal years 2006, 2005 and 2004; and
- upgrades to our Blandon, Pennsylvania plant at a cost of approximately \$17.1 million, which occurred during fiscal years 2005, 2004 and 2003.

In addition, in fiscal year 2006 we commenced our implementation of a new ERP software system. As of March 31, 2007, we have incurred \$10.3 million related to this project.

In fiscal year 2006, we spent \$3.5 million to upgrade our fiber cement manufacturing plant at Rosehill in Sydney. The purpose of the upgrade was to improve production line efficiencies in order to increase productivity and cost savings.

We currently expect to spend up to approximately \$60 million for capital expenditures in fiscal year 2008. Amounts expended will include facility upgrades and capital to implement new fiber cement technologies. The expected amount of spending in fiscal year 2008 includes additional capital expenditures expected to be made on projects that were in progress during fiscal year 2007, including the completion of the new finishing capability on a new product line.

In addition, the expected capital expenditure amount for fiscal year 2008 above includes the implementation of the new ERP software system discussed above.

Competitive pressures and market developments could require further increases in capital expenditures. Our financing for these capital expenditures is expected to come from our cash from our future operations and from external debt to the extent that cash from operations does not cover our capital expenditures. However, if we are unable to extend our credit facilities, or are unable to renew our credit facilities on terms that are substantially similar to the ones we presently have, we may experience liquidity issues and may have to reduce our levels of planned capital expenditures to conserve cash for future cash flow requirements. See Item 3, “Key Information — Risk Factors.”

### *Divestitures*

#### *Disposal of Chile Business*

In June 2005, the Company approved a plan to dispose of its Chile Fiber Cement business to Compañía Industrial El Volcan S.A., which we refer to as Volcan. The sale closed on July 8, 2005. The Company received net proceeds of \$3.9 million and recorded a loss on disposal of \$0.8 million. This loss on disposal was included in other operating expense in the Company’s consolidated statements of operations for the year ended March 31, 2006.



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As part of the terms of the sale of the Chile Fiber Cement business to Volcan, the Company entered into a two-year take or pay purchase contract for fiber cement product manufactured by Volcan. The first year of the contract amounted to a purchase commitment of approximately \$2.8 million and the second year amounted to a purchase commitment of approximately \$2.1 million. See Note 15 to our consolidated financial statements included in Item 18 for additional information about the results of the disposal of our Chile Fiber Cement business.

### Property, Plant and Equipment

We estimate that our ten manufacturing plants are among the largest and lowest cost fiber cement manufacturing plants in the United States. We believe that the location of our ten plants in California, Texas, Florida, Illinois, Washington, Pennsylvania, South Carolina, Nevada and Virginia positions us near high growth markets in the United States while minimizing our transportation costs for product distribution and raw material sourcing.

Our manufacturing plants use significant amounts of water which, after internal recycling and reuse, are eventually discharged to publicly owned treatment works (with the exception of our Blandon, Pennsylvania and Summerville, South Carolina facilities, which maintain a closed loop system). The discharge of process water is monitored by us, as well as by regulators. In addition, we are subject to regulations that govern the air quality and emissions from our plants. In the past, from time to time, we have received notices of discharges in excess of our water and air permit limits. In each case, we have addressed the concerns raised in those notices, including the payment of any minor fines.

#### Plants and Process

We manufacture fiber cement products in the United States, Australia, New Zealand and the Philippines. The location of each of our fiber cement plants and the annual design capacity for such plants are set forth below:

<u>Location</u>	<u>Existing Annual Design Capacity(1)</u>	<u>Total Planned Design Capacity(1)</u>
<b>Fiber Cement (in million square feet)</b>		
<b>United States</b>		
Fontana, California	180	180
Plant City, Florida	300	300
Cleburne, Texas	500	500
Tacoma, Washington	200	200
Peru, Illinois	560	560
Waxahachie, Texas	360	360
Blandon, Pennsylvania	200	200
Summerville, South Carolina	190	190
Reno, Nevada	300	300
Pulaski, Virginia(2)	600	600
Total United States	3,390	3,390
<b>Australia</b>		
Sydney, New South Wales(3)	180	180
Brisbane, Queensland (Carole Park)(3)(5)	120	120
Total Australia	300	300
<b>New Zealand</b>		
Auckland(4)	75	75
<b>The Philippines</b>		
Manila	145	145
Total Fiber Cement Flat Sheet	3,910	3,910
<b>Fiber Reinforced Concrete Pipes (in tons)(6)</b>		
Plant City, Florida (pipes)	100,000	100,000
Brisbane, Queensland (Meeandah)(3)(5)	50,000	50,000
Total Fiber Reinforced Concrete Pipes	150,000	150,000

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- (1) Annual design capacity is based on management's historical experience with our production process and is calculated assuming continuous operation, 24 hours per day, seven days per week, producing 5/16" thickness siding at a target operating speed. Plants outside the United States produce a range of thicker products, which negatively affect their outputs. Actual production is affected by factors such as product mix, batch size, plant availability and production speeds and is usually less than annual design capacity.
- (2) Our plant in Pulaski, Virginia has two manufacturing lines with a total annual design capacity of 600 million square feet (300 million per line). Both manufacturing lines have been completed, however, currently only one line, with a capacity of 300 million square feet, has commenced commercial production.
- (3) Prior to March 2004, the land and buildings on which these facilities are located were leased on a long-term basis from Amaca Pty Limited. In March 2004, various subsidiaries of Multiplex Property Trust (which we collectively refer to as Multiplex) an unrelated third party, acquired the land and buildings related to these three fiber cement manufacturing facilities from Amaca. The land and buildings on which these facilities are located are leased on a long-term basis from Multiplex.
- (4) Prior to March 2004, the land and buildings on which this facility is located were leased on a long-term basis from Studorp Limited or Studorp. In March 2004, Multiplex acquired the relevant land and buildings from Studorp. On June 30, 2005, an unrelated third party, the Location Group Limited, acquired the relevant land and buildings from Multiplex. Penrose Land Limited, a company within the Location Group Limited, took over as landlord in respect of the lease of the land and buildings to James Hardie New Zealand Limited.
- (5) There are two manufacturing plants in Brisbane. Carole Park produces only flat sheets and Meeandah produces only pipes and columns.
- (6) Pipe and column capacity is measured in tons rather than million square feet.

While the same basic process is used to manufacture fiber cement products at each facility, plants are designed to produce the appropriate mix of products to meet each market's specific, projected needs. Many of our manufacturing facilities have been either newly constructed or substantially modernized and upgraded in the past five years. The facilities were constructed so production can be efficiently adjusted in response to increased consumer demand by increasing production capacity utilization, enhancing the economies of scale or adding additional lines to existing facilities, or making corresponding reductions in production capacity in response to weaker demand. Except for the Waxahachie, Texas plant, we own all of our fiber cement sites and plants located in the United States. The lease for the Waxahachie, Texas site and plant expires on March 31, 2020, at which time we have an option to purchase the plant. Pursuant to the lease, we make quarterly base rental payments of \$850,000. In 1998, we entered into lease agreements with a former subsidiary, now owned by AICF, for all of our fiber cement sites located in Australia. In March 2004, Multiplex acquired the land and buildings related to the three fiber cement manufacturing facilities from the former subsidiary. Prior to that acquisition, we renegotiated the three leases with Multiplex. Upon completion of the acquisition and subsequent transfer of title to Multiplex, Multiplex assumed the responsibility of landlord under each of the amended leases. In addition, in March 2004, we entered into a lease agreement with Multiplex for our fiber cement site located in New Zealand. On June 30, 2005, an unrelated third party, the Location Group Limited, acquired the land and buildings related to the fiber cement manufacturing facilities in New Zealand from Multiplex and we now make lease payments related to this site to the Penrose Land Limited, a company within the Location Group Limited, as landlord under the lease. We own our pipe plant in the United States. In addition, we own 40% of the land on which our Philippines fiber cement plant is located, and 100% of the Philippines plant itself.

For fiscal year 2007, average capacity utilization for our fiber cement plants by country was approximately as follows:

<u>Country</u>	<u>Capacity Utilization(1)</u>
United States	74%
Australia	88%
New Zealand	86%
Philippines	86%



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- (1) Capacity utilization is based on design capacity. Design capacity is based on management's estimates, as described above. No accepted industry standard exists for the calculation of fiber cement manufacturing facility capacities.

The capital cost per unit of production for new plants has significantly declined since we opened our first U.S. plant in Fontana, California in 1989. This improvement is largely attributable to our utilization of proprietary technology. Management believes that our capital cost per unit of capacity is substantially lower than that of many of our competitors' plants. In addition, we can now build and commission new manufacturing plants significantly faster than when we built our first production line in the United States. Management believes that the speed and cost at which we can construct new plants relative to our competitors enable us to respond rapidly to emerging regional demand for fiber cement products and to gain the advantage accorded to the first local producer in a market.

### *Mines*

We lease silica quartz mine sites in Tacoma, Washington; Reno, Nevada; and Victorville, California. Our five year lease for our quartz mine in Tacoma, Washington expired on February 28, 2006, at which time we exercised our option to renew the lease for an additional four years. The lease for our silica quartz mine site in Reno, Nevada expires in March 2011 (with options to renew or purchase). The lease for our silica quartz mine site in Victorville, California expires in July 2015.

We pay production royalties to the owners based on silica tonnage removed from the mine. Because other cost effective sources of sand are not available at these locations, we operate these silica quartz mines and process the rock to obtain silica for our fiber cement products.

### **Legal Proceedings**

Our operations, like those of other companies engaged in similar businesses, are subject to a number of federal, state and local laws and regulations on air and water quality, waste handling and disposal. Our policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known, except as set forth below, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

The Company is involved from time to time in various legal proceedings and administrative actions incidental or related to the normal conduct of business. Although it is impossible to predict the outcome of any pending legal proceeding, our management believes that such proceedings and actions should not, except as described below, individually or in the aggregate, have a material adverse effect on either our consolidated financial position, results of operations or cash flows. See also Item 3, "Key Information — Risk Factors."

### ***Commitment to Provide Funding on a Long-Term Basis in Respect of Asbestos-Related Liabilities of Former Subsidiaries***

On November 21, 2006, the Company signed the Final Funding Agreement, with the NSW Government, to provide long-term funding to the AICF, that will provide compensation for Australian asbestos-related personal injury claims against the Former James Hardie Companies. While the Final Funding Agreement is consistent in all material respects with the terms of the Original Final Funding Agreement entered into on December 1, 2005 among the Company, the NSW Government and the Performing Subsidiary, the Final Funding Agreement set forth certain changes to the original proposed arrangements as approved by the Company's Managing and Supervisory Boards of Directors and by its shareholders on February 7, 2007.

In summary, the Final Funding Agreement provides for the following key steps to occur if the remaining conditions precedent to that agreement were to be satisfied or waived in writing by the parties:

- the establishment of the AICF to provide compensation to Australian asbestos-related personal injury claimants with proven claims against the Former James Hardie Companies;

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- initial funding of approximately A\$184.3 million provided by the Performing Subsidiary to the AICF, calculated on the basis of an actuarial report prepared by KPMG Actuaries as of September 30, 2006. That report provided an estimate of the discounted net present value of all present and future Australian asbestos-related personal injury claims against the Former James Hardie Companies of A\$1.55 billion (\$1.25 billion);
- subject to the cap described below, an annual contribution in advance to top up the funds in the AICF to equal the actuarially calculated estimate of expected Australian asbestos-related personal injury claims against the Former James Hardie Companies for the following three years, to be revised annually (so as to create a rolling cash “buffer” in the AICF);
- a cap on the annual payments made by the Performing Subsidiary to the AICF, initially set at 35% of the Company’s free cash flow (defined as cash from operations in accordance with U.S. GAAP in force at the date of the Original Final Funding Agreement) for the immediately preceding financial year, with provisions for the percentage to decline over time depending upon the Company’s financial performance (and therefore the contributions already made to the AICF) and the claims outlook;
- an initial term to March 31, 2045, at the end of which time the parties may either agree upon a final payment to be made by the Company in satisfaction of any further funding obligations, or have the term automatically extended for further periods of 10 years until such agreement is reached or the relevant asbestos-related liabilities cease to arise;
- the entry by the parties and/or others into agreements ancillary to or connected with the Final Funding Agreement, which we collectively refer to as the Related Agreements;
- no cap on individual payments to asbestos claimants;
- the Performing Subsidiary’s payment obligations are guaranteed by JHI NV;
- the AICF’s claims to the funding payments required under the Final Funding Agreement will be subordinated to the claims of the Company’s lenders;
- the compensation arrangements will extend to members of the Baryulgil community for asbestos-related claims arising from the activities of a former subsidiary of ABN 60; and
- JHI NV will, for ten years, provide an annual sum of A\$0.5 million for the purpose of medical research into the prevention, treatment and cure of asbestos disease and contribute an annual sum of A\$0.075 million towards an education campaign for the benefit of the Australian public on the dangers of asbestos.

On November 9, 2006, the Company announced that it, the AICF and others had received private binding rulings relating to the expected tax consequences arising to the AICF and others in connection with the Final Funding Agreement. In the Final Funding Agreement, all parties to the Final Funding Agreement agreed to these rulings resulting in the tax conditions precedent set out in that agreement.

In the fourth quarter of fiscal year 2007, all conditions precedent including the following were satisfied:

- receipt of an independent expert’s report confirming that the funding proposal is in the best interests of the Company and its enterprise as a whole;
- approval of the Company’s lenders and confirmation satisfactory to the Company’s Board of Directors, acting reasonably, that the contributions to be made by JHI NV and the Performing Subsidiary under the Final Funding Agreement will be tax deductible;
- confirmation as to the expected tax consequences arising to the AICF and others from implementing the arrangements;
- approval of the Company’s shareholders at an extraordinary general meeting held on February 7, 2007; and
- initial funding payment of A\$184.3 million paid to the AICF on February 9, 2007.

In addition to entering into the Final Funding Agreement, one or more of the Company, the Performing Subsidiary, the AICF and the NSW Government have entered into a number of Related Agreements, including a

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trust deed (for a trust known as the AICF, referred to as the Trust Deed), for the establishment of the AICF; a deed of guarantee under which JHI NV provides the guarantee described above; intercreditor deeds to achieve the subordination arrangements described above; and deeds of release in connection with the releases from civil liability described below.

The Performing Subsidiary also signed an Interim Funding Deed with Amaca to provide funding to Amaca of up to A\$24.1 million in the event that Amaca's finances were otherwise exhausted before the Final Funding Agreement was implemented in full. The commercial terms of such funding were settled and the Performing Subsidiary entered into interim funding documentation dated November 16, 2006. An interim funding payment of A\$9.0 million (\$7.1 million) was made to Amaca in December 2006. That sum was subsequently repaid by Amaca out of part of the proceeds of the initial funding on February 12, 2007, and the Interim Funding Deed arrangements have subsequently been terminated.

### *Actuarial Study; Claims Estimate*

The AICF commissioned an updated actuarial study of potential asbestos-related liabilities as of March 31, 2007. Based on the results of these studies, it is estimated that the discounted value of the central estimate for claims against the Former James Hardie Companies was approximately A\$1.4 billion (\$1.1 billion). The undiscounted value of the central estimate of the asbestos-related liabilities of Amaca and Amaba as determined by KPMG Actuaries was approximately A\$2.8 billion (\$2.3 billion). Actual liabilities of those companies for such claims could vary, perhaps materially, from the central estimate described above. This central estimate is calculated in accordance with Australian Actuarial Standards, which differ from accounting principles generally accepted in the United States. The asbestos liability includes projected future cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amount of such cash flows is not fixed or readily determinable.

The tables below are designed to show the various components of the net Final Funding Agreement liability at March 31, 2007.

The asbestos liability has been revised to reflect the most recent actuarial estimate prepared by KPMG Actuaries as of March 31, 2007 and to adjust for payments made to claimants during the year then ended.

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Adjustments to the net Final Funding Agreement liability are shown in the table below:

	<u>\$ millions</u>	<u>A\$ millions</u>
<b>At March 31, 2006</b>	\$ (715.6)	A\$ (1,000.0)
Effect of changes in foreign exchange rates	(94.5)	—
Other adjustments to net Final Funding Agreement liability	24.0	25.7
<b>Net Final Funding Agreement liability at March 31, 2007</b>	<u>\$ (786.1)</u>	<u>A\$ (974.3)</u>
Components of the net Final Funding Agreement liability:		
Insurance receivables — current	\$ 9.4	A\$ 11.7
Workers' compensation (Asbestos) — current	2.7	3.4
Deferred tax assets — current	7.8	9.7
Income tax payable (reduction to income tax payable)	9.0	11.2
Insurance receivables — non-current	165.1	204.6
Workers' compensation (Asbestos) — non-current	76.5	94.8
Deferred tax assets — non-current	318.2	394.4
Workers' compensation liabilities — current	(2.7)	(3.4)
Asbestos liability — current	(63.5)	(78.7)
Asbestos liability — non-current	(1,225.8)	(1,519.4)
Workers' compensation liabilities — non-current	(76.5)	(94.8)
Other net liabilities	(6.3)	(7.8)
<b>Net Final Funding Agreement liability at March 31, 2007</b>	<u>\$ (786.1)</u>	<u>A\$ (974.3)</u>

In estimating the potential financial exposure, KPMG Actuaries made assumptions related to the total number of claims which were reasonably estimated to be asserted through 2071, the typical cost of settlement (which is sensitive to, among other factors, the industry in which a plaintiff claims exposure, the alleged disease type and the jurisdiction in which the action is brought), the legal costs incurred in the litigation of such claims, the rate of receipt of claims, the settlement strategy in dealing with outstanding claims and the timing of settlements.

Further, KPMG Actuaries relied on the data and information provided by the AICF and Amaca Claims Services, Amaca Pty Ltd (under NSW External Administration), which we refer to as ACS, and assumed that it is accurate and complete in all material respects. The actuaries have not verified the information independently nor established the accuracy or completeness of the data and information provided or used for the preparation of the report.

Due to inherent uncertainties in the legal and medical environment, the number and timing of future claim notifications and settlements, the recoverability of claims against insurance contracts, and estimates of future trends in average claim awards, as well as the extent to which the above named entities will contribute to the overall settlements, the actual amount of liability could differ materially from that which is currently projected.

A sensitivity analysis has been performed to determine how the actuarial estimates would change if certain assumptions (i.e., the rate of inflation and superimposed inflation, the average costs of claims and legal fees, and the projected numbers of claims) were different from the assumptions used to determine the central estimates. This analysis shows that the discounted central estimates could be in a range of A\$0.9 billion (\$0.7 billion) to A\$2.0 billion (\$1.6 billion) (undiscounted estimates of A\$1.6 billion (\$1.3 billion) to A\$5.1 billion (\$4.1 billion) as of March 31, 2007. It should be noted that the actual cost of the liabilities could be outside of that range depending on the results of actual experience relative to the assumptions made.

The potential range of costs as estimated by KPMG Actuaries is affected by a number of variables such as nil settlement rates (where no settlement is payable by the Former James Hardie Companies because the claim settlement is borne by other asbestos defendants (other than the Former James Hardie Companies) which are held liable), peak year of claims, past history of claims numbers, average settlement rates, past history of Australian asbestos-related medical injuries, current number of claims, average defense and plaintiff legal costs, base wage inflation and superimposed inflation. The potential range of losses disclosed includes both asserted and unasserted

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claims. While no assurances can be provided, the Company believes that AICF is likely to be able to partially recover losses from various insurance carriers. As of March 31, 2007, KPMG Actuaries' undiscounted central estimate of asbestos-related liabilities was A\$2.8 billion (\$2.3 billion). This undiscounted central estimate is net of expected insurance recoveries of A\$488.1 million (\$393.8 million) after making a general credit risk allowance for bad debt insurance carriers and an allowance for A\$91.6 million (\$73.9 million) of "by claim" or subrogation recoveries from other third parties.

### Claims Data

The following table, provided by KPMG Actuaries, shows the number of claims pending as of March 31, 2007 and 2006:

	Years Ended March 31,	
	2007	2006(1)
Australia	490	556
Unknown-Court Not Identified	13	20
USA	1	1

(1) Information includes claims data for only 11 months ended February 28, 2006. Claims data for the 12 months ended March 31, 2006 was not available at the time our financial statements were prepared.

For the years ended March 31, 2007, 2006 and 2005, the following tables, provided by KPMG Actuaries, show the claims filed, the number of claims dismissed, settled or otherwise resolved for each period, and the average settlement amount per claim:

	Australia Years Ended March 31,		
	2007	2006(1)	2005
Number of claims filed	463	346	489
Number of claims dismissed	121	97	62
Number of claims settled or otherwise resolved	416	405	402
Average settlement amount per claim	A\$ 166,164	A\$ 151,883	A\$ 157,594
Average settlement amount per claim	\$ 127,165	\$ 114,322	\$ 116,572

	Unknown — Court Not Identified Years Ended March 31,		
	2007	2006(1)	2005
Number of claims filed	—	6	7
Number of claims dismissed	3	10	20
Number of claims settled or otherwise resolved	5	12	2
Average settlement amount per claim	A\$ 12,165	A\$ 198,892	A\$ 47,000
Average settlement amount per claim	\$ 9,310	\$ 149,706	\$ 34,766

	USA Years Ended March 31,		
	2007	2006(1)	2005
Number of claims filed	1	—	—
Number of claims dismissed	1	—	3
Number of claims settled or otherwise resolved	—	—	1
Average settlement amount per claim	A\$ —	A\$ —	A\$ 228,293
Average settlement amount per claim	\$ —	\$ —	\$ 168,868

(1) Information includes claims data for only 11 months ended February 28, 2006. Claims data for the 12 months ended March 31, 2006 was not available at the time our financial statements were prepared.

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The following table, provided by KPMG Actuaries, shows the activity related to the numbers of open claims, new claims, and closed claims during each of the past five years and the average settlement per settled claim and case closed:

	As of March 31,				
	2007	2006(1)	2005	2004	2003
Number of open claims at beginning of year	586	749	743	814	671
Number of new claims	464	352	496	380	409
Number of closed claims	546	524	490	451	266
Number of open claims at year-end	504	577	749	743	814
Average settlement amount per settled claim	A\$164,335	A\$153,236	A\$157,223	A\$167,450	A\$201,200
Average settlement amount per settled claim	\$ 125,766	\$ 115,341	\$ 116,298	\$ 116,127	\$ 112,974
Average settlement amount per case closed	A\$126,713	A\$121,945	A\$129,949	A\$117,327	A\$177,752
Average settlement amount per case closed	\$ 96,973	\$ 91,788	\$ 96,123	\$ 81,366	\$ 99,808

(1) Information includes claims data for only 11 months ended February 28, 2006. Claims data for the 12 months ended March 31, 2006 was not available at the time our financial statements were prepared.

The Company did not have any responsibility or involvement in the management of claims against ABN 60 between the time ABN 60 left the James Hardie Group in March 2003 and February 2007 when the Final Funding Agreement was approved. Since February 2001, when Amaca and Amaba were separated from the James Hardie Group, neither the Company nor any of its current subsidiaries had any responsibility or involvement in the management of claims against those entities. Prior to February 2001, the principal entity potentially involved in relation to such claims was ABN 60, which was not a member of the James Hardie Group between March 2003 and February 2007. However, the Final Funding Agreement and associated New South Wales legislation provides that the AICF will have both the responsibility for, and management of claims against, the Former James Hardie Companies, and that the Company will have the right to appoint a majority of the directors of the AICF, unless a special default or insolvency event arises.

On October 26, 2004, the Company, the Foundation, and KPMG Actuaries entered into an agreement under which the Company would be entitled to obtain a copy of the actuarial report prepared by KPMG Actuaries in relation to the claims liabilities of the Foundation and Amaba and Amaca, and would be entitled to publicly release the final version of such reports. Under the terms of the Final Funding Agreement, the Company has obtained similar rights of access to actuarial information produced for the AICF by the actuary to be appointed by the AICF, which we refer to as the Approved Actuary. The Company's future disclosures with respect to claims statistics is subject to it obtaining such information from the Approved Actuary. The Company has had no general right (and has not obtained any right under the Final Funding Agreement) to audit or otherwise require independent verification of such information or the methodologies to be adopted by the Approved Actuary. As such, the Company will need to rely on the accuracy and completeness of the information and analysis of the Approved Actuary when making future disclosures with respect to claims statistics.

For more information concerning our commitment to provide funding on a long-term basis in respect of asbestos-related liabilities of former subsidiaries, see Item 3, "Key Information — Risk Factors."

### *SCI and Other Related Expenses*

In February 2004, the NSW Government established the SCI to investigate, among other matters, the circumstances in which the Medical Research and Compensation Foundation was established in early 2001. Shortly after release of the SCI report on September 21, 2004, we commenced negotiations with the NSW Government, the ACTU, UnionsNSW and a representative of asbestos claimants in relation to its offer to the SCI on



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July 14, 2004 to provide funds voluntarily for proven Australia-based asbestos-related injury and death claims against certain former James Hardie Group companies. On December 21, 2004, we entered into a Heads of Agreement with the above parties to establish and fund the AICF to provide funding for these claims on a long-term basis. On December 1, 2005, the Company, the Performing Subsidiary and the NSW Government signed the Original Final Funding Agreement. An amended version of the Original Final Funding Agreement was executed on November 21, 2006 and approved by our shareholders on February 7, 2007.

The Company has incurred substantial costs associated with the Special Commission of Inquiry, or SCI, and may incur material costs in the future related to the SCI or subsequent legal proceedings.

The following are the components of SCI and other related expenses:

	Years Ended March 31,		
	2007	2006	2005
	(In millions)		
SCI	\$ —	\$ —	\$ 6.8
Internal investigation	—	—	4.9
ASIC investigation	1.7	0.8	1.2
Severance and consulting	0.2	0.1	6.0
Resolution advisory fees	8.8	9.8	6.4
Funding advice	0.7	2.9	0.6
Other	2.2	3.8	2.2
Total SCI and other related expenses	<u>\$13.6</u>	<u>\$17.4</u>	<u>\$28.1</u>

Internal investigation costs reflect costs incurred by the Company in connection with an internal investigation conducted by independent legal advisors to investigate allegations raised during the SCI and the preparation and filing of the Company's annual financial statements in the United States.

### Australian Securities and Investments Commission Proceedings and Investigation

On February 14, 2007, ASIC commenced civil proceedings in the Court against the Company, ABN 60 and ten then-present or former officers and directors of the James Hardie Group. While the subject matter of the allegations varies between individual defendants, the allegations against the Company are confined to alleged contraventions of provisions of the Australian Corporations Act/Law relating to continuous disclosure, a director's duty of care and diligence, and engaging in misleading or deceptive conduct in respect of a security.

In the proceedings, ASIC seeks:

- declarations regarding the alleged contraventions;
- orders for pecuniary penalties in such amount as the Court thinks fit up to the limits specified in the Corporations Act;
- orders that Mr. Brown, Mr. Gillfillan, Ms. Hellicar, Mr. Koffel, Mr. Macdonald, Mr. Morley, Mr. O'Brien, Mr. Shafron, Mr. Terry and Mr. Willcox be prohibited from managing an Australian corporation for such period as the Court thinks fit;
- an order that the Company execute a deed of indemnity in favor of ABN 60 Pty Limited in the amount of A\$1.9 billion or such amount as ABN 60 or its directors consider is necessary to ensure that ABN 60 remains solvent; and
- its costs of the proceedings.

ASIC stated in February 2007 that it would not pursue the claim for indemnity if the conditions precedent to the Original Final Funding Agreement as announced on December 1, 2005 were satisfied. The Company and the other parties to the agreement provided certification to ASIC in March 2007 that the conditions precedent to the



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Final Funding Agreement dated November 21, 2006 have been satisfied. ASIC is considering its position and has not yet taken any step to withdraw the indemnity claim.

ASIC has indicated that its investigations continue and may result in further actions, both civil and criminal. However, it has not indicated the possible defendants to any such actions.

On February 20, 2007, the Company announced that the three serving directors named in the ASIC proceedings had resigned from the Board.

The Company has entered into deeds of indemnity with certain of its directors and officers as is common practice for publicly listed companies. The Company's articles of association also contain an indemnity for directors and officers and the Company has granted indemnities to certain of its former related corporate bodies which may require the Company to indemnify those entities against indemnities they have granted their directors and officers. To date, claims for payments of expenses incurred have been received from certain former directors and officers in relation to the ASIC investigation, and in relation to the examination of these persons by ASIC delegates, the amount of which is not significant. Now that proceedings have been brought against former directors and officers of the James Hardie Group, the Company is likely to incur further liabilities under these indemnities. Initially, the Company has obligations, or has offered, to advance funds in respect of defense costs and depending on the outcome of the proceedings, may be or become responsible for these and other amounts.

There remains considerable uncertainty surrounding the likely outcome of the ASIC proceedings in the longer term and there is a possibility that the related costs to the Company could be material. However, at this stage, it is not possible to determine the amount of any such liability. Therefore, the Company believes that both the probable and estimable requirements under SFAS No. 5, "Accounting for Contingencies," for recording a liability have not been met.

For more information concerning the SCI and other related expenses, see Item 3, "Key Information — Risk Factors."

### ***Tax Contingencies***

Due to the size of the Company and the nature of its business, the Company is subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions the Company asserts on its income tax returns. The Company accrues for tax contingencies based upon its best estimate of the taxes ultimately expected to be paid, which it updates over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If the Company ultimately determines that payment of these amounts is unnecessary, the Company reverses the liability and recognizes a tax benefit during the period in which the Company determines that the liability is no longer necessary. The Company records additional tax expense in the period in which it determines that the recorded tax liability is less than the ultimate assessment it expects.

In fiscal years 2007, 2006 and 2005 the Company recorded income tax benefit of \$10.4 million, \$20.7 million and \$2.5 million, respectively, as a result of the finalization of certain tax audits, whereby certain matters were settled, the expiration of the statute related to certain tax positions, and adjustments to income tax balances based on the filing of amended income tax returns, which gave rise to the benefit recorded by the Company.

Relevant tax authorities from various jurisdictions in which the Company operates are in the process of auditing the Company's respective jurisdictional income tax returns for various ranges of years. In particular, the ATO is auditing the Company's Australian income tax return for the year ended March 31, 2002. The ATO has indicated that further investigation is required and is working with the Company and the Company's advisors to conclude its inquiries.

Of the audits currently being conducted, none have progressed sufficiently to predict their ultimate outcome. The Company accrues income tax liabilities for these audits based upon knowledge of all relevant facts and circumstances, taking into account existing tax laws, its experience with previous audits and settlements, the status of current tax examinations and how the tax authorities view certain issues.

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### Amended Australian Taxation Office Assessment

In March 2006, RCI Pty Ltd, a wholly owned subsidiary of the Company, which we refer to as RCI, received an amended assessment from the ATO in respect of RCI's income tax return for the year ended March 31, 1999. The amended assessment relates to the amount of net capital gains arising as a result of an internal corporate restructure carried out in 1998 and has been issued pursuant to the discretion granted to the Commissioner of Taxation under Part IVA of the Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A\$412.0 million. However, after two subsequent remissions of general interest charges by the ATO, the total was revised to A\$368.0 million, and comprised the following at March 31, 2007:

	\$(1)	A\$
	(In millions)	
Primary tax after allowable credits	\$138.8	A\$ 172.0
Penalties(2)	34.7	43.0
General interest charges	123.4	153.0
Total amended assessment	<u>\$296.9</u>	<u>A\$ 368.0</u>

(1) U.S. dollar amounts calculated using the Australian dollar to U.S. dollar foreign exchange spot rate at March 31, 2007.

(2) Represents 25% of primary tax.

On June 23, 2006, following negotiation with the ATO regarding payment options for the amended assessment, the Company was advised by the ATO that, in accordance with the ATO Receivable Policy, it was able to make a payment of 50% of the total amended assessment then due of A\$378.0 million (\$305.0 million), being A\$189.0 million (\$152.5 million), and provide a guarantee from JHI NV in favor of the ATO for the remaining unpaid 50% of the amended assessment, pending outcome of the appeal of the amended assessment. Payment of 50% of the amended assessment became due and was paid on July 5, 2006. The Company also agreed to pay general interest charge payments, or GIC, accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued GIC was paid on October 16, 2006 in respect to the quarter ended September 30, 2006.

On November 10, 2006, the ATO granted a further remission of GIC reducing total GIC on the amended assessment from A\$163.0 million to A\$153.0 million and thereby reducing the total amount due under the amended assessment from A\$378.0 million to A\$368.0 million. The reduction in the total amount due under the amended assessment resulted in a reduction in the 50% payment required under the agreement with the ATO from A\$189.0 million to A\$184.0 million. This gave rise to an amount of A\$5.0 million being available for offset against future GIC accruing on the unpaid balance of the amended assessment. Accordingly, no GIC was required to be paid in respect of the quarter ended December 31, 2006 and a reduced amount of GIC of A\$1.2 million was paid in respect of the quarter ended March 31, 2007.

RCI is appealing the amended assessment. The ATO has confirmed that RCI has a reasonably arguable position that the amount of net capital gains arising as a result of the corporate restructure carried out in 1998 has been reported correctly in the fiscal year 1999 tax return and that Part IVA does not apply. As a result, the ATO reduced the amount of penalty from an automatic 50% of primary tax that would otherwise apply in these circumstances, to 25% of primary tax. In Australia, a reasonably arguable position means that the tax position is about as likely to be correct as it is not correct. The Company and RCI received legal and tax advice at the time of the transaction, during the ATO inquiries and following receipt of the amended assessment. The Company believes that the tax position reported in RCI's tax return for the 1999 fiscal year will be upheld on appeal. Therefore, the Company believes that the probable requirements under SFAS No. 5, "Accounting for Contingencies," for recording a liability have not been met and therefore it has not recorded any liability at March 31, 2007 for the remainder of the amended assessment.

At the end of May 2007, the ATO disallowed our objection to RCI's notice of amended assessment for RCI for the year ended March 31, 1999. We will continue to pursue all avenues of appeal to contest the ATO's position in this matter.

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The Company expects that amounts paid on July 5, 2006 and any later time, would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. As a result, the Company has treated the payments on July 5, 2006 and October 16, 2006 as a deposit, and it is the Company's intention to treat any payments to be made at a later date as a deposit.

For further information on the amended ATO assessment, see Item 3, "Key Information — Risk Factors."

### **Item 4A. Unresolved Staff Comments**

None.

### **Item 5. Operating and Financial Review and Prospects**

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto, included under Item 18.

#### **Overview**

We intend this discussion to provide information that will assist in understanding our March 31, 2007 consolidated financial statements, the changes in significant items in those consolidated financial statements from year to year, and the primary reasons for those changes. This discussion includes information about our critical accounting policies and how these policies affect our consolidated financial statements, and information about the consolidated financial results of each business segment to provide a better understanding of how each segment and its results affect our financial condition and results of operations as a whole.

Our pre-tax results for fiscal year 2007 were substantially and adversely affected by asbestos adjustments of \$405.5 million. The asbestos provision was originally recorded in fiscal year 2006 for \$715.6 million for estimated future asbestos-related compensation payments. We also incurred significant costs associated with the Special Commission of Inquiry, or SCI, and other related matters during fiscal years 2007, 2006 and 2005. Information regarding our asbestos-related matters and the SCI and other related matters can be found in this discussion, Item 3, "Key Information — Risk Factors," Item 4, "Information on the Company — Legal Proceedings" and Note 12 to our consolidated financial statements in Item 18.

#### ***The Company and the Building Product Markets***

Based on net sales, we believe we are the largest manufacturer of fiber cement products and systems for internal and external building construction applications in the United States, Australia, New Zealand, and the Philippines. Our current primary geographic markets include the United States, Australia, New Zealand, the Philippines, Europe and Canada. Through significant research and development expenditure, we develop key product and production process technologies that we patent or hold as trade secrets. We believe that these technologies give us a competitive advantage.

We manufacture numerous types of fiber cement products with a variety of patterned profiles and surface finishes for a range of applications including external siding and soffit lining, trim, fencing, internal linings, facades, floor and tile underlayments, flooring, drainage pipes and decorative columns. Our products are used in various market segments, including new residential construction, manufactured housing, repair and remodel and a variety of commercial and industrial construction applications. We believe that in certain construction applications, our fiber cement products and systems provide a combination of distinctive performance, design and cost advantages over competing building products and systems.

Our products are primarily sold in the residential housing markets. Residential construction levels fluctuate based on new home construction activity and the repair and renovation of existing homes. These levels of activity are affected by many factors, including home mortgage interest rates, the availability of finance to homeowners to purchase a new home or make improvements to their existing homes, inflation rates, unemployment levels, existing home sales, the average age and the size of housing inventory, consumer home repair and renovation spending, gross domestic product growth and consumer confidence levels. A number of these factors were generally unfavorable during fiscal year 2007, resulting in weaker residential construction activity.

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### **Fiscal Year 2007 Key Results**

As of March 31, 2007, we implemented the Final Funding Agreement (as amended), which we refer to as the Final Funding Agreement, to provide compensation for Australian asbestos-related personal injury claims against certain former companies of the James Hardie Group.

Total net sales increased 4% to \$1,542.9 million in fiscal year 2007. However, the asbestos adjustments resulted in an operating loss of \$86.6 million compared to an operating loss of \$434.9 million in fiscal year 2006. We reported income from continuing operations of \$150.8 million in fiscal year 2007.

Our largest market is North America, where fiber cement is one of the fastest growing segments of the external siding market. During fiscal year 2007, USA Fiber Cement net sales contributed approximately 82% of total net sales, and its operating income was the primary contributor to total Company operating income (before the asbestos adjustments). Net sales for our USA Fiber Cement business increased due to a higher average net sales price. Operating income for our USA Fiber Cement business increased from fiscal year 2006 primarily due to increased net sales and lower freight costs, which were partially offset by higher selling, general and administrative expenses.

Asia Pacific net sales contributed approximately 16% of total net sales, and its operating income was the second largest contributor of total Company operating income (before the asbestos adjustments) in 2007. Net sales increased in fiscal year 2007 in our Australia, New Zealand and Philippines businesses. The increase in net sales in our Australia and New Zealand business, which was due to increased volume, was partially offset by a reduction in average net sales price. Sales in our Philippines business increased due to higher sales volume, partially offset by a reduction in average net sales price.

Our emerging businesses of Europe Fiber Cement and USA Hardie Pipe continued to make good progress. Our USA Hardie Pipe business recorded a small profit in fiscal year 2007. Sales in our Europe Fiber Cement business continued to grow steadily, albeit from a low base.

For further information regarding our business and operations, see Item 4, "Information on the Company."

### **Critical Accounting Policies**

The accounting policies affecting our financial condition and results of operations are more fully described in Note 2 to our consolidated financial statements included in Item 18. Certain of our accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying value of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

#### ***Accounting for Contingencies***

We account for loss contingencies in accordance with SFAS No. 5, "Accounting for Contingencies," under which we accrue amounts for losses arising from contingent obligations when the obligations are probable and the amounts are reasonably estimable. As facts concerning contingencies become known, we reassess our situation and make appropriate adjustments to the consolidated financial statements. For additional information regarding asbestos-related matters and the ATO assessment, see Item 3, "Key Information — Risk Factors," Item 4, "Information on the Company — Legal Proceedings" and Notes 12 and 14 to our consolidated financial statements in Item 18.

#### ***Accounting for the Asbestos Funding Agreement***

Prior to March 31, 2007, our consolidated financial statements included an asbestos provision relating to our anticipated future payments to the AICF based on the terms of the Original Final Funding Agreement.

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In February 2007, the Final Funding Agreement was approved to provide long-term funding to the AICF, a special purpose fund that provides compensation for Australian asbestos-related personal injury claims against the Former James Hardie Companies.

The amount of the asbestos liability reflects the terms of the Final Funding Agreement, which has been calculated by reference to (but is not exclusively based upon) the most recent actuarial estimate of projected future cash flows prepared by KPMG Actuaries. The asbestos liability includes these cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows is not fixed or readily determinable.

The asbestos liability also includes an allowance for the future operating costs of the AICF.

In estimating the potential financial exposure, KPMG Actuaries have made a number of assumptions. These include an estimate of the total number of claims by disease type which are reasonably estimated to be asserted through 2071, the typical average cost of a claim settlement (which is sensitive to, among other factors, the industry in which the plaintiff claims exposure, the alleged disease type and the jurisdiction in which the action is being brought), the legal costs incurred in the litigation of such claims, the proportion of claims for which liability is repudiated, the rate of receipt of claims, the settlement strategy in dealing with outstanding claims, the timing of settlements of future claims and the long-term rate of inflation of claim awards and legal costs.

Further, KPMG Actuaries have relied on the data and information provided by the AICF and Amaca Claim Services, Amaca Pty Ltd (under NSW External Administration), which we refer to as ACS, and have assumed that it is accurate and complete in all material respects. The actuaries have neither verified the information independently nor established the accuracy or completeness of the data and information provided or used for the preparation of the report.

Due to inherent uncertainties in the legal and medical environment, the number and timing of future claim notifications and settlements, the recoverability of claims against insurance contracts, and estimates of future trends in average claim awards, as well as the extent to which the above-named entities will contribute to the overall settlements, the actual amount of liability could differ materially from that which is currently projected and could result in significant debits or credits to the consolidated balance sheet and statement of operations.

An updated actuarial assessment will be performed as of March 31 each year. Any changes in the estimate will be reflected as a charge or credit to the consolidated statements of operations for the year then ended. Material adverse changes to the actuarial estimate would have an adverse effect on our business, results of operations and financial condition.

For additional information regarding our asbestos liability, see Item 3, “Key Information — Risk Factors,” Item 4, “Information on the Company — Legal Proceedings,” and Note 12 to our consolidated financial statements in Item 18.

### ***Sales***

We record estimated reductions to sales for customer rebates and discounts including volume, promotional, cash and other rebates and discounts. Rebates and discounts are recorded based on management’s best estimate when products are sold. The estimates are based on historical experience for similar programs and products. Management reviews these rebates and discounts on an ongoing basis and the related accruals are adjusted, if necessary, as additional information becomes available.

### ***Accounts Receivable***

We evaluate the collectibility of accounts receivable on an ongoing basis based on historical bad debts, customer credit-worthiness, current economic trends and changes in our customer payment activity. An allowance for doubtful accounts is provided for known and estimated bad debts. Although credit losses have historically been within our expectations, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Because our accounts receivable are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any of these customers could impact their ability to make



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payments and result in the need for additional allowances which would decrease our net sales. For additional information regarding our customer concentration, see Item 3, “Key Information — Risk Factors.”

### ***Inventory***

Inventories are recorded at the lower of cost or market. In order to determine market, management regularly reviews inventory quantities on hand and evaluates significant items to determine whether they are excess, slow-moving or obsolete. The estimated value of excess, slow-moving and obsolete inventory is recorded as a reduction to inventory and an expense in cost of sales in the period it is identified. This estimate requires management to make judgments about the future demand for inventory, and is therefore at risk to change from period to period. If our estimate for the future demand for inventory is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory reserves, which would have a negative impact on our gross profit.

### ***Accrued Warranty Reserve***

We offer various warranties on our products, including a 50-year limited warranty on certain of our fiber cement siding products in the United States. Because our fiber cement products have only been used in North America since the early 1990s, there is a risk that these products will not perform in accordance with our expectations over an extended period of time. A typical warranty program requires that we replace defective products within a specified time period from the date of sale. We record an estimate for future warranty-related costs based on an analysis of actual historical warranty costs as they relate to sales. Based on this analysis and other factors, we adjust the amount of our warranty provisions as necessary. Although our warranty costs have historically been within calculated estimates, if our experience is significantly different from our estimates, it could result in the need for additional reserves. For additional information regarding warranties, see Item 3, “Key Information — Risk Factors.”

### ***Accounting for Income Tax***

We account for income taxes according to SFAS No. 109, “Accounting for Income Taxes,” under which we compute our deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We must assess whether, and to what extent, we can recover our deferred tax assets. If full or partial recovery is unlikely, we must increase our income tax expense by recording a valuation allowance against the portion of deferred tax assets that we cannot recover. We believe that we will recover all of the deferred tax assets recorded (net of valuation allowance) on our consolidated balance sheet at March 31, 2007. However, if facts later indicate that we will be unable to recover all or a portion of our net deferred tax assets, our income tax expense would increase in the period in which we determine that recovery is unlikely.

Due to our size and the nature of our business, we are subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions we assert on our income tax returns. We accrue for tax contingencies based upon our best estimate of the taxes ultimately expected to be paid, which we update over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record additional tax expense in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

For additional information, see Item 3, “Key Information — Risk Factors” and Note 13 to our consolidated financial statements in Item 18.

### **Results of Operations**

In fiscal years 2005 through 2007, there was a significant increase in net sales generated from our USA Fiber Cement operations primarily as a result of demand for our fiber cement products. To meet the increased demand, we have spent \$379.6 million in capital investments during fiscal years 2005 to 2007 in this segment.

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The following table shows our selected financial and operating data for continuing operations, expressed in millions of U.S. dollars and as a percentage of total net sales:

	Fiscal Years Ended March 31,					
	2007		2006		2005	
Net sales:						
USA Fiber Cement	\$1,262.3	81.8%	\$1,218.4	81.9%	\$ 939.2	77.6%
Asia Pacific Fiber Cement	251.7	16.3	241.8	16.2	236.1	19.5
Other(1)	28.9	1.9	28.3	1.9	35.1	2.9
Total net sales	1,542.9	100.0	1,488.5	100.0	1,210.4	100.0
Cost of goods sold	(969.9)	(62.9)	(937.7)	(63.0)	(784.0)	(64.8)
Gross profit	573.0	37.1	550.8	37.0	426.4	35.2
Selling, general and administrative expenses	(214.6)	(13.9)	(209.8)	(14.1)	(174.5)	(14.4)
Research and development expenses	(25.9)	(1.7)	(28.7)	(1.9)	(21.6)	(1.8)
SCI and other related expenses	(13.6)	(0.8)	(17.4)	(1.2)	(28.1)	(2.3)
Impairment of roofing plant	—	—	(13.4)	(0.9)	—	—
Asbestos adjustments	(405.5)	(26.3)	(715.6)	(48.1)	—	—
Other operating expense	—	—	(0.8)	—	(6.0)	(0.5)
Operating (loss) income	(86.6)	(5.6)	(434.9)	(29.2)	196.2	16.2
Interest expense	(12.0)	(0.8)	(7.2)	(0.5)	(7.3)	(0.6)
Interest income	5.5	0.4	7.0	0.5	2.2	0.2
Other expense	—	—	—	—	(1.3)	(0.1)
(Loss) income from continuing operations before income taxes	(93.1)	(6.0)	(435.1)	(29.2)	189.8	15.7
Income tax benefit (expense)	243.9	15.8	(71.6)	(4.8)	(61.9)	(5.1)
Income (loss) from continuing operations	<u>\$ 150.8</u>	<u>9.8%</u>	<u>\$ (506.7)</u>	<u>(34.0)%</u>	<u>\$ 127.9</u>	<u>10.6%</u>

- (1) Includes sales of fiber cement in Chile (fiscal year 2005 through July 2005 only), fiber reinforced concrete pipes in the United States, a roofing pilot plant in the United States (fiscal year 2005 through April 2006 only) and fiber cement operations in Europe. Our Chilean business was sold in July 2005. Our roofing pilot plant ceased operations in April 2006. See Note 15 to our consolidated financial statements in Item 18 for further information regarding the sale of our Chile Fiber Cement business.

The following table provides a breakdown of our operating (loss) income:

	Fiscal Years Ended March 31,		
	2007	2006	2005
	(In millions)		
USA Fiber Cement	\$ 362.4	\$ 342.6	\$241.5
Asia Pacific Fiber Cement	39.4	41.7	46.8
Research and Development	(17.1)	(15.7)	(17.5)
Other(1)	(9.3)	(26.5)	(11.8)
Total segment operating income	375.4	342.1	259.0
General Corporate	(56.5)	(61.4)	(62.8)
Asbestos adjustments	(405.5)	(715.6)	—
Total operating (loss) income	<u>\$ (86.6)</u>	<u>\$(434.9)</u>	<u>\$196.2</u>

- (1) Includes impairment charge of \$13.4 million in fiscal year 2006 related to the closure of our roofing pilot plant.



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### ***Year Ended March 31, 2007 Compared to Year Ended March 31, 2006***

*Total Net Sales.* Total net sales increased 4% from \$1,488.5 million in fiscal year 2006 to \$1,542.9 million in fiscal year 2007. Net sales from USA Fiber Cement increased 4% from \$1,218.4 million in fiscal year 2006 to \$1,262.3 million in fiscal year 2007 due to a higher average net sales price, partially offset by decreased sales volume. Net sales from Asia Pacific Fiber Cement increased 4% from \$241.8 million in fiscal year 2006 to \$251.7 million in fiscal year 2007 due to increased sales volumes and favorable currency exchange rate differences, partially offset by a decreased average net sales price. Other net sales increased by 2% from \$28.3 million in fiscal year 2006 to \$28.9 million in fiscal year 2007 due to improved sales performance in the USA Hardie Pipe business and the Europe Fiber Cement business partially offset by decreased sales resulting from the sale of the Chile Fiber Cement business in July 2005.

*USA Fiber Cement Net Sales.* Net sales increased 4% from \$1,218.4 million in fiscal year 2006 to \$1,262.3 million in fiscal year 2007 due to a higher average net sales price partially offset by decreased sales volume. Sales volume decreased 2% from 2,182.8 million square feet in fiscal year 2006 to 2,148.0 million square feet in fiscal year 2007, due mainly to a decrease in base demand in our products during the second half of fiscal year 2007 as a result of weaker residential housing construction activity, partially offset by growth in primary demand during the first half of fiscal year 2007. The average net sales price increased 5% from \$558 per thousand square feet in fiscal year 2006 to \$588 per thousand square feet in fiscal year 2007 primarily due to price increases for certain products that were implemented during fiscal year 2007 and an increased proportion of higher-priced, differentiated products in the sales mix.

The new housing construction market continued to weaken, with the U.S. Census Bureau reporting that new housing starts were down 25% and 30%, respectively, for the three months ended December 31, 2006 and March 31, 2007, compared to the same periods last year. Despite interest rates remaining relatively low, deepening problems in the sub-prime mortgage market kept builder and consumer confidence at weak levels.

According to Brian Catalde, President of the NAHB, "Builders, overall, have been systematically cutting back on new building activity for more than a year now. This slowdown is enabling them to reduce their inventory and better position themselves for the balance of the year, especially when faced with uncertainties over the impacts of the sub-prime-related tightening of mortgage lending standards on home sales." Despite this, supply of new residential housing remains greater than demand and industry inventory levels at the end of the quarter continued to be above optimal levels at around 7 to 8 months supply, as reported by the NAHB.

Demand in our exterior products category for fiscal year 2007 was affected significantly by weaker housing construction activity. The decrease in net sales was due mainly to softer demand in our exterior products category, which spanned all regions except the mid-Atlantic region. Net sales were lower for all products in the exteriors category other than the higher-priced, differentiated products, XLD® trim and the ColorPlus® collection.

With all ColorPlus® product lines now complete and operational, including those in our plants in Reno, Nevada and Pulaski, Virginia, the business has commenced launching the ColorPlus® collection of products into both the Western and Southern divisions.

Repair and remodeling activity was relatively steady during fiscal year 2007 and sales in our interior products category were flat compared to the same period last year. Continued acceptance of Hardibacker 1/2" board as a wet area wall solution helped grow sales for that product during the quarter, almost off-setting weaker sales of our HardieBacker™ 1/4" product in a number of our larger markets.

The net sales growth for the fiscal year 2007 largely reflects further market penetration against alternative materials, mainly wood and vinyl, across the Northern, Southern and Western Divisions and in the exterior and interior product categories, and an increase in the average net sales price.

*Asia Pacific Fiber Cement Net Sales.* Net sales increased 4% from \$241.8 million in fiscal year 2006 to \$251.7 million in fiscal year 2007. Net sales in Australian dollars increased 2% due to a 6% increase in sales volume from 368.3 million square feet to 390.8 million square feet, partly offset by a 3% decrease in the average Australian dollar net sales price.

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In our Australia and New Zealand Fiber Cement business, net sales increased 2% from \$218.1 million in fiscal year 2006 to \$223.4 million in fiscal year 2007. In Australian dollars, net sales increased 1% due to a 5% increase in sales volumes, partially offset by a 4% decrease in the average Australian dollar net sales price compared to fiscal year 2006. In the Australia and New Zealand business, both the new housing and renovation markets weakened during fiscal year 2007, but sales volumes increased compared to fiscal year 2006 due to market initiatives designed to grow primary demand for fiber cement and increase sales of value-added, differentiated products. There was strong sales growth in the recently-launched Scyon™ range of premium products and in Linea™ weatherboards. Selling prices for non-differentiated products continue to be subject to strong competitive pressures, leading to a lower average net sales price.

In the Philippines, net sales increased in fiscal year 2007 due to increased sales volumes, partially offset by a slight decrease in the average Philippine peso net sales price. The increase in sales volume in fiscal year 2007 was due to stronger domestic building and construction activity and increased export demand.

*Other Sales.* Other sales include sales of Hardie™ pipe in the United States and fiber cement operations in Europe.

In our U.S. pipes business, net sales increased in fiscal year 2007 as compared to fiscal year 2006 due to an increase in sales volume and a higher average net sales price.

In our Europe Fiber Cement business, net sales continued to grow steadily, albeit from a low base.

*Gross Profit.* Gross profit increased 4% from \$550.8 million in fiscal year 2006 to \$573.0 million in fiscal year 2007. The gross profit margin increased 0.1 percentage points to 37.1% in fiscal year 2007.

USA Fiber Cement gross profit increased 5% compared to fiscal year 2006 due mainly to increases in net sales and, to a lesser extent, lower freight costs. The gross profit margin increased 0.5 percentage points in fiscal year 2007.

Asia Pacific Fiber Cement gross profit decreased 3% primarily due to reduced profitability in the Australian Fiber Cement business. The decrease was due mainly to a lower average net sales price, increased freight and raw material costs in Australia, costs associated with the start-up of the manufacture of new products, and inefficiencies associated with the rebuild of inventory at the Rosehill, New South Wales plant associated with the plant's temporary closure in December 2006 for asbestos-related reasons. In Australian dollars, gross profit decreased 5% in fiscal year 2007. The gross profit margin decreased 2.2 percentage points in fiscal year 2007.

*Selling, General and Administrative (SG&A) Expenses.* SG&A expenses increased 2% from \$209.8 million in fiscal year 2006 to \$214.6 million in fiscal year 2007, mainly due to an increase in spending in the USA Fiber Cement business reflecting expenditures on business initiatives including build-up of organizational infrastructure to drive growth strategies. As a percentage of sales, SG&A expense decreased 0.2 of a percentage point to 13.9% in fiscal year 2007.

*Research and Development Expenses.* Research and development expenses include costs associated with "core" research projects that are designed to benefit all business units. These costs are recorded in the Research and Development segment rather than being attributed to individual business units. These costs were 10% lower at \$25.9 million in fiscal year 2007. Other research and development costs associated with commercialization projects in business units are included in the business unit segment results. In total, these costs decreased 21% to \$12.9 million for fiscal year 2007.

*SCI and Other Related Expenses.* Costs incurred associated with the SCI and other related expenses totaled \$13.6 million in fiscal year 2007 compared to \$17.4 million in fiscal year 2006. Further information on the SCI and other related matters can be found in Item 3, "Key Information — Risk Factors," Item 4, "Information on the Company — Legal Proceedings" and Note 12 to our consolidated financial statements in Item 18.

*Asbestos Adjustments.* The asbestos adjustments are derived from an estimate of future Australian asbestos-related liabilities in accordance with the Final Funding Agreement that was signed with the NSW Government on November 21, 2006 and approved by our security holders on February 7, 2007. The adjustments include the full implementation of the Final Funding Agreement.

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The asbestos adjustments are comprised of the following components for the fiscal years ended March 31:

	At March 31,	
	2007	2006
	(In millions)	
Adjustments to the net Final Funding Agreement liability at September 30, 2006	\$ (41.8)	\$ —
Adjustments to the net Final Funding Agreement liability at March 31, 2007	70.3	—
Tax impact related to the implementation of the Final Funding Agreement	(335.0)	—
Effect of foreign exchange	(94.5)	—
Contributions to asbestos research and education	(4.5)	—
Initial recording of provision at March 31, 2006	—	(715.6)
Asbestos adjustments	<u>\$(405.5)</u>	<u>\$(715.6)</u>

### *Adjustments to the Net Final Funding Agreement liability*

The discounted central estimate as calculated by KPMG Actuaries is the main component of the net Final Funding Agreement liability. In addition to the discounted central estimates, there are U.S. GAAP adjustments that are required to be made as the standards of U.S. GAAP differ from actuarial standards. KPMG Actuaries issued two additional reports during fiscal year 2007 (at September 30, 2006 and at March 31, 2007) adjusting the discounted central estimate and other amounts related to the net Final Funding Agreement liability. The following table illustrates the impact on the net Final Funding Agreement liability of the updated KPMG Actuaries' valuations:

September 2006 Valuation:

	September 30, 2006	March 31, 2006	Increase/ (Decrease)
	(In millions, except exchange rate data)		
Discounted Central Estimate	A\$ 1,554.8	A\$ 1,517.0	A\$ 37.8
<b>U.S. GAAP Adjustments</b>			
Discounting and inflation allowance	(112.6)	(113.2)	0.6
Uninflated and undiscounted central estimate	1,442.2	1,403.8	38.4
Provision for claims handling costs of AICF	67.7	67.7	—
Other U.S. GAAP adjustments	31.5	28.7	2.8
Net (assets) liabilities of AICF excluding funding payments	(33.0)	(71.6)	38.6
Total net Final Funding Agreement liability pre-tax	1,508.4	1,428.6	79.8
Total net Final Funding Agreement liability post-tax	A\$ 1,055.9	A\$ 1,000.0	A\$ 55.9
Exchange rate - A\$ to \$ - September 30, 2006			1.3365
Increase in the net Final Funding Agreement liability			<u>\$ 41.8</u>

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March 2007 Valuation:

	<u>March 31,</u> <u>2007</u>	<u>September 30,</u> <u>2006</u>	<u>Increase/ (Decrease)</u>
	(In millions, except exchange rate data)		
Discounted Central Estimate	A\$ 1,355.1	A\$ 1,554.8	A\$ (199.7)
<b>U.S. GAAP Adjustments</b>			
Discounting and inflation allowance	(82.1)	(112.6)	30.5
Uninflated and undiscounted central estimate	1,273.0	1,442.2	(169.2)
Provision for claims handling costs of AICF	69.2	67.7	1.5
Other U.S. GAAP adjustments	39.6	31.5	8.1
Net (assets) liabilities of AICF excluding funding payments	2.2	(33.0)	35.2
Total net Final Funding Agreement liability pre-tax	1,384.0	1,508.4	(124.4)
Total net Final Funding Agreement liability post-tax	A\$ 968.8	A\$ 1,055.9	A\$ (87.1)
Exchange rate - A\$ to \$ - March 31, 2007			1.2395
Decrease in the net Final Funding Agreement liability			<u>\$ (70.3)</u>

The uninflated and undiscounted central estimate and the provision for claims handling costs of the AICF are recorded on the balance sheet under the caption asbestos liability. The other U.S. GAAP adjustments, net assets (liabilities) of the AICF, and the tax impact of the implementation of the Final Funding Agreement are recorded within other captions on the balance sheet; readers are referred to the section Net Final Funding Agreement Liability below for further details.

### Tax Impact Related to the Implementation of the Final Funding Agreement

Following final approval of the Final Funding Agreement by our shareholders on February 7, 2007, a deferred tax asset of \$335.0 million has been recorded to reflect the anticipated tax deductions commensurate with the projected payments under the Final Funding Agreement to the AICF.

### Effect of Foreign Exchange

The components of the net Final Funding Agreement liability are denominated in Australian dollars and thus the reported value of the net Final Funding Agreement liability in our consolidated balance sheets in U.S. dollars is subject to adjustment depending on the closing exchange rate between the two currencies at the balance sheet date. The effect of foreign exchange rate movements between these currencies has caused an increase in the net Final Funding Agreement liability of \$94.5 million for the fiscal year ended March 31, 2007.

### Contributions to Asbestos Research and Education

Following the adoption of the Final Funding Agreement, a provision of \$4.5 million was recorded for amounts we will pay for asbestos medical research funding and an asbestos education campaign over the next ten years based on the provisions of the Final Funding Agreement.

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### Net Final Funding Agreement Liability

The net Final Funding Agreement liability is presented in the consolidated balance sheet within the following captions at March 31, 2007:

	<u>In millions</u>
Insurance receivables — current	\$ 9.4
— non-current	165.1
Workers' compensation receivable — current	2.7
— non-current	76.5
Workers' compensation liability — current	(2.7)
— non-current	(76.5)
Asbestos liability — current	(63.5)
— non-current	(1,225.8)
Deferred tax asset — current	7.8
— non-current	318.2
Income taxes payable (reduction to income tax payable)	9.0
Other net liabilities	(6.3)
Net Final Funding Agreement liability at March 31, 2007	<u>\$ (786.1)</u>

Further information on the asbestos adjustments, the SCI, and other related matters can be found in Item 3, “Key Information — Risk Factors,” Item 4, “Information on the Company — Legal Proceedings” and Note 12 to our consolidated financial statements in Item 18.

*Operating Loss.* Operating loss decreased from a loss of \$434.9 million in fiscal year 2006 to a loss of \$86.6 million for fiscal year 2007. Fiscal year 2007 operating loss includes asbestos adjustments of a \$405.5 million and SCI and other related expenses of \$13.6 million.

USA Fiber Cement operating income increased 6% from \$342.6 million in fiscal year 2006 to \$362.4 million in fiscal year 2007. The increase was primarily due to increased net sales and lower unit freight costs, partially offset by higher SG&A expenses. The operating income margin was 0.6 percentage points higher at 28.7% in fiscal year 2007.

Asia Pacific Fiber Cement operating income decreased 6% from \$41.7 million in fiscal year 2006 to \$39.4 million in fiscal year 2007 due to reduced operating profit performance in the Australia and New Zealand Fiber Cement business, partly offset by improved operating profit performance in the Philippines Fiber Cement business. In Australian dollars, operating income for fiscal year 2007 decreased 7% from fiscal year 2006. Our Asia Pacific Fiber Cement operating income margin was 1.5 percentage points lower at 15.7% in fiscal year 2007. Australia and New Zealand Fiber Cement operating income decreased 8% from \$38.9 million in fiscal year 2006 to \$35.7 million in fiscal year 2007. In Australian dollars, our Australia and New Zealand business operating income fell by 10% due to increased manufacturing costs, including costs associated with the temporary closure of the Rosehill plant in late 2006, and a lower average net sales price, partially offset by an increase in sales volume and decreased SG&A spending. Our Australia and New Zealand business' operating income margin was 1.8 percentage points lower at 16.0% in fiscal year 2007. The Philippines Fiber Cement business recorded an increase in operating income due to increases in volume and improved operating efficiencies, partially offset by increased SG&A costs.

Our USA Hardie Pipe business recorded a small operating profit in fiscal year 2007 compared to an operating loss in fiscal year 2006.

Our Europe Fiber Cement business incurred an operating loss in fiscal year 2007 as it continued to build net sales.

Following a review of the results of our roofing product trials in California, we announced on April 18, 2006 that the pilot plant was to close. During the fiscal year 2007, this business incurred closure costs of \$1.2 million.

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General corporate costs decreased by \$4.9 million from \$61.4 million in fiscal year 2006 to \$56.5 million in fiscal year 2007. The reduction was primarily caused by a decrease of \$6.5 million in earnings-related bonuses and a decrease of \$3.8 million in SCI and other related expenses, partially offset by an increase of \$1.0 million in defined benefit pension costs and an increase of \$4.5 million in other corporate costs.

*Net Interest Expense.* Net interest expense increased by \$6.3 million to \$6.5 million in fiscal year 2007. The increase in net interest expense was due to the higher average level of net debt outstanding in fiscal year 2007 compared to fiscal year 2006.

*Income Tax Benefit (Expense).* Income tax benefit (expense) increased \$315.5 million from an expense of \$71.6 million in fiscal year 2006 to an income tax benefit of \$243.9 million in fiscal year 2007. The increase was due primarily to the \$335.0 million tax benefit related to the implementation of the Final Funding Agreement and the tax provision write-back of \$10.4 million, partially offset by the increase in taxable income and a change in the geographical mix of earnings.

*Net Income.* Net income increased from a loss of \$506.7 million in fiscal year 2006 to a profit of \$151.7 million in fiscal year 2007. Net income in fiscal year 2007 includes asbestos adjustments of \$405.5 million and a tax benefit related to the implementation of the Final Funding Agreement of \$335.0 million. Also included in net income for fiscal year 2007 are SCI and other related expenses of \$13.6 million (\$12.6 million, after tax), the make-whole payment on the prepayment of notes of \$6.0 million (\$5.6 million, after tax) and a tax provision write-back of \$10.4 million.

### **Year Ended March 31, 2006 Compared to Year Ended March 31, 2005**

*Total Net Sales.* Total net sales increased 23% from \$1,210.4 million in fiscal year 2005 to \$1,488.5 million in fiscal year 2006. Net sales from USA Fiber Cement increased 30% from \$939.2 million in fiscal year 2005 to \$1,218.4 million in fiscal year 2006 due to continued growth in sales volume and a higher average net sales price. Net sales from Asia Pacific Fiber Cement increased 2% from \$236.1 million in fiscal year 2005 to \$241.8 million in fiscal year 2006 primarily due to increased higher sales volume in Australia and New Zealand. Other net sales decreased by 19% from \$35.1 million in fiscal year 2005 to \$28.3 million in fiscal year 2006, with this decline primarily due to the sale of our Chilean flat sheet business in July 2005.

*USA Fiber Cement Net Sales.* Net sales increased 30% from \$939.2 million in fiscal year 2005 to \$1,218.4 million in fiscal year 2006 due to increased sales volume and a higher average net sales price. Sales volume increased 18% from 1,855.1 million square feet in fiscal year 2005 to 2,182.8 million square feet in fiscal year 2006, due mainly to growth in primary demand and a resilient housing market. The average net sales price increased 10% from \$506 per thousand square feet in fiscal year 2005 to \$558 per thousand square feet in fiscal year 2006 due to price increases for some products that were implemented during fiscal year 2006 and proportionally stronger growth of differentiated, higher-priced products. Despite further modest interest rate increases, we did not experience the expected 'cooling' of the new housing construction market during fiscal year 2006. New housing construction activity was very strong over the full year as it continued to be buoyed by relatively low interest rates and strong housing prices. Repair and remodeling activity also remained very strong during fiscal year 2006.

The strong growth in sales volume was across both our interior and exterior product categories and our emerging and established geographic markets, reflecting further market penetration and the healthy new housing and repair and remodeling activity.

Demand for exterior products continued to grow in all key regions across the United States, and further market share gains were achieved at the expense of alternative materials, mainly vinyl and wood-based siding. There was strong sales growth in differentiated, higher-priced products, as well as in our core products.

Implementation of our ColorPlus® product business model in the emerging markets continued during fiscal year 2006. The model is aimed at improving the positioning of the ColorPlus® product range of pre-painted products in markets dominated by vinyl siding and increasing revenue and contribution per unit. All phases of the implementation were underway and progressing well. Sales of the ColorPlus® product range as a percentage of exterior product sales in the business' emerging markets almost doubled over fiscal year 2005.



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In the interior products market, sales of both Hardibacker 500® half-inch backerboard and quarter-inch backerboard grew very strongly. We continued to take market share in this category, particularly in the half-inch segment.

In our established markets, we continued to focus on growth strategies including an increased focus on the repair and remodel segment. Sales in the established markets were slightly affected by the impact of the September 2005 hurricanes that caused considerable damage along the Gulf Coast, particularly in the states of Louisiana and Mississippi. Sales in these states account for less than 5% of total sales of the USA Fiber Cement business.

At the end of fiscal year 2006, we completed construction of one of the two planned production lines at our new plant in Pulaski, Virginia, and in April 2006, this line commenced commercial production. At the end of fiscal year 2006, we also completed construction of, and commenced production on, a new ColorPlus® product line at our Blandon, Pennsylvania plant.

During fiscal year 2006, we commenced the ramp-up of our new trim line at Peru, Illinois and continued the ramp-up of our new West Coast manufacturing plant at Reno, Nevada. We also began construction of other additional pre-finishing capacity at plants in our emerging markets.

*Asia Pacific Fiber Cement Net Sales.* Net sales increased 2% from \$236.1 million in fiscal year 2005 to \$241.8 million in fiscal year 2006. Net sales in Australian dollars increased 1% due to a 3% increase in the average net sales price, partly offset by a 2% decline in sales volume from 376.9 million square feet in fiscal year 2005 to 368.3 million square feet in fiscal year 2006.

In our Australia and New Zealand Fiber Cement business, net sales increased 4% from \$210.1 million in fiscal year 2005 to \$218.1 million in fiscal year 2006, primarily due to favorable currency exchange rates and a 3% increase in sales volume. In Australian dollars, net sales increased 2%. The average net sales price in Australian dollars decreased 1% compared to fiscal year 2005. In Australia, both the residential housing construction and the renovation markets softened, particularly in New South Wales. The increase in sales volume in fiscal year 2006 was due to initiatives designed to grow primary demand for fiber cement and generate further market share in our targeted markets. In the commercial construction sector, activity remained at buoyant levels and, following the execution of the Original Final Funding Agreement for asbestos-related compensation in December 2005, we began to regain momentum lost through product bans and boycotts imposed during the prior year and a half, particularly in Victoria. We achieved strong sales of our Linea® weatherboards, which were launched in Queensland during the first half of fiscal year 2006, and continued to roll-out our Business Builder Program in all states to help generate primary demand for our products. In addition, we launched Aquatec™ Wet Area Flooring in Victoria during the third quarter of the fiscal year 2006. In New Zealand, housing construction activity also softened. The growth momentum of Linea® weatherboards continued throughout the year and helped to generate increased primary demand for our products in a weakened market. Linea® weatherboards remained our top selling product in New Zealand for fiscal year 2006.

In the Philippines, net sales decreased 9% from \$26.0 million in fiscal year 2005 to \$23.7 million in fiscal year 2006. In local currency, net sales decreased 11% due to a 19% decrease in sales volume partly offset by a 10% increase in the average net sales price. Demand was adversely affected during fiscal year 2006 by weaker domestic construction activity resulting from uncertainty associated with increased domestic political and economic instability, and increased competition in the business' export markets.

*Other Sales.* Other sales include sales of our fiber cement products manufactured in Chile (through July 2005), sales of Hardie™ pipe in the United States, our roofing pilot plant in the United States which we closed in April 2006, and fiber cement operations in Europe.

In our pipes business, net sales fell short against fiscal year 2005. A decrease in sales volume was partly offset by a higher average sales price.

In our Europe Fiber Cement business, net sales increased in fiscal year 2006 compared to fiscal year 2005 due to stronger demand resulting from increased awareness of the business' products among builders, distributors and contractors; expansion into new geographic markets; and higher average net sales price.

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Our roofing pilot plant consisted of a small-scale roofing manufacturing plant in Fontana, California opened in 2003. Since then, we undertook production and market trials of a new roofing product in Southern California to quantify the market potential of the new product. On April 18, 2006, we ceased market development initiatives for our roofing product and announced the closure of our roofing plant. Following a review of the carrying value of the assets related to this operation, an asset impairment charge of \$13.4 million was recorded in fiscal year 2006. The decision not to proceed with our roofing product was made after we reviewed market testing results and concluded that greater shareholder value would be created by focusing on other market growth initiatives.

We sold our Chilean business in July 2005 due to its small scale and limited strategic fit.

*Gross Profit.* Gross profit increased 29% from \$426.4 million in fiscal year 2005 to \$550.8 million in fiscal year 2006 due mainly to a strong gross profit improvement in the USA Fiber Cement business. The gross profit margin increased 1.8 percentage points to 37.0% in fiscal year 2006.

USA Fiber Cement gross profit increased 37% compared to fiscal year 2005 as a result of increases in both sales volume and the average net sales price, partially offset by higher manufacturing costs and freight costs. The gross profit margin increased 2.1 percentage points in fiscal year 2006.

Asia Pacific Fiber Cement gross profit decreased 5% due to reduced profitability in the Asia Pacific businesses in Australia and the Philippines, which was partly offset by improvements in New Zealand and favorable currency movements. In Australian dollars, gross profit decreased 7% due primarily to increased costs in all the Asia Pacific businesses.

*Selling, General and Administrative (SG&A) Expenses.* SG&A expenses increased 20% from \$174.5 million in fiscal year 2005 to \$209.8 million in fiscal year 2006, mainly due to an increase in the accrual for employees' bonuses to reflect our improved profit performance (before the asbestos provision); increased spending on growth initiatives in the USA Fiber Cement business; and increased professional service fees. As a percentage of sales, SG&A expense decreased 0.3 of a percentage point to 14.1% in fiscal year 2006.

*Research and Development Expenses.* Research and development expenses include costs associated with "core" research projects that are designed to benefit all business units. These costs are recorded in the Research and Development segment rather than being attributed to individual business units. These costs were 3% higher at \$12.3 million in fiscal year 2006. Other research and development costs associated with commercialization projects in business units are included in the business unit segment results. In total, these costs increased 71% to \$16.4 million for fiscal year 2006.

*SCI and Other Related Expenses.* Costs incurred associated with the SCI and other related expenses totaled \$17.4 million in fiscal year 2006 compared to \$28.1 million in fiscal year 2005. Further information on the SCI and other related matters can be found in Item 3, "Key Information — Risk Factors," Item 4, "Information on the Company — Legal Proceedings" and Note 12 to our consolidated financial statements in Item 18.

*Asbestos Provision.* The recording of the asbestos provision at March 31, 2006 was in accordance with U.S. accounting standards because we determined that it was probable that we would make payments to fund asbestos-related claims on a long-term basis. The amount of the asbestos provision of \$715.6 million (A\$1.0 billion) as of March 31, 2006 was our estimate of the probable outcome as of that date. That estimate was based on the terms of the Original Final Funding Agreement, which included an actuarial estimate prepared by KPMG Actuaries, at March 31, 2006 of the projected future cash outflows, undiscounted and uninflated.

*Operating Income.* Operating income decreased from \$196.2 million profit in fiscal year 2005 to a loss of \$434.9 million for fiscal year 2006. Operating income includes the asbestos provision of a \$715.6 million, SCI and other related expenses of \$17.4 million, and an asset impairment charge of \$13.4 million relating to the closure of our roofing pilot plant.

USA Fiber Cement operating income increased 42% from \$241.5 million in fiscal year 2005 to \$342.6 million in fiscal year 2006. The increase was due to increased sales volume and higher average net sales price, partially offset by higher unit costs, freight costs and SG&A expenses. The operating income margin was 2.4 percentage points higher at 28.1%.

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Asia Pacific Fiber Cement operating income decreased 11% from \$46.8 million in fiscal year 2005 to \$41.7 million in fiscal year 2006 due to a reduced profit performance in both our Australia and New Zealand, and Philippines businesses. The operating income margin was 2.6 percentage points lower at 17.2%. Australia and New Zealand Fiber Cement operating income decreased 8% from \$42.4 million in fiscal year 2005 to \$38.9 million in fiscal year 2006. In Australian dollars, our Australia and New Zealand business operating income fell by 10% due to increased costs in Australia, which was partially offset by increased sales volume in Australia and New Zealand. The operating income margin was 2.4 percentage points lower at 17.8%. The Philippines Fiber Cement business recorded a decrease in operating income due to the impact of weaker domestic construction activity on demand for its products, as well as increased competitive activity in its export markets.

Our USA Hardie Pipe business reduced its operating loss in fiscal year 2006 compared to fiscal year 2005.

Our Europe Fiber Cement business incurred an operating loss in fiscal year 2006 as it continued to build net sales.

Following a review of the results of our roofing product trials in California, we announced on April 18, 2006 that the pilot plant was to close. Following a review of the carrying value of the assets related to this operation, an asset impairment charge of \$13.4 million was recorded.

The Chilean Fiber Cement business was sold in July 2005.

General corporate costs decreased by \$1.4 million from \$62.8 million in fiscal year 2005 to \$61.4 million in fiscal year 2006. There was a decrease of \$10.7 million in SCI and other related expenses, a \$0.7 million loss in fiscal year 2005 on the sale of land owned in Sacramento, which did not recur in fiscal year 2006, and a reduction of \$3.5 million in the cost of the Australian companies' defined benefit pension scheme. These decreases were partly offset by a \$8.6 million increase in employee bonus plan expense, a \$3.5 million increase in employee share-based compensation expense from stock options and from stock appreciation rights, primarily caused by an increase in the Company's share price, and an increase in other general costs of \$1.4 million.

*Net Interest Expense.* Net interest decreased by \$4.9 million to \$0.2 million in fiscal year 2006. The decrease in interest expense was primarily due to our being in a positive net cash position for the majority of fiscal year 2006.

*Income Tax Expense.* Income tax expense increased \$9.7 million from \$61.9 million in fiscal year 2005 to \$71.6 million in fiscal year 2006. The increase in expense was due to an increase in profits and the geographic mix of earnings. This was partially offset by a reduction in the income tax reserves in the U.S. arising as a result of the finalization of certain tax audits during fiscal year 2006.

*Income from Continuing Operations.* Income from continuing operations decreased from a profit of \$127.9 million in fiscal year 2005 to a loss of \$506.7 million in fiscal year 2006. Income from continuing operations in fiscal year 2006 includes \$715.6 million relating to the booking of the asbestos provision, an impairment charge of \$13.4 million (\$8.0 million, after tax) relating to the closure of our roofing pilot plant, SCI and other related expenses of \$17.4 million (\$16.5 million, after tax) and a write-back of tax provisions of \$20.7 million.

### **Discontinued Operations**

In total, we recorded neither income nor a loss from discontinued operations in fiscal years 2007 and 2006 and a loss of \$1.0 million in fiscal year 2005. The amount in fiscal year 2005 relates primarily to additional costs associated with the sale of New Zealand land in March 2004 and the settlement of a dispute associated with a former business. See Note 15 to our consolidated financial statements included in Item 18 for additional information about the results of our discontinued operations.

### **Building Systems**

On May 30, 2003, we sold our New Zealand Building Systems business to a third party. We recorded a gain of \$1.9 million representing the excess of net proceeds from the sale of \$6.7 million over the net book value of assets sold of \$4.8 million. The proceeds from the sale comprised cash of \$5.0 million and a note receivable in the amount of \$1.7 million. As of March 31, 2005, the \$1.7 million note receivable had been collected in full.

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### ***Disposal of Chile Business***

In June 2005, we approved a plan to dispose of our Chile Fiber Cement business to Compañía Industrial El Volcan S.A, which we refer to as Volcan. The sale closed on July 8, 2005. The Company received net proceeds of \$3.9 million and recorded a loss on disposal of \$0.8 million. This loss on disposal is included in other operating expense in our consolidated statements of operations.

As part of the terms of the sale of the Chile Fiber Cement business to Volcan, we entered into a two-year take or pay purchase contract for fiber cement product manufactured by Volcan. The first and second year of the contract amounts to a purchase commitment of approximately \$2.8 million and \$2.1 million, respectively. As this contract qualifies as continuing involvement per SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets," the results of operations and loss on disposal of the Chile Fiber Cement business are included in our income from continuing operations. See Note 15 to our consolidated financial statements included in Item 18 for additional information about the results of the disposal of our Chile Fiber Cement business.

### **Impact of Recent Accounting Pronouncement**

#### ***Uncertain Tax Positions***

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. Unlike SFAS No. 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We will adopt the provisions of FIN 48 effective April 1, 2007. We are continuing to evaluate the impact of adopting FIN 48 on our financial statements; however, at this stage, it is not possible to determine whether that impact will be material. The cumulative effect of applying the new standard will be reflected as an adjustment to retained earnings in the period of adoption. We expect that the requirements of FIN 48 may add volatility to our effective tax rate, and therefore income tax expense, in future periods.

### **Liquidity and Capital Resources**

Our treasury policy regarding our liquidity management, foreign exchange risks management, interest rate risk management and cash management is administered by our treasury department and is centralized in The Netherlands. This policy is reviewed annually and is designed to ensure that we have sufficient liquidity to support our business activities and meet future business requirements in the countries in which we operate. Counterparty limits are managed by our treasury department and based upon the counterparty credit rating; total exposure to any one counterparty is limited to specified amounts and signed off annually by the Chief Financial Officer.

We have historically met our working capital needs and capital expenditure requirements through a combination of cash flow from operations, proceeds from the divestiture of businesses, credit facilities and other borrowings, proceeds from the sale of property, plant and equipment and proceeds from the redemption of investments. Seasonal fluctuations in working capital generally have not had a significant impact on our short-term or long-term liquidity. We believe that we can meet our present working capital requirements for at least the next 12 months based on our current capital resources. We expect that cash commitments arising from the Final Funding Agreement will be met either from cash generated by our operating activities or, should this prove insufficient, from borrowings under our existing credit facilities.

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We had cash and cash equivalents of \$34.1 million as of March 31, 2007. At that date, we also had credit facilities totaling \$355.0 million, of which \$188.0 million was outstanding. The credit facilities are all non-collateralized and as of March 31, 2007 consisted of the following:

<u>Description</u>	<u>At March 31, 2007</u>		
	<u>Effective Interest Rate</u>	<u>Total Facility</u> (In millions)	<u>Principal Outstanding</u>
US\$364-day facilities, can be drawn in US\$, variable interest rates based on LIBOR plus margin, can be repaid and redrawn until December 2007	5.82%	\$110.0	\$ 83.0
US\$ term facilities, can be drawn in US\$, variable interest rates based on LIBOR plus margin, can be repaid and redrawn until June 2010	5.98%	245.0	105.0
<b>Total</b>		<u>\$355.0</u>	<u>\$ 188.0</u>

As of March 31, 2007 we had net debt of \$153.9 million, compared with net cash of \$12.4 million as of March 31, 2006, a decrease of \$166.3 million.

Our credit facilities currently consist of 364-day facilities in the amount of \$110.0 million, which as of March 31, 2007, all had a maturity date of December 2007. As of June 2007, the maturity dates of all of the 364-day facilities have been extended to June 2008. We also have term facilities in the amount of \$245.0 million, which mature in June 2010. For both types of facilities, interest is calculated at the commencement of each draw-down period based on the U.S.-dollar London Interbank Offered Rate, or LIBOR, plus the margins of individual lenders, and is payable at the end of each draw-down period. During fiscal year 2007, the Company paid \$0.7 million in commitment fees. As of March 31, 2007, \$188.0 million was drawn under the combined facilities and \$167.0 million was available.

In March 2006, our wholly owned subsidiary RCI received an amended assessment from the ATO of A\$412.0 million. The assessment was subsequently amended to A\$368.0 million (\$296.9 million).

RCI is appealing the amended assessment. On July 5, 2006, pursuant to an agreement negotiated with the ATO and in accordance with the ATO Receivable Policy, the Company made a payment of A\$189.0 million (\$152.5 million) being 50% of the then amended assessment, and guaranteed the remaining unpaid 50% of the amended assessment, pending the outcome of the appeal of the amended assessment. The Company also agreed to pay general interest charges accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued general interest charges was paid on October 16, 2006 in respect of the quarter ended September 30, 2006. These payments will reduce our liquidity. We believe that RCI's view on its tax position will ultimately prevail in this matter. Accordingly, it is expected that any amounts paid would be recovered, with interest, by RCI at the time RCI is successful in its appeal against the amended assessment. However, if RCI is unsuccessful in its appeal, RCI will be required to pay the entire assessment. As of March 31, 2007, we had not recorded any liability for the remainder of the amended assessment. For more information, see Note 14 to our consolidated financial statements in Item 18.

At the end of May 2007, the ATO disallowed our objection to RCI's notice of amended assessment for RCI for the year ended March 31, 1999. We will continue to pursue all avenues of appeal to contest the ATO's position in this matter.

If we are unable to extend our credit facilities, or are unable to renew our credit facilities on terms that are substantially similar to the ones we presently have, we may experience liquidity issues and will have to reduce our levels of planned capital expenditures, reduce or eliminate dividend payments, or take other measures to conserve cash in order to meet our future cash flow requirements. Nevertheless, we believe we will have sufficient funds to meet our working capital and other cash requirements for at least the next 12 months based on our existing cash balances and anticipated operating cash flows arising during the year.

At March 31, 2007, our management believes that we were in compliance with all restrictive covenants contained in our credit facility agreements. Under the most restrictive of these covenants, we are required to



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maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and are limited in how much we can spend on an annual basis in relation to asbestos payments to the AICF.

### ***Cash Flow — Year Ended March 31, 2007 compared to Year ended March 31, 2006***

Net operating cash inflows decreased from \$240.6 million in fiscal year 2006 to cash outflows of \$67.1 million in fiscal year 2007 primarily due to the ATO deposit payment of \$154.8 million and the initial funding payment made to the AICF of \$148.7 million.

Net cash used in investing activities decreased from \$154.0 million in fiscal year 2006 to \$92.6 million in fiscal year 2007 as capital expenditures were reduced.

Net cash provided by financing activities decreased from \$116.5 million in fiscal year 2006 to a utilization of \$136.4 million in fiscal year 2007 primarily due to the repayment of \$219.7 million of debt facilities, partly offset by the drawdown of \$105.0 million on our debt facilities.

### ***Capital Requirements and Resources***

Our capital requirements consist of expansion, renovation and maintenance of our production facilities and construction of new facilities. Our working capital requirements, consisting primarily of inventory and accounts receivable and payables, fluctuate seasonally during months of the year when overall construction and renovation activity volumes increase.

During the fiscal year ended March 31, 2007, we met our capital expenditure requirements through a combination of internal cash and funds from our credit facilities. As we continue expanding our fiber cement businesses, we expect to use cash primarily generated from our operations to fund capital expenditures and working capital. During fiscal year 2008, we expect to spend approximately \$60 million on capital expenditures, including facility upgrades and capital to implement new fiber cement technologies. We plan to fund any cash flow shortfalls that we may experience due to payments related to the Final Funding Agreement and payments made to the ATO under the amended assessment, with future cash flow surpluses, cash on hand of \$34.1 million at March 31, 2007, and cash that we anticipate will be available to us under credit facilities.

Under the terms of the Final Funding Agreement, we are required to fund the AICF on an annual basis. The initial funding payment of A\$184.3 million was made to the AICF in February 2007 and annual payments will be made each July beginning in July 2007. The amounts of these annual payments are dependent on several factors, including our free cash flow (defined as cash from operations in accordance with GAAP in force at the date of the Original Final Funding Agreement), actuarial estimations, actual claims paid, operating expenses of the AICF and the annual cash flow cap.

We anticipate that our cash flows from operations, net of estimated payments under the Final Funding Agreement, will be sufficient to fund our planned capital expenditure and working capital requirements in the short-term. If we do not generate sufficient cash from operations to fund our planned capital expenditures and working capital requirements, we believe the cash and cash equivalents of \$34.1 million at March 31, 2007, and the cash that we anticipate will be available to us under credit facilities, will be sufficient to meet any cash shortfalls during at least the next 12 months.

We expect to rely primarily on increased market penetration of our products and increased profitability from a more favorable product mix to generate cash to fund our long-term growth. Historically, our products have been well-accepted by the market and our product mix has changed towards higher-priced, differentiated products that generate higher margins.

We have historically reinvested a portion of the cash generated from our operations to fund additional capital expenditures, including research and development activities, which we believe have facilitated greater market penetration and increased profitability. Our ability to meet our long-term liquidity needs, including our long-term growth plan, is dependent on the continuation of this trend and other factors discussed here.

We expect our dividend payment ratio in the future to be between 50% to 75% of net income before asbestos adjustments, subject to funding requirements.



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We believe our business is affected by general economic conditions and interest rates in the United States and in other countries because these factors affect the number of new housing starts and the level of housing prices. We believe that higher housing prices, which may affect available owner equity and household net worth, are contributors to the currently strong renovation and remodel markets for our products. Over the past several years, favorable economic conditions and historically-reasonable mortgage interest rates in the United States helped sustain new housing starts and renovation and remodel expenditures. However, the ongoing sub-prime mortgage fallout and high current inventory of unsold homes may cause a leveling-off or decrease in new housing starts over the short-term. We expect that business derived from current U.S. forecasts of new housing starts and continued healthy renovation and remodel expenditures, will result in our operations generating cash flow sufficient to fund the majority of our planned capital expenditures. It is possible that a deeper than expected decline in new housing starts in the United States or in other countries in which we manufacture and sell our products would negatively impact our growth and our current levels of revenue and profitability and therefore decrease our liquidity and ability to generate sufficient cash from operations to meet our capital requirements. During calendar year 2005, U.S. home mortgage interest rates and housing prices increased, while through calendar year 2006 the U.S. housing affordability index has decreased. We believe that these economic factors, along with others, may cause a slowdown in growth of U.S. new housing construction over the short-term, which may reduce demand for our products.

Pulp and cement are primary ingredients in our fiber cement formulation, which have been subject to price volatility, affecting our working capital requirements. See Item 3, “Key Information — Risk Factors.” We expect cement prices may continue to increase on a regional basis in fiscal year 2008 causing overall prices to remain high. Pulp prices are discounted from a global index, Northern Bleached Softwood Kraft, or NBSK, which based on information we receive from RISI and other sources, we predict to increase through fiscal year 2008 thus causing pulp prices to increase. To minimize additional working capital requirements caused by rising cement prices, we have sought to enter into regional contracts with suppliers for the purchase of cement that will help mitigate our cement price increases over the longer-term. Freight costs decreased in fiscal year 2007 primarily due to improved logistics and transport efficiencies despite higher fuel prices. However, we expect fuel costs will continue to increase.

The collective impact of the foregoing factors, and other factors, including those identified in Item 3, “Key Information — Risk Factors,” may affect our ability to generate sufficient cash flows from operations to meet our short and longer-term capital requirements. We believe that we will be able to fund any cash shortfalls for at least the next 12 months with cash that we anticipate will be available under our credit facilities and that we will be able to maintain sufficient cash available under those facilities. Additionally, we could determine it necessary to reduce or eliminate dividend payments, scale back or postpone our expansion plans and/or take other measures to conserve cash to maintain sufficient capital resources over the short and longer-term.

### *Capital Expenditures*

Our total capital expenditures, including amounts accrued, for continuing operations for fiscal years 2007, 2006 and 2005 were \$92.1 million, \$162.8 million and \$153.0 million, respectively. The capital expenditures were primarily used to create additional low cost, high volume manufacturing capacity to meet increased demand for our fiber cement products and to create new manufacturing capacity for new fiber cement products.

Significant capital expenditures in fiscal year 2007 included (i) the completion of construction on the second line at our new Pulaski, Virginia plant and (ii) the completion of construction of, and commencement of production on new ColorPlus® product lines at our Reno, Nevada and Pulaski, Virginia plants. Significant capital expenditures in fiscal year 2006 included (i) completion of construction of, and commencement of production on, the first line at our Pulaski, Virginia plant and (ii) the continued implementation of our ColorPlus® product strategy. This strategy includes constructing additional ColorPlus® coating capacity at our existing plants. In fiscal year 2006, we completed construction of, and commenced production on, a new ColorPlus® product line at our Blandon, Pennsylvania plant. In addition, we began construction on new ColorPlus® coating lines at our Reno, Nevada and Pulaski, Virginia plants. Significant capital expenditures in fiscal year 2005 included the completion of our new Reno, Nevada plant and the construction of a new trim line at our Peru, Illinois plant.

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See Item 4, “Information on the Company — Capital Expenditures and Divestitures.”

### Contractual Obligations

The following table summarizes our significant contractual obligations at March 31, 2007:

	Total	Payments Due			
		During Fiscal Year Ending March 31,			
		2008	2009 to 2010	2011 to 2012	Thereafter
		(In millions)			
Asbestos Liability(1)	\$1,289.3	\$N/A	\$ N/A	\$ N/A	\$ N/A
Long-Term Debt	105.0	—	—	105.0	—
Operating Leases	137.0	15.0	27.1	21.6	73.3
Purchase Obligations(2)	12.2	12.2	—	—	—
Total	<u>\$1,543.5</u>	<u>\$27.2</u>	<u>\$ 27.1</u>	<u>\$ 126.6</u>	<u>\$ 73.3</u>

- (1) The table above does not include any amounts related to the annual payment due to the AICF under the terms of the Final Funding Agreement. The amount of this annual payment is dependent on several factors, including our free cash flow (defined as cash from operations in accordance with GAAP in force at the date of the Original Final Funding Agreement), actuarial estimations, actual claims paid, operating expenses of the AICF and the annual cash flow cap. These amounts cannot be reasonably estimated for future periods and thus no amounts for such periods have been included for this contractual obligation in the table above. See Item 3, “Key Information — Risk Factors” and Note 12 of our consolidated financial statements in Item 18 for further information regarding our future obligations under the Final Funding Agreement.
- (2) Purchase Obligations are defined as agreements to purchase goods or services that are enforceable and legally-binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

See Notes 9 and 12 to our consolidated financial statements in Item 18 for further information regarding long-term debt and operating leases, respectively.

### Off-Balance Sheet Arrangements

As of March 31, 2007 and 2006, we did not have any material off-balance sheet arrangements.

### Inflation

We do not believe that inflation has had a significant impact on our results of operations for the fiscal years ended March 31, 2007, 2006 or 2005.

### Seasonality and Quarterly Variability

Our earnings are seasonal and typically follow activity levels in the building and construction industry. In the United States, the calendar quarters ending December and March reflect reduced levels of building activity depending on weather conditions. In Australia and New Zealand, the calendar quarter ending March is usually affected by a slowdown due to summer holidays. In the Philippines, construction activity diminishes during the wet season from June to September and during the last half of December due to the slowdown in business activity over the holiday period. Also, general industry patterns can be affected by weather, economic conditions, industrial disputes and other factors.

### Research and Development

For fiscal years 2007, 2006 and 2005, our expenses for research and development were \$25.9 million, \$28.7 million and \$21.6 million, respectively.

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We have invested heavily in research and development, with a focus primarily on fiber cement. We view research and development as key to sustaining our existing market leadership position and expect to continue to allocate significant funding to this endeavor. Through our investment in process technology, we aim to keep reducing our capital and operating costs, and find new ways to make existing and new products.

For more information on our research and development efforts, see Item 4, “Information on the Company — Research and Development.”

### Outlook

In North America, there is still considerable uncertainty over the outlook for new residential housing construction activity. Recently released housing data shows a continued deterioration in the new housing market, with April 2007 annualized housing starts at an estimated 1,528,000, up slightly (2.5%) from March 2007 but down 16.1% from April 2006. Building permits, an indicator of future activity, deteriorated in April 2007 and are running significantly below the pace of a year ago.

Despite the recent slight improvement in new housing starts, the supply of new homes for sale still appears to be greater than demand, and builder confidence levels remain low.

While interest rates continue to be relatively low, tightening of lending standards related to problems of the sub-prime mortgage sector is causing increased uncertainty over the short to medium-term outlook for credit availability and demand for new housing.

The NAHB’s Chief Economist, David Seiders, made the following statement on May 16, 2007: “The pattern of building permits clearly shows that the dramatic downward correction in housing production is still underway. Homebuyer demand has been sent into another down leg by the abrupt tightening of mortgage lending standards, and there is an increasingly heavy supply of vacant housing units on the market. Under these conditions, builders are cutting back on new construction and intensifying their efforts to bolster sales and limit cancellations.” The NAHB is now projecting that housing production will not begin improving until late calendar year 2007, and that the early stages of the subsequent recovery will be quite sluggish.

Our USA Fiber Cement business underwent some re-setting in late 2006 early 2007, to address the weaker market conditions and remains well positioned to “flex-up” in response to higher- than- anticipated demand.

Sales volumes for the first quarter of fiscal year 2008 are expected to be adversely affected by the weaker new housing market, but the business remains focused on, and has strategies in place to grow primary demand for fiber cement and take further market share from alternative materials including wood and vinyl siding. It is also continuing to focus on cost management.

The repair and remodeling market is anticipated to remain relatively stable in the short-term and further market share gains for our interior products category are expected.

In the Australia and New Zealand Fiber Cement business, weak market conditions are forecast to continue, but further volume growth is expected from market initiatives aimed at driving primary demand for fiber cement. Prices for non-differentiated products are expected to remain under pressure due to price competition in Australia. Manufacturing and other cost efficiencies are targeted to improve profitability.

In the Philippines, healthy building and construction activity is expected to help domestic demand in the short-term. Competitive pricing pressure is continuing in both the Philippines domestic and export markets.

In addition, the asbestos liability will be updated annually, based on the most recent actuarial determinations and claims experience, and quarterly to reflect changes in foreign exchange rates. Changes to the actuarial reports may have a material impact on our consolidated financial statements.

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### **Item 6. Directors, Senior Management and Employees**

#### **Board Practices and Senior Management**

##### ***Board Structure***

We have a multi-tiered board structure, which is consistent with Dutch corporate law. This structure consists of a Managing Board, a Supervisory Board and a Joint Board. The Joint Board comprises all non-executive directors and our Chief Executive Officer and is therefore the equivalent of a full board of directors of a U.S. or Australian company.

The responsibilities of each of our Managing Board, Supervisory Board and Joint Board are formalized in charters and these charters are available from the Investor Relations area of our website ([www.jameshardie.com](http://www.jameshardie.com)).

##### **Managing Board**

The Managing Board includes only executive directors and must have at least two members, or more as determined by the Supervisory Board. The members of the Managing Board are appointed by our shareholders at a General Meeting, or by the Supervisory Board if there is a vacancy. The Supervisory Board and any of our shareholders have the right to make nominations for the Managing Board.

The Supervisory Board appoints one member of the Managing Board as its Chairman and one member as its Chief Executive Officer. The Supervisory Board has appointed our current Chief Executive Officer to chair the Managing Board.

Members of the Managing Board may be suspended and dismissed by shareholders at the General Meeting and may be suspended at any time by the Supervisory Board.

No member of the Managing Board (other than our Chief Executive Officer) shall hold office for a continuous period of more than three years, or past the end of the third General Meeting following his or her appointment, whichever is longer, without submitting himself or herself for re-election. A member of the Managing Board appointed to fill a vacancy must submit him or her self for re-election at the next General Meeting.

##### ***Responsibilities***

The Managing Board is responsible for:

- the general affairs, operations and finance of the Company;
- ensuring the implementation of our goals, strategy and policies, to achieve results;
- complying with all relevant legislation and regulations and for managing the risks associated with our activities; and
- reporting and discussing our internal risk management and control systems with the Supervisory Board and Audit Committee.

In discharging its duties, the Managing Board takes into account our interests, our enterprise (including the interests of our employees) shareholders, other stakeholders and all other parties involved in or with us. The Managing Board is accountable to the Supervisory Board and to shareholders for the performance of its duties.

##### **Supervisory Board**

The Supervisory Board includes only non-executive directors and must have at least two members, or more as determined by the Supervisory Board. The members of the Supervisory Board are appointed by shareholders at the General Meeting, or by the Supervisory Board if there is a vacancy. The Supervisory Board and any of our shareholders have the right to make nominations for the Supervisory Board.

Members of the Supervisory Board may be suspended at any time by a majority vote of members of the Supervisory Board, and may be dismissed by the shareholders at the General Meeting. A member of the Supervisory Board appointed to fill a vacancy must submit him or herself for re-election at the next General Meeting.

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No member of the Supervisory Board shall hold office for a continuous period of more than three years, or past the end of the third General Meeting of shareholders following his or her appointment, whichever is longer, without submitting himself or herself for re-election.

In discharging their duties, directors are provided with direct access to our senior executives and outside advisors and auditors. Supervisory Board Committees and individual directors may seek independent professional advice at the Company's expense for the proper performance of their duties.

### ***Responsibilities***

The Supervisory Board is responsible for:

- advising the Managing Board;
- supervising the policy and actions pursued by the Managing Board; and
- supervising the general course of our affairs and the business enterprise we operate.

The Supervisory Board takes into account our interests, our enterprise (including the interests of our employees) shareholders, other stakeholders and all other parties involved in or with us.

### **Joint Board**

The Joint Board consists of between three and twelve members as determined by the Supervisory Board's Chairman, or a greater number as determined by our shareholders at a General Meeting.

The Joint Board currently includes all of the members of the Supervisory Board as well as our Chief Executive Officer.

### ***Responsibilities***

The Joint Board is responsible for:

- supervising the general course of our affairs;
- approving the strategy set by the Managing Board;
- monitoring Company performance; and
- putting in place effective external disclosure policies and procedures.

The core responsibility of members of the Joint Board is to exercise their business judgment in the best interests of the Company and our shareholders. Members of the Joint Board must fulfill their fiduciary duties to shareholders by complying with all applicable laws and regulations. Directors also take into consideration the interests of other stakeholders in the Company, including employees, customers, creditors and others with a legitimate interest in the Company's affairs.

### ***Board Meetings***

The Joint Board generally meets at least five times per year and whenever the Chairman of the Joint Board or two or more of its members have requested a meeting. Joint Board meetings are generally held at the Company's offices in The Netherlands, but may, in exceptional circumstances, be held elsewhere.

The Joint Board has an annual program of visiting our facilities and spending time with line management and customers to assist directors to better understand our businesses and the markets in which we operate.



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### **Directors**

#### ***Qualifications***

Our directors have qualifications, experience and expertise which assist the Joint Board in fulfilling its responsibilities, and assist the Company to achieve future growth. Directors must be able to devote a sufficient amount of time to prepare for, and effectively participate in, board and committee meetings.

#### ***Independence***

The Joint Board requires a majority of members, and the Chairman, of the Joint Board and each Board Committee to be independent unless a greater number is required to be independent under the rules and regulations of ASX, the NYSE or any other applicable regulatory body.

All directors are expected to bring their independent views and judgment to the Joint Board and must declare any potential or actual conflicts of interest.

The Joint Board has considered the issue of the independence of our non-executive directors and determined that each of them is independent, in accordance with the rules and regulations of the applicable exchange or regulatory body.

The Joint Board has not set materiality thresholds and considers all relationships on a case-by-case basis, considering the accounting standards' approach to materiality. The Joint Board may determine, on a case-by-case basis, that a director is independent even if there is a material relationship with the Company or another party. This may occur if that relationship is not considered by the Joint Board to influence, or be perceived to influence, the director's decisions in relation to the Company.

### **Chairman**

The Joint Board and the Supervisory Board appoint one of their members as the Chairman. The Chairman must be an independent, non-executive director.

The Chairman:

- provides leadership to the Supervisory and Joint Boards;
- facilitates Supervisory and Joint Boards discussion; and
- monitors the performance of the Company's Boards and committees.

The Chairman of the Joint Board may not be the Chairman of a standing Board Committee. The Chairman of the Joint Board also may not be the Chief Executive Officer, other than in exceptional circumstances and/or for a short period of time.

The Joint Board and the Supervisory Board are currently chaired by Mr. DeFosset. The Company also has a Deputy Chairman, appointed by the Chairman. The role of Deputy Chairman is currently filled by Mr. Donald McGauchie.

### **Director Evaluation and Re-election**

The Joint Board does not believe that directors should expect to be automatically nominated for re-election at the end of their three-year term. Instead, nomination for re-election is based on a director's individual performance and our needs.

The Nominating and Governance Committee reviews annually the results of a self-assessment by the Supervisory Board and each Board Committee and makes recommendations to the Joint Board.

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### **Director Orientation**

We have an orientation program for new directors. Our Managing Board is responsible for providing information for the orientation for new directors and for periodically providing materials or briefing papers to the Joint Board on matters as requested or appropriate for directors to fulfill their duties.

### **Indemnification**

Our Articles of Association generally provide that we will indemnify any person who is (or keep indemnified any person who was) a member of our Managing, Supervisory or Joint Boards or one of our employees, officers or agents, who suffers any loss as a result of any action in connection with their service to us, provided they acted in good faith in carrying out their duties and in a manner they reasonably believed to be in our interest. This indemnification will generally not be available if the person seeking indemnification acted with gross negligence or willful misconduct in performing their duties to us. A court in which an action is brought may, however, determine that indemnification is appropriate nonetheless.

The Company and some of our subsidiaries have provided Deeds of Access, Insurance and Indemnity to members of the Managing, Joint and Supervisory Boards and senior executives who are officers or directors of the Company or its subsidiaries. The indemnity provided is consistent with our Articles of Association and relevant laws.

### **Management Succession**

The Supervisory Board, together with the Nominating and Governance Committee, has developed, and periodically revises, management succession plans, policies and procedures for our Chief Executive Officer and other senior officers, whether such succession occurs as a result of a promotion, termination, resignation, retirement or an emergency.

### **Supervisory Board Committees**

Our Supervisory Board has three standing committees: the Audit Committee, the Nominating and Governance Committee and the Remuneration Committee. The complete Charters for each standing committee are available from the Investor Relations area of our website ([www.jameshardie.com](http://www.jameshardie.com)).

Members of these Board Committees have the authority to retain such outside counsel, experts, and other advisors as they determine appropriate to assist them in the full performance of their functions.

The Supervisory Board may also form ad hoc committees from time to time. Over the course of the last year, a Special Matter Committee was formed to guide the Company's response to the proceedings brought by the ASIC.

#### ***Audit Committee***

The key aspects of the terms of reference in our Audit Committee Charter are set out below.

The Audit Committee oversees the adequacy and effectiveness of the Company's accounting and financial policies and controls.

As determined by the Supervisory Board, all members of the Audit Committee must be financially literate and must have sufficient business, industry and financial expertise to act effectively as members of the Audit Committee. At least one member must have accounting or related financial management expertise. In addition, at least one member of the Audit Committee shall be an "audit committee financial expert" as determined by the Supervisory Board in accordance with the SEC rules. These may be the same person. The Supervisory Board has determined that Messrs. Brian Anderson and James Loudon are "audit committee financial experts."

Currently, the members of the Audit Committee are Mr. Anderson (Chairman), Mr. Loudon and Mr. Michael Hammes. Each of these members is independent and a non-executive.

Under the NYSE listing standards that apply to U.S. companies, if a member of an audit committee simultaneously serves on the audit committees of more than three public companies, the listed company's board

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must determine that such simultaneous service would not impair the ability of this member to effectively serve on the listed company's audit committee. Mr. Anderson serves on the audit committees of three public companies in addition to our Audit Committee. The Joint Board has determined that such simultaneous service does not impair his ability to effectively serve on our Audit Committee.

The Audit Committee provides advice and assistance to the Supervisory Board in fulfilling its responsibilities and:

- Oversees the Company's financial reporting process and reports on the results of its activities to the Supervisory Board;
- Reviews with management and the external auditor the Company's annual and quarterly financial statements and reports to shareholders;
- Reviews the Company's policies and procedures with respect to risk management;
- General oversight of the appointment and provision of all external audit services to the Company and the Company's internal audit function;
- Reviews the adequacy and effectiveness of the Company's internal compliance and control procedures; and
- Establishes procedures for complaints regarding accounting, internal accounting controls and auditing matters.

### Conflicts of Interest

The Audit Committee oversees the Company's compliance programs with respect to legal and regulatory requirements and the Company's Code of Business Conduct and Ethics policy, including reviewing related party transactions and other conflict of interest issues as they may arise.

### Reporting

In addition to providing the Supervisory Board with a report and minutes of each of its meetings, the Audit Committee will inform the Supervisory Board of any general issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the external auditor, or the performance of the internal audit function.

### ***Risk Management Sub-Committee***

In November 2006, the Risk Management Sub-Committee ceased to be a committee containing Supervisory Board directors and became a management committee. It was felt that a management committee could advise and assist the Audit Committee to fulfill its responsibilities relating to the Company's risk management and assessment and that an additional Sub-committee was not necessary.

### ***Nominating and Governance Committee***

The Nominating and Governance Committee is responsible for:

- identifying individuals qualified to become members of the Managing Board or Supervisory Board;
- recommending to the Supervisory Board candidates for the Managing Board or Supervisory Board (to be appointed by shareholders);
- recommending to the Supervisory Board a set of corporate governance principles; and
- performing a leadership role in shaping the Company's corporate governance policies.

The current members of the Nominating and Governance Committee are Mr. McGauchie (Chairman), Mr. Rudy van der Meer and Mr. John Barr.

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### ***Remuneration Committee***

The Remuneration Committee is responsible for the remuneration policy that governs remuneration of the Company's senior executives and non-executive directors and further advises the Supervisory Board on the Company's remuneration practices.

Members of the Remuneration Committee must qualify as "non-employee directors" for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (which we refer to as the Exchange Act), and "outside directors" for the purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (which we refer to as the Code).

The current members of the Remuneration Committee are Mr. Barr (Chairman) Mr. Loudon and Mr. McGauchie.

### ***Special Matters Committee***

Immediately upon the commencement of proceedings by the ASIC in February 2007, which we refer to as to the ASIC Proceedings, the Supervisory Board established a Special Matter Committee, or SMC, comprising all Supervisory Board directors other than Ms. Hellicar and Messrs. Brown and Gillfillan to consider the corporate governance implications of the ASIC Proceedings for the Company and to deal with the conduct of the ASIC Proceedings. The SMC made immediate recommendations in relation to the composition of the Audit Committee, and moved to address other issues facing the Company in light of the commencement of the ASIC Proceedings.

Following the resignations of Ms. Hellicar and Messrs. Brown and Gillfillan as directors of the Company, the SMC now comprises of all directors and its composition will be reviewed from time to time, ensuring that the SMC, the Joint and the Supervisory Boards have sufficient oversight of JHI NV's involvement in the ASIC Proceedings.

### **Policies and Programs**

We have a number of policies and programs that address key aspects of our corporate governance. Our key policies and programs cover:

- Risk Management;
- Business Conduct and Ethics;
- Ethics Hotline (Whistleblower);
- Continuous Disclosure and Market Communication;
- Insider Trading; and
- Corporate Governance Principles.

Copies of these policies are available in the Investor Relations area of our website ([www.jameshardie.com](http://www.jameshardie.com)).

### **Risk Management**

The Managing, Supervisory and Joint Boards, together with the Audit Committee, are responsible for ensuring that:

- our risk management systems are effective;
- the principal strategic, operational and financial risks are identified;
- effective systems are in place to monitor and manage risks; and
- reporting systems, internal controls and arrangements for monitoring compliance with laws and regulations are adequate.

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In addition to maintaining appropriate insurance and other risk management measures, the Company has addressed identified risks by:

- establishing policies and procedures in relation to treasury operations, including the use of financial derivatives;
- issuing and revising standards and procedures in relation to environmental and health and safety matters;
- implementing and maintaining training programs in relation to legal issues such as trade practices/antitrust, trade secrecy, and intellectual property protection; and
- issuing procedures requiring that significant capital and recurring expenditure is approved at the appropriate levels.

The internal and external audit functions are involved in risk assessment and the management and measurement of the effectiveness of the Company's risk management systems. The internal and external audit functions are separate from and independent of each other.

We regularly review the need for additional disclosure of our risk management systems including those related to our internal compliance and control systems.

Despite the steps outlined above, our management does not expect that our internal risk management and control systems will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Our analysis of our internal risk management and control systems for purposes of Dutch law is different from the report that we are required to prepare in the United States pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, which is included in this Annual Report on Form 20-F. See Item 15 "Controls and Procedures."

### **Business Conduct and Ethics**

See Item 16B, "Code of Business Conduct and Ethics."

Our Code of Business Conduct and Ethics, as amended, is available from the Investor Relations area of our website, [www.jameshardie.com](http://www.jameshardie.com).

### **Continuous Disclosure and Market Communication**

We strive to comply with all relevant disclosure laws and listing rules in Australia (ASX and ASIC), the United States (SEC and NYSE) and The Netherlands (AFM).

#### ***Disclosure***

We have a Continuous Disclosure and Market Communication Policy which is designed to ensure that investors can easily understand our strategies, assess the quality of our management, and examine our financial position and the strength of our growth prospects.

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The policy is also designed to ensure that we satisfy our legal obligations on disclosure to the ASX and under the Australian Corporations Act (2001) as well as our obligations in the United States where we are traded on the NYSE, and in The Netherlands.

### ***Communication***

We are committed to communicating effectively with our investors. Our investor relations program includes:

- management briefings and presentations to accompany quarterly results, which are accessible via a live webcast and teleconference;
- audio webcasts of other management briefings and webcasts of the shareholder information meeting;
- a comprehensive Investor Relations website that displays all Company announcements and notices as soon as they have been cleared by the ASX, as well as all major management and road show presentations;
- United States and Australian site visits and briefings on strategy for investment analysts;
- an e-mail alert service to advise investors and other interested parties of announcements and other events; and
- equality of access for shareholders and investment analysts to briefings, presentations and meetings and equality of media access to the Company on a reasonable basis.

### **Shareholders' Participation**

#### ***Information Meeting***

While the Company's Annual General Meeting takes place in The Netherlands, we conduct a yearly Information Meeting in Australia to enable CUFS holders to attend a meeting to review items of business and other matters that will be considered and voted on at the subsequent General Meeting in The Netherlands.

We distribute with the Notice of Meeting a question form which holders can use to submit questions in advance of the Information Meeting. Holders can also ask questions relevant to the business of the meeting during the Information Meeting.

For those holders unable to attend, the Information Meeting is broadcast live over the internet at [www.jameshardie.com](http://www.jameshardie.com) (select Investor Relations, then Annual Meetings). The webcast remains on our website so it can be replayed later if required.

Our external auditor attends the Annual Information Meeting by telephone.

#### ***General Meeting***

Each shareholder, person entitled to vote and CUFS holder (but not an ADR holder) has the right to:

- attend the General Meeting either in person or by proxy;
- to address shareholder meetings; and
- in the case of shareholders and other persons entitled to vote (for instance, certain pledge holders), to exercise voting rights, subject to the provisions of our Articles of Association.

While ADR holders cannot vote directly, ADR holders can direct the voting of their underlying shares through the ADR depository. See Item 10, "Additional Information — Key Provisions of our Articles of Association of JHI NV — Shareholders Meetings and Voting Rights."

### **Insider Trading**

Directors and senior executives are subject to our Insider Trading Policy and rules.



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Directors and senior executives may only buy or sell within four weeks beginning two days after the announcement of quarterly or full year results, provided they:

- give prior notice to the designated compliance officer, currently our General Counsel;
- do not deal in securities for short swing profit (where a profit is realized, or expected to be realized from trading within any period of less than six months); and
- do not deal in securities as part of hedging transactions, (dealing in call or put options that limit the economic risk of Company securities).

The Managing Board recognizes that it is the individual responsibility of each of our directors and employees to ensure he or she complies with the spirit and the letter of insider trading laws and that notification to the compliance officer in no way implies approval of any transaction.

### **Corporate Governance Principles**

Our Corporate Governance Principles, as amended by our Supervisory Board, from time to time, are available from the Investor Relations area of our website ([www.jameshardie.com](http://www.jameshardie.com)) under the “Policies and Programs” link and available in print to any shareholder who requests a copy.

### **Updated Information**

We have a dedicated section on corporate governance as part of the Investor Relations area of our website ([www.jameshardie.com](http://www.jameshardie.com)). Information in this section of the website is progressively updated and expanded to ensure it presents the most up-to-date information on our corporate governance systems.

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### Current and Former Directors and Executive Officers

The current members of our Supervisory Board, Managing Board, Joint Board and our Senior Leadership Team, along with former directors and a former Senior Leadership Team officer, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Term Expires</u>
<b>Supervisory Board</b>			
Donald DeFosset(1)	58	Chairman of the Joint Board and Chairman of the Supervisory Board	2009
Brian Anderson(1)	56	Member of the Joint Board and the Supervisory Board	2009
John Barr	60	Member of the Joint Board and the Supervisory Board	2007
Michael Hammes(2)	65	Member of the Joint Board and the Supervisory Board	2009
James Loudon	64	Member of the Joint Board and the Supervisory Board	2008
Donald McGauchie	57	Deputy Chairman of the Joint Board and Deputy Chairman of the Supervisory Board	2009
Rudy van der Meer(2)	62	Member of the Joint Board and the Supervisory Board	2009
Catherine Walter(3)	54	Member of the Joint Board and the Supervisory Board	2007
<b>Managing Board</b>			
Louis Gries	53	Chief Executive Officer, Member of the Joint Board and Chairman of the Managing Board	
Russell Chenu	57	Chief Financial Officer and Member of the Managing Board	
Benjamin Butterfield	47	General Counsel, Member of the Managing Board and Company Secretary	

- (1) Messrs. DeFosset and Anderson were appointed as independent non-executive directors on December 14, 2006.
- (2) Messrs. Hammes and van der Meer were appointed as independent non-executive directors at the Extraordinary General Meeting in February 2007.
- (3) Ms. Walter was appointed as a non-executive director effective July 1, 2007. As required by our Articles of Association, Ms. Walter will stand for re-election at the Annual General Meeting to be held in Amsterdam in August 2007.

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<u>Other Senior Leadership Team Officers</u>	<u>Age</u>	<u>Position</u>
Steve Ashe	47	Vice President — Investor Relations
Peter Baker	56	Executive Vice President — Australia
James Chilcoff	42	Vice President — Marketing and International Business
Mark Fisher	36	Vice President — Research and Development
Brian Holte(1)	40	Vice President — General Manager Western Division
Grant Gustafson(2)	44	Vice President — Interiors and Business Development
Nigel Rigby	40	Vice President — General Manager Northern Division
Joel Rood(3)	49	Vice President — General Manager Southern Division
Robert Russell	41	Vice President — Engineering and Process Development

### **Former Directors and Senior Leadership Team Officers**

Gregory Clark(4)	64	Former Member of the Joint Board and the Supervisory Board
Michael Brown(5)	61	Former Member of the Joint Board and the Supervisory Board
Meredith Hellicar(5)	53	Former Chairman of the Joint Board and Former Chairman of the Supervisory Board
Michael Gillfillan(5)	59	Former Member of the Joint Board and the Supervisory Board
David Merkley(6)	44	Former Executive Vice President — Engineering and Process Development
Cathy Wallace(7)	51	Former Vice President — Global Human Resources

- (1) Mr. Holte joined us as a Vice President in March 2007.
- (2) Mr. Gustafson joined us as a Vice President in April 2006.
- (3) Mr. Rood joined us as a Vice President in February 2007.
- (4) On May 9, 2006, Dr. Clark resigned from our Joint Board and Supervisory Board.
- (5) On February 20, 2007, Chairman Ms. Hellicar and Messrs. Brown and Gillfillan resigned from our Joint Board and Supervisory Board.
- (6) On September 1, 2006, Mr. David Merkley resigned from his position as Executive Vice President — Engineering and Process Development and from the Company.
- (7) On June 29, 2007, Ms. Wallace resigned from her position as Vice President — Global Human Resources and from the Company.

### **Directors**

*Donald DeFosset* is Chairman of our Joint Board and Supervisory Board. Mr. DeFosset was appointed as an independent, non-executive director on December 14, 2006 after joining JHI NV as a consultant to the Board in November 2006. He was reelected by our shareholders at our Extraordinary General Meeting in February 2007. He was appointed Chairman of the Joint and Supervisory Boards in April 2007. From 2000 until 2005, Mr. DeFosset was Chairman, President and Chief Executive Officer of Walter Industries, Inc. Mr. DeFosset is currently a director of Regions Financial Corporation (since October 2005) and Terex Corporation (since 1999).

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*Brian Anderson* is a member of our Joint Board and Supervisory Board and Chairman of our Audit Committee. Mr. Anderson was appointed as an independent, non-executive director on December 14, 2006 after joining JHI NV as a consultant to the Board in August 2006. He was reelected by our shareholders at our Extraordinary General Meeting in February 2007. Previously, Mr. Anderson was Executive Vice President and Chief Financial Officer of OfficeMax, Inc. from 2004 until 2005 and prior to that he held a variety of senior positions at Baxter International, Inc., including Corporate Vice President of Finance, Senior Vice President and Chief Financial Officer from 1997 until 2004. Mr. Anderson has been an accredited Certified Public Accountant since 1976. Mr. Anderson is currently a director of A.M. Castle & Co. (since July 2005), Pulte Homes Corporation (since September 2005) and W.W. Grainger (since 1999).

*John Barr* is a member of our Joint Board and Supervisory Board, Chairman of our Remuneration Committee, and a member of our Nominating and Governance Committee. Mr. Barr joined JHI NV as an independent, non-executive director in September 2003. He was also Deputy Chairman of the Joint and Supervisory Boards from October 2004 to February 2007 and Acting Chairman of the Joint and Supervisory Boards from February 2007 to April 2007. He was last elected by our shareholders at our 2004 Annual General Meeting. He has more than 30 years of management experience in the North American industrial sector, including 25 years (eight years as President and Chief Executive Officer) at The Valvoline Company. Mr. Barr also served as President and Chief Executive Officer of Automotive Performance Industries from 1999 to April 2004. In April 2005, he assumed the role of Chief Executive Officer of Papa Murphy's International Inc., following its June 2004 acquisition by a partnership consisting of himself, Charlesbank Capital Partners, LLC and company management. Mr. Barr also has served as Vice-Chairman of the Board of Directors of Papa Murphy's (since June 2004). Mr. Barr is currently a director of Clean Harbors, Inc. (since August 2003), United Auto Group (since December 2002) and UST Inc. (since December 2003).

*Michael Hammes* is a member of our Joint Board and Supervisory Board and Audit Committee. Mr. Hammes was appointed as an independent non-executive director of JHI NV at the Extraordinary General Meeting in February 2007. He has held a number of executive positions in the medical products, hardware and home improvement, and automobile sectors, including Chief Executive Officer and Chairman of Sunrise Medical, Inc., which designs, manufactures and markets home medical equipment worldwide (since 2000). Mr. Hammes is currently a director of Navistar International Corporation (since 1996).

*James Loudon* is a member of our Joint Board and Supervisory Board, Audit Committee, and Remuneration Committee. Mr. Loudon was elected as an independent, non-executive director in July 2002 after joining JHI NV as a consultant to the Board in March 2002. He was last elected by our shareholders at our 2005 Annual General Meeting. Mr. Loudon has held management positions in finance and investment banking and senior roles in the transport and construction industries. Mr. Loudon is currently a director of Caledonia Investments Plc (since 1995). He is Governor of the University of Greenwich and of several charitable organizations. Mr. Loudon received a Bachelor of Arts from Cambridge University and an MBA from the Stanford Graduate School of Business.

*Donald McGauchie* is Deputy Chairman of our Joint Board and Supervisory Board, Chairman of our Nominating and Governance Committee and a member of our Remuneration Committee. Mr. McGauchie was Acting Deputy Chairman of our Joint and Supervisory Boards from February to March 2007. In April 2007, Mr. McGauchie was appointed Deputy Chairman of our Joint and Supervisory Boards. Mr. McGauchie joined JHI NV as an independent, non-executive director in August 2003. Mr. McGauchie has wide commercial experience within the food processing, commodity trading, finance and telecommunication sectors. He also has extensive public policy experience, having previously held several high-level advisory positions to the Australian Government including the Prime Minister's Supermarket to Asia Council, the Foreign Affairs Council and the Trade Policy Advisory Council. Mr. McGauchie is currently a director of Telstra Corporation Limited (since 2004) and Nufarm Limited (since 2003). In 2003, he was awarded the Centenary Medal for service to Australian society through agriculture and business.

*Rudy van der Meer* is a member of our Joint Board and Supervisory Board and Nominating and Governance Committee. Mr. van der Meer was appointed as an independent non-executive director of JHI NV at the Extraordinary General Meeting in February 2007. During his 32 year association with Akzo Nobel N.V., he held a number of senior positions including Chief Executive Officer — Coatings from 2000 to 2005, Chief Executive

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Officer — Chemicals from 1993 to 2000, member of the five member Executive Board from 1993 to 2005, Division President — Akzo Salt & Base Chemicals from 1991 to 1993 and member of the Executive Board — Akzo Salt & Base Chemicals from 1989 to 1991. Mr. van der Meer is currently a director of Imtech N.V. (since 2005) and Hagemeyer N.V. (since 2006).

*Catherine Walter* is a member of our Joint Board and Supervisory Board. Ms. Walter was elected as a non-executive director of JHI NV effective July 2007. Ms. Walter practiced commercial law for 20 years including a term as Managing Partner of the Melbourne office of Clayton Utz. Ms. Wallace is currently a non-executive director of the Australian Foundation Investment Company Limited (since 2002) and Orica Limited (since 1998).

*Louis Gries* is our Chief Executive Officer and a member of the Joint Board and Chairman of the Managing Board. Mr. Gries was elected to the Managing Board by our shareholders at our 2005 Annual General Meeting. Mr. Gries joined us as Manager of the Fontana fiber cement plant in California in February 1991 and was appointed President of James Hardie Building Products Inc. in December 1993 and Executive Vice President — Operations in January 2003. In October 2004, Mr. Gries was appointed interim Chief Executive Officer and in February 2005, he was appointed Chief Executive Officer. He has held management positions with United States Gypsum Corporation, or USG. He has a Bachelor of Science in Mathematics from the University of Illinois and an MBA from California State University, Long Beach.

*Russell Chenu* is our Chief Financial Officer and a member of the Managing Board. Mr. Chenu joined us in October 2004 as Interim Chief Financial Officer and Executive Vice President, Australia. In February 2005, he was appointed Chief Financial Officer. Mr. Chenu was elected to our Managing Board by our shareholders at the 2005 Annual General Meeting. From February 2001 to July 2004, Mr. Chenu served as Chief Financial Officer of Tab Limited, then a publicly traded entertainment and gambling company. Mr. Chenu previously worked for us for 13 years in a variety of capacities, ultimately as Group Banking Manager from 1982 to 1984. He has a Bachelor of Commerce from the University of Melbourne and an MBA from Macquarie Graduate School of Management in Australia.

*Benjamin Butterfield* is our General Counsel, Company Secretary, and a member of our Managing Board. Mr. Butterfield joined us in January 2005 as our General Counsel. On July 1, 2005, he was appointed as an interim member of the Managing Board and our Company Secretary. He was elected to the Managing Board by our shareholders at our 2005 Annual General Meeting. From 2003 to 2004, Mr. Butterfield served as General Counsel of Lennar Corporation. Prior to that, from 1996 to 2003 he served as General Counsel of Hughes Supply, Inc. Prior to this, he was a partner at Maguire, Voorhis & Wells, PA (now part of Holland & Knight LLP). He has a Bachelor of Arts from Covenant College in Lookout Mountain, Tennessee and a Juris Doctor from Stetson University College of Law in St. Petersburg, Florida.

### Senior Leadership Team Officers

*Steve Ashe* is our Vice President — Investor Relations. Mr. Ashe joined us in January 2000 as Vice President — Public Affairs and was appointed Vice President — Investor Relations in October 2001, responsible for managing the Company's relationships with the investment market. Before joining us, Mr. Ashe worked with PricewaterhouseCoopers (and the former Coopers & Lybrand) spending ten years specializing in accounting, taxation and business advice, and six years on regulation and government matters. He has a Bachelor of Business degree from the University of Technology Sydney and is a member of the Australian Institute of Chartered Accountants.

*Peter Baker* is our Executive Vice President — Australia. Mr. Baker joined us in October 2004 as General Manager External Affairs and became Executive Vice President — Australia in September 2005. He became Chairman of the Asbestos Injuries Compensation Fund Limited (Trustee of the AICF) in January 2006. He has been involved in various aspects of the resolution of our asbestos compensation matters and his current role includes managing our corporate activities in Australia. Mr. Baker is an experienced corporate executive who has held a number of senior positions in Australian public and private companies, including the MIA Group, the Tenix Group and TNT Ltd. In a number of these senior roles he was responsible for formulating corporate strategy, new market expansions in Australia and overseas, and mergers and acquisitions. He has a Bachelor of Science with first class

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honors from the University of Leicester, UK; a Master of Science in Operational Research with distinction from the London School of Economics, UK; and an MBA from the University of Chicago.

*James Chilcoff* is our Vice President — Marketing and International Business. Mr. Chilcoff joined us in 1997 as a Senior Product Manager for Siding. Other roles Mr. Chilcoff has held with us include: Siding Product Development Manager — Marketing from 1998 to 1999; Siding Product Manager from 1999 to 2000; Exterior Marketing Manager from 2000 to 2001; Southern Division Sales/Marketing Manager from 2001 to 2002; Vice President Sales/Marketing from 2002 to 2003; and General Manager of our Australia and New Zealand business from 2003 to 2004. In August 2004, Mr. Chilcoff became Vice President — International. In July 2005, Mr. Chilcoff's role was expanded to include overseeing our U.S. Marketing Group and the Repair & Remodel section of our Company. In November 2006, he became Vice President — Marketing and International Business. Before joining us, Mr. Chilcoff held various positions with CertainTeed Corporation, S. C. Johnson Wax, Formica Corporation and Armstrong World Industries. Mr. Chilcoff has a Bachelor of Business Administration from Eastern Michigan University and an MBA from Xavier University in Ohio.

*Mark Fisher* is our Vice President — Research and Development. Mr. Fisher joined us in 1993 as a Production Engineer. Other roles Mr. Fisher has held with us include: Finishing Manager, Production Manager and Product Manager at various locations from 1993 to 1999; Sales and Marketing Manager from 2000 to 2002; and General Manager of our Europe Fiber Cement business from 2002 to 2004. In November 2004, Mr. Fisher became Vice President — Specialty Products. In December 2005, he was appointed as Vice President — Research and Development. Before joining us, Mr. Fisher worked in Engineering for Chevron Corporation. Mr. Fisher has a Bachelor of Science in Mechanical Engineering and an MBA from University of Southern California.

*Grant Gustafson* is our Vice President — Interiors and Business Development. Mr. Gustafson joined us in April 2006. Prior to joining us, Mr. Gustafson held various consulting and consulting management positions, including serving as Managing Director of Arthur D. Little (Southeast Asia and Greater China) from 2000 to 2004, and as a consultant with Bain & Company from 1986 to 1988. In addition, Mr. Gustafson has held senior management positions in the commercial building products sector, including serving as Vice President of Marketing for American Buildings Company from 2005 to 2006, and Director of Marketing with Varco-Pruden from 1988 to 1993. He was also Senior Vice President of the investment firm Markmore Sdn Bhd of Malaysia from 2004 to 2005. He has a Bachelor of Arts from the University of California Santa Barbara and an MBA from the University of Chicago.

*Brian Holte* is our Vice President — General Manager Western Division. Mr. Holte joined us in March 2007. Before joining us, Mr. Holte spent 17 years at Rockwell Automation, a global leader in power, control and information solutions for the manufacturing and infrastructure business sectors. During his time at Rockwell Automation, Mr. Holte gained extensive experience in territory sales, industry marketing, business development, sales leadership and most recently, regional management in the Pacific Southwest. Mr. Holte has a Bachelor of Science in Industrial Technology from the University of Wisconsin, Stout and an MBA from University of Southern California.

*Nigel Rigby* is our Vice President — General Manager Northern Division. Mr. Rigby joined us in 1998 as a Planning Manager for our New Zealand business. Other roles Mr. Rigby held with us include: Sales and Marketing Manager and Product Development Manager for our New Zealand business from 1999 to 2002; Strategic Marketing Manager for our Australian business from 2002 to 2003; Business Development Manager for our U.S. business in 2003; and Vice President Exterior Sales — Emerging Markets from 2003 to 2004. In November 2004, Mr. Rigby became Vice President — Emerging Markets. In 2006, he was named Vice President — General Manager Northern Division. Before joining us, Mr. Rigby held various management positions at Fletcher Challenge, a New Zealand based company involved in energy, pulp and paper, forestry and building materials.

*Joel Rood* is our Vice President — General Manager Southern Division. Mr. Rood joined us in February 2007. He has over 20 years of sales, marketing and general management experience, the last nine with Hilti Corporation as Sales Vice President in the U.S., General Manager of Australia, and finally as Managing Director of the United Kingdom and Ireland. Prior to Hilti, Mr. Rood worked with MTS Systems Corporation, where he developed their successful seismic business in Asia. Mr. Rood started his career with Schlumberger, Ltd, as field manager in north and west Africa, France and Norway. Mr. Rood has a Bachelor of Science in Civil Engineering from Princeton



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University, summa cum laude, and a Master of Science in Petroleum Engineering from the University of Texas in Austin. In addition, he attended Stanford University as a Sloan Fellow, earning a Master of Science in Management.

*Robert Russell* is our Vice President — Engineering and Process Development. Mr. Russell joined us in 1996 as a Production Engineer. Other roles Mr. Russell held with us include: Production Manager from 1997 to 1998; Plant Manager from 1998 to 1999; Interior Products & Retail Sales Manager from 1999 to 2000; Vice President Marketing and Sales (James Hardie Gypsum) from 2000 to 2001; Business Development Manager from 2001 to 2002; Vice President Exterior Sales and Marketing — Established Markets from 2002 to 2004; and Vice President — Established Markets from 2004 to 2006. In November 2006 he became Vice President — Engineering and Process Development. Prior to joining us, Mr. Russell held various engineering positions with USG Corporation. Mr. Russell has a Bachelor of Science Degree in Industrial Engineering from the University of Arizona and an MBA from the University of California Los Angeles.

None of the persons above has any familial relationship with each other. In addition, none of the individuals listed above is party to any arrangement or understanding with a major shareholder, customer, supplier or other entity, pursuant to which any of the above was selected as a director or member of senior management.

### Employees

As of the end of each of the last three fiscal years, we employed the following number of people:

	Fiscal Years Ended		
	March 31,		
	2007	2006	2005
Fiber Cement United States and Canada	1,868	2,150	1,820
Fiber Cement Australia	419	402	424
Fiber Cement New Zealand	164	170	147
Fiber Cement Philippines	170	202	211
Pipes (United States and Australia)	131	129	162
Fiber Cement Europe	41	58	31
Roofing (United States)	—	24	19
Fiber Cement Chile	—	—	139
Research & Development, including Technology	101	118	131
General Corporate	50	50	38
<b>Total Employees</b>	<b>2,944</b>	<b>3,303</b>	<b>3,122</b>

We no longer have fiber cement employees in Chile because we sold our Chilean fiber cement business in July 2005. As of the end of March 31, 2007, of the 2,944 people employed, 276 were members of labor unions (180 in Australia<sup>3</sup> and 96 in New Zealand). Our management believes that we have a satisfactory relationship with these unions and its members and there are currently no ongoing labor disputes. We currently have no employees who are members of a union in the United States or the Philippines.

### Compensation

#### Remuneration

The aggregate amount of compensation that we paid to, or accrued with respect to, members of our Supervisory Board, Managing Board and our executive officers (25 persons in aggregate) for services in all their capacities to us during fiscal year 2007 was approximately \$14.3 million. This figure consists of base salaries, bonuses paid, accrued compensation relating to awards of shadow stock, superannuation and retirement benefits, stock options and severance.

<sup>3</sup> Under Australian law, we cannot keep records of union members. The number quoted is the number of people who work in our factories that have union participation and therefore may be represented by a union.

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At our Annual General Meeting on September 25, 2006, our shareholders voted to approve an increase in the aggregate amount of remuneration payable to members of our Supervisory Board from \$650,000 per annum to a sum not to exceed the aggregate maximum amount of \$1.5 million per annum, to be divided in accordance with our Articles of Association.

As of March 31, 2007, the total amount accrued to provide pension, retirement or similar benefits was approximately \$0.9 million and was related to certain former members of our Supervisory Board. See "Other Compensation" for a description of retirement benefits pertaining to two of our former directors.

The tables below set forth the compensation for those non-executive and executive directors who served on the Board during the fiscal years ended March 31, 2007 and 2006; and for our key management personnel during the fiscal years ended March 31, 2007 and 2006 (Messrs. Joel Rood and Brian Holte joined the Company late in fiscal year 2007 and will form part of our key management personnel in fiscal year 2008):

Name	Primary Directors' Fees	Equity JHI NV Stock(1)	Post-Employment Superannuation(2)	Other Retirement Benefits(3)	Total
<b>Non-Executive Directors</b>					
D. DeFosset					
Fiscal year 2007	\$ 32,959	\$ —	\$ —	\$ —	\$ 32,959
Fiscal year 2006	N/A	N/A	N/A	N/A	N/A
B. Anderson					
Fiscal year 2007	33,685	—	—	—	33,685
Fiscal year 2006	N/A	N/A	N/A	N/A	N/A
J. Barr					
Fiscal year 2007	92,929	20,000	—	—	112,929
Fiscal year 2006	51,100	10,000	—	—	61,100
M. Hammes					
Fiscal year 2007	16,247	—	—	—	16,247
Fiscal year 2006	N/A	N/A	N/A	N/A	N/A
J. Loudon					
Fiscal year 2007	87,584	—	—	—	87,584
Fiscal year 2006	47,767	10,000	—	—	57,767
D. McGauchie					
Fiscal year 2007	96,071	—	9,402	—	105,473
Fiscal year 2006	50,598	10,000	5,454	—	66,052
R. van der Meer					
Fiscal year 2007	17,247	—	—	—	17,247
Fiscal year 2006	N/A	N/A	N/A	N/A	N/A
<b>Former Non-Executive Directors</b>					
M. Brown(3)					
Fiscal year 2007	79,262	—	7,727	307,658	394,647
Fiscal year 2006	50,598	10,000	5,454	—	66,052
G. Clark(4)					
Fiscal year 2007	5,420	—	—	—	5,420
Fiscal year 2006	51,100	10,000	—	—	61,100
M. Gillfillan(3)					
Fiscal year 2007	75,899	—	—	—	75,899
Fiscal year 2006	51,100	10,000	—	—	61,100
M. Hellicar(3)					
Fiscal year 2007	166,015	50,000	21,227	833,979	1,071,221
Fiscal year 2006	178,777	20,000	17,890	—	216,667
<b>Total Compensation for Non-Executive Directors</b>					
Fiscal year 2007	\$703,318	\$70,000	\$ 38,356	\$1,141,637	\$1,953,311
Fiscal year 2006	\$481,040	\$80,000	\$ 28,798	\$ —	\$ 598,838

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Name	Primary			Post-Employment Superannuation and 401(k) Benefits	Equity Stock Appreciation Rights and Options(7)	Other Relocation Allowances, Expatriate Benefits, and Other Non-recurring(8)	Total
	Base Pay	Bonuses(5)	Noncash Benefits(6)				
<b>Executive Directors</b>							
L. Gries							
Fiscal year 2007	\$ 786,612	\$1,738,430	\$ 72,317	\$ 14,287	\$ 755,110	\$ 121,498	\$3,488,254
Fiscal year 2006	740,385	1,890,363	42,657	10,478	717,218	110,774	3,511,875
R. Chenu							
Fiscal year 2007	596,181	200,161	57,628	57,776	101,282	79,849	1,092,877
Fiscal year 2006	564,546	159,832	18,558	50,809	62,736	70,454	926,935
B. Butterfield							
Fiscal year 2007	322,497	466,516	61,598	13,200	206,351	111,160	1,181,322
Fiscal year 2006	311,250	450,450	30,410	9,913	128,369	215,717	1,146,109
<b>Total Compensation for Executive Directors</b>							
Fiscal year 2007	\$1,705,290	\$2,405,107	\$191,543	\$ 85,263	\$1,062,743	\$ 312,507	\$5,762,453
Fiscal year 2006	\$1,616,181	\$2,500,645	\$ 91,625	\$ 71,200	\$ 908,323	\$ 396,945	\$5,584,919
<b>Current Key Management Personnel</b>							
J. Chilcoff							
Fiscal year 2007	\$ 310,961	\$ 373,192	\$ 44,136	\$ 12,842	\$ 277,998	\$ —	\$1,019,129
Fiscal year 2006	290,385	418,231	13,899	13,269	157,409	113,038	1,006,231
M. Fisher							
Fiscal year 2007	301,538	346,849	24,044	13,408	295,748	—	981,587
Fiscal year 2006	260,962	376,467	30,039	14,242	191,791	—	873,501
G. Gustafson(9)							
Fiscal year 2007	254,808	142,914	18,896	11,619	55,046	104,913	588,196
Fiscal year 2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N. Rigby							
Fiscal year 2007	301,538	350,488	22,673	—	282,435	—	957,134
Fiscal year 2006	260,962	356,419	32,919	—	159,020	1,257	810,577
R. Russell							
Fiscal year 2007	301,538	359,235	54,217	13,408	295,748	—	1,024,146
Fiscal year 2006	260,962	374,403	35,100	14,338	195,253	10,192	890,248
<b>Former Key Management Personnel</b>							
D. Merkley (10)							
Fiscal year 2007	148,564	9,277	125,329	7,269	—	—	290,439
Fiscal year 2006	323,826	761,679	24,315	14,372	258,299	7,306	1,389,797
<b>Total Compensation for Executive Officers</b>							
Fiscal year 2007	\$1,618,947	\$1,581,955	\$289,295	\$ 58,546	\$1,206,975	\$ 104,913	\$4,860,631
Fiscal year 2006	\$1,397,097	\$2,287,199	\$136,272	\$ 56,221	\$ 961,772	\$ 131,793	\$4,970,354

(1) For fiscal year 2007, amount represents JHI NV stock issued or acquired on market under the Supervisory Board Share Plan 2006 under which a director can elect to receive some of their annual fees in the form of JHI NV stock. The number of shares issued was determined by dividing the amount which the director elects to apply under the Supervisory Board Share Plan 2006 (net of applicable taxes and broker fees) by the market of purchase price.

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For fiscal year 2006, the annual allocation non-executive directors of JHI NV stock to the value of \$10,000 was approved by shareholders at the Annual General Meeting held on July 19, 2002. The non-executive directors could also elect additional stock in lieu of fees.

- (2) The superannuation benefits include Australian 9% superannuation guarantee contributions which were paid on top of the Australian directors' total fees until September 25, 2006. Beginning September 26, 2006, superannuation is withheld from the Australian directors' fees.
- (3) On February, 20, 2007, Chairman Ms. Hellicar and Directors Messrs. Brown and Gillfillan resigned from our Joint and Supervisory Boards. We have determined that two of these directors, Ms. Hellicar and Mr. Brown, are entitled to benefits pursuant to a discontinued retirement plan in the gross amounts of \$0.8 million and \$0.3 million for Ms. Hellicar and Mr. Brown, respectively. We expect to pay these amounts in fiscal year 2008. See "Other Compensation — Directors' Retirement Benefits" for further information.
- (4) On May 9, 2006, Dr. Clark resigned from our Joint Board and Supervisory Board.
- (5) Includes all incentive amounts paid in the year indicated, including the portion of any incentive awarded for performance in the indicated year that was paid in that year, as well as, any performance incentive amounts realized as a result of prior years' performance and paid in the applicable year as a result of our achievement of predetermined financial targets pursuant to the terms of our Economic Profit Incentive Plan. See "Other Compensation: Economic Profit Incentive Plan" for a summary of the terms of our Economic Profit Incentive Plan.
- (6) Includes the aggregate amount of all noncash benefits received by the executive in the year indicated. Examples of noncash benefits that may be received by our executives include medical and life insurance benefits, car allowances, membership in executive wellness programs, long service leaves, and tax services.
- (7) Options are valued using either the Black-Scholes option-pricing model or the Monte Carlo option-pricing method, depending on the plan the options were issued under, and the fair value of options granted are included in compensation during the period in which the options vest. For the Black-Scholes model, the weighted average assumptions and weighted average fair value used for grants in fiscal year 2007 were as follows: 1.5% dividend yield; 28.1% expected volatility; 4.6% risk free interest rate; 5.1 years of expected life; and A\$2.40 weighted average fair value at grant date. For the Monte Carlo method, the weighted average assumptions and weighted average fair value used for grants in fiscal year 2007 were as follows: 1.6% dividend yield; 28.1% expected volatility; 4.6% risk free interest rate; and A\$3.30 weighted average fair value at grant date. The figures stated here for Mr. Gries include Stock Appreciation Rights.
- (8) Other non-recurring includes cash paid in lieu of vacation accrued, as permitted under our U.S. vacation policy and California law.
- (9) Mr. Gustafson was not an executive for whom the Company reported compensation for in fiscal year 2006.
- (10) On September 1, 2006, Mr. David Merkley resigned from the Company.

On March 27, 2007, March 13, 2007, November 21, 2006, March 8, 2006, December 1, 2005, February 22, 2005 and December 14, 2004, we granted options to purchase 151,400 shares, 179,500 shares, 3,499,490 shares, 40,200 shares, 5,224,100 shares, 273,000 shares and 5,391,100 shares of our common stock, respectively, at fair market value to management and other employees under the 2001 Equity Incentive Plan. See the section below entitled "Option Ownership" and "Stock-Based Compensation" for further information about option awards and a description of our equity compensation plans. See also "Other Compensation" for a description of our non-equity based compensation plans.

### Employment Contracts

Remuneration and other terms of employment for the Chief Executive Officer, Company Secretary and General Counsel, Chief Financial Officer and certain other senior executives are formalized in service agreements. The main elements of these agreements are set out below.

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### Chief Executive Officer

Details of the terms of our Chief Executive Officer's employment contract are as follows:

<u>Components</u>	<u>Details</u>
Length of contract	Three year term, commencing February 10, 2005. Term is automatically extended on 9th day of each February for an additional one year unless either party notifies the other, 90 days in advance of the automatic renew date, that it does not want the term to renew.
Base salary(1)	\$750,000 per year. Salary will be reviewed annually by the JHI NV Board in April.
Short-term incentive	Annual incentive target is 100% of annual base salary: <ul style="list-style-type: none"><li>— 80% of this incentive target is based on the Company meeting or exceeding aggressive performance objectives; and</li><li>— 20% of this incentive target is based on the Chief Executive Officer meeting or exceeding personal performance objectives.</li></ul> The Remuneration Committee recommends the Company's and Chief Executive Officer's performance objectives, and the performance against these objectives, to our Supervisory Board for approval. If the Company's performance exceeds the annual objective, the Chief Executive Officer realizes an incentive greater than his target incentive, but only one-third of the excess incentive is paid to the participant at the end of the fiscal year. The remaining two-thirds is then deposited with a notional bank and is paid to the Chief Executive Officer over the following two years if the Company's objectives are met in these years, or is reduced if the Company's objectives are not met.
Long-term incentive	The banking mechanism of the annual incentive plan is considered a long-term incentive. Upon the approval of the shareholders, stock options with performance hurdles will be granted each year. The recommended number of options to be granted will be appropriate for this level of executive in the United States.
Defined Contribution Plan	The Chief Executive Officer may participate in the U.S. 401(k) defined contribution plan up to the annual IRS limit. The Company will match his contributions into the plan up to the annual IRS limit.
Resignation	The Chief Executive Officer may cease his employment with the Company by providing written notice.
Termination by James Hardie	The Company may terminate the Chief Executive Officer's employment for cause or not for cause. If the Company terminates the employment, not for cause, or the Chief Executive Officer terminates his employment "for good reason" the Company will pay the following: <ul style="list-style-type: none"><li>a. amount equivalent to 1.5 times the annual base salary at the time of termination; and</li><li>b. amount equivalent to 1.5 times the executive's Average Annual Incentive actually paid in up to the previous three fiscal years as Chief Executive Officer; and</li><li>c. continuation of health and medical benefits at the Company's expense for the remaining term of the agreement and consulting agreement referenced below.</li></ul>
Post-termination Consulting	The Company will request the Chief Executive Officer, and the Chief Executive Officer will agree, to consult to the Company upon termination for a minimum of two years, as long as he maintains the Company's non-compete and confidentiality agreements, and he will receive his annual base salary and annual target incentive in exchange for this consulting and non-compete.

(1) See actual salary paid for fiscal year 2007 in this section under "Compensation."

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**Chief Financial Officer**

Details of our Chief Financial Officer's employment contract are as follows:

<u>Components</u>	<u>Details</u>
Length of contract	Fixed period of two and a half (2.5) years concluding October 5, 2007.
Base salary(1)	A\$750,000 per year.
Short-term incentive	Annual incentive target is 33% of annual base salary based on the Chief Financial Officer meeting or exceeding personal performance objectives.
Long-term incentive	Upon the approval of the shareholders, stock options with performance hurdles will be granted each year. The recommended number of options to be granted will be a value equal to one-third of the executive's base salary.
Superannuation	The Company will contribute 9% of gross salary to Superannuation in the executive's name.
Resignation or Termination	The Company or Chief Financial Officer may cease the Chief Financial Officer's employment with the Company by providing three months' notice in writing.
Redundancy or material change of role	If the position of Chief Financial Officer is determined to be redundant or subject to a material adverse change, the Company or the Chief Financial Officer may terminate the Chief Financial Officer's employment. The Company will pay the Chief Financial Officer a severance payment equal to the greater of 12 months' pay or the remaining proportion of the term of the contract.

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(1) Actual salary rates are typically adjusted each year. Actual salary paid in fiscal year 2007 is shown in this section under "Compensation."

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### *Company Secretary and General Counsel*

Details of our Company Secretary and General Counsel's employment contract are as follows:

<u>Components</u>	<u>Details</u>
Length of contract	Indefinite.
Base salary(1)	\$315,000 per year.
Short-term incentive	Annual incentive target is 65% of annual base salary: — 80% of this incentive target is based on the Company meeting or exceeding aggressive performance objectives; and — 20% of this incentive target is based on the General Counsel and Company Secretary meeting or exceeding personal performance objectives. The Chief Executive Officer recommends the General Counsel and Company Secretary's performance objectives and the performance against these objectives, to the Remuneration Committee and our Supervisory Board for approval. The Company's objectives are set by the Remuneration Committee's recommendation to our Supervisory Board. If the Company's performance exceeds the annual objective, the executive realizes a incentive greater than his target incentive, but only one-third of the excess incentive is paid to the participant at the end of the fiscal year. The remaining two-thirds is then deposited with a notional bank and is paid to the General Counsel and Company Secretary over the following two years if the Company's objectives are met in these years, or is reduced if the Company's objectives are not met.
Long-term incentive	The banking mechanism of the annual incentive plan is considered a long-term incentive. Upon the approval of the shareholders, stock options with performance hurdles will be granted each year. The recommended number of options to be granted will be appropriate for this level of executive in the United States.
Defined Contribution Plan	Since the General Counsel and Company Secretary may not participate in the U.S. 401(k) defined contribution plan up to the annual IRS limit while he is on assignment to The Netherlands, the Company will provide a payment up to the annual IRS limit directly to the executive.
Resignation or Termination	The General Counsel and Company Secretary may cease his employment with the Company by providing written notice.
Termination by James Hardie	The Company may terminate the General Counsel and Company Secretary's employment for cause or not for cause.
Post-termination Consulting	The Company will request the General Counsel and Company Secretary, and he will agree, to consult to the Company upon termination for a minimum of two years, as long as he maintains the Company's non-compete and confidentiality agreements, and he will receive his annual base salary in exchange for this consulting and non-compete.

(1) Actual salary rates are typically adjusted each year. Actual salary paid in fiscal year 2007 is shown in this section under "Compensation."

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### ***Benefits Contained in Contracts for Chief Executive Officer, Chief Financial Officer and Company Secretary and General Counsel***

Employment contracts for each of our Chief Executive Officer, Chief Financial Officer and General Counsel and Company Secretary also specify the following benefits:

<u>Components</u>	<u>Details</u>
International Assignment	The executives receive additional benefits due to international assignment: housing allowance, expatriate Goods and Services allowance, moving and storage.
Other	<i>Tax Equalization:</i> The Company covers the extra personal tax burden for Managing Board Directors based in The Netherlands. <i>Tax Advice:</i> The Company will pay the costs of filing the executives' income tax returns to the required countries. <i>Health, Welfare and Vacation Benefits:</i> The executives are eligible to receive all health, welfare and vacation benefits offered to all U.S. employees. They are also eligible to participate in the Company's Executive Health and Wellness program. <i>Business Expenses:</i> The executives are entitled to receive reimbursement for all reasonable and necessary travel and other business expenses they incur or pay for in connection with the performance of their services under this Agreement. <i>Automobile:</i> The Company will either purchase or lease an automobile for business and personal use by the executives, or, in the alternative, the executives will be entitled to an automobile lease allowance not to exceed \$750 per month. Unused allowance or part thereof will be paid to the executives.

### ***Key Management Personnel Employment Contracts***

Details of the employment contracts for Key Management Personnel are as follows:

<u>Components</u>	<u>Details</u>
Length of contract	Indefinite.
Base salary	Base salary is subject to Remuneration Committee approval and reviewed annually in May for increase effective July 1.
Short-term incentive	An annual incentive target is set at a percentage of the executive's salary. Target is 55%; 80% of this incentive target is based on the Company meeting or exceeding aggressive performance objectives; 20% of this incentive target is based on the executive meeting or exceeding personal performance objectives. The Chief Executive Officer recommends the executive's performance objectives and the performance against these objectives, to the Remuneration Committee and our Supervisory Board for approval. The Company's objectives are set by the Remuneration Committee's recommendation to our Supervisory Board. If the Company's performance exceeds the annual objective, the executive realizes an incentive greater than his target incentive, but only one-third of the excess incentive is paid to the participant at the end of the fiscal year. The remaining two-thirds is then deposited with a notional bank and is paid to the executive over the following two years if the Company's objectives are met in these years, or is reduced if the Company's objectives are not met.
Long-term incentive	The banking mechanism of the annual incentive plan is considered a long-term incentive. Upon the approval of our Supervisory Board, stock options have been granted each year under the JHI NV 2001 Equity Incentive Plan. It is anticipated that upon the approval of our Supervisory Board, equity will be granted under a new plan in the future.
Defined Contribution Plan	The executive may participate in the U.S. 401(k) defined contribution plan up to the annual IRS limit. The Company will match the executive's contributions into the plan up to the annual IRS limit.

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<u>Components</u>	<u>Details</u>
Resignation	The executive may cease his employment with the Company by providing written notice.
Termination by James Hardie	The Company may terminate the executive’s employment for cause or not for cause.
Post-termination Consulting	Depending on the executive’s individual contract, and the reasons for termination, the Company may, or may be required to, request the executive, and the executive will agree, to consult to the Company for two years upon termination, as long as the executive maintains the Company’s non-compete and confidentiality agreements. In exchange for the consulting agreement, the Company shall pay the executive’s annual base salary as of the termination date for each year of consulting.
Other	<i>Health, Welfare and Vacation Benefits:</i> The executive is eligible to receive all health, welfare and vacation benefits offered to all U.S. employees. The executive is also eligible to participate in the Company’s Executive Health and Wellness program. <i>Business Expenses:</i> The executive is entitled to receive reimbursement for all reasonable and necessary travel and other business expenses he or she incurs or pays in connection with the performance of his or her services under this agreement. <i>Automobile:</i> The Company will either lease an automobile for business and personal use by the executive, or, in the alternative, the executive will be entitled to an automobile lease allowance not to exceed \$750 per month. Unused allowance or part of this will be paid to the executive.
International Assignment	Executives who are on assignment in countries other than their own receive additional benefits which may include tax equalization payment and tax advice, a car in the country they are assigned to, and financial assistance with housing, moving and storage.

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### Share Ownership

As of May 31, 2007, the number of shares of our common stock beneficially owned by each person listed in the table under the heading "Compensation — Remuneration," is set forth below.

Name	Number of Shares Beneficially Owned(1)	Percent of Class(2)
<b>Current Directors and Executive Officers</b>		
Donald DeFosset	15,500	*
Brian Anderson	—	*
John Barr(3)	24,477	*
Michael Hammes	—	*
James Loudon	6,355	*
Donald McGauchie(4)	9,569	*
Rudy van der Meer	—	*
Louis Gries	1,317,219	*
Russell Chenu	61,500	*
Benjamin Butterfield	90,000	*
James Chilcoff	92,500	*
Mark Fisher	503,896	*
Grant Gustafson	—	*
Nigel Rigby	217,503	*
Robert Russell	158,500	*
<b>Former Directors and Executive Officers</b>		
Michael Brown	14,727	*
Gregory Clark	1,826	*
Michael Gillfillan(5)	54,727	*
Meredith Hellicar(6)	14,954	*
David Merkley	—	*

\* Indicates that the individual beneficially owns less than 1% of our shares of common stock.

- (1) Since the Supervisory Board Share Plan, or SBSP, was approved at the 2002 Annual General Meeting, four general allotments have been made to non-executive directors. The number of beneficial shares includes the following SBSP allotments:

#### Shares Allotted under SBSP

Name	November 22, 2005(a)	December 3, 2004(b)	August 22, 2003(c)	August 27, 2002(d)
John Barr	758	1,068	—	—
James Loudon	758	2,117	1,839	1,641
Donald McGauchie	758	1,068	1,743	—
<b>Former Directors</b>				
Michael Brown	758	1,068	1,260	1,641
Peter Cameron	1,894	2,117	5,602	—
Gregory Clark	758	1,068	5,602	6,688
Michael Gillfillan	758	1,068	1,260	1,641
Meredith Hellicar	1,515	2,117	2,225	2,948
Alan McGregor	—	—	1,260	1,641

- (a) Each participant's November 22, 2005 mandatory participation of 758 shares is subject to a two-year escrow period ending November 22, 2007. In the case of Peter Cameron, the escrow was released after he died in February 2006.

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- (b) Each participant’s December 3, 2004 mandatory participation of 1,068 shares were subject to a two-year escrow period until they were released on December 4, 2006. In the case of Peter Cameron, the escrow was released after he died in February 2006.
- (c) Each participant’s August 22, 2003 mandatory participation of 1,260 shares were subject to a two-year escrow period until they were released on August 22, 2005.
- (d) Each participant’s August 27, 2002 mandatory participation of 1,641 shares were subject to a two-year escrow period until they were released on August 27, 2004.

At our Annual General Meeting on September 25, 2006, our shareholders approved the replacement of our SBSP, with a new plan called the Supervisory Board Share Plan 2006, which we refer to as the SBSP 2006. Under the SBSP 2006, Supervisory Board directors can elect to receive a percentage of his or her fees in the form of CUFS.

The number of beneficial shares includes the following shares acquired on market under the SBSP 2006:

<u>Name</u>	<u>Number of Shares</u>
Donald DeFosset	—
Brian Anderson	—
John Barr	1,651
Michael Hammes	—
James Loudon	—
Donald McGauchie(4)	—
Rudy van der Meer	—
<b>Former Directors</b>	
Michael Brown	—
Gregory Clark	—
Michael Gillfillan	—
Meredith Hellicar(6)	3,388

- (2) Based on 467,512,566 shares of common stock outstanding at May 31, 2007 (all of which are subject to CUFS).
- (3) As of May 31, 2007, 21,000 shares were held in a trust, of which Mr. Barr and his wife are trustees.
- (4) As of May 31, 2007, 6,000 shares were held for the McGauchie Superannuation Fund for which Mr. McGauchie is a trustee.
- (5) As of February 20, 2007, the date of Mr. Gillfillan’s resignation, 50,000 shares were held in a trust, of which Mr. Gillfillan and his wife are trustees.
- (6) As of May 31, 2007, 3,388 shares were held in a trust, of which David Latrobe Foster and Ms. Hellicar are trustees.

None of the shares held by any of the directors or executive officers has any special voting rights. Beneficial ownership of shares includes shares issuable upon exercise of options which are exercisable within 60 days of May 31, 2007.

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**Option Ownership**

The number of shares of our common stock that each person listed in the table under the heading “Compensation — Remuneration,” have an option to purchase as of May 31, 2007 was:

<u>Name</u>	<u>Number of Shares Underlying Options Owned</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
<b>Current Executive Officers</b>			
Louis Gries	40,174(1, 2)	A\$3.1321/share(3, 4, 5)	November 2009
	175,023(1, 6)	A\$3.0921/share(3, 4, 5)	November 2010
	324,347(7)	A\$5.0586/share(4, 5)	December 2011
	325,000(8)	A\$6.4490/share(5)	December 2012
	325,000(9)	A\$7.05/share	December 2013
	1,000,000(10)	A\$8.53/share	November 2015
	381,000(15)	A\$8.40/share	November 2016
Russell Chenu	415,000(15)	A\$8.40/share	November 2016
	93,000(11)	A\$6.30/share	February 2015
	90,000(10)	A\$8.53/share	November 2015
	60,000(15)	A\$8.40/share	November 2016
Benjamin Butterfield	65,000(15)	A\$8.40/share	November 2016
	180,000(11)	A\$6.30/share	February 2015
	230,000(10)	A\$8.53/share	November 2015
	101,000(15)	A\$8.40/share	November 2016
James Chilcoff	110,000(15)	A\$8.40/share	November 2016
	135,000(13)	A\$5.99/share	December 2014
	190,000(12)	A\$8.90/share	December 2015
Mark Fisher	158,500(14)	A\$8.40/share	November 2016
	92,113(1, 6)	A\$3.0921/share(3, 4, 5)	November 2010
	68,283(7)	A\$5.0586/share(4, 5)	December 2011
	74,000(8)	A\$6.4490/share(5)	December 2012
	132,000(9)	A\$7.05/share	December 2013
	180,000(13)	A\$5.99/share	December 2014
Nigel Rigby	190,000(12)	A\$8.90/share	December 2015
	158,500(14)	A\$8.40/share	November 2016
	20,003(7)	A\$5.0586/share(4, 5)	December 2011
	27,000(8)	A\$6.4490/share(5)	December 2012
	33,000(9)	A\$7.05/share	December 2013
Robert Russell	180,000(13)	A\$5.99/share	December 2014
	190,000(12)	A\$8.90/share	December 2015
	158,500(14)	A\$8.40/share	November 2016
	66,000(9)	A\$7.05/share	December 2013
Grant Gustafson	135,000(13)	A\$5.99/share	December 2014
	190,000(12)	A\$8.90/share	December 2015
	158,500(14)	A\$8.40/share	November 2016
Grant Gustafson	158,500(14)	A\$8.40/share	November 2016
<b>Former Executive Officer</b>			
David Merkley	—		

(1) This nonqualified stock option to purchase shares of our common stock was granted on October 19, 2001 under our 2001 Equity Incentive Plan in exchange for the termination of an award of shadow stock covering an equal number of shares of JHIL common stock. See “Equity Plans — 2001 Equity Incentive Plan” under Item 6.

(2) All options vested and became exercisable in November 2004.



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- (3) The exercise price reflects an A\$0.0965 per share price reduction due to a capital return paid to shareholders in December 2001.
- (4) The exercise price reflects an A\$0.3804 per share price reduction due to a capital return paid to shareholders in November 2002.
- (5) The exercise price reflects an A\$0.2110 per share price reduction due to a capital return paid to shareholders in November 2003.
- (6) All options vested and became exercisable in November 2005.
- (7) Granted under the 2001 Equity Incentive Plan. All options vested and became exercisable in December 2004.
- (8) Granted under the 2001 Equity Incentive Plan. All options vested and became exercisable in December 2005.
- (9) Granted under the 2001 Equity Incentive Plan. All options vested and became exercisable in December 2006.
- (10) Granted under the Managing Board Transitional Stock Option Plan. Options vest and become exercisable on the first business day on or after November 22, 2008 if the following conditions are met: 50% vest if our total shareholder return, or TSR, is equal to or above the Median TSR and an additional 2% of the options shall vest for each 1% increment that the Company's TSR is above the Median TSR. If any options remain unvested on the last business day of each six month period between November 22, 2008 and November 22, 2010, we will reapply the vesting criteria to those options on that business day.
- (11) Granted under the 2001 Equity Incentive Plan. Options vest and become exercisable in three installments: 25% on February 22, 2006; 25% on February 22, 2007; and 50% on February 22, 2008.
- (12) Granted under the 2001 Equity Incentive Plan. Options vest and become exercisable in three installments: 25% on December 1, 2006; 25% on December 1, 2007; and 50% on December 1, 2008.
- (13) Granted under the 2001 Equity Incentive Plan. Options vest and become exercisable in three installments: 25% on December 14, 2005; 25% on December 14, 2006; and 50% on December 14, 2007.
- (14) Granted under the 2001 Equity Incentive Plan. Options vest and become exercisable in three installments: 25% on November 21, 2007; 25% on November 21, 2008; and 50% on November 21, 2009.
- (15) Granted under the Long Term Incentive Plan. Option vesting is subject to 'performance hurdles' as outlined in the plan rules.

### Stock-Based Compensation

At March 31, 2007, the Company had the following stock-based compensation plans: the Executive Share Purchase Plan; the 2001 Equity Incentive Plan; the Stock Appreciation Rights Plan; the Managing Board Transitional Stock Option Plan; the Supervisory Board Share Plan; the Supervisory Board Share Plan 2006 and the Long-Term Incentive Plan. As of March 31, 2007, the Company had no units outstanding under the following stock-based compensation plans: the Peter Donald Macdonald Share Option Plan, the Peter Donald Macdonald Share Option Plan 2001 and the Peter Donald Macdonald Share Option Plan 2002 (collectively the "Peter Donald Macdonald Share Option Plans").

#### *Executive Share Purchase Plan*

Prior to July 1998, James Hardie Industries Limited ("JHIL") issued stock under an Executive Share Purchase Plan (the "Plan"). Under the terms of the Plan, eligible executives purchased JHIL shares at their market price when issued. Executives funded purchases of JHIL shares with non-recourse, interest-free loans provided by JHIL and collateralized by the shares. In such cases, the amount of indebtedness is reduced by any amounts payable by JHIL in respect of such shares, including dividends and capital returns. These loans are generally repayable within two years after termination of an executive's employment. Variable plan accounting under the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," has been applied to the Executive Share Purchase Plan shares granted prior to April 1, 1995 and fair value accounting, pursuant to the requirements of SFAS No. 123R, has been applied to shares granted after March 31, 1995. The Company recorded no compensation expense during the years ended March 31, 2007, 2006 and 2005. No shares were issued under this plan during years ended March 31, 2007, 2006 and 2005.

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### 2001 Equity Incentive Plan

Under our 2001 Equity Incentive Plan, our employees, including employees of our subsidiaries and officers who are employees, but not including any member of our Managing Board or Supervisory Board, are eligible to receive awards in the form of nonqualified stock options, performance awards, restricted stock grants, stock appreciation rights, dividend equivalent rights, phantom stock or other stock-based benefits. The 2001 Equity Incentive Plan is intended to promote our long-term financial interests by encouraging our management and other persons to acquire an ownership position in us, to align their interests with those of our shareholders and to encourage and reward their performance. The 2001 Equity Incentive Plan was approved by our shareholders and Joint Board subject to implementation of the consummation of our 2001 Reorganization.

An aggregate of 45,077,100 shares of common stock have been made available for issuance under the 2001 Equity Incentive Plan, provided that such number (and any awards granted) is subject to adjustment in the event of a stock split, stock dividend or other changes in our common stock or capital structure or our restructuring. Our ADSs evidenced by ADRs and our common stock in the form of CUFS will be equivalent to and interchangeable with our common stock for all purposes of the 2001 Equity Incentive Plan, provided that ADRs will be proportionately adjusted to account for the ratio of CUFS in relation to ADRs.

The following number of options to purchase shares of our common stock issued under this plan were as follows:

<u>Share Grant Date</u>	<u>Number of Options Granted</u>	<u>Options Outstanding as of May 31, 2007</u>
October 2001(1)	5,468,829	524,158
December 2001	4,248,417	712,419
December 2002	4,037,000	997,500
December 2003	6,179,583	2,372,250
December 2004	5,391,100	3,164,125
February 2005	273,000	273,000
December 2005	5,224,100	4,386,100
March 2006	40,200	40,200
November 2006	3,499,490	3,147,640
March 2007	330,900	330,900
<b>Total outstanding</b>		<b><u>15,948,292</u></b>

- (1) Awarded to our employees on October 19, 2001 in exchange for the cancellation of JHIL shadow stock awards under the JHIL Key Management Equity Incentive Plan.

Our Remuneration Committee administers the 2001 Equity Incentive Plan. Subject to the provisions of the 2001 Equity Incentive Plan, our Joint Board or Remuneration Committee is authorized to determine who may participate in the 2001 Equity Incentive Plan, the number and types of awards made to each participant and the terms, conditions and limitations applicable to each award. In addition, our Joint Board or Remuneration Committee will have the exclusive power to interpret the 2001 Equity Incentive Plan and to adopt such rules and regulations as it deems necessary or appropriate for purposes of administering the 2001 Equity Incentive Plan. Subject to certain limitations, our Joint Board or Remuneration Committee will be authorized to amend, modify or terminate the 2001 Equity Incentive Plan to meet any changes in legal requirements or for any other purpose permitted by law.

The purchase or exercise price of any award granted under the 2001 Equity Incentive Plan may be paid in cash or other consideration at the discretion of our Joint Board or Remuneration Committee. Our Joint Board or Remuneration Committee, in its discretion and as allowed by applicable laws, may allow cashless exercises of awards or may permit us to assist in the exercise of options.

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*Stock Options.* Under the 2001 Equity Incentive Plan, our Joint Board or Remuneration Committee is authorized to award nonqualified options to purchase shares of common stock as additional employment compensation. The 2001 Equity Incentive Plan does not allow us to grant options qualified as “incentive stock options” under Section 422 of the U.S. Internal Revenue Code of 1986, as amended. Options are exercisable over such periods as may be determined by our Joint Board or Remuneration Committee, but no stock option may be exercised after 10 years from the date of grant. Options may be exercisable in installments and upon such other terms as determined by our Joint Board or Remuneration Committee. Options are evidenced by notices of option grants authorized by our Joint Board or Remuneration Committee. No option is transferable other than by will or by the laws of descent and distribution or pursuant to certain domestic relations orders.

*Performance Awards.* Our Joint Board or Remuneration Committee, in its discretion, may award performance awards to an eligible person contingent on the attainment of criteria specified by our Joint Board or Remuneration Committee. Performance awards are paid in the form of cash, shares of common stock or a combination of both. Our Joint Board or Remuneration Committee determines the total number of performance shares subject to an award, and the terms and the time at which the performance shares will be issued.

*Restricted Stock Awards.* Our Joint Board or Remuneration Committee may award restricted shares of common stock, which are subject to forfeiture under such conditions and for such periods of time as our Joint Board or Remuneration Committee may determine. Shares of restricted stock may not be sold, transferred, assigned, pledged or otherwise encumbered so long as such shares remain restricted. Our Joint Board or Remuneration Committee determines the conditions or restrictions of any restricted stock awards, which may include restrictions on requirements of continued employment, individual performance or our financial performance or other criteria.

*Stock Appreciation Rights.* Our Joint Board or Remuneration Committee also may award stock appreciation rights either in tandem with an option or alone. Stock appreciation rights granted in tandem with a stock option may be granted at the same time as the stock option or at a later time. A stock appreciation right entitles the participant to receive from us an amount payable in cash, in shares of common stock or in a combination of cash and common stock, equal to the positive difference between the fair market value of a share of common stock on the date of exercise and the grant price, or such lesser amount as our Joint Board or Remuneration Committee may determine.

*Dividend Equivalent Rights.* Dividend equivalent rights, defined as a right to receive payment with respect to all or some portion of the cash dividends that are or would be payable with respect to shares of common stock, may be awarded in tandem with stock options, stock appreciation rights or other awards under the 2001 Equity Incentive Plan. Our Joint Board or Remuneration Committee determines the terms and conditions of these rights. The rights may be paid in cash, shares of common stock or other awards.

*Other Stock-Based Benefits.* Our Joint Board or Remuneration Committee may award other benefits that, by their terms, might involve the issuance or sale of our common stock or other securities, or involve a benefit that is measured by the value, appreciation, dividend yield or other features attributable to a specified number of shares of our common stock or other securities, including but not limited to stock payments, stock bonuses and stock sales.

*Effect of Change in Control.* The 2001 Equity Incentive Plan provides for the automatic acceleration of certain benefits and the termination of the plan under certain circumstances in the event of a “change in control.” A change in control will be deemed to have occurred if either (1) any person or group acquires beneficial ownership equivalent to 30% of our voting securities, (2) individuals who are members of our Joint Board as of the effective date of the 2001 Equity Incentive Plan, or individuals who became members of our Joint Board after the effective date of the 2001 Equity Incentive Plan whose election or nomination for election was approved by at least a majority of such individuals (or, in the case of directors nominated by a person, entity or group with 20% of our voting securities, by two-thirds of such individuals) cease to constitute at least a majority of the members of our Joint Board, or (3) there occurs the consummation of certain mergers, the sale of substantially all of our assets or our complete liquidation or dissolution.

### ***Stock Appreciation Rights Plans***

On December 14, 2004, 527,000 stock appreciation rights were granted to Interim Managing Board members under the terms and conditions of the JHI NV Stock Appreciation Rights Incentive Plan. All of these stock

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appreciation rights were outstanding as of March 31, 2005. In April 2005, 27,000 stock appreciation rights were cancelled. In December 2006, 250,000 of these stock appreciation rights vested and were exercised at A\$8.99, the closing price of our stock on the exercise day. The remaining 250,000 stock appreciation rights were outstanding at March 31, 2007 and will vest on December 14, 2007 and be settled in cash.

*Effect of Liquidation, Merger or Sale.* The JHI NV Stock Appreciation Rights Incentive Plan provides for the automatic vesting of certain benefits under the plan in the event (1) our stockholders have adopted a plan of complete liquidation, or (2) we have effectuated a merger, consolidation or other transaction constituting a reorganization with another corporation pursuant to which our shares of common stock will be surrendered in exchange for the stock of another corporation without provision being made in the agreement of reorganization for the continuation of the plan or a functionally equivalent plan.

### ***Supervisory Board Share Plan***

At our 2002 Annual General Meeting, our shareholders approved a Supervisory Board Share Plan, or SBSP, effective for a three-year period. This plan was renewed at our 2005 Annual General Meeting. Under the SBSP, all non-executive directors on our Joint Board and Supervisory Board received shares of our common stock as payment for a portion of their director fees. The SBSP required that our directors take at least \$10,000 of their fees in shares and allowed directors to receive additional shares in lieu of fees in their discretion. Shares issued under the \$10,000 compulsory component of the SBSP are subject to a two-year escrow that requires members of the Supervisory Board to retain those shares for at least two years following issue. The issue price for the shares is the average market closing price at which CUFS were quoted on the ASX during the five business days preceding the day of issue. No loans were entered into by us in relation to the grant of shares pursuant to the SBSP. During fiscal year 2007, this plan was replaced with the Supervisory Board Share Plan 2006. At March 31, 2007, there were 6,063 shares still subject to escrow under this plan.

### ***Supervisory Board Share Plan 2006***

At the 2006 Annual General Meeting, shareholders approved the Supervisory Board Share Plan 2006, or SBSP 2006, and the participation of the Supervisory Board directors under the SBSP 2006 for a three-year period. Under the SBSP 2006, Supervisory Board directors can elect to receive some of their annual fees in ordinary shares/CUFS in the Company. This is different from the SBSP under which Supervisory Board Directors were required to contribute a portion of their annual fees in shares/CUFS.

In 2006, the Supervisory Board also implemented a board policy that Supervisory Board directors accumulate a minimum of three times their annual cash remuneration in share ownership (either personally or through a personal superannuation or pension plan) within the six-year period from the later of August 2006 or their appointment. For the purposes of calculating the value of this minimum shareholding, directors' annual fees will still be classified as having both cash and shares components, where the shares component is equal to half the total annual fees for directors, and one third of the total annual fees for the Chairman. At March 31, 2007, 5,039 shares had been acquired under this plan.

To recognize the potential for share price fluctuations to have an impact on the funds required to be committed and the different taxation positions of individual directors, no director will be required to apply more than 50% of the cash component of his or her fees, on a post-tax basis, over a six-year period, toward satisfying this requirement. For fiscal year 2008, the Supervisory Board (and each individual member of the Supervisory Board) has determined that the amount to be applied under the SBSP 2006 for each Supervisory Board director will be \$50,000 and for the Chairman will be \$100,000, net of any applicable Dutch taxes, and that this amount will be paid in the fourth quarter of fiscal year 2008. Any Supervisory Board member who leaves the Supervisory Board during fiscal year 2008 will not participate in the SBSP 2006. Any person becoming a member of the Supervisory Board after the date of the calendar 2007 Annual General Meeting will apply a pro-rata reduced amount under the SBSP 2006 in the fourth quarter of fiscal year 2008.

Shares/CUFS received under the SBSP 2006 can be either issued or acquired on market. Where shares/CUFS are issued, the price is the average of the market closing prices at which CUFS were quoted to the ASX during the five business days preceding the day of issue. Where shares/CUFS are acquired on market, the price is the purchase price.

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The SBSP 2006 does not include a performance condition because the amounts applied to acquire ordinary shares/CUFS under the SBSP 2006 are from the annual fees earned by the Supervisory Board directors.

### ***Managing Board Transitional Stock Option Plan***

The Managing Board Transitional Stock Option Plan provides an incentive to the members of the Managing Board. The maximum number of ordinary shares that may be issued and outstanding or subject to outstanding options under this plan shall not exceed 1,380,000 shares. At March 31, 2007, there were 1,320,000 options outstanding under this plan.

On November 22, 2005, we granted members of our Managing Board options to purchase 1,320,000 shares of our common stock at an exercise price per share equal to A\$8.53 under our Managing Board Transitional Stock Option Plan. Under the plan's rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. 50% of these options become exercisable on the first business day on or after November 22, 2008, if our total shareholder return, or TSR (essentially the dividend yield and common stock performance), from November 22, 2005 to that date was at least equal to the median TSR for the companies comprising our peer group, as set out in the plan. In addition, for each 1% increment that our TSR is above the median TSR an additional 2% of the options become exercisable. If any options remain unvested on the last business day of each six month period between November 22, 2008 and November 22, 2010, we will reapply the vesting criteria to those options on that business day.

*Effect of Change in Control.* The 2005 Managing Board Transitional Stock Option Plan provides for the automatic vesting of certain benefits under the plan under certain circumstances in the event of a "change in control." A "change in control" will be deemed to have occurred if either (1) a person obtains at least 30% of our voting shares pursuant to a takeover bid for all or a proportion of all of our voting shares which is or becomes unconditional, (2) a scheme of arrangement or other merger proposal becomes binding on the holders of all of our voting shares and by reason of such scheme or proposal a person obtains at least 30% of our voting shares, or (3) a person becomes the beneficial owner of at least 30% of our voting shares for any other reason.

### ***Long-Term Incentive Plan***

At our 2006 Annual General Meeting, our shareholders approved the establishment of a Long-Term Incentive Plan or LTIP to provide incentives to members to our Managing Board and to certain members of its management or Executives. The shareholders also approved, in accordance with certain LTIP rules, the issue of certain options or other rights over, or interest in, ordinary fully-paid shares in the Company ("Shares"), the issue and/or transfer of Shares under them, and the grant of cash awards to members of our Managing Board and Executives. At the same meeting, our shareholders approved participation in the LTIP and issue of options to the Managing Board to a maximum of 1,418,000 options. In November 2006, 1,132,000 options were granted under the LTIP to our Managing Board. The vesting of these options are subject to "performance hurdles" as outlined in the LTIP rules. Unexercised options expire 10 years from the date of issue. As of March 31, 2007, there were 1,132,000 options outstanding under this plan.

*Effect of Change in Control, Takeover by Certain Organizations or Liquidation.* The James Hardie Industries N.V. Long Term Incentive Plan 2006 provides for plan participants' early exercise of certain benefits or early payout under the plan in the event of a "change in control," takeover by certain organizations or liquidation. A "change in control" is deemed to have occurred if pursuant to a takeover bid or otherwise, any person together with their associates acquire Shares, which when aggregated with Shares already acquired by such person and their associates, comprise more than 30% of our issued Shares.

## **Other Compensation**

### ***Economic Profit Incentive Plan***

We maintain an Economic Profit Incentive Plan which provides incentive compensation for certain of our executive directors, officers and key executives. This plan is a variable pay plan, which links our incentive payments



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to certain key individuals to the performance of the Company and the individual's performance. These designated executives are entitled to receive incentive payments upon the Company's achievement of certain predetermined financial targets and certain other mutually agreed upon personal objectives. A participant is eligible to receive an incentive payment based on his or her individual performance regardless of the Company's performance. The portion of the target incentive that is based on the Company's performance is an amount up to 80% of the target incentive and is paid to the participant at the end of the fiscal year if the Company's predetermined financial target is met. If the Company's predetermined financial target is exceeded, the participant is eligible to receive an incentive payment that is greater than the target incentive but only one-third of the portion of the incentive that is greater than the target incentive is actually paid to the participant at the end of the fiscal year. The remaining two-thirds is deposited with a notional bank and is paid to the executive over the following two years if the Company's predetermined financial targets are met in those years, or is reduced if the Company's predetermined financial targets are not met. The Company believes that this Plan distinguishes between sustained performance and one-time performance and encourages participants to maintain a long-term view.

### ***401(k) Plan***

We sponsor a U.S. defined contribution plan, the James Hardie Retirement and Profit Sharing Plan, for our employees in the United States and a defined benefit pension plan, the James Hardie Australia Superannuation Plan, for our employees in Australia. The U.S. defined contribution plan is a tax-qualified retirement and savings plan (which we refer to as the 401(k) Plan) covering all U.S. employees, subject to certain eligibility requirements. Participating employees may elect to reduce their current annual compensation by up to \$15,500 in calendar year 2007 and have the amount of such reduction contributed to the 401(k) Plan, with a maximum compensation limit of \$225,000. In addition, we match employee contributions dollar for dollar up to a maximum of the first 6% of an employee's base salary.

### ***James Hardie Australia Superannuation Plan***

The James Hardie Australia Superannuation Plan is funded based on statutory requirements in Australia and is based primarily on the contributions and income derived thereon held by the plan on behalf of the member, and to a lesser degree, on the participants' eligible compensation and years of credited service.

### ***Director Retirement Benefits***

In July 2002, the Company discontinued a retirement plan that entitled some of our Supervisory Board Directors to receive, upon their termination for any reason other than misconduct, an amount equal to a multiple of up to five times their average annual fees for the three year period prior to their retirement.

The applicable multiple was based on the director's years of service on our Supervisory Board, including service on the JHIL Board. Two of our former directors, Ms. Hellicar and Mr. Brown, retained some benefits that had accrued as of 2002 under this retirement plan. Both Ms. Hellicar and Mr. Brown retired from our Supervisory Board on February 20, 2007 and we have determined that they are entitled to receive benefits pursuant to this plan in the gross amount of \$833,979 and \$307,658 for Ms. Hellicar and Mr. Brown, respectively. We expect to make these payments in fiscal year 2008.

No other directors retain any benefits under this plan.

## **Item 7. Major Shareholders and Related Party Transactions**

### **Major Shareholders**

As of May 31, 2007, all issued and outstanding shares of our common stock were listed on the Australian Securities Exchange in the form of CHES Units of Foreign Securities, or CUFS. CUFS represent beneficial ownership of our shares. CHES Depository Nominees Pty Ltd is the registered owner of the shares represented by CUFS. Each of our CUFS represents one share of our common stock.

To our knowledge, based on shareholder notices filed with the Australian Securities Exchange (unless indicated otherwise below), as of May 31, 2007, the following table identifies those shareholders which beneficially



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owned 5% or more of our common stock and their holdings and percentage of shares outstanding as of the date of their last respective notices:

<u>Shareholder</u>	<u>Shares Beneficially Owned</u>	<u>Percentage of Shares Outstanding</u>
Commonwealth Bank of Australia (and subsidiaries)	54,916,592	11.90%
Lazard Asset Management Pacific Co.	52,157,165	11.17%
The Capital Group Companies, Inc.	32,960,346	7.12%
Schroder Investment Management Australia Limited	31,024,755	6.65%
National Australia Bank Limited Group	28,198,184	6.15%
Perpetual Limited and subsidiaries	28,017,563	5.99%

Commonwealth Bank merged with Colonial First State Investments in June 2000, and their combined holdings as of March 22, 2001 exceeded 5% of JHIL's outstanding stock. Commonwealth Bank increased its percentage ownership of JHIL to approximately 13% in May 2001. Through subsequent periodic purchases, Commonwealth Bank gradually increased its interest in JHI NV to 17.03% in July 2003, but based on information provided by Commonwealth Bank in its Form 13G filed with the SEC on August 14, 2006, it had reduced its interest in JHI NV to 11.90% as of August 8, 2006.

Lazard Asset Management Pacific Co became a substantial shareholder on April 1, 2004, with a 5.34% interest in our outstanding stock and increased its holding in JHI NV on March 21, 2007 to 11.17% in the last notice received.

The Capital Group Companies, Inc. became a substantial shareholder on August 3, 2004, with a 5.09% interest in JHI NV outstanding shares and increased its holding in JHI NV on March 17, 2006 to 7.12% in the last notice received.

Schroder Investment Management Australia Limited became a substantial shareholder on January 28, 2004, with a 5.55% interest in JHI NV's outstanding shares and, through subsequent purchases, increased its holding in JHI NV on April 6, 2004 to 8.69%. Schroder Investment Management Australia Limited reduced its holding in JHI NV to 6.65% on January 8, 2007 in the last notice received.

National Australia Bank Limited Group became a substantial shareholder on May 25, 2004, with 5.03% of our outstanding stock and increased its holding in JHI NV on June 16, 2004 to 6.15% in the last notice received.

Perpetual Limited and subsidiaries became a substantial shareholder on December 13, 2006, with a 5.02% interest in JHI NV's outstanding shares. Their substantial holding status ceased on January 8, 2007 when their holding fell below 5%. On January 18, 2007, Perpetual Limited increased its holding in JHI NV to 5.04%. Through subsequent transactions, Perpetual Limited increased its holding in JHI NV on May 30, 2007 to 5.99% in the last notice received.

Each of the above shareholders has the same voting rights as all other holders of our common stock. To our knowledge, except for the major shareholders described above, we are not directly or indirectly owned or controlled by another corporation, by a foreign government or by any other natural or legal persons severally or jointly.

### Other Security Ownership Information

As of May 31, 2007, 0.39% of the outstanding shares of our common stock were held by 55 CUFs holders with registered addresses in the United States. In addition, as of May 31, 2007, 0.53% of our outstanding shares were represented by ADRs held by 8 holders, all of whom have registered addresses in the United States. A total of 0.92% of our outstanding capital stock was registered to 63 U.S. holders as of May 31, 2007.

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### **Related Party Transactions**

#### *Existing Loans to our Directors and Directors of our Subsidiaries*

At March 31, 2007 and 2006, loans totaling \$30,774, and \$30,466, respectively, were outstanding from certain executive directors or former directors of subsidiaries of JHI NV under the terms and conditions of the Executive Share Purchase Plan, which we refer to as the Plan. Loans under the Plan are interest free and repayable from dividend income earned by, or capital returns from, securities acquired under the Plan. The loans are collateralized by CUFS under the Plan. No new loans to Directors or executive officers of JHI NV, under the plan or otherwise, and no modifications to existing loans have been made since December 1997.

During fiscal years 2007 and 2006, repayments totaling \$3,517 and \$1,892, respectively, were received in respect of the Plan from Mr. Alan Kneeshaw, Mr. Macdonald, Mr. Morley and Mr. Donald Salter. During fiscal year 2005, an executive director of a subsidiary resigned with loans outstanding of \$117,688. Under the terms of the Plan, this director had two years from the date of his resignation to repay such loan. The loan was repaid in full in the year ended March 31, 2007.

#### *Payments Made to Directors and Director Related Entities of JHI NV during the Year*

Former Supervisory Board Director Dr. Gregory Clark is a director of ANZ Banking Group Limited with whom the Company transacts banking business. Deputy Chairman Mr. McGauchie is a director of Telstra Corporation Limited from whom the Company purchases communications services. All transactions were in accordance with normal commercial terms and conditions. It is not considered that these directors had significant influence over these transactions.

Payments totaling \$4,507 for the year ended March 31, 2007 were made to Grech, Vella, Tortell & Hyzler Advocates. Dr. Vella was a director of one of the Company's subsidiaries. The payments were in respect of legal services and were negotiated in accordance with usual commercial terms and conditions.

Payments totaling \$5,364 for the year ended March 31, 2007 were made to Bernaldo, Mirador and Directo Law Offices. R. Bernaldo is a director of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

### **Item 8. Financial Information**

See Item 4, "Information on the Company — Legal Proceedings," Item 18, "Financial Statements," and pages F-1 through F-44. There has been no significant change to the financial statements included in this annual report since the date of such financial statements.

See Item 10, "Additional Information — Key Provisions of our Articles of Association of JHI NV— Dividends."

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### Item 9. Listing Details

#### Price History

The high and low trading prices of JHI NV CUFS on the Australian Securities Exchange are as follows:

Period	High		Low	
	(A\$)	(US\$)	(A\$)	(US\$)
Fiscal year ended:				
March 31, 2007	10.24	7.84	6.31	4.83
March 31, 2006	9.81	7.38	5.49	4.13
March 31, 2005	7.23	5.35	4.95	3.66
March 31, 2004	8.04	5.58	5.84	4.05
March 31, 2003	7.06	3.96	5.56	3.12
Fiscal quarter ended:				
March 31, 2007	10.24	8.06	8.05	6.34
December 31, 2006	9.70	7.47	7.23	5.57
September 30, 2006	7.85	5.95	6.31	4.78
June 30, 2006	9.95	7.43	7.12	5.32
March 31, 2006	9.81	7.25	8.11	6.00
December 31, 2005	9.03	6.72	7.65	5.69
September 30, 2005	9.44	7.17	7.40	5.62
June 30, 2005	7.75	5.96	5.49	4.22
Month ended:				
May 31, 2007	9.50	8.40	8.64	7.64
April 30, 2007	9.40	7.28	8.13	6.30
March 31, 2007	9.70	7.71	8.05	6.40
February 28, 2007	10.24	8.01	9.02	7.05
January 31, 2007	10.10	7.94	9.35	7.35
December 31, 2006	9.70	7.61	8.13	6.38

The U.S. dollar prices set forth above were calculated using the weighted average exchange rate for the relevant period.

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The high and low trading prices of JHI NV ADRs on the New York Stock Exchange are as follows:

<u>Period</u>	<u>High (US\$)</u>	<u>Low (US\$)</u>
Fiscal year ended:		
March 31, 2007	41.70	24.20
March 31, 2006	36.36	21.54
March 31, 2005	27.21	18.10
March 31, 2004	28.50	18.25
March 31, 2003	19.95	15.29
Fiscal quarter ended:		
March 31, 2007	41.70	32.70
December 31, 2006	37.88	26.98
September 30, 2006	28.85	24.20
June 30, 2006	36.80	25.90
March 31, 2006	35.59	30.51
December 31, 2005	34.80	29.60
September 30, 2005	36.36	27.70
June 30, 2005	30.00	21.54
Month ended:		
May 31, 2007	39.25	35.50
April 30, 2007	39.14	33.30
March 31, 2007	36.94	32.70
February 28, 2007	41.70	36.60
January 31, 2007	39.00	35.97
December 31, 2006	37.88	32.35

### Trading Markets

Our securities are listed and quoted on the following stock exchanges:

Common Stock (in the form of CUFS)	Australian Securities Exchange
ADRs	New York Stock Exchange

We cannot predict the prices at which our shares and ADRs will trade or the volume of trading for such securities, nor can we assure you that these securities will continue to meet the applicable listing requirements of these exchanges.

### Trading on the Australian Securities Exchange

The Australian Securities Exchange is headquartered in Sydney, Australia, with branches located in each Australian state capital. Our CUFS trade on the Australian Securities Exchange under the symbol "JHX." The Australian Securities Exchange is a publicly listed company with trading being undertaken by brokers licensed under the Australian Corporations Act 2001. Trading principally takes place between the hours of 10:00 a.m. and 4:00 p.m. on each weekday (excluding Australian public holidays). Settlement of trades in uncertificated securities listed on the Australian Securities Exchange is generally effected electronically on the third business day following the trade. This is undertaken through CHES (Clearing House Electronic Sub-register System), which is the clearing and settlement system operated by the Australian Securities Exchange.

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### Trading on the New York Stock Exchange

In the United States, five JHI NV CUFS equal one JHI NV ADR. Our ADRs trade on the New York Stock Exchange under the symbol “JHX.” Trading principally takes place between the hours of 9:30 a.m. and 4:00 p.m. on each weekday (excluding U.S. public holidays). All inquiries and correspondence regarding ADRs should be directed to The Bank of New York, depository for our ADRs, at The Bank of New York, ADR Department, 101 Barclay Street #22W, New York, New York 10286 or at its website located at [www.adrbny.com](http://www.adrbny.com) or contact: The Bank of New York, Investor Relations, P.O. Box 11258, Church Street Station, New York, NY 10286-1258, toll free telephone number for USA domestic callers: 1-888-BNY-ADRs, non-U.S. callers can call: 212-815-3700 or email: [shareowners@bankofny.com](mailto:shareowners@bankofny.com).

### Item 10. Additional Information

#### General

We were originally incorporated in 1998 as a private company with limited liability, or “*besloten vennootschap met beperkte aansprakelijkheid*” (a “B.V.”). By notarial deed dated July 24, 2001, we changed our name to James Hardie Industries N.V. and by the same deed we changed our legal form into that of a “*naamloze vennootschap*” (an “N.V.”), a public limited liability company under Dutch law. Our Articles of Association were most recently amended on September 1, 2005.

Our corporate seat is in Amsterdam, The Netherlands and we have offices at The Atrium, 8th floor, Strawinskylaan 3077, 1077 ZX Amsterdam, The Netherlands. We are registered at the trade register of the Chamber of Commerce and Industry for Amsterdam, The Netherlands under number 34106455.

#### Key Provisions of our Articles of Association of JHI NV

##### *Purpose of the Company*

Our purposes are:

- to participate in, to take an interest in any other way in and to conduct the management of business enterprises of whatever nature;
- to raise funds through the issuance of debt or equity or in any other way and to finance third parties;
- to provide guarantees, including guarantees for the debts of third parties; and
- to perform all activities which are incidental to or which may be conducive to, or connected with, any of the foregoing.

##### *Provisions of our Articles of Association or Charter Related to Directors*

*Power to vote when director is materially interested.* Pursuant to the Company’s Articles of Association, and subject to limited exceptions, a member of the Managing Board who has a material personal interest in a matter that relates to the affairs of the Company must give all other members of the Managing Board notice of his or her interest. Furthermore, subject to limited exceptions, a member of the Managing Board who has a material personal interest in a matter that is being considered at a meeting of the Managing Board may neither be present while the matter is being considered at such meeting nor vote on the matter.

Subject to limited exceptions, a member of the Supervisory Board who has a material personal interest in a matter that relates to the affairs of the Company must give all other members of the Supervisory Board notice of his or her interest. Furthermore, subject to limited exceptions, a member of the Supervisory Board who has a material personal interest in a matter that is being considered at a meeting of the Supervisory Board may neither be present while the matter is being considered at such meeting nor vote on the matter.

If a member of the Managing Board has a conflict of interest with the Company (whether acting in his personal capacity by entering into an agreement with the Company, conducting any litigation against the Company or acting in any other capacity), he or she, will still have the power to represent the Company towards third parties when

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entering into transactions, unless a person is designated at the General Meeting of Shareholders for that purpose or the law provides the designation in a different manner.

*Power to vote compensation.* The maximum aggregate amount of remuneration of the members of the Supervisory Board is determined at the General Meeting of Shareholders.

The remuneration of the members of the Managing Board is determined by the Supervisory Board within the limits of the remuneration policy adopted at the General Meeting of Shareholders. The Supervisory Board will submit for approval by the General Meeting of Shareholders a proposal regarding the arrangements for the remuneration of the members of the Managing Board in the form of shares or rights to acquire shares. This proposal includes at least how many shares or rights to acquire shares may be awarded to the Managing Board and which criteria apply to an award or a modification. Our Articles of Association do not include any provisions regarding the power of the members of the Managing Board, in the absence of an independent quorum, to vote compensation to themselves or any other members of the Managing Board.

*Borrowing Powers.* Our Articles of Association do not include any provisions regarding the borrowing powers of members of the Managing Board or the Supervisory Board. However, the provisions regarding conflicts of interest generally govern this issue.

*Age Limit Requirement for Retirement or Non-Retirement.* Our Articles of Association do not include any provisions regarding the mandatory retirement age of a member of the Managing Board or the Supervisory Board.

*Number of shares for director's qualification.* Our Articles of Association do not impose any obligation on the members of the Managing Board or the Supervisory Board to hold shares in the Company.

### ***Issuance of Shares; Preemptive Rights***

Pursuant to Dutch law and our Articles of Association, the authority to issue shares and to grant rights to subscribe for shares, such as options, and to limit or exclude preemptive rights is vested in our shareholders as a group, unless our shareholders have delegated this authority to another corporate body. Such delegation is valid for a maximum period of five years, but may be renewed at any time prior to its expiration.

At our August 22, 2005 Annual General Meeting, our Supervisory Board has been delegated the authority to issue shares and to grant rights to subscribe for shares, such as options, and to limit or exclude preemptive rights until August 22, 2010. After August 22, 2010, shares and rights to subscribe for shares may be issued, and preemptive rights may be limited or excluded by our shareholders or by our Supervisory Board, provided it has again been delegated this authority by our shareholders (such delegation shall be for a maximum period of five years). We plan to ask our shareholders to delegate this authority to our Supervisory Board again prior to August 22, 2010. It is anticipated that our Supervisory Board will eliminate preemptive rights with respect to any and all issuances of shares of common stock during such period.

Shares of common stock must be issued for a subscription price at least equal to their nominal value and at least 25% of the nominal value must have been paid up at the time of issuance.

As a Dutch company that has listed securities in Australia and the United States, we are subject to applicable legislation regarding insider trading. Generally, Dutch law prohibits anyone, whether or not a director or employee of the issuer, from trading in or bringing about transactions in the securities of the issuer while in possession of inside, non-public information and from passing on inside information or recommending a transaction while in possession of inside information. Similar provisions apply under Australian law, where persons are prohibited from trading on the basis of information which is not generally available and which, if it were generally available, a reasonable person would expect to have a material effect on the price or value of securities. Similarly, in the United States, persons are prohibited from trading on the basis of material, non-public information. We have adopted an internal code on insider trading consistent with Dutch, Australian and U.S. laws and regulations.

### ***Repurchase of Shares***

At the proposal of our Joint Board, we may acquire shares in our own capital, subject to certain provisions of Dutch law and of our Articles of Association, if and insofar as (1) shareholders' equity, less the amount to be paid for



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the shares acquired, is not less than the sum of the paid and called up part of our issued share capital, plus any reserves required to be maintained by Dutch law or our Articles of Association, (2) the aggregate par value of the shares of our capital which we acquire, already hold or on which we hold a right of pledge, or which are held by one of our subsidiaries, amounts to no more than one-tenth of the aggregate par value of the issued share capital, and (3) our shareholders, as a group, have authorized our Managing Board to acquire such shares, which authorization shall be valid for no more than eighteen months. Neither we nor any of our subsidiaries may vote shares that are held by them or us.

At our September 25, 2006 Annual General Meeting, our Managing Board was authorized to cause JHI NV to acquire shares in JHI NV's capital for a period expiring on March 25, 2008. After March 25, 2008, shares in JHI NV's capital may be acquired if our Managing Board has again been authorized to do so by our shareholders (such authorization may be for a maximum period of 18 months). We intend to ask our shareholders in our 2007 Annual General Meeting to renew the authorization of the Managing Board to cause JHI NV to acquire shares in JHI NV's capital, on terms substantially identical to the September 25, 2006 authorization.

### ***Reduction of Share Capital***

Upon the proposal of our Managing Board, our shareholders as a group have the power to effect a reduction of share capital by deciding to (i) cancel shares, or depositary receipts related to shares, acquired by us in our own share capital, or (ii) to reduce the nominal value of our shares, subject to applicable statutory provisions, with or without a partial repayment or release. The proposal of our Managing Board, as referred to in the preceding sentence, is subject to the approval of our Joint Board. In case of a partial repayment or release, these must be made *pro rata* to all shares. The *pro rata* requirements may be waived by agreement of all shareholders concerned.

### ***Shareholders Meetings and Voting Rights***

Each shareholder, person entitled to vote and CUFS holder (but not an ADR holder) has the right to attend general meetings of shareholders, either in person or by proxy, to address shareholder meetings and, in the case of shareholders and other persons entitled to vote (for instance, certain pledge holders), to exercise voting rights, subject to the provisions of our Articles of Association. As described in the paragraph below, although ADR holders cannot vote directly, they can direct the voting of their underlying shares through the ADR depositary. Meetings of shareholders are held in The Netherlands at least annually, within six months after the close of each of our fiscal years. These meetings take place in either Amsterdam, The Hague, Rotterdam or Haarlemmermeer. Additional meetings of shareholders may be held as often as our Managing Board or our Supervisory Board deems necessary or if called by (1) holders of shares of common stock jointly representing at least 5% of our issued share capital, or (2) at least 100 holders of shares of common stock or one shareholder representing at least 100 CUFS holders or any relevant combination thereof so that the request of at least 100 persons is taken into account. Our Articles of Association also provide that an information meeting of shareholders must be held in Australia prior to each general meeting.

We give notice of each meeting of shareholders by mail and by way of an announcement in a nationally distributed newspaper in The Netherlands. Such notice is given no later than the 28th day prior to the day of the meeting and includes or is accompanied by an agenda identifying the business to be considered at the meeting. We currently are exempt from the proxy rules under the Exchange Act. Holders of shares of common stock represented by CUFS are provided notice of general meetings of shareholders and other communications with shareholders by us, and the ADR depositary, The Bank of New York, provides our ADR holders with such notices and communications. CHES Depositary Nominees Pty Ltd, or CDN, or we on behalf of CDN, may deliver to CUFS holders instruction forms allowing the CUFS holders to instruct CDN how to vote at a meeting. Similarly, the ADR depositary may deliver to ADR holders instruction forms allowing the ADR holders to direct the ADR depositary on how to instruct CDN to vote at a meeting. In order for CUFS holders to attend general meetings of shareholders in person, such holders need not withdraw the shares of common stock represented by the CUFS, but must follow such rules and procedures as may be established by the CUFS Subregistrar and our share registry. CUFS holders may request CDN to appoint them as proxy for the purposes of voting the shares underlying their holding of CUFS on behalf of CDN. In order for ADR holders to attend general meetings of shareholders in person, such holders will

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have to convert their ADRs into CUFSS and, in doing so, must follow the procedures set forth in the deposit agreement and such rules and procedures as may be established by the ADR depository.

Each share of common stock entitles the holder thereof to one vote on each matter to be voted upon by the shareholders. Holders of CUFSS will be entitled to attend and to speak, but not vote, at our shareholders meetings. A CUFSS holder may follow instructions set out in a relevant Notice of Meeting to have the registered shareholder, CDN, appoint the CUFSS holder as a proxy of CDN to vote their CUFSS holding at the relevant meeting of shareholders. Holders of ADRs are not entitled to attend or speak, nor vote, at our general meetings of shareholders, but, as described above, they can direct the voting of their underlying shares through the ADR depository.

Unless otherwise required by our Articles of Association or Dutch law, resolutions of the general meeting of shareholders will be validly adopted by an absolute majority of the votes cast at a meeting at which at least 5% of our issued share capital is present or represented. Except where expressly stated otherwise in this Form 20-F, all references here and elsewhere herein to actions by the shareholders, or shareholders as a group, are references to actions taken by way of such a resolution at a meeting of shareholders.

Dutch law and our Articles of Association currently do not impose any limitations on the rights of persons who are not resident of The Netherlands to hold or vote shares of common stock, solely as a result of such non-resident status.

### ***Annual Report***

Our fiscal year runs from April 1 through March 31. Dutch law requires that within five months after the end of our fiscal year, unless the general meeting of shareholders has extended this period for a maximum of six months, our Managing Board must make available to our shareholders a report with respect to that fiscal year. This report must include the financial statements and a report of an independent accountant. The annual report must be submitted to the shareholders for adoption. The annual report, including the management report, is prepared in English and, in the case of the consolidated accounts of JHI NV and its wholly owned subsidiaries, according to U.S. GAAP, and in the case of JHI NV's accounts, according to accounting principles generally accepted in The Netherlands (which we refer to as Dutch GAAP).

### ***Indemnification***

Our Articles of Association provide that we shall generally indemnify any person who is or was a member of our Managing, Supervisory or Joint Boards or one of our employees, officers or agents, and who suffers any loss as a result of any action in connection with their service to us, provided they acted in good faith in carrying out their duties and in a manner they reasonably believed to be in our interest. This indemnification generally will not be available if the person seeking indemnification acted with gross negligence or willful misconduct in the performance of such person's duties to us. A court in which an action is brought may, however, determine that indemnification is appropriate nonetheless.

### ***Dividends***

All calculations to determine the amounts available for dividends or other distributions are based on our statutory accounts, which are, as a holding company, different from our consolidated accounts and which are prepared in accordance with Dutch GAAP because we are a Dutch company. Because we are a holding company and have limited operations of our own, we are largely dependent on dividends or other distributions from our subsidiaries to fund any cash dividends.

The profits of JHI NV in any financial year, if any, shall first be retained by way of a reserve in such amount as determined by our Supervisory Board. The remaining portion of the profits shall be at the disposal of our Managing Board for further allocation to our reserves or, if permitted by Dutch law and our Articles of Association, be made available for distribution as a dividend to the holders of shares of common stock, or a combination thereof. Our Managing Board, upon approval of our Joint Board, may also declare interim dividends as permitted by Dutch law and our Articles of Association.

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We may not make any distribution, whether out of our profits as an interim dividend, out of our general share premium reserve or out of any other reserves that are available for shareholder distributions under Dutch law, if the distribution would reduce shareholders' equity to an amount less than the sum of the paid and called up part of our issued share capital, plus certain reserves that are required to be maintained by Dutch law and our Articles of Association. Distributions may, at the discretion of Managing Board, upon approval of our Joint Board, be made in cash or in shares or other securities, such as a stock dividend, provided that our shareholders as a group are authorized to make distributions in shares or other securities, if and so long as our Supervisory Board has not been delegated the authority to issue shares and rights to subscribe for shares. See "Issuance of Shares; Preemptive Rights."

Cash dividends and other distributions that have not been collected within five years and two days after the date on which they became due and payable will generally revert to us.

JHIL historically paid dividends to its shareholders. JHI NV's Managing Board, subject to the approval of the Joint Board, determines whether to declare a dividend and the amount of any such dividend. Our Managing Board also determines the record dates at which time registered holders of our shares, including the CHESSE Depository Nominee issuing CUFS to the ADR depository, will be entitled to dividends and sets the payment dates. Dividends are declared payable to our shareholders in U.S. dollars. The ADR Depository (Bank of New York) receives dividends in U.S. dollars directly from JHI NV on each CUFS dividend payment date and will distribute any dividend to holders of ADRs in U.S. dollars pursuant to the terms of the deposit agreement. Other CUFS holders registered at a dividend record date are paid their dividend on each CUFS dividend payment date in the equivalent amount of Australian dollars, as determined by the prevailing exchange rate shortly after the CUFS dividend record date.

### ***Amendment of Articles of Association***

Our Articles of Association may be amended by our shareholders by resolution approved by 75% of the votes cast at a general meeting of shareholders at which at least 5% of our issued share capital is present or represented.

### ***Liquidation Rights***

In the event of our dissolution and liquidation, and after we have paid all debts and liquidation expenses, all assets available for distribution shall be distributed to our holders of shares of common stock *pro rata* based on the nominal amount paid upon the shares of common stock held by such holders. As a holding company, our sole material assets are the capital stock of our subsidiaries. Therefore, in the event of a dissolution or liquidation, we will either distribute the capital stock of our subsidiaries or sell such stock and distribute the net proceeds thereof, or liquidate such subsidiaries and distribute the net proceeds thereof, after satisfying our liabilities.

### ***Limitations on Right to Hold Common Stock***

Subject to certain exceptions, our Articles of Association prohibit the holding of shares of our common stock if, because of an acquisition of a relevant interest (including in the form of shares of our common stock, CUFS or ADRs) in such shares: (1) the number of shares of our common stock in which any person, directly or indirectly, acquires or holds a relevant interest increases from 20% or below to over 20% or from a starting point that is above 20% and below 90% of the issued and outstanding share capital of JHI NV or (2) the voting rights which any person, directly or indirectly, is entitled to exercise at a general meeting of shareholders increase from 20% or below to over 20% or from a starting point that is above 20% and below 90% of the total number of such voting rights which may be exercised by any person at a general meeting of shareholders. The purpose of this prohibition is to ensure that the principles which underpin the Australian Corporations Act 2001 takeover regime are complied with in a change of control, namely that: (1) the acquisition of control over the Company takes place in an efficient, competitive and informed market; (2) the holders of the shares of our common stock or CUFS and our Managing Board, Joint Board and Supervisory Board know the identity of any person who proposes to acquire a substantial interest in the Company, have a reasonable time to consider the proposal, and are given enough information to enable them to assess the merits of the proposal and (3) as far as practicable, the holders of the shares of our common stock or CUFS, among others, all have a reasonable and equal opportunity to participate in any benefits accruing to the

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holders through any proposal under which a person would acquire a substantial interest in the Company. The exceptions to this prohibition set forth in our Articles of Association generally include:

- acquisitions that result from acceptances under a takeover bid, which complies with the Articles of Association, including the principles set forth above;
- acquisitions which result in a person's voting power increasing by not more than 3% in a six-month period;
- acquisitions which are consistent with the principles set forth above, conform to the other takeover principles set out in the Articles of Association (adjusting those principles as appropriate to meet the particular circumstances of the acquisitions) and have received the prior approval of the Supervisory Board; and
- acquisitions approved at a general meeting of shareholders, subject to certain requirements being satisfied in relation to voting and the provision of information.

The prohibition does not apply to holdings by the CUFSS depository, CDN, of our shares as custodian for the CUFSS holders but will apply to CDN where another person acquires or holds a relevant interest in breach of the provisions. If a person acquires or holds a relevant interest in breach of the prohibition, JHI NV has several powers available to it under our Articles of Association. These include powers to require the disposal of our common stock, disregard the exercise of votes and suspend dividend rights. These powers will only extend to that number of shares of common stock which are acquired or held in breach of the prohibition.

The Supervisory Board may cause JHI NV to exercise these powers if JHI NV has first obtained a judgment from a court of competent jurisdiction that a breach of the prohibition has occurred and is continuing. Alternatively, these powers may also be exercised without having recourse to the courts if certain procedures in relation to obtaining legal advice are followed. Our right to exercise these powers by complying with these procedures must be renewed by shareholder approval every five years or such powers will lapse. If renewed, confirmation of this renewal must be made by lodgment of a declaration by the Managing Board, on recommendation of the Joint Board, with the relevant authority in accordance with Dutch law.

Furthermore, if JHI NV becomes subject to the law of any jurisdiction, which applies so as to regulate the acquisition of control and the conduct of any takeover of the Company, JHI NV shall consult promptly with the ASX to determine whether, in the light of the application of such law:

- (i) ASX requires an amendment to the takeover provisions in our Articles of Association to comply with the ASX Listing Rules as then in force; or
- (ii) any waiver of the ASX Listing Rules permitting the inclusion of the takeovers provisions has ceased to have effect.

In either case, the Managing Board shall put to a general meeting of shareholders a proposal to amend our Articles of Association so as to make them, to the fullest extent permitted by law, consistent with the ASX Listing Rules.

Although these provisions of our Articles of Association may help to ensure that no person may acquire voting control of us without making an offer to all shareholders, these provisions may also have the effect of delaying or preventing a change in control of the Company.

### ***Disclosure of Holdings***

Pursuant to our Articles of Association, shareholders are required to notify us of acquisitions of 5% or more of our outstanding securities and of any further change in their holdings of 1% or more of our outstanding securities. In addition, pursuant to our Articles of Association, we have the power to require our shareholders and CUFSS holders to provide to us information about the identity of persons who have relevant interests in our securities and the details of that interest. These provisions are intended to mirror the tracing of beneficial ownership provisions of the Australian Corporations Act 2001, which would not have applied statutorily to us as a Dutch company absent a specific provision in our Articles of Association.

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Finally, shareholders are subject to beneficial ownership reporting disclosure requirements under U.S. securities laws, including the filing of beneficial ownership reports on Schedules 13D and 13G with the SEC. The SEC's rules require all persons who beneficially own more than 5% of a class of securities registered with the SEC to file either a Schedule 13D or 13G. This filing requirement applies to all holders of our shares of common stock, ADRs or CUFS because our securities have been registered with the SEC. The number of shares of common stock underlying ADRs and CUFS is used to determine whether a person beneficially owns more than 5% of the class of securities. This beneficial ownership-reporting requirement applies whether or not the holders are U.S. residents. The decision of whether to file a Schedule 13D or a Schedule 13G will depend primarily on the nature of the beneficial owner and the circumstances surrounding the person's beneficial ownership. A copy of the rules and regulations relating to the reporting of beneficial ownership with the SEC, as well as Schedules 13D and 13G, are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

### Material Contracts

In addition to the other contracts that are described in this Annual Report on Form 20-F, including without limitation the Final Funding Agreement and certain other related agreements described in Item 4, "Information on the Company — Legal Proceedings," and any contracts that have been entered into in the ordinary course of business, the following are the contracts we consider to be material to us. All contracts described below have been filed as an exhibit to this Annual Report on Form 20-F and are hereby incorporated by reference and the summary below is qualified in its entirety by such reference.

*U.S. Dollar Cash Advance Facilities.* Our credit facilities currently consist of 364-day facilities in the amount of \$110.0 million, which as of March 31, 2007 all had a maturity date of December 2007, and term facilities in the amount of \$245.0 million, which mature in June 2010. As of June 2007, the maturity dates of all of the 364-day facilities had been extended to June 2008. For both facilities, interest is calculated at the commencement of each draw-down period based on the U.S.-dollar London Interbank Offered Rate, or LIBOR, plus the margins of individual lenders, and is payable at the end of each draw-down period. During the year ended March 31, 2007, we paid \$0.7 million in commitment fees. As of March 31, 2007, there was \$188.0 million drawn under the combined facilities and \$167.0 million was available.

*Gypsum Indemnity.* We sold our Gypsum wallboard manufacturing facilities in April 2002. Under the terms of the sale agreement with the buyer, BPB U.S. Holdings, Inc., we agreed to customary indemnification obligations which generally have expired. However, pursuant to the sale agreement, we agreed to indemnify the buyer for any future liabilities arising from asbestos-related injuries to persons or property arising from our former Gypsum business. Although we are not aware of any asbestos-related claims arising from the Gypsum business nor circumstances that would give rise to such claims, our obligation under the sale agreement to indemnify the buyer for liabilities arising from asbestos-related injuries arises only if such claims exceed \$5 million in the aggregate, is limited to \$250 million in the aggregate and will continue for 30 years after the closing date of our Gypsum business.

Pursuant to the terms of our agreement to sell our Gypsum business, we also retained responsibility for any losses incurred by the buyer resulting from environmental conditions at the Duwamish River in the State of Washington so long as notice of a claim is given within 10 years of closing. Our indemnification obligations in this regard are subject to a \$34.5 million limitation. The Seattle gypsum facility had previously been included on the "Confirmed and Suspected Contaminate Sites Report" released in 1987 due to the presence of metals in the groundwater. Because we believe the metals found emanated from an offsite source, we do not believe we are liable for, and have not been requested to conduct, any investigation or remediation relating to the metals in the groundwater. See Item 3, "Key Information — Risk Factors."

*ABN 60 Indemnities.* In connection with the separation of Amaca, Amaba and ABN 60 from the James Hardie Group, JHI NV agreed to indemnify ABN 60 Foundation for any non asbestos-related legal claims made against ABN 60. There is no maximum amount of the indemnity and the term of the indemnity is in perpetuity. We believe that the likelihood of any material non-asbestos-related claims occurring against ABN 60 is remote. As such, we have not recorded a liability for the indemnity. We have not pledged any assets as collateral for such indemnity.



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### **Exchange Controls**

There are no legislative or other legal provisions currently in force in The Netherlands or arising under our Articles of Association restricting the import or export of capital, including the availability of cash and cash equivalents for use by JHI NV and its wholly owned subsidiaries, or remittances to our security holders not resident in The Netherlands. Cash dividends payable in U.S. dollars on our common stock may be officially transferred from The Netherlands and converted into any other convertible currency.

There are no limitations, either by Dutch law or in our Articles of Association, on the right of non-residents of The Netherlands to hold or vote our common stock.

### **Taxation**

The following summarizes the material Dutch and U.S. tax consequences of an investment in shares of our common stock. This summary does not address every aspect of taxation relevant to a particular investor subject to special treatment under any applicable law and is not intended to apply in all respects to all categories of investors. In addition, except for the matters discussed under “Netherlands Taxation,” this summary does not consider the effect of other foreign tax laws or any state, local or other tax laws that may apply to an investment in shares of our common stock. This summary assumes that we will conduct our business in the manner described in this annual report. Changes in our organizational structure or the manner in which we conduct our business may invalidate all or parts of this summary. The laws on which this summary is based could change, perhaps with retroactive effect, and any law changes could invalidate all or parts of this summary. We will not update this summary for any law changes after the date of this annual report.

This discussion does not bind either the U.S. or Dutch tax authorities or the courts of those jurisdictions. We have not sought a ruling nor will we seek a ruling of the U.S. or Dutch tax agencies about matters in this summary (although, as noted in the risk factor in Item 3, “Key Information — Risk Factors” discussing the application of the U.S.- Netherlands income tax treaty, we have sought a determination from the U.S. Internal Revenue Service on a matter of internal company taxation). We cannot assure you that such tax agencies will concur with the views in this summary concerning the tax consequences of the purchase, ownership or disposition of our common stock or that any reviewing judicial body in the United States or The Netherlands would likewise concur.

### **PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE PARTICULAR TAX CONSEQUENCES OF THEIR ACQUIRING, OWNING AND DISPOSING OF OUR COMMON SHARES, INCLUDING THE EFFECT OF ANY FOREIGN, STATE OR LOCAL TAXES.**

#### **United States Taxation**

The following is a summary of the material U.S. federal income tax consequences generally applicable to “U.S. Shareholders” (as defined below) who invest in shares of our common stock and hold the shares as capital assets. For purposes of this summary, “U.S. Shareholders” means: (1) citizens or individual residents of the United States (as defined for U.S. federal income tax purposes); (2) corporations created or organized in or under the laws of the United States or any of its political subdivisions; (3) estates whose income is subject to U.S. federal income taxation regardless of its source and (4) trusts if (i) a court in the United States can exercise primary supervision over the administration of the trust, and one or more U.S. persons can control all of the substantial decisions of the trust, or (ii) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. If a partnership (including for this purpose any entity treated as a partnership for U.S. federal tax purposes) is a beneficial owner of shares of our common stock, the U.S. federal tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of our common stock that is a partnership and partners in that partnership should consult their own tax advisors regarding the U.S. federal income tax consequences of holding and disposing of those shares.

This summary does not comprehensively describe all possible tax issues that could influence a current or prospective U.S. Shareholder’s decision to buy or sell shares of our common stock. In particular, this summary does not discuss: (1) the tax treatment of special classes of U.S. Shareholders, such as financial institutions, life insurance



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companies, tax exempt organizations, tax-qualified employer plans and other tax-qualified or qualified accounts, investors liable for the alternative minimum tax, dealers in securities, shareholders who hold shares of our common stock as part of a hedge, straddle or other risk reduction arrangement, or shareholders whose functional currency is not the U.S. dollar; (2) the tax treatment of U.S. Shareholders who own (directly or indirectly by attribution through certain related parties) 10% or more of our voting stock and (3) the application of other U.S. federal taxes, such as the U.S. federal estate tax. The summary is based on the Code, applicable Treasury regulations, judicial decisions and administrative rulings and practice, all as of the date of this annual report.

*Treatment of ADRs.* For U.S. federal income tax purposes, a holder of an ADR is considered the owner of the shares of stock represented by the ADR. Accordingly, except as otherwise noted, references in this summary to ownership of shares of our common stock includes ownership of the shares of our common stock underlying the corresponding ADRs.

*Taxation of Distributions.* Subject to the passive foreign investment company rules discussed below, the tax treatment of a distribution on shares of our common stock held by a U.S. Shareholder depends on whether such distribution is from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent a distribution is from our current or accumulated earnings and profits, a U.S. Shareholder will include such amount in gross income as a dividend. To the extent a distribution exceeds our current and accumulated earnings and profits, a U.S. Shareholder will treat such amount first as a non-taxable return of capital to the extent of the U.S. Shareholder's tax basis in such shares, and any excess amount will be treated and taxed as a capital gain. See the discussion of "Capital Gains Rates" below. Notwithstanding the foregoing described treatment, we do not intend to maintain calculations of our current and accumulated earnings and profits. Dividends received on shares of our common stock will not qualify for the inter-corporate dividends received deduction.

Distributions to U.S. Shareholders that are treated as dividends may be subject to a reduced rate of tax under recently enacted U.S. tax laws. For tax years beginning after December 31, 2002 and before January 1, 2011, "qualified dividend income" is subject to a maximum tax rate of 15%. "Qualified dividend income" includes dividends received from a "qualified foreign corporation." A "qualified foreign corporation" includes (1) a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the U.S. that contains an exchange of information program and (2) a foreign corporation that pays dividends with respect to shares of its stock that are readily tradable on an established securities market in the U.S. We believe that we are, and will continue to be, a "qualified foreign corporation" and that dividends we pay with respect to our shares will qualify as "qualified dividend income." To be eligible for the 15% tax rate, a U.S. Shareholder must hold our shares un-hedged for a minimum holding period (generally, 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date of the distribution). Although we believe we presently are, and will continue to be, a "qualified foreign corporation," we cannot guarantee that we will so qualify. For example, we will not constitute a "qualified foreign corporation" if we are classified as a "passive foreign investment company" (discussed below) in either the taxable year of the distribution or the preceding tax year.

Distributions to U.S. Shareholders that are treated as dividends are generally considered income from sources outside the United States and foreign source "passive" income or, in the case of certain holders, "financial services" income for purposes of the foreign tax credit limitation rules. For taxable years beginning after December 31, 2006, "passive" income generally will be treated as "passive category" income, and "financial services" income generally will be treated as "general category" income. However, if U.S. persons own, directly or indirectly, 50% or more of our shares of common stock, then a portion of the dividends (based on the portion of our earnings and profits that is from U.S. sources) may be treated as sourced within the U.S. This 50% ownership rule could potentially limit a U.S. shareholder's ability to use foreign tax credits against the shareholder's U.S. tax liability. In addition, special rules will apply to determine a U.S. Shareholder's foreign tax credit limitation if a dividend distributed with respect to our shares constitutes "qualified dividend income" (as described above). See the discussion of "Credit of Foreign Taxes Withheld" below.

The amount of any distribution we make on shares of our common stock in foreign currency generally will equal the fair market value in U.S. dollars of such foreign currency on the date of receipt. A U.S. Shareholder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt and will recognize gain or loss when it sells or exchanges the foreign currency. Such gain or loss is taxable as ordinary income or loss from

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U.S. sources. U.S. Shareholders who are individuals will not recognize gain upon selling or exchanging foreign currency if the gain does not exceed \$200 and the sale or exchange constitutes a “personal transaction” under the Code. The amount of any distribution we make with respect to shares of our common stock in property other than money will equal the fair market value of that property on the date of distribution.

*Credit of Foreign Taxes Withheld.* Under certain conditions, including a requirement to hold shares of our common stock un-hedged for a certain period, and subject to limitation, a U.S. Shareholder may claim a credit against the U.S. shareholder’s federal income tax liability for the foreign tax owed and withheld or paid with respect to distributions on our shares. Alternatively, a U.S. Shareholder may deduct the amount of withheld foreign taxes, but only for a year for which the U.S. Shareholder elects to deduct all foreign income taxes. Complex rules determine how and when the foreign tax credit applies, and U.S. Shareholders should consult their tax advisors to determine whether and to what extent they may claim foreign tax credits.

Under certain conditions, we may retain a portion of Netherlands taxes we withhold from dividends paid to our shareholders, rather than pay that portion of the withheld taxes to The Netherlands Tax Administration. Uncertainty exists whether a U.S. Shareholder can properly claim as a foreign tax credit any Netherlands withholding taxes we retain. As a result, U.S. Shareholders should consult their tax advisors regarding their ability to do so. If unable to claim a foreign tax credit for those tax amounts, a U.S. shareholder still may deduct them for U.S. federal income tax purposes, but only for a year for which the U.S. Shareholder elects to deduct all foreign income taxes. The conditions under which we could retain Netherlands withholding taxes are unlikely to occur, but upon request, we will inform U.S. Shareholders whether we retained any Dutch tax withheld from distributions on shares of our common stock.

*Sale or Other Disposition of Shares.* Subject to the passive foreign investment company rules discussed below, a U.S. Shareholder will recognize capital gain or loss on the sale or other taxable disposition of shares of our common stock, equal to the difference between the U.S. Shareholder’s adjusted tax basis in the shares sold or disposed of and the amount realized on the sale or disposition. Individual U.S. Shareholders may benefit from lower marginal tax rates on capital gains recognized on shares sold, depending on the U.S. Shareholder’s holding period of the shares. See the discussion of “Capital Gains Rates” below. Capital losses not offset by capital gains are subject to limitations on deductibility. The gain or loss from the sale or other disposition of shares of our common stock generally will be treated as income from sources within the United States for foreign tax credit purposes, unless the U.S. Shareholder is a U.S. citizen residing outside the United States and certain other conditions are met.

*Capital Gains Rates.* For individual U.S. Shareholders, the tax rates applicable to capital gain and ordinary income may vary substantially. For calendar year 2006, the highest marginal income tax rate that could apply to the ordinary income of an individual U.S. Shareholder (disregarding the effect of limitations on deductions) is 35%. In contrast, a maximum rate of 15% applies to any net capital gain of an individual U.S. Shareholder if such gain is attributable to the sale or exchange of capital assets held more than one year. Gain attributable to the sale or exchange of capital assets held one year or less is short-term capital gain, taxable at the same rates as ordinary income. In addition, a maximum rate of 15% applies to “qualified dividend income” (as described above).

*Controlled Foreign Corporation Status.* If more than 50% of either the voting power of all classes of our voting stock or the total value of our stock is owned, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of which owns 10% or more of the total combined voting power of all classes of our stock entitled to vote, which we refer to as 10-Percent Shareholders, we could be treated as a “controlled foreign corporation,” or CFC, under the Code. This classification would, among other consequences, require 10-Percent Shareholders to include in their gross income their pro rata shares of our “Subpart F income” (as specifically defined by the Code) and our earnings invested in U.S. property (as specifically defined by the Code).

In addition, gain from the sale or exchange of our common shares by a U.S. person who is or was a 10-Percent Shareholder at any time during the five-year period ending with the sale or exchange is treated as dividend income to the extent of earnings and profits of the Company attributable to the stock sold or exchanged. Under certain circumstances, a corporate shareholder that directly owns 10% or more of our voting shares may be entitled to an indirect foreign tax credit for income taxes paid by us in connection with amounts so characterized as dividends under the Code.

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If we were classified as both a passive foreign investment company, or PFIC, as described below, and a CFC, generally we would not be treated as a passive foreign investment company with respect to 10-Percent Shareholders. We believe that we are not and will not become a CFC.

*Passive Foreign Investment Company Status.* Special U.S. federal income tax rules apply to U.S. Shareholders owning capital stock of a PFIC. A foreign corporation will be a PFIC for any taxable year in which 75% or more of its gross income is passive income or in which 50% or more of the average value of its assets is “passive assets” (generally assets that generate passive income or assets held for the production of passive income). For these purposes, passive income excludes certain interest, dividends or royalties from related parties.

If we were a PFIC, each U.S. Shareholder would likely face increased tax liabilities, possibly including in amount, upon the sale or other disposition of shares of our common stock or upon receipt of “excess distributions,” unless the U.S. Shareholder elects (1) to be taxed currently on its pro rata portion of our income, regardless of whether such income was distributed in the form of dividends or otherwise (provided we furnish certain information to our shareholders), or (2) to mark its shares to market by accounting for any difference between such shares’ fair market value and adjusted basis at the end of the taxable year by either an inclusion in income or a deduction from income (provided our ADRs, CUFS or common shares satisfy a test for being regularly traded on a qualified exchange or other market). Because of the manner in which we operate our business, we are not, nor do we expect to become, a PFIC.

*U.S. Federal Income Tax Provisions Applicable to Non-United States Holders.* Holders of shares of our common stock who are not U.S. Shareholders, which we refer to as Non-U.S. Shareholders, generally will not be subject to U.S. federal income taxes, including U.S. withholding taxes, on any dividends paid on our shares or on any gain realized on a sale, exchange or other disposition of the shares unless the dividends or gain is effectively connected with the conduct by the Non-U.S. Shareholder of a trade or business in the United States (and is attributable to a permanent establishment or fixed base the Non-U.S. Shareholder maintains in the United States if an applicable income tax treaty so requires as a condition for the Non-U.S. Shareholder to be subject to U.S. taxation on a net income basis on income from the common stock). A corporate Non-U.S. Shareholder under certain circumstances may also be subject to an additional “branch profits tax,” the rate of which may be reduced pursuant to an applicable income tax treaty. In addition, gain recognized on a sale, exchange or other disposition of our shares by a Non-U.S. Shareholder who is an individual generally will be subject to U.S. federal income taxes if the Non-U.S. Shareholder is present in the United States for 183 days or more in the taxable year in which the sale or other disposition occurs and certain other conditions are met.

*U.S. Information Reporting and Backup Withholding.* Dividend payments on shares of our common stock and proceeds from the sale, exchange, or redemption of shares of our common stock may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply to a shareholder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide such certification on a properly completed Internal Revenue Service Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. shareholders generally will not be subject to U.S. information reporting or backup withholding. However, such shareholders may be required to provide certification of non-U.S. status in connection with payments received in the United States or through certain U.S. related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a shareholder’s U.S. federal income tax liability, and a shareholder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

### ***Netherlands Taxation***

The following is a summary of the material Dutch tax consequences generally applicable to an investment in shares of our common stock by a beneficial owner who is neither a citizen, resident nor deemed resident of The Netherlands. This summary does not comprehensively describe all possible tax issues that could influence a prospective shareholder’s decision to acquire shares of our common stock. For example, this summary omits from

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discussion Netherlands' gift, estate and inheritance taxes. The summary is based on the Dutch tax legislation, published case law and other applicable regulations as at the date of this annual report, any of which may change possibly with retroactive effect.

*Treatment of ADRs.* In general, for Netherlands tax purposes, an owner of depositary receipts is considered the owner of the shares of stock represented by depositary receipts. Accordingly, except as otherwise noted, references in this section of the annual report to ownership of shares of our common stock includes ownership of the shares underlying the corresponding ADRs.

*Dutch Dividend Withholding Tax.* As from January 1, 2007, The Netherlands has unilaterally reduced its dividend withholding tax rate to 15% irrespective of whether the recipient is entitled to the benefits of a tax treaty concluded with The Netherlands. The term "dividends" for this purpose includes, but is not limited to:

(1) direct or indirect distributions in cash or in kind, deemed or constructive distributions, and repayments of additional paid-in capital not recognized as such for Netherlands dividend withholding tax purposes;

(2) liquidation proceeds, proceeds of redemption of shares of common stock or, generally, except if a certain specific exemption applies, consideration paid by us for the repurchase of shares of common stock in excess of the average paid-in capital recognized for Netherlands dividend withholding tax purposes;

(3) the par value of shares of common stock issued to a holder of shares of common stock or an increase of the par value of shares of common stock, as the case may be, to the extent that no contribution to capital, recognized for Netherlands dividend withholding tax purposes, was made or will be made; and

(4) the partial repayment of paid-in capital, recognized for Netherlands dividend withholding tax purposes, if and to the extent that there are net profits, or *zuivere winst*, for dividend withholding tax purposes, unless the general meeting of our shareholders has previously resolved to make such repayment and provided that the par value of the shares of common stock concerned has been reduced by a corresponding amount by changing our Articles of Association. As a result of contributions in kind (i.e., in shares) to our paid-in capital made prior to the listing of our common shares, a portion of such paid-in capital may not be recognized for Dutch dividend withholding tax purposes.

If a double taxation convention is in effect between The Netherlands and the country of residence of a non-resident shareholder and depending on the terms of that double taxation convention, such non-resident shareholder may be eligible for a full or partial exemption resulting in a lower withholding tax rate than 15%.

For example, under the U.S.-NL Treaty, certain U.S. corporate shareholders owning directly at least 10% of our voting power, are eligible for a reduction to 5% with respect to dividends that we pay, unless the shares of common stock held by such residents form part of the business property of a business carried on through a permanent establishment in The Netherlands. The same exception applies if the beneficial owner of the shares, being a citizen or resident of the United States, performs independent personal services from a fixed base situated in The Netherlands and the holding of the shares of common stock in respect of which the dividends are paid pertains to such fixed base in The Netherlands. The U.S.-NL Treaty also exempts from tax dividends we pay to exempt pension organizations and exempt organizations, as defined under the treaty. A shareholder of our common stock, other than an individual, will be ineligible for the benefits of the U.S.-NL Treaty unless the shareholder satisfies certain tests under the limitation on benefits provisions of Article 26 of the U.S.-NL Treaty. To prevent so-called dividend stripping, Netherlands law generally denies the treaty benefit of a reduced dividend withholding tax rate for any dividend paid to a recipient who is not the "beneficial owner" of the dividend.

A qualified exempt pension organization may obtain a full exemption from the dividend withholding tax if, before the payment of the dividend, the organization gives us in duplicate a signed Form IB 96 USA, along with the requisite banker's affidavit as described above, and includes IRS Form 6166 for the relevant year or a valid qualification certification issued by the competent Dutch tax office and complies with certain other requirements. Other qualifying exempt organizations are ineligible for relief from withholding at source but may claim a refund of the tax withheld by filing a Form IB 95 USA and complying with certain other formalities.

Holders of shares of our common stock through a depository will initially receive dividends subject to a withholding tax rate of 15%. Upon timely receipt of required documents concerning a holder's eligibility for the

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reduced rate under the U.S.-NL Treaty, dependent on the status of the holder, the dividend-disbursing agent (via any nominee) will pay an amount equal to 10% of the dividend to the holder.

*Taxes on Income and Capital Gains.* A shareholder of shares of our common stock will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Company or in respect of capital gains realized on the disposition of shares of our common stock (other than the dividend withholding tax described above), provided that:

- (1) such shareholder is neither resident nor deemed to be resident in The Netherlands, nor has elected to be subject to the rules of the Dutch Income Tax Act 2001 that apply to residents of The Netherlands;
- (2) such shareholder does not have a business or an interest in a business that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which business or part of a business, as the case may be, the shares of common stock are attributable;
- (3) such shareholder does not perform independent personal services in The Netherlands giving rise to a fixed base in The Netherlands to which the shares of common stock are attributable; and
- (4) the shares of common stock owned by such shareholder do not form part of a substantial interest or a deemed substantial interest, as defined below, in the share capital of the Company or, if such shares of common stock do form part of such an interest, they form part of the assets of a business other than a Netherlands business.

Generally, a shareholder of our common stock will have a substantial interest in our shares only if the shareholder, the spouse of the shareholder, certain other relatives (including foster children), or certain persons in the household of the shareholder, alone or together, whether directly or indirectly, own or possess certain rights (e.g., the right of usufruct) in, shares of our stock representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares), or rights to acquire the shares, whether or not already issued, that represent at any time 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) or the ownership of certain profit participating certificates that relate to 5% or more of the annual profit and/or to 5% or more of the liquidation proceeds. Shareholders of our common stock who do not hold a substantial interest themselves will also be subject to the “substantial interest” regime if their spouse and/or certain other relatives hold a substantial interest. A deemed substantial interest is present if a substantial interest or part of a substantial interest has been disposed of, or is deemed to have been disposed of, without recognition of a gain.

If a shareholder has a substantial interest in the shares of our common stock and is resident of a country with which The Netherlands has concluded a convention to avoid double taxation, such shareholder may, depending on the terms of such double taxation convention, be eligible for an exemption from Netherlands income tax on capital gains realized upon the disposition or deemed disposition of shares of our common stock, or to a full or partial exemption from Netherlands income tax on dividends we pay.

Under the U.S.-NL Treaty, capital gains realized by a shareholder that has a substantial interest in the shares of our common stock and is a resident of the United States (as defined in the U.S.-NL Treaty) upon the disposition of shares of our common stock, are, with certain exceptions, generally exempt from Netherlands tax.

As indicated above, a shareholder of shares of our common stock, other than an individual, will be ineligible for the benefits of the U.S.-NL Treaty if such shareholder does not satisfy the limitation on benefits provisions under Article 26 of the U.S.-NL Treaty.

*Other Taxes and Duties.* No other Netherlands registration tax, transfer tax, stamp duty or any similar documentary tax or duty will be payable by our investors in respect of or in connection with the subscription, issue, placement, allotment or transfer of shares of our common stock.

### Documents Available for Review

We are subject to the reporting requirements of the Exchange Act applicable to “foreign private issuers” and in accordance therewith file reports, including annual reports, and other information with the SEC. Such reports and



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other information have been filed electronically with the SEC since November 4, 2002. The SEC maintains a site on the Internet, at [www.sec.gov](http://www.sec.gov), which contains reports and other information regarding issuers that file electronically with the SEC. In addition, such reports may be obtained, upon written request, from our Company Secretary at Atrium, 8<sup>th</sup> floor, Strawinskylaan 3077, 1077 ZX Amsterdam, The Netherlands or our Company Secretary — Australia at Level 3, 22 Pitt Street, Sydney, NSW 2000. Such reports and other information filed with the SEC prior to November 2002 may be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street N.E., Washington, D.C. 20549, or obtained by written request to our Company Secretary. Although, as a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and annual reports to shareholders and the quarterly reporting requirements of the Exchange Act, we:

- furnish our shareholders with annual reports containing consolidated financial statements examined by an independent registered public accounting firm; and
- furnish quarterly reports for the first three quarters of each fiscal year containing unaudited consolidated financial information in filings with the SEC under Form 6-K.

### Item 11. *Quantitative and Qualitative Disclosures About Market Risk*

Cash and cash equivalents include amounts on deposit in banks and cash invested temporarily in various highly liquid financial instruments with original maturities of three month or less when acquired.

We have operations in foreign countries and, as a result, are exposed to foreign currency exchange rate risk inherent in purchases, sales, assets and liabilities denominated in currencies other than the U.S. dollar. We also are exposed to interest rate risk associated with our long-term debt and to changes in prices of commodities we use in production.

Periodically, interest rate swaps, commodity swaps and forward exchange contracts are used to manage market risks and reduce exposure resulting from fluctuations in interest rates, commodity prices and foreign currency exchange rates. Our policy is to enter into derivative instruments solely to mitigate risks in our business and not for trading or speculative purposes.

#### Foreign Currency Exchange Rate Risk

We have significant operations outside of the United States and, as a result, are exposed to changes in exchange rates which affect our financial position, results of operations and cash flow. In addition, payments to the AICF are required to be made in Australian dollars which, because the majority of our revenues is produced in U.S. dollars, exposes us to risks associated with fluctuations in the U.S. dollar/Australian dollar exchange rate. See Item 3, “Key Information — Risk Factors.”

For our fiscal year ended March 31, 2007, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	<u>US\$</u>	<u>A\$</u>	<u>NZ\$</u>	<u>Other(1)</u>
Net sales	82.9%	11.0%	3.5%	2.6%
Cost of goods sold	83.0%	11.4%	3.2%	2.4%
Expenses(2)	25.7%	71.4%	0.7%	2.2%
Liabilities (excluding borrowings)(2)	11.9%	86.3%	1.1%	0.7%

For our fiscal year ended March 31, 2006, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	<u>US\$</u>	<u>A\$</u>	<u>NZ\$</u>	<u>Other(1)</u>
Net sales	82.9%	11.0%	3.6%	2.5%
Cost of goods sold	84.2%	10.7%	2.9%	2.2%
Expenses(2)	18.7%	79.4%	0.4%	1.5%
Liabilities (excluding borrowings)(2)	25.6%	72.4%	1.6%	0.4%



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- (1) Comprises Philippine Pesos, Euros and Chilean Pesos.
- (2) Liabilities include A\$ denominated asbestos liability, which was initially recorded in the fourth quarter of fiscal year 2006. Expenses include adjustments to the liability. See Item 3, “Key Information — Risk Factors,” Item 4, “Information on the Company — Legal Proceedings” and Note 12 of our consolidated financial statements in Item 18 for further information regarding the asbestos liability.

We purchase raw materials and fixed assets and sell some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. As of March 31, 2007, there were no such material contracts outstanding.

### ***Funding Under the Final Funding Agreement***

The A\$ to \$ assets and liabilities rate moved unfavorably for us from 1.3975 at March 31, 2006 to 1.2395 at March 31, 2007, a 11.3% movement, resulting in a \$94.5 million unfavorable impact on our fiscal year 2007 net income. Assuming that our net Final Funding Agreement liability in Australian dollars remains unchanged at A\$974.3 million and that we do not hedge this foreign exchange exposure, a 10% favorable or unfavorable movement in the A\$ to \$ exchange rate (at the March 31, 2007 exchange rate of 1.2395) would have approximately a \$71.5 million and \$87.2 million favorable and unfavorable impact, respectively, on our net income.

### **Interest Rate Risk**

We have market risk from changes in interest rates, primarily related to our borrowings. As of March 31, 2007, all of our borrowings were variable rate compared to 40% of our borrowings at a fixed-rate and 60% at a variable-rate as of March 31, 2006. This increased percentage of variable-rate debt increases our exposure to earnings volatility resulting from changes in interest rates. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. As of March 31, 2007, we had no interest rate swap contracts outstanding.

An assumed 60 basis point move in the interest rates applicable to our borrowings (a 10 percent move against our weighted-average floating rate interest rates as of March 31, 2007) would have had a 0.9% change on our fiscal year 2007 loss from continuing operations income before taxes.

### **Commodity Price Risk**

We are exposed to changes in prices of commodities used in our operations, primarily associated with energy, fuel and raw materials such as pulp and cement. Pulp has historically demonstrated more price sensitivity than other raw materials that we use in our manufacturing process. In addition, energy, fuel and cement prices rose in fiscal year 2006 and continued to rise during fiscal year 2007. We expect that pulp, energy, fuel and cement prices will continue to fluctuate in the near future. To minimize the additional working capital requirements caused by rising prices related to these commodities, we may seek to enter into contracts with suppliers for the purchase of these commodities that could fix our prices over the longer-term. However, if such commodity prices do not continue to rise, our cost of sales may be negatively impacted due to fixed pricing over the longer-term. We have assessed the market risk for pulp and believe that, based on our most recent estimates, a \$65 per metric ton price movement in pulp prices, which represents approximately 10% of the average market pulp price in fiscal year 2007, would have had approximately a 1.4% change in cost of sales in fiscal year 2007.

We have also assessed the market risk for cement and believe that, based on our most recent estimates, a \$9 per metric ton price movement in cement prices, which represents approximately 10% of the average market cement price in fiscal year 2007, would have had approximately a 0.8% change in cost of sales in fiscal year 2007.

### **Item 12. Description of Securities Other Than Equity Securities**

Not Required.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and are subject to certain limitations, including the exercise of judgment by individuals, the difficulty in identifying unlikely future events, and the difficulty in eliminating misconduct completely. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, our disclosure controls and procedures were effective to ensure the information required to be disclosed in the reports that we file or submit under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of March 31, 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2007 has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, as stated in their report appearing on page F-2 of this annual report on Form 20-F.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our Joint Board has determined that Messrs. Anderson and Loudon are "audit committee financial experts," as such term is defined by applicable SEC rules, and qualify as independent under the rules of the New York Stock Exchange, or NYSE.

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Under the NYSE listing standards applicable to U.S. companies, if a member of an audit committee simultaneously serves on the audit committees of more than three public companies, the listed company's board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee. Mr. Anderson serves on the audit committees of three public companies in addition to our Audit Committee. The Joint Board has determined that such simultaneous service does not impair his ability to effectively serve on our Audit Committee.

### Item 16B. Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics applies to all of our directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions, in compliance with the relevant rules and regulations of the SEC and NYSE.

We seek to maintain high standards of integrity and are committed to ensuring that we conduct our business in accordance with high standards of ethical behavior.

We require our employees to comply with the spirit and the letter of all laws and other statutory requirements governing the conduct of our activities in each country in which we operate.

Our Code of Business Conduct and Ethics also covers many aspects of Company policy that govern compliance with legal and other responsibilities to stakeholders.

Our Code of Business Conduct and Ethics also provides employees with instructions about whom they should contact if they have information or questions regarding violations of the policies in the Code of Business Conduct and Ethics. We have implemented a telephone "Ethics Hotline" to allow employees in each jurisdiction in which we operate to report anonymously any concerns.

We have not granted any waivers from, or made any amendments to, the provisions of our Code of Business Conduct and Ethics during fiscal year 2007.

Our complete Code of Business Conduct and Ethics is publicly available and can be found by visiting our website, [www.jameshardie.com](http://www.jameshardie.com), and clicking on "Investor Relations," then "Corporate Governance," and then "Policies and Programs."

### Item 16C. Principal Accountant Fees and Services

#### Fees Paid to Our Independent Registered Public Accounting Firm

Fees paid to our independent registered public accounting firm for services provided for fiscal years 2007, 2006 and 2005 were as follows:

	Fiscal Years Ended		
	March 31,		
	2007	2006	2005
	(In millions)		
Audit Fees(1)	\$1.3	\$1.6	\$3.1
Audit-Related Fees(2)	0.9	0.1	0.2
Tax Fees(3)	3.7	5.2	4.2

(1) Audit Fees include the aggregate fees for professional services rendered by our independent registered public accounting firm. Professional services include the audit of our annual financial statements and services that are normally provided in connection with statutory and regulatory filings. During the fiscal year ended March 31, 2005, total audit fees also included internal investigation fees of \$1.9 million.

(2) Audit-Related Fees include the aggregate fees billed for assurance and related services rendered by our independent registered public accounting firm. Our independent registered public accounting firm did not engage any temporary employees to conduct any portion of the audit of our financial statements for the fiscal year ended March 31, 2007.

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- (3) Tax Fees include the aggregate fees billed for tax compliance, tax advice and tax planning services rendered by our independent registered public accounting firm.

In addition to the fees described above, the Company incurred minor fees from the Company's independent registered public accounting firm related to the purchase and use of software.

### **Audit Committee Pre-Approval Policies and Procedures**

In accordance with our Audit Committee's policy and the requirements of the law, all services provided by PricewaterhouseCoopers LLP are pre-approved annually by the Audit Committee. Pre-approval includes a list of specific audit and non-audit services in the following categories: audit services, audit-related services, tax services and other services. Any additional services that we may ask our independent registered public accounting firm to perform will be set forth in a separate document requesting Audit Committee approval in advance of the service being performed.

All of the services pre-approved by the Audit Committee are permissible under the SEC's auditor independence rules. To avoid potential conflicts of interest, the law prohibits a publicly traded company from obtaining certain non-audit services from its independent registered public accounting firm. We obtain these services from other service providers as needed.

### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

### **Item 17. Financial Statements**

Not applicable.

## **PART III**

### **Item 18. Financial Statements**

See pages F-1 through F-44 included at the end of this annual report.

### **Item 19. Exhibits**

Documents filed as exhibits to this annual report:

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
1.1	Articles of Association, as amended on September 1, 2005 of James Hardie Industries N.V. (English Translation)(4)
2.1	Letter Agreement of September 6, 2001 by and between James Hardie Industries N.V. and CHESSEX Depository Nominees Pty Limited, as the depository for CHESSEX Units of Foreign Securities(3)
2.2	Deposit Agreement dated as of September 24, 2001 between The Bank of New York, as depository, and James Hardie Industries N.V.(3)
2.7	Common Terms Deed Poll dated June 15, 2005 between James Hardie International Finance B.V. and James Hardie Industries N.V.(3)
2.8	Form of Term Facility Agreement between James Hardie International Finance B.V. and Financier(3)
2.9	Form of Term Facility Agreement — Occurrence of Extension Event among James Hardie International Finance B.V., James Hardie Building Products, Inc. and Financier
2.10	Form of 364-day Facility Agreement between James Hardie International Finance B.V. and Financier(3)

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<u>Exhibit Number</u>	<u>Description of Exhibits</u>
2.11	Form of Extension Request for 364-day Facility Agreement between James Hardie International Finance B.V. and Financier
2.12	Form of Guarantee Deed between James Hardie Industries N.V. and Financier(3)
4.1	James Hardie Industries N.V. 2001 Equity Incentive Plan(3)
4.2	Economic Profit and Individual Performance Incentive Plans(3)
4.3	JHI NV Stock Appreciation Rights Incentive Plan(3)
4.4	Supervisory Board Share Plan 2006(4)
4.5	James Hardie Industries N.V. Long Term Incentive Plan 2006(4)
4.6	2005 Managing Board Transitional Stock Option Plan(4)
4.7	Form of Joint and Several Indemnity Agreement among James Hardie N.V., James Hardie (USA) Inc. and certain indemnities thereto(3)
4.8	Form of Joint and Several Indemnity Agreement among James Hardie Industries N.V., James Hardie Inc. and certain indemnities thereto(3)
4.9	Form of Deed of Access to Documents, Indemnity and Insurance among James Hardie Industries N.V. and certain indemnitees thereto(3)
4.10	Form of Joint and Several Indemnity Agreement among James Hardie Industries N.V., James Hardie Building Products Inc. and certain indemnities thereto(3)
4.11	Lease Amendment, dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at the corner of Cobalt & Silica Street, Carole Park, Queensland, Australia(2)
4.12	Variation of Lease dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at the corner of Colquhoun & Devon Streets, Rosehill, New South Wales, Australia(2)
4.13	Extension of Lease dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at Rutland, Avenue, Welshpool, Western Australia, Australia(2)
4.14	Lease Amendment dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at 46 Randle Road, Meeandah, Queensland, Australia(2)
4.15	Lease Agreement dated March 23, 2004 among Studorp Limited, James Hardie New Zealand Limited and James Hardie Industries N.V. re premises at the corner of O'Rorke and Station Roads, Penrose, Auckland, New Zealand(2)
4.16	Lease Agreement dated March 23, 2004 among Studorp Limited, James Hardie New Zealand Limited and James Hardie Industries N.V. re premises at 44-74 O'Rorke Road, Penrose, Auckland, New Zealand(2)
4.17	Ownership transfer related to corner of O'Rorke and Station Roads, Penrose, Auckland, New Zealand and 44-74 O'Rorke Road, Penrose, Auckland, New Zealand effective June 30, 2005(4)
4.18	Industrial Building Lease Agreement, effective October 6, 2000, between James Hardie Building Products, Inc. and Fortra Fiber-Cement L.L.C., re premises at Waxahachie, Ellis County, Texas(3)
4.19	Asset Purchase Agreement by and between James Hardie Building Products, Inc. and Cemplank, Inc. dated as of December 12, 2001(3)
4.20	Amended and Restated Stock Purchase Agreement dated March 12, 2002, between BPB U.S. Holdings, Inc. and James Hardie Inc.(3)
4.21	Amended and Restated Final Funding Agreement dated November 21, 2006(5)
4.22	Asbestos Injuries Compensation Fund Amended and Restated Trust Deed by and between James Hardie Industries N.V. and Asbestos Injuries Compensation Fund Limited dated December 14, 2006
4.23	Deed of Release by and among James Hardie Industries N.V., Australian Council of Trade Unions, Unions New South Wales, and Bernard Douglas Banton dated December 21, 2005(4)



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<u>Exhibit Number</u>	<u>Description of Exhibits</u>
4.24	Parent Guarantee by and among Asbestos Injuries Compensation Fund Limited, The State of New South Wales and James Hardie Industries N.V. dated December 14, 2006
4.25	Deed of Release by and between James Hardie Industries N.V. and The State of New South Wales dated June 22, 2006(4)
4.26	Second Irrevocable Power of Attorney by and between Asbestos Injuries Compensation Fund Limited and The State of New South Wales dated December 14, 2006
4.27	Deed of Accession by and among Asbestos Injuries Compensation Fund Limited, James Hardie Industries N.V., James Hardie 117 Pty Limited and The State of New South Wales dated December 14, 2006
4.28	Agreement for the Extraction and Sale of Silica dated November 1, 2002(6)
4.29	Contract for the Sale of Mineral Materials dated March 16, 2006 between Bureau of Land Management and James Hardie Building Products, Inc.(6)
8.1	List of significant subsidiaries of James Hardie Industries N.V.
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of independent registered public accounting firm
15.2	Consent of KPMG Actuaries Pty Ltd
99.1	Excerpts of the ASX Settlement and Transfer Corporation Pty Ltd as of June 7, 2007
99.2	Excerpts of the Financial Services Reform Act 2001, as of March 11, 2002(3)
99.3	ASIC Class Order 02/311, dated November 3, 2002(3)
99.4	ASIC Modification, dated March 7, 2002(3)
99.5	ASIC Modification, dated February 26, 2004(4)

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- (1) Previously filed as an exhibit to our Annual Report on Form 20-F dated July 2, 2003 and incorporated herein by reference.
  - (2) Previously filed as an exhibit to our Annual Report on Form 20-F dated November 22, 2004 and incorporated herein by reference.
  - (3) Previously filed as an exhibit to our Annual Report on Form 20-F dated July 7, 2005 and incorporated herein by reference.
  - (4) Previously filed as an exhibit to our Annual report on Form 20-F dated September 29, 2006 and incorporated herein by reference.
  - (5) Previously filed as an exhibit to our Current Report on Form 6-K dated January 5, 2007 and incorporated herein by reference.
  - (6) Certain portions of the exhibit have been omitted and submitted to the SEC pursuant to a confidential treatment request filed on July 6, 2007.



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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
James Hardie Industries N.V.:

We have completed an integrated audit of James Hardie Industries N.V.'s 2007 consolidated financial statements and of its internal control over financial reporting as of March 31, 2007 and audits of its 2006 and 2005 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### **Consolidated financial statements**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and changes in shareholders' equity present fairly, in all material respects, the financial position of James Hardie Industries N.V. and its subsidiaries at March 31, 2007 and March 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation and defined benefit pension plans.

### **Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15, that the Company maintained effective internal control over financial reporting as of March 31, 2007 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

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with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP  
PRICEWATERHOUSECOOPERS LLP

Los Angeles, California  
June 28, 2007

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**James Hardie Industries N.V. and Subsidiaries**

**Consolidated Balance Sheets**

	Notes	March 31 2007	March 31 2006
		(Millions of US dollars)	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	3	\$ 34.1	\$ 315.1
Restricted cash and cash equivalents	4	151.9	—
Accounts and notes receivable, net of allowance for doubtful accounts of \$1.5 million and \$1.3 million as of March 31, 2007 and March 31, 2006, respectively	5	163.4	153.2
Inventories	6	147.6	124.0
Prepaid expenses and other current assets		32.4	33.8
Insurance receivable — Asbestos	12	9.4	—
Workers' compensation — Asbestos	12	2.7	—
Deferred income taxes	13	27.3	30.7
Deferred income taxes — Asbestos	12	7.8	—
Total current assets		576.6	656.8
Property, plant and equipment, net	7	827.7	775.6
Insurance receivable — Asbestos	12	165.1	—
Workers' compensation — Asbestos	12	76.5	—
Deferred income taxes	13	6.9	4.8
Deferred income taxes — Asbestos	12	318.2	—
Deposit with Australian Taxation Office	14	154.8	—
Other assets		2.3	8.2
Total assets		<u>\$ 2,128.1</u>	<u>\$ 1,445.4</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities	8	\$ 100.8	\$ 117.8
Short-term debt	9	83.0	181.0
Current portion of long-term debt	9	—	121.7
Accrued payroll and employee benefits		42.0	46.3
Accrued product warranties	11	5.7	11.4
Income taxes payable	13	10.6	24.5
Asbestos liability	12	63.5	—
Workers' compensation — Asbestos	12	2.7	—
Other liabilities		9.3	3.3
Total current liabilities		317.6	506.0
Long-term debt	9	105.0	—
Deferred income taxes	13	93.8	79.8
Accrued product warranties	11	9.5	4.1
Asbestos liability	12	1,225.8	715.6
Workers' compensation — Asbestos	12	76.5	—
Other liabilities	10	41.2	45.0
Total liabilities		<u>1,869.4</u>	<u>1,350.5</u>
Commitments and contingencies (Note 12)			
Shareholders' equity:			
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 467,295,391 shares issued and outstanding at March 31, 2007 and 463,306,511 shares issued and outstanding at March 31, 2006	15	251.8	253.2
Additional paid-in capital	15	180.2	158.4
Accumulated deficit		(178.7)	(288.3)
Accumulated other comprehensive income (loss)	19	5.4	(28.4)
Total shareholders' equity		<u>258.7</u>	<u>94.9</u>
Total liabilities and shareholders' equity		<u>\$ 2,128.1</u>	<u>\$ 1,445.4</u>

The accompanying notes are an integral part of these consolidated financial statements.



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**James Hardie Industries N.V. and Subsidiaries**  
**Consolidated Statements of Operations**

	Notes	Years Ended March 31		
		2007	2006	2005
		(Millions of US dollars, except per share data)		
Net sales	18	<b>\$1,542.9</b>	\$1,488.5	\$1,210.4
Cost of goods sold		<b>(969.9)</b>	(937.7)	(784.0)
Gross profit		<b>573.0</b>	550.8	426.4
Selling, general and administrative expenses		<b>(214.6)</b>	(209.8)	(174.5)
Research and development expenses		<b>(25.9)</b>	(28.7)	(21.6)
SCI and other related expenses	12	<b>(13.6)</b>	(17.4)	(28.1)
Impairment of roofing plant		—	(13.4)	—
Asbestos adjustments	12	<b>(405.5)</b>	(715.6)	—
Other operating expense		—	(0.8)	(6.0)
Operating (loss) income		<b>(86.6)</b>	(434.9)	196.2
Interest expense		<b>(12.0)</b>	(7.2)	(7.3)
Interest income		<b>5.5</b>	7.0	2.2
Other expense		—	—	(1.3)
(Loss) income from continuing operations before income taxes	18	<b>(93.1)</b>	(435.1)	189.8
Income tax benefit (expense)	13	<b>243.9</b>	(71.6)	(61.9)
Income (loss) from continuing operations		<b>150.8</b>	(506.7)	127.9
<b>Discontinued operations:</b>				
Loss from discontinued operations, net of income tax benefit of nil, nil and \$0.2 million, respectively	15	—	—	(0.3)
Loss on disposal of discontinued operations		—	—	(0.7)
Loss from discontinued operations		—	—	(1.0)
Income (loss) before cumulative effect of change in accounting principle		<b>150.8</b>	(506.7)	126.9
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of \$0.4 million, nil and nil, respectively		<b>0.9</b>	—	—
Net income (loss)		<b>\$ 151.7</b>	\$ (506.7)	\$ 126.9
Net income (loss) per share — basic		<b>\$ 0.33</b>	\$ (1.10)	\$ 0.28
Net income (loss) per share — diluted		<b>\$ 0.33</b>	\$ (1.10)	\$ 0.28
<b>Weighted average common shares outstanding (Millions):</b>				
Basic	2	<b>464.6</b>	461.7	458.9
Diluted	2	<b>466.4</b>	461.7	461.0

The accompanying notes are an integral part of these consolidated financial statements.

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**James Hardie Industries N.V. and Subsidiaries**

**Consolidated Statements of Cash Flows**

	<b>Years Ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
(Millions of US dollars)			
<b>Cash Flows From Operating Activities</b>			
Net income (loss)	\$ 151.7	\$(506.7)	\$ 126.9
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Loss on sale of land and buildings	—	—	0.7
Loss on disposal of subsidiaries and businesses	—	—	2.1
Depreciation and amortization	50.7	45.3	36.3
Deferred income taxes	(310.4)	4.3	11.1
Prepaid pension cost	(0.4)	2.9	7.6
Tax benefit from stock options exercised	—	2.2	0.4
Stock-based compensation	4.5	5.9	3.0
Asbestos adjustments	405.5	715.6	—
Impairment of roofing plant	—	13.4	—
Cumulative effect of change in accounting principle	(0.9)	—	—
Deposit with Australian Taxation Office	(154.8)	—	—
Other	1.3	1.7	—
Changes in operating assets and liabilities:			
Restricted cash and cash equivalents	(151.9)	—	—
Accounts and notes receivable	(4.8)	(24.0)	(3.7)
Inventories	(19.5)	(26.6)	4.3
Prepaid expenses and other current assets	(0.1)	(24.8)	32.6
Accounts payable and accrued liabilities	(18.4)	24.4	15.0
Other accrued liabilities and other liabilities	(19.6)	7.0	(16.5)
<b>Net cash (used in) provided by operating activities</b>	<b>(67.1)</b>	<b>240.6</b>	<b>219.8</b>
<b>Cash Flows From Investing Activities</b>			
Purchases of property, plant and equipment	(92.6)	(162.0)	(153.2)
Proceeds from sale of property, plant and equipment	—	—	3.4
Proceeds from disposal of subsidiaries and businesses, net of cash divested	—	8.0	—
<b>Net cash used in investing activities</b>	<b>(92.6)</b>	<b>(154.0)</b>	<b>(149.8)</b>
<b>Cash Flows From Financing Activities</b>			
Net proceeds from line of credit	—	—	0.5
Proceeds from short-term borrowings	—	181.0	—
Repayments of short-term borrowings	(98.0)	—	—
Proceeds from long-term borrowings	105.0	—	—
Repayments of long-term borrowings	(121.7)	(37.6)	(17.6)
Proceeds from issuance of shares	18.5	18.7	2.6
Tax benefit from stock options exercised	1.8	—	—
Dividends paid	(42.1)	(45.9)	(13.7)
Collections on loans receivable	0.1	0.3	0.6
<b>Net cash (used in) provided by financing activities</b>	<b>(136.4)</b>	<b>116.5</b>	<b>(27.6)</b>
Effects of exchange rate changes on cash	15.1	(1.5)	(1.2)
Net (decrease) increase in cash and cash equivalents	(281.0)	201.6	41.2
Cash and cash equivalents at beginning of period	315.1	113.5	72.3
<b>Cash and cash equivalents at end of period</b>	<b>\$ 34.1</b>	<b>\$ 315.1</b>	<b>\$ 113.5</b>
<b>Components of Cash and Cash Equivalents</b>			
Cash at bank and on hand	\$ 26.1	\$ 24.9	\$ 28.6
Short-term deposits	8.0	290.2	84.9
Cash and cash equivalents at end of period	<b>\$ 34.1</b>	<b>\$ 315.1</b>	<b>\$ 113.5</b>
<b>Supplemental Disclosure of Cash Flow Activities</b>			
Cash paid during the year for interest, net of amounts capitalized	\$ 3.9	\$ 3.5	\$ 10.7
Cash paid during the year for income taxes, net	\$ 80.8	\$ 93.4	\$ 15.7

The accompanying notes are an integral part of these consolidated financial statements.

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**James Hardie Industries N.V. and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**

	Common Stock	Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive (Loss) Income	Total
	(Millions of US dollars)				
<b>Balances as of March 31, 2004</b>	\$ 245.2	\$ 132.7	\$ 151.1	\$ (24.3)	\$ 504.7
Comprehensive income:					
Net income	—	—	126.9	—	126.9
Other comprehensive income (loss):					
Amortization of unrealized transition loss on derivative instruments	—	—	—	1.1	1.1
Foreign currency translation loss	—	—	—	(0.9)	(0.9)
Other comprehensive income	—	—	—	0.2	0.2
Total comprehensive income					127.1
Dividends paid	—	—	(13.7)	—	(13.7)
Stock-based compensation	—	3.0	—	—	3.0
Tax benefit from stock options exercised	—	0.4	—	—	0.4
Employee loans repaid	—	0.6	—	—	0.6
Stock options exercised	0.6	2.0	—	—	2.6
<b>Balances as of March 31, 2005</b>	<b>245.8</b>	<b>138.7</b>	<b>264.3</b>	<b>(24.1)</b>	<b>624.7</b>
Comprehensive loss:					
Net loss	—	—	(506.7)	—	(506.7)
Other comprehensive income (loss):					
Amortization of unrealized transition loss on derivative instruments	—	—	—	0.5	0.5
Foreign currency translation loss	—	—	—	(4.8)	(4.8)
Other comprehensive loss	—	—	—	(4.3)	(4.3)
Total comprehensive loss					(511.0)
Dividends paid	—	—	(45.9)	—	(45.9)
Stock-based compensation	—	5.9	—	—	5.9
Tax benefit from stock options exercised	—	2.2	—	—	2.2
Employee loans repaid	—	0.3	—	—	0.3
Stock options exercised	7.4	11.3	—	—	18.7
<b>Balances as of March 31, 2006</b>	<b>253.2</b>	<b>158.4</b>	<b>(288.3)</b>	<b>(28.4)</b>	<b>94.9</b>
Comprehensive income:					
Net income	—	—	151.7	—	151.7
Unrecognised pension losses				(2.7)	(2.7)
Foreign currency translation gain	—	—	—	36.5	36.5
Other comprehensive income	—	—	—	33.8	33.8
Total comprehensive income					185.5
Dividends paid	—	—	(42.1)	—	(42.1)
Stock-based compensation	—	4.5	—	—	4.5
Tax benefit from stock options exercised	—	1.8	—	—	1.8
Employee loans repaid	—	0.1	—	—	0.1
Stock options exercised	3.1	15.4	—	—	18.5
Other	(4.5)	—	—	—	(4.5)
<b>Balances as of March 31, 2007</b>	<b>\$ 251.8</b>	<b>\$ 180.2</b>	<b>\$ (178.7)</b>	<b>\$ 5.4</b>	<b>\$ 258.7</b>

The accompanying notes are an integral part of these consolidated financial statements.

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Background and Basis of Presentation**

*Nature of Operations*

The Company manufactures and sells fiber cement building products for interior and exterior building construction applications primarily in the United States, Australia, New Zealand, Philippines and Europe.

*Background*

On July 2, 1998, ABN 60 000 009 263 Pty Ltd, formerly James Hardie Industries Limited (“JHIL”), then a public company organized under the laws of Australia and listed on the Australian Stock Exchange, announced a plan of reorganization and capital restructuring (the “1998 Reorganization”). James Hardie N.V. (“JHNV”) was incorporated in August 1998, as an intermediary holding company, with all of its common stock owned by indirect subsidiaries of JHIL. On October 16, 1998, JHIL’s shareholders approved the 1998 Reorganization. Effective as of November 1, 1998, JHIL contributed its fiber cement businesses, its U.S. gypsum wallboard business, its Australian and New Zealand building systems businesses and its Australian windows business (collectively, the “Transferred Businesses”) to JHNV and its subsidiaries. In connection with the 1998 Reorganization, JHIL and its non-transferring subsidiaries retained certain unrelated assets and liabilities.

On July 24, 2001, JHIL announced a further plan of reorganization and capital restructuring (the “2001 Reorganization”). Completion of the 2001 Reorganization occurred on October 19, 2001. In connection with the 2001 Reorganization, James Hardie Industries N.V. (“JHI NV”), formerly RCI Netherlands Holdings B.V., issued common shares represented by CHESS Units of Foreign Securities (“CUFS”) on a one for one basis to existing JHIL shareholders in exchange for their shares in JHIL such that JHI NV became the new ultimate holding company for JHIL and JHNV.

Following the 2001 Reorganization, JHI NV controls the same assets and liabilities as JHIL controlled immediately prior to the 2001 Reorganization.

Previously deconsolidated entities have been consolidated at March 31, 2007 as part of the accounting for the asbestos liability. Upon approval of the restated and Amended Final Funding Agreement on February 7, 2007 (the “Amended FFA”) the Australian Injuries Compensation Fund (the “AICF”) was deemed a special purpose entity and, as such, it was consolidated with the results for JHI NV. See Note 2 and Note 12 for additional information.

*Basis of Presentation*

The consolidated financial statements represent the financial position, results of operations and cash flows of JHI NV and its current wholly owned subsidiaries and special interest entities, collectively referred to as either the “Company” or “James Hardie” and JHI NV together with its subsidiaries as of the time relevant to the applicable reference, the “James Hardie Group,” unless the context indicates otherwise.

**2. Summary of Significant Accounting Policies**

*Accounting Principles*

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The U.S. dollar is used as the reporting currency. All subsidiaries and special purpose entities are consolidated and all significant intercompany transactions and balances are eliminated.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities

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### James Hardie Industries N.V. and Subsidiaries

#### Notes to Consolidated Financial Statements — (Continued)

and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

##### *Reclassifications*

Certain prior year balances have been reclassified to conform with the current year presentation. The reclassifications do not materially impact shareholders' equity.

##### *Foreign Currency Translation*

All assets and liabilities are translated into U.S. dollars at current exchange rates while revenues and expenses are translated at average exchange rates in effect for the period. The effects of foreign currency translation adjustments are included directly in other comprehensive income in shareholders' equity. Gains and losses arising from foreign currency transactions are recognized in income currently.

##### *Cash and Cash Equivalents*

Cash and cash equivalents include amounts on deposit in banks and cash invested temporarily in various highly liquid financial instruments with original maturities of three months or less when acquired.

##### *Restricted Cash and Cash Equivalents*

Restricted cash includes amounts on deposit with insurance companies and cash on deposit for purposes of meeting claims from asbestos claimants.

##### *Accounts Receivable*

The Company reviews trade receivables and estimates of the allowance for doubtful accounts each period. The allowance is determined by analyzing specific customer accounts and assessing the risk of uncollectability based on insolvency, disputes or other collection issues.

##### *Inventories*

Inventories are valued at the lower of cost or market. Cost is generally determined under the first-in, first-out method, except that the cost of raw materials and supplies is determined using actual or average costs. Cost includes the costs of materials, labor and applied factory overhead. On a regular basis, the Company evaluates its inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are written down, if necessary.

##### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Property, plant and equipment of businesses acquired are recorded at their estimated cost based on fair value at the date of acquisition. Depreciation of property, plant and equipment is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Building improvements	5 to 10
Manufacturing machinery	20
General equipment	5 to 10
Computer equipment, software and software development	3 to 7
Office furniture and equipment	3 to 10

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

The costs of additions and improvements are capitalized, while maintenance and repair costs are expensed as incurred. Interest is capitalized in connection with the construction of major facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation amounts with any resulting gain or loss reflected in the consolidated statements of operations.

***Impairment of Long-Lived Assets***

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets.

***Environmental***

Environmental remediation expenditures that relate to current operations are expensed or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Estimated liabilities are not discounted to present value. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action.

***Revenue Recognition***

The Company recognizes revenue when the risks and obligations of ownership have been transferred to the customer, which generally occurs at the time of delivery to the customer. The Company records estimated reductions to sales for customer rebates and discounts including volume, promotional, cash and other discounts. Rebates and discounts are recorded based on management's best estimate when products are sold. The estimates are based on historical experience for similar programs and products. Management reviews these rebates and discounts on an ongoing basis and the related accruals are adjusted, if necessary, as additional information becomes available.

***Cost of Goods Sold***

Cost of goods sold is primarily comprised of cost of materials, labor and manufacturing. Cost of goods sold also includes the cost of inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and shipping and handling costs.

***Shipping and Handling***

Shipping and handling costs are charged to cost of goods sold as incurred. Recovery of these costs is incorporated in the Company's sales price per unit and is therefore classified as part of net sales.

***Selling, General and Administrative***

Selling, general and administrative expenses primarily include costs related to advertising, marketing, selling, information technology and other general corporate functions. Selling, general and administrative expenses also include certain transportation and logistics expenses associated with the Company's distribution network.

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

Transportation and logistic costs were \$2.1 million, \$2.5 million and \$1.2 million for the years ended March 31, 2007, 2006 and 2005, respectively.

***Advertising***

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was \$17.0 million, \$19.1 million and \$15.7 million during the years ended March 31, 2007, 2006 and 2005, respectively.

***Research and Development***

Research and development costs are charged to expense when incurred.

***Accrued Product Warranties***

An accrual for estimated future warranty costs is recorded based on an analysis by the Company, including the historical relationship of warranty costs to sales.

***Income Taxes***

The Company accounts for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized by applying enacted statutory rates applicable to future years to differences between the tax bases and financial reporting amounts of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that all or some portion of deferred tax assets will not be realized.

***Financial Instruments***

To meet the reporting requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," the Company calculates the fair value of financial instruments and includes this additional information in the notes to the consolidated financial statements when the fair value is different than the carrying value of those financial instruments. When the fair value reasonably approximates the carrying value, no additional disclosure is made. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Periodically, interest rate swaps, commodity swaps and forward exchange contracts are used to manage market risks and reduce exposure resulting from fluctuations in interest rates, commodity prices and foreign currency exchange rates. Where such contracts are designated as, and are effective as, a hedge, gains and losses arising on such contracts are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Specifically, changes in the fair value of derivative instruments designated as cash flow hedges are deferred and recorded in other comprehensive income. These deferred gains or losses are recognized in income when the transactions being hedged are completed. The ineffective portion of these hedges is recognized in income currently. Changes in the fair value of derivative instruments designated as fair value hedges are recognized in income, as are changes in the fair value of the hedged item. Changes in the fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in income. The Company does not use derivatives for trading purposes.

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

***Stock-Based Compensation***

The Company implemented the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," using the retroactive restatement method provided by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of SFAS No. 123." When SFAS No. 123 was adopted, the retroactive restatement method required the restatement of prior periods' reported net income to give effect to the fair value based method of accounting for awards granted, modified or settled in years beginning after December 15, 1994. In adopting this standard, the Company employed the modified prospective transition method.

SFAS No. 123R, "Share-Based Payments" requires that a company estimate forfeitures of stock options at the date of grant rather than allowing a company to account for forfeitures as they occur. At the time the Company adopted SFAS No. 123, it decided to account for forfeitures as they occurred, primarily due to the limited historical data to accurately estimate a forfeiture rate at the date of grant.

The Company recognized stock-based compensation expense (included in selling, general and administrative expense) of \$5.8 million, \$5.9 million and \$3.0 million for the years ended March 31, 2007, 2006 and 2005, respectively. This excludes the forfeiture adjustment of \$1.3 million (\$0.9 million net of tax expense) recorded upon adoption of the standard as of April 1, 2006, which is separately disclosed as "Cumulative effect of change in accounting principle for stock-based compensation." The tax benefit related to the forfeiture adjustment was \$0.4 million for the year ended March 31, 2007.

The Company analyzed forfeiture rates on all of the 2001 Stock Option Plan grants for which vesting was complete resulting in an estimated weighted average forfeiture rate of 30.7%. Based on this calculated rate, a cumulative adjustment to stock-based compensation expense of \$1.3 million was recorded for the year ended March 31, 2007, upon adoption of SFAS No. 123R. The adjustment is presented on the consolidated statements of operations as a cumulative effect of change in accounting principle (net of income tax).

The portion of the cumulative adjustment that relates to U.S.-based employees caused a reduction in the deferred tax asset previously recorded. The amount of the cumulative adjustment related to USA-based employees was \$1.0 million. Therefore, the related U.S. income tax adjustment was \$0.4 million which was recorded to income tax expense.

***Employee Retirement Benefit Plans***

The Company implemented the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The statement requires an employer to (a) recognize the funded status of a benefit plan in its statement of financial position, (b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, "Employers' Accounting for Pensions," or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position, and (d) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits and transitional asset or obligation. Adopting this standard resulted in the recognition of a loss of \$2.7 million net of a tax benefit of \$1.2 million which has been treated as other comprehensive income.

The Company sponsors both defined benefit and defined contribution retirement plans for its employees. Employer contributions to the defined contribution plans are recognized as periodic pension expense in the period that the employees' salaries or wages are earned. The defined benefit plan covers all eligible employees and takes into consideration the following components to calculate net periodic pension expense: (a) service cost; (b) interest cost; (c) expected return on plan assets; (d) amortization of unrecognized prior service cost; (e) recognition of net actuarial gains or losses; and (f) amortization of any unrecognized net transition asset. If the amount of the



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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

Company's total contribution to its pension plan for the period is not equal to the amount of net periodic pension cost, the Company recognizes the difference either as a prepaid or accrued pension cost.

***Dividends***

Dividends are recorded as a liability on the date the Board of Directors formally declares the dividend.

***Earnings Per Share***

The Company is required to disclose basic and diluted earnings per share ("EPS"). Basic EPS is calculated using income divided by the weighted average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares calculated using the treasury method that would have been outstanding if the dilutive potential common shares, such as options, had been issued. Accordingly, basic and dilutive common shares outstanding used in determining net income (loss) per share are as follows:

	<b>Years Ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Millions of Shares)</b>		
Basic common shares outstanding	<b>464.6</b>	461.7	458.9
Dilutive effect of stock options	<b>1.8</b>	—	2.1
Diluted common shares outstanding	<b>466.4</b>	<b>461.7</b>	<b>461.0</b>
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(US dollars)</b>		
Net income (loss) per share — basic	<b>\$0.33</b>	\$(1.10)	\$0.28
Net income (loss) per share — diluted	<b>\$0.33</b>	\$(1.10)	\$0.28

Potential common shares of 7.7 million, 6.6 million and 8.2 million for the years ended March 31, 2007, 2006 and 2005, respectively, have been excluded from the calculation of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive. Due to the net loss for the year ended March 31, 2006, the assumed net exercise of stock options was excluded, as the effect would have been anti-dilutive.

***Accumulated Other Comprehensive Income (Loss)***

Accumulated other comprehensive income (loss) includes foreign currency translation and previously unrecognized pension costs, and is presented as a separate component of shareholders' equity.

***Accounting for the Asbestos Funding Agreement***

Prior to March 31, 2007, the Company's consolidated financial statements included an asbestos provision relating to its anticipated future payments to a Special Purpose Fund ("SPF") based on the terms of the Original Final Funding Agreement (the "Original FFA") entered into on December 1, 2005.

In February 2007, the Amended FFA was approved to provide long-term funding to the AICF, a special purpose fund that provides compensation for Australian-related personal injury claims against certain former James Hardie companies (being Amaca Pty Ltd ("Amaca"), Amaba Pty Ltd ("Amaba") and ABN 60 000 009 263 Pty Ltd ("ABN 60")) (the "Former James Hardie Companies").

After the Amended FFA was approved, shares in Amaca and Amaba were transferred from the Medical Research and Compensation Foundation to the AICF. In addition, shares in ABN 60 were transferred from the ABN 60 Foundation to the AICF.

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

Although the Company has no legal ownership in the AICF, it has contractual and pecuniary interests in the AICF as a result of funding arrangements outlined in the Amended FFA. The Amended FFA results in James Hardie 117 Pty Ltd (formerly LGTDD Pty Ltd) (the “Performing Subsidiary”) having a contractual liability to pay the initial funding and ongoing annual payments to the AICF. These payments to the AICF will result in the Company having a pecuniary interest in the AICF. The interest is considered variable because the potential impact on the Company will vary based upon the annual actuarial assessments obtained by the Company with respect to asbestos related claims.

Due to the Company’s variable interest in the AICF, it consolidates the AICF in accordance with Financial Accounting Standards Board (“FASB”) Interpretation No. 46R, “Consolidation of Variable Interest Entities.”

Following rulings received from the Australian Taxation Office, the Performing Subsidiary will be able to claim a taxable deduction for its contributions to the AICF. Consequently, a deferred tax asset has been recorded equivalent to the anticipated tax benefit over the life of the Amended FFA.

The amount of the asbestos liability reflects the terms of the Amended FFA, which has been calculated by reference to (but is not exclusively based upon) the most recent actuarial estimate of projected future cash flows prepared by KPMG Actuaries Pty Ltd (“KPMG Actuaries”). The asbestos liability includes these cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows is not fixed or readily determinable.

The asbestos liability also includes an allowance for the future operating costs of the AICF.

An updated actuarial assessment will be performed as of March 31 each year. Any changes in the estimate will be reflected as a charge or credit to the consolidated statements of operations for the year then ended.

***Quantifying Financial Statement Misstatements***

In September 2006, the Securities and Exchange Commission (“SEC”) staff issued Staff Accounting Bulletin (“SAB”) No. 108, “Quantifying Financial Statements Misstatements,” in order to address the observed diversity in quantification practices with respect to annual financial statements. For a number of years, the SEC staff has expressed concern over the diversity of practice surrounding how public companies (and their auditors) quantify financial statement misstatements.

Under SAB No. 108, the SEC staff establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the company’s financial statements and the related financial statement disclosures. The Company has adopted the provisions of SAB No. 108 as of March 31, 2007 and the adoption did not have an impact on the consolidated financial statements.

***Recent Accounting Pronouncements***

***Uncertain Tax Positions***

In June 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109. Unlike SFAS No. 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will adopt the provisions of FIN 48 effective April 1, 2007.

The Company is continuing to evaluate the impact of adopting FIN 48 on its financial statements; however, at this stage, it is not possible to determine whether that impact will be material. The cumulative effect of applying the new standard will be reflected as an adjustment to retained earnings in the period of adoption. The Company expects

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### James Hardie Industries N.V. and Subsidiaries

#### Notes to Consolidated Financial Statements — (Continued)

that the requirements of FIN 48 may add volatility to its effective tax rate, and therefore its income tax expense, in future periods.

#### 3. Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit in banks and cash invested temporarily in various highly liquid financial instruments with original maturities of three months or less.

*Cash and cash equivalents consist of the following components:*

	March 31	
	2007	2006
	(Millions of US dollars)	
Cash at bank and on hand	\$26.1	\$ 24.9
Short-term deposits	8.0	290.2
Total cash and cash equivalents	<u>\$34.1</u>	<u>\$315.1</u>

Short-term deposits are placed at floating interest rates varying between 4.85% to 5.25% and 4.60% to 4.85% as of March 31, 2007 and 2006, respectively.

#### 4. Restricted Cash and Cash Equivalents

Included in restricted cash is \$5.0 million related to an insurance policy as of March 31, 2007 and \$146.9 million held by the AICF for compensation of asbestos claimants.

#### 5. Accounts and Notes Receivable

Accounts and notes receivable consist of the following components:

	March 31	
	2007	2006
	(Millions of US dollars)	
Trade receivables	\$152.4	\$146.5
Other receivables and advances	12.5	8.0
Allowance for doubtful accounts	(1.5)	(1.3)
Total accounts and notes receivable	<u>\$163.4</u>	<u>\$153.2</u>

The collectibility of accounts receivable, consisting mainly of trade receivables, is reviewed on an ongoing basis and an allowance for doubtful accounts is provided for known and estimated bad debts. The following are changes in the allowance for doubtful accounts:

	March 31	
	2007	2006
	(Millions of US dollars)	
Balance at beginning of period	\$ 1.3	\$ 1.5
Charged to expense	0.5	0.3
Costs and deductions	(0.3)	(0.5)
Balance at end of period	<u>\$ 1.5</u>	<u>\$ 1.3</u>

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

**6. Inventories**

*Inventories consist of the following components:*

	March 31	
	2007	2006
	(Millions of US dollars)	
Finished goods	\$101.5	\$ 84.1
Work-in-process	12.3	9.2
Raw materials and supplies	37.8	33.0
Provision for obsolete finished goods and raw materials	(4.0)	(2.3)
<b>Total inventories</b>	<b>\$147.6</b>	<b>\$124.0</b>

**7. Property, Plant and Equipment**

*Property, plant and equipment consist of the following components:*

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
	(Millions of US dollars)				
<b>Balance at April 1, 2005:</b>					
Cost	\$11.5	\$ 131.1	\$ 606.6	\$ 176.6	\$ 925.8
Accumulated depreciation	—	(24.4)	(215.7)	—	(240.1)
Net book value	11.5	106.7	390.9	176.6	685.7
<b>Changes in net book value:</b>					
Capital expenditures	4.1	16.4	90.8	51.5	162.8
Retirements and sales	—	—	(8.9)	—	(8.9)
Depreciation	—	(7.3)	(38.0)	—	(45.3)
Impairment	—	—	(13.4)	—	(13.4)
Other movements	—	—	(0.9)	—	(0.9)
Foreign currency translation adjustments	—	—	(4.4)	—	(4.4)
Total changes	4.1	9.1	25.2	51.5	89.9
<b>Balance at March 31, 2006:</b>					
Cost	15.6	147.5	669.8	228.1	1,061.0
Accumulated depreciation	—	(31.7)	(253.7)	—	(285.4)
Net book value	<u>\$15.6</u>	<u>\$ 115.8</u>	<u>\$ 416.1</u>	<u>\$ 228.1</u>	<u>\$ 775.6</u>

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
	(Millions of US dollars)				
<b>Balance at April 1, 2006:</b>					
Cost	\$15.6	\$ 147.5	\$ 669.8	\$ 228.1	<b>\$1,061.0</b>
Accumulated depreciation	—	(31.7)	(253.7)	—	<b>(285.4)</b>
Net book value	15.6	115.8	416.1	228.1	<b>775.6</b>
<b>Changes in net book value:</b>					
Capital expenditures	1.3	70.8	131.3	(110.8)	<b>92.6</b>
Retirements and sales	—	—	(0.6)	—	<b>(0.6)</b>
Depreciation	—	(8.3)	(42.4)	—	<b>(50.7)</b>
Other movements	—	—	0.6	—	<b>0.6</b>
Foreign currency translation adjustments	—	—	10.2	—	<b>10.2</b>
Total changes	1.3	62.5	99.1	(110.8)	<b>52.1</b>
<b>Balance at March 31, 2007:</b>					
Cost	16.9	218.3	811.3	117.3	<b>1,163.8</b>
Accumulated depreciation	—	(40.0)	(296.1)	—	<b>(336.1)</b>
Net book value	<u>\$16.9</u>	<u>\$ 178.3</u>	<u>\$ 515.2</u>	<u>\$ 117.3</u>	<u><b>\$ 827.7</b></u>

Construction in progress consists of plant expansions and upgrades.

Interest related to the construction of major facilities is capitalized and included in the cost of the asset to which it relates. Interest capitalized was \$5.3 million, \$5.7 million and \$5.9 million for the years ended March 31, 2007, 2006 and 2005, respectively. Depreciation expense for continuing operations was \$50.7 million, \$45.3 million and \$36.3 million for the years ended March 31, 2007, 2006 and 2005, respectively. The impairment charge for the pilot roofing plant was \$13.4 million for the year ended March 31, 2006.

Included in property, plant and equipment are restricted assets with a net book value of \$0.4 million for the year ended March 31, 2007.

**8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following components:

	<u>March 31</u>	
	<u>2007</u>	<u>2006</u>
	(Millions of US dollars)	
Trade creditors	<b>\$ 57.7</b>	\$ 66.0
Other creditors and accruals	<b>43.1</b>	51.8
Total accounts payable and accrued liabilities	<u><b>\$100.8</b></u>	<u>\$117.8</u>



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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

**9. Short and Long-Term Debt**

Debt consists of the following components:

	<b>March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Millions of US dollars)</b>	
Short-term debt	<b>\$ 83.0</b>	\$302.7
Long-term debt	<b>105.0</b>	—
	<b><u>\$188.0</u></b>	<b><u>\$302.7</u></b>

Total debt at 5.91% and 7.11% weighted average rates, respectively.

The Company's credit facilities currently consist of 364-day facilities in the amount of \$110.0 million, which as of March 31, 2007, all had a maturity date of December 2007. In May 2007, the maturity date of \$38.3 million of the \$110.0 million was extended to June 2008. The Company is in discussions with its lenders to extend the maturity date to June 2008 for the remainder of the facilities. The Company also has term facilities in the amount of \$245.0 million, which had an original maturity date of March 2007. Upon satisfaction of the conditions precedent to the full implementation of the Amended FFA, which occurred on February 7, 2007 with shareholder approval, the maturity date of the term facilities was automatically extended to June 2010. For both facilities, interest is calculated at the commencement of each draw-down period based on the US\$ London Interbank Offered Rate ("LIBOR") plus the margins of individual lenders, and is payable at the end of each draw-down period. The Company paid commitment fees in the amount of \$0.7 million for the years ended March 31, 2007 and 2006. At March 31, 2007, there was \$188.0 million drawn under the combined facilities and \$167.0 million was available.

Short-term debt at March 31, 2007 comprised \$83.0 drawn under the 364-day facilities.

Long-term debt at March 31, 2007 comprised \$105.0 million drawn under the term facilities.

At March 31, 2007, management believes that the Company was in compliance with all restrictive covenants contained in its credit facility agreements. Under the most restrictive of these covenants, the Company is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and has limits on how much it can spend on an annual basis in relation to asbestos payments to the AICF.

Debt at March 31, 2006 comprised US\$ non-collateralized notes which formed part of a seven tranche private placement facility which provided for maximum borrowings of \$165.0 million. Principal repayments were due in seven installments that commenced on November 5, 2004 and were to end on November 5, 2013. The tranches had fixed interest rates of 6.86%, 6.92%, 6.99%, 7.05%, 7.12%, 7.24% and 7.42%. Interest was payable May 5 and November 5 each year.

As a result of recording the asbestos provision at March 31, 2006, and the Supervisory Board's approval on May 12, 2006 of the recording of this provision, the Company would not have been in compliance with certain of the restrictive covenants in respect of the US\$ non-collateralized notes. However, under the terms of the non-collateralized notes agreement, prepayment of these notes was permitted, and on April 28, 2006, the Company issued a notice to all noteholders to prepay in full all outstanding notes on May 8, 2006. On that date, the US\$ non-collateralized notes were prepaid in full, incurring a make-whole payment of \$6.0 million. This make-whole payment is included in interest expense in the consolidated statements of operations for the year ended March 31, 2007.

The Company anticipates being able to meet its future payment obligations from existing cash, unutilized committed facilities and future net operating cash flows. At March 31, 2007, the Company entered into a forward rate agreement of \$25.0 million with a fixed rate of 5.07% excluding the margin from February 2007 to February 2008. The contract is accounted for as a financial derivative and is marked to market every month.

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

**10. Non-Current Other Liabilities**

Non-current other liabilities consist of the following components:

	<b>March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Millions of US dollars)</b>	
Employee entitlements	<b>\$11.9</b>	\$17.0
Other	<b>29.3</b>	28.0
Total non-current other liabilities	<b><u>\$41.2</u></b>	<u>\$45.0</u>

**11. Product Warranties**

The Company offers various warranties on its products, including a 50-year limited warranty on certain of its fiber cement siding products in the United States. A typical warranty program requires the Company to replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty related costs based on an analysis of actual historical warranty costs as they relate to sales. Based on this analysis and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could differ from those estimates.

Additionally, the Company includes in its accrual for product warranties amounts for a Class Action Settlement Agreement (the "Settlement Agreement") related to its previous roofing products, which are no longer manufactured in the United States. On February 14, 2002, the Company signed the Settlement Agreement for all product, warranty and property related liability claims associated with these previously manufactured roofing products. These products were removed from the marketplace between 1995 and 1998 in areas where there had been any alleged problems. The total amount included in the product warranty provision relating to the Settlement Agreement is \$3.5 million and \$5.7 million as of March 31, 2007 and 2006, respectively.

The following are the changes in the product warranty provision:

	<b>Years Ended March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Millions of US dollars)</b>	
Balance at beginning of period	<b>\$15.5</b>	\$12.9
Accruals for product warranties	<b>4.4</b>	6.2
Settlements made in cash or in kind	<b>(4.9)</b>	(3.4)
Foreign currency translation adjustments	<b>0.2</b>	(0.2)
Balance at end of period	<b><u>\$15.2</u></b>	<u>\$15.5</u>

The "Accruals for product warranties" line item above includes an additional accrual of \$2.0 million and \$0.6 million for the years ended March 31, 2007 and 2006, respectively, related to the Settlement Agreement. This increase reflects the results of the Company's most recent estimate of its total exposure. The "Settlements made in cash or in kind" line item above includes settlements related to the Settlement Agreement of \$0.2 million and \$0.7 million for the years ended March 31, 2007 and 2006, respectively.

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

**12. Commitments and Contingencies**

***Commitment to provide funding on a long-term basis in respect of asbestos-related liabilities of former subsidiaries***

On November 21, 2006, the Company signed the Amended FFA with the NSW Government to provide long-term funding to the AICF that will provide compensation for Australian asbestos-related personal injury claims against Former James Hardie Companies. While the Amended FFA is consistent in all material respects with the terms of the Final Funding Agreement entered into on December 1, 2005 among the Company, the NSW Government and a wholly owned Australian subsidiary of the Company, the Performing Subsidiary, the Amended FFA set forth certain changes to the original proposed arrangements as approved by the Company's Managing and Supervisory Boards of Directors.

In summary, the Amended FFA provided for the following key steps to occur if the remaining conditions precedent to that agreement be satisfied or waived in writing by the parties:

- the establishment of the AICF to provide compensation to Australian asbestos-related personal injury claimants with proven claims against the Former James Hardie Companies;
- initial funding of approximately A\$184.3 million provided by the Performing Subsidiary to the AICF, calculated on the basis of an actuarial report prepared by KPMG Actuaries as of September 30, 2006. That report provided an estimate of the discounted net present value of all present and future Australian asbestos-related personal injury claims against the Former James Hardie Companies of A\$1.55 billion (\$1.25 billion);
- subject to the cap described below, an annual contribution in advance to top up the funds in the AICF to equal the actuarially calculated estimate of expected Australian asbestos-related personal injury claims against the Former James Hardie Companies for the following three years, to be revised annually (so as to create a rolling cash "buffer" in the AICF);
- a cap on the annual payments made by the Performing Subsidiary to the AICF, initially set at 35% of the Company's free cash flow (defined as cash from operations in accordance with U.S. GAAP in force at the date of the Original FFA) for the immediately preceding financial year, with provisions for the percentage to decline over time depending upon the Company's financial performance (and therefore the contributions already made to the AICF) and the claims outlook;
- an initial term to March 31, 2045, at the end of which time the parties may either agree upon a final payment to be made by the Company in satisfaction of any further funding obligations, or have the term automatically extended for further periods of 10 years until such agreement is reached or the relevant asbestos-related liabilities cease to arise;
- the entry by the parties and/or others into agreements ancillary to or connected with the Amended FFA (the "Related Agreements");
- no cap on individual payments to asbestos claimants;
- the Performing Subsidiary's payment obligations are guaranteed by James Hardie Industries N.V.;
- the AICF's claims to the funding payments required under the Amended FFA will be subordinated to the claims of the Company's lenders;
- the compensation arrangements will extend to members of the Baryulgil community for asbestos-related claims arising from the activities of a former subsidiary of ABN 60; and
- James Hardie Industries N.V. will, for ten years, provide an annual sum of A\$0.5 million for the purpose of medical research into the prevention, treatment and cure of asbestos disease and contribute an annual sum of

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

A\$0.075 million towards an education campaign for the benefit of the Australian public on the dangers of asbestos.

On November 9, 2006, James Hardie announced that it, the AICF and others had received private binding rulings relating to the expected tax consequences arising to the AICF and others in connection with the Amended FFA. In the Amended FFA, all parties to the Amended FFA agreed to these rulings resulting in the tax conditions precedent set out in that agreement.

In the fourth quarter of fiscal year 2007, the following conditions precedent were satisfied:

- receipt of an independent expert's report confirming that the funding proposal is in the best interests of the Company and its enterprise as a whole;
- approval of the Company's lenders and confirmation satisfactory to the Company's Board of Directors, acting reasonably, that the contributions to be made by JHI NV and the Performing Subsidiary under the Amended FFA will be tax deductible;
- confirmation as to the expected tax consequences arising to the AICF and others from implementing the arrangements;
- approval of the Company's shareholders at the Extraordinary General Meeting held on February 7, 2007; and
- initial funding payment of A\$184.3 million paid to the AICF on February 9, 2007.

In addition to entering into the Amended FFA, one or more of the Company, the Performing Subsidiary, the AICF and the NSW Government have entered into a number of Related Agreements, including a trust deed (for a trust known as the AICF, referred to as the Trust Deed), for the establishment of the AICF; a deed of guarantee under which James Hardie Industries N.V. provides the guarantee described above; intercreditor deeds to achieve the subordination arrangements described above; and deeds of release in connection with the releases from civil liability described below.

The Performing Subsidiary also signed an Interim Funding Deed with Amaca to provide funding to Amaca of up to A\$24.1 million in the event that Amaca's finances are otherwise exhausted before the Amended FFA was implemented in full. The commercial terms of such funding were settled and the Performing Subsidiary entered into interim funding documentation dated November 16, 2006. An interim funding payment of A\$9.0 million (\$7.1 million) was made to Amaca in December 2006. That sum was subsequently repaid by Amaca out of part of the proceeds of the initial funding on February 12, 2007.

*Actuarial Study; Claims Estimate*

The AICF commissioned an updated actuarial study of potential asbestos-related liabilities as of March 31, 2007. Based on the results of these studies, it is estimated that the discounted value of the central estimate for claims against the Former James Hardie Companies was approximately A\$1.4 billion (\$1.1 billion). The undiscounted value of the central estimate of the asbestos-related liabilities of Amaca and Amaba as determined by KPMG Actuaries was approximately A\$2.8 billion (\$2.3 billion). Actual liabilities of those companies for such claims could vary, perhaps materially, from the central estimate described above. This central estimate is calculated in accordance with Australian Actuarial Standards, which differ from accounting principles generally accepted in the United States of America. The asbestos liability includes projected future cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows is not fixed or readily determinable.

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

The tables below are designed to show the various components and effective grossing up of the net Amended FFA liability at March 31, 2007.

The asbestos liability has been revised to reflect the most recent actuarial estimate prepared by KPMG Actuaries as of March 31, 2007 and to adjust for payments made to claimants during the year then ended.

Adjustments to the net Amended FFA liability are shown in the table below:

	<u>US\$ millions</u>	<u>A\$ millions</u>
At March 31, 2006	\$ (715.6)	A\$ (1,000.0)
Effect of changes in foreign exchange rates	(94.5)	—
Other adjustments to net Amended FFA liability	24.0	25.7
<b>Net Amended FFA liability at March 31, 2007</b>	<b>\$ (786.1)</b>	<b>A\$ (974.3)</b>
Components of the net Amended FFA liability:		
Insurance receivables — current	\$ 9.4	A\$ 11.7
Workers' compensation — Asbestos — current	2.7	3.4
Deferred tax assets — current	7.8	9.7
Income tax payable (reduction to income tax payable)	9.0	11.2
Insurance receivables — non-current	165.1	204.6
Workers' compensation — Asbestos — non-current	76.5	94.8
Deferred tax assets — non-current	318.2	394.4
Workers' compensation liabilities — current	(2.7)	(3.4)
Asbestos liability — current	(63.5)	(78.7)
Asbestos liability — non-current	(1,225.8)	(1,519.4)
Workers' compensation liabilities — non-current	(76.5)	(94.8)
Other net liabilities	(6.3)	(7.8)
<b>Net Amended FFA liability at March 31, 2007</b>	<b>\$ (786.1)</b>	<b>A\$ (974.3)</b>

In estimating the potential financial exposure, KPMG Actuaries made assumptions related to the total number of claims which were reasonably estimated to be asserted through 2071, the typical cost of settlement (which is sensitive to, among other factors, the industry in which a plaintiff claims exposure, the alleged disease type and the jurisdiction in which the action is brought), the legal costs incurred in the litigation of such claims, the rate of receipt of claims, the settlement strategy in dealing with outstanding claims and the timing of settlements.

Further, KPMG Actuaries relied on the data and information provided by the AICF and Amaca Claims Services, Amaca Pty Ltd (under NSW External Administration) ("ACS") and assumed that it is accurate and complete in all material respects. The actuaries have not verified the information independently nor established the accuracy or completeness of the data and information provided or used for the preparation of the report.

Due to inherent uncertainties in the legal and medical environment, the number and timing of future claim notifications and settlements, the recoverability of claims against insurance contracts, and estimates of future trends in average claim awards, as well as the extent to which the above named entities will contribute to the overall settlements, the actual amount of liability could differ materially from that which is currently projected.

A sensitivity analysis has been performed to determine how the actuarial estimates would change if certain assumptions (i.e., the rate of inflation and superimposed inflation, the average costs of claims and legal fees, and the projected numbers of claims) were different from the assumptions used to determine the central estimates. This analysis shows that the discounted central estimates could be in a range of A\$0.9 billion (\$0.7 billion) to A\$2.0 billion (\$1.6 billion) (undiscounted estimates of A\$1.6 billion (\$1.3 billion) to A\$5.1 billion (\$4.1 billion) as

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**Notes to Consolidated Financial Statements — (Continued)**

of March 31, 2007. It should be noted that the actual cost of the liabilities could be outside of that range depending on the results of actual experience relative to the assumptions made.

The potential range of costs as estimated by KPMG Actuaries is affected by a number of variables such as nil settlement rates (where no settlement is payable by the Former James Hardie Companies because the claim settlement is borne by other asbestos defendants (other than the former James Hardie subsidiaries) which are held liable), peak year of claims, past history of claims numbers, average settlement rates, past history of Australian asbestos-related medical injuries, current number of claims, average defense and plaintiff legal costs, base wage inflation and superimposed inflation. The potential range of losses disclosed includes both asserted and unasserted claims. While no assurances can be provided, the Company believes that it is likely to be able to partially recover losses from various insurance carriers. As of March 31, 2007, KPMG Actuaries' undiscounted central estimate of asbestos-related liabilities was A\$2.8 billion (\$2.3 billion). This undiscounted central estimate is net of expected insurance recoveries of A\$488.1 million (\$393.8 million) after making a general credit risk allowance for bad debt insurance carriers and an allowance for A\$91.6 million (\$73.9 million) of "by claim" or subrogation recoveries from other third parties.

*Claims Data*

The following table, provided by KPMG Actuaries, shows the number of claims pending as of March 31, 2007 and 2006:

	March 31	
	2007	2006(1)
Australia	490	556
New Zealand	—	—
Unknown — Court Not Identified	13	20
USA	1	1

(1) Information includes claims data for only 11 months ended February 28, 2006. Claims data for the 12 months ended March 31, 2006 was not available at the time our financial statements were prepared.

For the years ended March 31, 2007, 2006 and 2005, the following tables, provided by KPMG Actuaries, show the claims filed, the number of claims dismissed, settled or otherwise resolved for each period, and the average settlement amount per claim.

	Australia		
	Years Ended March 31		
	2007	2006(1)	2005
Number of claims filed	463	346	489
Number of claims dismissed	121	97	62
Number of claims settled or otherwise resolved	416	405	402
Average settlement amount per settled claim	A\$ 166,164	A\$ 151,883	A\$ 157,594
Average settlement amount per settled claim	US\$ 127,165	US\$ 114,322	US\$ 116,572



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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

	Unknown — Court Not Identified		
	Years Ended March 31		
	2007	2006(1)	2005
Number of claims filed	—	6	7
Number of claims dismissed	3	10	20
Number of claims settled or otherwise resolved	5	12	2
Average settlement amount per settled claim	A\$ 12,165	A\$ 198,892	A\$ 47,000
Average settlement amount per settled claim	US\$ 9,310	US\$ 149,706	US\$ 34,766

	USA		
	Years Ended March 31		
	2007	2006(1)	2005
Number of claims filed	1	—	—
Number of claims dismissed	1	—	3
Number of claims settled or otherwise resolved	—	—	1
Average settlement amount per settled claim	A\$ —	A\$ —	A\$ 228,293
Average settlement amount per settled claim	US\$ —	US\$ —	US\$ 168,868

(1) Information includes claims data for only 11 months ended February 28, 2006. Claims data for the 12 months ended March 31, 2006 was not available at the time our financial statements were prepared.

The following table, provided by KPMG Actuaries, shows the activity related to the numbers of open claims, new claims and closed claims during each of the past five years and the average settlement per settled claim and case closed.

	As of March 31				
	2007	2006(1)	2005	2004	2003
Number of open claims at beginning of year	586	749	743	814	671
Number of new claims	464	352	496	380	409
Number of closed claims	546	524	490	451	266
Number of open claims at year-end	504	577	749	743	814
Average settlement amount per settled claim	A\$ 164,335	A\$ 153,236	A\$ 157,223	A\$ 167,450	A\$ 201,200
Average settlement amount per case closed	A\$ 126,713	A\$ 121,945	A\$ 129,949	A\$ 117,327	A\$ 177,752
Average settlement amount per settled claim	US\$ 125,766	US\$ 115,341	US\$ 116,298	US\$ 116,127	US\$ 112,974
Average settlement amount per case closed	US\$ 96,973	US\$ 91,788	US\$ 96,123	US\$ 81,366	US\$ 99,808

(1) Information includes claims data for only 11 months ended February 28, 2006. Claims data for the 12 months ended March 31, 2006 was not available at the time our financial statements were prepared.

The Company did not have any responsibility or involvement in the management of claims against ABN 60 between the time ABN 60 left the James Hardie Group in March 2003 and February 2007 when the Amended FFA was approved. Since February 2001, when Amaca and Amaba were separated from the James Hardie Group, neither the Company nor any of its current subsidiaries had any responsibility or involvement in the management of claims against those entities. Prior to February 2001, the principal entity potentially involved in relation to such claims was ABN 60, which was not a member of the James Hardie Group between March 2003 and February 2007. However, the Amended FFA and associated New South Wales legislation provides that the AICF will have both the responsibility for, and management of claims against, the Former James Hardie Companies, and that the Company will have the right to appoint a majority of the directors of the AICF, unless a special default or insolvency event arises.



**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

On October 26, 2004, the Company, the Medical Research and Compensation Fund (“MRCF”) and KPMG Actuaries entered into an agreement under which the Company would be entitled to obtain a copy of the actuarial report prepared by KPMG Actuaries in relation to the claims liabilities of the MRCF and Amaba and Amaca, and would be entitled to publicly release the final version of such reports. Under the terms of the Amended FFA, the Company has obtained similar rights of access to actuarial information produced for the AICF by the actuary to be appointed by the AICF (the “Approved Actuary”). The Company’s future disclosures with respect to claims statistics is subject to it obtaining such information from the Approved Actuary. The Company has had no general right (and has not obtained any right under the Amended FFA) to audit or otherwise require independent verification of such information or the methodologies to be adopted by the Approved Actuary. As such the Company will need to rely on the accuracy and completeness of the information and analysis of the Approved Actuary when making future disclosures with respect to claims statistics.

*SCI and Other Related Expenses*

The Company has incurred substantial costs associated with the Special Commission of Inquiry (“SCI”) and may incur material costs in the future related to the SCI or subsequent legal proceedings.

The following are the components of SCI and other related expenses:

	<b>Years Ended March 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Millions of US dollars)</b>		
<b>SCI</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6.8</b>
Internal investigation	—	—	4.9
ASIC investigation	<b>1.7</b>	0.8	1.2
Severance and consulting	<b>0.2</b>	0.1	6.0
Resolution advisory fees	<b>8.8</b>	9.8	6.4
Funding advice	<b>0.7</b>	2.9	0.6
Other	<b>2.2</b>	3.8	2.2
Total SCI and other related expenses	<b><u>\$13.6</u></b>	<b><u>\$17.4</u></b>	<b><u>\$28.1</u></b>

Internal investigation costs reflect costs incurred by the Company in connection with an internal investigation conducted by independent legal advisors to investigate allegations raised during the SCI and the preparation and filing of the Company’s annual financial statements in the United States.

*Australian Securities and Investments Commission (“ASIC”) Proceedings and Investigation*

On February 14, 2007, ASIC commenced civil proceedings in the Supreme Court of New South Wales (the “Court”), against the Company, ABN 60 and ten then-present or former officers and directors of the James Hardie Group. While the subject matter of the allegations varies between individual defendants, the allegations against the Company are confined to alleged contraventions of provisions of the Australian Corporations Act/Law relating to continuous disclosure, a director’s duty of care and diligence, and engaging in misleading or deceptive conduct in respect of a security.

In the proceedings, ASIC seeks:

- declarations regarding the alleged contraventions;
- orders for pecuniary penalties in such amount as the Court thinks fit up to the limits specified in the Corporations Act;

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

- orders that Michael Brown, Michael Gillfillan, Meredith Hellicar, Martin Koffel, Peter Macdonald, Philip Morley, Geoffrey O'Brien, Peter Shafron, Gregory Terry and Peter Willcox be prohibited from managing an Australian corporation for such period as the Court thinks fit;
- an order that the Company execute a deed of indemnity in favor of ABN 60 Pty Limited in the amount of A\$1.9 billion or such amount as ABN 60 or its directors consider is necessary to ensure that ABN 60 remains solvent; and
- its costs of the proceedings.

ASIC stated in February 2007 that it would not pursue the claim for indemnity if the conditions precedent to the Original FFA as announced on December 1, 2005 were satisfied. The Company and the other parties to the agreement provided certification to ASIC in March 2007 that the conditions precedent to the Amended FFA dated November 21, 2006 have been satisfied. ASIC is considering its position and has not yet taken any step to withdraw the indemnity claim.

ASIC has indicated that its investigations continue and may result in further actions, both civil and criminal. However, it has not indicated the possible defendants to any such actions.

On February 20, 2007, the Company announced that the three serving directors named in the ASIC proceedings had resigned from the Board and Board committees.

The Company has entered into deeds of indemnity with certain of its directors and officers as is common practice for publicly listed companies. The Company's articles of association also contain an indemnity for directors and officers and the Company has granted indemnities to certain of its former related corporate bodies which may require the Company to indemnify those entities against indemnities they have granted their directors and officers. To date, claims for payments of expenses incurred have been received from certain former directors and officers in relation to the ASIC investigation, and in relation to the examination of these persons by ASIC delegates, the amount of which is not significant. Now that proceedings have been brought against former directors and officers of the James Hardie Group, the Company is likely to incur further liabilities under these indemnities. Initially, the Company has obligations, or has offered, to advance funds in respect of defense costs and depending on the outcome of the proceedings, may be or become responsible for these and other amounts. Any obligations of the Company in this regard are expected to be substantially recovered through the Company's insurance.

There remains considerable uncertainty surrounding the likely outcome of the ASIC proceedings in the longer term and there is a possibility that the related costs to the Company could be material. However, at this stage, it is not possible to determine the amount of any such liability. Therefore, the Company believes that both the probable and estimable requirements under SFAS No. 5, "Accounting for Contingencies," for recording a liability have not been met.

***Environmental and Legal***

The operations of the Company, like those of other companies engaged in similar businesses, are subject to a number of federal, state and local laws and regulations on air and water quality, waste handling and disposal. The Company's policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known except as set forth above, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

The Company is involved from time to time in various legal proceedings and administrative actions incidental or related to the normal conduct of its business. Although it is impossible to predict the outcome of any pending legal proceeding, management believes that such proceedings and actions should not, except as it relates to asbestos as described above, individually or in the aggregate, have a material adverse effect on its consolidated financial position, statement of operations or cash flows.

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

**Operating Leases**

As the lessee, the Company principally enters into property, building and equipment leases. The following are future minimum lease payments for non-cancellable operating leases having a remaining term in excess of one year at March 31, 2007:

<u>Years Ending March 31:</u>	<u>(Millions of US dollars)</u>
2008	\$ 15.0
2009	14.6
2010	12.5
2011	12.6
2012	9.0
Thereafter	73.3
Total	<u>\$ 137.0</u>

Rental expense amounted to \$12.1 million, \$12.5 million and \$9.1 million for the years ended March 31, 2007, 2006 and 2005, respectively.

**Capital Commitments**

Commitments for the acquisition of plant and equipment and other purchase obligations, primarily in the United States, contracted for but not recognized as liabilities and generally payable within one year, were \$12.2 million at March 31, 2007.

**13. Income Taxes**

Income tax expense includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Income tax benefit (expense) for continuing operations consists of the following components:

	<u>Years Ended March 31</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>(Millions of US dollars)</u>		
(Loss) income from continuing operations before income taxes:			
Domestic(1)	\$ 110.9	\$ 113.7	\$ 90.5
Foreign	(204.0)	(548.8)	99.3
(Loss) income from continuing operations before income taxes	<u>\$ (93.1)</u>	<u>\$(435.1)</u>	<u>\$189.8</u>
Income tax expense (benefit):			
Current:			
Domestic(1)	\$ 0.4	\$ (9.0)	\$ (14.1)
Foreign	(63.7)	(91.5)	(37.1)
Current income tax benefit	<u>(63.3)</u>	<u>(100.5)</u>	<u>(51.2)</u>
Deferred:			
Domestic(1)	0.1	(0.3)	5.0
Foreign	307.1	29.2	(15.7)
Deferred income tax benefit (expense)	<u>307.2</u>	<u>28.9</u>	<u>(10.7)</u>
Total income tax benefit (expense) for continuing operations	<u>\$ 243.9</u>	<u>\$ (71.6)</u>	<u>\$ (61.9)</u>

(1) Since JHI NV is the Dutch parent holding company, domestic represents The Netherlands.

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

Income tax benefit (expense) computed at the statutory rates represents taxes on income applicable to all jurisdictions in which the Company conducts business, calculated as the statutory income tax rate in each jurisdiction multiplied by the pre-tax income attributable to that jurisdiction. Income tax benefit (expense) from continuing operations is reconciled to the tax at the statutory rates as follows:

	Years Ended March 31		
	2007	2006	2005
	(Millions of US dollars)		
Income tax benefit (expense) computed at statutory tax rates	\$ 16.2	\$ 121.0	\$(65.3)
U.S. state income taxes, net of the federal benefit	(6.5)	(7.1)	(5.3)
Asbestos adjustment	242.0	(214.7)	—
Asbestos — effect of foreign exchange	(24.1)	—	—
Benefit from Dutch financial risk reserve regime	8.1	12.7	18.1
Expenses not deductible	(1.7)	(3.4)	(2.3)
Non-assessable items	1.8	1.4	—
Losses not available for carryforward	(3.2)	(2.6)	(2.4)
Change in reserves	10.4	20.7	(3.7)
Change in tax law	3.0	—	—
Other items	(2.1)	0.4	(1.0)
Total income tax benefit (expense)	<u>\$243.9</u>	<u>\$ (71.6)</u>	<u>\$(61.9)</u>
Effective tax rate	<u>262.0%</u>	<u>16.5%</u>	<u>32.6%</u>

*Deferred tax balances consist of the following components:*

	March 31	
	2007	2006
	(Millions of US dollars)	
Deferred tax assets:		
Asbestos liability	\$ 326.0	\$ —
Other provisions and accruals	33.3	33.2
Net operating loss carryforwards	7.8	8.9
Capital loss carryforwards	35.2	31.2
Taxes on intellectual property transfer	6.5	6.0
Other	7.5	2.3
Total deferred tax assets	<u>416.3</u>	<u>81.6</u>
Valuation allowance	(39.7)	(35.2)
Total deferred tax assets, net of valuation allowance	<u>376.6</u>	<u>46.4</u>
Deferred tax liabilities:		
Property, plant and equipment	(108.4)	(91.7)
Prepaid pension cost	—	(1.8)
Foreign currency movements	(5.2)	2.8
Other	(0.1)	—
Total deferred tax liabilities	<u>(113.7)</u>	<u>(90.7)</u>
Net deferred tax liabilities	<u>\$ 262.9</u>	<u>\$(44.3)</u>

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

Under SFAS No. 109, "Accounting for Income Taxes," the Company establishes a valuation allowance against a deferred tax asset if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company has established a valuation allowance pertaining to a portion of its Australian net operating loss carryforwards and all of its Australian capital loss carryforwards. The valuation allowance increased by \$4.5 million during fiscal year 2007 due to foreign currency movements.

At March 31, 2007, the Company had Australian tax loss carryforwards of approximately \$24.9 million that will never expire. At March 31, 2007, the Company had a \$15.5 million valuation allowance against the Australian tax loss carryforwards.

At March 31, 2007, the Company had \$117.2 million in Australian capital loss carryforwards which will never expire. At March 31, 2007, the Company had a 100% valuation allowance against the Australian capital loss carryforwards.

At March 31, 2007, the undistributed earnings of non-Dutch subsidiaries approximated \$639.8 million. The Company intends to indefinitely reinvest these earnings, and accordingly, has not provided for taxes that would be payable upon remittance of those earnings. The amount of the potential deferred tax liability related to undistributed earnings is impracticable to determine at this time.

Due to the size of the Company and the nature of its business, the Company is subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions the Company asserts on its income tax returns. The Company accrues for tax contingencies based upon its best estimate of the taxes ultimately expected to be paid, which it updates over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If the Company ultimately determines that payment of these amounts is unnecessary, the Company reverses the liability and recognizes a tax benefit during the period in which the Company determines that the liability is no longer necessary. The Company records additional tax expense in the period in which it determines that the recorded tax liability is less than the ultimate assessment it expects.

In fiscal years 2007, 2006 and 2005, the Company recorded income tax benefit of \$10.4 million, \$20.7 million and \$2.5 million, respectively, as a result of the finalization of certain tax audits (whereby certain matters were settled), the expiration of the statute related to certain tax positions and adjustments to income tax balances based on the filing of amended income tax returns, which give rise to the benefit recorded by the Company.

Relevant tax authorities from various jurisdictions in which the Company operates are in the process of auditing the Company's respective jurisdictional income tax returns for various ranges of years. In particular, the Australian Taxation Office (ATO) is auditing the Company's Australian income tax return for the year ended March 31, 2002. The ATO has indicated that further investigation is required and is working with the Company and the Company's advisors to conclude its inquiries.

Of the audits currently being conducted, none have progressed sufficiently to predict their ultimate outcome. The Company accrues income tax liabilities for these audits based upon knowledge of all relevant facts and circumstances, taking into account existing tax laws, its experience with previous audits and settlements, the status of current tax examinations and how the tax authorities view certain issues.

The Company currently derives significant tax benefits under the U.S.-Netherlands tax treaty. The treaty was amended during fiscal year 2005 and became effective for the Company on February 1, 2006. The amended treaty provides, among other things, new requirements that the Company must meet for the Company to continue to qualify for treaty benefits and its effective income tax rate. During fiscal year 2006, the Company made changes to its organizational and operational structure to satisfy the requirements of the amended treaty and believes that it is now in compliance and should continue qualifying for treaty benefits. However, if during a subsequent tax audit or related process, the Internal Revenue Service ("IRS") determines that these changes do not meet the new requirements, the Company may not qualify for treaty benefits, its effective income tax rate could significantly increase beginning in the fiscal year that such determination is made and it could be liable for taxes owed from the effective date of the amended treaty provisions.

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

**14. Amended ATO Assessment**

In March 2006, RCI Pty Ltd (“RCI”), a wholly owned subsidiary of the Company, received an amended assessment from the ATO in respect of RCI’s income tax return for the year ended March 31, 1999. The amended assessment relates to the amount of net capital gains arising as a result of an internal corporate restructure carried out in 1998 and has been issued pursuant to the discretion granted to the Commissioner of Taxation under Part IVA of the Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A\$412.0 million. However, after two subsequent remissions of general interest charges by the ATO, the total was revised to A\$368.0 million and is comprised of the following as of March 31, 2007:

	<u>US\$(1)</u>	<u>A\$</u>
	(Millions of dollars)	
Primary tax after allowable credits	\$138.8	A\$ 172.0
Penalties(2)	34.7	43.0
General interest charges	<u>123.4</u>	<u>153.0</u>
Total amended assessment	<u>\$296.9</u>	<u>A\$ 368.0</u>

- (1) \$ amounts calculated using the A\$/\\$ foreign exchange spot rate at March 31, 2007.
- (2) Represents 25% of primary tax.

On June 23, 2006, following negotiation with the ATO regarding payment options for the amended assessment, the Company was advised by the ATO that, in accordance with the ATO Receivable Policy, it was able to make a payment of 50% of the total amended assessment then due of A\$378.0 million (\$305.0 million), being A\$189.0 million (\$152.5 million), and provide a guarantee from James Hardie Industries N.V. in favor of the ATO for the remaining unpaid 50% of the amended assessment, pending outcome of the appeal of the amended assessment. Payment of 50% of the amended assessment became due and was paid on July 5, 2006. The Company also agreed to pay general interest charges (“GIC”) accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued GIC was paid on October 16, 2006 in respect of the quarter ended September 30, 2006.

On November 10, 2006, the ATO granted a further remission of GIC reducing total GIC on the amended assessment from A\$163.0 million to A\$153.0 million and thereby reducing the total amount due under the amended assessment from A\$378.0 million to A\$368.0 million. The reduction in the total amount due under the amended assessment resulted in a reduction in the 50% payment required under the agreement with the ATO from A\$189.0 million to A\$184.0 million. This gave rise to an amount of A\$5.0 million being available for offset against future GIC accruing on the unpaid balance of the amended assessment. Accordingly, no GIC was required to be paid in respect of the quarter ended December 31, 2006 and a reduced amount of GIC of A\$1.2 million was paid in respect of the quarter ended March 31, 2007.

RCI strongly disputes the amended assessment and is pursuing all avenues of objection and appeal to contest the ATO’s position in this matter. The ATO has confirmed that RCI has a reasonably arguable position that the amount of net capital gains arising as a result of the corporate restructure carried out in 1998 has been reported correctly in the fiscal year 1999 tax return and that Part IVA does not apply. As a result, the ATO reduced the amount of penalty from an automatic 50% of primary tax that would otherwise apply in these circumstances, to 25% of primary tax. In Australia, a reasonably arguable position means that the tax position is about as likely to be correct as it is not correct. The Company and RCI received legal and tax advice at the time of the transaction, during the ATO enquiries and following receipt of the amended assessment. The Company believes that the tax position reported in RCI’s tax return for the 1999 fiscal year will be upheld on appeal. Therefore, the Company believes that the probable requirements under SFAS No. 5, “Accounting for Contingencies,” for recording a liability have not been met and therefore it has not recorded any liability at March 31, 2007 for the remainder of the amended assessment.

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**Notes to Consolidated Financial Statements — (Continued)**

The Company expects that amounts paid on July 5, 2006 and, any later time, would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. As a result, the Company has treated the payments on July 5, 2006 and October 16, 2006 as a deposit and it is the Company's intention to treat any payments to be made at a later date as a deposit.

**15. Discontinued Operations**

*Chile Fibre Cement*

In June 2005, the Company approved a plan to dispose of its Chile Fibre Cement business to Compania Industrial El Volcan S.A. ("Volcan"). The sale closed on July 8, 2005. The Company received net proceeds of \$3.9 million and recorded a loss on disposal of \$0.8 million. This loss on disposal was included in other operating expense in the Company's consolidated statements of operations for the year ended March 31, 2006.

As part of the terms of the sale of the Chile Fibre Cement business to Volcan, the Company entered into a two-year take or pay purchase contract for fiber cement product manufactured by Volcan. The first year of the contract amounted to a purchase commitment of approximately \$2.8 million and the second year amounted to a purchase commitment of approximately \$2.1 million. As this contract qualified as continuing involvement per SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the operating results and loss on disposal of the Chile Fibre Cement business are included in the Company's income (loss) from continuing operations and are comprised of the following components:

	<b>Years Ended March 31</b>	
	<u>2006</u>	<u>2005</u>
<b>Chile Fibre Cement</b>		
Net sales	\$ 5.1	\$ 13.3
Cost of goods sold	(3.5)	(10.1)
Gross profit	1.6	3.2
Selling, general and administrative expenses	(1.2)	(2.0)
Loss on disposal of business	(0.8)	—
Operating (loss) income	(0.4)	1.2
Interest expense	(0.2)	(0.4)
Net (loss) income	<u>\$(0.6)</u>	<u>\$ 0.8</u>

The following are the results of operations of discontinued businesses:

	<b>Year Ended March 31 2005</b>
	<b>(Millions of US dollars)</b>
<b>Building Services</b>	
Loss before income taxes	\$ (0.5)
Income tax benefit	0.2
Loss before discontinued operations	(0.3)
Loss on disposal, net of income taxes	(0.7)
Loss from discontinued operations	<u>\$ (1.0)</u>

**16. Stock-Based Compensation**

At March 31, 2007, the Company had the following stock-based compensation plans: the Executive Share Purchase Plan; the Managing Board Transitional Stock Option Plan; the JHI NV 2001 Equity Incentive Plan; the JHI NV Stock Appreciation Rights Incentive Plan; the Supervisory Board Share Plan; the Supervisory Board Share

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

Plan 2006 and the Long-Term Incentive Plan. As of March 31, 2006, the Company had no units outstanding under the following stock-based compensation plans: the Peter Donald Macdonald Share Option Plan, the Peter Donald Macdonald Share Option Plan 2001 and the Peter Donald Macdonald Share Option Plan 2002 (collectively the “Peter Donald Macdonald Share Option Plans”).

***Executive Share Purchase Plan***

Prior to July 1998, James Hardie Industries Limited (“JHIL”) issued stock under an Executive Share Purchase Plan (the “Plan”). Under the terms of the Plan, eligible executives purchased JHIL shares at their market price when issued. Executives funded purchases of JHIL shares with non-recourse, interest-free loans provided by JHIL and collateralised by the shares. In such cases, the amount of indebtedness is reduced by any amounts payable by JHIL in respect of such shares, including dividends and capital returns. These loans are generally repayable within two years after termination of an executive’s employment. Variable plan accounting under the provisions of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” has been applied to the Executive Share Purchase Plan shares granted prior to April 1, 1995 and fair value accounting, pursuant to the requirements of SFAS No. 123R, has been applied to shares granted after March 31, 1995. The Company recorded no compensation expense during the years ended March 31, 2007, 2006 and 2005. No shares were issued under this plan during years ended March 31, 2007, 2006 and 2005.

***Managing Board Transitional Stock Option Plan***

The Managing Board Transitional Stock Option Plan provides an incentive to the members of the Managing Board. The maximum number of ordinary shares that may be issued and outstanding or subject to outstanding options under this plan shall not exceed 1,380,000 shares. At March 31, 2007, there were 1,320,000 options outstanding under this plan.

On November 22, 2005, the Company granted options to purchase 1,320,000 shares of the Company’s common stock at an exercise price per share equal to A\$8.53 to the Managing Directors under the Managing Board Transitional Stock Option Plan. As set out in the plan rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. 50% of these options become exercisable on the first business day on or after November 22, 2008 if the total shareholder returns (“TSR”) (essentially its dividend yield and common stock performance) from November 22, 2005 to that date were at least equal to the median TSR for the companies comprising the Company’s peer group, as set out in the plan. In addition, for each 1% increment that the Company’s TSR is above the median TSR, an additional 2% of the options become exercisable. If any options remain unvested on the last business day of each six month period following November 22, 2008 and November 22, 2010, the Company will reapply the vesting criteria to those options on that business day.

***JHI NV 2001 Equity Incentive Plan***

On October 19, 2001 (the grant date), JHI NV granted a total of 5,468,829 stock options under the JHI NV 2001 Equity Incentive Plan (the “2001 Equity Incentive Plan”) to key U.S. executives in exchange for their previously granted Key Management Equity Incentive Plan (“KMEIP”) shadow shares that were originally granted in November 2000 and 1999 by JHIL. These options may be exercised in five equal tranches (20% each year) starting with the first anniversary of the original shadow share grant.

<u>Original Shadow Share Grant Date</u>	<u>Original Exercise Price</u>	<u>October 2001 Number of Options Granted</u>	<u>Option Expiration Date</u>
November 1999	A\$ 3.82	1,968,544	November 2009
November 2000	A\$ 3.78	3,500,285	November 2010

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### James Hardie Industries N.V. and Subsidiaries

#### Notes to Consolidated Financial Statements — (Continued)

As set out in the plan rules, the exercise prices and the number of shares available on exercise are adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise prices were reduced by A\$0.21, A\$0.38 and A\$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively.

Under the 2001 Equity Incentive Plan, additional grants have been made at fair market value to management and other employees of the Company. Each option confers the right to subscribe for one ordinary share in the capital of JHI NV. The options may be exercised as follows: 25% after the first year; 25% after the second year; and 50% after the third year. All unexercised options expire 10 years from the date of issue or 90 days after the employee ceases to be employed by the Company.

The following table summarizes the additional option grants:

<u>Share Grant Date</u>	<u>Original Exercise Price</u>	<u>Number of Options Granted</u>	<u>Option Expiration Date</u>
December 2001	A\$ 5.65	4,248,417	December 2011
December 2002	A\$ 6.66	4,037,000	December 2012
December 2003	A\$ 7.05	6,179,583	December 2013
December 2004	A\$ 5.99	5,391,100	December 2014
February 2005	A\$ 6.30	273,000	February 2015
December 2005	A\$ 8.90	5,224,100	December 2015
March 2006	A\$ 9.50	40,200	March 2016
November 2006	A\$ 8.40	3,499,490	November 2016
March 2007	A\$ 8.90	179,500	March 2017
March 2007	A\$ 8.35	151,400	March 2017

As set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise prices on the December 2002 and December 2001 option grants were reduced by A\$0.21 for the November 2003 return of capital and the December 2001 option grant was reduced by A\$0.38 for the November 2002 return of capital.

The Company is authorized to issue 45,077,100 shares under the 2001 Equity Incentive Plan.

#### ***JHI NV Stock Appreciation Rights Incentive Plan***

On December 14, 2004, 527,000 stock appreciation rights were granted under the terms and conditions of the JHI NV Stock Appreciation Rights Incentive Plan (“Stock Appreciation Rights Plan”) with an exercise price of A\$5.99. All of these stock appreciation rights were outstanding as of March 31, 2005. In April 2005, 27,000 stock appreciation rights were cancelled. In December 2006, 250,000 of these stock appreciation rights vested and were exercised at A\$8.99, the closing price of the Company’s stock on the exercise day. These rights have been accounted for as stock appreciation rights under SFAS No. 123R and, accordingly, compensation expense of \$0.5 million, \$0.5 million and nil was recognized in the years ended March 31, 2007, 2006 and 2005, respectively.

#### ***Supervisory Board Share Plan***

At the 2002 Annual General Meeting, the shareholders approved a Supervisory Board Share Plan (“SBSP”), which required that all non-executive directors on the Joint Board and Supervisory Board receive shares of the Company’s common stock as payment for a portion of their director fees. The SBSP required that the directors take at least \$10,000 of their fees in shares and allowed directors to receive additional shares in lieu of fees at their discretion. Shares issued under the \$10,000 compulsory component of the SBSP are subject to a two-year escrow that requires

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

members of the Supervisory Board to retain those shares for at least two years following issue. The issue price for the shares is the market value at the time of issue. No loans were entered into by the Company in relation to the grant of shares pursuant to the SBSP. During fiscal year 2007, this plan was replaced with the Supervisory Board Share Plan 2006. At March 31, 2007, there were 6,063 shares still subject to escrow under this plan.

***Supervisory Board Share Plan 2006***

At the 2006 Annual General Meeting, the Company's shareholders approved the replacement of its SBSP with a new plan called the Supervisory Board Share Plan 2006 ("SBSP 2006"). Participation by members of the Supervisory Board in the SBSP 2006 is not mandatory. The SBSP 2006 allows the Company to issue new shares or acquire shares on the market on behalf of the participant. The total remuneration of a Supervisory Board member will take into account any participation in the SBSP 2006 and shares under the SBSP 2006. At March 31, 2007, 5,039 shares had been acquired under this plan.

***Long-Term Incentive Plan***

At the 2006 Annual General Meeting, the Company's shareholders approved the establishment of a Long-Term Incentive Plan ("LTIP") to provide incentives to members of the Company's Managing Board and to certain members of its management ("Executives"). The shareholders also approved, in accordance with certain LTIP rules, the issue of certain options or other rights over, or interest in, ordinary fully-paid shares in the Company ("Shares"), the issue and/or transfer of Shares under them, and the grant of cash awards to members of the Company's Managing Board and to Executives. At the same meeting, the shareholders approved participation in the LTIP and issue of options to the Managing Board to a maximum of 1,418,000 options. In November 2006, 1,132,000 options were granted under the LTIP to the Managing Board. The vesting of these options are subject to 'performance hurdles' as outlined in the LTIP rules. Unexercised options expire 10 years from the date of issue. At March 31, 2007, there were 1,132,000 options outstanding under this plan.

***Peter Donald Macdonald Share Option Plans***

The Company granted Mr. Macdonald options to purchase 1,200,000 shares, 624,000 shares and 1,950,000 shares under the Peter Donald Macdonald Share Option Plan, Peter Donald Macdonald Share Option Plan 2001 and Peter Donald Macdonald Share Option Plan 2002, respectively. In April 2005, Mr. Macdonald exercised all options granted under the Peter Donald Macdonald Share Option Plan. Such shares had an original exercise price of A\$3.87 per share. However, the exercise price was reduced by A\$0.21, A\$0.38 and A\$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively. All 624,000 shares and 1,950,000 shares in the other two plans expired in April 2005 and October 2005, respectively, as the performance hurdles were not met.

***Valuation and Expense Information Under SFAS No. 123R***

The Company accounts for stock options in accordance with the fair value provisions of SFAS No. 123R, which requires the Company to estimate the value of stock options issued based upon an option-pricing model and recognize this estimated value as compensation expense over the periods in which the options vest.

The Company estimates the fair value of each option grant on the date of grant using either the Black-Scholes option-pricing model or a lattice model that incorporates a Monte Carlo Simulation (the "Monte Carlo method"). Options granted under the 2001 Equity Incentive Plan and the Managing Board Transitional Stock Option Plan are valued using the Black-Scholes option-pricing model since the vesting of these options is based solely on a requisite service condition. Options granted under the LTIP were valued using the Monte Carlo method since vesting of these options requires that certain target market conditions are achieved.



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### James Hardie Industries N.V. and Subsidiaries

#### Notes to Consolidated Financial Statements — (Continued)

The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free rate and expected dividends. We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. We estimate the volatility of our common stock based on historical daily stock price volatility. We base the risk-free interest rate on U.S. Treasury notes with terms similar to the expected term of the options. We calculate dividend yield using the current management dividend policy at the time of option grant.

The following table includes the weighted average assumptions and weighted average fair values used for grants valued using the Black-Scholes option-pricing model during the year ended March 31:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend yield	1.5%	0.9%	1.1%
Expected volatility	28.1%	27.9%	29.1%
Risk-free interest rate	4.6%	4.5%	3.2%
Expected life in years	5.1	5.6	3.3
Weighted average fair value at grant date	A\$ 2.40	A\$ 2.78	A\$ 1.35
Number of stock options	3,830,390	6,584,300	5,664,100

The following table includes the weighted average assumptions and weighted average fair values used for grants valued using the Monte Carlo method during the year ended March 31:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend yield	1.6%	N/A	N/A
Expected volatility	28.1%	N/A	N/A
Risk-free interest rate	4.6%	N/A	N/A
Weighted average fair value at grant date	A\$ 3.30	N/A	N/A
Number of stock options	1,132,000	N/A	N/A

Compensation expense arising from stock option grants as estimated using option-pricing models was \$5.8 million, \$5.9 million and \$3.0 million for the years ended March 31, 2007, 2006 and 2005, respectively. As of March 31, 2007, the unrecorded deferred stock-based compensation balance related to stock options was \$10.5 million after estimated forfeitures and will be recognized over an estimated weighted average amortization period of 1.5 years.

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

**General Share-Based Award Information**

The following table summarizes all of the Company's shares available for grant and the movement in all of the Company's outstanding options:

	Shares Available for Grant	Outstanding Options	
		Number	Weighted Average Exercise Price
Balance at April 1, 2005	24,340,258	20,128,610	A\$ 5.75
Newly Authorized	1,380,000	—	
Granted	(6,584,300)	6,584,300	A\$ 8.83
Exercised	—	(3,925,378)	A\$ 4.79
Forfeited	3,274,275	(3,274,275)	A\$ 5.68
Expired	(2,574,000)	—	
Balance at April 1, 2006	19,836,233	19,513,257	A\$ 6.99
Newly Authorized	3,000,000	—	
Granted	(4,962,390)	4,962,390	A\$ 8.42
Exercised	—	(3,988,880)	A\$ 5.96
Forfeited	1,546,950	(1,546,950)	A\$ 7.70
<b>Balance at March 31, 2007</b>	<b>19,420,793</b>	<b>18,939,817</b>	<b>A\$ 7.52</b>

The total intrinsic value of stock options exercised was A\$10.3 million, A\$11.5 million and A\$1.7 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The weighted average grant-date fair value of stock options granted was A\$2.61, A\$2.78 and A\$1.35 during the years ended March 31, 2007, 2006 and 2005, respectively.

Windfall tax benefits realized in the United States from stock options exercised and included in cash flows from financing activities in the consolidated statements of cash flows were \$1.8 million for the year ended March 31, 2007. Tax benefits of \$2.2 million and \$0.4 million for the years ended March 31, 2006 and 2005, respectively, are included in cash flows from operating activities in the consolidated statements of cash flows.

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**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

The following table summarizes outstanding and exercisable options as of March 31, 2007:

Exercise Price	Options Outstanding			Options Exercisable			
	Number	Weighted Average Remaining Life (in Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value
A\$3.09	423,723	3.6	A\$ 3.09	A\$ 2,233,020	423,723	A\$ 3.09	A\$ 2,233,020
3.13	100,435	2.6	3.13	525,275	100,435	3.13	525,275
5.06	712,419	4.7	5.06	2,350,983	712,419	5.06	2,350,983
5.99	3,367,425	7.7	5.99	7,980,797	1,344,125	5.99	3,185,576
6.30	273,000	7.9	6.30	562,380	136,500	6.30	281,190
6.45	1,012,000	5.7	6.45	1,932,920	1,012,000	6.45	1,932,920
7.05	2,461,000	6.7	7.05	3,223,910	2,461,000	7.05	3,223,910
8.35	151,400	9.9	8.35	1,514	—	8.35	—
8.40	4,365,615	9.6	8.40	—	7,025	8.40	—
8.53	1,320,000	8.7	8.53	—	—	8.53	—
8.90	4,712,600	8.7	8.90	—	1,139,650	8.90	—
A\$9.50	40,200	8.9	9.50	—	10,050	9.50	—
<b>Total</b>	<b>18,939,817</b>	<b>8.2</b>	<b>A\$ 7.52</b>	<b>A\$18,810,799</b>	<b>7,346,927</b>	<b>A\$ 6.56</b>	<b>A\$13,732,874</b>

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value based on stock options with an exercise price less than the Company's closing stock price of A\$8.36 as of March 31, 2007, which would have been received by the option holders had those option holders exercised their options as of that date, although a significant portion had not vested.

**17. Financial Instruments**

**Foreign Currency**

As a multinational corporation, the Company maintains significant operations in foreign countries. As a result of these activities, the Company is exposed to changes in exchange rates which affect its results of operations and cash flows.

The Company purchases raw materials and fixed assets and sells some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, the Company may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At March 31, 2007 and 2006, there were no material contracts outstanding.

**Credit Risk**

Financial instruments which potentially subject the Company to credit risk consist primarily of cash and cash equivalents, investments and trade accounts receivable.

The Company maintains cash and cash equivalents, investments and certain other financial instruments with various major financial institutions. At times, these financial instruments may be in excess of insured limits. To minimize this risk, the Company performs periodic evaluations of the relative credit standing of these financial institutions and, where appropriate, places limits on the amount of credit exposure with any one institution.

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### James Hardie Industries N.V. and Subsidiaries

#### Notes to Consolidated Financial Statements — (Continued)

For off-balance sheet financial instruments, including derivatives, credit risk also arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. The Company controls risk through the use of credit ratings and reviews of appropriately assessed authority limits.

The Company is exposed to losses on forward exchange contracts in the event that counterparties fail to deliver the contracted amount. The credit exposure to the Company is calculated as the mark-to-market value of all contracts outstanding with that counterparty. At March 31, 2007 and 2006, total credit exposure arising from forward exchange contracts was not material.

Credit risk with respect to trade accounts receivable is concentrated due to the concentration of the distribution channels for the Company's fiber cement products. Credit is extended based on an evaluation of each customer's financial condition and, generally, collateral is not required. The Company has historically not incurred significant credit losses.

#### *Fair Values*

The carrying values of cash and cash equivalents, marketable securities, accounts receivable, short-term borrowings and accounts payable and accrued liabilities are a reasonable estimate of their fair value due to the short-term nature of these instruments. The following table summarizes the estimated fair value of the Company's long-term debt (including current portion of long-term debt):

	March 31			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Millions of US dollars)			
Long-term debt:				
Floating	\$ 105.0	\$105.0	\$ —	\$ —
Fixed	—	—	121.7	133.8
Total	<u>\$ 105.0</u>	<u>\$105.0</u>	<u>121.7</u>	<u>133.8</u>

Fair values of long-term debt were determined by reference to the March 31, 2007 and 2006 market values for comparably rated debt instruments.

#### 18. Operating Segment Information and Concentrations of Risk

The Company has reported its operating segment information in the format that the operating segment information is available to and evaluated by the Board of Directors. USA Fiber Cement manufactures and sells fiber cement interior linings, exterior siding and related accessories products in the United States. Asia Pacific Fiber Cement includes all fiber cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand and Asia. Research and Development represents the cost incurred by the research and development centers. Other includes the manufacture and sale of fiber cement products in Chile (fiscal year 2005 only), the manufacture and sale of fiber cement reinforced pipes in the United States, fiber cement operations in Europe and roofing operations in the United States. The roofing plant was closed and the business ceased operations in April 2006. The Company's operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

**Operating Segments**

The following are the Company's operating segments and geographical information:

	Net Sales to Customers(1) Years Ended March 31		
	2007	2006	2005
	(Millions of US dollars)		
USA Fibre Cement	\$1,262.3	\$1,218.4	\$ 939.2
Asia Pacific Fibre Cement	251.7	241.8	236.1
Other	28.9	28.3	35.1
Worldwide total from continuing operations	<u>\$1,542.9</u>	<u>\$1,488.5</u>	<u>\$1,210.4</u>
	(Loss) Income from Continuing Operations Before Income Taxes Years Ended March 31		
	2007	2006	2005
	(Millions of US dollars)		
USA Fibre Cement(2)	\$ 362.4	\$ 342.6	\$ 241.5
Asia Pacific Fibre Cement(2)	39.4	41.7	46.8
Research and Development(2)	(17.1)	(15.7)	(17.5)
Other	(9.3)	(26.5)	(11.8)
Segments total	375.4	342.1	259.0
General Corporate(3),(4),(8)	(462.0)	(777.0)	(62.8)
Total operating (loss) income	(86.6)	(434.9)	196.2
Net interest expense(5)	(6.5)	(0.2)	(5.1)
Other expense	—	—	(1.3)
Worldwide total from continuing operations	<u>\$ (93.1)</u>	<u>\$ (435.1)</u>	<u>\$ 189.8</u>
	Total Identifiable Assets March 31		
	2007	2006	
	(Millions of US dollars)		
USA Fibre Cement	\$ 893.0	\$ 826.0	
Asia Pacific Fibre Cement	199.3	170.4	
Other	52.5	54.8	
Segments total	1,144.8	1,051.2	
General Corporate(6),(8)	983.3	394.2	
Worldwide total	<u>\$2,128.1</u>	<u>\$1,445.4</u>	

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**James Hardie Industries N.V. and Subsidiaries**  
**Notes to Consolidated Financial Statements — (Continued)**

	Additions to Property, Plant and Equipment(7) Years Ended March 31		
	2007	2006	2005
	(Millions of US dollars)		
USA Fibre Cement	\$80.3	\$154.5	\$144.8
Asia Pacific Fibre Cement	10.5	6.6	4.1
Other	1.3	1.7	4.1
Worldwide total	<u>\$92.1</u>	<u>\$162.8</u>	<u>\$153.0</u>

	Depreciation and Amortization Years Ended March 31		
	2007	2006	2005
	(Millions of US dollars)		
USA Fibre Cement	\$37.8	\$32.4	\$23.1
Asia Pacific Fibre Cement	10.1	10.0	10.1
Other	2.8	2.9	3.1
Worldwide total	<u>\$50.7</u>	<u>\$45.3</u>	<u>\$36.3</u>

	Net Sales to Customers(1) Years Ended March 31		
	2007	2006	2005
	(Millions of US dollars)		
<b>Geographic Areas</b>			
USA	\$1,279.4	\$1,233.7	\$ 955.7
Australia	169.0	164.5	160.5
New Zealand	54.4	53.6	49.6
Other Countries	40.1	36.7	44.6
Worldwide total from continuing operations	<u>\$1,542.9</u>	<u>\$1,488.5</u>	<u>\$1,210.4</u>

	Total Identifiable Assets March 31	
	2007	2006
	(Millions of US dollars)	
USA	\$ 935.7	\$ 870.3
Australia	127.1	108.5
New Zealand	23.1	18.7
Other Countries	58.9	53.7
Segments total	1,144.8	1,051.2
General Corporate(6),(8)	983.3	394.2
Worldwide total	<u>\$2,128.1</u>	<u>\$1,445.4</u>

(1) Export sales and inter-segmental sales are not significant.

(2) Research and development costs of \$10.8 million, \$13.2 million and \$7.6 million in fiscal years 2007, 2006 and 2005, respectively, were expensed in the USA Fiber Cement operating segment. Research and development

James Hardie Industries N.V. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

costs of \$1.8 million, \$2.3 million and \$1.9 million in fiscal years 2007, 2006 and 2005, respectively, were expensed in the Asia Pacific Fiber Cement segment. Research and development costs of \$13.0 million, \$12.3 million and \$12.0 million in fiscal year 2007, 2006 and 2005, respectively, were expensed in the Research and Development segment. Research and Development costs of \$0.3 million, \$0.9 million and \$0.1 million in fiscal year 2007, 2006 and 2005, respectively, were expensed in other segment. The Research and Development segment also included selling, general and administrative expenses of \$4.1 million, \$3.4 million and \$5.5 million in fiscal year 2007, 2006 and 2005, respectively.

Research and development expenditures are expensed as incurred and in total amounted to \$25.9 million, \$28.7 million and \$21.6 million for the years ended March 31, 2007, 2006 and 2005, respectively.

- (3) The principal components of General Corporate are officer and employee compensation and related benefits, professional and legal fees, administrative costs and rental expense, net of rental income, on the Company's corporate offices.
- (4) Includes costs of \$13.6 million, \$17.4 million and \$28.1 million for SCI and other related expenses in fiscal years 2007, 2006 and 2005, respectively. See Note 12.
- (5) The Company does not report net interest expense for each operating segment as operating segments are not held directly accountable for interest expense.
- (6) The Company does not report deferred tax assets and liabilities for each operating segment as operating segments are not held directly accountable for deferred income taxes. All deferred income taxes are included in General Corporate.
- (7) Additions to property, plant and equipment are calculated on an accrual basis, and therefore differ from property, plant and equipment in the consolidated statements of cash flows.
- (8) Included in General Corporate are asbestos adjustments of \$405.5 million and \$715.6 million for the years ended March 31, 2007 and 2006, respectively. Asbestos related assets at March 31, 2007 are \$727.6 million and are included in the General Corporate segment. See Note 12.

**Concentrations of Risk**

The distribution channels for the Company's fiber cement products are concentrated. If the Company were to lose one or more of its major customers, there can be no assurance that the Company will be able to find a replacement. Therefore, the loss of one or more customers could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has three major customers that individually account for over 10% of the Company's gross sales.

These three customers' accounts receivable represented 58% and 60% of the Company's trade accounts receivable at March 31, 2007 and 2006, respectively. The following are gross sales generated by these three customers, which are all from the USA Fiber Cement segment:

	Years Ended March 31					
	2007	%	2006	%	2005	%
(Millions of US dollars)						
Customer A	\$446.3	26.7	\$426.2	35.0	\$295.4	31.4
Customer B	172.3	10.3	168.5	13.8	131.8	14.0
Customer C	168.9	10.1	156.6	12.9	131.7	14.0
Total	<u>\$787.5</u>		<u>\$751.3</u>		<u>\$558.9</u>	

Approximately 17% of the Company's fiscal year 2007 net sales from continuing operations were derived from outside the United States. Consequently, changes in the value of foreign currencies could significantly affect the consolidated financial position, results of operations and cash flows of the Company's non-U.S. operations on translation into U.S. dollars.



**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

**19. Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) as reported in the consolidated balance sheets is \$5.4 million and \$(28.4) million as of March 31, 2007 and 2006, respectively. The balance sheet at March 31, 2007 includes \$(2.7) million, net of tax benefit of \$1.2 million, relating to the cumulative adjustment of unrecognized pension losses and cumulative foreign currency gains of \$8.1 million, without any associated tax impact. The balance sheet at March 31, 2006 is comprised of cumulative foreign currency losses.

**20. Related Party Transactions**

***JHI NV Directors' and Former Directors' Securities Transactions***

The Company's Directors and Former Directors' and their director-related entities held an aggregate of 210,530 ordinary shares and 271,561 ordinary shares at March 31, 2007 and 2006, respectively, and 3,914,544 options and 2,782,544 options at March 31, 2007 and 2006, respectively.

Supervisory Board members on December 12, 2006 and March 26, 2007 participated in an acquisition of shares at A\$8.39 and A\$8.50, respectively, under the terms of the Supervisory Board Share Plan 2006 which was approved by JHI NV shareholders on September 25, 2006. Directors' acquisitions were as follows:

	<b>Shares Issued/Acquired</b>
<b>Director</b>	
D. DeFosset	—
B. Anderson	—
D. G. McGauchie AO	—
J. Barr(1)	1,651
J. R. H. Loudon	—
M. Hammes	—
R. van der Meer	—
<b>Former Directors</b>	
M. Hellicar(2)	3,388
G. J. Clark	—
M. J. Gillfillan	—
M. R. Brown	—
Total	5,039

(1) 779 shares at A\$8.39 and 872 shares at A\$8.50

(2) 3,388 shares at A\$8.39

The JHI NV dividends paid on July 6, 2006 and January 8, 2007 to Directors and their related entities were on the same terms and conditions that applied to other holders.

***Existing Loans to the Company's Directors and Directors of James Hardie Subsidiaries***

At March 31, 2007 and 2006, loans totaling \$30,774, and \$30,466, respectively, were outstanding from certain executive directors or former directors of subsidiaries of JHI NV under the terms and conditions of the Executive Share Purchase Plan (the "Plan"). Loans under the Plan are interest free and repayable from dividend income earned by, or capital returns from, securities acquired under the Plan. The loans are collateralized by CUFS under the Plan.

**James Hardie Industries N.V. and Subsidiaries**

**Notes to Consolidated Financial Statements — (Continued)**

No new loans to Directors or executive officers of JHI NV, under the plan or otherwise, and no modifications to existing loans have been made since December 1997.

During fiscal years 2007 and 2006, repayments totaling \$3,517 and \$1,892, respectively, were received in respect of the Plan from AT Kneeshaw, PD Macdonald, PG Morley and DAJ Salter. During fiscal year 2005, an executive director of a subsidiary resigned with loans outstanding of \$117,688. Under the terms of the plan, this director had two years from the date of his resignation to repay such loan. The loan was repaid in full in the year ended March 31, 2007.

***Payments Made to Directors and Director Related Entities of JHI NV during the Year***

In August 2004, Former Chairman M Hellicar was appointed to a role as Chairman of a special committee of the Board of Directors. The special committee was established to oversee the Company's asbestos matters and was dissolved on March 31, 2005. In this role, she received a fee of nil and \$33,777 for the years ended March 31, 2007 and 2006, respectively.

Former Supervisory Board Director GJ Clark is a director of ANZ Banking Group Limited with whom the Company transacts banking business. Deputy Chairman DG McGauchie AO is a director of Telstra Corporation Limited from whom the Company purchases communications services. All transactions were in accordance with normal commercial terms and conditions. It is not considered that these Directors had significant influence over these transactions.

In February 2004, a subsidiary of the Company entered into a consulting agreement in usual commercial terms and conditions with The Gries Group in respect to professional services. The principal of The Gries Group, James P. Gries, is Mr. L. Gries' brother. The agreement expired in June 2005 and payments of nil and \$50,876 were made for the years ended March 31, 2007 and 2006, respectively. Mr. L. Gries has no economic interest in The Gries Group.

***Payments made to Director and Director Related Entities of Subsidiaries of JHI NV***

The Company has subsidiaries located in various countries, many of which require that at least one director be a local resident. All payments described below arise because of these requirements.

Payments of \$4,507 and \$8,829 for the years ended March 31, 2007 and 2006, respectively, were made to Grech, Vella, Tortell & Hyzler Advocates. Dr. JJ Vella was a director of one of the Company's subsidiaries. The payments were in respect of legal services and were negotiated in accordance with usual commercial terms and conditions.

Payments totaling nil and \$78,496 for the years ended March 31, 2007 and 2006, respectively, were made to M Helyar, R Le Tocq and N Wild who were directors of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

Payments totaling \$5,364 and \$4,984 for the years ended March 31, 2007 and 2006, respectively, were made to Bernaldo, Mirador and Directo Law Offices. R Bernaldo is a director of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

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**James Hardie Industries N.V. and Subsidiaries**

**Selected Quarterly Financial Data**  
(unaudited, not forming part of the consolidated financial statements)

This information furnished in the selected quarterly financial data for the years ended March 31, 2007 and 2006 is unaudited but includes all adjustments which, in the opinion of management, are necessary for a fair statement of the financial results of the respective interim periods. Such adjustments are of a normal recurring nature. Interim financial statements are by necessity somewhat tentative; judgments are used to estimate interim amounts for items that are normally determinable only on an annual basis.

	Year Ended March 31, 2007				Year Ended March 31, 2006			
	By Quarter				By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(Millions of US dollars)							
Net sales	\$ 415.5	\$ 411.4	\$ 355.1	\$ 360.9	\$ 359.4	\$ 376.6	\$ 362.7	\$ 389.8
Cost of goods sold	(257.8)	(256.2)	(228.8)	(227.1)	(214.1)	(239.3)	(234.0)	(250.3)
Gross profit	157.7	155.2	126.3	133.8	145.3	137.3	128.7	139.5
Operating income (loss)	68.9	41.0	19.3	(215.8)	86.9	76.4	64.4	(662.6)
Interest expense	(5.6)	(0.2)	(1.5)	(4.7)	(1.7)	(2.2)	(1.1)	(2.2)
Interest income	3.6	1.2	0.2	0.5	1.0	1.2	1.9	2.9
Income (loss) from continuing operations before income taxes	66.9	42.0	18.0	(220.0)	86.2	75.4	65.2	(661.9)
Income tax (expense) benefit	(32.3)	(20.9)	(26.0)	323.1	(30.3)	(27.8)	(24.5)	11.0
Income (loss) from continuing operations	34.6	21.1	(8.0)	103.1	55.9	47.6	40.7	(650.9)
Cumulative effect of change in accounting principle for stock-based compensation (net of \$0.4 million of tax)	0.9	—	—	—	—	—	—	—
Net income (loss)	\$ 35.5	\$ 21.1	\$ (8.0)	\$ 103.1	\$ 55.9	\$ 47.6	\$ 40.7	\$ (650.9)

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### EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
1.1	Articles of Association, as amended on September 1, 2005 of James Hardie Industries N.V. (English Translation)(4)
2.1	Letter Agreement of September 6, 2001 by and between James Hardie Industries N.V. and CHESSE Depositary Nominees Pty Limited, as the depositary for CHESSE Units of Foreign Securities(3)
2.2	Deposit Agreement dated as of September 24, 2001 between The Bank of New York, as depositary, and James Hardie Industries N.V.(3)
2.7	Common Terms Deed Poll dated June 15, 2005 between James Hardie International Finance B.V. and James Hardie Industries N.V.(3)
2.8	Form of Term Facility Agreement between James Hardie International Finance B.V. and Financier(3)
2.9	Form of Term Facility Agreement — Occurrence of Extension Event among James Hardie International Finance B.V., James Hardie Building Products, Inc. and Financier
2.10	Form of 364-day Facility Agreement between James Hardie International Finance B.V. and Financier(3)
2.11	Form of Extension Request for 364-day Facility Agreement between James Hardie International Finance B.V. and Financier
2.12	Form of Guarantee Deed between James Hardie Industries N.V. and Financier(3)
4.1	James Hardie Industries N.V. 2001 Equity Incentive Plan(3)
4.2	Economic Profit and Individual Performance Incentive Plans(3)
4.3	JHI NV Stock Appreciation Rights Incentive Plan(3)
4.4	Supervisory Board Share Plan 2006(4)
4.5	James Hardie Industries N.V. Long Term Incentive Plan 2006(4)
4.6	2005 Managing Board Transitional Stock Option Plan(4)
4.7	Form of Joint and Several Indemnity Agreement among James Hardie N.V., James Hardie (USA) Inc. and certain indemnities thereto(3)
4.8	Form of Joint and Several Indemnity Agreement among James Hardie Industries N.V., James Hardie Inc. and certain indemnities thereto(3)
4.9	Form of Deed of Access to Documents, Indemnity and Insurance among James Hardie Industries N.V. and certain indemnitees thereto(3)
4.10	Form of Joint and Several Indemnity Agreement among James Hardie Industries N.V., James Hardie Building Products Inc. and certain indemnities thereto(3)
4.11	Lease Amendment, dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at the corner of Cobalt & Silica Street, Carole Park, Queensland, Australia(2)
4.12	Variation of Lease dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at the corner of Colquhoun & Devon Streets, Rosehill, New South Wales, Australia(2)
4.13	Extension of Lease dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at Rutland, Avenue, Welshpool, Western Australia, Australia(2)
4.14	Lease Amendment dated March 23, 2004, among Amaca Pty Limited (f/k/a/ James Hardie & Coy Pty Limited), James Hardie Australia Pty Limited and James Hardie Industries N.V. re premises at 46 Randle Road, Meeandah, Queensland, Australia(2)
4.15	Lease Agreement dated March 23, 2004 among Studorp Limited, James Hardie New Zealand Limited and James Hardie Industries N.V. re premises at the corner of O'Rorke and Station Roads, Penrose, Auckland, New Zealand(2)
4.16	Lease Agreement dated March 23, 2004 among Studorp Limited, James Hardie New Zealand Limited and James Hardie Industries N.V. re premises at 44-74 O'Rorke Road, Penrose, Auckland, New Zealand(2)
4.17	Ownership transfer related to corner of O'Rorke and Station Roads, Penrose, Auckland, New Zealand and 44-74 O'Rorke Road, Penrose, Auckland, New Zealand effective June 30, 2005(4)
4.18	Industrial Building Lease Agreement, effective October 6, 2000, between James Hardie Building Products, Inc. and Fortra Fiber-Cement L.L.C., re premises at Waxahachie, Ellis County, Texas(3)

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<u>Exhibit Number</u>	<u>Description of Exhibits</u>
4.19	Asset Purchase Agreement by and between James Hardie Building Products, Inc. and Cemplank, Inc. dated as of December 12, 2001(3)
4.20	Amended and Restated Stock Purchase Agreement dated March 12, 2002, between BPB U.S. Holdings, Inc. and James Hardie Inc.(3)
4.21	Amended and Restated Final Funding Agreement dated November 21, 2006(5)
4.22	Asbestos Injuries Compensation Fund Amended and Restated Trust Deed by and between James Hardie Industries N.V. and Asbestos Injuries Compensation Fund Limited dated December 14, 2006
4.23	Deed of Release by and among James Hardie Industries N.V., Australian Council of Trade Unions, Unions New South Wales and Bernard Douglas Banton dated December 21, 2005(4)
4.24	Parent Guarantee by and among Asbestos Injuries Compensation Fund Limited, The State of New South Wales, and James Hardie Industries N.V. dated December 14, 2006
4.25	Deed of Release by and between James Hardie Industries N.V. and The State of New South Wales dated June 22, 2006(4)
4.26	Second Irrevocable Power of Attorney by and between Asbestos Injuries Compensation Fund Limited and The State of New South Wales dated December 14, 2006
4.27	Deed of Accession by and among Asbestos Injuries Compensation Fund Limited, James Hardie Industries N.V., James Hardie 117 Pty Limited and The State of New South Wales dated December 14, 2006
4.28	Agreement for the Extraction and Sale of Silica dated November 1, 2002(6)
4.29	Contract for the Sale of Mineral Materials dated March 16, 2006 between Bureau of Land Management and James Hardie Building Products, Inc.(6)
8.1	List of significant subsidiaries of James Hardie Industries N.V.
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of independent registered public accounting firm
15.2	Consent of KPMG Actuaries Pty Ltd
99.1	Excerpts of the ASX Settlement and Transfer Corporation Pty Ltd as of June 7, 2007
99.2	Excerpts of the Financial Services Reform Act 2001, as of March 11, 2002(3)
99.3	ASIC Class Order 02/311, dated November 3, 2002(3)
99.4	ASIC Modification, dated March 7, 2002(3)
99.5	ASIC Modification, dated February 26, 2004(4)

- 
- (1) Previously filed as an exhibit to our Annual Report on Form 20-F dated July 2, 2003 and incorporated herein by reference.
  - (2) Previously filed as an exhibit to our Annual Report on Form 20-F dated November 22, 2004 and incorporated herein by reference.
  - (3) Previously filed as an exhibit to our Annual Report on Form 20-F dated July 7, 2005 and incorporated herein by reference.
  - (4) Previously filed as an exhibit to our Annual report on Form 20-F dated September 29, 2006 and incorporated herein by reference.
  - (5) Previously filed as an exhibit to our Current Report on Form 6-K dated January 5, 2007 and incorporated herein by reference.
  - (6) Certain portions of the exhibit have been omitted and submitted to the SEC pursuant to a confidential treatment request filed on July 6, 2007.

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(JAMES HARDIE LOGO)

JAMES HARDIE INDUSTRIES NV

9 February 2007  
("FINANCIER") #1#  
Attention: [ ]

Atrium, 8th Floor  
Strawinskylaan 3077  
1077 ZX Amsterdam  
The Netherlands

Tel 31 20 301 2980  
Fax 31 20 404 2544

Fax: [ ]

STRICTLY PRIVATE & CONFIDENTIAL

Dear Sirs

AMENDED & RESTATED FINAL FUNDING AGREEMENT - COMMENCEMENT DATE  
TERM FACILITY - OCCURRENCE OF EXTENSION EVENT  
GUARANTEE TRUST DEED AND JAMES HARDIE INTERCREDITOR DEED NOMINATION LETTERS

We refer to the;

- "James Hardie - Common Terms Deed Poll" dated 15 June 2005 ("CTDP") between the Financier, James Hardie International Finance B.V. ("BORROWER") and James Hardie Industries N.V. ("JHINV"), as amended by the "CTDP Amendment Deed and New Borrower Deed Poll" executed by James Hardie Building Products, Inc. (US), the Borrower and JHINV on 12 January 2006 ("CTDP AMENDMENT");
- "James Hardie - Term Facility Agreement" ("TERM FACILITY AGREEMENT") dated #2# June 2005 between the Financier and the Borrower, as amended by the CTDP Amendment and our letter dated 3 May 2006, countersigned by the Financier on or about #3# 2006;
- Our letter dated 13 September 2006, countersigned by the Financier on or about #4# 2006, extending the Term Facility Agreement until 31 March 2007, with automatic extension to the fifth anniversary of the date of the Term Facility Agreement if the Extension Events occur on or before 31 March 2007;
- "James Hardie - 364-day Facility Agreement" ("364 DAY FACILITY") dated #2# June 2005 between the Financier and the Borrower, as amended by the CTDP Amendment and extended by our letters dated 17 November, 1 May 2006 and 12 September 2006, countersigned by the Financier on or about #5# 2005, #6# 2006 and #7# 2006;
- the Amended & Restated Final Funding Agreement entered into by JHINV, James Hardie 117 Pty Ltd and the State of New South Wales and Asbestos Injuries Compensation Fund Limited in its capacity as trustee of the Asbestos Injuries Compensation Fund on 21 November 2006 ("FINAL FUNDING AGREEMENT"); and
- our letter of 23 November 2006, countersigned by the Financier on or about #8# December 2006, recording your consent to the terms of the Final Funding Agreement and the Guarantee and Subordination Documents for the purposes of sub-paragraph (e) of the definition of "Extension Events" in the Term Facility Agreement.

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Capitalised terms used in this letter have the same meaning as in the Term Facility Agreement.

We confirm that:

- (a) all the conditions precedent to the Final Funding Agreement have been satisfied or waived and the Commencement Date of the Final Funding Agreement is 9 February 2007;
- (b) the condition precedent to the James Hardie Intercreditor Deed (as defined in the Final Funding Agreement) has been satisfied or waived;
- (c) the Guarantee Trust Deed dated 19 December 2006 between JHINV and AET Structured Finance Services Pty Limited ("GUARANTEE TRUST DEED") has become effective; and
- (d) all the Extension Events have occurred so the Maturity Date under the Term Facility Agreement is now #9# June 2010.

We enclose Nomination Letters under the James Hardie Intercreditor Deed and the Guarantee Trust Deed in respect of both the Term Facility and the 364 Day Facility.

Could you please sign and return the enclosed copy of this letter and the Nomination Letters to us.

/s/ Russell Chenu

/s/ Karen Hughes

-----  
being an authorised Officer of

-----  
being an authorised Officer of

JAMES HARDIE INTERNATIONAL FINANCE B.V. as Borrower and Obligor's Agent (with corporate seat in Amsterdam) and JAMES HARDIE BUILDING PRODUCTS, INC, (US) as Borrower

Confirmed and accepted. We acknowledge that the "James Hardie - Guarantee Deed" dated #2# June 2005 has been replaced and superseded by the guarantee in the Guarantee Trust Deed.

-----  
(Financier) #1#

----- being and Authorised Officer of the Financier.

(Print Name)

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JAMES HARDIE -- FORM OF 364-DAY FACILITY AGREEMENT

Schedule 3 -- Extension Request (clause 5.2)

TO: (FINANCIER) #1#

DATE: 3 APRIL 2007

EXTENSION REQUEST -- JAMES HARDIE -- 364-DAY FACILITY AGREEMENT DATED #2# JUNE 2005 BETWEEN JAMES HARDIES INTERNATIONAL FINANCE BV ("BORROWER" AND "OBLIGORS' AGENT) AND #1# ("FINANCIER") ("FACILITY AGREEMENT")

In accordance with clause 5.2 ("Extension of Maturity Date") of the Facility Agreement, the Obligors' Agent requests as follows;

We request that the Maturity Date under the Facility Agreement in respect of US\$#3# be extended to a date 182 days after the current Maturity Date under the Facility Agreement.

The Maturity Date, if extended in accordance with this request, will be #4# June 2008.

If this extension request is accepted, the Facility Limit applicable from the current Maturity Date will be US\$ #3#.

-----	-----
RUSSELL CHENU being an	KAREN HUGHES being an
Authorised Officer of	Authorised Officer of
JAMES HARDIE INTERNATIONAL FINANCE BV	
as Obligors' Agent (with corporate seat in Amsterdam)	

We agree to extend the maturity Dare for the requested Facility Limit in accordance with the above notice.

Signed for the Financier on \_\_\_\_\_ by:

-----  
being an Authorise Officer of the Financier

(print name)

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JAMES HARDIE INDUSTRIES N.V. (SETTLOR)  
ASBESTOS INJURIES COMPENSATION FUND LIMITED (TRUSTEE)

-----  
ASBESTOS INJURIES  
COMPENSATION FUND  
AMENDED AND RESTATED TRUST DEED

-----  
CONFORMED COPY  
(ATANASKOVIC HARTNELL LOGO)  
LAWYERS CORPORATE, FINANCE & TAXATION

Level 10  
Atanaskovic Hartnell House  
75-85 Elizabeth Street  
Sydney NSW  
Australia 2000

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ASBESTOS INJURIES COMPENSATION FUND

AMENDED AND RESTATED TRUST DEED

DATE 14 December 2006

- PARTIES
1. JAMES HARDIE INDUSTRIES N.V. ARBN 097 829 895, a limited liability company incorporated in the Netherlands and having its registered office at Atrium, 8th floor, Strawinskyiaan 3077, 1077ZX Amsterdam, The Netherlands, (with its Australian registered office at Level 3, 22 Pitt Street, Sydney in the State of New South Wales) (the SETTLOR)
  2. ASBESTOS INJURIES COMPENSATION FUND LIMITED (ACN 117 363 461) a company limited by guarantee having its registered address at Level 3, 18-22 Pitt Street, Sydney, New South Wales, Australia (the TRUSTEE)

- RECITALS
- A. This deed (which amends and restates the trust deed dated 7 April 2006 entered into by the Settlor and the Trustee (the ORIGINAL DEED)) is entered into by the parties hereto in the context described in the following recitals (some of the expressions used in these recitals being defined in clause 1 of this deed).
  - B. On 1 December 2005, JHINV, the NSW Government and the Performing Subsidiary entered into a long term funding agreement (ORIGINAL FFA) to provide for funding to be made available by JHINV and/or its subsidiaries to compensate, on the basis set out in the Final Funding Agreement, proven current and future Australian Claimants against the Liable Entities.
  - C. In accordance with the Original FFA, on 7 April 2006 the Settlor executed the Original Deed.
  - D. Also on 7 April 2006, the Settlor paid the Settled Sum to the Trustee and the Trustee agreed to be trustee and to hold the Settled Sum and other property on trust for the Charitable Purpose in accordance with the Original Deed.
  - E. The Trustee executed a Deed of Accession on 8 June 2006 so as to become a party to the Original FFA and to give effect to the intention and agreement of the relevant parties referred to in the preceding paragraphs.
  - F. Following a ruling from the Australian Taxation Office (ATO) in which the ATO expressed its view that the trust constituted by the Original Deed was not a charitable trust, the parties to the Original FFA considered (without conceding or considering the ATO's conclusion was or is correct at law) that the relevant condition precedent set out in the Original FFA was not satisfied. In order to achieve the purposes set out in the Original FFA, JHINV proposed an alternative arrangement be

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pursued, entailing the establishment of separate trusts in respect of the funding contributions and the income earned on those contributions, with the Trustee acting as common trustee of both trusts.

- G. On 21 November 2006, the parties to the Original FFA amended and restated the Original FFA, subject to certain conditions being satisfied (as amended, the FINAL FUNDING AGREEMENT).
- H. The Settlor and the Trustee, with the consent of the parties to the Final Funding Agreement as required under clause 10 of the Original Deed, have agreed to enter into this amended and restated trust deed to reflect the alternative arrangement described in Recital F above. However, for the avoidance of doubt the intention of the parties in entering into such an arrangement remains primarily the achievement of the purposes set out in Recital B of this deed and the Charitable Purpose described in clause 3 of this deed.
- I. It is the intention of the parties to the Final Funding Agreement that all of the issued shares in the Liabile Entities will be transferred to the Trustee to hold on trust for the Charitable Purpose.
- J. The NSW Government has enacted the Amending Legislation, inter alia, to make certain consequential changes required to be made to the Transaction Legislation in the light of the alternative arrangement described in Recital F above.

IT IS AGREED as follows.

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

In this Deed (including the Recitals) unless the context requires otherwise, terms defined in the Final Funding Agreement or in the Transaction Legislation bear the same meaning in this Deed, and:

ABN 60 means ABN 60 Pty Limited (ABN 60 000 009 263).

Amaba means Amaba Pty Limited (ABN 98 000 387 342).

Amaca means Amaca Pty Limited (ABN 49 000 035 512).

Amending Legislation means the James Hardie Former Subsidiaries (Winding Up and Administration) (Trust Funds) Act.

Annual Contribution Amount means the amount specified in clause 9.4 of the Final Funding Agreement.

Annual Income means, in respect of each Financial Year, the Income derived in that Financial Year.

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Annual Payment means for each year, the payment to be made pursuant to clause 9.3 of the Final Funding Agreement.

Appointee means any executive, director or employee of the Trustee appointed to the board of directors or any other governing body of an Investee.

Appointor means each Person entitled to appoint one or more Directors.

Approved Actuary means an actuarial firm which:

- (a) has been appointed in accordance with clause 5.15 of the Final Funding Agreement and which nominates a principal who is an approved actuary under the Insurance Act 1973 or who has qualifications under equivalent legislation of another relevant jurisdiction;
- (b) has relevant and substantive experience and expertise in Asbestos-related liability provisioning appropriate to undertake the determination referred to in clause 14.4 of the Final Funding Agreement;
- (c) has no interest or duty which conflicts or may conflict with his functions as contemplated under this deed as the Approved Actuary; and
- (d) is not affiliated with the accounting firm, performing the role of Approved Auditor during the term of the Approved Actuary's appointment,

or, where the circumstances set out in clause 5.15(f) of the Final Funding Agreement apply, is determined in accordance with that clause.

Approved Auditor means the auditor of the Trustee to be appointed by the Trustee in accordance with clause 5.12 of the Final Funding Agreement.

Asbestos means the fibrous form of those mineral silicates that belong to the serpentine or amphibole groups of rock-forming minerals, including actinolite, amosite (brown asbestos), anthophyllite, chrysotile (white asbestos), crocidolite (blue asbestos) and tremolite.

Asbestos Mining Activities has the meaning given in the Marlew Legislation.

Audited Financial Statements means, in respect of a Person and a Financial Year the audited consolidated financial statements of that Person for that Financial Year prepared in accordance with the following generally accepted accounting principles (GAAP), consistently applied throughout that Financial Year:

- (a) where that Person is Listed at the time the relevant audit report is signed, the generally accepted accounting principles used in that Person's published financial reports; or
- (b) where that Person is not Listed at that time and paragraph (c) does not apply, US GAAP or such other GAAP as is commonly applied by multinational companies at that time in respect of their financial statements; or
- (c) where that Person is not Listed at that time and it and its subsidiaries operate wholly or predominantly in one jurisdiction, the generally accepted accounting principles of that jurisdiction.

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Australia has the meaning given in Section 17 of the Acts Interpretation Act 1901 (Cth), as in force at the date of this deed.

Charitable Fund means the charitable trust established under the Original Deed, as amended by this Deed, and confirmed by Part 2 of the Transaction Legislation to carry out the Charitable Purpose.

Charitable Fund Property means the assets referred to in clause 2.3(a).

Charitable Purpose means the purpose set out in clause 3.

Claimant means an individual (or legal personal representative of an individual) who makes a Personal Asbestos Claim or a Marlew Claim.

Claims Legal Costs means all costs, charges, expenses and outgoings incurred or expected to be borne by the Trustee or the Liable Entities in respect of legal advisors, other advisors, experts, Court proceedings and other dispute resolution methods in connection with Personal Asbestos Claims and Marlew Claims but in all cases excluding any costs included as a component of calculating a Proven Claim.

Claims Management Agreement means an agreement between the Trustee and a Liable Entity whereby the Liable Entity agrees that the Trustee or a Person designated by the Trustee will manage all claims against the Liable Entity in accordance with the provisions of this Deed, the Final Funding Agreement and the Transaction Legislation.

Commencement Date has the meaning given to that term in clause 1 of the Final Funding Agreement.

Commonwealth means the Commonwealth of Australia.

Compensation Fund Property means the assets of the Compensation Funds, being both the Charitable Fund Property and the Discretionary Fund Property.

Compensation Funds means the Charitable Fund and the Discretionary Fund.

Compensation Funds Account means a bank account within New South Wales to be designated the "Compensation Funds Account" (referred to as the "Compensation Funds Account" in the Final Funding Agreement).

Concurrent Wrongdoer in relation to a personal injury or death claim for damages under common law or other law (disregarding any law which comes into force in breach of clause 13 of the Final Funding Agreement and which breach has been notified to the NSW Government under clause 16.5 of the Final Funding Agreement), means a Person whose acts or omissions, together with the acts or omissions of one or more Liable Entities or Marlew or any member of the JHINV Group (whether or not together with any other Persons) caused, independently of each other or jointly, the damage or loss to another Person that is the subject of that claim.

Constitution means the constitution of the Trustee.

Constitutional Provisions means the clauses required to be included in the Constitution, as set out in the Schedule to this Deed.

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Contribution Claim means a cross-claim or other claim under common law or other law (disregarding any law which comes into force in breach of clause 13 of the Final Funding Agreement and which breach has been notified to the NSW Government under clause 16.5 of the Final Funding Agreement):

- (a) for contribution by a Concurrent Wrongdoer against a Liable Entity or a member of the JHINV Group in relation to facts or circumstances which give rise to a right of a Person to make a Personal Asbestos Claim or a Marlew Claim; or
- (b) by another Person who is entitled under common law (including by way of contract) to be subrogated to such a first mentioned cross-claim or other claim,

provided that any such claim of the kind described in clause 13.7 of the Final Funding Agreement shall be subject to the limits contained in that clause.

Controlled Entity means, in respect of a Person, another Person in respect of which the first-mentioned Person is required to consolidate in its Audited Financial Statements but, in the case of JHINV, does not include any Liable Entity or the Trustee. For the avoidance of doubt, JHINV is not a Controlled Entity of JHINV.

Corporations Act means the Corporations Act 2001 (Cth).

Court means a court or tribunal in Australia having jurisdiction to hear and determine common law personal injury and death claims arising from exposure to Asbestos.

Cross Guarantee means any guarantee or indemnity (or other covenant to secure satisfaction of any payment or obligation) given by a Controlled Entity of JHINV to secure satisfaction of any payment or obligation of any Controlled Entity of JHINV to a Lender which is entitled or becomes entitled to the benefit of the Intercreditor Deeds in accordance with clause 2.2 of that deed.

Deed of Accession means a deed of accession in the form set out in Annexure 1 to the Final Funding Agreement.

Director means a director of the Trustee appointed in accordance with clause 5 or clause 16.3 of the Final Funding Agreement.

Discretionary Fund means the trust with respect to Income established pursuant to clause 4 of this deed.

Discretionary Fund Property means the assets of the Discretionary Fund.

Discretionary Settled Sum means the sum of \$10.00.

Excluded Marlew Claim means a Marlew Claim:

- (a) covered by the indemnities granted by the Minister of Mineral Resources under the deed between the Minister, Fuller Earthmoving Pty Limited and James Hardie Industries Limited dated 11 March 1996; or

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- (b) by a current or former employee of Marlew in relation to an exposure to Asbestos in the course of such employment to the extent:
  - (i) the loss is recoverable under a Worker's Compensation Scheme or Policy; or
  - (ii) the Claimant is not unable to recover damages from a Marlew Joint Tortfeasor in accordance with the Marlew Legislation;
- (c) by an individual who was or is an employee of a person other than Marlew arising from exposure to Asbestos in the course of such employment by that other person where such loss is recoverable from that person or under a Worker's Compensation Scheme or Policy; or
- (d) in which another defendant (or its insurer) is a Marlew Joint Tortfeasor from whom the plaintiff is entitled to recover compensation in proceedings in the Dust Diseases Tribunal, and the Claimant is not unable to recover damages from that Marlew Joint Tortfeasor in accordance with the Marlew Legislation.

Final Funding Agreement means the deed dated 21 November 2006 between JHINV, the Performing Subsidiary, the NSW Government and the Trustee which amended and restated the Original FFA.

Final Payment means the payment referred to in clause 9.9 of the Final Funding Agreement.

Financial Year means a year ending on 31 March, or if there is any change from time to time to the Financial Year of the JHINV Group, the twelve-month period as ends on the new end date adopted by JHINV except that the first such Financial Year after that change shall be a period of not less than six months and not greater than 18 months ending on the new end date.

Funding Obligations means each obligation of the Performing Subsidiary to make a Funding Payment.

Funding Payments mean:

- (a) the Initial Funding payable under clause 9.2 of the Final Funding Agreement (which, for the avoidance of doubt, includes the Additional Payment as defined therein);
- (b) the Annual Payments payable under clause 9.3 of the Final Funding Agreement; and
- (c) any Final Payment payable under clause 9.9 of the Final Funding Agreement,

and Funding Payment means any of those payments.

Income means any income, profit or gain which must be taken into account in determining the net income of the Compensation Funds for the purposes of the definition of "net income of the trust estate" in section 95 of the Tax Act.

Income Beneficiary means each of:

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- (a) the Liable Entities (but only on the basis that the Income is to be applied for the benefit of those entities, only in accordance with clause 4.2 and 4.6); and
- (b) subject to clause 4.4(c), the Trustee in its capacity as trustee of the Charitable Fund.

Initial Funding has the meaning given to that term in clause 1 of the Final Funding Agreement.

Insolvency Event means in respect of a Person, the occurrence in respect of that Person of any one or more events referred to in paragraphs (a) to (g) of the definition of "Insolvent".

A Person is Insolvent if the Person:

- (a) admits in writing its inability to pay its debts as they become due (otherwise than as contemplated in clause 16.6 of the Final Funding Agreement);
- (b) was established under Dutch law and files a petition with any court in the Netherlands in relation to its bankruptcy (faillissement) or seeking an order for a suspension of payments (surseance van betaling);
- (c) files, or consents by answer or otherwise to the filing against it of, a petition for relief or insolvent reorganisation or insolvent arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, insolvent reorganisation, insolvent moratorium or other similar law of any jurisdiction (including, without limitation, a filing by the Person under Chapter 7 or Chapter 11 of the US Bankruptcy Code, provided that where the filing is a filing under Chapter 11 of that Code, the Person:
  - (i) is at the time of filing unable to pay its debts generally as and when they become due; or
  - (ii) in the case of JHINV, after it makes such a filing, fails to pay a JHINV Contribution or other amount under the JHINV Guarantee when such payment would (but for the moratorium granted as a result of that filing) have been due for 30 days after that due date and also provided that in any such filing under Chapter 11 of that Code a Person is Insolvent no later than the earliest date as of which creditors may vote on any matter or accept or reject a plan of reorganisation;
- (d) makes an assignment for the benefit of its creditors generally;
- (e) consents to the appointment of a custodian (not being a nominee for the person), receiver, receiver and manager, trustee or other officer with similar powers with respect to it or with respect to a substantial part of its property;
- (f) consents to the appointment of an insolvency administrator or such an insolvency administrator is appointed and that appointment is not terminated within 28 days;
- (g) is adjudicated as insolvent or to be liquidated, in each case, by a court of competent jurisdiction; or

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(h) is subject to a Wind-Up Event;

and Insolvency has a corresponding meaning

Intercreditor Deeds means the deeds substantially in the form set out in Annexures 7A and 7B to the Final Funding Agreement, as they may be amended with the agreement of JHINV and the NSW Government (in each case acting reasonably) as the result of the review by, and negotiations with, JHINV's existing bank Lenders.

Investee means any entity in which the Fund has made or wishes to make an Investment.

Investment means an investment by the Trustee.

Irrevocable Power of Attorney means the deed in the form set out at Annexure 9 of the Final Funding Agreement.

JHINV means James Hardie Industries NV (ARBN 097 829 895) incorporated in the Netherlands and having its registered office at Atrium, Unit 04-07, Strawinskylaan 3077, 1077ZX Amsterdam, The Netherlands (with its Australian principal office at Level 3, 22 Pitt Street, Sydney in the State of New South Wales).

JHINV Contributions means the payments to be made by JHINV or the Performing Subsidiary under clause 9 of the Final Funding Agreement.

JHINV Group means JHINV and its Controlled Entities from time to time, excluding the Trustee and any of the Liable Entities, if they are or become such Controlled Entities.

JHINV Guarantee means the deed set out in the form of Annexure 5 of the Final Funding Agreement.

Liable Entities means Amaca, Amaba and ABN 60.

Marlew means the company registered under the Corporations Act as Marlew Mining Pty Limited (ACN 000 049 650) that was formerly called Asbestos Mines Pty Limited and includes any successor to or continuation of that company.

Marlew Claim means, subject to clause 13.7 of the Final Funding Agreement, a claim which satisfies one of the following paragraphs and which is not an Excluded Marlew Claim:

- (a) any present or future personal injury or death claim by an individual or the legal personal representative of an individual for damages under common law or other law (disregarding any law which comes into force in breach of clause 13 of the Final Funding Agreement and which breach has been notified to the NSW Government under clause 16.5 of the Final Funding Agreement) which:
  - (i) arose or arises from exposure to Asbestos in the Baryulgil region from Asbestos Mining Activities at Baryulgil conducted by Marlew, provided that:

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- (A) the individual's exposure to Asbestos occurred wholly within Australia; or
- (B) where the individual has been exposed to Asbestos both within and outside Australia, the amount of damages included in the Marlew Claim shall be limited to the amount attributable to the proportion of the exposure which caused or contributed to the loss or damage giving rise to the Marlew Claim which occurred in Australia;
  - (ii) is commenced in New South Wales in the Dust Diseases Tribunal; and
  - (ii) is or could have been made against Marlew had Marlew not been in external administration or wound up, or could be made against Marlew on the assumption (other than as contemplated under the Marlew legislation) that Marlew will not be in the future in external administration;
- (b) any claim made under compensation to relatives legislation by a relative of a deceased individual (or personal representative of such a relative) or (where permitted by law) the legal personal representative of a deceased individual in each case where the individual, but for such individual's death, would have been entitled to bring a claim of the kind described in paragraph (a); or
- (c) a Contribution Claim relating to a claim described in paragraphs (a) or (b).

Marlew Joint Tortfeasor means any Person who is or would be jointly and severally liable with Marlew in respect of a Marlew Claim, had Marlew not been in external administration or wound up, or on the assumption other than as contemplated in the Marlew legislation that Marlew will not in the future, be in external administration or wound up.

Marlew legislation means the legislation set out in Part 4 of the First Release Bill as defined in the FFA.

Net Income means the net income of either the Charitable Fund or the Discretionary Fund (as the case may be) for the purposes of the definition of "net income of the trust estate" in section 95 of the Tax Act.

NSW Government means the State of New South Wales.

NSW Government Auditor means an auditor engaged in accordance with and for the purposes set out in clause 5.13 of the Final Funding Agreement.

Operating Expenses means the reasonable operating costs, expenses and Taxes of the Trustee or Liable Entities of conducting the activities referred to in clause 4.2 of the Final Funding Agreement but excludes any Claims Legal Costs.

Original Deed has the meaning given in the Recitals to this deed.

Original FFA has the meaning given in Recital A.

Other Government has the meaning given in the Final Funding Agreement.

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Payable Liability means:

- (a) any Proven Claim (whether arising before or after the date of this deed);
- (b) Operating Expenses;
- (c) Claims Legal Costs;
- (d) any liability of a Liable Entity to the Trustee, however arising, in respect of any amounts paid by the Trustee in respect of any liability or otherwise on behalf of the Liable Entity;
- (e) any pre-commencement claim (as defined in the Transaction Legislation) against a Liable Entity;
- (f) if regulations are made pursuant to section 30 of the Transaction Legislation and if and to the extent the Trustee and JHINV notify the NSW Government that any such liability is to be included in the scope of Payable Liability, any liability of a Liable Entity to pay amounts received by it from an insurer in respect of a liability to a third party incurred by it for which it is or was insured under a contract of insurance entered into before the date on which the Transaction Legislation receives the Royal Assent; and
- (g) Recoveries within the meaning and subject to the limits set out in clause 13.7 of the Final Funding Agreement,

but in the cases of paragraphs (a), (c) and (e) excludes any such liabilities or claims to the extent that they have been recovered or are recoverable under a Worker's Compensation Scheme or Policy.

Performing Subsidiary means James Hardie 117 Pty Limited (formerly known as LGTDD Pty Limited) or, if a subsidiary of JHINV other than that entity is nominated under clause 6.2 of the Final Funding Agreement to perform the obligations described in clauses 6 and 9 of the Final Funding Agreement and each of JHINV and that subsidiary has complied with clause 6.2 of the Final Funding Agreement, that subsidiary.

Person includes any general partnership, limited partnership, corporation, limited liability company, joint venture, trust, business trust, governmental agency, co-operative, association, individual or other entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such a person as the context may require.

Personal Asbestos Claim means subject to clause 13.7 of the Final Funding Agreement:

- (a) any present or future personal injury or death claim by an individual or the legal personal representative of an individual, for damages under common law or under other law (disregarding any law which comes into force in breach of clause 13 of the Final Funding Agreement and which breach has been notified to the NSW Government under clause 16.5 of the Final Funding Agreement) which:

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(i) arises from exposure to Asbestos occurring in Australia, provided that:

- (A) the individual's exposure to Asbestos occurred wholly within Australia; or
- (B) where the individual has been exposed to Asbestos both within and outside Australia, damages included in the Personal Asbestos Claim shall be limited to the amount attributable to the proportion of the exposure which caused or contributed to the loss or damage giving rise to the Personal Asbestos Claim which occurred in Australia;

(ii) is made in proceedings in an Australian court or tribunal; and

is made against all or any of the Liable Entities or any member of the JHINV Group from time to time;

- (b) any claim made under compensation to relatives legislation by a relative of a deceased individual (or personal representative of such a relative) or (where permitted by law) the legal personal representative of a deceased individual in each case where the individual, but for such individual's death, would have been entitled to bring a claim of the kind described in paragraph (a); or
- (c) a Contribution Claim made in relation to a claim described in paragraph (a) or (b),

but in each case excludes any Marlew Claim and any other claim to the extent they have been recovered or are recoverable under a Worker's Compensation Scheme or Policy.

Power means a power, right, authority, discretion or remedy which is conferred on the Trustee:

- (a) by this Deed;
- (b) by the Final Funding Agreement;
- (c) by the Constitution; or
- (d) by the Transaction Legislation or any other law of the State of New South Wales as amended from time to time.

Proven Claim means any Personal Asbestos Claim or Marlew Claim in respect of which final judgment has been given against, or a binding settlement has been entered into by a Liable Entity or any member of the JHINV Group from time to time, and in each case, to the extent to which that entity incurs liability under that judgment or settlement (including any interest, costs or damages to be borne by a Liable Entity or the relevant member of the JHINV Group pursuant to such judgment or settlement).

Related Agreements means documents ancillary to the Final Funding Agreement which are listed in Schedule 1 to the Final Funding Agreement.

Release Legislation has the meaning given to that term in clause 1 of the Final Funding Agreement.

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Securities has the meaning set out in the Corporations Act.

Settled Sum means ten dollars (\$10).

Settled Sums means the Settled Sum and the Discretionary Settled Sum.

Single Claims Manager means in respect of any legal proceedings which involve a Personal Asbestos Claim and one or more Concurrent Claims, the party responsible for managing and resolving the Personal Asbestos Claim and the claims against at least one other party, including a single claims manager within the meaning of the Dust Diseases Tribunal Amendment (Claims Resolution) Act 2005.

Special Default means a breach or default of a kind described in clause 16.2 of the Final Funding Agreement.

SPF Funded Liability means:

- (a) only those liabilities described in paragraphs (a), (b), (c), (e) and (g) of the definition of "Payable Liability" and excludes the liabilities described in paragraph (d) or (f) of the definition of "Payable Liability"; and
- (b) a claim or category of claim which JHINV and the NSW Government agree in writing is a "SPF Funded Liability" or a category of "SPF Funded Liability".

Tax Act means the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 (Cth).

Termination Date means the earlier to occur of:

- (a) the eightieth (80th) anniversary of the date on which this Deed was executed; and
- (b) the date on which the Final Funding Agreement is terminated.

Transaction Legislation has the meaning given to it in the Final Funding Agreement.

Trusts Act means the Charitable Trusts Act 1993.

Trustee Board means the board of Directors.

Trustee Act means the Trustee Act 1925 (NSW).

Wind-Up or Reconstruction Amount has the meaning given to it in the Final Funding Agreement.

Worker's Compensation Scheme or Policy means any of the following:

- (a) any worker's compensation scheme established by any law of the Commonwealth or of any State or Territory of Australia;
- (b) any fund established to cover liabilities under insurance policies upon the actual or prospective insolvency of the insurer (including without limitation

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the Insurer Guarantee Fund established under the Worker's Compensation Act 1987 (NSW)); and

- (c) any policy of insurance issued under or pursuant to such a scheme.

## 1.2 GENERAL INTERPRETATION

Headings are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

- (a) The singular includes the plural and the converse.
- (b) A gender includes all genders.
- (c) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause, annexure, schedule or exhibit is a reference to a clause of, or annexure, schedule or exhibit to, this Deed.
- (f) A reference to a party to this Deed or another agreement or document includes the party's successors and permitted substitutes or assigns.
- (g) A reference to an agreement includes any amendment, variation or substitution of that agreement from time to time.
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to writing includes a facsimile transmission and any means of reproducing words in a tangible and permanently visible form.
- (j) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (k) Mentioning anything after include, includes or including does not limit what else might be included.
- (l) A reference in this Deed to a Power is to be construed without limitation to any other Power also mentioned in this Deed.
- (m) A reference to an asset includes any real or personal, present or future, tangible or intangible property or asset and any right, interest, revenue or benefit in, under or derived from the property or asset.
- (n) Any term not otherwise defined in this Deed, the Final Funding Agreement or the Transaction Legislation has the meaning given in the Corporations Act.

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2. APPOINTMENT AND DECLARATIONS OF TRUSTS

2.1 ACKNOWLEDGEMENT

- (a) The Trustee acknowledges receipt of the Settled Sum from the Settlor prior to the execution of the Original Deed.
- (b) The Trustee acknowledges receipt of the Discretionary Settled Sum from the Settlor prior to the execution of this deed.

2.2 ESTABLISHMENT OF THE COMPENSATION FUNDS AND APPOINTMENT

- (a) The Charitable Fund was established by and upon the execution of the Original Deed.
- (b) The Settlor appointed the Trustee, and the Trustee accepted the appointment, as trustee of the Charitable Fund to hold the Charitable Fund Property on the trust set out in clause 3.
- (c) The Settlor appoints the Trustee and the Trustee accepts appointment as Trustee of the Discretionary Fund to hold the Discretionary Fund Property on the trust set out in clause 4.

2.3 ACCEPTANCE AND DECLARATIONS

The Trustee declares that it holds and will hold:

- (a) on trust for the Charitable Purpose:
  - (i) the Settled Sum;
  - (ii) the benefit of the Funding Obligations and the obligation of the Performing Subsidiary (if applicable) to pay the Wind-Up or Reconstruction Amount in accordance with clause 10 of the Final Funding Agreement, the JHINV Guarantee and each of JHINV's covenants and obligations under the Final Funding Agreement and the Related Agreements to ensure the payment by the JHINV Group of the JHINV Contributions under the Final Funding Agreement and any Cross Guarantee given pursuant to clause 15.7 of the Final Funding Agreement, and the right to enforce the same, and all payments received pursuant thereto, as may be required from time to time;
  - (iii) the Compensation Funds Account and all money, Investments or other assets which the Trustee acquires as Trustee of the Compensation Funds (other than to the extent any of them comprise Income forming part of the Discretionary Fund, except to the extent it has been applied or distributed to the Trustee in its capacity as Trustee of the Charitable Fund under clause 4.1);
  - (iv) all proceeds of the above (other than to the extent any of them comprise Income forming part of the Discretionary Fund except to the extent it has been applied or distributed to the Trustee in its capacity as Trustee of the Charitable Fund under clause 4.1);

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- (v) the shares in the Liable Entities; and
- (vi) any asset or property of a Liable Entity which is transferred to the Trustee pursuant to the Transaction Legislation.

- (b) the Discretionary Settled Sum and all Income derived on Compensation Fund Property on the trust described in clause 4 of this deed.

2.4 NAME AND LOCATION OF COMPENSATION FUNDS

- (a) The Compensation Funds are to be known as the Asbestos Injuries Compensation Fund.
- (b) If any property is transferred or any interest is given to the Trustee to hold as Charitable Fund Property, that property or interest may be transferred or given by referring to the Charitable Fund by its name or to the Trustee by its name.
- (c) The Trustee must procure that the principal place of business of the Compensation Funds is maintained at all times in New South Wales.

3. CHARITABLE PURPOSE

The Charitable Fund shall exist and be maintained by the Trustee, and the Charitable Fund Property must be maintained and applied by the Trustee, for:

- 3.1 the principal purpose of receiving and providing funding for the payment and paying of Payable Liabilities and providing services with respect to the management and resolution of Payable Liabilities; and
- 3.2 the following additional purposes which are for the Trustee to:
  - (a) hold the benefit of the Funding Obligations and the obligation of the Performing Subsidiary (if applicable) to pay the Wind-Up or Reconstruction Amount in accordance with clause 10 of the Final Funding Agreement, the JHINV Guarantee, and the covenants and obligations of JHINV under the Final Funding Agreement and the Related Agreements to ensure the payment by the JHINV Group of the JHINV Contributions under the Final Funding Agreement and any Cross Guarantee given pursuant to clause 15.7 of the Final Funding Agreement, and enforce the same as may be required from time to time;
  - (b) be the creditor of the Performing Subsidiary and JHINV for payments (whether actually or contingently) due and payable to the Trustee under the Final Funding Agreement and receive and give a proper receipt for such amounts;
  - (c) manage itself or through one or more of the Liable Entities or otherwise cause to be managed, the response to all Payable Liabilities for itself or for or on behalf of the Liable Entities, including by entry into Claims Management Agreement with the Liable Entities (and in respect of Payable Liabilities which are not SPF Funded Liabilities, on the basis that the Liable Entities must bear the full cost and all liabilities associated with such claims);

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- (d) provide management services to each Liable Entity in connection with the winding up of the Liable Entity including exercising all powers conferred on it by the Transaction Legislation;
- (e) subject to it having the necessary funds to do so and clause 9.15 of the Final Funding Agreement, pay in accordance with and subject to clause 4.7 of the Final Funding Agreement and the provisions of the Transaction Legislation, the SPF Funded Liabilities itself or through one or more of the Liable Entities, and in each case for itself or for or on behalf of the Liable Entities as the Trustee may in its discretion determine;
- (f) use its best endeavours to achieve all available legal and administrative cost savings in relation to:
  - (i) the process for handling the response to Personal Asbestos Claims and Marlew Claims;
  - (ii) Court proceedings dealing with apportionment of damages in relation to Personal Asbestos Claims and Marlew Claims; and
  - (iii) exercising rights of recovery.
- (g) review and implement legal and administrative cost savings in the claims management process on a continuing basis both in relation to the process for settling Personal Asbestos Claims and Marlew Claims and the process generally applicable in relation to Personal Asbestos Claims and Marlew Claims, including reducing Claims Legal Costs;
- (h) invest the assets contributed to or received by the Trustee;
- (i) use its best endeavours to:
  - (i) recover;
  - (ii) procure that each Liable Entity recover; and
  - (iii) exercise or procure the exercise of rights subrogated from any Claimant to recover,  
  
amounts paid or liabilities incurred with respect to any Personal Asbestos Claims, Marlew Claims or any other Payable Liabilities from insurers, reinsurers and other parties who may have contributed to the loss relating to such claims;
- (j) generally do all things necessary and convenient for the purposes of handling and finalising Payable Liabilities for itself or for and on behalf of the Liable Entities (provided that nothing in the Final Funding Agreement shall require the Trustee to incur any liability or pay any amount with respect to a liability which is not a SPF Funded Liability);
- (k) as provided by the Transaction Legislation or to the extent otherwise entitled to do so, be subrogated to the rights of the Claimants against the Liable Entities and Marlew or any other persons in relation to any Payable Liability settled or met by the Trustee; and

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- (1) be authorised and permitted to negotiate with Claimants and at its discretion procure that the relevant Liabile Entity enter into binding settlements in relation to (including without limitation compromises of Payable Liabilities).

4. INCOME

4.1 TRUST OF INCOME

The Trustee holds the Annual Income of the Compensation Funds for each Financial Year on trust:

- (a) for any Income Beneficiary for whose benefit the Trustee has in its discretion applied any or all of the Annual Income in accordance with clause 4.2; and
- (b) if at the end of the Financial Year not all of the Annual Income of that Financial Year has been applied in favour of one or more Income Beneficiaries in accordance with clause 4.1(a), the remainder of that Annual Income shall be distributed to the Trustee in its capacity as trustee of the Charitable Fund, and shall be added to and will immediately form part of the Charitable Fund Property.

4.2 POWER IN RELATION TO INCOME

- (a) The Trustee covenants in favour of the Settlor to exercise its discretions pursuant to this clause 4 to ensure, to the extent possible and having regard to the information available to it, that there will be no amount of the Net Income of the Compensation Funds of a Financial Year which is not included in the assessable income of one or more Income Beneficiaries during that Financial Year.
- (b) In determining how the Annual Income is to be applied, the Trustee may in its absolute discretion, but subject to clause 4.2(a) and the remainder of this clause 4, apply some or all of the Annual Income for a Financial Year for the benefit of any one or more of the Income Beneficiaries:
  - (i) by paying a Payable Liability of that Income Beneficiary;
  - (ii) to the exclusion of any one or more of them;
  - (iii) in any shares or proportions; and
  - (iv) at any time,

and the Annual Income or part so applied may be Income derived in any particular manner or from a particular source or having a particular character under the Tax Act or otherwise.

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- (c) The Trustee is hereby authorised to:
- (i) pay out of the Annual Income of the Compensation Funds, all Operating Expenses which are deductible against the Income of the Compensation Funds; and
  - (ii) pay out of the Charitable Fund Property any deductible or non-deductible Operating Expenses.

4.3 DURATION OF TRUST OF INCOME

The trust with respect to the Income of the Fund commences on execution of this deed and expires on the Termination Date.

4.4 MODE OF EXERCISE OF POWERS IN RELATION TO INCOME

The Trustee may:

- (a) only exercise its powers under this clause 4 in writing and not orally;
- (b) at its discretion, apply Annual Income of any Financial Year in favour of an Income Beneficiary which is a Liable Entity, solely by paying some or all of the Annual Income in discharge of a Payable Liability of the Liable Entity;
- (c) at its discretion, apply Annual Income of any Financial Year in discharging all or any of the Operating Expenses whenever arising;
- (d) only exercise its powers under this clause 4 at any time during the Financial Year to which the Annual Income relates; and
- (e) not delegate to any person the exercise of any of its powers under this clause 4 except as permitted under clause 5.6.

4.5 INTEREST OF LIABLE ENTITIES

To the maximum extent permitted by law, the interests at any time of the Liable Entities in the Annual Income in each Financial Year are limited such that the Liable Entities, whether individually or together:

- (a) have no equitable interest in the Discretionary Fund (or any part of it, including the Income and the Discretionary Fund Property);
- (b) are not beneficial owners of the Discretionary Fund (or any part of it, including the Income and the Discretionary Fund Property); and
- (c) have no right whatsoever to require the transfer of any property from time to time forming part of the Income (or any other Discretionary Fund Property) to any or all of the Liable Entities or as they direct;
- (d) have no right to seek to wind up any part of the Discretionary Fund, whether in respect of the Income (or any part of it) or the Discretionary Fund Property; and

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- (e) only have the right to require the terms of this deed to the extent they govern or apply to the Discretionary Fund to be observed by the Trustee and to be considered by the Trustee (according to the terms of this deed) as an object of the exercise of its discretions under clause 4.2.

4.6 RIGHTS OF LIABLE ENTITIES TO INCOME

Notwithstanding that the Trustee may apply any Annual Income for the benefit of a Liable Entity by paying one or more Payable Liabilities of that Liable Entity, no Liable Entity shall have any rights to:

- (a) require the Trustee to pay or apply any Annual Income in any manner, including any Annual Income which has been applied for the benefit of that Liable Entity;
- (b) require the Trustee to pay any such amount to or for the benefit of the Liable Entity; or
- (c) have any beneficial or equitable interests in the moneys or property applied by the Trustee or in any of the Discretionary Fund Property or the Income of the Discretionary Fund.

4.7 EXCLUSION BY TRUSTEE OF ANY PERSON FROM INCOME

The Trustee may in its absolute discretion and by an instrument in writing, revocably or irrevocably exclude any person from benefiting under any provisions of this clause 4.

4.8 EFFECT OF EXCLUSION

Where a person is excluded by the Trustee under clause 4.7, that person ceases from that time to be a person entitled to be appointed under clause 4.2 in relation to, or entitled under any other provision of this clause 4, to any of the relevant Annual Income but otherwise remains an Income Beneficiary.

4.9 ACCOUNTING PRINCIPLES

The accounts of the Compensation Funds prepared by the Trustee must be prepared in accordance with the following principles, unless the Trustee determines otherwise with the prior written consent of the parties to the Final Funding Agreement:

- (a) the net income as shown in the financial statements for the Discretionary Fund for each Financial Year is to be the same amount as the Annual Income of the Compensation Funds for that Financial Year, less the costs, outgoings and expenses incurred by the Trustee which are deductible for the purposes of the Tax Act;
- (b) to the maximum extent permitted by law, any receivable or any expenses may be allocated to or deducted from, as the case may be, the Income of a particular Financial Year which the Trustee in its absolute discretion

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determines. Without limitation to the foregoing, for this purpose the Trustee may in its discretion treat an amount as a receivable in a Financial Year where the amount represents the capital proceeds under the Tax Act of a CGT event occurring in that Financial Year as determined under the Tax Act;

- (c) any rebate or deduction available to the Trustee or to any Income Beneficiary for the purpose of the Tax Act may be treated as an amount received or derived or as an expense incurred by the Compensation Funds even if under the principles of law usually applied to trust funds no amount or a different amount would have been received or derived or no, or a different, expense incurred (to the extent such principles may be lawfully excluded);
- (d) to the maximum extent permitted by law, income derived during the Financial Year in any particular manner or from any particular source or having a particular character under the Tax Act or otherwise, including for example and without limitation:
  - (i) capital profits or gains;
  - (ii) dividends wholly or partly franked under the Tax Act with or without any amount deemed by the Tax Act to attach to those dividends;
  - (iii) dividends unfranked under the Tax Act;
  - (iv) interest;
  - (v) foreign source income as defined in the Tax Act;
  - (vi) exempt income as defined in the Tax Act; or
  - (vii) any other type of income or gain,

may be separately classified or separately accounted for, with or without attributable expenses, and may be separately allocated to any Income Beneficiary.

#### 4.10 NO TRUST OF ALLOCATED INCOME

The allocation of Income in an accounting entry or resolution of the Trustee shall not create any trust or other entitlement of any Liable Entity with respect to the Income allocated in that manner. Until payment of Income by the Trustee, the Trustee shall not hold any of the Income for any Financial Year on any trust for any particular Liable Entity, which shall only be taken to be (or to be deemed to be) entitled to such Income to the extent to which the Trustee has paid out such Income for the benefit of that Liable Entity in accordance with this clause 4.

#### 4.11 APPLICATION OF FINAL FUNDING AGREEMENT AND RELATED AGREEMENTS TO TRUST IN RESPECT OF INCOME

Except to the extent expressly specified otherwise in any Transaction Documentation (including without limitation this deed):

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- (a) the Trustee shall administer the Discretionary Fund in the same manner as it administers the Charitable Fund; and
- (b) in the event of any conflict as between the Charitable Purpose and the interests of the beneficiaries of the Discretionary Fund, the Trustee shall prefer that course of action which:
  - (i) does not create an entitlement of any Liable Entity to receive any monies directly or to direct the Trustee as to the disposition of any monies and which does not expose any such moneys to payment of creditors otherwise than as provided in the Transaction Legislation;
  - (ii) subject to paragraph (i), maximises the funds available to be paid towards SPF Funded Liabilities;
  - (iii) subject to paragraphs (i) and (ii), is more consistent with, or which best facilitates the achievement of, the Charitable Purpose.

5. TRUSTEE

5.1 THE TRUSTEE

The Trustee must at all times ensure that it:

- (a) is a company registered under the Corporations Act that is taken under section 119A of that Act to be registered in New South Wales;
- (b) is a resident of New South Wales;
- (c) includes within its Constitution the Constitutional Provisions; and
- (d) does not accept appointment, or act, as a trustee of any fund or trust other than the Compensation Funds, or carry on any business, except to the extent necessary for the Trustee to perform its functions under this Deed and under the Transaction Legislation.

5.2 GENERAL POWERS OF THE TRUSTEE

Subject to this Deed, the Trustee has all the powers, privileges and other incidents of ownership or possession over and in respect of the Charitable Fund Property and the Income that it is possible under the law to confer on a trustee and as though it were the absolute owner of the Charitable Fund Property and Income and acting in its personal capacity.

5.3 GENERAL ADMINISTRATION OF COMPENSATION FUND PROPERTY

The Compensation Fund Property must be held and administered by the Trustee in the following manner:

- (a) The Trustee must open or arrange the opening of the Compensation Fund Account.
- (b) The Compensation Funds Account is to be in addition to any other bank account maintained by the Trustee.

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- (c) The Trustee shall be entitled to intermingle both Charitable Fund Property and Discretionary Fund Property in the Compensation Funds Account.
- (d) The Trustee must pay or credit to the Compensation Funds Account all of the following moneys promptly upon receipt by the Trustee:
  - (i) all monetary gifts and donations received by the Trustee (including the Settled Sums);
  - (ii) the Funding Payments;
  - (iii) all interest earned on the monies in the Compensation Funds Account; and
  - (iv) all monies derived from property given or transferred to or acquired by the Fund or from rights conferred upon the Trustee.
- (e) No other monies will be paid or credited to the Compensation Funds Account.
- (f) The Compensation Funds Account will be managed by the Trustee Board.
- (g) The Charitable Fund Property and the Discretionary Fund Property must at all times be clearly identifiable as property of the Trustee and:
  - (i) must be held separately from all other assets of the Trustee;
  - (ii) the Charitable Fund Property and the Discretionary Fund Property held in the Compensation Funds Account must each be able to be ascertained and distinguished from each other,and if requested in writing by the Settlor or the NSW Government, the Trustee must provide details of the extent to which the amount standing to the credit of the Compensation Funds Account at any particular time comprises Charitable Fund Property or Discretionary Fund Property.
- (h) The Charitable Fund Property may only be dealt with and applied by the Trustee in connection with or in furtherance of the Charitable Purpose or for the purpose of deriving Income on the Charitable Fund Property in the manner required or permitted by this deed, the Final Funding Agreement, the Transaction Legislation and the general law.

#### 5.4 CONTROL OF LIABLE ENTITIES

The Trustee is not required to carry out the functions referred to in clauses 3.2(c), (e), (i) (ii), (j) and (l) in relation to a Liable Entity unless that Liable Entity is under the control or direction of the Trustee.

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5.5 CONTRACTING AND INVESTING POWERS

To the extent permitted by law, the Trustee in its capacity as Trustee of the Compensation Funds has power to do (or in its capacity as trustee of the Charitable Fund, to cause the Liable Entities to do) any of the following:

- (a) invest in shares, stock, bonds, cash deposits, notes, debentures, units, rights to profit or any other security (including, but without limitation, whether convertible, redeemable, preferred, deferred or partly paid, with or without any right, title or interest in or to such security including an option or a right to subscribe) including making contributions in respect thereof;
- (b) realise, vary or exchange any Investment and add any Investment to the Compensation Fund Property;
- (c) subject to clause 7.2, exercise any voting rights attaching to Investments forming part of the Compensation Fund Property in such manner as the Trustee thinks fit;
- (d) appoint any of its executives, directors or employees (each an APPOINTEE) to the board of directors or other governing body of an Investee, provided that fees earned by any Appointee shall be income of the Trustee and form part of the Compensation Fund Property;
- (e) possess, sell, exchange, transfer, mortgage, pledge or otherwise dispose of, encumber or deal in the assets of the Compensation Funds for cash, shares, stock, Securities or other property of any nature (whether real or personal) or any combination of them on such terms and conditions as may be determined by the Trustee (for the avoidance of doubt, the Trustee has the power to provide warranties in relation to the sale of any Investment);
- (f) borrow money or Securities either bearing or free of interest, with or without security, and by way of loan, debenture, bill of exchange or otherwise on such terms and conditions as the Trustee, in its absolute discretion thinks fit, or guarantee loans or other extensions of credit;
- (g) make loans or provide other financial accommodation to Investees, or give guarantees for the benefit of Investees or other Persons as a necessary or integral part of an Investment;
- (h) institute, prosecute and compromise legal proceedings to secure compliance with this Deed or any other right which the Trustee has as Trustee of the Fund and enforce any debt or liability owed to the Trustee as Trustee of the Fund (or to which the Trustee is subrogated) including by issuing any statutory or other demand, instituting, prosecuting and compromising any legal proceedings, and lodging a proof of debt or claim in relation to, or as a consequence of, the Insolvency of any Person;
- (i) pursue and compromise any claim held by the Trustee or to which the Trustee is subrogated to any insurer or reinsurer;
- (j) pay all outgoings and expenses connected with the Compensation Funds or this Deed (including all fees payable to Agents and/or attorneys appointed under clause 5.6) and, subject to clause 5.3, conduct such bank account or accounts of the Fund as the Trustee thinks fit;
- (k) give receipts and discharges in the name of the Compensation Funds for any moneys received on behalf of the Trustee;

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- (l) either alone or jointly with any other Person, guarantee, give any indemnity in respect of or become liable for or (whether or not any such guarantee has been given) mortgage or charge the Compensation Fund Property or any part of it as security for the payment of money, with or without interest (including money payable or to become payable under a fluctuating overdraft) or for the performance of any obligations by any Person and without limitation, for the purpose of securing the payment of any moneys or the performance of any obligations for which the Trustee has become or may become liable under or by virtue of any guarantee, indemnity, option or other contract entered into by the Trustee;
- (m) draw, endorse, discount, sell, purchase and otherwise deal with bills of exchange, commercial bills, promissory notes, other negotiable instruments or certificates of deposit, debentures, notes or any other financial instruments either alone or jointly but so that the total of the moneys for the time being the subject of liability on the part of the Trustee whether as drawer, acceptor or endorser of any and all such instruments and whether alone or jointly or severally with other persons are deemed to be liabilities of the Compensation Funds for all purposes, and any reference in this clause to the "Trustee" shall include a reference to each Liable Entity;
- (n) maintain and repair the Compensation Fund Property;
- (o) develop, improve or vary the Compensation Fund Property in any way;
- (p) insure the Compensation Fund Property or any Income thereon for any amount against any risk;
- (q) pay expenses and outgoings (including taxes) incurred on the Compensation Fund Property or Income out of the Compensation Fund Property or Income;
- (r) lease Compensation Fund Property at any rent and on any terms;
- (s) add to the Charitable Fund Property any part of the Income distributed by the Trustee in its capacity as trustee of the Discretionary Fund pursuant to clause 4.1(b);
- (t) solicit and receive as additions to the Compensation Fund Property gifts and benefactions of any kind whether inter vivos or testamentary; and
- (u) take any action it thinks fit for the adequate protection of the Compensation Fund Property or Income thereon and do all things incidental to the exercise of any powers conferred on the Trustee by this Deed;
- (v) enter into Claims Management Agreements with the Liable Entities (and in respect of Payable Liabilities which are not SPF Funded Liabilities), on the basis that the Liable Entities must bear the full cost and all liabilities associated with such claims; and

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(w) accept appointment and act as a Single Claims Manager,

and for the avoidance of doubt, the Trustee may, subject to clause 5.11, make investment decisions which do not result in a guaranteed return of either capital or income, where the Trustee considers it necessary or appropriate to do so.

#### 5.6 POWERS OF DELEGATION AND APPOINTMENT

The Trustee may:

- (a) authorise any person to act as its agent or delegate (in the case of a joint appointment, jointly and severally) to provide advice, hold title to any Compensation Fund Property, perform any act or exercise any discretion within the Trustee's power, including without limitation the power to appoint in turn its own agent or delegate and in particular the power to enter into the Irrevocable Power of Attorney;
- (b) include in the authorisation provisions to protect and assist those dealing with the agent or delegate as the Trustee thinks fit;
- (c) appoint, remove or vary the appointment of the Approved Actuary, the Approved Auditor and any accountants, solicitors, barristers, investment bankers, technical or other experts and qualified advisers to:
  - (i) provide advice;
  - (ii) do anything required or permissible by this Deed, including the receipt and payment of money and the execution of any document by the Trustee; and
  - (iii) transact any business,in connection with the Compensation Funds (including all Compensation Funds monies, whether forming part of the Income of the Compensation Funds or the Charitable Fund Property or the Discretionary Fund Property) or the Charitable Purpose, subject always to the obligations of the Trustee under the Final Funding Agreement;
- (d) appoint an attorney to execute any document on any terms the Trustee thinks fit;
- (e) employ any person in connection with anything required to be done under this Deed and to decide the remuneration (including expenses and superannuation) to be paid to that person provided that, subject to clause 5.6(f), no payment is made to any director of the Trustee other than the payment of:
  - (i) out of pocket expenses incurred by the director in the performance of any duty as a director of the Trustee subject to the amount payable not exceeding any amount previously approved by the board of directors of the Trustee;
  - (ii) any service rendered to the Trustee by the director in a professional or technical capacity (and not in his or her capacity as a director) where the provision of the service has been previously approved by the board of directors of the Trustee and the remuneration for the service does not exceed an amount which is proper remuneration for the service;

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- (iii) any salary or wage due to the director as an employee of the Trustee where the terms of employment have been previously approved by the board of directors of the Trustee and the salary or wage does not exceed an amount which is proper remuneration;
- (iv) an insurance premium in respect of a contract insuring an officer to which section 212 of the Corporations Act refers or the provision of a financial benefit (by way of indemnity) to a director to which section 212 of the Corporations Act refers;
- (f) in addition to the payments to directors of the Trustee permitted under clause 5.6(e), pay such amount as director's fees as it considers appropriate to any director of the Trustee not being an employee of the NSW Government or an employee of any member of the JHINV Group; and
- (g) direct any director or officer of a Liable Entity to act in any manner or do any act as described in this Deed.

#### 5.7 POWERS UNDER TRANSACTION LEGISLATION

In addition to any Powers conferred on the Trustee under this Deed and at law, the Trustee may exercise each and any power conferred on it by the Transaction Legislation or by any other Act or Regulation made under any Act of the State of New South Wales.

#### 5.8 LIMITATIONS ON POWERS OF THE TRUSTEE

- (a) Notwithstanding any other provision of this Deed, the Trustee has no power to and must not pay or discharge or purport to pay or discharge any liability of a Liable Entity which a Liable Entity is not authorised to pay or discharge by the Final Funding Agreement, a Related Agreement or the Transaction Legislation.
- (b) Notwithstanding any other provision of this Deed, prior to the Commencement Date the Trustee may not exercise any of its powers under this Deed or at law except to the extent that such exercise is necessary or reasonably incidental to:
  - (i) establish the Compensation Funds Account;
  - (ii) manage any application to the Australian Taxation Office concerning the status of the Fund for income tax purposes; or
  - (iii) other matters or tasks which are purely administrative in nature and preparatory to the discharge by the Trustee of its substantive rights, powers and responsibilities under this Deed, the Final Funding Agreement and the Transaction Legislation.

#### 5.9 EXERCISE OF DISCRETION

The Trustee may in its absolute discretion decide how and when to exercise its Powers.

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5.10 COMPLIANCE WITH THE FINAL FUNDING AGREEMENT

- (a) The Trustee must at all times comply fully with the obligations imposed on the Trustee by the Final Funding Agreement.
- (b) In the event of any inconsistency between the Final Funding Agreement and this Deed, the terms of the Final Funding Agreement prevail to the extent of the inconsistency but otherwise this Deed shall have effect.

5.11 TRUSTEE'S STANDARD OF DUTY

The Trustee must exercise the same degree of care, skill and diligence as a reasonable and prudent person would exercise if it was the Trustee of the Compensation Funds.

5.12 RELIANCE ON ADVICE

The Trustee may take and may act upon:

- (a) the advice of the Approved Actuary;
- (b) the opinion or advice of counsel or solicitors, whether or not instructed by the Trustee, in relation to the interpretation of this Deed or any other document (whether statutory or otherwise) or generally in connection with the Compensation Funds;
- (c) advice, opinions, statements or information from any bankers, accountants, auditors, valuers and other persons consulted by the Trustee who are in each case believed by the Trustee in good faith to be expert in relation to the matters upon which they are consulted; and
- (d) any other document provided to the Trustee in connection with the Compensation Funds upon which it is reasonable for the Trustee to rely,

and the Trustee will not be liable for anything done, suffered or omitted by it in good faith in reasonable reliance upon such opinion, advice, statement, information or document, unless otherwise known to be false or incomplete.

5.13 REMUNERATION

- (a) Subject to paragraphs (b) and (c), no remuneration or other benefit in money or money's worth will be paid or transferred, directly or indirectly, to the Trustee or to any member or officer of the Trustee in respect of his or her duties or conduct as such.
- (b) The Trustee may pay out of the Charitable Fund Property:
  - (i) reasonable remuneration to any member, officer, employee or agent of the Trustee for services actually rendered to the Trustee acting in accordance with this Deed in connection with the Charitable Fund;
  - (ii) payment or reimbursement for out of pocket expenses reasonably incurred by any member, officer, employee or agent of the Trustee in carrying out the Trustee's functions under this Deed in connection with the Charitable Fund; and

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(iii) fees and disbursements to any solicitor, accountant or other advisor or the Trustee in connection with the Charitable Fund.

(c) The Trustee may pay out of the Discretionary Fund Property:

- (i) reasonable remuneration to any member, officer, employee or agent of the Trustee for services actually rendered to the Trustee acting in accordance with this Deed (and whether in connection with the Charitable Fund or the Discretionary Fund);
- (ii) payment or reimbursement for out of pocket expenses reasonably incurred by any member, officer, employee or agent of the Trustee in carrying out the Trustee's functions under this Deed (and whether in connection with the Charitable Fund or the Discretionary Fund); and
- (iii) fees and disbursements to any solicitor, accountant or other advisor or the Trustee (whether incurred in connection with the Charitable Fund or the Discretionary Fund).

6. LIABILITY

The Trustee shall not be liable for:

- (a) a loss to the Compensation Fund Property;
- (b) any action taken or omitted to be taken by it under this Deed, except in the case of wilful default, fraud or negligence of the Trustee.

7. INDEMNITY AND INSURANCE

7.1 INDEMNITY

The Trustee and the officers, employees, agents and attorneys of the Trustee (each an INDEMNIFIED PERSON) shall be indemnified out of the relevant Compensation Fund's Property for:

- (a) all costs, charges, liabilities and expenses (including legal costs and expenses) incurred in the performance or exercise or attempted performance or exercise of any duty or Power; and
- (b) any action brought against any of them concerning this Deed, the relevant Compensation Fund's Property or the neglect or default of any solicitor, banker, accountant or other agent employed in good faith by the Trustee,

except to the extent any of the above arise or are incurred as a result of the wilful default, fraud or negligence of the Indemnified Party.

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7.2 INDEMNITY FOR EXERCISE OF VOTING RIGHTS

Except as otherwise provided by law:

- (a) the Trustee or its Appointee is not liable or responsible to any Person for the management of any company or body or for any vote or action taken or consent given by the Trustee or its Appointee in person or by proxy or power of attorney.
- (b) neither the Trustee nor the holder of any proxy or power of attorney:
  - (i) incurs any liability or responsibility by reason of any error of law or mistake of fact or any matter or thing done or omitted or approval voted or given or withheld by the Trustee or its Appointee or by the holder of a proxy or power of attorney under this Deed; and
  - (ii) is under any obligation to anyone with respect to any action taken or caused to be taken or omitted by the Trustee or its Appointee or by any holder of a proxy or power of attorney.

7.3 MAINTAIN INSURANCE

- (a) The Trustee must use its best endeavours to effect and maintain a contract of insurance with an established and reputable insurer, which insures the Trustee and the officers and employees of the Trustee (each an INSURED PERSON) against all liabilities incurred by them whilst acting in that capacity, provided that the liability does not arise out of conduct involving a wilful breach of duty to the Trustee. The Trustee shall be entitled to pay for the premium on such contracts out of Compensation Fund Property.
- (b) Unless the Trustee agrees otherwise, the contract of insurance referred to in clause 7.3(a) must contain a provision waiving all rights of subrogation or action against each Insured Person.
- (c) The exercise of the Trustee's discretion under clause 7.3(b) only arises if the Trustee receives a written request (either as a standing request or from time to time) from an Insured Person and if and to the extent that the Insured Person does not otherwise have the benefit of a contract of insurance on the same terms as set out in that clause.
- (d) The Trustee may satisfy its obligations under clause 7.3(a) by paying the premium attributed to the Insured Persons by a broker under a global contract of insurance that includes coverage for the Insured Persons and the officers of companies in the JHINV Group.

7.4 NOT RENDER VOID

The Trustee must use its best endeavours to ensure that it does not do anything which will render void any contract of insurance effected under clause 7.3.

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8. APPOINTMENT OF NEW TRUSTEE

8.1 CONDITION PRECEDENT TO APPOINTMENT

No appointment or purported appointment of a new Trustee of either the Charitable Fund or the Discretionary Fund will take effect unless the new Trustee is appointed to both funds, and unless and until the new trustee to be appointed has been approved in writing by the NSW Government and JHINV (each acting reasonably) and a Deed of Accession has been duly executed by the proposed new Trustee and each other party thereto and delivered to JHINV and the NSW Government.

8.2 TRUSTEE ACT, RELIANCE AND NOTICES

- (a) Subject to the following paragraphs, the provisions of Part 2 Division 1 of the Trustee Act apply:
  - (i) if for the purposes of section 6(4)(b) of the Trustee Act, the last surviving or continuing Trustee is a corporation in liquidation then any relevant appointment may be made by the liquidator of that corporation; and
  - (ii) notwithstanding section 8(1) of the Trustee Act, a sole Trustee may only retire if at least one new Trustee is appointed in place of that sole Trustee.
- (b) Upon the retirement, removal or appointment of the Trustee, the new Trustee must endorse a note on this Deed recording the retirement, removal or appointment and any Person acting on this Deed or with notice of its terms shall be entitled to rely on its terms (as amended) as evidence of the identity of the Trustee or the Trustees at that time.

8.3 ACCEPTANCE OF ACCOUNTS AND DISCHARGE

- (a) Any new Trustee may accept the accounts given and the property delivered to it by a continuing or ceasing Trustee without having to enquire as to the assets of the Fund.
- (b) Subject to clause 8.3(d), any ceasing Trustee may be given a full discharge by the new Trustee and the discharge will release the ceasing Trustee from all obligations in relation to all or any part of the Compensation Fund Property.
- (c) Any discharge given under clause (b) will bind all persons who:
  - (i) have or might take any interest in all or any part of the Compensation Fund Property; or
  - (ii) who have or might have a right to have the Compensation Fund Property properly administered in accordance under this Deed.
- (d) Despite anything in clause 8.3(b), a ceasing Trustee shall not be released by any discharge given under clause 8.3(b) if:
  - (i) that discharge arises from any acts or omissions of the ceasing Trustee having been concealed by the Trustee fraudulently, dishonestly or in bad faith; or

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- (ii) the discharge relates to any loss to the Compensation Funds, for which the Discretionary Fund or the Charitable Fund (as the case may be) has not been properly compensated, which arose as a consequence of the wilful default, fraud or negligence of the ceasing Trustee.

9. THIRD PARTIES

No person (including the Registrar General or any other government agency) dealing in good faith with the Trustee (including as vendor, purchaser or mortgagor) is bound to enquire:

- (a) as to the authority or purpose of the Trustee;
- (b) as to the application of money received by the Trustee;
- (c) whether the dealing is necessary or proper; or
- (d) in any other way as to the proprietary or regularity of the dealing.

10. FAILURE OF THE TRUSTEE AND TERMINATION OF THE COMPENSATION FUNDS

- (a) The Trustee may only terminate the Compensation Funds with the prior written consent of the NSW Government and JHINV.
- (b) If the Charitable Fund is terminated, set aside or fails for any reason, or if the Trustee becomes unable (for any reason including as a consequence of an Insolvency Event) to carry out its functions and comply with its obligations under this Deed, the Final Funding Agreement and the Transaction Legislation, then the Charitable Fund Property must be applied as follows:
  - (i) first, in payment of any amounts payable to any creditor of the Trustee in its capacity as trustee of the Charitable Fund; and
  - (ii) secondly, the balance must be dealt with and applied in accordance with clause 4.6 of the Final Funding Agreement.
- (c) If the Discretionary Fund is terminated, set aside or fails for any reason, or if the Trustee becomes unable (for any reason including as a consequence of an Insolvency Event) to carry out its functions and comply with its obligations under this Deed, the Final Funding Agreement and the Transaction Legislation, then the Discretionary Fund Property must be applied as follows:
  - (i) first, in payment of any amounts payable to any creditor of the Trustee in its capacity as trustee of the Discretionary Fund; and
  - (ii) secondly, the balance must be dealt with and applied in accordance with clause 4.6 of the Final Funding Agreement.

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11. AMENDMENTS

- (a) Subject to this clause, this Deed may from time to time be amended by a deed poll executed by the Trustee.
- (b) Prior to the Commencement Date, any provision of this Deed whatsoever may be amended with the prior written consent of the parties to the Final Funding Agreement.
- (c) Subject to clause 11(b), no amendment of this Deed shall be made if as a result:
  - (i) the Charitable Purpose would be altered in any way;
  - (ii) any of clauses 1.1, 2.2(c), 2.3, 2.4(c), 3, 4, 5, 6, 8.1, 9, 10 or 11 would be amended, repealed or otherwise made redundant or ineffective.

12. FINANCES OF THE COMPENSATION FUNDS

12.1 ACCOUNTS AND APPROVED AUDITOR

- (a) The Trustee must ensure that proper books of account and all other proper books and records are kept for the Compensation Funds and for each of the Liable Entities.
- (b) The Trustee must comply with clause 5.12 of the Final Funding Agreement including by appointing an Approved Auditor to be the auditor of the Compensation Funds and ensuring that the financial affairs of the Compensation Funds and each of the Liable Entities are audited by the Approved Auditor at least once in each calendar year.
- (c) The Trustee must provide the NSW Government and JHINV with each report of the Approved Auditor.

12.2 APPROVED ACTUARY

The Trustee must appoint and at all times retain an Approved Actuary of the Compensation Funds in accordance with clause 5.15 of the Final Funding Agreement.

12.3 ACCESS TO BOOKS AND RECORDS

The Trustee must give the NSW Government Auditor full and free access to the books and records of the Compensation Funds in accordance with clause 5.13 of the Final Funding Agreement.

12.4 GENERAL REPORTING OBLIGATIONS

- (a) Within three months of the end of each Financial Year, the Trustee will prepare and issue to JHINV and the NSW Government a report of the affairs and activities of the Compensation Funds for the reporting period by reference to the budget of the Compensation Funds for the reporting period and its financial and other objectives for that period.

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- (b) Without limiting or affecting the Trustee's obligations under clause 4.9 or clause 5.3(g), the Trustee must:
- (i) prepare a set of consolidated financial statements for the Charitable Fund (including, for so long as all or a majority of the shares in the Liable Entities are owned or controlled by the Trustee, the Liable Entities) in respect of each Financial Year during the Term, in accordance with requirements applicable under the Corporations Act and in accordance with Australian generally accepted accounting principles (or on such other basis as may be agreed between the parties to the Final Funding Agreement);
  - (ii) prepare a set of financial statements for the Discretionary Fund in respect of each Financial Year during the Term, in accordance with requirements applicable under the Corporations Act and in accordance with Australian generally accepted accounting principles (or on such other basis as may be agreed between the parties to the Final Funding Agreement); and
  - (iii) engage the Approved Auditor to audit each of those financial statements on a timely basis in respect of each Financial Year and to provide a copy of the relevant audit reports to the parties to the Final Funding Agreement.

13. ACTION BY THE TRUSTEE

13.1 ACTIONS THROUGH BOARD OF DIRECTORS

The Trustee will act through its board of directors in accordance with this Deed, the Final Funding Agreement, its Constitution, the Transaction Legislation and the Corporations Act.

13.2 COMPLIANCE WITH TAX EXEMPTION

The Trustee will comply with any condition to any exemption from Taxation given from time to time in respect of the Compensation Funds or their income, and shall do all things reasonably necessary to maintain and comply with that exemption, provided that nothing in this clause shall permit or authorise the Trustee to fail to act in accordance with the Charitable Purpose, the Final Funding Agreement or the Transaction Legislation.

14. CERTIFICATES

A certificate signed by the secretary of the Trustee that a resolution has been passed by the Trustee, is conclusive, evidence as against any person dealing with any of those bodies that the resolution has been duly passed at a properly convened meeting of the relevant body.

15. GOVERNING LAW

This Deed is governed by the laws of New South Wales.

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16. NO ENFORCEMENT BY THIRD PARTIES

For the avoidance of doubt, no person (other than the NSW Attorney-General in respect of the Charitable Fund or a party hereto) may enforce this Deed or the Compensation Funds constituted by this Deed, except as expressly provided in this Deed or in the Transaction Legislation or clause 4.4(a) of the Final Funding Agreement.

EXECUTED and delivered as a Deed in New South Wales.

Each Attorney executing this Deed states that he or she has no notice of revocation or suspension of his power of attorney.

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SIGNED SEALED and DELIVERED )  
BY JAMES HARDIE INDUSTRIES N.V. )

) Signed by Russell Chenu  
) -----  
) Signature of director

Signed by Meredith Hellicar  
-----  
Signature of director

Russell L. Chenu  
-----  
Print Name

Meredith Hellicar  
-----  
Print name

SIGNED SEALED and DELIVERED )  
By ASBESTOS INJURIES )  
COMPENSATION FUND LIMITED )

) Signed by Peter Baker  
) -----  
) Signature of director

Signed by Joanne Marchione  
-----  
Signature of director/ secretary

Peter W. Baker  
-----  
Print Name

Joanne Marchione  
-----  
Print name

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SCHEDULE 1

CONSTITUTIONAL PROVISIONS

1. THE TRUSTEE BOARD

- 1.1 The management of the Compensation Funds shall vest in the Trustee.
- 1.2 The Trustee Board shall consist of a minimum of 3 Directors and a maximum of 5 Directors as determined by the Directors.
- 1.3 Initially there shall be five Directors. JHINV must appoint three of those Directors and the NSW Government must appoint two of those initial Directors.

2. POWER TO APPOINT DIRECTORS

- 2.1 Unless paragraph 2.3 applies:
  - (a) JHINV shall be entitled to appoint a majority of the Directors from time to time to the Trustee Board and to designate one of those Directors to be Chairman;
  - (b) JHINV may, by Notice to the other Parties, nominate a subsidiary for so long as it remains a subsidiary of JHINV, to exercise its rights under this clause 2.1; and
  - (c) JHINV shall, or shall procure that the nominated subsidiary shall, promptly give Notice to the Trustee and the NSW Government of any appointment made pursuant to this clause 2.1.
- 2.2 The NSW Government shall be entitled to appoint the remaining Directors.
- 2.3 If a Special Default occurs or an Insolvency Event in relation to JHINV occurs and so long as that Special Default or Insolvency Event remains in existence and the NSW Government gives to JHINV a notice that clause 16.3(b) of the Final Funding Agreement is to apply:
  - (a) the Trustee Board must be constituted so that a majority of the Directors shall have been appointed by the NSW Government,
  - (b) the NSW Government may appoint further Directors so that the foregoing is achieved, and the Chairman (and remove any such appointees); and
  - (c) JHINV must procure the resignation of the requisite number of Directors appointed by JHINV (so that the foregoing is achieved).

3. POWER TO REMOVE AND REPLACE DIRECTORS

Each Appointor may, by Notice in writing to the Trustee, remove and replace, from time to time, the persons appointed by it as a Director or Chairman. Except in cases of emergency, at least 5 Business Days' Notice shall be given to the other parties of any proposed appointment of a Director

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4. QUORUM

The quorum for a Trustee Board meeting is, if JHINV has appointed at least one Director, one Director appointed by JHINV and, if the NSW Government has appointed at least one Director, one Director appointed by the NSW Government provided that:

- (a) subject to paragraph (b), if a quorum is not present at a meeting, the meeting shall be reconvened by Notice to a date no less than 24 hours after the date of the original meeting (or such time as is reasonable in cases of emergency) and the quorum for such a reconvened meeting of which all Directors have been given notice in writing shall be at least two Directors; and
- (b) if a Special Default occurs or an Insolvency Event in relation to JHINV occurs and so long as the Special Default or Insolvency Event remains in existence, and the NSW Government gives to JHINV a Notice that clause 16.3(b) of the Final Funding Agreement is to apply, the quorum for a meeting of the Board of the Fund will be two Directors appointed by the NSW Government.

5. VOTING AT TRUSTEE BOARD MEETINGS

- (a) Subject to paragraph (c) and except as otherwise specified in this Constitution, at any meeting of the Directors, each Director has one vote.
- (b) Subject to paragraph (c), if a Director representative of a party and his or her alternate Director is absent, the remaining Director representatives of that party shall be entitled to jointly exercise the absent Director's vote.
- (c) If a Special Default occurs or an Insolvency Event occurs in relation to JHINV occurs, and so long as that Special Default or Insolvency Event remains in existence and the NSW Government gives to JHINV a Notice that clause 16.3(b) of the Final Funding Agreement is to apply, the total number of votes that may be cast at any meeting of the Board of the Trustee by the Directors (including the Chairman) appointed by JHINV or one of its subsidiaries present at the meeting shall be one less than the number of votes that may be cast by the Directors appointed by the NSW Government present at that meeting.

6. CHAIRMAN AND CHAIRMAN'S VOTE

The Chairman will have a casting vote in addition to a deliberative vote.

7. INTERESTS OF APPOINTOR

- 7.1 Subject always to a Director's obligations under the Trust Deed, this Constitution, statute or otherwise at law, a Director may take into account the views of that Director's Appointor and may act on the wishes of that Appointor in performing any of his or her duties or exercising any power, right or discretion as a Director in relation to the Trustee.
- 7.2 A Director may provide that Director's Appointor with copies of all documents, Board Papers and other material which come into the possession of the Director in that capacity and may disclose to and discuss with the Appointor all information to which the Director becomes privy in that capacity.

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7.3 A Director is not precluded from voting or otherwise acting in his or her capacity as a Director as a result of any conflict of interest arising from the fact that the Director is an employee, consultant or officer of an Appointor, or in the case of a Director appointed by the NSW Government, a public servant.

8. ADJOURNMENT

Subject always to paragraph 4, if a quorum is not present within 1 hour after the time appointed for a meeting, the meeting will stand adjourned as follows:

- (a) if paragraph 4(a) applies, the meeting shall be adjourned to the time specified in paragraph 4(a);
- (b) in any other case the same time and place seven days after the meeting or to another day, time and place determined by those Directors present.

9. ALTERNATE DIRECTORS

Each Director may appoint, by Notice in writing to the Trustee, an alternate to act in his or her place. Except in cases of emergency, at least 5 Business Days' Notice must be given of any proposed appointment of an alternate director pursuant to this clause 9.

10. INSURANCE AND INDEMNITIES

The Trustee must use best endeavours to take out and maintain Directors and Officers liability insurance with a reputable insurer in respect of each Director and must execute a deed of access and indemnity in favour of each Director.

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DATED 14 DECEMBER 2006

ASBESTOS INJURIES COMPENSATION FUND LIMITED IN ITS CAPACITY AS TRUSTEE FOR  
THE

CHARITABLE FUND

as the Beneficiary

and

THE STATE OF NEW SOUTH WALES GOVERNMENT

and

JAMES HARDIE INDUSTRIES N.V.

as the Guarantor

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PARENT GUARANTEE

-----

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THIS PARENT GUARANTEE is made on 14 DECEMBER 2006 in Sydney, New South Wales

BETWEEN:

(1) ASBESTOS INJURIES COMPENSATION FUND LIMITED (ACN 117 363 461, a company limited by guarantee incorporated under the laws of the State of New South Wales, Australia, having its registered office at Level 3, 22 Pitt Street Sydney New South Wales, in its capacity as trustee for the CHARITABLE FUND (the "FUND TRUSTEE"), duly represented by Peter Baker and Joanne Marchione;

and

(2) The STATE OF NEW SOUTH WALES, Level 39, Governor Macquarie Tower, Farrer Place, Sydney NSW 2000, Australia (the "NSW GOVERNMENT"), duly represented by Robert John Debus;

and

(3) JAMES HARDIE INDUSTRIES N.V., a company incorporated under the laws of the Netherlands, with its corporate seat in Amsterdam, the Netherlands, registered with the trade register of the Chamber of Commerce with number 34106455 (the "GUARANTOR"), duly represented by Meredith Hellicar and Russell Chenu.

The aforementioned parties also collectively referred to as the "PARTIES" or individually as the "PARTY".

RECITALS:

(1) On 1 December 2005 the NSW Government, JHINV and the Performing Subsidiary entered into the Original Final Funding Agreement with the common intention of making funding available by JHINV and/or its subsidiaries to pay, on the basis set out in the Original Final Funding Agreement, Proven Claims (as defined in the Original Final Funding Agreement) against the Liable Entities (as defined in the Original Final Funding Agreement).

(2) On 8 June 2006 the Fund Trustee executed a Deed of Accession so as to become a party to the Original Final Funding Agreement and to give effect to the intention and agreement of the relevant parties referred to in paragraph 1 above.

(3) On 8 June 2006 Asbestos Injuries Corporation Fund Limited, the NSW Government and the Guarantor executed a Parent Guarantee (THE ORIGINAL PARENT GUARANTEE).

(4) On 21 November 2006 the parties to the Original Final Funding Agreement (including the Fund Trustee) entered into Final Funding Agreement, thereby amending and restating the Original Final Funding Agreement.

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- (5) On 14 December 2006 Asbestos Injuries Compensation Fund Limited entered into the Trust Deed and on 4 December 2006 in its capacity as trustee of the Discretionary Fund became a party to the Final Funding Agreement by executing a Deed of Accession.
- (6) Pursuant to CLAUSE 10 of the Final Funding Agreement, the Guarantor has agreed to deliver this Guarantee to the Fund Trustee and the NSW Government.
- (6) The NSW Government is not a creditor of the Guarantor in relation to the payment of the Guaranteed Obligations.

IT IS AGREED AS FOLLOWS:

1. INTERPRETATION

Capitalised terms shall be used herein as such terms are defined in the Final Funding Agreement (and such terms will be interpreted in accordance with the laws of New South Wales, Australia, being the governing law of the Final Funding Agreement), unless defined otherwise in this Guarantee; and

"FINAL FUNDING AGREEMENT" means the deed dated 21 November 2006 between the NSW Government, JHINV, the Performing Subsidiary and the Fund Trustee which amended and restated the Original Final Funding Agreement.

"GUARANTEE" means this guarantee.

"GUARANTEED OBLIGATIONS" means any of the payment obligations of the Performing Subsidiary to the Fund Trustee under the Final Funding Agreement, including the obligation to pay the Wind-Up or Reconstruction Amount, and "Guaranteed Obligation" means any one such payment obligation. Where the Performing Subsidiary would have been liable to make a payment under the Final Funding Agreement but for the Liquidation or Insolvency of the Performing Subsidiary or the occurrence of a Wind-up Event or Reconstruction Event in respect of the Performing Subsidiary, it will be taken still to be liable for the purposes of this Guarantee.

ORIGINAL FINAL FUNDING AGREEMENT means the legally binding agreement entitled "Final Funding Agreement" dated 1 December 2005 between JHINV, the Performing Subsidiary and the NSW Government to which the Fund Trustee became a party on 8 June 2006.

1A. ORIGINAL PARENT GUARANTEE

The parties agree that this Guarantee supersedes the Original Parent Guarantee and that, notwithstanding clause 2.2 of the Original Parent Guarantee, on the date on which all parties duly execute this Guarantee, the Original Parent Guarantee shall be terminated and the obligations of all parties under it shall be fully and finally discharged. On that date the Fund Trustee and the NSW Government shall procure that all originals of the executed Original Parent Guarantee in their possession are promptly returned to the Guarantor.

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2. GUARANTEE

2.1 The Guarantor hereby irrevocably and unconditionally:

- (a) guarantees to the Fund Trustee the due and punctual performance by the Performing Subsidiary of the Guaranteed Obligations;
- (b) guarantees to the Fund Trustee that, whenever the Performing Subsidiary does not pay any amount due under any of its Guaranteed Obligations, the Guarantor shall immediately on first written demand by the Fund Trustee pay that amount to the Fund Trustee, as if it were the principal obligor thereof; and
- (c) guarantees to the Fund Trustee that it shall immediately on first written demand by or on behalf of the Fund Trustee pay to the Fund Trustee, all costs and expenses incurred by the Fund Trustee in relation to the protection or enforcement of its rights under this Guarantee and all costs and damages incurred by the Fund Trustee as a result of the Performing Subsidiary not fulfilling one or more of the Guaranteed Obligations when due.

2.2 The obligations of the Guarantor pursuant to CLAUSE 2.1 shall be continuing obligations and extend to all sums payable by the Performing Subsidiary under the Guaranteed Obligations. The obligations of the Guarantor pursuant to CLAUSE 2.1 shall remain in full force and effect until all the Guaranteed Obligations shall have been paid, satisfied or discharged in full. Termination of this Guarantee is only allowed if and when the Final Funding Agreement is terminated (otherwise than due to breach or default by the Guarantor or the Performing Subsidiary) and the Performing Subsidiary has fully discharged all of the Guaranteed Obligations. The obligations of the Guarantor shall remain in full force in the event that the Performing Subsidiary is replaced by another subsidiary of the Guarantor in accordance with clause 6.2 of the Final Funding Agreement.

2.3 This Guarantee is a guarantee of performance of the Guaranteed Obligations by payment of all amounts that are the subject of the Guaranteed Obligations when due and payable.

2.4 This Guarantee is not a contract of surety (borgtocht). The obligations of the Guarantor hereunder are independent of the obligations of the Performing Subsidiary and the obligations of any other guarantor of the obligations of the Performing Subsidiary under the Final Funding Agreement.

2.5 Payment by the Guarantor of a portion, but not all, of the Guaranteed Obligations shall in no way limit, affect, modify, abridge or extinguish the Guarantor's liability for any portion of the Guaranteed Obligations which has not been paid. Without limiting the generality of the foregoing, if the Fund Trustee is awarded a judgment in any proceedings brought to enforce the

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Guarantor's obligations to pay a portion of the Guaranteed Obligations, such judgment shall not be deemed to release the Guarantor from its obligation to pay the portion of the Guaranteed Obligations that is not the subject of such proceedings, and such judgment shall not, except to the extent satisfied by the Guarantor, limit, affect, modify, abridge or extinguish any part of the Guarantor's liability in respect of the Guaranteed Obligations.

- 2.6 This Guarantee is independent of, in addition to and shall not prejudice or affect or be prejudiced or be affected by any other right, remedy, guarantee, indemnity or security and may be enforced without first having recourse to the same or any other mortgage, charge, pledge or lien now or hereafter held by or available to the Fund Trustee and/or the NSW Government.
- 2.7 If any discharge (whether in respect of the Guaranteed Obligations or any security for those obligations or otherwise) or arrangement is made in whole or in part on the faith of any payment, security or other disposition by the Performing Subsidiary or the Guarantor which is subsequently avoided or which must be restored (without limitation) on bankruptcy, liquidation, moratorium of payment or otherwise, the liability of the Guarantor will continue or be reinstated as if the discharge or arrangement had not occurred. This clause 2.7 survives the discharge of this Deed.
- 2.8 Unless and until all the Guaranteed Obligations have been satisfied or discharged in full, the Guarantor shall not, after a claim has been made or by virtue of any payment or performance under this Guarantee, in respect of any payment made to the Fund Trustee and/or the NSW Government:
- (a) exercise any right of subrogation in respect of or claim to be subrogated to any rights, security or moneys held, received or receivable by the Fund Trustee;
  - (b) exercise against or claim from the Performing Subsidiary any right of contribution or recourse;
  - (c) claim as a creditor of the Performing Subsidiary in competition with the Fund Trustee; or
  - (d) have the benefit of or take any action to receive or claim any payment, distribution or security in respect of the Guaranteed Obligations or amounts payable under this Guarantee from or on account of the Performing Subsidiary, or exercise any right of set-off as against the Performing Subsidiary (and the Guarantor waives any right it would otherwise have to have the benefit of or receive or claim any such payment, distribution or security or to exercise any such right of set-off).
- 2.9 This Guarantee will not be discharged or otherwise affected as security for the Guaranteed Obligations as a result of any of the following:
- (a) bankruptcy, moratorium of payment, winding-up, reconstruction, liquidation or similar proceedings relative to the Performing Subsidiary;

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- (b) any change in the status, function, control or ownership of the Performing Subsidiary;
- (c) any extension of time or other forbearance being granted or agreed to be granted to the Performing Subsidiary in respect of its Guaranteed Obligations;
- (d) any amendment to, or any increase, variation, waiver or release of, any of the Guaranteed Obligations or any termination, amendment or variation of the Final Funding Agreement (and any reference herein to the Final Funding Agreement shall be taken as referring to the Final Funding Agreement as amended or varied from time to time);
- (e) the taking, variation, compromise, exchange, substitution, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights or remedies against, or security over assets of the Performing Subsidiary or any other person, or any non-presentment or non-observance of any formality or other requirement in respect of any instruments or any failure to realise the full value of any security;
- (f) any present or future guarantee, indemnity, mortgage, charge, pledge, lien or other security or right or remedy held by or available to the Fund Trustee being or becoming wholly or in part void, voidable or unenforceable on any ground whatsoever; or
- (g) any other act, event or omission (other than performance by the Guarantor of this Guarantee) which, but for this clause might operate to discharge, extinguish, impair or otherwise affect any of the obligations of the Guarantor contained herein or any of the rights, powers or remedies conferred in respect of the Guarantor upon the Fund Trustee and/or the NSW Government by this Guarantee or by law.

3. ENFORCEMENT

- 3.1 The Fund Trustee may enforce this Guarantee only upon the occurrence of (i) a breach of any Guaranteed Obligation by the Performing Subsidiary; (ii) a Wind-Up Event; or (iii) a Reconstruction Event, in accordance with and subject to clause 10 of the Final Funding Agreement.
- 3.2 A claim under this Guarantee in respect of the obligation of the Performing Subsidiary to make Annual Payments (and/or instalments thereof) under clause 9 of the Final Funding Agreement, can only be made if the Performing Subsidiary has been in default (verzuim) for a period of 40 days from the date when such Annual Payment (or any instalment thereof) was due, provided that:
  - (a) the Performing Subsidiary or the Guarantor has immediately provided to the NSW Government reasons for the default and such reasons are reasonable in the circumstances (for example and without limitation, that the Guarantor is experiencing temporary cash flow difficulties and is seeking to rectify that difficulty); and

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- (b) the Guarantor has promptly after that due date entered into and continued to pursue or been ready, willing and able to enter into and pursue discussions with the NSW Government and (if available) the Fund Trustee to remedy the breach and provides to the Fund Trustee and NSW Government material particulars of the breach and the proposed remedy or remedies;
- (c) the Guarantor is not and does not become Insolvent at any time during that period; and
- (d) subject to clause 10 of the Final Funding Agreement, a Reconstruction Event does not occur at any time during that period,

provided that such period shall automatically expire upon any of the requirements in paragraphs (a) to (d) inclusive ("MORATORIUM REQUIREMENTS") ceasing to be satisfied.

If the Moratorium Requirements remain satisfied at the expiry of the above 40 day period and if in the opinion of the NSW Government (acting reasonably) there is a reasonable prospect of the Guarantor or the Performing Subsidiary paying the outstanding amount within a further period of 50 days, the initial 40 day period shall be extended once by a further 50 days, save that such period shall automatically expire upon any of the Moratorium Requirements ceasing to be satisfied.

3.3 Without prejudice to clause 3.2 above, the Fund Trustee shall not be obliged before bringing a claim under this Guarantee:

- (a) to take any action against the Performing Subsidiary or to obtain judgment in any court against the Performing Subsidiary or any other person;
- (b) to file any claim in a bankruptcy, moratorium of payment, winding-up, liquidation or similar proceedings relative to the Performing Subsidiary or any other person; or
- (c) to make, enforce or seek to enforce any claim against the Performing Subsidiary or any other person under any agreement or arrangement.

3.4 The restrictions to the enforcement of the Guarantee as set out in clause 3.2 of this Guarantee do not apply in respect of claims under or in relation to the Guarantee brought by the Fund Trustee in summary proceedings (kort geding) or other proceedings to obtain urgent interlocutory Court relief.

3.5 The Guarantor waives any and all rights of set off (verrekening), counterclaim or suspension (opschorting) it may have at any time with respect to amounts payable hereunder against amounts owed to it by the Fund Trustee.

3.6 The Guarantor waives to the fullest extent allowed by the laws of the Netherlands all rights, privileges, defences and exceptions pursuant to the Articles 6:139, 7:852, 853, 854, 855 and 856 of the Dutch Civil Code.

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3.7 To the extent permitted by law the Guarantor hereby waives, for the benefit of the Fund Trustee and the NSW Government:

- (a) any right to require the Fund Trustee and/or the NSW Government, as a condition of payment or performance by the Guarantor, to:
  - (i) proceed against or exhaust any security held from the Performing Subsidiary, any other guarantor or any other Person,
  - (ii) proceed against or have resort to any balance of any credit on the books of the Fund Trustee and/or the NSW Government in favour of the Performing Subsidiary or any other Person, or
  - (iii) pursue any other remedy in the power of the Guarantee Trustee and/or the NSW Government whatsoever;
- (b) any defence arising by reason of the incapacity, lack of authority or any disability or other defence of the Performing Subsidiary or any other guarantor, including any defence based on or arising out of the lack of validity or the unenforceability of the Guaranteed Obligations or any agreement or instrument relating thereto or by reason of the cessation of the liability of the Performing Subsidiary or any other guarantor from any cause other than payment in full of the Guaranteed Obligations;
- (c) any defence based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;
- (d)
  - (i) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms hereof and any discharge of the Guarantor's obligations hereunder;
  - (ii) the benefit of any statute of limitations affecting the Guarantor's liability hereunder or the enforcement hereof, and
  - (iii) promptness, diligence and any requirement that the Fund Trustee and/or the NSW Government protect, secure, perfect or insure any security interest or lien or any property subject thereto;
- (e) notices, demands, presentments, protests, notices of protest, notices of dishonour and notices of any action or inaction, including acceptance hereof, notices of default hereunder, the Final Funding Agreement, any other Related Agreement or any agreement or instrument related thereto, notices of any renewal, extension or modification of the Guaranteed Obligations or any agreement related thereto, notices of any extension of credit to the Performing Subsidiary and any right to consent to any thereof; and

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- (f) any defences or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms hereof.

4. REPRESENTATIONS AND WARRANTIES

4.1 The Guarantor warrants that the following is true, accurate and not misleading as of the date of this Guarantee and will at all times after the date of this Guarantee up to and including the Commencement Date be true, accurate and not misleading:

- (a) The Guarantor has been duly incorporated and is validly existing under the laws of its jurisdiction and has the necessary corporate capacity and power to enter into the Guarantee and to perform its obligations under the Guarantee.
- (b) All corporate and other action required to be taken by the Guarantor to authorise the execution of the Guarantee and the performance of its obligations under the Guarantee has been duly taken.
- (c) The Guarantee has been duly executed on behalf of the Guarantor and constitutes legal, valid and binding obligations of the Guarantor, enforceable in accordance with their terms subject to the terms of the opinion from De Brauw Blackstone Westbroek referred to in schedule 5 of the Final Funding Agreement.
- (d) The execution and performance of the Guarantee do not conflict with or result in a breach of any provision of the articles of association of the Guarantor, including but not limited to its corporate purpose, or any provision of any applicable law in force on the date of this Guarantee or any agreement to which the Guarantor is a party.
- (e) No approval, consent, license or notice to any regulatory or governmental body (other than such approvals, consents, licenses or notices as have been obtained or given) is necessary to ensure the validity, enforceability or performance of the obligations of the Guarantor under the Guarantee.

5. NOTICES

5.1 All notices, consents, waivers and other communications under this Guarantee must be in writing in English and delivered by hand or sent by regular mail, registered mail, express courier, facsimile or e-mail to the appropriate addresses and facsimile numbers set out below or to such address and facsimile number as a Party may notify to the other Party from time to time. A notice shall be effective upon receipt and shall be deemed to have been received at the time of delivery (if delivered by hand, registered mail or express courier) or at the time of successful transmission (if delivered by fax or e-mail).

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TO THE FUND TRUSTEE:

Name: Asbestos Injuries Compensation Fund Limited  
Address: Level 3, 18-22 Pitt Street Sydney New South Wales  
Fax number: +612 8274 5217  
Attention: The Chairman

TO THE NSW GOVERNMENT:

Name: The State of New South Wales, c/- The Cabinet Office  
Address: Level 39, Governor Macquarie Tower, Farrer Place, Sydney, NSW 2000  
Fax number: + 612 9228 3062  
Attention: Deputy Director-General (Legal)

TO THE GUARANTOR:

Name: James Hardie Industries NV  
Addresses: Atrium, 8th floor, Strawinskyiaan 3077, 1077ZX Amsterdam, The Netherlands Level 3, 20 Pitt Street, Sydney NSW 2000  
Fax number: + 612 8274 5218  
Attention: The Chairman and the Chief Financial Officer

6. NSW GOVERNMENT'S RIGHT TO ENFORCE

- 6.1 The parties agree and acknowledge that clause 16.6 of the Final Funding Agreement provides that the NSW Government shall be entitled directly to enforce all promises made by the Guarantor to the Fund Trustee under this Guarantee to the full extent permitted by law on and subject to the terms of clause 16.6 of the Final Funding Agreement.
- 6.2 Any person (including, but not limited to, a firm, body corporate, unincorporated association, court or authority) who deals with the NSW Government in good faith in relation to this Guarantee may, without enquiry, assume that the NSW Government has complied with clause 16.6 of the Final Funding Agreement unless the contrary is proved.
- 6.3 The parties agree and acknowledge that:
  - (a) the Guarantee is a Related Agreement under the Final Funding Agreement;

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- (b) under an Irrevocable Power of Attorney, a copy of which is attached as Annexure A to this Guarantee, and in addition to its rights under clause 6.1 of this Guarantee, the NSW Government shall have the power directly to enforce as an attorney of the Fund Trustee under the Irrevocable Power of Attorney and on behalf of the Fund Trustee all promises made by the Guarantor to the Fund Trustee under this Guarantee, subject to to the terms of clause 16.6 of the Final Funding Agreement;
- (c) under the Final Funding Agreement, the NSW Government and the Fund Trustee covenanted that they will not amend or replace that Irrevocable Power of Attorney without the prior written consent of the Guarantor, not to be unreasonably withheld; and
- (d) any actions taken by the NSW Government under that Irrevocable Power of Attorney in respect of this Guarantee are valid and binding to the extent such actions are made in accordance with that Irrevocable Power of Attorney.

6.4 On the legal relationship of the Beneficiary and the NSW Government vis-a-vis the Guarantor, article 6:16 of the Dutch Civil Code does not apply.

7. CHOICE OF LAW AND JURISDICTION

This Guarantee is governed by the laws of the Netherlands, with the exception of the Netherlands private international law. Any dispute arising out of or in connection with this Guarantee shall be exclusively decided by the competent court in Amsterdam.

8. COUNTERPARTS

This Guarantee may be executed in any number of counterparts. All counterparts together will be taken to be one instrument.

Thus agreed and signed in Sydney on 14 December 2006.

Signed for Asbestos Injuries )  
 Compensation Fund Limited by )

Signed by P. W. Baker  
 -----  
 Name: Peter Baker  
 Director

Signed by Joanne Marchione  
 -----  
 Name: Joanne Marchione  
 Director

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Signed by Meredith Hellicar )  
and Russell Chenu for James )  
Hardie Industries N.V. )

Signed by Meredith Hellicar  
-----  
Meredith Hellicar  
Chairman

Signed by Russell Chenu  
-----  
Name: Russell Chenu  
Director, Managing Board

Signed by the Hon Robert John Debus MP, Attorney General )  
for the State of New South Wales )  
in the presence of )

Signed by Leigh Roe Sanderson  
-----  
Signature of Witness  
  
Leigh Roe Sanderson  
-----  
Name of Witness

Signed by Robert John Debus  
-----  
Name:

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ANNEXURE A  
IRREVOCABLE POWER OF ATTORNEY  
(attached)

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EXHIBIT 4.26  
(GILBERT TOBIN LOGO)  
LAWYERS

SECOND IRREVOCABLE  
POWER OF ATTORNEY

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ASBESTOS INJURIES  
COMPENSATION FUND LIMITED  
(IN ITS CAPACITY AS TRUSTEE OF THE  
DISCRETIONARY FUND)

THE STATE OF NEW SOUTH WALES

2 Park Street Sydney NSW 2000 Australia  
email@gtlaw.com.au <http://www.gtlaw.com.au> Facsimile + 61 2 9263 4111  
Telephone + 61 2 9263 4000

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THIS SECOND IRREVOCABLE POWER OF ATTORNEY is made on 14 DECEMBER 2006

BETWEEN

1. ASBESTOS INJURIES COMPENSATION FUND LIMITED ACN 117 363 461, a company limited by guarantee incorporated under the laws of the State of New South Wales, Australia, having its registered office at Level 3, 18-22 Pitt Street, Sydney, New South Wales, in its capacity as trustee for the Discretionary Fund (APPOINTOR)

2. THE STATE OF NEW SOUTH WALES (ATTORNEY)

THE PARTIES AGREE

1. PRELIMINARY

DEFINED TERMS AND INTERPRETATION

1.1 A term or expression starting with a capital letter which is defined in the Dictionary in Part 1 of Attachment A (DICTIONARY), has the meaning given to it in the Dictionary.

1.2 The Interpretation clauses in Part 2 of Attachment A (INTERPRETATION) set out rules of interpretation for this deed.

2. APPOINTMENT

The Appointor appoints the Attorney to be its attorney from the date of this deed for the duration of the Final Funding Agreement.

3. CONSIDERATION

Each party acknowledges entering into this deed and incurring obligations and giving rights under this deed for valuable consideration received from the other party to this deed.

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4. POWERS

4.1 SCOPE

Subject to clause 4.2, the Appointor hereby irrevocably grants the Attorney the powers to do in the name of the Appointor and on its behalf everything that the Attorney considers necessary or expedient to enforce on behalf of the Appointor all promises made by JHINV and the Performing Subsidiary to the Appointer under clauses 6, 9, 10, 15.1 and 15.7 of the Final Funding Agreement and under each Relevant Agreement, including without limitation the powers to:

- (a) subject to clause 10 of the Final Funding Agreement, vote and prove, on behalf of the Appointor, the Wind-Up or Reconstruction Amount or any debt owing to the Appointer under clause 6, 9, 10, 15.1 and 15.7 of the Final Funding Agreement and any Related Agreement and make application to any court of competent jurisdiction in relation to any Reconstruction Event or Insolvency Event of JHINV;
- (b) subject to clause 10 of the Final Funding Agreement be present and vote at any meeting relating to any Reconstruction Event or, subject to the Intercreditor Deeds, any Insolvency Event of JHINV, or any other meeting of creditors of JHINV where the obligation owed to the Appointor arises under clause 6, 9, 10, 15.1 or 15.7 of the Final Funding Agreement or any Related Agreement;
- (c) individually make submissions to an Insolvency Official or any court having jurisdiction in connection with any Reconstruction Event or an Insolvency Event of JHINV; and
- (d) do anything which in the Attorney's opinion is necessary or desirable to ensure the validity and enforceability of this power of attorney under any applicable law (including without limitation, stamping or registering this power of attorney or filing this power of attorney with any government authority).

Without limiting the foregoing but subject to clause 4.2, in respect of an obligation owed to the Appointor which arises under clause 6, 9, 10, 15.1 or 15.7 of the Final Funding Agreement or the Related Agreements, the Appointor hereby authorizes the Attorney, as attorney in fact for the Appointor and with full power of substitution to attend the meeting of creditors of JHINV or any adjournment thereof, and, subject to the Intercreditor Deeds, to vote in the Appointor's behalf on any question that may be

lawfully submitted to creditors at such meeting or adjourned meeting, and for a trustee or trustees of the estate of JHINV and to accept or reject any plan of reorganisation of JHINV.

4.2 EXERCISE

- (a) The foregoing powers of enforcement are subject to clause 16.6 of the Final Funding Agreement.
- (b) This power of attorney automatically terminates in the event of the termination of the Final Funding Agreement.

5. VALIDITY OF ACTS AND RATIFICATION

The Appointor:

- (a) declares that everything done by the Attorney in exercising powers under this power of attorney is as valid as if it had been done by the Appointor; and
- (b) agrees to ratify, confirm and be bound by whatever the Attorney does in exercising powers under this power of attorney.

6. DECLARATION

The Appointor declares that a Person who deals with the Attorney in good faith may accept a written statement signed by the Attorney to the effect that this power of attorney has not been revoked as conclusive evidence of that fact.

7. USE OF NAME

The Attorney may exercise powers under this power of attorney in the name of the Appointor or in the name of the Attorney including the conduct of any court proceedings.

8. AUTHORITY TO BENEFIT THIRD PARTIES

The Appointor expressly authorises the Appointor to do anything which may result in a benefit to a third party.

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9. APPOINTMENT IRREVOCABLE

The Appointor declares that this power of attorney is given for valuable consideration and is irrevocable from the date of this deed for the duration of the Final Funding Agreement.

10. US ACKNOWLEDGMENT

The Appointer must, on request by the Attorney, use all reasonable endeavours to ensure that the execution of this deed is acknowledged before one of the officers enumerated in 28 U.S.C Section 459, Section 953, Rule 9012, or a person authorised to administer oaths under the laws of the state where the oath is administered.

11. GOVERNING LAW

This deed is governed by the laws applicable in New South Wales.

12. NOTICES

Clause 30 of the Final Funding Agreement shall apply to this deed with the necessary changes. .

13. COUNTERPARTS

This deed may be executed in any number of counterparts, each of which when executed, is an original. These counterparts together make one instrument.

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EXECUTED as a deed.

EXECUTED by ASBESTOS INJURIES COMPENSATION FUND LIMITED in its capacity as trustee of the Discretionary Fund :

Signed by P.W. Baker  
-----  
Signature of Director\*

Signed by Joanne Marchione  
-----  
Signature of Director/Secretary\*

Peter W. Baker  
-----  
Name of Director (print)

Joanne Marchione  
-----  
Name of Director (print)

Signed by Donald A.J. Salter  
-----  
Signature of witness

Signed by Donald A.J. Salter  
-----  
Signature of witness

Donald A.J. Salter  
-----  
Name of witness (print)

Donald A.J. Salter  
-----  
Name of witness (print)

\* Each individual signing this deed on behalf of Asbestos Injuries Compensation Fund Limited acknowledges that he or she is a director or secretary of the corporation named above and is authorised to execute this power of attorney on its behalf.

Signing page 1

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SIGNED by the Honourable Robert John Debus MP,  
Attorney General of New South Wales, for the State  
of New South Wales:

Signed by Robert John Debus  
-----

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ATTACHMENT A - DICTIONARY AND INTERPRETATION

DICTIONARY AND INTERPRETATION

(CLAUSE 1.1)

1. DICTIONARY

In this deed:

CLAIMANTS has the meaning given to it in the Final Funding Agreement.

CONTROLLED ENTITY has the meaning given to it in the Final Funding Agreement.

CROSS GUARANTEE has the meaning given to it in the Final Funding Agreement.

DISCRETIONARY FUND has the meaning given to it in the Final Funding Agreement.

FINAL FUNDING AGREEMENT means the deed dated [ ] between JHINV, the Performing Subsidiary, the Attorney and the Appointor which amends and restates the Original FFA..

INITIAL FUNDING has the meaning given in the Final Funding Agreement.

INSOLVENCY EVENT has the meaning given to it in the Final Funding Agreement.

INSOLVENCY OFFICIAL has the meaning given to it in the Intercreditor Deeds.

INTERCREDITOR DEED means each deed so entitled to be entered into between JHINV or the Performing Subsidiary (as the case may be), the NSW Government, the Appointor and the Guarantee Trustee (as defined in that deed), substantially, in the form annexed as Annexure 3A or 3B respectively, of the Final Funding Agreement, as may be amended with the agreement of JHINV and the NSW Government (in each case acting reasonably) as the result of review by, and negotiations with, JHINV's existing bank Lenders (as defined in the Final Funding Agreement).

JHINV means James Hardie Industries N.V. and any Parent Entity.

NOTICE has the meaning given to it in the Final Funding Agreement.

ORIGINAL FFA means the deed dated 1 December 2005 between JHINV, the Performing Subsidiary, the Attorney and acceded to by the Appointor by a deed of accession dated 8 June 2006.

PARENT ENTITY means any Person and all such Persons of which JHINV is a Controlled Entity and where there are two or more such Persons, only the immediate holding company and the ultimate holding company of JHINV.

PERFORMING SUBSIDIARY means James Hardie 117 Pty Ltd or, if a subsidiary of JHINV other than that entity is nominated under clause 6.2 of the Final Funding Agreement to perform the obligations described in clauses 6 and 9 of the Final Funding Agreement and each of JHINV and that subsidiary has complied with clause 6.2 of the Final Funding Agreement, that subsidiary.

PERSON includes any general partnership, limited partnership, corporation, limited liability company, joint venture, trust, business trust, governmental agency, co-operative, association, individual or other entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such a person as the context may require. RECONSTRUCTION EVENT has the meaning given to it in the Final Funding Agreement.

RELEVANT AGREEMENTS means each of those documents listed in Schedule 1 to the Final Funding Agreement to which the Appointor is a party and each Cross-Guarantee given in favour of the Appointer by any Controlled Entity of JHINV.

WIND-UP OR RECONSTRUCTION AMOUNT has the meaning given to it in the Final Funding Agreement.

## 2. INTERPRETATION

In this deed the following rules of interpretation apply unless the contrary intention appears.

- (a) Headings are for convenience only and do not affect the interpretation of this deed.
- (b) The singular includes the plural and vice versa.
- (c) Words that are gender neutral or gender specific include each gender.
- (d) Where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings.
- (e) The words 'such as', 'including', 'particularly' and similar expressions are not used as nor are intended to be interpreted as words of limitation.
- (f) A reference to:
  - (i) a thing (including but not limited to a chose in action or other right) includes a part of that thing;

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- (ii) a document includes all amendments or supplements to that document;
- (iii) a clause, term, party, schedule or attachment is a reference to a clause or term of, or party, schedule or attachment to this deed;
- (iv) this deed includes all schedules and attachments to it;
- (v) an agreement other than this deed includes an undertaking, or legally enforceable arrangement or understanding whether or not in writing; and
- (vi) a monetary amount is in Australian dollars.

Signing page 3

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CONFORMED COPY

DEED OF ACCESSION

DEED dated 14 December 2006 by

1. ASBESTOS INJURIES COMPENSATION FUND LIMITED ACN 117 363 461, of Level 3, 18-22 Pitt Street, Sydney in the State of New South Wales, in its capacity as trustee of the Charitable Fund and trustee of the Discretionary Fund (the CHARITABLE TRUSTEE and ACCEDING PARTY respectively)
2. JAMES HARDIE INDUSTRIES N.V. ARBN 097 829 895 incorporated in the Netherlands and having its registered office at Atrium, 8th Floor, Strawinskylaan 3077, 1077ZX Amsterdam, The Netherlands, (with its Australian principal office at Level 3, 18-22 Pitt Street, Sydney in the State of New South Wales) (JHINV)
3. JAMES HARDIE 117 PTY LIMITED ABN 116 110 948, of Level 3, 18-22 Pitt Street, Sydney in the State of New South Wales (PERFORMING SUBSIDIARY)
4. THE STATE OF NEW SOUTH WALES (NSW GOVERNMENT)

(each of the Charitable Trustee, JHINV, the Performing Subsidiary and NSW Government, the EXISTING PARTIES)

RECITALS

- A. This deed is supplemental to the deed dated 21 November 2006 between the Existing Parties which amends and restates the deed dated 1 December 2005 between JHINV, the Performing Subsidiary and the NSW Government and acceded to by the Charitable Trustee on 8 June 2006 in respect of the provision of long term funding for compensation arrangements for certain victims of Asbestos-related diseases in Australia (FINAL FUNDING AGREEMENT).
- B. On 14 December 2006, the Acceding Party became the trustee of the Discretionary Fund with James Hardie Industries NV as settlor.

OPERATIVE PART

1. ACCEDING PARTY TO BE BOUND

The Acceding Party confirms to the Existing Parties that it has been supplied with a copy of the Final Funding Agreement, JHINV Guarantee and Intercreditor Deeds and

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covenants with all Existing Parties to observe, perform and be bound by all the terms of the Final Funding Agreement, the JHINV Guarantee and the Intercreditor Deeds so that the Acceding Party is deemed, from the date of this deed to be a party to the Final Funding Agreement, the JHINV Guarantee and Intercreditor Deeds.

## 2. EXISTING PARTIES

The Existing Parties severally covenant with the Acceding Party to observe, perform and be bound by all of the terms of the Final Funding Agreement, the JHINV Guarantee and Intercreditor Deeds.

## 3 REPRESENTATIONS AND WARRANTIES

The Acceding Party represents and warrants to each of the Existing Parties that each of the following statements is true and accurate as at the date of this deed:

- (a) the statements with respect to the Performing Subsidiary set out in PART 1 of SCHEDULE 2 of the Final Funding Agreement, as amended by replacing each reference to the Performing Subsidiary with a reference to the Acceding Party;
- (b) the trust to which it is a trustee it has been validly created and is validly existing;
- (c) it is the sole trustee of the trust on behalf of which it has entered into this deed;
- (d) there has been no resolution or direction to terminate the trust on behalf of which it has entered into this deed, nor to remove it as trustee of that trust;
- (e) it has the power to enter into this deed as trustee of the trust on behalf of which it has entered into this deed; and
- (f) On the date of this deed, the Acceding Party has provided to the NSW Government, and the NSW Government acknowledges receipt, of an officer's certificate signed by the chairman of directors (or, if appointed, the chief executive officer) of the Acceding Party in the form set out in the SCHEDULE to this deed.

## 4. ADDRESS FOR NOTICES

The address and Notice details of the Acceding Party for the purposes of CLAUSE 30 of the Final Funding Agreement is:

Level 3, 18-22 Pitt Street, Sydney in the State of New South Wales

Attention: The Chairman

Fax number: +61 (0)2 8274 5217

5. GOVERNING LAW

This deed is governed by the laws applicable in New South Wales.

6. INTERPRETATION

Words and expressions defined in the Final Funding Agreement have the same meaning where used in this deed.

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SCHEDULE

FORM OF OFFICER'S CERTIFICATE

TO: The State of New South Wales

I, Peter W Baker, am the Chairman of Directors of Asbestos Injuries Compensation Fund Limited ("AICF").

I refer to the deed having the name "Amended and Restated Final Funding Agreement" entered into on 21 November 2006 between James Hardie Industries N.V., The State of New South Wales, James Hardie 117 Pty Ltd and AICF in its capacity as trustee of the Charitable Fund (as defined under that deed) (the CHARITABLE TRUSTEE) in respect of the provision of long term funding for compensation arrangements for certain victims of Asbestos-related diseases in Australia ("FINAL FUNDING AGREEMENT").

I also refer to a deed of accession dated on or about the date of this certificate between the AICF in its capacity as trustee of the Discretionary Fund (as defined under the Final Funding Agreement) (the DISCRETIONARY TRUSTEE) and the parties to the Final Funding Agreement ("DEED OF ACCESSION"), under which the Discretionary Trustee accedes to the terms of the Final Funding Agreement.

I certify that I have been duly authorised by the Discretionary Trustee to give this certificate and that to the best of my knowledge and belief having made reasonable enquiries, each of the representations and warranties given by the Discretionary Trustee set out in clause 3 of the Deed of Accession are true and accurate as at the date of this certificate.

I am aware that The State of New South Wales will rely upon the representations and warranties made by the Discretionary Trustee in the Deed of Accession and by me in this certificate.

Signed: Signed by P.W. Baker  
-----

Date: 14 December 2006

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EXECUTED as a deed.

Signed for Asbestos Injuries Compensation  
Fund Limited in its capacity as trustee of the  
Discretionary Fund by

Signed by Joanne Marchione

Signed by P. W. Baker

-----  
Name: Joanne Marchione  
Director

-----  
Name: P. W. Baker  
Director

Signed by Meredith Hellicar and Russell Chenu  
for James Hardie Industries N.V.

Signed by Meredith Hellicar

Signed by Russell Chenu

-----  
Meredith Hellicar  
Chairman

-----  
Russell Chenu  
Authorised Officer

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Signed for James Hardie 117 Pty  
Limited

By

Signed by Donald A. J. Salter

Signed by Bruce J.W. Potts

-----  
Donald A.J. Salter  
Director

-----  
Bruce J.W. Potts  
Director

Signed by the Hon. Robert John Debus, Attorney General

For the State of New South Wales

Signed by Robert John Debus  
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PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE OMISSIONS HAVE BEEN INDICATED BY ("\*\*\*"), AND EACH PAGE CONTAINING CONFIDENTIAL INFORMATION IS FOOTNOTED WITH THE PHRASE "FOIA CONFIDENTIAL TREATMENT." THE OMITTED TEXT HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

DATE - NOVEMBER 1, 2002

AGREEMENT BETWEEN \*\*\* AND VIM FOR THE EXTRACTION AND SALE OF SILICA

This Agreement dated this 1st day of November, 2002, for a term of five (5) years, by and between VICTORVILLE INDUSTRIAL MINERALS, INC., (hereafter designated as "VIM") whose mailing address is P.O. Box 278, Oro Grande, California, 92368 and \*\*\*.

WHEREAS, \*\*\* owns and/or controls a considerable amount of real property near Oro Grande, California, upon which \*\*\* conducts Portland Cement manufacturing operations and related activities (the "\*\*\* Oro Grande Property")

WHEREAS, certain portions of the \*\*\* Oro Grande Property contains certain deposits of aggregates that \*\*\* does not intend to use in its manufacture of Portland Cement;

WHEREAS, VIM desires to extract and purchase from \*\*\* such aggregates, and in particular, silica material, from certain designated portions of said \*\*\* Oro Grande Property; and

WHEREAS \*\*\* desires to permit the extraction and subsequent sale of such aggregates and silica materials to VIM from said certain portions of the \*\*\* Oro Grande Property;

WITNESSETH, that the parties hereto, in consideration of the mutual promises and undertakings herein contained, mutually agree as follows:

- 1.) SCOPE OF SALE AND PURCHASE OF SILICA: VIM agrees to extract and purchase silica from sections of the \*\*\* Oro Grande Property identified on Exhibit "A" which is attached hereto and incorporated herein by reference (the "Silica Land"). The parties acknowledge that although the \*\*\* Oro Grande Property encompasses more real property than is designated on Exhibit "A" as the Silica Land, (i) \*\*\* shall have no obligation to provide areas for extraction other than the those agreed to as the Silica Land at the execution of this Agreement and designated on Exhibit "A"; and (ii) VIM shall have no right or obligation to conduct a silica operation and/or the associated reclamation on any portion of the \*\*\* Oro Grande Property other than the Silica Land designated and/or defined for such activity on Exhibit "A" (and the designated access to the Silica Land in

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accordance with Section 16 hereof), or pursuant to the agreement in place between \*\*\* and VIM dated October 1, 2001.

2.) RECLAMATION PLAN AND PERMITTING CONSISTENCY

The parties acknowledge that they will work cooperatively to bring consistency to the reclamation plans and permits, if applicable, for the work that VIM performs pursuant to this agreement and its agreement dated October 1, 2001. To further this commitment, VIM and TXI shall continue to meet with, and work with, the County of San Bernardino to realign the boundaries for the reclamation plans depicted on the Exhibit "A" map as follows:

First, VIM shall have the boundaries for the VIM Reclamation Plan for the October 1, 2001 Agreement, hereinafter referred to as TXI-I, realigned to have the green (TXI#1-A) and yellow (TXI#1-B) shaded areas marked within TXI-I expanded to include the blue shaded area correspondently marked TXI#1-C. The yellow area marked TXI#1-B is currently in both the VIM and TXI Reclamation Plans and the blue TXI#1-C shaded area is not currently a part of any reclamation plan. VIM agrees to modify the TXI-I plan with the County of San Bernardino to include the blue shaded area TXI#1-C.

Second, VIM shall have the boundaries for its newly anticipated reclamation plan for TXI-II conform to include the area shaded blue on the Exhibit "A" and shown as TXI#2-A. The green and yellow areas marked TXI#2-B and TM#2-C respectively shall remain within the purview of \*\*\*'s current reclamation plan (84M-009). VIM will initiate TMI#2 mining in the TXI#2 B and C areas and depending on the sequencing of VIM's Atlas Project, VIM may or may not pursue the permitting and mining of TXI#2-A.

All haul roads, (and ingress and egress roads), of every type shall be preserved pursuant to the agreements the parties have reached in the past, and which are memorialized by their prior written agreements.

3.) CONDUCT OF OPERATIONS ON \*\*\* ORO GRANDE PROPERTY. Notwithstanding anything herein to the contrary, VIM and \*\*\* each acknowledge that, at all times during which VIM is conducting its silica operations and/or associated reclamation on the Silica Land pursuant to this Agreement,

- (i) \*\*\* shall be actively conducting its portland cement manufacturing operations and related activities on portions of the \*\*\* Oro Grande Property adjacent to and contiguous with the Silica Land; and
- (ii) The designated daily access to the Silica Land shall be through a portion of \*\*\*'s manufacturing operations and across roads heavily used by \*\*\* in its manufacturing operations on the \*\*\* Oro Grande Property; and

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(iii) \*\*\* has made no representation or warranty as to any conditions on or pertaining to any portion of the \*\*\* Oro Grande Property, the Silica Land and/or access to the Silica Land, and VIM accepts same "AS IS AND WITH ALL FAULTS".

This provision shall survive the termination/expiration of this Agreement for all purposes, including but not limited to determinations of indemnification pursuant to Section 15(a) hereof.

- 4.) WARRANTY: VIM hereby affirmatively acknowledges that all silica extracted and removed from the Silica Land by VIM is extracted and removed in an "AS IS AND WITH ALL FAULTS" condition for all purchases (the extraction and removal) of silica by VIM, pursuant to this Agreement, and that all sales are final, and without (i) any expressed or implied warranties, of any type or nature, as provided for by the Uniform Commercial Code; and/or (ii) any expressed or implied warranties as to characteristics, specifications or quality (environmental or otherwise) of the silica.
- 5.) QUANTITIES: \*\*\*
- 6.) TERM: This Agreement, commencing on the date of execution of the Agreement, shall extend through November 1, 2007. \*\*\* shall not unreasonably withhold its consent to extend the term of this Agreement to enable VIM to complete contractual obligations it has entered into during the term of this Agreement, and may extend beyond the expiration date. Notwithstanding the foregoing, this Agreement may be terminated, with or without cause, by either party upon six (6) months advanced written notice, from one party to the other.
- 7.) PRICING: VIM shall pay \*\*\* for all silica extracted and removed from the Silica Land in TXI I areas at a rate of \$\*\*\* per ton. VIM shall pay \*\*\* for all silica extracted and removed from the TXI II areas which fall within the \*\*\* Reclamation Plan (TXI#2-B and TXI#2-C) at a rate of \$\*\*\* per ton and \$\*\*\* per ton for silica removed from TXI#2 areas which will fall under the VIM Reclamation Plan (area TX#2-A only) Refer to Exhibit "A" for a location of the silica lands under this agreement. \*\*\* shall invoice VIM on the basis of tonnage calculations provided in Section 8 below. Full payment shall be made to \*\*\* at \*\*\*'s Oro Grande office within thirty (30) days of VIM'S receipt of each monthly invoice.
- 8.) TONNAGE CALCULATIONS: Payment for tonnage of silica removed from the Silica Land will be determined through the use of the applicable rate, provided above, times the number of loads removed from the Silica Land by VIM, and verified, as necessary, by \*\*\* as follows. Standard weight measurements shall be derived in the following manner: An outside neutral contractor to VIM and \*\*\* shall be hired to haul three loads; the loads to be loaded by VIM. These loads will then be driven across VIM's certified scale, as well as \*\*\*'s/TXI's certified scale. The net average of the three loads shall determine the billing rate. This procedure will be repeated every six months. The weight for each load

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established by this process shall be the weight per load for all billings between the parties for the following six-month period of time.

VIM shall deliver to \*\*\* each month a written statement, setting forth by weight the quantity of silica removed from the Silica Land. VIM shall keep complete records of all silica removed from the Silica Land herein. VIM further agrees that such records shall be subject to \*\*\*'s inspection, upon twenty four (24) hours notice to VIM that \*\*\* requests such an inspection, and upon a notice from \*\*\* to VIM indicating that such an inspection shall occur only during VIM's reasonable and customary business hours of operation. \*\*\* acknowledges and agrees that only those VIM business records concerning this Agreement for the extraction of silica are open for \*\*\*'s inspection. \*\*\* further acknowledges and agrees that any such inspection shall not constitute a waiver by VIM of any applicable privileges that may attach to such records, shall not constitute a waiver of the confidentiality afforded to such records, if any, and shall not constitute the waiver of the proprietary nature of such records, if any.

9.) INDEPENDENT CONTRACTOR: VIM is and shall remain an independent contractor in the performance of the work, maintaining complete control of VIM's workmen and operations. Neither VIM nor anyone employed or engaged by VIM shall become an agent, representative, servant, or employee of \*\*\* in the performance of the work or any part thereof.

10.) PERMITS/COMPLIANCE WITH LAWS: VIM shall be fully responsible for obtaining all necessary environmental permits for its operations on the lands identified in this agreement. VIM is also fully responsible for the compliance of its operations with all applicable permits, rules, regulations, and/or laws.

VIM, through execution of this agreement, agrees all work performed on the \*\*\* Oro Grande Property will comply with the requirements applicable to the approved \*\*\* Reclamation Plan (84M-009) dated February 23, 1984 on the \*\*\* Oro Grande Property attached hereto, and incorporated herein by this reference, as Exhibit "B" (hereinafter the "Exhibit "B" and/or "VIM'S Obligation under the TXI Reclamation Plan") for purposes of the work to be performed in areas which fall within the \*\*\* Reclamation Plan. VIM will comply with applicable requirements of the VIM Reclamation Plan (97M-01) in areas which fall within this reclamation plan as defined in Exhibit "A". \*\*\* will make available all necessary documentation to inform VIM of said conditions of the \*\*\* Reclamation Plan (84M-009).

11.) CLEANUP: Unless otherwise agreed in writing by the parties at the time of termination/expiration of this Agreement, within six (6) months after the expiration/termination of this Agreement, VIM shall remove all equipment and unused non-native materials provided for its work, and agrees to place the Silica Land as described and/or depicted within Exhibit "A". Furthermore, \*\*\* shall provide a location on its property for the placement of mining waste materials according to the Exhibit "A".

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- 12.) DRUG-FREE WORK PLACE: VIM represents it maintains a drug free workplace policy. As a result of this existing policy, VIM agrees to advise its employees and the employees of its subcontractors and agents (hereinafter for the purposes of this provision collectively referred to as "VIM employees"), that: (i) it is the policy of \*\*\* that the use, possession, sale, transfer, or purchase of illegal drugs on the \*\*\* Oro Grande Property, is prohibited; (ii) entry onto the \*\*\* Oro Grande Property constitutes the presence of an employee's vehicle on the \*\*\* Oro Grande Property and/or any personal effects of an employee which the employee brings with him or her while entering, on or leaving the \*\*\* Oro Grande Property; and (iii) any employee who is found in violation of the policy or who refuses to permit an inspection by an authorized representative of \*\*\* may be removed and barred from the \*\*\* Oro Grande Property, at the discretion of \*\*\*.
- 13.) SAFETY: While on the \*\*\* Oro Grande Property, VIM shall observe, and shall cause its subcontractors and agents to observe, such safety rules as \*\*\* shall prescribe as necessary for the protection of \*\*\*'s personnel and property. \*\*\*'s Safety Book is attached hereto and is incorporated herein as Exhibit "C." VIM acknowledges its receipt of this Safety Book. VIM further affirms its own commitment to comply with its own safety procedures and policies, as applicable to the work it shall be performing pursuant to this Agreement. In addition, both parties affirm their commitment to comply with all applicable MSHA and CAL/OSHA regulations applicable to each during the term of this Agreement.
- 14.) INSURANCE: VIM acknowledges that it has and shall maintain, at its own expense, for the duration of this Agreement (and shall require all of its subcontractors to obtain, carry and maintain for the duration of this Agreement), the following insurance coverage with following minimum limits:
- (a) Workers Compensation as required by laws and regulations applicable to and covering employees of VIM (or the subcontractor) engaged in the performance of the work under this Agreement with the applicable statutory limits, as well as employer's liability insurance with minimum limits of \$1,000,000.
  - (b) A General Liability Insurance Policy covering its operations for legal liability it causes with minimum limits of \$5,000,000.
  - (c) Automobile Liability of all owned and non-owned/hired vehicles with minimum limits of \$1,000,000.

All insurance coverage shall be obtained from one or more insurance companies which have an A.M. Best rating of A- or better (or an equivalent rating on an equivalent rating system).

All insurance policies shall contain a waiver of subrogation; and each certificate shall name \*\*\* as an additional insured.

VIM agrees to notify \*\*\* in writing, at least thirty (30) days in advance of any significant modification, expiration or cancellation of any such insurance policies covering VIM'S

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actions and obligations under this Agreement, including but not limited to modifications, expiration or cancellation of insurance coverage meeting the minimum requirements set forth in this Section 14.

VIM acknowledges that on or before the execution of this Agreement, VIM presented \*\*\* with a copy of a Certificate of Currency dated April 17, 2001 evidencing VIM'S then-current insurance coverage. Upon execution of this Agreement, VIM shall furnish to \*\*\* the equivalent of a certificate of insurance describing that the above insurances are in full force and effect.

Notwithstanding anything herein to the contrary, VIM acknowledges that any insurance coverage held by VIM shall not relieve or limit VIM's obligations and/or liability pursuant to this Agreement, including but not limited to the indemnification set forth in Section 15 hereof.

15.) INDEMNIFICATION AND DISPUTE RESOLUTION:

- (a) Indemnification: \*\*\*.
- (b) Dispute Resolution: Any dispute between the Parties arising out of or relating to this Agreement (including, without limitation, its creation, interpretation, enforcement or breach) or any document or instrument referred to herein (a "Dispute") shall be resolved as follows:

Settlement Negotiations: The Parties in good faith shall attempt to settle any Disputes within thirty (30) days of receipt by one party from the other of a notice to this effect. If such negotiations fail to resolve the Dispute, the Parties shall proceed as set forth below.

Arbitration: Any Dispute which is not resolved through the settlement negotiations provided for above shall be resolved by binding arbitration before a qualified, experienced, unbiased, and neutral arbitrator selected by the Parties. The arbitration shall be conducted in the State of California and governed by the rules set forth in California's Code of Civil Procedure sections 1281 et seq., (or similarly enacted statutory guidelines for the handling of private contractually-based arbitration proceedings). The Arbitrator shall abide by California law in rendering his decision and shall determine which Party is entitled to recover under this Agreement, and shall provide for any other appropriate legal or equitable relief.

Jurisdiction, Venue and Choice of Law: Solely for purposes of this Agreement, the Parties consent to jurisdiction in San Bernardino County, California. Any disputes between the parties hereunder shall be resolved, by and under the laws of the State of California without regard to its choice of law provisions.

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- 21.) ENTIRE AGREEMENT: This Agreement constitutes the entire agreement between the parties on the subject matter contained herein and supersedes any prior written or oral agreements or statements.
- 22.) MODIFICATIONS AND WAIVERS: All modifications to this Agreement must be in writing and signed by the parties hereto. No provision of this Agreement can be waived, except in writing, signed by the party waiving such provision, nor shall failure to object to any breach of a provision of this Agreement waive the right to object to a subsequent breach of the same or any other provision.
- 23.) SEVERABILITY: If any provision of this Agreement shall, for any reason, be held violative of any applicable law, and so much of said Agreement is held to be unenforceable, then the invalidity of such a specific provision herein shall not be held to invalidate any other provisions herein, and all other provisions herein shall remain in full force and effect. Furthermore, in lieu of such illegal, invalid, or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.
- 24.) GOVERNING LAW AND COMPLIANCE WITH THE LAW: This Agreement shall be interpreted under and enforced in accordance with, and subject to, the laws of the State of California. Further, the parties agree that they shall comply with all federal, state and municipal statutes, ordinances and regulations that may apply to their respective operations, duties and responsibilities under the terms of this Agreement, and for the duration of this Agreement.
- 25.) NO CONSTRUCTION AGAINST THE AUTHOR: Each party warrants and represents that it has participated fully in the negotiation, preparation and drafting of this Agreement, and that the language used in this Agreement is a product of that participation. The rule that an ambiguity in language is to be construed against the author accordingly shall have no effect as to this Agreement.
- 26.) HEADINGS: The captions to the several paragraphs hereof are not a part of this Agreement and shall have no legal significance, but are merely guides or labels to assist in locating and reading the paragraphs contained herein.
- 27.) FURTHER ASSURANCES: Each party agrees to do any thing and sign any documents, which are necessary and desirable to accomplish any of the goals, terms or conditions of this Agreement.
- 28.) COUNTERPARTS: This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but of which together shall constitute one and the same instrument

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29.)

IN WITNESS WHEREOF, \*\*\* and VIM have executed this Agreement on the day and year first written above.

\*\*\*

By. \*\*\*

Name: \*\*\*

Title: \*\*\*

VICTORVILLE INDUSTRIAL MATERIALS INC.

By: /s/ Charles Harrson 11/19/02

Name: Charles Harrson

Title: Plant Manager, JHBP Fontana

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<PAGE> 10

EXHIBIT "A" SILICA LANDS

\*\*\*

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Additional Notes:

The proposed TM #2 Waste Dump, Haul Road and possible use of the Comet Pit for waste disposal to be included in \*\*\*'s reclamation plan. If this is not possible per County of San Bernardino, then VIM to haul waste to TMI#1 Waste Dump.

VIM to initiate mining in the TXI#2-B and C areas for TXI#2 under TXI Reclamation Plan. Depending on the sequencing of VIM's Atlas Project, VIM may or may not permit and mine TXI#2-A.

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PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE OMISSIONS HAVE BEEN INDICATED BY ("\*\*\*"), AND EACH PAGE CONTAINING CONFIDENTIAL INFORMATION IS FOOTNOTED WITH THE PHRASE "FOIA CONFIDENTIAL TREATMENT." THE OMITTED TEXT HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Form 3600-9  
(October 2005)

FORM APPROVED  
OMB NO. 1004-0103  
Expires: March 31, 2008

Office  
Winnemucca

Control Number  
N-81483/MS-N2-17-06

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
CONTRACT FOR THE SALE OF MINERAL MATERIALS

The UNITED STATES OF AMERICA, acting through the Bureau of Land Management (BLM), and James Hardie Building Products, Inc. you, the purchaser, make this AGREEMENT, under the authority of the Act of July 31, 1947 (61 Stat. 681), as amended at 30 U.S.C. 601 through 604, and the regulation of 43 CFR, Group 3600.

We agree:

Sec. 1. Contract area - Under the terms and conditions of this contract, the United States sells to you and you buy the mineral materials listed in Section 2 and contained in the following lands as shown on the map and mining plan attached to this contract:

<TABLE>  
<CAPTION>

COUNTY	STATE	TOWNSHIP	RANGE	SECTION	ALIQUOT PARTS	MERIDIAN	ACREAGE
<S> ***	<C> ***	<C> ***	<C> ***	<C> ***	<C> ***	<C> ***	<C> ***

</TABLE>

STONE CORRAL

Sec. 2. Amount and price of materials - The United States determines the total purchase price by multiplying the total quantity of each kind of mineral material designated by the unit price given below, or as changed through reappraisal.

<TABLE>  
<CAPTION>

KIND OF MATERIALS	QUANTITY (UNITS SPECIFIED)	PRICE PER UNIT	TOTAL PRICE
<S> 1) Quartzite Rock	<C> *** Tons	<C> \$***/ton	<C> \$***
2) Cost Recovery	2 hour =====	\$*** /hour =====	\$*** =====
TOTAL	*** Tons -----	\$*** /ton -----	\$*** =====
	2 hours =====	\$*** /hour =====	

</TABLE>

BLM's determination of the amount of materials that you have taken under the contract is binding on you. You may appeal this determination as provided in Section 19.

You are liable for the total purchase price, even if the quantity of materials you ultimately extract is less than the amount shown above. You may not mine more than the quantity of materials shown in the contract.

Sec. 3. Payments, title and reapprovals. You may not extract the materials until you have paid in advance for them in full \$\_\_\_\_\_, or paid the first installment of \$\*\*\* (1st and last).

[ ] If you pay in full in advance, BLM will check this box, and Subsections

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Sec. 3(a) through 3(c) do not apply to your contract. You must pay in full for all sales of \$2,000 or less.

(a) If you pay in installments, you MUST pay the first installment before BLM approves the contract.

(b) Once you start removing material, you MUST pay each subsequent installment payment monthly to an amount equal to the value of materials removed in the previous month. Payment must be made by the 15th following the end of the month for which you are reporting. You must pay the total purchase price not later than 60 days before the contract expires.

(c) The United States will retain the first installment as security for your full and faithful performance and will apply it to the last installment required to make the total payment equal to the total price given in Section 2.

The total purchase price equals the sum of the total quantities removed, multiplied by their respective unit prices.

If you are late making an installment payment, you MUST not remove any more material until you have paid. Removing material you have not paid for is trespass, and for trespass you MUST pay at triple the appraised unit price, or at triple the reappraised unit price if BLM has made a reappraisal. To resume removal operations after you were late making payments, you MUST obtain BLM's written approval.

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(d) You receive title to the mineral materials only after you have paid for them and extracted them.

Sec. 4. Risk of loss - You assume complete risk of loss for all materials to which you have title. If material covered by this contract is damaged or destroyed before title passes, you are liable for all loss suffered if you or your agents are directly or indirectly responsible for the damages. If you are not responsible for the damage or destruction, you are liable only to the extent that the loss was caused by your failure to remove the material under the terms of this contract. You are still liable for breach of contract or any wrongful or negligent act.

Sec. 5. Liability for damage to materials not sold to you - You are liable for loss or damage to materials not sold to you if you or your agents are directly or indirectly responsible for the damage or loss. You are also liable if you fail to perform under the contract according to BLM's instructions and the United States incurs costs resulting from your breach of any contract term or your failure to use proper conservation practices. If the damage resulted from willful or gross negligence, you are liable for triple the appraised value of the damaged or destroyed materials. If the damage or destruction did not result from willful or gross negligence, you are liable for lesser charges, but not less than the appraised value of the materials.

Sec. 6. Stipulations and reserved terms - Your rights are subject to the regulations at 43 CFR Group 3600 and to any stipulations and the mining plan attached to this contract.

BLM WILL CHECK THIS BOX IF THERE ARE STIPULATIONS ATTACHED TO THIS CONTRACT.

Sec. 7. Notice of operations - You must notify BLM immediately when you begin and end operations under this contract. If BLM has specified a time frame for notification, you must comply with that time frame.

Sec. 8. Bonds - (a) You must furnish BLM with a bond in the amount of \$30,232.56\* as a condition of issuing this contract.

(b) If you do not perform all terms of the contract, BLM will deduct an amount equal to the damages from the face amount of the bond. If the damages exceed the amount of the bond, you are liable for the excess. BLM will cancel the bond or return the cash or U.S. bonds you supplied when you have completed performance under this contract.

(c) BLM will require a new bond when it finds any bond you furnish under this contract to be unsatisfactory.

Sec. 9. Assignments - You may not assign this contract without BLM's written approval.

Sec. 10. Modification of the Approved Mining or Reclamation Plan. You or BLM may initiate modification of these plans to adjust for changed conditions, or to correct any oversight. The conditions for BLM requiring you to modify those plans, or approving your request for modification are found in the regulations at 43 CFR 3601.44.

Sec. 11. Expiration of contract. This contract will expire five (5) years \_\_\_ months, \_\_\_ days from its approval date, unless BLM extends the term or renews the contract.

BLM WILL CHECK THIS BOX IF THIS CONTRACT IS A RENEWABLE COMPETITIVE CONTRACT.

Sec. 12. Renewal of renewal competitive contract. BLM will renew your contract if you apply in writing no less than 90 days before your renewable competitive contract expires and you meet the conditions in the regulations at 43 CFR 3602.47.

Sec. 13. Violations and cancellations. (a) If you violate any terms or provisions of this contract, BLM may cancel your contract following the regulations at 43 CFR 3601.60 et seq., and recover all damages suffered by the United States, including applying any advance payments you made under this contract toward the payment of the damages.

(b) If you extract any mineral materials sold under this contract during the suspension period, or after the contract has expired or been canceled, you have committed, and may be charged with, willful trespass.

Sec. 14. Responsibility for damages suffered or costs incurred by the United States. If you, your contractors, subcontractors or employees breach this contract or commit any wrongful or negligent act, you are liable for any resulting damages suffered or costs incurred by the United States. You must pay

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the United States within 30 days after receiving a written demand from BLM.

Sec. 15. Extensions of time. BLM may grant you an extension of time in which to comply with contract provisions under the regulations at 43 CFR 3602.27. For contracts with terms over 90 days, you MUST apply in writing no less than 30 or more than 90 days before your contract expires. For contracts with terms of 90 days or less you MUST apply no later than 15 days before your contract expires.

Sec. 16. Time for removing personal property. You have 30 days (not to exceed 90) from the date this contract expires to remove your equipment, improvements and other personal property from United States lands or rights-of-way. You may leave in place improvements such as roads, culverts and bridges if BLM consents. Any property remaining after this period ends becomes the property of the United States, but you will remain liable for the cost of removing it and restoring the site.

Sec. 17. Equal opportunity clause - The actions you take in hiring MUST comply with the provisions of Executive Order No. 11246 of Sept. 24, 1965, as amended, which describe the non-discrimination clauses. You may get a cop of this order from BLM.

-----  
\* Will carry over \$10,000 Reclamation Bond from N-80661.

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Sec. 18. Effective date. This contract becomes effective as indicated below.

[X] IF THIS CONTRACT BECOMES EFFECTIVE ON THE DATE BLM SIGNS THE CONTRACT, BLM WILL CHECK THIS BOX.

[ ] IF THIS CONTRACT BECOMES EFFECTIVE ONLY AFTER CERTAIN CONDITIONS ARE MET, BLM WILL CHECK THIS BOX, LIST THE CONDITIONS BELOW, AND INDICATE THE EFFECTIVE DATE.

Sec. 19. Appeal. You may appeal any decision that BLM makes in regard to this contract under Parts 4 and 1840 of Title 43 of the Code of Federal Regulations.

The following parties have executed this contract as of

PURCHASER THE UNITED STATES OF AMERICA

James Hardie Building Products  
(Individual or Firm Name)

By: /s/ Dave Hays

3000 Waltham Way, McCarron, NV  
(Address)

Dave Hays

-----  
(Authorized Officer)

775-355-3000  
(Phone Number -- include area code)

AFM Nonrenewable Resources  
(Title)

/s/ Usman Khawar

3-16-06

-----  
(Signature)

(Date)

-----  
(Signature)

If you are a corporation, affix corporate seal here:

Title 18 U.S.C. 1001 makes it a crime for any person knowingly or willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction, subject to a fine of up to \$10,000 and imprisonment up to 5 years.

The Paperwork Reduction Act of 1995 requires us to inform you that:

BLM is collecting this information to process your application and effect a binding contract.

BLM will use this information to identify and communicate with applicants.

You MUST respond to this request to get a benefit.

A federal agency may not conduct or sponsor, and you are not required to respond to, any information collection which does not have a currently valid OMB control number.

AUTHORITY: 30 U.S.C. 601 et seq.: 43 CFR 3600

PRINCIPAL PURPOSE: BLM uses this information to identify the parties entering into contracts for disposing of mineral materials.

ROUTINE USES: BLM will transfer information from the record or the record itself to appropriate federal, state, local or foreign agencies, when relevant to criminal, civil or regulatory investigations or prosecutions.

EFFECT OF NOT PROVIDING INFORMATION: If you do not provide this information to BLM, we will not be able to process your application for a contract.

BLM estimates the public reporting burden for this form at an average of 30 minutes per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to U.S. Department of the Interior, Bureau of Land Management, Bureau Information Collection Clearance Officer, (1004-0103), 1849 C St., N.W., Mail Stop 401 LS, Washington, D.C. 20240.

Special Stipulations  
Over 15,000 cubic yards  
#N-81483

1. Permittee will provide an annual, pre-and post-survey by a certified surveyor for determining pit dimensions and quantity of material removed.
2. All equipment and machinery shall be equipped with spark arresters and mufflers.
3. Permittee is responsible for all suppression costs for any fire resulting from their operations and practices.
4. Permittee is responsible for disposing of all debris in accordance with state and federal regulations.
5. Pursuant to 43 CFR 10.4(g) the holder of this authorization must notify the authorized officer, by telephone, with written confirmation, immediately upon the discovery of human remains, funerary objects, sacred objects or objects of cultural patrimony. Further, pursuant to 43 CFR 10.4(c) and (d), you must stop activities in the immediate vicinity of the discovery and protect it from your activities for 30 days or until notified to proceed by the authorized officer.
6. When previously undiscovered antiquities or other objects of historic or scientific interest including but not limited to historic or prehistoric ruins, vertebrate fossils or artifacts are discovered in the performance of this permit, the item(s) or condition(s) will be left intact and immediately brought to the attention of the authorized office of the BLM.
7. No toxic materials or fluids shall be disposed of at the material site.
8. Topsoil will be stockpiled for pit rehabilitation measures.
9. Reclamation measures shall consist of:
  - A. Between operations, the pit walls shall be maintained at a slope ratio not to exceed 3:1, so as to minimize slope failure potential and public safety hazards.
  - B. When a pit segment has reached final configuration:
    - a. At the authorized officers request, all rejected oversized material will be buried in the excavation prior to rehabilitation.
    - b. The pit walls shall be sloped, not to exceed 3:1, and ripped or disked along contour.
    - c. The pit segment floor and access routes are to be disked or ripped to loosen compacted soils.
    - d. Stockpiled topsoil shall be spread evenly over the sides and bottom of the pit segment excavation.
    - e. At the Area Managers discretion, areas stripped of vegetation shall be re-seeded, after disking and using a seed drill, with the following mixture (per acre):
      - 7 lbs. Crested wheatgrass "NORDAN" (Agropyron cristatum)
      - 2 lbs. Ladak Alfalfa
      - 1 lb. Fourwing saltbush (Atriplex canescens)
      - 1 lb. kochia
      - 2 lbs. Nev. Ephedra
    - f. Of, after disking, the following mixture can be broadcast (per acre):
      - 2 lb. Fourwing saltbush (Atriplex canescens)
      - 9 lbs. Crested wheatgrass "NORDAN" (Agropyron cristatum)
      - 4 lbs. Ladak Alfalfa
      - 2 lbs. kochia
      - 2 lbs. Nev. Ephedra
  - C. When the pit has been exhausted, the items in B above shall be completed, and the pit access shall be reclaimed per 9.B.c. and 9.B.e.

Alternate species must meet BLM approval prior to their use.

The non-native exotic species contained in these seed mixtures were selected because they can be confined to the project area and can compete successfully against invasive noxious weeds.

The use of these exotic species is in accordance with Executive Order 11987 -- Exotic organisms, dated May 24, 1977, Sec. 2(d); Where there has been a determination that there will be no effect on natural ecosystems.

All seeds used are approved by the U.S. Department of Agriculture.

- 10. Mining and removal shall be confined to the area described in the contract.
- 11. There shall be no prospecting or testing outside the pit working areas without contacting BLM before any work is done.
- 12. At all times during the performance of this contract and until the work is completed and the reclamation is accepted, an employee of purchaser shall directly supervise the work on this project. Alternatively, the purchaser may assign and have on the job a competent superintendent who is satisfactory to the BLM Authorized Officer, and who has authority to act for the purchaser.
- 13. Permittee shall notify BLM if a second party is removing material from the contract area under permittees contract.
- 14. The permittee shall be responsible for controlling all noxious weeds and other undesirable invading plant species in the reclaimed area until the revegetation activities have been determined to be successful and signed off by the BLM authorized officer. The operator shall obtain approval from the BLM authorized officer for any and all applications of herbicide, including types and quantities. ALL SEED SHALL BE TESTED FOR PURITY, NOXIOUS, POISONOUS AND/OR PROHIBITED PLANT SPECIES, AND THE TEST RESULTS SUBMITTED TO AND APPROVED BY THE BLM AUTHORIZED OFFICER, UNLESS CERTIFIED WEED FREE SEED IS PROCURED FOR THIS RECLAMATION PROJECT.

I agree to abide by the above Special Stipulations:

/s/ Usman Khawar	3/15/06
-----	Date

Signature  
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EXHIBIT 8.1

LIST OF SIGNIFICANT SUBSIDIARIES

The table below sets forth our significant subsidiaries, all of which are 100% owned by James Hardie Industries N.V., either directly or indirectly.

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NAME OF COMPANY	JURISDICTION OF ESTABLISHMENT
<S>	<C>
James Hardie 117 Pty Ltd.	Australia
James Hardie Aust Holdings Pty Ltd.	Australia
James Hardie Austgroup Pty Ltd.	Australia
James Hardie Australia Management Pty Ltd.	Australia
James Hardie Australia Pty Ltd.	Australia
James Hardie Building Products Inc.	United States
James Hardie Europe B.V.	Netherlands
James Hardie Fibre Cement Pty Ltd.	Australia
James Hardie International Finance B.V.	Netherlands
James Hardie International Finance Holdings Sub I B.V	Netherlands
James Hardie International Finance Holdings Sub II B.V	Netherlands
James Hardie International Holdings B.V.	Netherlands
James Hardie N.V.	Netherlands
James Hardie New Zealand Limited	New Zealand
James Hardie Philippines Inc.	Philippines
James Hardie Research (Holdings) Pty Ltd.	Australia
James Hardie U.S. Investments Sierra Inc.	United States
N.V. Technology Holdings A Limited Partnership	Australia
RCI Pty Ltd.	Australia

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Louis Gries, certify that:

1. I have reviewed this annual report on Form 20-F of James Hardie Industries N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 6, 2007

\_\_\_\_\_  
/s/ Louis Gries  
Louis Gries  
Chief Executive Officer

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Russell Chenu, certify that:

1. I have reviewed this annual report on Form 20-F of James Hardie Industries N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 6, 2007

\_\_\_\_\_  
/s/ Russell Chenu  
Russell Chenu  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in his capacity as an officer of James Hardie Industries N.V. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- the Annual Report of the Company on Form 20-F for the fiscal year ended March 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: July 6, 2007

/s/ Louis Gries

\_\_\_\_\_  
Louis Gries

*Chief Executive Officer*

/s/ Russell Chenu

\_\_\_\_\_  
Russell Chenu

*Chief Financial Officer*

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-14036) of James Hardie Industries N.V. of our report dated June 28, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Los Angeles, California

July 6, 2007

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**Consent of KPMG Actuaries Pty Ltd (“KPMG Actuaries”) in relation to Form 20-F filing**

We hereby consent to your references to KPMG Actuaries Pty Ltd (“KPMG Actuaries”) and to our actuarial valuation report effective as of March 31, 2007, dated May 28, 2007 (the “Report”), and to make use of, or quote, information and analyses contained within that Report for the purpose of James Hardie Industries N.V.’s (“JHI NV”) Annual Report on Form 20-F for fiscal year ended March 31, 2007.

In addition, we hereby consent to your references to past actuarial valuations performed by KPMG Actuaries for the purpose of JHI NV’s Annual Report on Form 20-F for fiscal year ended March 31, 2007.

Your attention is drawn to the Important Note at the beginning of the Executive Summary and Section 1 of the Report.

/s/ Neil Donlevy

Neil Donlevy MA FIA FIAA

Director

KPMG Actuaries Pty Ltd

Fellow of the Institute of Actuaries (London)

Fellow of the Institute of Actuaries of Australia

Sydney, Australia

July 6, 2007

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<DOCUMENT>  
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Excerpts of the ASX Settlement and Transfer Corporation  
Pty Ltd as of June 7, 2007  
See [www.asx.com.au/supervision/rules\\_guidance/astc\\_rules.htm](http://www.asx.com.au/supervision/rules_guidance/astc_rules.htm) for up-to-date  
rules

## 1.2 APPLICATION AND EFFECT OF THESE RULES

### 1.2.1 OPERATING RULES OF ASTC

These Rules are the operating rules of the Settlement Facility for the purposes of the Corporations Act. These Rules should be read in conjunction with:

- (a) the Procedures; and
- (b) the Corporations Act.

To the extent of any inconsistency between these Rules and the Procedures, these Rules will prevail.

Introduced 11/03/04

### 1.2.2 BINDING EFFECT OF RULES

These Rules are binding on Issuers, Participants and ASTC in the manner set out in:

- (a) section 822B of the Corporations Act; and
- (b) Rules 1.2.3 and 1.2.4.

Introduced 11/03/04 Origin SCH 1.5.1

### 1.2.3 COVENANTS TO OBSERVE RULES

These Rules (other than a Warranty and Indemnity Provision) have the effect of a contract under seal between ASTC and all Facility Users under which:

- (a) each Facility User covenants with ASTC and each other Facility User to observe the Rules and to perform the obligations which the Rules purport to impose on the Facility User, in the manner provided by the Rules; and
- (b) subject to Rules 3.6.11 to 3.6.18 inclusive, ASTC covenants with each Facility User to observe the Rules and to perform the obligations which the Rules purport to impose on ASTC, in the manner provided by the Rules.

These Rules have the effect of a contract under seal between all RTGS Payments Providers for the time being admitted to participate in that capacity, ASTC and all Facility Users.

Introduced 11/03/04 Origin SCH 1.5.2, 1.5.7

### 1.2.4 EFFECT OF WARRANTY AND INDEMNITY PROVISIONS

The Issuer Warranties and Indemnities have the effect of a contract under seal between the Issuer, ASTC and every Participant.

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The Participant Warranties and Indemnities have the effect of a contract under seal between the Participant, ASTC, every Issuer and every other Participant.

The ASTC Indemnity has the effect of a contract under seal between ASTC and each Issuer.

Introduced 11/03/04 Origin SCH 1.5.4, 1.5.5, 1.5.6

### 1.3 STATE OF EMERGENCY RULES

#### 1.3.1 ACTION IF A STATE OF EMERGENCY EXISTS

If ASTC determines that a State of Emergency exists ASTC may take or authorise any action it considers necessary for the purpose of dealing with the State of Emergency, including:

(a) making State of Emergency Rules (that may be inconsistent with these Rules) for the protection of the interests of ASTC and Facility Users;

(b) suspending provision of any ASTC facilities and services to one or more persons;

(c) taking, or refraining from taking, or directing a Participant to take or refrain from taking, any action which ASTC considers is appropriate;

(d) taking any action in the name of and at the expense of a Participant; or

(e) other action that is inconsistent with these Rules (other than Rule 1.3).

In the event of conflict between the State of Emergency Rules and these Rules, the State of Emergency Rules will prevail.

Introduced 11/03/04 Origin SCH 1.6.1, 1.6.3

#### 1.3.2 EFFECT OF A STATE OF EMERGENCY

No person bound by the Rules is liable for failure to comply with a Rule (other than a Warranty an Indemnity Provision or a State of Emergency Rule) if, and to the extent to which, compliance has been delayed, interfered with, curtailed or prevented by a State of Emergency.

Introduced 11/03/04 Origin SCH 1.5.3

#### 1.3.3 PERIOD FOR STATE OF EMERGENCY RULES

ASTC may specify the period during which any State of Emergency Rules remain in force, but the period must not exceed 30 Business Days. If ASTC does not specify a period during which any State of Emergency Rules remain in force, the State of Emergency Rules remain in force for 30 Business Days.

Introduced 11/03/04 Origin SCH 1.6.2

#### 1.3.4 NOTICE TO ISSUERS AND PARTICIPANTS

ASTC must promptly notify Issuers and Participants of the making of any State of Emergency Rules.

Introduced 11/03/04 Origin SCH 1.6.4

#### 1.3.5 FACILITY USER MUST INFORM ASTC OF POTENTIAL STATE OF EMERGENCY

A Facility User that becomes aware of any event or condition that may lead to a State of Emergency must immediately inform ASTC.

Introduced 11/03/04 Origin SCH 1.6.5

### 1.3.6 NO LIABILITY OF ASTC

Without limiting any other liability provisions in these Rules none of ASTC, its officers, employees, agents or contractors are liable to a Facility User or any other person for:

(a) any failure or delay in performance in whole or in part of the obligations of ASTC under the Rules or any contract, if that failure or delay is caused directly or indirectly by a State of Emergency which entitles ASTC to act under this Rule 1.3; or

(b) any loss, liability, damage, cost or expense arising in any way (including, without limitation, by negligence) from the bona fide exercise of any power, right or discretion conferred upon ASTC by this Rule 1.3.

Introduced 11/03/04

### 1.4 SETTLEMENT PROCEDURES

#### 1.4.1 ASTC MAY APPROVE PROCEDURES

ASTC may from time to time approve written Procedures relating to the operations of ASTC and the Settlement Facility, the conduct of Facility Users and the structure and operation of electronic communications between ASTC and Facility Users.

Introduced 11/03/04 Origin SCH 1.8.1

#### 1.4.2 PROCEDURES ARE NOT PART OF THE RULES

The Procedures do not form part of these Rules. However, if a Rule requires a person to comply with any part of the Procedures, failure by the person to comply with that part of the Procedures is a contravention of the Rule.

Introduced 11/03/04 Origin SCH 1.8.2, 1.8.5

#### 1.4.3 CHANGES TO PROCEDURES

ASTC may approve changes to the Procedures from time to time and must give such notice as is reasonable in the circumstances to Facility Users of any changes to the Procedures before those changes take effect.

Introduced 11/03/04 Origin SCH 1.8.7, 1.8.4

## SECTION 2 DEFINITIONS AND INTERPRETATION

This Section contains the definitions and sets out a number of general principles by which these Rules are to be interpreted.

### 2.1 GENERAL PRINCIPLES OF INTERPRETATION

In these Rules, unless the context otherwise requires:

(a) a reference to any legislation or legislative provision includes any statutory modification or re-enactment of, or legislative provision substituted for, and any regulation or statutory instrument issued under, that legislation or legislative provision;

(b) a reference to the operating rules of an Approved Clearing Facility, the operating rules of an Approved Market Operator, the Listing Rules, these Rules, the Procedures or the Fees and Charges Schedule is a reference to the operating rules, the Procedures or the Schedule as modified or amended from time to time;

(c) the singular includes the plural and vice-versa;

(d) a reference to person, body, corporation, trust, partnership, unincorporated body, firm, association, authority or government includes any of them;

(e) a word denoting any gender includes all genders;

(f) if a word or expression is given a particular meaning, another part of speech or grammatical form of that word or expression has a corresponding meaning;

(g) a reference to power includes a reference to authority and discretion;

(h) a reference to a Rule (eg Rule 2.4) includes a reference to all sub-Rules included under that Rule (eg Rule 2.5.4);

(i) a reference to a Section (eg -SECTION 2-) includes a reference to all Rules and sub-Rules within that Section;

(j) a reference to any Rule or Procedure is a reference to that Rule or Procedure as amended from time to time;

(k) a reference to time is to the time in Sydney, Australia;

(l) a reference to currency is a reference to Australian currency;

(m) a reference to writing includes typing, printing, lithography, photography, telex, facsimile or any other mode of representing or reproducing words in a visible form;

(n) where there is a reference to the power of ASTC to make, demand or impose a requirement there is a corresponding obligation of the relevant Participant to comply with that demand or requirement in all respects; and

(o) a reference to ASTC notifying or giving notice to a Participant or vice-versa is a reference to notifying or giving notice in accordance with Rule 1.10.

Introduced 11/03/04 Origin SCH 21.1

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2.2 WORDS AND EXPRESSIONS DEFINED IN THE CORPORATIONS ACT

2.2.1 WORDS AND EXPRESSIONS DEFINED HAVE THE SAME MEANING IN THESE RULES

Words and expressions defined in the Constitutions or the Corporations Act will unless otherwise defined or specified in these Rules, or the contrary intention appears, have the same meaning in these Rules.

Introduced 11/03/04 Origin SCH 21.1.2 Amended 04/04/05

2.3 HEADINGS AND INTRODUCTORY OVERVIEW

2.3.1 HEADINGS AND INTRODUCTORY OVERVIEW FOR CONVENIENCE OF REFERENCE ONLY

In these Rules, headings and the introductory overview at the beginning of each Section are for convenience of reference only and do not affect interpretation of the Rules or the Procedures.

Introduced 11/03/04 Origin SCH 21.2.1

2.4 CONDUCT, ACTS AND OMISSIONS

2.4.1 REFERENCES TO CONDUCT OR DOING ANY ACT OR THING

In these Rules:

(a) a reference to conduct or engaging in conduct includes a reference to doing, refusing to do or omitting to do, any act, including the making of, or the giving effect to a provision of, an agreement; and

(b) unless the contrary intention appears, a reference to doing, refusing or omitting to do any act or thing includes a reference to causing, permitting or authorising:

(i) the act or thing to be done; or

(ii) the refusal or omission to occur.

Introduced 11/03/04 Origin SCH 21.3.1, 21.3.5

2.4.2 CONDUCT BY OFFICERS, EMPLOYEES, AGENTS AND THIRD PARTY PROVIDERS

In these Rules, conduct engaged in on behalf of a person:

(a) by an officer, employee, Third Party Provider or other agent of the person within the scope of the actual or apparent authority of the officer, employee, Third Party Provider or other agent; or

(b) by any other person at the direction or with the consent or agreement (whether express or implied) of an officer, employee, Third Party Provider or other agent of the person, where the giving of the direction, consent or agreement is within the scope of the actual or apparent authority of the officer, employee, Third Party Provider or other agent, is taken to have been engaged in also by the person.

Introduced 11/03/04 Origin SCH 21.3.2

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### 2.4.3 STATE OF MIND OF A PERSON

If for the purposes of these Rules in respect of conduct engaged in by a person, it is necessary to establish the state of mind of the person, it is sufficient to show that an officer, employee, Third Party Provider or other agent of the person, being an officer, employee, Third Party Provider or other agent by whom the conduct was engaged in within the scope of the actual or apparent authority of that officer, employee, Third Party Provider or other agent, had that state of mind.

In this Rule 2.4.3, a reference to the state of mind of a person includes a reference to the knowledge, intention, opinion, belief or purpose of the person and the person's reasons for the person's intention, opinion, belief or purpose.

Introduced 11/03/04 Origin SCH 21.3.3, 21.3.4

### 2.5 REGARD TO BE HAD TO PURPOSE OR OBJECT OF RULES

#### 2.5.1 CONSTRUCTION TO PROMOTE PURPOSE OF RULES

In the interpretation of a Rule, a construction that would promote the purpose or object underlying the Rules (whether that purpose or object is expressly stated in the Rules or not) is to be preferred to a construction that would not promote that purpose or object.

Introduced 11/03/04 Origin SCH 21.4.1

### 2.6 EXAMPLES AND NOTES

#### 2.6.1 USE OF EXAMPLES AND NOTES

If these Rules include an example of, or a note about, the operation of a Rule:

(a) the example or note is not to be taken to be exhaustive; and

(b) if the example or note is inconsistent with the Rule, the Rule prevails.

Introduced 11/03/04 Origin SCH 21.5.1

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2.7 CHANGE OF NAME

2.7.1 REFERENCE TO A BODY OR OFFICE UNDER A FORMER NAME

If:

(a) the name of a body is changed in accordance with the law (whether or not the body is incorporated); or

(b) the name of an office is changed by law,

then a reference in these Rules to the body or office under any former name, except in relation to matters that occurred before the change took effect, is taken as a reference to the body or office under the new name.

Introduced 11/03/04 Origin SCH 21.6

2.8 EFFECT OF AMENDMENT TO RULES AND PROCEDURES

2.8.1 WHERE AMENDMENTS TO RULES AND PROCEDURES ARE MADE

Unless expressly stated otherwise, where a Rule or Procedure is:

(a) amended;

(b) deleted; or

(c) lapses or otherwise ceases to have effect, that circumstance does not:

(d) revive anything not in force or existing at the time at which that circumstance takes effect;

(e) affect the previous operations of that Rule or Procedure or anything done under that Rule or Procedure;

(f) affect any right, privilege, obligation or liability acquired, accrued or incurred under that Rule or Procedure;

(g) affect any penalty, forfeiture, suspension, expulsion or disciplinary action taken or incurred in respect of any contravention of that Rule or Procedure; or

(h) affect any investigation, disciplinary proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, suspension, expulsion or disciplinary action,

and any such investigation, disciplinary proceeding or remedy may be instituted, continued or enforced, and any such penalty, forfeiture, suspension, expulsion or disciplinary action may be imposed as if the circumstance had not taken effect.

Introduced 11/03/04 Origin OCH 19.2.5

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2.9 RULES IN FORCE AT TIME OF CONTRAVENTION

2.9.1 DETERMINING A CONTRAVENTION OF THE RULES

Unless expressly stated otherwise, in determining whether the act or omission of a party constitutes a contravention of the Rules, the matter will be determined with regard to the Rules in force at the time of the relevant act or omission.

Introduced 11/03/04 Origin OCH 19.2.6 Amended 10/06/04

2.10 SPECIFIC DEFINITIONS FOR THE PURPOSE OF THE CORPORATIONS ACT AND OTHER LEGISLATION

2.10.1 ASTC REGULATED TRANSFERS

For the purposes of the definition of "ASTC-regulated transfer" in Regulation 1.0.02 of the Corporations Regulations, any Transfer or purported Transfer of Approved Financial Products, whether or not effected in accordance with the Rules, is an ASTC-regulated transfer. A reference to an 'SCH regulated transfer' in any legislation or regulation means an ASTC-regulated transfer. Any ASTC-regulated transfer is, for the purposes of the Corporations Regulations, to be taken, and always to have been, a proper ASTC transfer.

Introduced 11/03/04 Origin SCH 21.9.1

2.10.2 CHES SUBREGISTER

For the purposes of the definition of "ASTC subregister" in Regulation 7.11.01 of the Corporations Regulations, a CHES Subregister is an ASTC subregister.

Introduced 11/03/04

2.10.3 REFERENCES TO SCH

Where legislation refers to "SCH" or "Securities Clearing House", references in these Rules to ASTC are taken to be references to "SCH" or "Securities Clearing House" for the purposes only of that legislation.

Introduced 11/03/04

2.11 ENTERING AND DEDUCTING FINANCIAL PRODUCTS FROM HOLDINGS

2.11.1 REFERENCES TO ENTERING OR DEDUCTING FINANCIAL PRODUCTS

In these Rules, a reference to entering a number of Financial Products into a Holding is a reference to:

(a) if the Holding does not exist at the time of the entry, establishing the Holding with a Holding Balance equal to that number of Financial Products; or

(b) if the Holding already exists at the time of the entry, adding that number of Financial Products to the Holding Balance of the Holding.

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In these Rules, a reference to deducting a number of Financial Products from a Holding is a reference to:

(c) if the Holding Balance of the Holding is equal to that number, removing the Holding from the register; and

(d) if the Holding Balance of the Holding is greater than that number, subtracting that number of Financial Products from the Holding Balance.

Introduced 11/03/04 Origin SCH 21.11

## 2.12 MEANING OF RESERVATION AND RELEASE OF FINANCIAL PRODUCTS FOR SUBPOSITION PURPOSES

### 2.12.1 RESERVATION IN A SUBPOSITION

For the purposes of these Rules, a number of Financial Products in a CHESS Holding are reserved in a Subposition if:

(a) the Subposition is created over that number of Financial Products; or

(b) an existing reservation in a Subposition of Financial Products in that Holding is increased by that number of Financial Products.

Introduced 11/03/04 Origin SCH 21.12.1

### 2.12.2 RELEASE FROM A SUBPOSITION

For the purposes of these Rules, a number of Financial Products in a CHESS Holding are released from a Subposition if:

(a) the Subposition over that number of Financial Products is removed; or

(b) where the total number of Financial Products in the Holding that are reserved in the Subposition exceeds the number of Financial Products specified to be released, the Subposition reservation is reduced by that specified number of Financial Products.

Introduced 11/03/04 Origin SCH 21.12.2

## 2.13 DEFINITIONS

### 2.13.1 DEFINITIONS USED IN THE RULES

In these Rules, unless the context otherwise requires:

"ABN" stands for Australian Business Number and means a person's number as shown in the Australian Business Register.

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"ACCEPTANCE FORM" means a document that enables a person to communicate to an Issuer an election in relation to a Corporate Action, including (without limitation):

- (a) an entitlement & acceptance form;
- (b) a provisional letter of allotment; and
- (c) an application form (whether or not attached to a prospectus).

"ACCOUNT PARTICIPANT" means a Participant admitted to participate in the Settlement Facility under Rule 4.5.

"ACCOUNTANT" means a member of the Australian Society of Certified Practising Accountants, the Institute of Chartered Accountants in Australia or other body approved by ASTC.

"ACCRUED BATCH INSTRUCTION" means a Batch Instruction generated by ASTC to effect a distribution of Financial Products arising from a Corporate Action.

"ACCRUED DVP BATCH INSTRUCTION" means an Accrued Batch Instruction with a Settlement Amount that is scheduled to settle in DvP Batch Settlement.

"ACCRUED RTGS INSTRUCTION" mean an RTGS Instruction generated by ASTC to effect a distribution of Financial Products arising from a Corporate Action.

"ACCUMULATION ACCOUNT" means a Holder Record maintained by a Settlement Participant for the purpose of facilitating settlement of transactions in Approved Financial Products with non-Participant clients.

"ACCUMULATION HOLDING" means a Holding of Financial Products for which the Holder Record is an Accumulation Account.

"ACH" means Australian Clearing House Pty. Limited (ABN 48 001 314 503).

"ADMISSION FORM" means an admission form, as specified by ASTC from time to time, for use by a Participant seeking to become a Participant in the Settlement Facility.

"AIC" stands for Access Identification Code and means a unique code allocated by ASTC under Rule 16.14.

"AIF" stands for Automated Information Facility and means the service so designated that is offered by the Reserve Bank of Australia in connection with RITS/RTGS.

"AIS" means ASX International Services Pty Limited (ABN 62 089 068 913).

"ALLOCATION COMPONENT" means, without limitation, in respect of an Offer:

- (a) a Firm Allocation Component;
- (b) a book-build; or
- (c) a placement.

"ALLOCATION INTEREST" means a journal entry on a CHESSE or Issuer operated record:

- (a) representing an Approved Financial Product applied for, or to be applied for, under an Offer; and
- (b) by which the Issuer calculates the number of Approved Financial Products to be issued or disposed under Rule 15.27.

"ALTERNATIVE SETTLEMENT FACILITY" means a CS Facility which, in the opinion of ASTC, has:

- (a) adequate rules or procedures relating to the operation of the facility, including effective risk management procedures;
- (b) adequate arrangements for supervision and regulation of the facility; and
- (c) sufficient resources to conduct the facility and perform its supervisory and regulatory functions.

Introduced 18/12/06

"APPEAL" means an appeal to the Appeal Tribunal against:

- (a) a determination of the Disciplinary Tribunal under Section 12;
- (b) rejection of an application for Participation under Section 4;
- (c) action taken against a Participant under Section 12; or
- (d) revocation or impending revocation of ASTC Approval of a class of an Issuer's Financial Products under Section 8 or Section 12.

"APPEAL NOTICE" means a Notice given to appeal decisions made under the Rules.

"APPEAL TRIBUNAL" means the tribunal established under Section 8 or Section 12 for the purpose of hearing Appeals.

"APPLICATIONS CLOSE DATE" means the date by which a person must submit an Acceptance Form to an Issuer if the person wishes to subscribe for new or additional Financial Products.

"APPROVED AGENT" means a person who has such qualifications for the purposes of Section 12 as ASTC determines and who is appointed by the Managing Director of ASTC.

Amended 18/12/06

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"APPROVED CLEARING FACILITY" means a CS Facility approved by ASTC as an Approved Clearing Facility and specified in the Procedures.

"APPROVED CLEARING HOUSE" means a settlement and deposit system for the safe custody, delivery and payment of Principal Financial Products or Participating International Financial Products, approved by ASTC for the purposes of establishing a Segregated Account.

"APPROVED FINANCIAL PRODUCTS" means a Financial Product approved by ASTC in accordance with Section 8 or Section 13.

"APPROVED MARKET OPERATOR" means a Market Operator approved by ASTC as an Approved Market Operator and specified in the Procedures.

"ASTC" means ASX Settlement and Transfer Corporation Pty Ltd (ABN 49 008 504 532).

"ASTC INDEMNITY" means the indemnity in Rule 3.6.7.

"ASTC REGULATED TRANSFER" means any Transfer or purported Transfer of Approved Financial Products.

"ASX" means Australian Stock Exchange Limited (ABN 98 008 624 691).

"ASX GROUP" means ASX and its subsidiaries and controlled entities.

"ASX WORLD LINK AGREEMENT" means the agreement between AIS and a Settlement Participant which is a Market Participant for participation in the ASX World Link Service as displayed on the ASX World Link Website from time to time.

"ASX WORLD LINK SERVICE" has the same definition as that set out in the ASX World Link Agreement.

"ASX WORLD LINK WEBSITE" means in relation to the ASX World Link Service the information (whether data, text, images, speech or otherwise) concerning the ASX World Link Service displayed from time to time by AIS or a Related Body Corporate of ASX on the internet at the URL: <https://www.asxonline.com>, or at any other additional or replacement URL notified by AIS to Participants from time to time, as that information is varied from time to time.

"AUSTRALIAN ADI" has the meaning it has in the Corporations Act.

"AUSTRALIAN ADI ACCOUNT" means an account held with an Australian ADI.

"AUTHORISED COPY" in relation to documents specified under Section 6 of these Rules, means a true and complete copy of the document in a form authorised by ASTC.

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"AUTHORISED PERSON" means any person who has actual authority of the Facility User to cause Messages to be Transmitted by that Facility User.

"AVAILABLE CREDIT" in Section 11, has the meaning given in Rule 11.20.3.

"AVAILABLE FINANCIAL PRODUCTS" means Financial Products that are:

- (a) not in a Locked Holding;
- (b) in the case of Financial Products in an Issuer Sponsored Holding, not reserved under the Listing Rules for the benefit of an Offeror in relation to a takeover scheme;
- (c) in the case of Financial Products in a CHESSE Holding, not reserved in a Subposition.

"BANK" means the person that operates the clearing facility for inter-bank payments on behalf of ASTC and may, where permitted by the Reserve Bank of Australia, include ASTC and for the purposes of the Standard Payments Provider Deed is known as the CHESSE Bank.

"BANKRUPTCY" means:

- (a) in the case of a body corporate, where:
  - (i) an administrator of the body corporate is appointed under section 436A, 436B or 436C of the Corporations Act;
  - (ii) the body corporate commences to be wound up or ceases to carry on a business;
  - (iii) a receiver, or a receiver and manager, of property of the body corporate is appointed, whether by a court or otherwise; or
  - (iv) the body corporate enters into a compromise or arrangement with its creditors or a class of them; or
- (b) in the case of a natural person, where:
  - (i) a creditor's petition or a debtor's petition is presented under Division 2 or 3, as the case may be, of Part IV of the Bankruptcy Act 1966 against the person, the partnership in which the person is a partner, or two or more joint debtors who include the person;
  - (ii) the person's property becomes subject to control under Division 2 of Part X of the Bankruptcy Act 1966;

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(iii) the person executes a deed of assignment or deed of arrangement under Part X of the Bankruptcy Act 1966;

(iv) the person's creditors accept a composition under Part X of the Bankruptcy Act 1966; or

(v) the person's creditors accept a debt agreement proposal under Part IX of the Bankruptcy Act 1996,

and, where a reference is made to a Division or Part of the Bankruptcy Act 1966, that reference includes a reference to the provisions of a law of an external territory, or a country other than Australia or an external territory, that correspond to that Division or Part.

"BATCH INSTRUCTION" means an instruction to ASTC to effect:

(a) a Settlement Transfer in Batch Settlement and, if the instruction is for value, payment in DvP Batch Settlement; or

(b) in respect of a Payment Batch Instruction, payment in Batch Settlement,

and includes:

(a) a CCP Net Batch Instruction;

(b) a CCP Gross Batch Instruction;

(c) a CCP Derivatives Payment Batch Instruction;

(d) a Dual Entry Batch Instruction;

(e) a Dual Entry Payment Batch Instruction;

(f) a Single Entry Batch Instruction; and

(g) a Direct Batch Instruction.

"BATCH SETTLEMENT" means the process by which transactions are settled in the Settlement Facility in accordance with Section 10 whether or not in DvP Batch Settlement.

"BUSINESS DAY" means a day other than:

(a) a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day; and

(b) any other day which ASTC notifies Facility Users is not a Business Day.

"BUSINESS HOURS" means the hours between Start of Day and End of Day.

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"CASH SUB-RECORD" means a CHES record:

- (a) ancillary to a Participant's Net Position Record; and
- (b) tagged with an RTGS Account Identifier,

that tracks amounts to be debited or credited, on settlement of an RTGS Instruction, to the account of the Participant linked to that RTGS Account Identifier.

"CCP" means ACH and any other person nominated by ASTC and approved by the Commission when operating as a central counterparty to a transaction novated in accordance with the operating rules of an Approved Clearing Facility.

"CCP BATCH INSTRUCTION" means either a CCP Gross Batch Instruction or a CCP Net Batch Instruction.

"CCP DERIVATIVES PAYMENT BATCH INSTRUCTION" means an Instruction notified by CCP to ASTC for settlement in relation to a derivatives payment in Batch Settlement on each Business Day;

"CCP GROSS BATCH INSTRUCTION" means a Batch Instruction (excluding a Dual Entry Payment Batch Instruction) to give effect to a transaction that has been novated to CCP but that has not been netted in accordance with the operating rules of the Approved Clearing Facility.

"CCP GROSS RTGS INSTRUCTION" means an RTGS Instruction to give effect to a transaction that has been novated to CCP but that has not been netted in accordance with the operating rules of the Approved Clearing Facility.

"CCP NET BATCH INSTRUCTION" means a Batch Instruction (excluding a Dual Entry Payment Batch Instruction) to give effect to a transaction that has been novated to CCP and netted in accordance with the operating rules of the Approved Clearing Facility.

"CDI" stands for CHES Depository Interest and means a unit of beneficial ownership in a Principal Financial Product, registered in the name of the Depository Nominee, and includes:

- (a) CUFS; and
- (b) DIs.

"CDI REGISTER" means a register of CDI Holdings maintained by a Principal Issuer under the Rules, consisting of:

- (a) an Issuer-Sponsored Subregister of Holders of CDIs and a CHES Subregister of Holders of CDIs; or
- (b) with the consent of ASTC, a CHES Subregister of Holders of CDI.

Note: ASTC may consent to a CDI Register consisting of a CHES Subregister only, where the relevant offer is limited to institutional Holders.

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"CERTIFICATE" means any document issued to a Holder of Principal Financial Products or Participating International Financial Products as evidence of that Holder's title to those Principal Financial Products or Participating International Financial Products, for example, a share certificate, an option certificate, debenture or warrant.

"CERTIFICATE NUMBER" means a reference number allocated by an Issuer in respect of, and printed on, a Certificate.

"CERTIFICATED HOLDING" means a Holding of Principal Financial Products on the Principal Register.

"CHANGE OF REGISTRATION DETAILS" means information altering Registration Details in the electronic records of ASTC.

"CHESS" stands for the Clearing House Electronic Subregister System operated by:

(a) ACH for the purpose of clearing Cash Market Transactions and Cash CCP Transactions; and

(b) ASTC for the purpose of settling transactions in Approved Financial Products, Transferring Financial Products and registering Transfers.

"CHESS HOLDING" means a Holding of Financial Products on the CHESS Subregister.

"CHESS PROVISION" means:

(a) a provision of these Rules; or

(b) a provision of Chapter 7 of the Corporations Act which is material to the operation of CHESS.

"CHESS RENOUNCEABLE RIGHTS SUBREGISTER" means the Subregister administered by ASTC that records Holdings of rights.

"CHESS SOFTWARE" means all systems and applications programs relevant to the operation of CHESS including (without limitation) all of the computer software maintained and used by ASTC for the purposes of CHESS (other than software used by a Facility User to communicate with CHESS).

"CHESS SUBREGISTER" means:

(a) that part of an Issuer's register;

(b) that part of a Foreign Issuer's CDI Register, for a class of the Issuer's Approved Financial Products; or

(c) the FDI Register for a class of Participating International Financial Products,

that is administered by ASTC.

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"CHESS TO CERTIFICATED" means a Transfer or Conversion of Principal Financial Products from a CHES Holding to a certificated register administered by the Principal Issuer.

"CHESS TO CHESS" means a Transfer of Financial Products from one CHES Holding to another CHES Holding.

"CHESS TO ISSUER SPONSORED" means a Transfer or Conversion of Financial Products from a CHES Holding to an Issuer Sponsored Holding.

"CLEARING ACCOUNT" means a Settlement Account or an Accumulation Account.

"CLEARING HOLDING" means a Settlement Holding or an Accumulation Holding.

"CLEARING PARTICIPANT" means a person admitted as a participant in an Approved Clearing Facility under the operating rules of that facility.

"COMMENCEMENT DATE" in relation to a class of an Issuer's Financial Products, means the date on which Financial Products in that class become Approved Financial Products.

"COMMISSION" means the Australian Securities and Investments Commission.

"COMMUNICATION" means an electronic communication within CHES which may affect the balance of a CHES Holding.

"COMPLETE CORPORATE ACTION RECORD" means a record of information relating to a Corporate Action that includes all relevant dates.

"CONFIRMED FOR INDICATOR" means, when specified in a Message transmitted by a Participant, that the Participant is seeking to effect a Transfer or Conversion as a Foreign to Foreign Allocation.

Note: the indicator to be set in such instances is "OR"

"CONFIRMED FOR FINANCIAL PRODUCTS" means the lesser of either:

(a) the number of FOR Financial Products in a Holding whose Residency Indicator is recorded by ASTC as "F", calculated as the current Holding Balance of FOR Financial Products; or

(b) the number of FOR Financial Products in a Holding whose Residency Indicator is recorded as " F", at Start of Day, adjusted by:

(i) those Financial Products transferred into the Holding pursuant to a Foreign to Foreign Allocation during that Business Day; and

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(ii) any Conversions of those Financial Products into or out of the Holding; and

(iii) those Holding Adjustments initiated by an Issuer pursuant to Rule 5.12.4; less

(iv) that number of Financial Products transferred out of the Holding pursuant to a Foreign to Foreign Allocation during that Business Day.

"CONTRAVENTION NOTICE" means a Notice given by ASTC to a Facility User under Section 12.

"CONTROLLING PARTICIPANT" in relation to a CHES Holding, means the Participant that has the capacity in CHES to either:

(a) Transfer or Convert Financial Products from the Holding; or

(b) transfer in terms of Rule 13.19.2; or

(c) Transmute FDIs from the Holding.

"CONVERSION" means a movement of Financial Products from a Holding on one Subregister to a Holding on another Subregister without any change in legal ownership.

"CONVERTIBLE FORM" means when the Participant has received all the necessary documentation such that:

(a) the registry is satisfied that the Registration Details for the Certificates, SRN or other form of Source Holding match the Registration Details for the Target Holding; and

(b) the Participant is able to initiate the Conversion message.

"CORPORATE ACTION" means:

(a) action taken by an Issuer of Financial Products for the purpose of giving an Entitlement to Holders of a class of the Issuer's Financial Products;

(b) action taken by a Principal Issuer for the purpose of giving an Entitlement in respect of Principal Financial Products held by a Depository Nominee to Holders of CDIs; and

(c) in relation to Section 13 action taken by an issuer of Participating International Financial Products for the purposes of giving an Entitlement in respect to Participating International Financial Products, held by a Depository Nominee.

"CS FACILITY" means a CS facility licensed as such under the Corporations Act or a Foreign Clearing House.

"CUFS" stands for CHES Units of Foreign Securities and means a unit of beneficial ownership in a Financial Product of a Foreign Issuer, registered in the name of the Depository Nominee.

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"CUM ENTITLEMENT" in relation to a Transfer or a Conversion, means a Transfer or Conversion of Parent Financial Products together with the Entitlement to a Corporate Action.

"CUM ENTITLEMENT BALANCE" means, in respect of a Corporate Action, the number of Parent Financial Products to be used by the Issuer to calculate the Entitlement of a Holder or a former Holder of Parent Financial Products.

"CUM PROCESSING" means processing of Cum Entitlement Transfers and Conversions by deducting Financial Products from or entering Financial Products into the Cum Entitlement Balance for a Holding.

"CURRENT VALUATION" means the current market valuation of Financial Products, being the last sale price for the Financial Products at the close of business on the previous Business Day, or if a higher offer price or lower bid price exists at that time, that price.

"CUSTODIAL PURPOSES" for the purposes of Rule 6.3.4 means in relation to Financial Products in a Clearing Holding, any purpose other than the purpose of facilitating:

- (a) the execution of outstanding orders; or
- (b) the clearing and settlement of outstanding transactions.

"DEBIT CAP" in relation to a Net Position Record for an RTGS Participant, means a facility within the Feeder System that, if activated, enables the Participant's Net Position Record to go into debit up to the Debit Limit, at any time when the relevant RTGS Payments Provider is deemed to have made the election set out in Rule 11.9.2.

"DEBIT CAP COMPLIANT" in Section 11, has the meaning given in Rule 11.20.2.

"DEBIT CAP STATUS" means at any time the status of a Debit Cap as authorised at that time by the RTGS Payments Provider for the relevant RTGS Participant, being either:

- (a) active; or
- (b) null (inactive).

"DEBIT LIMIT" in relation to a Debit Cap at any time, means the dollar amount:

- (a) most recently notified in accordance with Rules 11.9.1(c) and 11.9.3(c); and
- (b) recorded by ASTC against the Net Position Record to which that Debit Cap applies.

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"DELIVERY OBLIGATION" in relation to an RTGS Instruction, means an obligation on the part of one party to deliver certain Financial Products to the other on settlement.

"DEMAND REPORT" means a Message Transmitted by ASTC to a Facility User to provide information about CHESSE Holdings or CHESSE Subregister movements in accordance with parameters specified by the Facility User.

"DEMAND TRANSFER" means a Transfer other than a Settlement Transfer.

"DEMAND TRANSFER SETTLEMENT" means settlement of a Batch Instruction is effected by the counterparties by Demand Transfer

"DEPOSITARY NOMINEE" means the person appointed under these Rules, being either:

(a) CHESSE Depositary Nominees Pty Ltd (as long as it remains admitted to participate in CHESSE under Rule 4.3.1); or

(b) a person admitted as a General Settlement Participant under Rule 4.3.1, whose function is to hold Title or Other Interest to Principal Financial Products or Participating International Financial Products.

"DERIVATIVES" means derivatives entered into on a market in a derivatives instrument that is operated by an Approved Market Operator.

"DERIVATIVES COVER" means Financial Products lodged with, or otherwise made available to, an Approved Clearing Facility as security for deposits or margins payable in relation to Derivatives transactions.

"DESPATCH" in relation to Financial Products to be entered into a CHESSE Holding pursuant to a Corporate Action, means Transmit a Message to enter the Financial Products into the Holding.

"DESPATCH DATE" means the date by which an Issuer is required to have despatched Certificates (or in the case of rights, entitlement and acceptance forms in relation to those rights) or to have entered Financial Products (including rights) into Holders' uncertificated Holdings in accordance with Listing Rules or otherwise as determined by the relevant Approved Market Operator and notified from time to time.

"DI" stands for Depositary Interest and means a unit of beneficial ownership in a Financial Product which is not a Financial Product of a Foreign Issuer, registered in the name of the Depositary Nominee.

"DI ISSUER" means an Issuer of Financial Products quoted on ASX, a condition of the issue being that the Financial Products are held by investors in Australia in the form of DIs.

"DIRECT BATCH INSTRUCTION" means a Batch Instruction under which the obligations are effected by the counterparties directly.

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"DIRECT HOLDING" means a CHES Holding where the Holder is:

- (a) the Controlling Participant; or
- (b) if the Controlling Participant is an incorporated entity, a Related Body Corporate of that Participant; or
- (c) if the Controlling Participant is a partnership, a nominee company provided all of its issued capital is owned by the partners.

"DISCIPLINARY REGISTER" means the register maintained by ASTC under Rule 12.6.1.

"DISCIPLINARY TRIBUNAL" means the tribunal established under Rule 12.4.

"DIVESTMENT" means action taken by an Issuer to require or effect the disposal of Financial Products.

"DUAL ENTRY BATCH INSTRUCTION" means a Batch Instruction that results from Matched Dual Entry Settlement Messages.

"DUAL ENTRY BATCH MESSAGE" means a Message that complies with Rule 10.9.2.

"DUAL ENTRY DEMAND MESSAGE" means a Message that complies with Rule 9.5.1.

"DUAL ENTRY DEMAND TRANSFER" means a Demand Transfer of Financial Products that gives effect to a Dual Entry Demand Message.

"DUAL ENTRY PAYMENT BATCH INSTRUCTION" means a Batch Instruction that results from Matched Dual Entry Payment Batch Messages.

"DUAL ENTRY PAYMENT BATCH MESSAGE" means a Message that complies with Rule 10.9.2.

"DUAL ENTRY RTGS INSTRUCTION" means an RTGS Instruction that results from Matched Dual Entry RTGS Messages.

"DUAL ENTRY RTGS MESSAGE" means an RTGS Message that relates to a DvP RTGS Transaction.

"DUAL ENTRY SWITCH TO BATCH SETTLEMENT MESSAGE" in relation to a Dual Entry RTGS Instruction, means a Message that, in accordance with the requirements of the EIS, requests that an RTGS Instruction be removed from Real Time Gross Settlement and included in Batch Settlement under Section 10.

"DUAL ENTRY SWITCH TO RTGS MESSAGE" means a Message that, in accordance with the requirements of the EIS, requests that an Batch Instruction be removed from DvP Batch Settlement and included in Real Time Gross Settlement under Section 11.

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"DVP BATCH INSTRUCTION" means a Batch Instruction to be settled in DvP Batch Settlement.

"DVP BATCH SETTLEMENT" means a component of Batch Settlement in which irrevocable payment is made through the funds transfer procedures or alternative payment arrangements specified in Rule 10.7.1 or 10.7.2 in exchange for the irrevocable Transfer of Financial Products.

"DVP DECLARATION" means the time when all the registered payment instructions in the CHESSE Payments Provider User Group are simultaneously effected for the purposes of Batch Settlement.

"DVP INSTRUCTION" means:

- (a) a DvP Batch Instruction; or
- (b) a DvP RTGS Instruction.

"DVP NOTIFICATION" means the notification of DvP Declaration to be given by ASTC to a Payments Provider under the Standard Client Bank Deed.

"DVP REAL TIME GROSS SETTLEMENT" means a component of Real Time Gross Settlement in CHESSE in which the Payment Obligation and the Delivery Obligation identified in a DvP RTGS Instruction are irrevocably and simultaneously settled in accordance with Rule 11.25.

"DVP RTGS" stands for DvP Real Time Gross Settlement.

"DVP RTGS INSTRUCTION" means an RTGS Instruction that identifies a Payment Obligation and a Delivery Obligation.

"DVP SETTLEMENT" means:

- (a) DvP Batch Settlement; or
- (b) DvP Real Time Gross Settlement.

"EFFECTIVE DATE" means the date referred to in a Participant Change Notice on which the novation of a Client Agreement is deemed to have occurred.

"EIS" stands for External Interface Specification, and means a document, made by ASTC, that provides detailed information about protocols, message formats and security features for communications between Facility Users and ASTC.

"ELECTION DATE" means the date by which a person must instruct an Issuer if the person wishes to convert or exercise Financial Products in accordance with the terms of a Corporate Action.

"EMPLOYEE" includes a director, partner, employee, officer, consultant, agent, representative, advisor or an independent contractor who acts for or by arrangement with a Participant or Issuer in the conduct of its business.

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"END OF DAY" means on any Trading Day, 7:00pm Sydney time or such other time as ASTC may from time to time determine.

"END OF DAY PROCESSING PHASE" means on any Trading Day, the time period after End of Day during which various scheduled processing and system administration tasks are completed (for example, financial products maintenance, corporate action processing, archiving and system backup).

"ENTITLEMENT" means a security benefit as defined in Regulation 7.5.01 of the Corporations Regulations and includes (without limitation):

- (a) rights;
- (b) bonus issues;
- (c) dividend, interest and trust distribution payments;
- (d) priority issues;
- (e) offers under an equal access scheme; and
- (f) in relation to Participating International Financial Products means any equivalent or similar benefit (however described) provided or offered by the issuer of the Participating International Financial Products.

"ENTITLEMENT DATE" in relation to Section 13 means, a date specified by the Depository Nominee as the date by reference to which the Depository Nominee will identify the persons entitled to the benefit of a Corporate Action.

"ETF APPLICATION" means the application required by an Issuer to enable new ETF Financial Products to be created and despatched to a subscriber.

"ETF FINANCIAL PRODUCTS" means Financial Products of a registered managed investment scheme:

- (a) listed on an Approved Market Operator;
- (b) with power and approval to continually issue and have quoted on an Approved Market Operator, Financial Products in the scheme; and
- (c) which provides for the issue of new Financial Products in return for the subscriber transferring to the scheme a portfolio of Financial Products.

"EVENT OF NON-COMPLIANCE" means an event for which Notice must be given under Rule 12.18.

"EX DATE" means the date on which the relevant Approved Market Operator changes the basis of quotation for a class of Parent Financial Products to signify that trading in that class no longer carries the entitlement.

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"EX ENTITLEMENT" in relation to a Transfer or a Conversion, means a Transfer or Conversion of Parent Financial Products without the Entitlement to a Corporate Action.

"EX PERIOD" means the Period from Start of Day on the Ex Date to End of Day on the Record Date in respect of a Corporate Action.

"EXCESS FINANCIAL PRODUCTS" means:

(a) those FOR Financial Products determined by an Issuer that cause the Foreign Ownership Percentage Level to be exceeded; or

(b) with the exception of a Foreign to Foreign Allocation, those FOR Financial Products determined by an Issuer, where the Issuer is authorised to do so under its constitution or governing legislation, to have been transferred into a Holding with a Residency Indicator of "F", on the day when the Foreign Ownership Percentage Level Foreign Holder Percentage Level is exceeded.

"EXCLUDED CLASS OF FINANCIAL PRODUCTS" means a class of Financial Products declared by ASTC from time to time as a class of Financial Products that is not eligible for processing in CHES.

"EXCLUDED CASH SUB-RECORD" means a Cash Sub-record so designated by an RTGS Participant for the purposes of Rule 11.20.

"EXEMPTION CODE" means a numeric code in the form approved by the Australian Taxation Office for the purpose of TFN exemption reporting.

"FACILITY USER" means:

(a) a Participant; or

(b) an Issuer of Approved Financial Products.

"FAIL" means the removal under the Rules of the whole or part of an Instruction from Batch Settlement or Real Time Gross Settlement, on a Business Day.

"FDI" stands for Foreign Depository Interest and which comprises a beneficial interest or Other Interest in a Participating International Financial Product held by a Depository Nominee.

"FDI REGISTER" means the record of Holders of FDIs containing the information required by Rule 13.19.4.

"FDI TRANSACTION" means a transaction where on transfer of clear funds the Depository Nominee records or removes FDIs in the FDI Register, as the case requires.

"FEEDER SYSTEM" in relation to CHES, means collectively the systems and procedures to effect Real Time Gross Settlement

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utilising an electronic interface to RITS/RTGS and, when appropriate, the AIF.

"FEEDER SYSTEM QUEUE" means the facility within the Feeder System to:

(a) test RTGS Instructions within CHES in the manner contemplated by Rules 11.18, 11.19 and 11.20; and

(b) hold and allow ASTC to monitor unsettled RTGS Instructions during the RTGS Settling Phase.

"FEES AND CHARGES SCHEDULE" means the Fees and Charges Schedule made by ASTC under Rule 1.6.

"FINANCIAL PRODUCTS" means:

(a) Division 4 financial products as defined in Regulation 7.11.03 of the Corporations Regulations; or

(b) For the purposes of Rule 8.3.2, financial products issued under an employee incentive scheme and company issued options.

"FINANCIAL PRODUCTS CODE" means the code that is assigned to a class of Approved Financial Products by an Approved Market Operator.

"FINANCIAL PRODUCTS SHORTFALL" means (the number that is greater than zero, where the number is calculated by the total number of Financial Products of a class projected to be delivered from a Holding in Scheduled Settlement on a Business Day) less the sum of the number of Financial Products of that class in that Holding at Settlement Cut-Off on that Business Day and of the total number of Financial Products of that class projected to be received into that Holding in Scheduled Settlement on that Business Day where:

$SS = D - (H + R)$  and:

SS is the Financial Products Shortfall

D is the total number of Financial Products of a class projected to be delivered from the Holding

H is the number of Financial Products of a class in the Holding

R is the total number of Financial Products of a class projected to be received into the Holding.

"FINANCIAL PRODUCTS TRANSFORMATION" means either:

(a) an adjustment to the Holding Balance of a CHES Holding initiated by the Issuer because Financial Products in the Holding have:

(i) been absorbed into an existing class of Financial Products (for example, Financial Products that do not rank for a Dividend to Financial Products that do); or

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(ii) been assigned a new Financial Product Code (for example, because of a Reconstruction); or

(b) in respect of Allocation Interests, an adjustment to a Holding of Allocation Interests initiated by the Issuer in order to despatch Approved Financial Products under Rule 15.27.

"FIRM ALLOCATION COMPONENT" means that part of an Offer which is reserved for clients of a Participant under an agreement between the Issuer and a Participant.

"FOR FINANCIAL PRODUCTS" means a class of Approved Financial Products included in Schedule 1, pursuant to Rule 5.18.2.

"FOREIGN CLEARING HOUSE" means a person which:

(a) has its principal place of business in a country other than Australia;

(b) is authorised to provide clearing and settlement services in the country in which it has its principal place of business; and

(c) is subject to prudential and/or other regulatory supervision in the country in which it has its principal place of business by a regulatory authority that has entered into an information sharing arrangement dealing with market matters with the Commission.

"FOREIGN CONFIRMED HOLDING NET MOVEMENT REPORT" means a report that:

(a) for the specified period; and

(b) in respect of each CHESS Holding containing Confirmed FOR Financial Products in the specified

sets out a summary on a daily basis of:

(c) total units added to the Holding pursuant to Foreign to Foreign Allocations;

(d) total units deducted from the Holding pursuant to Foreign to Foreign Allocations;

(e) total units added to the Holding of Confirmed FOR Financial Products as a result of registry authorised transactions;

(f) total units deducted from the Holding of Confirmed FOR Financial Products as a result of registry authorised transactions; and

(g) the end of day closing balance for the Holding.

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"FOREIGN ISSUER" means an Issuer whose place of incorporation does not recognise CHES as a system that can transfer and register legal Title to Financial Products.

"FOREIGN OWNERSHIP PERCENTAGE LEVEL" means the aggregate limit of foreign ownership, pursuant to the constitution or governing legislation of an Issuer whose Financial Products are included in Schedule 1.

"FOREIGN PERSON" means, where specified pursuant to Rule 8.7.2, that the Holder has notified the Controlling Participant that the beneficial owner of the Financial Products in the Holding, for the purposes of legislation or under the constitution of an Issuer whose Financial Products are included in Schedule 1:

- (a) is a foreign person;
- (b) is an associate of a foreign person; or
- (c) has a beneficial interest in the Financial Products, part of that beneficial interest vesting in a Foreign Person,

other than persons, associates or interests which the legislation or constitution ignores or excludes for the purposes of aggregate foreign ownership restrictions.

Note: a Residency Indicator of "F" denotes a Foreign Person

"FOREIGN REGISTER" means a register of an Issuer that is located outside Australia.

"FOREIGN FINANCIAL PRODUCTS" means financial products issued or made available by a Foreign Issuer.

"FOREIGN TO FOREIGN ALLOCATION" means a Transfer or Conversion of Confirmed FOR Financial Products, including a Transfer pursuant to a transaction effected in accordance with the operating rules of an Approved Market Operator, where the Residency Indicator of both the Source and Target Holdings is "F", thus resulting in a Holding of Confirmed FOR Financial Products.

Amended 18/12/06

"FULL DOWNLOAD" in relation to the CHES Subregister for a class of an Issuer's Financial Products, means a Demand Report Transmitted to the Issuer of:

- (a) the HINs of all Holders on the Subregister; and
- (b) the Holding Balances of all Holdings; and/or
- (c) the Cum Entitlement Balances for all Holdings or former Holdings.

"GENERAL SETTLEMENT PARTICIPANT" means a Participant admitted to participate in the Settlement Facility under Rule 4.3 but does not include a Recognised Market Operator under Rule 4.3.13.

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"HELD BALANCE" means the number of Financial Products that remain in a Certificated Holding after a Transfer by a Participant of only some of the Financial Products represented by a Certificate or Marked Transfer.

"HELD BALANCE REFERENCE NUMBER" means the number allocated by an Issuer to identify a Held Balance.

"HIN" stands for Holder Identification Number and means a number used to:

(a) identify a Holder of Financial Products on the CHES Subregister; and

(b) link the Holding details maintained on the CHES Subregister with the Holder's Registration Details.

"HOLDER" means:

(a) a person registered as the legal owner of Financial Products in a Holding;

(b) a person who is recorded as holding CDIs on the CDI Register;

(c) a person who is recorded on a record of Allocation Interests; or

(d) a person who is recorded as holding FDIs on the FDI Register.

"HOLDER RECORD" means the Registration Details, the HIN and the Holder Type as recorded by ASTC in CHES for the purpose of operating one or more CHES Holdings.

"HOLDER RECORD LOCK" means a facility that prevents Financial Products from being deducted from any current Holding to which the relevant Holder Record applies, pursuant to a Transfer or Conversion.

"HOLDER TYPE" means a code used to indicate the capacity in which a Participant:

(a) establishes a Holder Record;

(b) controls a CHES Holding, (for example, Direct, Participant Sponsored or Clearing Account).

"HOLDING" means:

(a) a number of Financial Products of an Issuer held by a Holder on the Issuer's register;

(b) a number of CDIs held by a Holder on the CDI Register;

(c) a number of Allocation Interests recorded in respect of a Holder; or

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(d) a number of FDIs recorded as held by a Holder on an FDI Register.

"HOLDING ADJUSTMENT" means a movement of Financial Products to or from a CHES Holding that is initiated by an Issuer Transmitting a Message to ASTC to:

(a) give effect to a Corporate Action or Reconstruction in relation to a class of the Issuer's Financial Products;

(b) establish a CHES Holding pursuant to a new issue of Approved Financial Products;

(c) move Financial Products from a CHES Holding for the purpose of Divestment or forfeiture; or

(d) move Financial Products to or from a CHES Holding in such other circumstances as:

(i) are permitted by these Rules; or

(ii) may be agreed between ASTC and the Issuer.

"HOLDING BALANCE" means the number of Financial Products in a Holding.

"HOLDING LOCK" means, in relation to a Holding on either the CHES Subregister or an Issuer Operated Subregister, a facility that prevents Financial Products from being deducted from, or entered into, a Holding pursuant to a Transfer or Conversion.

"HOLDING NET MOVEMENT REPORT" means a report that:

(a) for the specified period; and

(b) in respect of each CHES Holding of Financial Products in the specified class that has undergone a Holding Balance change during the specified period,

(c) sets out, a summary on a daily basis of:

(i) total units added to the Holding;

(ii) total units deducted from the Holding;

(iii) total units added to the Holding as a result of registry authorised transactions;

(iv) total units deducted from the Holding as a result of registry authorised transactions; and

(v) the End of Day closing balance for the Holding.

"INCAPACITY LAW" means a law relating to the administration of the estates of persons who, through mental or physical incapacity, are incapable of managing their affairs.

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"INDUSTRY GROUP" means one of the following groups:

- (a) Participants or senior officers of Participants; or
- (b) senior officers of Issuers or of Issuers' Third Party Providers.

"INSTRUCTION" means a Batch Instruction or an RTGS Instruction.

"ISSUER" means a person who issues or makes available or proposes to issue or make available, Approved Financial Products and includes (without limitation):

- (a) a listed company or company whose Financial Products are quoted by a market licensee or by a financial market or type of financial market exempted under section 791C of the Corporations Act;
- (b) a warrant issuer;
- (c) the responsible entity of a managed investment scheme;
- (d) a Foreign Issuer.

"ISSUER OPERATED SUBREGISTER" means an Issuer Sponsored Subregister.

"ISSUER SPONSORED HOLDING" means a Holding of Financial Products on the Issuer Sponsored Subregister.

"ISSUER SPONSORED SUBREGISTER" means:

- (a) that part of an Issuer's register that records uncertificated Holdings of Financial Products in accordance with Listing Rule 8.2; or
- (b) that part of a CDI Register, that is administered by the Issuer (and not ASTC).

"ISSUER SPONSORED TO CHES" means a Transfer or Conversion of Financial Products from an Issuer Sponsored Holding to a CHES Holding.

"ISSUER WARRANTIES AND INDEMNITIES" means warranties and indemnities given by an Issuer under these Rules.

"LAST CORPORATE ACTION EVENT DATE" means in the case of an Entitlement under a Corporate Action that involves:

- (a) the issue of Financial Products only, the Despatch Date;
- (b) the payment of money only, the due date of payment; or
- (c) a combination of the issue of Financial Products and the payment of money, the later of the Despatch Date and the due date of payment,

where, before the date when the Issuer must have completed its obligation to pay money or issue Financial Products is unknown or unclear the Last Corporate Action Event Date will be a date

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ASTC reasonably determines is appropriate in the circumstances and notifies the Issuer and each Participant.

"LISTING RULES" means the Listing Rules of an Approved Market Operator.

"LOCKED" in relation to a Holding, means subject to a Holding Lock or a Holder Record Lock.

"MAC" stands for Message Authentication Code, and means a code appended to a Message by ASTC or a Facility User for the purpose of enabling the recipient of the Message to confirm the identity of the Facility User Transmitting the Message.

"MARKED TRANSFER" means a Registrable Transfer Document that has been marked by the Issuer or a marking body.

"MARKET OPERATOR" means:

(a) ASX; or

(b) in the Rules made from time to time pursuant to arrangements entered into under section 798C of the Corporations Act, in relation to quoted financial products issued by ASX, "the Commission"; or

(c) in relation to:

(i) a class of financial products quoted, or to be quoted by; or

(ii) a participant of a market licensee under the Corporations Act other than ASX,

that market licensee; or

(d) the operator of a financial market or type of financial market exempted under section 791C of the Corporations Act.

"MARKET PARTICIPANT" means a participant of an Approved Market Operator.

"MARKETABLE PARCEL" means in relation to a Financial Product, the number determined by an Approved Market Operator to be a marketable parcel.

Introduced 18/12/06

"MARKING NUMBER" means the unique reference number allocated to a Marked Transfer by the Issuer or a marking body.

"MATCH AND MATCHED" in relation to Messages Transmitted to ASTC by a Participant, means that the Message contains, or under the Rules may be taken to contain, the same details for message fields that require mandatory matching.

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"MATCHED MESSAGES" means:

(a) in relation to Dual Entry RTGS Messages, Messages that are Matched under Rule 11.13.3;

(b) in relation to Dual Entry Batch Messages, Messages that are Matched under Rule 9.5.2 or 10.9.3;

(c) in relation to Dual Entry Switch to Batch Settlement Messages, Messages that are Matched under Rule 11.12.3;

(d) in relation to Dual Entry Switch to RTGS Messages, Messages that are Matched under Rule 10.6.1 or 10.11.8; and

(e) in relation to Dual Entry Payment Batch Messages, Messages that are Matched under Rule 10.8.3,

and in any other case means Valid Messages that are Matched.

"MAXIMUM PERCENTAGE" means 10% or such other percentage prescribed by ASTC.

"MAXIMUM VALUE" means \$350,000 or such other amount prescribed by ASTC.

"MESSAGE" means an electronic message of a kind specified in the EIS for use in CHES.

"NET POSITION RECORD" in relation to an RTGS Participant, means a facility established within CHES through which ASTC tracks and records the outcome of RTGS Instructions due for settlement on any RTGS Business Day, that relate to a particular Payment Facility of that Participant.

"NET POSITION RECORD STATUS" means at any time the status of a Net Position Record as authorised at that time by the RTGS Payments Provider that maintains the Payment Facility to which that Net Position Record is linked, being either:

(a) active; or

(b) inactive.

"NOMINEE COMPANY" means a body corporate controlled and operated by a Participant admitted under Rule 4.3.1 that carries on the business of holding Financial Products as a trustee or nominee.

"NOTICE" has a meaning given by Rule 1.10.

"NOTICE OF DEATH" means a death certificate or any other formal document that is acceptable by ASTC as evidence of a Holder's death.

"OFF MARKET TRANSACTION" means a transaction in Approved Financial Products that is not an On Market Transaction.

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"OFFER" means:

- (a) an offer for subscription or an invitation to subscribe for Financial Products, under which an Issuer must issue; or
- (b) an offer under which an Issuer must dispose of,

Approved Financial Products to successful applicants.

"OFFER ACCEPTED SUBPOSITION" means a Subposition for the reservation of Financial Products in a CHES Holding which are the subject of an acceptance under a takeover bid.

"OLD CORPORATIONS ACT" means the Corporations Act as in force immediately before 11 March 2002.

"ON MARKET TRANSACTION" means a transaction in Approved Financial Products in relation to which one of the following conditions is satisfied:

- (a) the transaction was entered into in the ordinary course of trading on an Approved Market Operator's market; or
- (b) the transaction is, under the operating rules of an Approved Market Operator, described, or to be described, as 'special' when it is reported to the Approved Market Operator; or
- (c) in relation to a transaction between a Participant and a Participant who is not a Market Participant, a confirmation is issued in relation to a transaction under paragraph (a) or (b); or
- (d) in relation to a transaction between two Participants that are not Market Participants, the transaction is entered into solely for the purpose of facilitating settlement of a transaction of a kind referred to in paragraph (a) or (b).

"ORIGINATING MESSAGE" means a Message Transmitted to ASTC by the Controlling Participant for a CHES Holding which (as a consequence of that Message being processed) results in ASTC or a Facility User Transmitting another Message (whether or not that consequential Message also results from the processing of any intervening Message).

"OTHER INTEREST" means any right or interest whether legal or equitable in the Participating International Financial Product and includes an option to acquire a right or interest in the Participating International Financial Product.

"PARENT BATCH INSTRUCTION" means a Batch Instruction that gives rise to an Accrued Batch Instruction as a result of a Corporate Action.

"PARENT DVP BATCH INSTRUCTION" means a Parent Batch Instruction with a Settlement Amount scheduled to settle in DvP Batch Settlement.

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"PARENT DVP RTGS INSTRUCTION" means a Parent RTGS Instruction with a Settlement Amount scheduled to settle in DvP Real Time Gross Settlement.

"PARENT FINANCIAL PRODUCTS" means a class of Approved Financial Products to which an Entitlement to cash or Financial Products attaches that, during an Ex Period, may be Transferred with or without the Entitlement.

"PARENT PARTICIPANT" means:

(a) in relation to a group of Participants within paragraph (a) of the definition of Participant Group, any Participant within that group that is notified to ASTC by all the Participants within that group; or

(b) in relation to a group of Participants within paragraph (b) of the definition of Participant Group, the Settlement Participant that is notified to ASTC by all the Participants within that group.

Amended 18/12/06

"PARENT RTGS INSTRUCTION" means an RTGS Instruction that gives rise to an Accrued RTGS Instruction as a result of a Corporate Action.

"PARTICIPANT" means an Account Participant, a Specialist Settlement Participant, or a General Settlement Participant.

"PARTICIPANT BIDDER" means a Participant entitled or authorised (whether as the bidder or on behalf of the bidder) to receive acceptances of bids made under a takeover bid in accordance with these Rules.

"PARTICIPANT CHANGE NOTICE" means the Notice sent to a Participant Sponsored Holder which complies with the requirements of Rule 7.1.10(a)

"PARTICIPANT GROUP" means:

(a) a group of Participants that are related bodies corporate within the meaning of section 50 of the Corporations Act; or

(b) a Settlement Participant which has a written agreement with one or more Account Participants and each of those Account Participants with whom it has a written agreement.

Amended 18/12/06

"PARTICIPANT MANAGED" in relation to the attributes of a Net Position Record, means any of the matters set out in Rule 11.9.11.

"PARTICIPANT SPONSORED HOLDER" means a person that has a current Sponsorship Agreement with a Participant as required or permitted under these Rules.

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"PARTICIPANT SPONSORED HOLDING" means a CHES Holding of a Participant Sponsored Holder.

"PARTICIPANT WARRANTIES AND INDEMNITIES" means warranties and indemnities given by a Participant under these Rules.

"PARTICIPATION REQUIREMENTS" means matters set out in Section 4 in relation to which ASTC must be satisfied in order for a person to be admitted to participate in CHES in any capacity.

"PARTICIPATING INTERNATIONAL FINANCIAL PRODUCTS" mean financial products:

- (a) traded on a market other than in Australia; and
- (b) declared by ASTC under Rule 13.15 from time to time to be available for settlement by means of FDIs.

Note: financial products in this definition are not restricted by jurisdictional limits in the Corporations Act.

"PARTY" in relation to a Proceeding or Appeal, means:

- (a) the Facility User to whom a Contravention Notice was given in the Proceeding; or,
- (b) ASTC or the Facility User to or by whom an Appeal Notice was given in the Appeal, as the case requires.

"PAYMENT BATCH INSTRUCTION" means:

- (a) a CCP Derivatives Payment Batch Instruction; or
- (b) a Dual Entry Payment Batch Instruction.

"PAYMENT FACILITY" means a Facility operated for a Participant at a Payments Provider for the purposes of paying and receiving payments in Batch Settlement.

"PAYMENT OBLIGATION" in relation to an RTGS Instruction means an obligation on the part of one party to pay a cash amount to the other on settlement.

"PAYMENT SHORTFALL" for a Payment Facility, means:

- (a) if the Participant's net obligation to make payment is not authorised, the amount of the net obligation for which authorisation is sought; or
- (b) if the Participant's net obligation to make payment is not authorised, the difference between the amount of the net obligation to make the payment that has already been authorised by the Payments Provider and the amount of the net obligation to make a payment for which further authorisation is sought from the Payments Provider.

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"PAYMENT SYSTEMS AND NETTING ACT" means the Payment Systems and Netting Act 1998 (Cth).

"PAYMENTS PROVIDER" means a person that:

(a) operates an exchange settlement account with the Reserve Bank of Australia in its own name;

(b) has the operational capacity to:

(i) authorise and make payments on behalf of Participants;

(ii) make payments to Participants; and

(iii) register entries in the Payments Provider User Group for the purpose of discharging its net obligation to make payment to the Bank or its net entitlement to receive payment from the Bank in accordance with the Standard Payments Provider Deed;

(c) meets the technical and performance requirements prescribed by ASTC to ensure that the person does not affect the integrity or orderly operation of CHESSE; and

(d) is a person who facilitates Batch Settlement by approving or making payments in accordance with the terms and conditions of the relevant Standard Payment Providers Deed.

"PAYMENTS PROVIDER MANAGED" in relation to the attributes of a Net Position Record, means any of the matters set out in Rule 11.9.3(a) to (f).

"PAYMENTS PROVIDER USER GROUP" means the subsystem within the interbank payments system, operated by the Reserve Bank of Australia, established to enable financial institutions to satisfy payment obligations of CHESSE Participants on behalf of CHESSE Participants.

"PID" stands for participant identifier and means a UIC allocated by ASTC to a Participant that is:

(a) used as the identification code of the Participant that controls a Holding on the CHESSE Subregister; and

(b) included in a Message header to identify the source and/or destination of CHESSE Data Messages.

"PRE-CASH SETTLEMENT PERIOD" means, for the purposes of Regulation 7.5.44 of the Corporations Regulations 15 Business Days.

"PRE-COMMENCEMENT TESTING" means testing at the direction of ASTC to establish whether a Facility User meets the Technical and Performance Requirements.

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"PRESCRIBED PERCENTAGE" means 50% or such other percentage determined by ASTC.

"PRESCRIBED PERSON" means the person from time to time notified as such by ASTC to Participants and RTGS Payments Providers.

"PRINCIPAL" in relation to a body, means each of:

- (a) any parent body of the body;
- (b) each Director or person in the position of a Director;
- (c) where the body consists of two or more partners or trustees, each principal (within the meaning of paragraphs (a) and (b)) of each of those partners or trustees.

"PRINCIPAL FINANCIAL PRODUCTS" means Financial Products issued or made available by a Principal Issuer.

"PRINCIPAL ISSUER" means:

- (a) a Foreign Issuer; or
- (b) a DI Issuer.

"PRINCIPAL REGISTER" means the register of those Holdings of Principal Financial Products maintained by a Principal Issuer in Australia under these Rules.

"PROCEDURES" means any document, electronic file or other information (recorded by any mode of representing words or reproducing words) approved by ASTC and given where applicable to Participants, Issuers and third party service providers in accordance with Rule 1.4 and, without limitation, includes any EIS and the ASTC Settlement Procedures as amended from time to time.

Amended 18/12/06

"PROCEEDING" means proceedings taken under Section 12 by ASTC against a Facility User and commenced by a Contravention Notice.

"PUBLISH A NOTICE" means to publish a Notice in at least one national newspaper and at least one state or territory based newspaper in each state and territory.

"REAL TIME GROSS SETTLEMENT" means the processing and settling of payment and delivery obligations in real time and on a gross, not net, basis, the fundamental characteristic of which is that the payment and delivery components of a transaction become irrevocable at the time of settlement and, in relation to CHES, is effected in accordance with systems and procedures contained in Section 11.

"RECIPROCAL ARRANGEMENT" means any agreement or arrangement between ASTC and any governmental agency or

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regulatory authority (including, without limitation, a market, clearing house or clearing and settlement facility), in Australia or elsewhere, whose functions include the regulation of trading in, or clearing and settlement of, financial products (in Australia or elsewhere) which provides for the disclosure of information between ASTC and the other party in relation to dealings in, or clearing and settlement of, financial products (in Australia or elsewhere).

"RECOGNISED MARKET OPERATOR" means a Market Operator admitted as a Participant under Rule 4.3.1 and which is recognised under Rule 4.3.13.

"RECOGNISED PHYSICAL ACCESS POINT" means:

(a) in the case of a Facility User, the physical location of an application system that the Facility User employs to operate an interface with CHES; or

(b) in the case of ASTC, the physical location of the application system that operates CHES.

"RECONSTRUCTION" means an alteration to the issued capital of an Issuer, which affects the number, or nature, of Financial Products held by a Holder and includes ( without limitation) a reorganisation or a merger.

"RECORD DATE" means 5:00pm (or, in the case of a ASTC-Regulated Transfer, a later time permitted by the Rules) on the date specified by an Issuer as the date by reference to which the Issuer will establish Cum Entitlement Balances for the purpose of identifying the persons entitled to the benefit of a Corporate Action.

"RECORDED" in relation to an RTGS Instruction, means that its details have been stored in CHES in accordance with Rule 11.15.

"RECORDS" means books, computer software, information processing equipment and any other item on which information is stored or recorded in any manner.

"REGISTRABLE TRANSFER DOCUMENT" means any document that an Issuer is entitled to accept as a valid instrument of transfer or a Transfer Request Document.

"REGISTRATION DETAILS" means the name, address and Residency Indicator of a Holder.

"RELATED BODY CORPORATE" has the meaning set out in Section 50 of the Corporations Act.

"RELATED PARTY" means each entity in the ASX Group.

"REMOVE" means to move a Holding between a Principal Register and a CHES or an Issuer Operated Subregister without a change of legal ownership.

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"RENOUNCEABLE RIGHTS RECORD" means the record maintained by an Issuer of Holders of renounceable rights not held on the CHESSE Rights Subregister.

"REPORT" means a Standing Report or a Demand Report.

"REPORTING POINT" means a particular point during a Business Day when information is stored by CHESSE for the purposes of reporting data to Facility Users; Acceptable values comprise:

- (a) end of Settlement Processing Phase;
- (b) Trade Instruction Cut-Off;
- (c) End of Day.

"RESERVE" in Section 11 in relation to Financial Products, has the meaning given in Rule 11.19.1(d).

"RESERVED PROCESSING PERIOD" means the End of Day Processing Phase.

"RESIDENCY INDICATOR" means a code used to indicate the status of the ultimate beneficial owner or owners of FOR Financial Products in a Holding on the CHESSE Subregister or an Issuer Operated Subregister, for the purposes of settling transactions in FOR Financial Products. (i.e. "D" for Domestic, "F" for Foreign Person, and in the case of Holdings of Financial Products where beneficial ownership is both domestic and foreign, "M" for Mixed).

"RESTRICTED FINANCIAL PRODUCTS" means Financial Products that are subject to a restriction agreement under Listing Rule 9.1.

"RESTRICTION" in relation to the participation of a Participant, means any limitation on the entitlement of the Participant to send a Message or a class of Messages to ASTC.

"RIGHTS PERIOD" means the period from Start of Day on the date that rights trading begins on an Approved Market Operator to End of Day on the date that application money to take up those rights must be paid to the Issuer.

"RITS" means the Reserve Bank Information and Transfer System.

"RITS POSTSETTLEMENT ADVICE" means a settlement confirmation, elected to be received by an RTGS Payments Provider, that is generated by RITS/RTGS and sent through the AIF to that RTGS Payments Provider.

"RITS PRESETTLEMENT ADVICE" means an advice, elected to be received by an RTGS Payments Provider to enable it to make a credit decision in connection with the performance of a Payment Obligation, that is generated by RITS/RTGS and sent through the AIF to that RTGS Payments Provider.

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"RITS/RTGS" means RITS, as operated by the Reserve Bank of Australia for Real Time Gross Settlement.

"RITS REGULATIONS" means the regulations and conditions of operation that govern RITS as published from time to time by the Reserve Bank of Australia.

"ROUTINE REPORTING" means electronic reporting that is generated automatically by CHES as transactions are processed.

"RTGS" stands for Real Time Gross Settlement.

"RTGS ACCOUNT IDENTIFIER" means a numeric identifier (that may, but need not, be an account number) agreed between an RTGS Participant and an RTGS Payments Provider to uniquely identify the Participant's account that is to be debited, or credited, with the amount of any Payment Obligation, on settlement of an RTGS Instruction in accordance with Rule 11.25.

"RTGS ACCREDITED" in relation to a Participant, has the meaning set out in Rule 11.5.2.

"RTGS BUSINESS DAY" means a Settlement Day within the meaning of the RITS Regulations, or any other day declared by the Reserve Bank as a day on which RITS/RTGS will operate that is notified by ASTC to Participants.

"RTGS CONTINGENCY REPORT" means a report of the settlement status of CHES-related funds transfer requests sent to RITS/RTGS that is provided to ASTC by the Reserve Bank of Australia in manner and form as agreed between them.

"RTGS CUT-OFF" means on any RTGS Business Day, 4.30pm Sydney time or such other time as ASTC may from time to time determine.

"RTGS DELIVERY SHORTFALL" in relation to Financial Products of a particular class in a Holding at any time on the RTGS Settlement Date for a particular RTGS Instruction, means that the sum of:

(a) the number of Financial Products of that class required to be delivered from that Holding in Real Time Gross Settlement under that RTGS Instruction on that day;

(b) the number of Financial Products of that class Reserved against that Holding in relation to RTGS Instructions at that time in the RTGS Settling Phase, and

(c) prior to ASTC recording under Rule 10.12.1(f)(ii) a movement of Financial Products of that class against that Holding to effect DvP Net Settlement on that day, the number of Financial Products of that class that ASTC has determined at Settlement Cut-off will be so recorded as a movement against that holding at DvP Notification on that day,

is greater than:

(d) the total number of Available Financial Products at that time in the Holding.

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"RTGS ELIGIBLE" in relation to Financial Products, has the meaning set out in Rule 11.1.1.

"RTGS END OF DAY" means on any RTGS Business Day, 5.00pm Sydney time or such other time as ASTC may from time to time determine.

"RTGS INSTRUCTION" means an instruction to ASTC to settle an RTGS Transaction in Real Time Gross Settlement through the CHESSE Feeder System, and includes a DvP RTGS Instruction, a CCP Gross RTGS Instruction and a Dual Entry RTGS Instruction.

"RTGS INSTRUCTION CUT-OFF" on any RTGS Business Day means 4.25pm Sydney time or such other time as ASTC may from time to time determine.

"RTGS MANDATORY" in relation to an RTGS Transaction, has the meaning set out in Rule 11.3.1.

"RTGS MESSAGE" means a Message that, in accordance with the requirements of the EIS, instructs ASTC to settle an RTGS Transaction in Real Time Gross Settlement.

"RTGS PARTICIPANT" means a Participant:

(a) that satisfies the criteria for participation in Real Time Gross Settlement set out in Rule 11.5; and

(b) for which a Net Position Record has been established under the Rules that records the Net Position Record Status as active.

"RTGS PARTICIPATION REQUIREMENTS" in relation to a Participant, means any technical and performance requirements notified by ASTC to the Participant to ensure that it is capable of operating in Real Time Gross Settlement.

"RTGS PAYMENTS PROVIDER" means a Payments Provider that:

(a) satisfies the criteria for participation in Real Time Gross Settlement in CHESSE set out in Rule 11.6.1; and

(b) has been admitted to participate in Real Time Gross Settlement in CHESSE in that capacity.

"RTGS PRE-COMMENCEMENT TESTING" means testing at the direction of ASTC to establish whether a prospective RTGS Participant meets the RTGS Participation Requirements.

"RTGS SETTLEMENT DATE" means the RTGS Business Day specified, or taken to be specified, in an "RTGS Instruction" as the date on which the counterparties intend that RTGS Instruction to settle in Real Time Gross Settlement.

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"RTGS SETTLEMENT REPORT" means a report required to be made available by ASTC to an RTGS Payments Provider in accordance with Rule 11.30.

"RTGS SETTLING PHASE" in relation to an RTGS Instruction, means the time period that commences in accordance with Rule 11.22.1 and ends when all components of that RTGS Instruction have been settled in CHES in accordance with Rule 11.25.

"RULES" means the operating rules of the Settlement Facility in accordance with Rule 1.2 including the appendices, schedules and any State of Emergency Rules.

"SCHEDULED TIME" means the time within or by which a requirement under these Rules must be complied with as specified in Appendix 1 to these Rules.

"SECTION" means a section of these Rules.

"SECURITY KEY" means an electronic code that is:

(a) generated by ASTC; and

(b) used to ensure secure communications between ASTC and Facility Users.

"SEGC" means Securities Exchanges Guarantee Corporation Ltd (ABN 19 008 626 793).

"SEGREGATED ACCOUNT" means an account maintained in accordance with these Rules with an Approved Clearing House which contains Principal Financial Products or Participating International Financial Products held solely on behalf of the Depository Nominee.

"SETTLEMENT ACCOUNT" means a Holder Record maintained in CHES by a Participant for the purpose of facilitating settlement of transactions in Approved Financial Products with other Participants.

"SETTLEMENT ADJUSTMENT" means an adjustment to the Settlement Amount of a DvP Batch Instruction or a DvP RTGS Instruction.

"SETTLEMENT AGENT" means a General Settlement Participant that is has a Settlement Agreement with a Clearing Participant.

"SETTLEMENT AGREEMENT" means an agreement between a General Settlement Participant and a Clearing Participant under which the General Settlement Participant agrees to act as Settlement Agent for the Clearing Participant.

"SETTLEMENT AMOUNT" means the consideration for an Instruction.

"SETTLEMENT AMOUNT TOLERANCE" means \$1.00 or such other amount that ASTC prescribes.

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"SETTLEMENT BOND" means a bond issued to ASTC at the request of a Participant in accordance with Rule 4.9.1.

"SETTLEMENT CUT-OFF" means, on any Business Day, 10.30 am Sydney time or such other time as ASTC may from time to time determine.

"SETTLEMENT DATE" means the Business Day on which an Instruction is scheduled to settle.

"SETTLEMENT FACILITY" means the facility provided by ASTC as described in Rules 1.1.1 and 1.1.2.

"SETTLEMENT HOLDING" means a Holding of Financial Products for which the Holder Record is a Settlement Account.

"SETTLEMENT PARTICIPANT" means:

(a) a Participant that has been admitted to participate in the Settlement Facility as a General Settlement Participant; or

(b) a person that has been admitted to participate in the Settlement Facility as a Specialist Settlement Participant.

"SETTLEMENT PROCESSING PHASE" in relation to DvP Net Settlement, means, on any Business Day, the time period commencing after Settlement Cut-off during which Settlement Transfers are processed by ASTC against CHES Holdings.

"SETTLEMENT TRANSFER" means a Transfer of Financial Products that gives effect to an Instruction.

"SINGLE ENTRY BATCH MESSAGE" means a Message that complies with Rule 10.9.11.

"SINGLE ENTRY BATCH INSTRUCTION" means a Batch Instruction that gives effect to a Single Entry Batch Message.

"SINGLE ENTRY DEMAND MESSAGE" means a Message that complies with Rule 9.4.1 or Rule 9.13.1.

"SINGLE ENTRY TRANSFER REQUEST" means a Demand Transfer of Financial Products that gives effect to a Single Entry Demand Message.

"SOURCE HOLDING" means the Holding from which Financial Products will be deducted in giving effect to a Transfer, Conversion, Corporate Action or other transaction.

"SPECIALIST SETTLEMENT PARTICIPANT" means a Participant admitted under Rule 4.4.

"SPONSORING PARTICIPANT" means a Participant that establishes and maintains a Participant Sponsored Holding.

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"SPONSORSHIP AGREEMENT" means a written agreement between the Sponsoring Participant and another person, signed by both parties, as required under Section 7 of these Rules.

"SPONSORSHIP BOND" means a bond issued to ASTC at the request of a Participant in accordance with Rule 4.9.3.

"SRN" stands for Security holder Reference Number and means a number allocated by an Issuer to identify a Holder on an Issuer Operated Subregister.

"STANDARD ACCEPTANCE FORM" means a standard entitlement and acceptance form in respect of renounceable rights as specified by ASTC from time to time.

"STANDARD CLIENT BANK DEED" means a standard deed executed by ASTC and a bank.

"STANDARD CONVERSION FORM" means a standard form, as specified by ASTC from time to time, for the conversion of convertible Financial Products.

"STANDARD EXERCISE FORM" means a standard form of notice of exercise, as specified by ASTC from time to time, for options and other Financial Products that carry exercisable rights.

"STANDARD PAYMENTS PROVIDER DEED" means a standard deed executed by ASTC and a Payments Provider and includes a Standard Client Bank Deed.

"STANDING BUY ACCOUNT IDENTIFIER" means an RTGS Account Identifier that is notified to ASTC under Rule 11.9.11 or Rule 11.9.15 for the purposes of an RTGS Instruction where the Participant will, on settlement, be the payer of the Payment Obligation identified in that RTGS Instruction.

"STANDING HIN" means a HIN that is notified to ASTC under Rule 6.4.2.

"STANDING INSTRUCTIONS" means a Holder's instructions to an Issuer in relation to matters relevant to Holdings, including (without limitation) TFN notification, Residency Indicator, direct credit of dividends or interest payments, annual report elections and elections in respect of shareholders' dividend plans.

"STANDING REPORT" means one of a series of Messages periodically Transmitted by ASTC to a Facility User, each of which provides information about CHES Holdings or CHES Subregister movements in accordance with parameters specified by the Facility User.

"STANDING SELL ACCOUNT IDENTIFIER" means an RTGS Sell Account Identifier that is notified to ASTC under Rule 11.9.11 or Rule 11.9.15 for the purposes of an RTGS Instruction where the Participant will, on settlement, be the payee of the Payment Obligation identified in that RTGS Instruction.

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"STANDING SETTLEMENT HIN" means a HIN notified to ASTC under Rule 6.4.2.

"START OF DAY" means, on any Trading Day, 8.00 am Sydney time or such other time as ASTC may from time to time determine.

"STATE OF EMERGENCY" means any of the following:

(a) fire, power failure or restriction, communication breakdown, accident, flood, embargo, boycott, labour dispute, unavailability of data processing or any other computer system or facility, act of God; or

(b) act of war (whether declared or undeclared) or an outbreak or escalation of hostilities in any region of the world which in the opinion of ASTC prevents or significantly hinders the operation of the Settlement Facility; or

(c) an act of terrorism; or

(d) other event which, in the opinion of ASTC, prevents or significantly hinders the operations of the Settlement Facility.

"STATE OF EMERGENCY RULES" means any Rules made by ASTC under Rule 1.3.

"SUBPOSITION" means a facility in CHES by which in accordance with Rule 14.1.3:

(a) activity in relation to Financial Products held in a CHES Holding may be restricted; and

(b) access to those Financial Products for limited purposes may be given to a Participant other than the Controlling Participant.

"SUBREGISTER" means:

(a) in the case of Financial Products other than CDIs, a CHES Subregister or an Issuer Operated Subregister; or

(b) in the case of CDIs, a CDI Register.

"SURVEILLANCE REPORT" means a report generated by CHES that identifies changes to:

(a) Batch Instructions notified to ASTC by an Approved Market Operator under Rule 10.9.1; and

(b) Batch Instructions that result from Matched Dual Entry Batch Messages,

(c) to assist ASTC in monitoring compliance with these Rules.

"SWITCH TO BATCH SETTLEMENT MESSAGE" means a Message that, in accordance with the requirements of the EIS, requests that an

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RTGS Instruction be removed from Real Time Gross Settlement in CHES and settled in Batch Settlement.

"TAKEOVER CONSIDERATION CODE" means a unique code allocated by an Approved Market Operator in respect of each alternate form of consideration offered under a takeover.

"TAKEOVER TRANSFER" means a Transfer of Financial Products from a CHES Holding pursuant to acceptance of an offer for the Financial Products made under a takeover scheme.

"TAKEOVER TRANSFEREE HOLDING" means a CHES Holding to which Financial Products are to be Transferred pursuant to acceptances of offers made under a takeover bid.

"TARGET HOLDING" means the Holding into which Financial Products will be entered in giving effect to a Transfer, Conversion, Corporate Action or other transaction.

"TARGET TRANSACTION IDENTIFIER" means a reference number identifying a transaction which is the target of another transaction.

"TAX" means any present or future tax, levy, impost, duty, charge, fee, deduction, or withholding of whatever nature, levied, collected, assessed or imposed by any government or semi-government authority and any amount imposed in respect of any of the above.

"TECHNICAL AND PERFORMANCE REQUIREMENTS" means the requirements on Facility Users set out in Section 16.

"TERMS AND CONDITIONS FOR FDI CONTROLLING PARTICIPANTS" means those terms and conditions between AIS, CDN and the Controlling Participant of FDIs from time to time displayed on the ASX World Link Website.

"TFN" stands for Tax File Number and means a numeric code allocated by the Australian Taxation Office for taxation purposes.

"THIRD PARTY PROVIDER" means a person that:

- (a) operates an interface with CHES;
- (b) performs any obligations of a Facility User under these Rules; or
- (c) uses facilities provided by ASTC, on behalf of a Facility User.

"TITLE" in relation to Financial Products, means:

- (a) legal title where the Financial Products can be owned at law, and
- (b) equitable or beneficial title where the Financial Products can be owned only in equity.

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"TOTAL SECURITY BALANCE REPORT" means a report that sets out the aggregate of all Holding Balances held on the CHES Subregister for a class of Financial Products as at a specified point in time.

"TRADE DATE" means the date on which an agreement or arrangement for the purchase or sale of Financial Products was executed.

"TRADE INSTRUCTION CUT-OFF" means, on any Business Day, 10.30am Sydney Time or such other time as ASTC may from time to time determine.

"TRADING DAY" means a day other than:

(a) a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day; and

(b) any other day that ASTC may declare and publish is not a trading day.

"TRANSACTION IDENTIFIER" means a reference number identifying a Message Transmitted through CHES.

"TRANSACTION STATEMENT" means a transaction statement for an Issuer Sponsored Holding as referred to in Listing Rules 8.5, 8.6 and 8.7.

"TRANSFER" means a transfer of Financial Products, or for the purposes of Section 15, a transfer of Allocation Interests:

(a) from a CHES Holding to any other Holding; or

(b) from any Holding to a CHES Holding.

"TRANSFER REQUEST DOCUMENT" means a document supplied by a Settlement Participant which is not a Market Participant to an Issuer that entitles the Issuer to authorise a Transfer of Financial Products from an Issuer Sponsored Holding to a CHES Holding.

"TRANSITION PERIOD" means the period from 11 March 2002 to 10 March 2004 or such later date as determined by the Commission.

"TRANSMIT" means cause a Message to be made available for collection in the Message collection facility provided in CHES for Messages passing between ASTC and Facility Users.

Note: Rule 16.17 specifies when a Facility User or ASTC is taken to have Transmitted a Message.

"TRANSMUTE" means to cause:

(a) Principal Financial Products to be converted into CDIs, or CDIs to be converted into Principal Financial Products; or

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(b) Participating International Financial Products to be converted into FDIs, or FDIs to be converted into Participating International Financial Products;

under these Rules, without any change in beneficial ownership.

"TRANSMUTATION RATIO" means the ratio which identifies the number or fraction of CDIs into which a Principal Financial Product may be converted, and the number or fraction of Principal Financial Products into which a CDI may be converted.

"TRIBUNAL" means the Disciplinary Tribunal or the Appeal Tribunal, as applicable.

"TRIBUNAL PANEL" means the panel established under Rule 12.10.1.

"TRUSTEE COMPANY" means a trustee company within the meaning of State or Territory Trustee Companies legislation or a Public Trustee of a State or Territory.

"UIC" stands for User Identification Code and means a unique numeric code allocated by ASTC to ASTC and each Facility User for the purpose of identifying the source and destination of Messages and which may be:

- (a) the UIC of an Issuer;
- (b) a PID; or
- (c) such other numeric code allocated by ASTC.

"VALID" in relation to a Message, means a Message that:

- (a) identifies the source of the Message in the Message header by specifying a current source UIC that is compatible with the specified AIC;
- (b) correctly identifies the destination of the Message in the Message header by specifying the current UIC for the targeted Message recipient;
- (c) is formatted in accordance with and contains all the mandatory data requirements specified in the EIS;
- (d) has been properly authenticated, (determined by reference to the MAC); and
- (e) meets CHES encryption requirements specified in the EIS.

"WARRANTY AND INDEMNITY PROVISION" means a provision of:

- (a) the Participant Warranties and Indemnities;
- (b) the Issuer Warranties and Indemnities; or
- (c) the ASTC Indemnity.

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"WITHDRAWAL INSTRUCTIONS" means written or oral instructions from a Participant Sponsored Holder to the Controlling Participant for the withdrawal of Financial Products from a Participant Sponsored Holding and includes instructions:

- (a) for the Conversion of Financial Products in a Participant Sponsored Holding to any other mode of Holding;
- (b) to initiate a change of sponsorship for the Financial Products;
- (c) to endorse or initiate an off market transfer of Financial Products; or
- (d) to accept a takeover offer for the Financial Products on behalf of the Participant Sponsored Holder;
- (e) to accept a takeover offer for the Securities on behalf of the Participant Sponsored Holder.

Introduced 11/03/04 Origin SCH 21.13 Amended 09/05/05, 06/06/05

SECTION - 8 - HOLDING FINANCIAL PRODUCTS IN THE SETTLEMENT FACILITY

SECTION - 8 - HOLDING FINANCIAL PRODUCTS IN THE SETTLEMENT FACILITY

In order to participate in the Settlement Facility, an Issuer's Financial Products must be Approved by ASTC under these Rules. This Section sets out the requirements which Financial Products must satisfy in order to be Approved, including the Technical and Performance Requirements which an Issuer must satisfy and also contains provisions in relation to:

- (a) suspension and revocation of Approval;
- (b) establishing and dealing with Holdings of Financial Products and CHES Subregisters; and
- (c) other provisions affecting Holdings (such as confidentiality, Holding Locks, reporting, recording details, Corporate Actions and correction of errors).

8.6 CHES SUBREGISTERS

8.6.1 STATUS OF CHES SUBREGISTER

ASTC must administer, as agent of an Issuer in accordance with these Rules, a CHES Subregister for each class of the Issuer's Approved Financial Products to which the following provisions apply:

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(a) subject to paragraph (b), the CHESS Subregister for a class of an Issuer's Approved Financial Products forms part of the Issuer's principal register for that class of Financial Products; and

(b) if an Issuer's principal register for a class of Approved Financial Products is located outside Australia, the CHESS Subregister forms part of the Issuer's principal Australian register, notwithstanding the fact that the Australian register is a branch register and forms a part of the Issuer's principal register outside Australia.

Introduced 11/03/04 Origin SCH 5.1

#### 8.6.2 INFORMATION RECORDED AND MAINTAINED ON A CHESS SUBREGISTER

ASTC must record and maintain on a CHESS Subregister for a class of Approved Financial Products:

(a) the Registration Details and HIN of each person with a CHESS Holding of Financial Products in that class; and

(b) in relation to each such person, the number of Financial Products held.

Introduced 11/03/04 Origin SCH 5.2.1

#### 8.6.3 HIN NOT TO BE TAKEN TO BE INCLUDED IN A REGISTER

Except to the extent required by these Rules or the law, an Issuer must not include a HIN in a register for the purpose of:

(a) the register being open for inspection; or

(b) furnishing a copy of the register or any part of the register.

Introduced 11/03/04 Origin SCH 5.2.2

#### 8.6.4 NOTICE OF LOCATION OF STORED INFORMATION

As soon as a class of an Issuer's Financial Products are Approved, the Issuer must:

(a) give notice to the Commission in accordance with Section 1301(1) of the Corporations Act specifying (subject to Rule 8.6.5) the registered office of ASTC as the situation of the place of storage of the information maintained by ASTC on a CHESS Sub-register;

(b) give a copy of that notice to ASTC; and

(c) give a copy of that notice to the exempt or special stock market or exempt financial market where the Issuer's Financial Products are quoted.

Introduced 11/03/04 Origin SCH 5.2.3, 5.2.4

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8.6.5 CHANGE OF LOCATION OF STORED INFORMATION

If the situation of the place of storage in relation to information maintained by ASTC on a CHESSE Subregister changes:

(a) ASTC must promptly give Notice to the Issuer of the new place of storage; and

(b) the Issuer must give notice to the Commission of the new place of storage in accordance with Section 1301(4) of the Corporations Act.

Introduced 11/03/04 Origin SCH 5.2.5

8.6.6 CLASSES OF HOLDINGS ON A CHESSE SUBREGISTER

Holdings that may be maintained on a CHESSE Subregister are:

(a) Holdings that are controlled by a Participant; or

(b) such other Holdings as are determined by ASTC, from time to time.

Introduced 11/03/04 Origin SCH 5.3.1

8.7 ESTABLISHING A HOLDER RECORD

8.7.1 RESTRICTIONS ON ESTABLISHING A HOLDER RECORD

A Participant must not Transmit a Message to establish a Holder Record in relation to a person under Rule 8.7.2 unless:

(a) the person is a Related Body Corporate of the Participant; or

(b) the Participant holds a current Sponsorship Agreement executed by the Participant and the person.

Introduced 11/03/04 Origin SCH 5.4.1A

8.7.2 ESTABLISHING A HOLDER RECORD

If a Participant Transmits a Valid Message to ASTC requesting ASTC to establish a Holder Record that includes the matters specified in the Procedures, ASTC must:

(a) establish a Holder Record on CHESSE for that person;

(b) allocate a HIN to that Holder; and

(c) if the Holder Record has been established for a Participant Sponsored Holder, promptly send a Notice in relation to that Holder Record to that Participant Sponsored Holder.

If the Holder Record is in relation to a person that is a Participant Sponsored Holder, the Participant must, in the absence of any specific alternative written authority from that other person specify as the current Registration Details in the Message, the name and address details for the person as recorded in the Sponsorship Agreement.

Introduced 11/03/04 Origin SCH 5.4.1, 5.4.1B

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### 8.7.3 HOLDER RECORD FOR HOLDING OF FOR FINANCIAL PRODUCTS

A Participant must determine whether the Residency Indicator of a Holder Record is applicable to any new Holding of FOR Financial Products, and if it is not applicable to the new Holding of FOR Financial Products and there is no existing Holder Record with the appropriate Residency Indicator, the Participant must:

- (a) establish a separate Holder Record for that new Holding with the appropriate Residency Indicator; and
- (b) transfer that Holding to that Holder Record.

Note: Because of differing definitions of "Foreign Person" under the governing legislation or constitution of different Issuers with aggregate foreign ownership restrictions, a Holder's status (for the purposes of settling transactions in FOR Financial Products) may differ between Issuers.

Where these circumstances apply, Holders must have two distinct Holder Records in CHES; one with a Residency Indicator of "F" and another with a Residency Indicator of "D". Holdings of particular Financial Products must then be linked to the appropriate Holder Record.

Introduced 11/03/04 Origin SCH 5.4.3

### 8.7.4 INDEMNITY BY PARTICIPANT WHERE HOLDER RECORD ESTABLISHED INCORRECTLY

If, under Rule 8.7.2, a Participant has Transmitted a Valid Message requesting ASTC to establish a Holder Record and that Message specifies the Holder Type as Participant Sponsored Holder or specifies a Residency Indicator and any of the following apply:

- (a) the Participant is not authorised to establish the Holder Record;
- (b) the Participant has provided incorrect details in the Message; or
- (c) the Participant has provided an incorrect Residency Indicator in the Message,

subject to Rule 8.7.5 the Participant indemnifies:

- (d) ASTC from and against all losses, damages, costs and expenses which ASTC may suffer or incur by reason of that unauthorised request or that Transmission of incorrect Holder Record details or an incorrect Residency Indicator; and

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(e) if a Holding is established using incorrect Holder Record details or an incorrect Residency Indicator, the Issuer from and against all losses, damages, costs and expenses which the Issuer may suffer or incur by reason of that Holding being established.

Introduced 11/03/04 Origin SCH 5.4.4, 5.4.5

#### 8.7.5 LIMITATION ON PARTICIPANT INDEMNITY

A Participant is not liable to indemnify ASTC or an Issuer under Rule 8.7.4 if the Participant has provided details which are consistent with the directions of the relevant Holder for the purposes of holding FOR Financial Products and the Participant had no reason to believe that those directions were incorrect.

Introduced 11/03/04 Origin SCH 5.4.6

#### 8.8 ESTABLISHING A CHESS HOLDING

##### 8.8.1 A CHESS HOLDING MAY BE ESTABLISHED

If a Holder Record for a person has been established and a HIN allocated and a Message specifying that HIN to identify the Target Holding is Transmitted in any of the following circumstances:

(a) a Participant Transmits a Valid Originating Message that initiates a Demand Transfer or Conversion;

(b) ASTC Transmits a Valid Originating Message that initiates a Settlement Transfer; or

(c) an Issuer Transmits a Valid Message to initiate a Holding Adjustment or a Financial Products Transformation,

a CHESS Holding may be established by entering the Financial Products specified in the Message into the Target Holding and, if a new CHESS Holding is established ASTC must notify the Issuer:

(d) that a new Holding has been established; and

(e) of the Holder Record details.

Introduced 11/03/04 Origin SCH 5.5

#### 8.9 REPORTING TO PARTICIPANT SPONSORED HOLDERS IN RESPECT OF DESPATCHED FINANCIAL PRODUCTS

##### 8.9.1 ISSUER TO SEND HOLDER A NOTICE

If:

(a) an Issuer makes available forms of application for an Offer of Approved Financial Products; and

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(b) an Approved Market Operator gives that Issuer approval for quotation of those Financial Products,

the Issuer must, within 5 Business Days of receiving notification from ASTC that a new CHESS Holding has been established under Rule 5.3.2, and provided the Registration Details specified in the notification from ASTC match the Registration Details specified in the application for the person to whom the Financial Products have been allocated, send to the Holder of that Holding a Notice that sets out:

- (c) the HIN;
- (d) the Registration Details; and
- (e) the Holding Balance,

for the CHESS Holding as specified in the notification from ASTC.

Introduced 11/03/04 Origin SCH 5.4B

8.10 RESTRICTION ON CHESS HOLDINGS

8.10.1 RESTRICTIONS ON NUMBER OF JOINT HOLDERS

Unless permitted under an Issuer's constitution, a Participant must not establish a CHESS Holding that would be held jointly by more than 3 persons.

Introduced 11/03/04 Origin SCH 5.6.1

8.10.2 PROHIBITION ON HOLDINGS OF LESS THAN A MARKETABLE PARCEL

A Participant must not initiate a Transfer of Financial Products if, by giving effect to that Transfer, a new CHESS or Issuer Sponsored Holding of less than a Marketable Parcel will be established unless:

- (a) the Holding of less than a Marketable Parcel is expressly permitted under an Issuer's constitution; or
- (b) the Transfer establishes a new Settlement Holding or Accumulation Holding.

Introduced 11/03/04 Origin SCH 5.7 Amended 18/12/06

8.10.3 EQUITABLE INTERESTS

Unless required by these Rules or the law, ASTC need not record on the CHESS Subregister, and is not required to recognise:

- (a) any equitable, contingent, future or partial interest in any Financial Product; or
- (b) any other right in respect of a Financial Product, except an absolute right of legal ownership in the registered Holder.

Introduced 11/03/04 Origin SCH 5.8

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8.11 CONFIDENTIALITY

8.11.1 NO DISCLOSURE EXCEPT IN CERTAIN CIRCUMSTANCES

Unless required by these Rules or the law, or with the express consent of the Holder, or of the duly appointed attorney, agent or legal personal representative of that Holder, neither an Issuer nor a Participant may disclose:

- (a) the HIN of a CHES Holding;
- (b) the PID of the Controlling Participant of a CHES Holding; or
- (c) the SRN for the Holder of an Issuer Sponsored Holding, other than to:
  - (d) the Holder of that Holding;
  - (e) the Holder's duly appointed attorney, agent or legal personal representative;
  - (f) if the Holding is a CHES Holding, the Controlling Participant for that Holding; or
  - (g) ASTC.

Introduced 11/03/04 Origin SCH 5.9.1

8.11.2 REQUEST FOR INFORMATION BY A PARTICIPANT

For the purpose of Rule 8.11.1(e), if a Participant provides a request to an Issuer in acceptable form or a written request to another Participant for:

- (a) details of the SRN of a Holding on the Issuer Sponsored Subregister;
- (b) the Holding Balance of a Holding on the Issuer Sponsored Subregister;
- (c) the HIN of a CHES Holder; or
- (d) the PID of the Controlling Participant of the CHES Holding,

the requesting Participant:

- (e) is taken to have warranted to the Issuer or the other Participant that it is the duly appointed agent of the Holder for the purposes of obtaining the details requested;

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(f) indemnifies the Issuer or the other Participant in respect of any loss which the Issuer or the other Participant may suffer as a result of the requesting Participant not being authorised to request the information provided; and

(g) is, in the case of a request to the Issuer, taken to have acknowledged that:

(i) the details provided by the Issuer represent information currently available to the Issuer at the time of response and excludes unregistered transactions; and

(ii) the Issuer will not be liable for any loss incurred by the Holder or the Participant as a result of reliance on the details provided, in the absence of information not available to the Issuer at the time of providing those details.

Note: A Participant may request SRN and Issuer Sponsored Holding Balance details from an Issuer via CHES message where the Participant is permitted to establish and maintain Sponsored Holdings under Rule 6.3 and has provided ASTC with a Sponsorship Bond of \$500,000, refer Rule 6.7.

Introduced 11/03/04 Origin SCH 5.9.2, 5.9.3 Amended 04/04/05

#### 8.11.3 DISCLOSURE OF INFORMATION REGARDING FINANCIAL PRODUCTS

Subject to Rule 8.11.4, or unless otherwise required by these Rules or the law, ASTC must not disclose any information regarding Financial Products in a CHES Holding other than to:

- (a) the Holder of that Holding;
- (b) the Controlling Participant for that Holding;
- (c) the Issuer of the Financial Products; or
- (d) if Rule 14.13 applies in relation to a takeover bid any of the following:
  - (i) the bidder;
  - (ii) the CHES Bidder; or
  - (iii) any agent that the bidder or the CHES Bidder engages to prepare and distribute offer documentation or process takeover acceptances.

Introduced 11/03/04 Origin SCH 5.9.4

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8.11.4 CIRCUMSTANCES WHERE ASTC MAY DISCLOSE INFORMATION

ASTC may disclose information regarding Financial Products in a CHES Holding, including information in relation to deductions from or transfers to a CHES Holding, any relevant Source or Target Holdings and Holder Record details, to:

- (a) the Commission;
- (b) the Reserve Bank of Australia;
- (c) an Approved Market Operator;
- (d) an Approved Clearing Facility;
- (e) the home regulator of a Foreign Clearing House; or
- (f) SEGC

where that body, in the proper exercise of its powers and in order to assist it in the performance of its regulatory functions (or in the case of SEGC, its regulatory or other functions), requests that ASTC provide the information to it.

Without limiting the above, ASTC may disclose to the Reserve Bank of Australia any confidential information of a Facility User that is supplied to ASTC in connection with the Real Time Gross Settlement of a transaction and that is required, in accordance with interface specifications, to be included by ASTC in any message sent to the Reserve Bank of Australia across the Feeder System interface with RITS/RTGS.

Introduced 11/03/04 Origin SCH 5.9.6

8.11.5 COPYRIGHT INFORMATION SUPPLIED TO ASTC

To the extent that a Participant or an Issuer has copyright in the information supplied to ASTC under these Rules, then, subject to Rule 8.11.1 or 8.11.2, the Participant or the Issuer, as the case requires, grants ASTC a licence to reproduce that information to the extent deemed necessary by ASTC.

Introduced 11/03/04 Origin SCH 5.9.5

8.11.6 REQUEST BY PARTICIPANT FOR PID

If a Participant provides a request to ASTC for the PID of the Controlling Participant in relation to a particular HIN ASTC may disclose:

- (a) the PID of the Controlling Participant;
- (b) the status of the Controlling Participant; and
- (c) the status of the HIN.

The requesting Participant:

(d) is taken to have warranted to ASTC and the Controlling Participant that it is the duly appointed agent of the Holder for the purposes of obtaining the details requested; and

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(e) indemnifies ASTC or any other Participant in respect of any loss which ASTC or the other Participant may suffer as a result of the requesting Participant not being authorised to request the information provided.

Introduced 09/05/05

8.12 REGISTRATION DATE

8.12.1 THE DATE TO BE RECORDED FOR REGISTRATION PURPOSES

If a Transfer is not a CHES to CHES Transfer, the date to be recorded as the date Financial Products are entered into a Target Holding for registration purposes is:

(a) if the Source Holding is a CHES Holding, the date, as evidenced by the CHES processing timestamp, that ASTC Transmits to the Issuer the Message to Transfer the Financial Products; or

(b) if the Source Holding is an Issuer Sponsored Holding, the date the Issuer Transmits to ASTC the Message authorising the Transfer of the Financial Products.

Introduced 11/03/04 Origin SCH 5.10

8.13 CHES SUBREGISTER TO REMAIN OPEN ON EACH BUSINESS DAY

8.13.1 ASTC TO KEEP CHES SUBREGISTER OPEN AND MUST PROCESS MESSAGES

On any Business Day, ASTC:

(a) unless otherwise provided in these Rules, must not close a CHES Subregister; and

(b) must process Messages in accordance with these Rules.

Introduced 11/03/04 Origin SCH 5.11

8.14 CLOSURE OF A CHES SUBREGISTER

8.14.1 CLOSURE OF A CHES SUBREGISTER - OTHER THAN WHERE FINANCIAL PRODUCTS LAPSE, EXPIRE, MATURE ETC.

Unless Rule 8.14.2 applies, if:

(a) ASTC revokes Approval of a class of an Issuer's Financial Products under Rule 8.4.1(e) or 8.5.4; or

(b) Approval of a class of an Issuer's Financial Products ceases under Rule 8.4.8,

ASTC and the Issuer must take such steps as may be necessary to effect the orderly closure of any affected CHES Subregister, including without limitation:

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(c) ASTC giving such Notice as is reasonably practicable to the Issuer and each Participant of:

- (i) the date of closure of the CHES Subregister; and
- (ii) the last day on which ASTC will process Messages or classes of Messages Transmitted by the Issuer or Participants;

(d) the Issuer using its best endeavours to ensure that all outstanding processing that affects CHES Holdings in that class is completed prior to the date of closure of the CHES Subregister;

(e) ASTC, on the date of closure of the CHES Subregister:

- (i) removing all Holdings on that Subregister to an Issuer Sponsored Subregister; and
- (ii) giving Notice to the Issuer that the CHES Subregister has been closed;

(f) ASTC sending a Holding statement in accordance with Rule 8.18.6 to each Participant Sponsored Holder of Financial Products on the CHES Subregister advising that the Holding has been Converted to an Issuer Operated Subregister; and

(g) on the day of such closure or on any subsequent Business Day ASTC may archive that CHES Subregister provided that on the archiving day it must notify the Issuer and Participants confirming the archival of that Subregister.

Introduced 11/03/04 Origin SCH 5.12.1, 5.12.2

#### 8.14.2 CLOSURE OF A CHES SUBREGISTER - WHERE FINANCIAL PRODUCTS LAPSE, EXPIRE, MATURE ETC.

If a class of Approved Financial Products ceases to be quoted because the Financial Products have lapsed, expired, matured or have been redeemed, paid up or Reconstructed, subject to Rules 8.14.3 and 14.21.4, ASTC may archive the CHES Subregister for that class of Financial Products:

(a) in the case of the class of Approved Financial Products being warrants eligible to be traded under the operating rules of an Approved Market Operator not less than 10 Business Days after the date on which the cessation occurred;

(b) in the case of any other class of Approved Financial Products not less than 20 Business Days after the date on which the cessation occurred; and

if ASTC archives a CHES Subregister under this Rule 8.14.2, ASTC must:

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(c) subject to Rule 8.14.3, reject all Messages Transmitted by the Issuer or Participants that affect a CHESSE Holding on that Subregister; and

(d) notify the Issuer, and each Participant confirming the archival of that Subregister.

Introduced 11/03/04 Origin SCH 5.13.1, 5.13.2 Amended 10/06/04

#### 8.14.3 REPORT FACILITIES TO BE PROVIDED BY ASTC

ASTC must provide Report facilities to the Issuer and Participants for a period of not less than 10 Business Days for warrants eligible to be traded under the operating rules of an Approved Market Operator and not less than 20 Business Days in the case of any other class of Approved Financial Products following the cessation of a CHESSE Subregister under Rule 8.14.2.

Introduced 11/03/04 Origin SCH 5.13.3 Amended 10/06/04

### 13.1 APPLICATION OF CDI RULES

#### 13.1.1 EFFECT OF RULES 13.1 TO 13.13

Rules 13.1 to 13.13 only apply to, and have effect in relation to, CDIs issued in respect of a class of Principal Financial Products.

The Rules, to the extent that they are not inconsistent with Rules 13.1 to 13.13, have full force and effect in relation to CDIs other than as specifically modified by the provisions of these Rules 13.1 to 13.13.

Introduced 11/03/04 Origin SCH 3A.1.1, 3A.1.2 Amended 06/06/05

### 13.2 PREREQUISITES FOR SETTLEMENT OF INSTRUCTIONS IN PRINCIPAL FINANCIAL PRODUCTS

#### 13.2.1 APPROVAL OF PERSON AS PRINCIPAL ISSUER

A person who has applied for:

(a) a class of Principal Financial Products; or

(b) CDIs issued over a class of Principal Financial Products,

to be quoted on the market of an Approved Market Operator may apply to ASTC in the form prescribed in the Procedures to:

(c) act as Principal Issuer in relation to CDIs issued or to be issued in respect of those Principal Financial Products; and

(d) to have those CDIs approved.

Introduced 11/03/04 Origin SCH 3A.2.1 Amended 10/06/04, 06/06/05

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### 13.2.2 APPOINTMENT OF DEPOSITORY NOMINEE AND ISSUE OF CDIS

If ASTC determines to accept an application under rule 13.2.1, the Principal Issuer must:

- (a) appoint a Depository Nominee for the purpose of complying with these Rules;
- (b) give Notice to ASTC of:
  - (i) the identity of the Depository Nominee appointed by the Principal Issuer; and
  - (ii) the Transmutation Ratio for the Principal Financial Products;
- (c) make arrangements satisfactory to ASTC to enable the Principal Issuer to comply with the requirements of Rules 13.4.3 and 13.5; and
- (d) make arrangements satisfactory to ASTC to issue CDIs or make them available in respect of that class of Principal Financial Products to each person who has:
  - (i) an entitlement to those CDIs or Principal Financial Products; and
  - (ii) where applicable, not elected to take a document of Title to those Principal Financial Products.

Introduced 11/03/04 Origin SCH 3A.2.2 Amended 06/06/05

### 13.2.3 VESTING ARRANGEMENTS FOR PRINCIPAL FINANCIAL PRODUCTS

If Rule 13.2.2 applies, the Principal Issuer must, either not later than End of Day on the Despatch Date for the new Principal Financial Products, or such other time as ASTC requires:

- (a) cause the Title to any Principal Financial Products that are to be held in the form of CDIs to be vested in the Depository Nominee nominated by the Principal Issuer under Rule 13.2.2, in a manner recognised by Australian law and all applicable foreign laws;
- (b) immediately give Notice to ASTC that Title to the Principal Financial Products has vested in the Depository Nominee; and
- (c) record:
  - (i) the CDIs corresponding to the Principal Financial Products on the CHES Subregister or the Issuer Sponsored Subregister, as the case requires; and
  - (ii) the information required to be recorded under these Rules in such manner as to identify each Holder of the CDIs, whether on the CHES Subregister or the Issuer Sponsored Subregister.

Introduced 11/03/04 Origin SCH 3A.2.3 Amended 06/06/05

### 13.2.4 EFFECTIVE DATE OF APPROVAL - CDIS AS APPROVED FINANCIAL PRODUCTS

Where ASTC determines to accept an application made under Rule 13.2.1, the Commencement Date for CDIs issued in respect of the class of Principal Financial Products will be the date that ASTC notifies the Principal Issuer that those CDIs are Approved Financial Products, or such other date determined by ASTC.

Introduced 06/06/05



### 13.2.5 CDIS AS APPROVED FINANCIAL PRODUCTS - TRANSITIONAL PROVISION

From the date on which this rule 13.2.5 comes into effect, all CDIs issued by a Principal Issuer over a class of previously approved Principal Financial Products will be taken to be Approved Financial Products.

Introduced 06/06/05

### 13.3 TRANSMUTATION AND ALTERATIONS OF PRINCIPAL FINANCIAL PRODUCTS

#### 13.3.1 TRANSMUTATION OF PRINCIPAL FINANCIAL PRODUCTS TO CDIS AT ELECTION OF HOLDER

If a Holder of Financial Products that forms part of a class of Principal Financial Products in respect of which CDIs have been approved gives Notice to the Principal Issuer, at any time after the date of quotation of the Principal Financial Products, requesting the Transmutation of a quantity of those Principal Financial Products to CDIs, the Principal Issuer must, provided the Notice is accompanied by any corresponding documents of Title:

(a) as soon as possible, cause Title to the quantity of Principal Financial Products specified in the Notice to be vested in the Depository Nominee for those Principal Financial Products;

(b) record:

(i) the CDIs corresponding to the Principal Financial Products on the CDI Register; and

(ii) the information required to be recorded under these Rules in such manner as to identify each Holder of the CDIs, on the CDI Register; and

(c) give Notice to the Holder that the Transmutation has been effected.

Introduced 11/03/04 Origin SCH 3A.3.1 Amended 06/06/05

#### 13.3.2 TRANSMUTATION OF PRINCIPAL FINANCIAL PRODUCTS TO CDIS FOR SETTLEMENT PURPOSES

Each Participant that is obliged to deliver a quantity of Principal Financial Products to another Participant must, unless otherwise agreed with that Participant, do so by initiating a Message to Transfer the corresponding quantity of CDIs in respect of those Principal Financial Products.

A Participant must not deliver a paper-based transfer of Principal Financial Products to another Participant unless otherwise agreed with that other Participant.

Introduced 11/03/04 Origin SCH 3A.3.2, 3A.3.3

#### 13.3.3 PARTICIPANT MAY INITIATE A TRANSMUTATION ON BEHALF OF A PERSON

A Participant that is authorised by a person to do so, may Transmute Principal Financial Products to CDIs or CDIs to Principal Financial Products on behalf of the person in any circumstance where Transmutation by that person is permitted under these Rules.

Introduced 11/03/04 Origin SCH 3A.3.4

### 13.4 CONSEQUENCES OF VESTING TITLE IN DEPOSITARY NOMINEE

#### 13.4.1 ECONOMIC BENEFITS AND ENTITLEMENTS IN RELATION TO PRINCIPAL FINANCIAL PRODUCTS

If Title to Principal Financial Products is vested in a Depository Nominee under these Rules, all right, title and interest in those Principal Financial Products is held by the Depository Nominee

subject to the right of any person identified, in accordance with these Rules, as a Holder of CDIs in respect of those Principal Financial Products to receive all direct economic benefits and any other entitlements in relation to those Principal Financial Products.

Introduced 11/03/04 Origin SCH 3A.4.1

#### 13.4.2 IDENTIFICATION OF CDI HOLDERS

For the purposes of Rule 13.4.1, a person is (subject to any subsequent disposition) entitled to all direct economic benefits and any other entitlements in relation to Principal Financial Products vested in a Depository Nominee under these Rules if:

(a) in accordance with Rule 13.2.3, the Principal Issuer has recorded the person in the CDI Register as the holder of CDIs for those Principal Financial Products; or

(b) under Rule 13.3.1, the person is the former Holder of the Principal Financial Products to which the CDIs relate, or that person's nominee.

Introduced 11/03/04 Origin SCH 3A.4.2

#### 13.4.3 IMMOBILISATION OF PRINCIPAL FINANCIAL PRODUCTS

A Depository Nominee that holds Principal Financial Products under these Rules must:

(a)

(i) where a Certificate is issued as evidence of Title to those Financial Products, make arrangements satisfactory to ASTC for any Certificate representing its holding of Principal Financial Products to be held by the Principal Issuer for safekeeping; or

(ii) where the Financial Products are held on account in an Approved Clearing House, ensure that a Segregated Account is maintained in respect of those Financial Products, which must constitute the Principal Register for the purposes of these Rules;

(b) not dispose of any of those Principal Financial Products unless authorised by these Rules; and

(c) not create any interest (including a security interest) which is inconsistent with the Title of the Depository Nominee to the Principal Financial Products and the interests of the Holders of CDIs in respect of the Principal Financial Products unless authorised by these Rules.

Introduced 11/03/04 Origin SCH 3A.4.3

#### 13.5 REGISTERS AND PROCESSING OF TRANSFERS AND TRANSMUTATIONS

##### 13.5.1 ISSUER TO ESTABLISH AND MAINTAIN PRINCIPAL REGISTER AND CDI REGISTER

If CDIs in respect of a class of Principal Financial Products are approved, the Principal Issuer must establish and maintain:

(a) a Principal Register in Australia which contains all of the information that would otherwise be required to be kept by the Principal Issuer if it maintained an Australian branch register for those Financial Products; and

(b) a CDI Register in Australia that contains all of the information that would otherwise be required to be kept under the Corporations Act as if the Principal Issuer were an Australian listed public company and the CDIs were Financial Products of that company.

Introduced 11/03/04 Origin SCH 3A.5.1, 3A.5.2 Amended 06/06/05

#### 13.5.2 RECONCILIATION OF REGISTERS

The Principal Issuer must ensure, at all times that:

(a) the total number of CDIs on the CDI Register reconciles to the total number of Principal Financial Products registered in the name of the Depository Nominee on the Principal Register; and

(b) where applicable, it has one or more Certificates registered in the name of the Depository Nominee in its possession which represent the same number of Principal Financial Products as are registered in the name of the Depository Nominee on the Principal Register.

Introduced 11/03/04 Origin SCH 3A.5.3 Amended 06/06/05

#### 13.5.3 RIGHT OF INSPECTION OF PRINCIPAL REGISTER AND CDI REGISTER

If:

- (a) a Principal Register; or
- (b) a CDI Register,

is required to be established and maintained by a Principal Issuer under Rule 13.5.1, the Principal Issuer must make that Principal Register or that CDI Register, as the case requires, available for inspection to the same extent and in the same manner as if that register were a register of Financial Products of an Australian listed public company.

This Rule 13.5.3 does not apply in respect of a class of Principal Financial Products issued by a DI Issuer to the extent that the Principal Register need not be available for inspection where that Principal Register is located in a foreign jurisdiction.

Introduced 11/03/04 Origin SCH 3A.5.4A

#### 13.5.4 ISSUER SPONSORED SUBREGISTERS AND CHESSE SUBREGISTERS FOR CDIS

If CDIs in respect of a class of Principal Financial Products are approved, the Principal Issuer must establish and maintain:

- (a) an Issuer Sponsored Subregister; and
- (b) a CHESSE Subregister,

of CDIs in respect of the Principal Financial Products as if the CDIs were Financial Products of an Australian Issuer, issued wholly in uncertificated form.

Introduced 11/03/04 Origin SCH 3A.5.5 Amended 06/06/05

#### 13.5.5 THIRD PARTY PROVIDER AS AGENT - [DELETED]

Introduced 11/03/04 Origin SCH 3A.5.6 Deleted 06/06/05

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13.5.6 AGENTS OF PRINCIPAL ISSUER

If a Principal Issuer employs or retains a Third Party Provider to establish and maintain a Principal Register or a CDI Register in respect of a class of its Principal Financial Products, then for the purposes of these Rules, the Third Party Provider is taken to perform those services as the agent of the Principal Issuer.

Introduced 11/03/04 Origin SCH 3A.5.7 Amended 06/06/05

13.5.7 DEPOSITARY NOMINEE OBLIGED TO ENSURE INFORMATION IS PROVIDED TO PRINCIPAL ISSUER

Notwithstanding Rule 13.5.2, if a Depository Nominee employs or retains a Third Party Provider to administer the Principal Register, which is not the same Third Party Provider as that retained by the Principal Issuer to establish and maintain a CDI Register under Rule 13.5.6, then the Depository Nominee must ensure that its Third Party Provider provides such information to the Principal Issuer at such times as the Principal Issuer requires for performance of its obligations under Rules 13.1 to 13.13.

Introduced 11/03/04 Origin SCH 3A.5.8

13.5.8 POWER OF ATTORNEY

The Depository Nominee appoints the Principal Issuer to be the Depository Nominee's attorney and in the name of the Depository Nominee (or in the name of the Principal Issuer or its delegate) and on the Depository Nominee's behalf:

- (a) to execute any transfer for the purposes of Rule 13.3; and
- (b) to do all things necessary or desirable to give full effect to the rights and obligations of the Depository Nominee in Rules 13.1 to 13.13; and the Depository Nominee undertakes to ratify and confirm anything done under this power of attorney by the Principal Issuer.

Introduced 11/03/04 Origin SCH 3A.5.9

13.5.9 DELEGATION BY PRINCIPAL ISSUER UNDER POWER OF ATTORNEY

The Principal Issuer may in writing:

- (a) delegate its powers to any person for any period;
- (b) at its discretion, revoke any such delegation; and
- (c) exercise or concur in exercising any power despite the Principal Issuer or a delegate of the Principal Issuer having a direct or personal interest in the mode or result of the exercise of that power.

Introduced 11/03/04 Origin SCH 3A.5.9A

13.5.10 INDEMNITY

If a Principal Issuer or its Third Party Provider executes a transfer of Principal Financial Products on behalf of a Depository Nominee as transferor or transferee, other than a Transfer which is supported by a Message initiated by a Participant under these Rules, the Principal Issuer warrants to ASTC that it indemnifies:

- (a) the Depository Nominee;

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(b) ASTC;

(c) the transferor or the beneficial owner of the Principal Financial Products, as the case requires; and

(d) each Participant,

against all losses, damages, costs and expenses that they or any of them may suffer or incur as a result of the transfer not being authorised by the transferor or by the beneficial owner of the Principal Financial Products.

Introduced 11/03/04 Origin SCH 3A.5.10

#### 13.5.11 ASTC HOLDS BENEFIT OF WARRANTIES FOR DEPOSITARY NOMINEE

ASTC holds the benefit of any warranties and indemnities given to it by the Principal Issuer under Rules 13.1 to 13.13 in trust for the benefit of the Depositary Nominee.

Introduced 11/03/04 Origin SCH 3A.5.10A

#### 13.5.12 PRINCIPAL ISSUER AND DEPOSITARY NOMINEE NOT TO INTERFERE IN TRANSFER AND TRANSMUTATION

Unless otherwise permitted under these Rules or the Listing Rules, a Principal Issuer or a Depositary Nominee must not refuse or fail to register, or give effect to, or otherwise interfere with the processing and registration of:

- (a) a paper-based transfer of Principal Financial Products;
- (b) a Transfer of CDIs;
- (c) a Transmutation of Principal Financial Products to CDIs;
- (d) a Transmutation of CDIs to Principal Financial Products;
- (e) a shunt from a DI Register to a Principal Register; or
- (f) a shunt from a Principal Register to a DI Register.

Introduced 11/03/04 Origin SCH 3A.5.11, 3A.5.12 Amended 06/06/05

#### 13.5.13 NO NOTICE OF UNREGISTERED INTERESTS

For the purposes of all relevant Australian and foreign laws, neither ASTC nor any Depositary Nominee is affected by actual, implied or constructive notice of any interest in CDIs other than the Holdings on the CDI Register.

A Depositary Nominee may deal with the registered Holder of CDIs as if, for all purposes, the Holder of CDIs is the absolute beneficial owner of the Principal Financial Products to which the CDIs relate, without any liability whatsoever to any other person who asserts an interest in the CDIs or in the Principal Financial Products to which the CDIs relate.

Introduced 11/03/04 Origin SCH 3A.5.13, 3A.5.14

### 13.6 CORPORATE ACTIONS

#### 13.6.1 APPLICATION OF RULES

The purpose of the following Rules is to ensure that the benefit of all Corporate Actions of a Principal Issuer will enure to the benefit of the relevant Holders of CDIs as if they were Holders

of the corresponding Principal Financial Products, where Principal Financial Products are held by a Depositary Nominee under these Rules.

Introduced 11/03/04 Origin SCH 3A.6.1 Amended 06/06/05

#### 13.6.2 DISTRIBUTION OF DIVIDENDS TO HOLDERS OF CDIS

If CDIs in respect of a class of Principal Financial Products are approved under Rule 13.2, the Principal Issuer must distribute any dividend declared in respect of the corresponding Principal Financial Products to Holders of CDIs based on relevant Cum Entitlement Balances as at End of Day on the Record Date for the dividend in proportions as determined by the Transmutation Ratio.

Introduced 11/03/04 Origin SCH 3A.6.2 Amended 06/06/05

#### 13.6.3 DIRECTION AND ACKNOWLEDGMENT BY DEPOSITARY NOMINEE

For the purposes of:

- (a) the Principal Issuer's constitution; and
- (b) all laws governing the entitlement to dividends of a Depositary Nominee of the Principal Issuer,

the Depositary Nominee is taken to have directed the Principal Issuer to distribute any dividend, that would otherwise be payable to it under the Principal Issuer's constitution, in accordance with these Rules.

Introduced 11/03/04 Origin SCH 3A.6.3

#### 13.6.4 DISCHARGE OF PRINCIPAL ISSUER'S OBLIGATION TO PAY DIVIDEND TO DEPOSITARY NOMINEE

A Depositary Nominee for a Principal Issuer acknowledges that distribution of a dividend in accordance with these Rules discharges the Principal Issuer's obligation to pay the dividend to the Depositary Nominee.

Introduced 11/03/04 Origin SCH 3A.6.4

#### 13.6.5 PAYMENT BY DEPOSITARY INTEREST ISSUER

Rules 13.6.2, 13.6.3 and 13.6.4 apply in respect of a DI as if a reference to "dividend" is a reference to any distribution or payment, whether principal, premium or interest, as defined in the offering memorandum in respect of the Principal Financial Products.

Introduced 11/03/04 Origin SCH 3A.6.4A

#### 13.6.6 PAYMENT OBLIGATIONS

Where a DI Issuer makes a payment pursuant to Rule 13.6.2, that payment must be made to all Holders of DIs as soon as reasonably practicable.

Introduced 11/03/04 Origin SCH 3A.6.4B Amended 04/04/05

#### 13.6.7 BONUS ISSUES, RIGHTS ISSUES AND RECONSTRUCTIONS

If CDIs in respect of a class of Principal Financial Products are approved under Rule 13.2, the Principal Issuer must administer all Corporate Actions (including bonus issues, rights issues, mergers and reconstructions) that result in the issue of additional or replacement Financial Products in respect of the Principal Financial Products so that:

(a) if the benefits conferred in a Corporate Action are additional or replacement Principal Financial Products, those Principal Financial Products are vested in the Depository Nominee as Holder of the Principal Financial Products and the benefits are distributed to Holders of CDIs in the form of CDIs corresponding to those Principal Financial Products;

(b) additional or replacement CDIs are issued to Holders of CDIs based on relevant Cum Entitlement Balances as at End of Day on the Record Date for the Corporate Action on the same terms as would otherwise have applied if the Holders of CDIs were Holders of the Principal Financial Products; and

(c) the benefit of Corporate Actions is conferred on Holders of CDIs in proportions determined by the Transmutation Ratio.

Introduced 11/03/04 Origin SCH 3A.6.5 Amended 06/06/05

#### 13.6.8 DIVIDEND REINVESTMENT AND BONUS SHARE PLANS

If CDIs in respect of a class of Principal Financial Products are approved under Rule 13.2, the Principal Issuer must, in relation to any dividend investment scheme or bonus share plan in respect of those Principal Financial Products:

(a) make available to Holders of CDIs, based on relevant Cum Entitlement Balances as at End of Day on the Record Date for determining entitlements, all benefits and entitlements arising under the dividend reinvestment scheme or bonus share plan, as the case requires;

(b) distribute all benefits and entitlements arising under the dividend reinvestment scheme or bonus share plan, as the case requires, to Holders of CDIs in proportions determined by the Transmutation Ratio;

(c) ensure that any right under such a plan to elect to receive financial products rather than cash is exercised by Holders of CDIs rather than the Depository Nominee; and

(d) if a Holder of CDIs elects to receive financial products, issue Principal Financial Products to the Depository Nominee and distribute corresponding CDIs to the Holder of CDIs.

Introduced 11/03/04 Origin SCH 3A.6.6 Amended 06/06/05

#### 13.6.9 EXERCISE OF HOLDER RIGHTS

If CDIs in respect of a class of Principal Financial Products are approved under Rule 13.2, the Depository Nominee must exercise any rights vested in it as the Holder of the Principal Financial Products under any law (including any right to institute legal proceedings as a holder of Financial Products), in accordance with:

(a) any direction given by a Holder of CDIs; or

(b) any direction of Holders of CDIs given by ordinary resolution at a meeting of Holders of CDIs.

Introduced 11/03/04 Origin SCH 3A.6.7 Amended 06/06/05

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### 13.6.10 FRACTIONAL ENTITLEMENTS

If a Corporate Action gives Holders of Principal Financial Products a fractional entitlement to additional or replacement financial products, the Principal Issuer must ensure that:

(a) the number of additional or replacement financial products issued to the Depository Nominee is calculated as if each Holder of CDIs with respect to the Depository Nominee's Holdings is a Holder of a corresponding number of Principal Financial Products; and

(b) Holders of CDIs receive additional or replacement CDIs reflecting the entitlements so calculated.

Introduced 11/03/04 Origin SCH 3A.6.8 Amended 06/06/05

### 13.6.11 GENERAL DIRECTION AND ACKNOWLEDGMENT BY DEPOSITARY NOMINEE

A Depository Nominee for a Principal Issuer:

(a) is taken to have directed the Principal Issuer to administer all Corporate Actions of the Principal Issuer in the manner provided in these Rules; and

(b) acknowledges that compliance with these Rules discharges the Principal Issuer's obligation to make the benefit of a Corporate Action available to the Depository Nominee.

Introduced 11/03/04 Origin SCH 3A.6.9, 3A.6.10

### 13.6.12 TRANSMUTATIONS OF FINANCIAL PRODUCTS AND ASSOCIATED ENTITLEMENTS

Where, during an ex-period for a Corporate Action, Principal Financial Products under Rules 13.1 to 13.13 are Transmuted in order to give effect to a transfer of those Principal Financial Products, the transmutation of those Principal Financial Products must be effected together with any associated Entitlement.

Introduced 11/03/04 Origin SCH 3A.6.11 Amended 06/06/05

## 13.7 TAKEOVERS

### 13.7.1 DEPOSITARY NOMINEE TO ACCEPT ONLY IF AUTHORISED BY HOLDERS OF CDIS

If a takeover offer in respect of Principal Financial Products is received by a Depository Nominee, the Depository Nominee must not accept the offer except to the extent that acceptance is authorised by Holders of CDIs with respect to the Principal Financial Products under these Rules.

Introduced 11/03/04 Origin SCH 3A.7.1 Amended 06/06/05

### 13.7.2 ACCEPTANCE WITH RESPECT TO HOLDERS OF CDIS ON CHES SUBREGISTER

If:

(a) Principal Financial Products are held by a Depository Nominee; and

(b) the corresponding CDIs are held on a CHES Subregister,

then the provisions of the Rules governing the processing of takeover acceptances of Financial Products held on a CHES Subregister apply as if the CDIs were Financial Products of a listed public company and the Depository Nominee must accept a takeover offer with respect to Principal Financial Products which it holds if and to the extent to which acceptances are received and processed pursuant to the Rules.

Introduced 11/03/04 Origin SCH 3A.7.2 Amended 06/06/05



13.7.3 ACCEPTANCE WITH RESPECT TO HOLDERS OF CDIS ON ISSUER-SPONSORED SUBREGISTER

If:

(a) Principal Financial Products are held by a Depositary Nominee; and  
(b) corresponding CDIs are held on the Issuer Sponsored Subregister,  
then the Depositary Nominee must:

(c) as soon as possible after the date of receipt of the takeover offer from the offeror, despatch to each Holder of CDIs registered on the CDI Register at the date of the offer, copies of the offer documentation, together with any other documents despatched to target holders of the Principal Financial Products; and

(d) ensure that the offer documentation despatched to Holders of CDIs includes a Notice in a form acceptable to ASTC in accordance with the Procedures.

Introduced 11/03/04 Origin SCH 3A.7.3 Amended 06/06/05

13.7.4 PROCESSING OF ACCEPTANCES FROM HOLDERS OF CDIS

Where the provisions of Rule 13.7.3 apply, the Depositary Nominee must ensure that:

(a) the offeror receives and processes acceptances from Holders of CDIs or appoints a receiving agent in Australia to receive and process acceptances with respect to Holders of CDIs on the Issuer Sponsored Subregister; and

(b) either the offeror or the offeror's receiving agent provides the Depositary Nominee with a clear statement of the number of Principal Financial Products held by the Depositary Nominee with respect to which acceptances of Holders of CDIs have been received, in sufficient time to enable the Depositary Nominee to lodge a valid acceptance of the offer with the offeror as holder of the Principal Financial Products.

Introduced 11/03/04 Origin SCH 3A.7.4

13.7.5 LIABILITY OF DEPOSITARY NOMINEE

The Depositary Nominee has no liability to:

- (a) the Principal Issuer;
- (b) Holders of Principal Financial Products;
- (c) Holders of CDIs;
- (d) any person claiming an interest in Principal Financial Products or CDIs; or
- (e) the takeover offeror,

with respect to lodging or not lodging takeover acceptances for the whole or any part of its Holding of Principal Financial Products unless it:

(f) acts contrary to a statement of a receiving agent given under Rule 13.7.4(b) or contrary to the information supplied to it by ASTC regarding takeover acceptances with respect to Holdings on the CHES Subregister for the CDIs;

(g) acts negligently or in breach of these Rules; or

(h) negligently fails to lodge the acceptance or acceptances before the close of the offer period.

Introduced 11/03/04 Origin SCH 3A.7.5 Amended 06/06/05

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## 13.8 VOTING ARRANGEMENTS

### 13.8.1 INTERPRETATION

For the purposes of Rule 13.8, "constitution of a Principal Issuer" means:

(a) in respect of a share, constitution as defined in the Corporations Act; or

(b) in respect of a Financial Product other than a share, the document which creates the right for a holder of Financial Products to attend and vote at meetings of holders of Financial Products of that class and to appoint proxies in respect of that voting.

Introduced 11/03/04 Origin SCH 3A.1.3

### 13.8.2 PRINCIPAL ISSUER TO NOTIFY HOLDERS OF CDIS

If a meeting is convened of Holders of a class of Principal Financial Products vested in a Depository Nominee for a Principal Issuer, the Principal Issuer must give a Notice of the meeting to each Holder of CDIs at the same time as Notice of the meeting is sent to Holders of the Principal Financial Products.

For the purposes of this Rule 13.8.2, a Principal Issuer may give a Notice of the meeting to a Holder of CDIs in any manner provided for in the Corporations Act.

Note: this Rule 13.8.2 is intended to cover the means by which a notice of meeting may be given under section 249J of the Corporations Act.

Introduced 11/03/04 Origin SCH 3A.8.1 Amended 18/12/06

### 13.8.3 HOLDERS OF CDIS MAY GIVE DIRECTIONS TO DEPOSITARY NOMINEE

Subject to Rule 13.8.8, the Depository Nominee must appoint two proxies even if under the constitution of the Principal Issuer, a Depository Nominee has a right to:

(a) appoint more than one proxy for the purpose of voting at a meeting of the Principal Issuer; and

(b) cast different proxy votes for different parts of the Holding.

Introduced 11/03/04 Origin SCH 3A.8.2

### 13.8.4 PROXIES TO INDICATE RESULTS OF RESOLUTION

One of the two proxies so appointed in accordance with Rule 13.8.3 must indicate the number of Principal Financial Products in favour of the resolution described in the proxy, and the second proxy must indicate the number of Principal Financial Products against the resolution described in the proxy.

Introduced 11/03/04 Origin SCH 3A.8.3 Amended 06/06/05

### 13.8.5 DETERMINING THE NUMBER OF FINANCIAL PRODUCTS FOR EACH PROXY

The manner in which the number of Principal Financial Products is determined for each proxy is by:

(a) taking the number of CDIs in favour of the resolution;

- (b) taking the number of CDIs against the resolution;
- (c) applying the transmutation ratio to those CDIs; and
- (d) entering the resultant number of Principal Financial Products on the appropriate proxy.

Introduced 11/03/04 Origin SCH 3A.8.4 Amended 06/06/05

#### 13.8.6 DEPOSITARY NOMINEE APPOINTING A SINGLE PROXY

If under the constitution of the Principal Issuer, a Depositary Nominee can only appoint a single proxy, the Depositary Nominee must:

- (a) take the number of CDIs in favour of the resolution;
- (b) take the number of CDIs against the resolution;
- (c) determine the net voting position either in favour of or against the resolution;
- (d) apply the transmutation ratio to those CDIs; and
- (e) accordingly enter the resultant number of Principal Financial Products on the proxy.

Introduced 11/03/04 Origin SCH 3A.8.5 Amended 06/06/05

#### 13.8.7 VOTING INSTRUCTIONS BY DEPOSITARY NOMINEE

Where the appointed proxy or proxies are required to vote on multiple resolutions, the Depositary Nominee must instruct the proxy or proxies to vote in such manner as will in the reasonable opinion of the Depositary Nominee best represent the wishes of the majority of Holders of CDIs.

Introduced 11/03/04 Origin SCH 3A.8.5A

#### 13.8.8 DEPOSITARY NOMINEE TO APPOINT HOLDERS OF CDIS AS PROXY

The Depositary Nominee must appoint a Holder of CDIs or a person nominated by a Holder of CDIs as its proxy for the purpose of attending and voting at a meeting of the Principal Issuer where:

- (a) the constitution of the Principal Issuer allows the Depositary Nominee to appoint Holders of CDIs or a person nominated by a Holder of CDIs as its proxy; and
- (b) the Holder of CDIs has informed the Principal Issuer that the Holder wishes to nominate another person to be appointed as the Depositary Nominee's proxy.

Introduced 11/03/04 Origin SCH 3A.8.1

#### 13.8.9 PRINCIPAL ISSUER MUST NOTIFY HOLDERS OF CDIS OF THEIR RIGHTS

The Principal Issuer must:

- (a) include with the Notice of meeting given under Rule 13.8.2 a Notice in a form acceptable to ASTC in accordance with the Procedures; and
- (b) make appropriate arrangements to:
  - (i) collect and process any directions by Holders of CDIs;

(ii) provide the Depositary Nominee with a report in writing that clearly shows how the Depositary Nominee must exercise its right to vote by proxy at the meeting, in sufficient time to enable the Depositary Nominee to lodge a proxy for the meeting; and

(iii) where a Holder of CDIs, or a person nominated by a Holder of CDIs, is to be appointed the Depositary Nominee's proxy in accordance with Rule 13.8.8, collect and process all relevant proxy forms in sufficient time to enable the Depositary Nominee to lodge a proxy or proxies for the meeting.

Introduced 11/03/04 Origin SCH 3A.8.6 Amended 18/12/06

#### 13.8.10 DEPOSITARY NOMINEE TO CALL FOR A POLL

To the extent that it is able to do so, the Depositary Nominee must make or join in any demand for a poll in respect of any matter at a meeting of the Principal Issuer in accordance with any report in writing supplied by the Principal Issuer under Rule 13.8.9(b)(ii).

Introduced 11/03/04 Origin SCH 3A.8.7

#### 13.8.11 MEETINGS OF HOLDERS OF CDIS

If it is necessary or appropriate for a meeting of Holders of CDIs to be convened for any purpose, including a purpose specified in these Rules:

(a) the meeting may be convened by the directors of the Principal Issuer to which the CDIs relate, or in any other manner in which a meeting of holders of Financial Products of the Principal Issuer may be convened under the law of the place of formation of the Principal Issuer;

(b) the rights of Holders of CDIs to appoint a proxy, to vote on a show of hands, to call for a poll and vote on a poll must be determined as if the meeting were a meeting of holders of Financial Products of the Principal Issuer;

(c) the requirements for Notice of the meeting and the rules and procedures for a meeting of Holders of CDIs must be the requirements, rules and procedures that would apply to a meeting of holders of Financial Products of the Principal Issuer.

Introduced 11/03/04 Origin SCH 3A.8.8

#### 13.8.12 LIABILITY OF DEPOSITARY NOMINEES

The Depositary Nominee has no liability to:

(a) the Principal Issuer;

(b) Holders of Principal Financial Products;

(c) Holders of CDIs; or

(d) any person claiming an interest in Principal Financial Products or CDIs,

with respect to any conduct or omission of the Depositary Nominee at or connected with a meeting of Holders of Financial Products of a Principal Issuer, unless the Depositary Nominee:

(e) acts contrary to a report of the Principal Issuer given under Rule 13.8.9(b)(ii);

(f) acts negligently or in breach of these Rules; or

(g) negligently fails to vote or lodge forms of proxy before the close of the period within which proxies for the meeting may be lodged.

Introduced 11/03/04 Origin SCH 3A.8.9

### 13.9 SPECIFIC MODIFICATIONS TO RULES

#### 13.9.1 MODIFICATIONS

The following modifications are made to the Rules in respect of the operation of Section 13:

(a) Rule 8.1 does not apply.

(b) Rule 8.2.1(a) is varied by the insertion of the words " or CDIs that are to be approved under Rules 13.1 to 13.13;" after Rule" 8.1".

(c) Rules 8.6.4 and 8.6.5 should be read as if references to the "Commission" were references to "ASTC" and references to the "Corporations Act" were references to "these Rules".

(d) The provisions of Rule 8.12 are modified by the provisions of Rules 13.9.2 to 13.9.6 below.

(e) Rule 5.2.1 is amended by insertion of the words "or CDIs that are to be approved under Rules 13.1 to 13.13" after "8.1" in Rule 5.2.1.

(f) Rules 5.2.2 and 5.4.1 do not apply to a class of CDIs that is Approved under Rules 13.1 to 13.13.

(g) Rule 5.4.2 is to be read as if the following provision is added to the end of Rule 5.4.2, " A Principal Issuer may not cease to operate its Issuer Sponsored Subregister unless ASTC agrees in writing."

(h) Rule 5.9 only applies where a Transfer is initiated by a Participant which has the effect of a Conversion.

(i) Rules 5.13.1 and 5.13.3 are modified so that the references to "total issued capital" must be read as references to " total number of CDIs".

(j) The provisions of Section 14 are taken to apply to CDIs as if the CDIs were Financial Products in an Australian listed public company and the takeover bid with respect to the Principal Financial Products was a takeover under the Corporations Act.

Introduced 11/03/04 Origin SCH 3A.9.1 to 3A.9.5, 3A.9.8 to 3A.9.12, 3A.9.12A to 3A.9.19 Amended 04/04/05, 06/06/05

#### 13.9.2 CDI TO PRINCIPAL FINANCIAL PRODUCT TRANSMUTATION

A CDI to Principal Financial Product Transmutation may be initiated by a Participant that Transmits a Valid Originating Message to ASTC in accordance with the Procedures.

Introduced 11/03/04 Origin SCH 3A.9.6.1 Amended 06/06/05

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### 13.9.3 ACTIONS OF ASTC

If an Originating Message Transmitted to ASTC complies with Rule 13.9.2 and there are sufficient available CDIs in the Source Holding, ASTC must:

- (a) deduct the number of CDIs specified in the Originating Message from the Source Holding; and
- (b) Transmit a Message to the Principal Issuer to transfer Principal Financial Products in accordance with the Originating Message.

Introduced 11/03/04 Origin SCH 3A.9.6.2 Amended 04/04/05, 06/06/05

### 13.9.4 PRINCIPAL ISSUER TO GENERATE TRUSTEE TRANSFER FORMS

If a Principal Issuer receives a Valid Message under Rule 13.9.3(b), the Principal Issuer must, within the Scheduled Time:

- (a) generate a Trustee Transfer Form in accordance with the Procedures; and
- (b) register that Transfer in the Principal Register.

Introduced 11/03/04 Origin SCH 3A.9.6.3 Amended 04/04/05, 06/06/05

### 13.9.5 TIME AT WHICH TRANSFER TAKES EFFECT

A Transfer initiated under Rule 13.9.4(a) is deemed to take effect at the time ASTC deducts the number of CDIs specified in the Originating Message from the Source Holding.

Introduced 11/03/04 Origin SCH 3A.9.6.4 Amended 06/06/05

### 13.9.6 AUTHORITY OF HOLDER OF CDI REQUIRED

A Participant must not transmit a Valid Originating Message which has the effect of Transmuting CDIs to Principal Financial Products without the prior authority of the Holder of CDIs.

Introduced 11/03/04 Origin SCH 3A.9.6.5

### 13.9.7 PRINCIPAL FINANCIAL PRODUCT TO CDI TRANSMUTATION

A Principal Financial Product to CDI Transmutation may be initiated by a Participant that:

- (a) lodges a properly completed document of Transfer and Certificate or Marked Transfer with the Principal Issuer within the Scheduled Time; and
- (b) Transmits a Valid Originating Message to ASTC in accordance with the Procedures.

Introduced 11/03/04 Origin SCH 3A.9.7.1 Amended 06/06/05

### 13.9.8 ASTC TO REQUEST PRINCIPAL ISSUER TO AUTHORISE THE TRANSMUTATION

If an Originating Message Transmitted to ASTC complies with Rule 13.9.7(b), ASTC will:

- (a) Transmit to the Principal Issuer a Message requesting the Principal Issuer to authorise the Transmutation of Principal Financial Products to CDIs in accordance with that Originating Message; and
- (b) specify the Registration Details in the Message to the Issuer to enable the Issuer to validate the Registration Details, where applicable.

Introduced 11/03/04 Origin SCH 3A.9.7.2 Amended 04/04/05, 06/06/05

13.9.9 PRINCIPAL ISSUER TO PROCESS THE TRANSFER

If a Principal Issuer receives:

(a) a properly completed document of Transfer and Certificate or Marked Transfer; and

(b) a Valid Message under Rule 13.9.8 from ASTC pursuant to an Originating Message,

the Principal Issuer must, within the Scheduled Time:

(c) enter the Transfer in the Principal Register;

(d) Transmit a Message to ASTC to Transfer the Financial Products in accordance with the Originating Message; and

(e) in the case of a Message requesting the Principal Issuer to authorise a Transfer where the Transfer has the effect of a Conversion, ensure the Registration Details specified in the Message for the Target Holding match the Registration Details maintained by the Principal Issuer for the Source Holding.

Introduced 11/03/04 Origin SCH 3A.9.7.3 Amended 04/04/05

13.9.10 ASTC TO ENTER FINANCIAL PRODUCTS INTO TARGET HOLDING

If ASTC receives a Valid Message under Rule 13.9.9(d), ASTC must enter Financial Products into the Target Holding in accordance with the Originating Message.

Introduced 11/03/04 Origin SCH 3A.9.7.4

13.9.11 CONDITIONS FOR ISSUER'S AUTHORISATION OF A TRANSFER NOT MET

If the conditions for authorisation by the Issuer of a Transfer as stipulated in Rule 13.9.9 are not met, the Issuer must, within the Scheduled Time:

(a) reject the Message; and/or

(b) return the properly completed document of Transfer and Certificate or Marked Transfer to the Participant that lodged it without entering the Transfer in the Principal Register,

whichever is relevant.

Introduced 11/03/04 Origin SCH 3A.9.7.5 Amended 09/05/05

13.9.12 TIME AT WHICH TRANSFER TAKES EFFECT

A Transfer initiated under Rule 13.9.7 takes effect when both the actions described in Rule 13.9.9(c) and (d) are completed.

Introduced 11/03/04 Origin SCH 3A.9.7.6

13.9.13 ASTC MAY PURGE UNACTIONED MESSAGES

If a Principal Issuer receives a Message from ASTC under Rule 13.9.8 and does not respond to ASTC under either Rule 13.9.9 or Rule 13.9.11 within the relevant Scheduled Time for response, ASTC may purge the unactioned Message from the Settlement Facility.

Introduced 09/05/05

### 13.10 SHUNTING BETWEEN REGISTERS

#### 13.10.1 SHUNT FROM DI REGISTER TO PRINCIPAL REGISTER

Where a Holder gives Notice requesting that the Principal Issuer shunt all or part of a Holding of DIs into Principal Financial Products, the Principal Issuer must reduce that Holding by the number specified in the Notice and take such steps as are necessary to shunt the same number of Principal Financial Products from the relevant Segregated Account to the Approved Clearing House account nominated in the Notice, within 3 Business Days of receipt of that Notice.

Introduced 11/03/04 Origin SCH 3A.10.1

#### 13.10.2 SHUNT FROM PRINCIPAL REGISTER TO DI REGISTER

Where a Holder gives Notice requesting that the Principal Issuer shunt all or part of a Holding of Principal Financial Products into DIs, the Principal Issuer must take all necessary steps to shunt those Principal Financial Products to the Segregated Account and enter the same number of DIs into a Holding in accordance with the instructions given in the Notice, within 3 Business Days of receipt of that Notice.

Introduced 11/03/04 Origin SCH 3A.10.2

### 13.11 TAX LAWS

#### 13.11.1 PRINCIPAL ISSUER TO COMPANY WITH TAX LAWS

The Principal Issuer will use its best endeavours to:

(a) comply with all applicable Tax laws as agent and attorney of the Depository Nominee;

(b) ensure that the Depository Nominee complies with all applicable Tax laws; and

(c) not do any act or thing which creates a Tax liability, or not omit to do any act or thing, the omission of which creates a Tax liability, which must be discharged by the Depository Nominee, unless provision has been made for the discharge of the liability by some person other than the Depository Nominee.

The obligations of the Principal Issuer and the Depository Nominee are subject to all relevant Tax laws.

Introduced 11/03/04 Origin SCH 3A.11.1, 3A.11.2

### 13.12 NOTICE

#### 13.12.1 NOTICE TO HOLDERS OF CDIs'S

Any obligation to give notice to Holders of CDIs under Rules 13.1 to 13.13 must be discharged upon the Depository Nominee giving notice to the Holder of CDIs at the address of the Holder of CDIs noted on the CDI Register.

Introduced 11/03/04 Origin SCH 3A.12.1

### 13.13 GENERAL INDEMNITY

#### 13.13.1 PRINCIPAL ISSUER TO INDEMNIFY THE DEPOSITARY NOMINEE

The Principal Issuer indemnifies the Depository Nominee against all expenses, losses, damages and costs that the Depository Nominee may sustain or incur in connection with:

(a) CDIs;

(b) its capacity as holder of Principal Financial Products;



(c) any act done, or required to be done, by the Principal Issuer (whether or not on behalf of the Depository Nominee) under Rules 13.1 to 13.13 of the Rules; and

(d) any act otherwise done or required to be done by the Depository Nominee under Rules 13.1 to 13.13 of the Rules.

Introduced 11/03/04 Origin SCH 3A.13.1

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