

## Chairman's Address to 2005 Annual Meetings

### Check against delivery

My focus today is firmly on James Hardie's achievements.

I don't propose to use this Address to re-visit history. I believe we have done that adequately through my address to you at last year's meeting, our public statements since then and in this year's Annual Report.

I start by paying tribute to the people and products that are James Hardie today. In the face of an extraordinarily difficult eighteen months, your company's business has not just survived, it has continued to grow and prosper. I want to acknowledge this success, and reflect a little on just what this company is capable of achieving.

Our success is testament to the strength and robustness of this business, and its high-performance culture.

At every level, from those who develop and manufacture our products, to those who sell them in the various markets, from those who set the business strategy and guide our overall policy, to those who support our activities in functional roles, the people who constitute James Hardie have worked tirelessly to look after those they serve, to achieve the best outcome for the company and all those who depend on its ongoing success – its stakeholders.

### We recognise that we need to regain our place in corporate Australia

In talking about the underlying strength and success of our business, I'm not ignoring the negative sentiment towards the company, exacerbated by the time it has taken to finalise the voluntary asbestos compensation funding proposal.

We are working to overcome this, not only by seeking to finalise the voluntary funding arrangements but also by continuing to further improve our business performance, to support our employees, and to meet our customers' needs.

At this point, I thank you, our shareholders, for your continued support of the company and for your ability to see beyond the headlines, to understand the very real complexities involved in the asbestos issue and to recognise that your Board is committed to finalising the current negotiations for a sustainable long-term voluntary funding arrangement.

## **We are working to implement the Heads of Agreement**

And we are committed to signing a legally-binding Principal Deed with the NSW Government which implements in the shortest possible time the Heads of Agreement which the NSW Government, James Hardie and others signed last December.

We continue to work on resolving the remaining issues, despite the many complexities involved in developing an arrangement that will still work, as well as providing reasonable protections for the Fund, over at least a 40+ year period.

In the Annual Report, I expressed the hope that the signing of this Deed would not be far off, although there were still several significant issues to be resolved. This remains the case today, although the points of difference are, we hope, narrowing.

In question forms submitted ahead of today's meeting, holders asked for an update on the timing of the proposed funding solution being put to them for approval.

Having nominated - and missed - three deadlines already, I'm reluctant to suggest another definitive timeframe for the conclusion of negotiations. I can say that we are very disappointed and frustrated it has taken as long as it has and we are working for resolution as soon as possible. However, this has to be done in the context of ensuring our company remains financially strong, retains the support of you, our shareholders, and of our lenders and is able to continue to grow and to fund its growth for the benefit of *all* stakeholders.

## **Much has been achieved since we signed the Heads of Agreement**

Despite our frustration at not yet being at a point where we can put an agreed proposed funding arrangement to you, we have achieved or resolved many of the issues identified by your directors as necessary pre-requisites to seeking your approval for the proposal:

1. We have what we believe is a more stable estimate of the extent of the funding anticipated to be required. This has come from the KPMG Actuaries reports first released by us in June last year and updated in March this year, the second of which shows a central estimate of funding requirement of A\$1.685 billion NPV as at 31 March 2005. An updated report to 30 June 2005, including estimated legal and administrative cost savings, is now around 95% complete.

The voluntary funding arrangement set out in the very detailed Heads of Agreement is intended to provide for payments to be made to all future proven claimants in Australia against the former James Hardie subsidiaries for asbestos-related diseases arising from exposure to asbestos in Australia.

However, it should be recognised that because the factors which affect the liabilities including the number of claimants and the amounts that the courts may award is uncertain and James Hardie may not perform as currently projected- no absolute assurance on this can be given.

2. The NSW Government has committed to reducing the inefficiencies in the dust diseases claims system in NSW. According to the KPMG report at 31 March 2005, legal costs were estimated to be \$436 million – around 26% of the A\$1.685 billion estimated amount attributable to James Hardie's **former subsidiaries**.

The same report estimated that legal costs were at that time running at 35% of the net costs of settlement<sup>1</sup>.

To put this into even sharper perspective, KPMG has estimated that system costs could be costing both plaintiffs and defendants around \$2 billion (in today's dollars) of the estimated total Australian liability of \$8.2 billion.

Our determination over this issue has paid off: The Government agreed to conduct a review of these costs and completed this review in March this year. The relevant legislation and regulations that took effect on July 1 implement a number of recommendations of the review that will help to reduce legal, administrative and other costs - we hope to a considerable extent, and in a way that is sustainable in the long-term. The Government reforms also require the collection of accurate cost data which will provide the basis of ongoing reviews, which are required to ensure the system continues to improve. We commend the Government on these reforms.

3. Consistent with the stated objectives of all those involved in its negotiations, including the NSW Government, the regime outlined in the Heads of Agreement seeks to ensure that James Hardie remains financially successful whilst providing an ongoing funding stream for future proven Australian asbestos-related personal injury claimants. In practice, that means the company has the ability to retain enough cash to invest in the business and maintain the future support of the debt and equity markets which are critical to its financial health and, hence, its capacity to fund future claims. We are working to ensure this is maintained in the Principal Deed.
4. In addition, James Hardie has completed its new debt financing facilities in June and, as a consequence, has the necessary financial capacity to make the proposed initial funding payment.
5. Still in the area of financial considerations, we need to continue to pursue tax deductibility for voluntary payments to be made by the company. Obtaining deductibility is critical to the affordability of the proposal for James Hardie and could materially affect its financial health (which is, in turn, critical to both our shareholders and asbestos claimants alike). We have been engaged over many months with the Australian Tax Office and the Federal Treasury to resolve this requirement and remain hopeful that it can be settled for the benefit of all stakeholders.
6. Preparation of related agreements, including detailed arrangements to establish a Special Purpose Fund and support the funding obligations the company is assuming is at an advanced stage.
7. Other key requirements, such as:
  - an Independent Expert's report and
  - an Explanatory Memorandum explaining the proposal to shareholders

are around 80% completed, and - like other reports and documents - are capable of being finalised in a short time frame as soon as the Principal Deed is finalised.

---

<sup>1</sup> Net costs are costs after insurance recoveries

Following the completion of all the requirements I have outlined, there will be a shareholder vote at an Extraordinary General Meeting. The details of all of these will be communicated to you separately.

### **What is in the Principal Deed?**

In summary, your directors are seeking in the Principal Deed an agreed funding mechanism which:

1. implements the previously agreed Heads of Agreement;
2. is consistent with our directors' duties to the company and its stakeholders;
3. provides an agreed and efficient regime to deal with funding proven Australian personal injury claims for at least 40 years, for the benefit of both shareholders and claimants under various potential changing circumstances;
4. is affordable for the company; and
5. retains the support of our lenders.

The key elements of the agreed funding arrangement, which were set out in the Heads of Agreement, include:

- the establishment of a Special Purpose Fund (SPF) to compensate asbestos victims;
- initial funding of the SPF by James Hardie on the basis of an Actuaries' report which is to be updated annually;
- a two year rolling cash 'buffer' in the SPF and an annual top up contribution in advance based on actuarial assessments of expected claims for the next three year period, recalculated annually;
- a cap on the annual James Hardie payments to the SPF, initially set at up to 35% of annual net operating cash flow of the James Hardie Group for the immediately preceding financial year, with provision for the percentage to decline over time depending on James Hardie's financial performance and the claims outlook; and
- no cap on individual payments to proven claimants.

All these elements have already been satisfactorily reflected in the draft Principal Deed.

### **The Current State of Negotiations with the NSW Government**

What is proving to be challenging is translating from the Heads of Agreement into the Principal Deed agreed responses to contingencies that may or may not arise over the next 40 years or so.

We are currently considering Draft Nine of the Principal Deed, recently prepared by the Government. Unfortunately, as we advised the market on Wednesday, the Government's negotiating team sought to introduce into Draft Nine a number of new matters which were not raised during lengthy face-to-face meetings between the negotiating teams when Draft Eight was discussed. Further, some matters which we considered had already been agreed were not reflected in Draft Nine.

We are reviewing these changes carefully in the interests not only of you, our shareholders, but also current *and future claimants* who may be depending on the sustainability of these arrangements for over 40 years into the future.

I can assure you that we are seeking finalisation of these remaining issues as soon as we possibly can. It is certainly not in our company's interests for this issue to remain unresolved any longer than is necessary to secure a fair and sustainable outcome – that is, one which implements the Heads of Agreement.

I now turn to deal with more usual corporate matters, and I do thank shareholders for their support while we resolve the outstanding issues with the NSW Government.

### **We will return to a more structured Dividend policy**

A number of holders had questions about our Dividend policy, and I want to comment briefly on that now.

It is appropriate to discuss dividends in this context, because the issue of Dividend payments is related to the voluntary asbestos funding.

In the past, James Hardie made semi-annual dividend payments. We did not declare or pay an interim dividend payment in January 2005, due to the uncertainty surrounding implementation of our voluntary funding proposal, particularly the legal ability of JHI NV to pay a dividend if it recorded or knew it might record in its accounts a provision for funding.

This accounting question has since been resolved and the company declared a dividend in May 2005 that included payment of the January interim dividend.

We anticipate that our Dividend policy will now return to semi-annual payments.

A number of holders have also asked about a Dividend Reinvestment Scheme. Whilst we will periodically revisit this option of raising capital, the company does not have any current plans to introduce such a scheme.

### **We have reviewed our Corporate Governance practices**

In the public statements I have made about James Hardie in the last year, I have expressed my belief that our experiences raise some important corporate governance issues about the very real and complex difficulties directors may face when they attempt to address community expectations and, at the same time, ensure the company continues to operate successfully and with the ongoing support of its shareholders for the benefit of all stakeholders.

Seeking reassurance about the underlying health of the company's governance, the Board commissioned two independent reviews to examine various aspects of the company's governance practices.

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

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

In light of recent changes to the Dutch Civil Code and Corporate Governance Code - and consistent with best practice - we have proposed amendments to our Articles of Association for your approval at this year's Annual General Meeting. A number of these amendments are mandatory under Dutch law, others are best practice under the Code and others are in accordance with the recently ratified US-Netherlands Tax Treaty. I would be happy to answer questions on these later when we move to the items covered in the Notice of Meetings.

### **We are undertaking Board renewal to ensure our ongoing strength**

At the last Annual General Meeting, I spoke of a program of Board renewal.

We have, since then, engaged a search firm to help us identify new directors with business experience in USA and Europe and the personal qualities and values important for contributing to the balanced composition of this demanding Board.

Our goal is a properly-implemented program of succession that injects new ideas and approaches, allows for a transition in directors, and ensures the continued stability of your company.

As advised in the Annual Report, and in the notice of meetings, while Greg Clark, Michael Brown and James Loudon are standing for re-election at this year's AGM, both Michael and James have indicated that, if re-elected, they plan to retire from the Board at an appropriate time during their forthcoming terms, following the appointment of new directors.

Since both are members of the Audit Committee - Michael Brown is its Chairman - and both designated financial experts under the Sarbanes Oxley Act of 2002, we will be ensuring that their replacements also possess the requisite financial expertise.

Michael and James have said they're willing to remain on the Board not just until new directors are appointed but also for a transition period, which is particularly important in the context of the Audit Committee.

I am confident that we will be able to attract people of the calibre we need, by offering them the challenges and rewards of being involved with a high growth company in a vast market with an outstanding product and people, despite the demands of time and travel for this busy global Board.

We are taking the time to conduct the search process properly and we will *not* be offering to appoint anyone until we've resolved the asbestos funding issue with your approval so that any new directors have a clear understanding of the company's commitments before they are asked to agree to join the Board.

We will also need to secure shareholder approval of enough money to pay them. I foreshadowed in the Annual Report that we will be seeking your approval for an increase in the Directors' fee pool to ensure we can offer a competitive remuneration package, including a higher proportion of shares in lieu of cash than we currently receive. Your Board does not believe it is appropriate to pursue such an increase until we have resolved the asbestos funding issue. That is why there is no such motion put to this year's AGM. Your Board will nevertheless be seeking to do so at the EGM so we can proceed to make such appointments when suitable candidates are found.

I would like to take this opportunity to record my thanks to Mike and James – and indeed to all my fellow directors - for their support, guidance and counsel over the past year. The company and its shareholders have been well-served by your passion, and your commitment. Mike in particular has had a demanding job as Chairman of our Audit Committee and has performed it with great expertise. More recently James has been chairing our Due Diligence Committee which is overseeing the preparation of the Explanatory Memorandum for shareholders and has brought wisdom and dedication to this role.

### **We have the right people in management to guide our growth**

When we appointed Louis Gries as the company's Chief Executive Officer in February, we expressed our delight at having such a strong and experienced internal candidate for this position.

Louis has a long history of outstanding achievements for James Hardie since he joined us in 1991, and we have great confidence in his business expertise, his personal integrity and his forthrightness.

Louis has appointed to the General Management Team a number of outstanding executives whose talents and values contribute to an already highly-skilled and effective leadership team.

Under their management, the company continues to successfully pursue its strategy of fibre cement leadership in all the countries in which we operate.

In addition, I commend Russell Chenu, our CFO, who has brought a considered, steady and fair-minded approach to the negotiations for the Heads of Agreement and who continues to spend almost all his time in Australia to negotiate a satisfactory Principal Deed.

## **Our business operations are strong**

We announced our results for the 2005 Fiscal Year in May. Despite the many challenges we were facing in Australia, these were very pleasing. They are reflected in the accounts you are considering today and those in our Annual Report which you have received. This morning, we announced our results for the first quarter of the 2006 Fiscal Year, and I am pleased to advise that these are also very good - a 51% increase in operating profit from continuing operations to US\$55.9 million for the three months ended June 30, 2005; a 17% increase in net sales; a 31% increase in gross profit; and a 49% lift in EBIT.

I will shortly hand over to Louis, who will talk about the business in more detail.

## **We continue to make a substantial contribution to Australia**

All the discussion about James Hardie being a Dutch company ignores the fact that we are a significant Australian success story, and we continue to make a major contribution to this country.

In 1990, we built our first US plant in Fontana, California in 1990. Today, we have 13 plants in the US, Australia and the Philippines and our total annual production capacity is 3,425 million square feet. This will increase to 14 plants and 4,025 square feet when we complete the construction of our latest plant, in Pulaski Virginia – our largest plant to date.

James Hardie pioneered the development of asbestos-free fibre cement building materials in Australia and we still have three manufacturing plants and a Research and Development Centre here.

Through our products, we are a major supplier to, and supporter of, the local building industry. We are also making a contribution to the wider community, both here and overseas, by providing products and employees' efforts to the humanitarian organisation, Habitat for Humanity. The taxes we pay here contribute to the Australian economy.

## **Conclusion**

The final settlement of the voluntary asbestos compensation solution that we are working so hard to be able to put to you for approval in the coming months is a key milestone for the company. But the results we have been achieving and continue to achieve today show that your company is by no means simply marking time in other areas until this happens.

I congratulate management on their focussed dedication, innovation and persistence in continuing to ensure James Hardie's business operations are so strong. This will benefit all who have an interest in your company's long-lasting success – now, and in the future.

I now invite our CEO, Louis Gries, to talk to you about the business.