



Competitive Advantages

We believe the market potential for fibre cement products is much larger than our current net sales and we have identified several growth opportunities to which our products are well-suited. Our goal is to grow our share of the current worldwide market for fibre cement products and, at the same time, expand the size of that market.

We believe we have competitive advantages that will allow us to achieve that goal, including proprietary products and process technology, and expertise in the manufacture and marketing of fibre cement products. These are discussed more fully on pages 22 – 25 of this report. In this section of the report, we consider some other features that we believe contribute to our competitive advantages.

We enable builders and developers to achieve their designs

Increasingly we are working with builders, designers and developers to help them create individual homes and communities to meet the needs of homeowners.

The last year has seen some striking examples of our involvement:

Katrina Cottage 1

In the United States, James Hardie has provided siding for, and sponsored the construction of, the *Katrina Cottage 1*. This 300-square foot home was displayed at the International Builders Show in Florida, USA in January 2006.

It was designed to fill a giant need on the Hurricane Katrina-ravaged Gulf Coast. The cottage plan was created by New York designer Marianne Cusato, one of more than 100 planning specialists brought together in Florida in October 2005 by the Governor's Commission on Recovery, Rebuilding, and Renewal. The group worked with local designers in a week-long Mississippi Renewal Forum that developed a number of possible designs for housing to re-build the area. *The Katrina Cottage 1* is the first to be built.

The goal of the *Katrina Cottage 1* was to change the definition of "emergency housing" from temporary Federal Emergency Management Agency trailer models to something appealing and practical enough to be permanent. It allows a family to purchase or build a small home they can live in until they

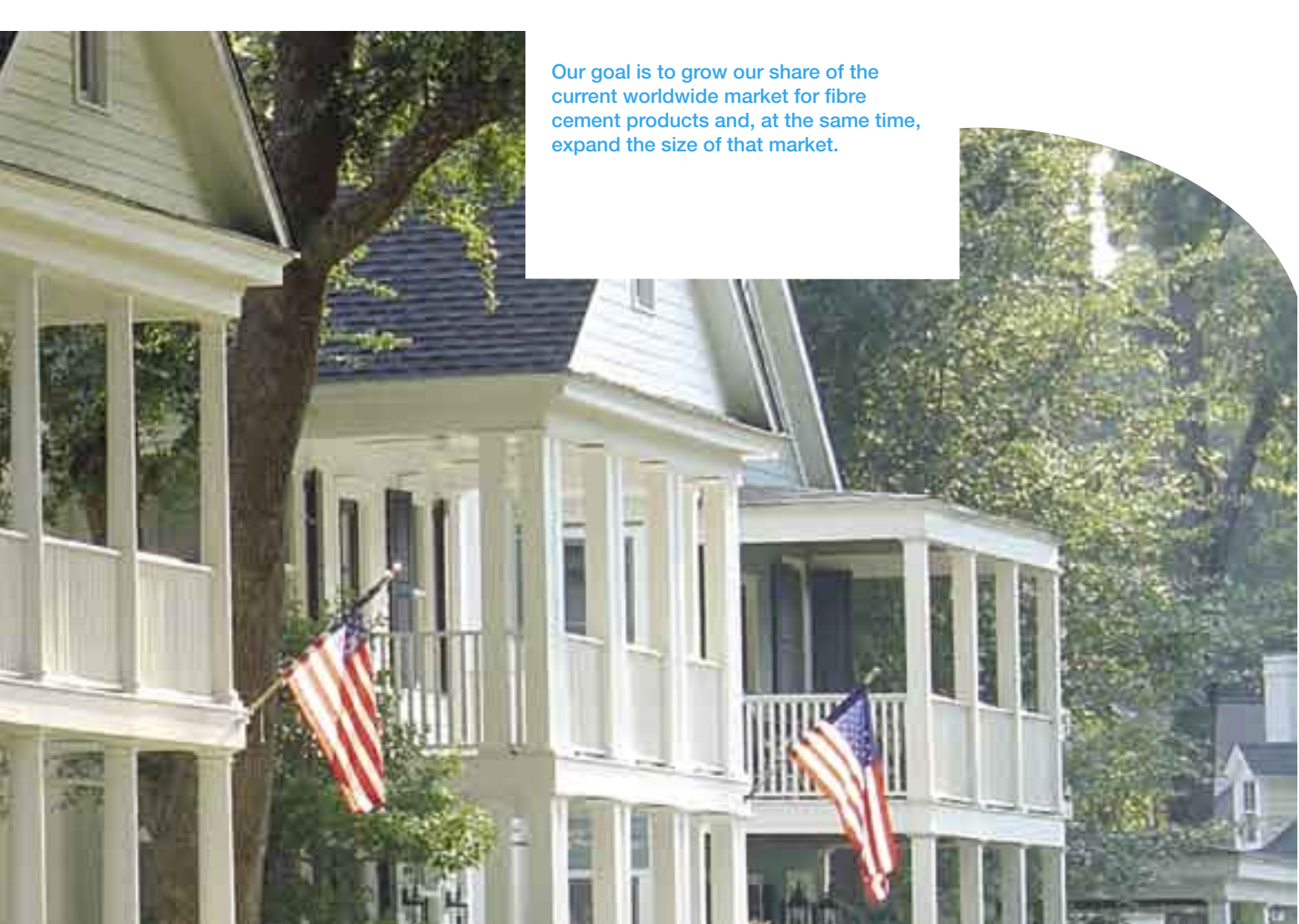
can construct a larger one on the same block of land. The cottage can become a guest house or a studio, or even the first building block in a larger home plan, or family compound or even an entire neighbourhood development.

The *Katrina Cottage 1* retains Mississippi architectural traditions with details including built-in storage, six large windows, a pitched roof, and a full-size porch. It can be produced at low cost, either on site through a variety of traditional building techniques or as manufactured housing.

Streetscapes

Also in the United States, James Hardie is becoming an educational resource for developers, builders and city planners encouraging them to incorporate more New Urbanist planning principles that create better places to live. New Urbanism has received media attention around the world for its approach to ending suburban sprawl and conventional "cookie-cutter" sub-divisions.

Developers are finding that homeowners are willing to pay more for homes in neighbourhoods that feature interesting architecture, are sustainable and offer



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shopping, schools and community gathering places within walking distance. By providing a more attractive design alternative to all brick and stucco “beige boxes”, James Hardie is seen as being an enabler of this movement.

Through a *Streetscapes* magazine and web-based newsletter, James Hardie is capturing information about these communities and sharing it with people involved in the home-building industry.

Streetscapes magazine also profiles and provides insights from some of the leading experts in New Urbanism planning, design and construction. These include Andres Duany, FAIA and Elizabeth Plater-Zyberk, whose firm, Duany Plater-Zyberk & Company (DPZ), has co-designed more than 140 neighbourhoods, towns and cities. Many of these New Urban neighbourhoods are featured through this report.

James Hardie has also begun to work more closely with Australian developers, and recently hosted a tour by Australian development industry professionals to a number of the destinations featured in the US *Streetscapes* magazine. *The Living Benchmarks Streetscapes*

Tour took place in April 2006, and was attended by senior representatives from Australian and New Zealand residential developers as well as a number of urban designers and planners.

Substitution for other products

James Hardie pioneered the development of modern cellulose fibre-reinforced cement technology in the late 1970s and early 1980s and our goal is to win a large share of markets in which fibre cement can offer advantages over traditional materials.

By creating innovative products, we have been able to defend our market share from erosion by competitors, and expand the market for fibre cement as we find new ways for our products to replace traditional materials.

Our rapid growth in the United States over the last ten years, for example, is the result of our ability to develop products for a large market in which fibre cement has become superior to traditional materials such as wood and vinyl.

Lightweight and composite construction

We also expect to grow as the result of the trend away from traditional building systems, such as masonry, and towards lightweight framed construction or designs that feature composite construction.

Lightweight framed construction consists of a light steel or timber frame, clad with products such as fibre cement sheets or planks. Issues such as speed and cost of construction, quality of finish and the availability of skilled labour at competitive rates, have all contributed to the growth in this form of construction.

The benefits of lightweight framed construction are being seen in both commercial and residential construction projects.

Composite construction involves using a variety of different building materials on a single project to enhance designs and add aesthetic and visual interest. Our wide range of lightweight, cost-effective products and finishes are well-suited to this approach.