

Corporate Governance Principles

This section of the annual report is a reproduction of the company's Corporate Governance Principles, as amended through June 2006. These principles have been developed and approved by the Nominating and Governance Committee and, on its recommendation, adopted by the Supervisory Board.

The Corporate Governance Principles, as amended by the Board from time to time, are available from the Investor Relations area of our website (www.jameshardie.com) and available in print to any shareholder who requests a copy.

Corporate Governance at James Hardie

James Hardie is a public limited liability company (*naamloze vennootschap*) incorporated under Dutch law.

As a multi-national organisation, James Hardie operates under the regulatory requirements of numerous jurisdictions and organisations, including the Dutch Authority Financial Markets (AFM), the Australian Stock Exchange (ASX), the Australian Securities and Investment Commission (ASIC), the New York Stock Exchange (NYSE), the US Securities and Exchange Commission (SEC) and various other rule-making bodies. We believe it is important that our behaviour reflects the spirit, as well as the letter, of the law and we aim to govern the company in a way that meets or exceeds appropriate community expectations.

James Hardie's corporate governance framework is reviewed regularly and upgraded or changed as appropriate to reflect our and our stakeholders' interests, changes in law and current best practices. Before preparing this report, we commissioned a corporate governance review in each of the jurisdictions in which we operate and the results of this review are reflected in this report.

Our corporate governance standards apply to all of our subsidiaries.

Dutch Corporate Governance Code

Under the Dutch Code (the Code) on Corporate Governance published by the Dutch Corporate Governance Committee (the Tabaksblat Committee) in December 2003, listed Dutch companies are obliged to explain their corporate governance structure in a separate section of their annual report. In this section, listed Dutch companies must indicate expressly to what extent they apply the best practice provisions of the Code and, if they do not, why and to what extent they do not apply to them. The Code applies to James Hardie because it is a Dutch public limited liability company.

ASX Principles and Recommendations

Under the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX Corporate Governance Council, listed Australian companies are encouraged to comply with the Principles and Recommendations (ASX Corporate Governance Council Recommendations). Under the ASX Listing Rules, James Hardie must explain any non-compliance in its annual report. In addition, under ASX Listing Rules, James Hardie must comply with the ASX Corporate Governance Council Recommendations with respect to the composition, operation and responsibility of the Audit Committee.

NYSE Corporate Governance Rules

In accordance with the corporate governance standards adopted by the NYSE on 3 November 2004, listed companies that are foreign private issuers (which includes James Hardie) are permitted to follow home-country practice in lieu of the provisions of the corporate governance rules contained in Section 303A of the Listed Company Manual, except that foreign private issuers are required to comply with Section 303A.06, Section 303A.11 and Section 303A.12(b) and (c), each of which are discussed below.

Section 303A.06 requires that all listed companies have an Audit Committee that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

Section 303A.11 provides that listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by US companies under the NYSE listing standards.

Section 303A.12(b) provides that each listed company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of this Section 303A.

Section 303A.12(c) provides that each listed company must submit a written affirmation annually to the NYSE about its compliance with the NYSE's corporate governance listing standards and a written interim affirmation to the NYSE upon the occurrence of certain specified changes to the Audit Committee.

James Hardie presently complies with the mandatory NYSE listing standards and many of the non-compulsory standards including, for example, the requirement that a majority of our directors meet the independence requirements of the NYSE. In accordance with Section 303A.11, we disclose in this report, and in our annual report on Form 20-F that is filed with the SEC, any significant ways in which our corporate governance practices differ from those followed by US companies under the NYSE listing standards. Our annual report on Form 20-F is available from the Investor Relations area of our website (www.jameshardie.com) or from our corporate offices, the addresses of which are shown on page 136.

Two ways in which our corporate governance practices differ significantly from those followed by US domestic companies under NYSE listing standards should be noted:

- First, in the US, it is the audit committee of a board of directors that is required to be solely responsible for, among other matters, appointing a company's independent registered public accounting firm. However, in accordance with Dutch law, our shareholders are required to appoint the independent registered public accounting firm. In the event the shareholders do not appoint the independent registered public accounting firm, the Supervisory Board is authorised to do so and, should the Supervisory Board fail to appoint the auditor, the Managing Board is authorised to do so.

- In addition, the NYSE rules require each issuer to have an audit committee, a compensation committee (the equivalent to a remuneration committee) and a nominating committee composed entirely of independent directors. Because we are a foreign private issuer, we do not have to comply with this requirement. In our case, the Charters of our Board Committees reflect Australian and Dutch practices that we have a majority of independent directors on such committees, unless a higher number is mandatory.

Notwithstanding this difference, all of the current members of our Audit Committee, Remuneration Committee and Nominating and Governance Committee presently qualify as independent in accordance with the rules and regulations of the SEC and the NYSE.

Further improvement of our corporate governance structure

In September 2005, after receiving approval from our Annual General Meeting of shareholders, we amended our Articles of Association to enhance the independent character of the Supervisory Board and partially re-allocate the powers of each of the Managing Board, Supervisory Board and Joint Board. These boards were created by the company to match the one-tier board comprising both executive directors and non-executive directors that is familiar to Australian and US investors.

The combined powers of the Joint Board and the Supervisory Board have now been brought in line generally with the powers usually available to the “outside directors” of traditional Dutch multinational companies, through their membership of the Supervisory Board.

The following pages contain an overview of our corporate governance framework.

Board structure

James Hardie has 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.

In The Netherlands, a two-tier board structure with a Managing Board and a Supervisory Board is common. In Australia, the vast majority of companies listed on the ASX have a one-tier board comprising both executive directors and non-executive directors. Therefore, in addition to our Managing Board and Supervisory Board, our board structure includes a Joint Board comprising all non-executive directors and our CEO. The Joint Board is the equivalent of a full board of directors of a US or an Australian company.

The responsibilities of each of our boards are formalised in charters and these charters are available from the Investor Relations area of our website (www.jameshardie.com).

The table on page 53 of this annual report show the composition of our boards and board committees and each board member’s attendance at meetings during the year.

Managing Board

Members

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. 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 CEO. The title of Chairman and CEO may be granted to the same person.

The Managing Board is currently chaired by our CEO, Mr Louis Gries.

If one, or more, or all members of the Managing Board are prevented from acting, or are failing to act, the Supervisory Board is authorised to designate a person temporarily in charge of management.

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 CEO) 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 themselves for re-election.

Responsibilities

The Managing Board manages James Hardie. It is responsible for:

- the general affairs, operations and finance; and
- ensuring the implementation of James Hardie’s goals, strategy and policies, to achieve results.

The Managing Board is also responsible for complying with all relevant legislation and regulations and for managing the risks associated with our activities.

It reports related developments to, and discusses the internal risk management and control systems with, the Supervisory Board and the Audit Committee. The Managing Board is accountable to the Supervisory Board and to shareholders for the performance of its duties.

The Managing Board provides the Supervisory Board, in a timely manner, with all the information it needs to discharge its duties. In discharging its duties, the Managing Board takes into account the interests of James Hardie, its enterprise (including the interests of its employees), shareholders, other stakeholders and all other parties involved in or with James Hardie.

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Supervisory Board

Members

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. The Supervisory Board and any of James Hardie's shareholders have the right to make nominations for the Supervisory Board.

If there is a vacancy on the Supervisory Board at any time after the end of an annual General Meeting and prior to the subsequent annual General Meeting, the Supervisory Board may appoint member(s) of the Supervisory Board to fill any vacancy, provided:

- that the(se) member(s) retire(s) no later than at the end of the first General Meeting following their appointment; and
- the number of the members of the Supervisory Board appointed by the Supervisory Board at any given time does not exceed one-third of the aggregate number of members of the Supervisory Board as fixed by the Supervisory Board.

The Supervisory Board appoints one of its members as Chairman. The Supervisory Board is currently chaired by Ms Meredith Hellicar.

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 themselves for re-election.

Responsibilities

The Supervisory Board is responsible for:

- supervising the policy and actions pursued by the Managing Board;
- supervising the general course of affairs of James Hardie and the business enterprise it operates; and
- advising the Managing Board.

In discharging its duties, the Supervisory Board takes into account the interests of James Hardie, its enterprise (including the interests of its employees), shareholders, other stakeholders and all other parties involved in or with James Hardie.

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.

Joint Board

Members

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 consists of all members of the Supervisory Board, the CEO and, if the Chairman of the Supervisory Board decides and designates, one or more other members of the Managing Board, provided that the number of members of the Managing Board on the Joint Board is never greater than the number of members of the Supervisory Board.

The Joint Board currently includes all of the members of the Supervisory Board as well as our CEO.

The Joint Board appoints one of its members as the Chairman. The Chairman must be an independent, non-executive director. The Joint Board is currently chaired by Ms Hellicar, who also chairs the Supervisory Board.

Our Joint Board structure and composition is consistent with ASX Corporate Governance Council Recommendations 1.1, 2.1, 2.2 and 2.3.

Responsibilities

The Joint Board is responsible for supervising the general course of affairs of James Hardie, approving the strategy set by the Managing Board, and monitoring company performance. To this end, we adopt a three-year business plan and a 12-month operating plan. Our financial results and performance are closely monitored against these plans.

Our Joint Board also seeks to ensure that we have in place effective external disclosure policies and procedures so that our shareholders and the financial markets are fully-informed on all material matters that might influence the share price.

The core responsibility of members of the Joint Board is to exercise their business judgment in the best interests of the company and its shareholders. Members of the Joint Board must fulfil 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.

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

The responsibilities of the Joint Board are consistent with ASX Corporate Governance Council Recommendation 1.1.

Processes

The Joint Board generally holds at least five meetings 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. In addition, meetings may also be held by telephone or video-conference provided that all participants can hear each other simultaneously. The vast majority of the Joint Board meetings shall physically be held in The Netherlands.

Each physical Joint Board meeting includes an executive session without any members of our management present.

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.

Directors

Qualifications

Our directors have qualifications, experience and expertise which assist the board in fulfilling its responsibilities, and assist the company to achieve future growth. The skills, experience and relevant expertise of each director, and his or her term of

appointment, is summarised on pages 28 – 30 of this annual report and also appears on the Investor Relations area of our website (www.jameshardie.com).

Directors are required to be able to devote a sufficient amount of time to prepare for, and effectively participate in, board and committee meetings.

The responsibilities of directors and our expectations of them are set out in a letter at the time the director is appointed, and are consistent with ASX Corporate Governance Council Recommendation 1.1.

Independence

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 considers all relevant facts and circumstances in determining the independence of directors in accordance with applicable listing standards, and whether a director has a material relationship with the company or another party that might impair his or her independence.

The Joint Board may determine that a director is independent even if there is a material relationship. 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.

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 has a policy that a majority of its members and the Chairman must 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.

For the purposes of complying with the independence requirements for directors who serve on the Nominating and Governance Committee, the Remuneration Committee and the Audit Committee, a director's independence is determined by the Joint Board in accordance with the rules and regulations of the applicable exchange or regulatory body.

The office of Chairman of the Joint Board and CEO cannot be held by the same person simultaneously, other than in special circumstances and/or for a short period of time.

This is consistent with ASX Corporate Governance Council Recommendation 2.3, the CEO and Chairman shall not be the same person.

The Joint Board does not believe that arbitrary limits on the tenure of directors are appropriate or in the best interests of the company or its shareholders. Limits on tenure may cause the loss of experience and expertise that are important contributors to our long-term growth and prosperity. Conversely, the 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 should be based on directors' individual performance and our needs.

Our criteria for determining the independence of directors is consistent with the definition of "independence" set out in ASX Corporate Governance Council Recommendation 2.1.

Our Chairman is independent consistent with ASX Corporate Governance Council Recommendation 2.2.

The Joint Board has considered the issue of the independence of our directors and determined that each member of the Joint Board is independent, other than Mr Gries. Mr Gries is the company's CEO and as such is not independent.

Directors' relevant interests are disclosed in the Remuneration Report within the Directors' Report on page 73 and are not considered to detract from their independence.

All of the independent directors have:

- undertaken to advise the Joint Board of any change in their circumstances that could affect their independence; and
- completed a comprehensive questionnaire that confirms their independence.

The details provided above, and elsewhere in this report, are consistent with ASX Corporate Governance Council Recommendation 2.5.

Director Orientation

We have an orientation procedure for new directors. Our CEO, CFO, General Counsel and Executive Vice Presidents are 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 fulfil their duties.

Typically, a new director will undergo an extensive orientation that includes:

- visits to our facilities, meetings with management and customers;
- reviews of financial position, strategy, operating performance and risk management;
- a review of his or her rights, duties and responsibilities; and
- a discussion of the role of Supervisory Board Committees.

We also have induction and orientation programs for executives and employees that are tailored according to seniority and position.

We encourage our directors to participate in continuing education programs to assist them in performing their responsibilities.

Remuneration

Under our Articles of Association, the salary, the bonus (if any) and the other terms and conditions of employment of the members of the Managing Board are determined by the Supervisory Board. Under an amendment to the Dutch Civil Code which came into force on 1 October 2004, the salary and bonus of members of the Managing Board must be determined within the scope and the limits of a Remuneration Policy.

A Remuneration Policy for the members of the Managing Board was developed by the Supervisory Board and approved by shareholders at the August 2005 Annual General Meeting. Arrangements for the remuneration of the members of the Managing Board in the form of shares or CUFS, or rights to acquire shares or CUFS, in James Hardie's share capital were approved as a transitional plan for one year by shareholders at

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the 2005 General Meeting. New arrangements will be subject to the approval of shareholders at the 2006 General Meeting.

Under our Articles of Association, the Supervisory Board determines the remuneration of its members, provided that the total amount does not exceed a maximum sum approved by shareholders at a General Meeting. The total remuneration of members of the Supervisory Board will always be determined by shareholders. The shareholders will be asked to approve an increase of the remuneration cap at the 2006 General Meeting.

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 wilful misconduct in performing their duties to us. A court in which an action is brought may, however, determine that indemnification is appropriate nonetheless.

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 CEO and other senior officers, whether this succession occurs as a result of a promotion, termination, resignation, retirement or an emergency.

Board Committees

Our Supervisory Board has three committees: the Audit Committee, the Nominating and Governance Committee and the Remuneration Committee.

Audit Committee

The key aspects of our Audit Committee Charter at the date of this annual report are set out below.

Members and Independence

The Audit Committee contains at least three members of the Supervisory Board, appointed by the Supervisory Board. The majority of the members of the Audit Committee must be independent. If the rules and regulations of the ASX, the NYSE or any other applicable regulatory body make it a mandatory requirement that more members of the Audit Committee be independent, then the number of members of the Audit Committee required by the rules to be independent must be independent. For purposes of complying with any applicable independence requirements, a director's independence is determined by the Supervisory Board in accordance with the rules and regulations of the applicable exchange or regulatory body.

Currently, the members of the Audit Committee are Mr Brown (Chairman), Mr Loudon, Mr Gillfillan and Ms Hellicar. Mr Clark, who resigned from our Supervisory Board on 9 May 2006, was a member of our Audit Committee during fiscal year 2006. All Audit Committee members are independent.

As determined by the Supervisory Board, all members 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 appoints one member of the Audit Committee as its Chairman. The Chairman must be independent and is primarily responsible for the proper functioning of the Audit Committee. The Chairman acts as spokesman of the Audit Committee and is the main contact for the Supervisory Board. The Chairman of the Audit Committee must not be the current Chairman of the Supervisory Board or a former member of the Managing Board.

Under the NYSE listing standards that apply to US 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 this member to effectively serve on the listed company's audit committee. Mr Brown serves on the audit committees of four 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.

Purpose, Duties and Responsibilities

The Audit Committee provides advice and assistance to the Supervisory Board in fulfilling its responsibilities relating to: the integrity of the company's financial statements; the company's compliance with legal and regulatory requirements; the External Auditor's qualifications and independence; the company's internal controls; oversight of risk assessment and management; the performance of the company's internal audit function and the External Auditor; and such other matters as the board may request from time to time.

Standards and Quality: The Audit Committee oversees the adequacy and effectiveness of the company's accounting and financial policies and controls, including periodic discussions with management, internal auditors and the External Auditor, and seeks assurance of compliance with relevant regulatory and statutory requirements.

Financial Reports: The Audit Committee oversees the company's financial reporting process and reports on the results of its activities to the Supervisory Board. Specifically, the Audit Committee reviews with management and the External Auditor the company's annual and quarterly financial statements and reports to shareholders, seeking assurance that the External Auditor is satisfied with the disclosures and content of the financial statements, and recommends their adoption to the Supervisory Board. The Chairman of the Audit Committee may represent the entire Audit Committee for the purposes of quarterly reviews.

Risk Assessment and Management: The Audit Committee reviews, monitors and discusses the company's policies and procedures with respect to:

- a. the identification of strategic, operational and financial risks;
- b. the establishment of effective systems to monitor, assess, prioritise, mitigate and manage risk; and
- c. reporting systems for monitoring compliance with risk policies.

External Audit: The Audit Committee has general oversight of the appointment and provision of all external audit services to the company.

Internal Audit: The Audit Committee oversees the company's internal audit function, and approves the appointment and termination of all providers of internal audit services, both internal and external. The Audit Committee approves, and can direct, the plan of action for internal audit services, takes note of internal audit findings and recommendations, supervises compliance with the plan and recommendations, and assesses the performance of the internal audit function.

Internal Controls: The Audit Committee reviews and discusses the adequacy and effectiveness of the company's internal compliance and control systems as well as the effectiveness of their implementation, including any significant deficiencies in internal controls and significant changes in such controls.

Disclosure Controls and Procedures: The Audit Committee reviews and discusses the adequacy and effectiveness of the company's disclosure controls and procedures and management reports thereon.

Complaints: The Audit Committee establishes procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding questionable accounting and auditing matters.

Meetings

The Audit Committee meets as often as it deems necessary or appropriate, either in person or by telephone, and at such times and places, and with such invitees, as the Audit Committee determines. A quorum for a meeting of the Audit Committee is a majority of its members. Resolutions of the Audit Committee are adopted by a majority of votes cast. The Audit Committee keeps minutes of meetings and records of resolutions passed, and these are included in the papers for the next Supervisory Board meeting after each meeting of the Audit Committee. The Audit Committee reports regularly to the Supervisory Board about its meetings and activities.

Communications

The Audit Committee maintains free and open communications with the External Auditor, the internal auditors and management. The Committee periodically meets with the External Auditor without representatives of management to discuss the adequacy of the company's disclosures and policies and to satisfy itself regarding the External Auditor's independence from management and management's co-operation with the External Auditor's requirements. The External Auditor may communicate directly with the Audit Committee or its Chairman at any time.

Access and Advisors

In exercising its oversight role, the Audit Committee may investigate any matter it initiates or that is brought to its attention, and for this purpose has full access to the company's records, personnel and any required external support. The Audit Committee has the authority to retain, at the company's expense, the External Auditor and such other outside counsel, accountants, experts and advisors as it determines appropriate to assist the Audit Committee in the performance of its functions. The company will also provide funding for the payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Standards

The Audit Committee reviews, and may take any necessary action to uphold, the overall quality of the company's financial reporting and practices.

Charter

The Audit Committee reviews and assesses the adequacy of its charter at least annually, and recommends any changes it considers appropriate to the Supervisory Board.

Annual Review

The Audit Committee conducts an annual performance review of the Audit Committee and reports its findings to the Supervisory Board.

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 Ethics policy, including reviewing related party transactions and other conflict of interest issues as they 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.

Special Reviews

The Audit Committee may undertake other special duties as requested by the Supervisory Board.

We have an Audit Committee (ASX Corporate Governance Council Recommendation 4.2); its structure is consistent with ASX Corporate Governance Council Recommendation 4.3; it has a charter (ASX Corporate Governance Council Recommendation 4.4) and we have provided the information indicated in the Guide to Reporting (ASX Corporate Governance Council Recommendation 4.5).

Our complete Audit Committee Charter is available from the Investor Relations area of our website (www.jameshardie.com).

The Auditor Attends the Annual Information Meeting

Our External Auditor attends the Annual Information Meeting, consistent with ASX Corporate Governance Council Recommendation 6.2.

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Certifying Financial Reports

Under SEC rules, the CEO and CFO certify that our accounts are a fair presentation of our financial condition and results in accordance with US law. Similarly, the CEO and CFO provide a sign-off in accordance with US requirements.

Under SEC rules, the CEO and CFO are required to provide certain certifications in connection with our annual report on Form 20-F, including a certification that the financial statements and other financial information included in the Form 20-F fairly presents in all material respects the financial condition, results of operations, and cash flows of the company, as of, and for the period presented in the report.

This is an appropriate certification and sign-off with regard to the laws governing the accounts of the company and is also an appropriate certification and sign-off in relation to our accounts for the purposes of ASX Corporate Governance Council Recommendations 4.1 and 7.2.

Audit Committee Sub-committee

In August 2005 the Audit Committee established a Risk Management Sub-committee. The Risk Management Sub-committee provides advice and assistance to the Audit Committee and assists the Audit Committee to fulfil its responsibilities relating to the company's risk management and assessment. The Sub-committee reports to the Audit Committee on the procedures in place for identifying, monitoring, managing and reporting on the principal strategic, operational and financial risks of the company.

Currently, the members of the Sub-committee are Mr Brown (Chairman), Mr Gries, Mr Chenu and senior employees of the company. Mr Clark, who resigned from our Supervisory Board on 8 May 2006, was Chairman of the Risk Management Sub-committee during fiscal year 2006.

Our Risk Management Sub-committee is consistent with ASX Corporate Governance Council Recommendation 7.1 that companies have a committee, rather than the full Board, that focuses on risk oversight.

Nominating and Governance Committee

Our Nominating and Governance Committee was formed in 2002 and operates in accordance with ASX Corporate Governance Council Recommendation 2.4. The key aspects of our Nominating and Governance Committee Charter at the date of this annual report are set out below.

Members and Independence

The Nominating and Governance Committee consists of at least three members of the Supervisory Board, appointed by the Supervisory Board.

The majority of the members of the committee must be independent unless a greater number is required to be independent under the rules and regulations of the ASX, the NYSE or any other applicable regulatory body. For the purposes of complying with any applicable independence requirements for directors who serve on the Nominating and Governance Committee, a director's independence is determined by the Supervisory Board in accordance with the rules and regulations of the applicable exchange or regulatory body.

The Supervisory Board appoints one member of the committee as its Chairman. The Chairman must be independent, is

primarily responsible for the committee's proper functioning, acts as the committee's spokesman and is the main contact for the Supervisory Board.

Currently, the members of the Nominating and Governance Committee are Mr McGauchie (Chairman), Mr Gillfillan and Ms Hellicar. All are independent. Mr Cameron, who resigned from the Supervisory Board on 19 January 2006, and Mr Clark, who resigned from the Supervisory Board on 9 May 2006, were members of our Nominating and Governance Committee during fiscal year 2006.

Purpose, Duties and Responsibilities

The purpose of the committee is to identify individuals qualified to become members of the Managing Board or Supervisory Board; recommend to the Supervisory Board candidates for the Managing Board or Supervisory Board (to be appointed by shareholders); recommend to the Supervisory Board a set of corporate governance principles; and perform a leadership role in shaping the company's corporate governance policies.

Outside Advisors

The committee has the authority to retain such outside counsel, experts, and other advisors as it determines appropriate to assist it in the full performance of its functions, including sole authority to retain and terminate any search firm used to identify director candidates, and to approve the search firm's fees and other retention terms.

Meetings

The committee meets as often as it deems necessary or appropriate, either in person or by telephone, and at such times and places as the committee determines. A quorum for a meeting of the committee is a majority of its members. Resolutions of the committee are adopted by a majority of votes cast. The committee reports regularly to the Supervisory Board with respect to its meetings.

Report

The committee prepares a report of its deliberations and findings and provides the Supervisory Board with the report at the first meeting of the Supervisory Board directly following the meeting of the committee and in any event no less frequently than annually.

Our complete Nominating and Governance Committee Charter is available from the Investor Relations area of our website (www.jameshardie.com).

The structure and responsibilities of the Nominating and Governance Committee are consistent with ASX Corporate Governance Council Recommendation 2.4; it provides the information indicated, consistent with ASX Corporate Governance Council Recommendation 2.5.

Remuneration Committee

Our Remuneration Committee operates in accordance with ASX Corporate Governance Council Recommendation 9.2.

The key aspects of our Remuneration Committee Charter are set out below.

Members and Independence

The Remuneration Committee consists of at least three members of the Supervisory Board, who are appointed by the Supervisory Board.

The majority of the members of the Remuneration Committee must 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. For the purposes of complying with any applicable independence requirements for directors to serve on the Remuneration Committee, a director's independence shall be determined by the Supervisory Board in accordance with the rules and regulations of the applicable exchange or regulatory body.

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

The Supervisory Board appoints one member of the Remuneration Committee as its Chairman. The Chairman must be independent, is primarily responsible for the committee's proper functioning, acts as the committee's spokesman and is the main contact for the Supervisory Board. The Chairman of the Remuneration Committee may not be the current Chairman of the Supervisory Board or a former member of the Managing Board.

Currently, the members of the Remuneration Committee are Mr Barr (Chairman), Mr Loudon and Ms Hellicar. All are independent.

Purpose, Duties, and Responsibilities

The purpose of the Remuneration Committee is to discharge the responsibilities of the Supervisory Board relating to remuneration of the company's senior executives and non-executive directors and to further advise the Supervisory Board on the company's remuneration policies and practices.

Sub-committees

The Remuneration Committee may delegate any of the foregoing duties and responsibilities to a sub-committee of the Remuneration Committee consisting of not less than two members of the committee.

Outside Advisors

The Remuneration Committee will have the sole authority to retain, at the company's expense, such outside counsel, experts, remuneration consultants and other advisors as it determines appropriate to assist it in the full performance of its functions.

Meetings

The Remuneration Committee will meet as often as it deems necessary or appropriate, either in person or by telephone, and at such times and places as the Remuneration Committee determines. A quorum for a meeting of the Remuneration Committee is a majority of its members. Resolutions of the Remuneration Committee are adopted by a majority of votes cast. The Remuneration Committee will report regularly to the Supervisory Board with respect to its meetings and activities.

Report

The Remuneration Committee prepares a report of its deliberations and findings and provides the Supervisory Board with the report at its first meeting directly following the meeting of the Remuneration Committee and, in any event, no less frequently than annually.

Further information on remuneration matters is also set out in the Directors' Report on pages 58 – 73.

Our complete Remuneration Committee Charter is available from the Investor Relations area of our website (www.jameshardie.com).

The Directors' Report includes a Remuneration Report which provides comprehensive disclosure about the company's Remuneration policies.

The establishment of a Remuneration Committee is consistent with ASX Corporate Governance Council Recommendation 9.2. The structure and disclosure of our remuneration arrangements is consistent with ASX Corporate Governance Council Recommendations 9.1, 9.3, 9.4 and 9.5.

Policies and Programs

In addition to the Corporate Governance Principles, 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.

Risk Management

The Joint Board, together with the Audit Committee, is responsible for satisfying itself that our risk management systems are effective and, in particular, for ensuring that:

- 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.

As noted above, the Audit Committee receives advice and assistance from a Risk Management Sub-committee, formed in August 2005.

In addition to maintaining appropriate insurance and other risk management measures, the company has taken the following steps to address identified risks. It has:

- established policies and procedures in relation to treasury operations, including the use of financial derivatives;
- issued and revised standards and procedures in relation to environmental and health and safety matters;
- implemented and maintained training programs in relation to legal issues such as trade practices/antitrust, trade secrecy, and Intellectual Property protection; and
- issued procedures requiring that significant capital and recurring expenditure is approved at the appropriate levels.

Corporate Governance Principles

(continued)

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.

The above risks are also addressed in our Code of Business Conduct and Ethics which applies to all employees and directors, and monitored through regular reports to the Joint Board. Where appropriate, members of the management team and independent advisers also make presentations to the Joint Board and to the Audit Committee during the year.

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

In accordance with Best Practice Provision II.1.4 of the Dutch Corporate Governance Code, our Managing Board has assessed our internal risk management and control systems. Based on the Managing Board's most recent assessment, the Managing Board believes that our internal risk management and control systems provide a reasonable level of assurance that they are adequate and that they have operated effectively in fiscal year 2006. Consequently, the Managing Board has concluded that we comply with the requirements of Best Practice Provision II: 1.4 of the Dutch Corporate Governance Code.

Notwithstanding the foregoing, 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 the Dutch Corporate Governance Code is different from the report that we will be required to prepare in the United States pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires, among other things, that companies include a management report on a company's internal control over financial reporting that is accompanied by a separate auditor's report on management's assessment. For foreign private issuers, including James Hardie, the deadline for complying with the requirements of Section 404 has been extended to the first fiscal year ending on or after 15 July 2006 or, in James Hardie's case, 31 March 2007. Accordingly, our Section 404 report will first appear in our annual report on Form 20-F for the fiscal year ending 31 March 2007.

Our risk management procedures are consistent with ASX Corporate Governance Council Recommendations 7.1, 7.2 and 7.3.

Business Conduct and Ethics

We seek to maintain high standards of integrity and we are committed to ensuring that James Hardie conducts its business in accordance with high standards of ethical behaviour.

We require our employees to comply with the spirit and the letter of all laws and other statutory requirements governing the conduct of James Hardie's activities in each country in which we operate. Our Code of Business Conduct and Ethics applies to all of our employees, including our senior executives and directors.

Specific action, including training and education, has been taken to ensure that employees understand and comply with their obligations in areas such as occupational health and safety, trade practices/antitrust, environmental protection, employment practices such as equal opportunity, sexual harassment and discrimination, continuous disclosure and insider trading, public and SEC disclosure, and corrupt practices.

Ethics Hotline (Whistleblower)

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 policy. James Hardie has a telephone Ethics Hotlines to allow employees in each jurisdiction in which we operate to anonymously report any concerns.

Our Ethics Hotline policy has been customised to take into account the CLERP 9 requirements to protect the privacy of individuals who use the service, in line with Australian standards.

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 is available from the Corporate Governance area of our Investor Relations website (www.jameshardie.com).

Our actions, outlined above, to promote ethical and responsible decision-making are consistent with ASX Corporate Governance Council Recommendations 3.1, 3.2, 3.3 and 10.1.

Our Code of Business Conduct and Ethics is consistent with ASX Corporate Governance Council Recommendation 10.1.

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 James Hardie's strategies, assess the quality of its management, and examine its financial position and the strength of its growth prospects.

The policy is also designed to ensure that James Hardie satisfies its legal obligations on disclosure to the ASX and under the Australian Corporations Act (2001) as well as its obligations in the United States where the company is traded on the NYSE, and in The Netherlands.

Our Continuous Disclosure and Market Communication Policy is intended to ensure we comply with Chapter 6CA of the Australian Corporations Act, and Chapter 3 of the ASX Listing Rules.

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, investment analysts and the media to briefings, presentations and meetings.

Shareholders' Participation

We encourage our shareholders to exercise their rights at our General Meeting. While the company's General Meetings take place in The Netherlands, we conduct Information Meetings in Australia to enable CUFS holders to attend a meeting together 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 meeting. We implemented this process to make it easier for more holders to have questions answered, whether or not they can attend the Information Meeting. Holders can also ask questions relevant to the business of the meeting from the floor during the Information Meeting.

For the benefit of holders unable to attend, the Information Meeting is broadcast live over the internet at www.jameshardie.com (select Investor Relations, then Annual Meetings). The webcast then remains on the company's website so it can be replayed later if required.

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.

We set a registration date for the exercise of the voting rights at a General Meeting. Shareholders and CUFS holders registered at this date are entitled to attend the meeting and to exercise the other shareholder rights (in the meeting in question) notwithstanding subsequent sale of their shares. This date is published in advance of every General Meeting. Shareholders who are entitled to attend a General Meeting may be represented by proxies.

Unless otherwise required by our Articles of Association or Dutch law, resolutions of the General Meeting 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.

Explanatory notes to the Notice of Meeting inform shareholders of all facts and circumstances relevant to the proposed resolutions. The explanatory notes and Notice of Meeting are sent to shareholders and made available from the Investor Relations area of our website (www.jameshardie.com).

Our Continuous Disclosure and Market Communication Policy is consistent with ASX Corporate Governance Council Recommendation 5.1.

Our communication strategies are consistent with ASX Corporate Governance Council Recommendation 6.1.

Our Continuous Disclosure and Market Communication Policy is available in the Investor Relations area of our website (www.jameshardie.com).

Insider Trading

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

Directors and senior executives, among others, must notify the designated compliance officer, currently our General Counsel, before buying or selling our shares. James Hardie shares may only be bought or sold by employees, including senior executives and directors, within four weeks beginning two days after the announcement of quarterly or full year results.

Even in this trading "window", all those covered by our Insider Trading Policy are prohibited from dealing in securities for Short Swing Profit (defined as being where the profit is realised, or expected to be realised from any purchase and sale, or sale and purchase, of company securities within any period of less than six months) or Hedging Transactions, (defined as dealing in call or put options involving company securities or any other derivative company securities that limit the economic risk of company securities).

Corporate Governance Principles

(continued)

The Managing Board recognises that it is the individual responsibility of each director and employee of James Hardie 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. Our Insider Trading Policy is available in the Investor Relations area of our website (www.jameshardie.com).

Our Insider Trading Policy and rules are consistent with ASX Corporate Governance Council Recommendation 3.2.

Discussion of Dutch Corporate Governance Codes and requirements

Compliance with the Dutch Corporate Governance Code

James Hardie's corporate governance structure and compliance with the Code is the joint responsibility of the Managing Board and the Supervisory Board and they are accountable for this to shareholders at the General Meeting.

Not applying a specific best practice provision is not in itself considered objectionable by the Code, and may well be justified because of particular circumstances relevant to James Hardie. In accordance with the requirements of Dutch law, we describe below instances where James Hardie does not (yet) fully comply with the letter of a principle or best practice provision in the Code applying to the Managing Board or the Supervisory Board. To the extent we do not apply such principles and best practice provisions, or do not intend to apply these in the current or the subsequent financial year, we state the reasons.

Managing Board

Under Best Practice Provision II.1.1 of the Code, a member of the Managing Board shall be appointed for a maximum term of four years. On the basis of article 14.2 of James Hardie's Articles of Association, a member of the Managing Board will be appointed for a maximum term of three years, except for the CEO. At our 2005 Annual General Meeting, Mr Gries was appointed by our shareholders for a term to coincide with his tenure as CEO. We believe that not setting a limitation for the appointment of our CEO is conducive to the continuity of management performance and succession planning.

With regard to the Best Practice provisions of the Code dealing with the Managing Board's remuneration:

1. The Principle preceding Best Practice Provision II.2.9 provides that the remuneration of members of the Managing Board shall be resolved within the scope of the Remuneration Policy adopted by the General Meeting. A Remuneration Policy for the members of the Managing Board was developed by the Supervisory Board and approved by our shareholders at the August 2005 Annual General Meeting.
2. The Principle preceding Best Practice Provision II.2.9 also provides that schemes whereby members of the Managing Board are remunerated in the form of shares or rights to acquire shares shall be submitted to the General Meeting for approval. The MBTSOP was approved at the 2005 General Meeting and a new Long Term Incentive Plan (LTIP) will be presented at the 2006 Annual General Meeting of Shareholders for approval.
3. Best Practice Provision II.2.5 provides that neither the exercise price nor the other conditions regarding options granted to members of the Managing Board be modified during the term of the options, except as prompted by structural changes relating to shares or the company in accordance with established market practice. James Hardie may modify the term of the options as specified in the MBTSOP, LTIP or employment agreement with a member of the Managing Board upon the departure of the employee.

Currently no such terms have been modified, nor do we have the intention to do so in the near future.
4. Best Practice Provision II.2.7. provides that a severance payment to a member of the Managing Board shall not exceed one times the amount of the fixed salary. In contracts with members of the Managing Board, the severance payments are agreed upon on an individual basis, taking into account home country practice and the member of the Managing Board's specific situation, provided that a severance payment can not exceed the limits set out in the Australian Corporations Act (2001) unless approved by shareholders at a General Meeting. Consistent with Mr Gries' prior employment agreement when he acted as the company's Chief Operating Officer, Mr Gries' current contract specifies that in the event of a termination without cause or for good reason he will receive 1.5 times his annual base salary and 1.5 times his average annual bonus in addition to a 2 year consulting contract, as long as he maintains the company's non-compete and confidentiality agreements.
5. Best Practice Provision II.2.12 provides that, if a member of the Managing Board is paid a special remuneration or a severance payment, such is accounted for. We did not pay any special remuneration to members of the Managing Board. Mr W Vlot, a former member of the Managing Board and Company Secretary, was paid a severance payment of Euro 50,000 in fiscal year 2006.

Supervisory Board

Best Practice Provision III.1.1 provides that the Supervisory Board adopts a Supervisory Board Charter. Our current Supervisory Board Charter became effective in September 2005 and is available from the Investor Relations area of our website (www.jameshardie.com).

Best Practice Provision III.3.6 provides that the Supervisory Board draws up a retirement schedule. The dates of re-election of the members of the Supervisory Board are available in the Investor Relations area of our website and, during fiscal year 2006, the Supervisory Board prepared a Supervisory Board retirement schedule that satisfies the recommendations of the Code. The schedule is available on the Investor Relations area of our website (www.jameshardie.com).

Best Practice Provision III.5.1 provides that charters for each of the committees of the Supervisory Board shall be adopted by the Supervisory Board. The current charters for the Supervisory Board Committees were updated in September 2005 to reflect the Code's requirements with regards to the responsibilities of each of the committees. The revised charters are available on the Investor Relations area of our website (www.jameshardie.com).

Best Practice Provision III.7.1 provides that members of the Supervisory Board shall not be granted shares by way of remuneration. Currently, on the basis of James Hardie's Supervisory Board Share Plan, which was re-approved by shareholders at the 2005 General Meeting, members of the Supervisory Board are obliged to receive a minimum of US\$10,000 of their annual remuneration in the form of shares with the option to use a larger part of their annual remuneration to buy shares. However, the Supervisory Board members may elect to receive a cash payment of the set amount and purchase the required shares on the open market in lieu of receiving the payment in shares. We believe this practice assists in aligning directors' interests with those of shareholders. We intend to continue, and indeed enhance, this practice. An amended Supervisory Board Share Plan will be submitted to shareholders for approval at the 2006 Annual General Meeting.

Updated Information

We have a dedicated section on corporate governance as part of the Investor Relations area of our website (www.jameshardie.com).

Information on 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.