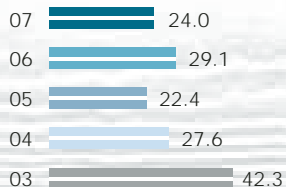


Dividends Paid per Share
(US cents)



Return on Shareholders Funds
(%)

CHAIRMAN'S REPORT



Donald DeFosset
Chairman

Fiscal year 2007 has been a momentous one for James Hardie, highlighted by the Extraordinary General Meeting of shareholders in February that saw overwhelming shareholder support for the company's voluntary asbestos funding proposal. Resolution of the asbestos compensation issue was followed by the release of our strong operating results, despite continuing weakness in residential housing construction activity in our main markets.

FY07 performance

The results described in detail in this annual report are a testament to the underlying strength of our business and management team which successfully anticipated and prepared for the downturn in the US housing market.

Our net operating profit of US\$222.2 million, excluding asbestos adjustments and tax benefit related to implementing the Amended FFA, increased 6%, net sales and gross profit were each up by 4%, to US\$1,542.9 million and US\$573.0 million, respectively, and EBIT excluding asbestos adjustments increased by 14% to US\$318.9 million compared to US\$280.7 million in the prior year.

USA Fibre Cement net sales increased 4% and EBIT was up 6% compared to the prior year, while Asia Pacific Fibre Cement increased net sales by 4%, although its EBIT was 6% lower compared to the prior year.

Asbestos compensation

Approval for the company's asbestos compensation funding proposal was put to shareholders at an Extraordinary General Meeting on 7 February 2007 and passed with 99.6% of the votes cast in favour of the compensation proposal; the votes cast on this resolution represented 59.4% of the company's issued capital.

On 9 February, the initial payment of A\$184.3 million was transferred to the Asbestos Injuries Compensation Fund (AICF), making the fund operational and satisfying the final condition precedent to the Amended and Restated Final Funding Agreement (Amended FFA) agreed by James Hardie and the New South Wales Government (NSW Government). The AICF has now assumed the role of managing asbestos-related personal injury claims made against certain former James Hardie group subsidiaries.



The JHI NV Board

The year has also seen major changes to the company's Board. Regretfully, some of these changes occurred when Meredith Hellicar, Michael Brown and Michael Gillfillan brought forward their planned departures from the James Hardie Board, following the announcement by the Australian Securities & Investments Commission (ASIC) that it had commenced civil proceedings against JHI NV and others in the Supreme Court of New South Wales for alleged breaches of Australian corporations law in events surrounding the establishment of the Medical Research and Compensation Foundation in 2001.

I acknowledge again the valuable contributions these directors made during their terms, especially their work in helping finalise the asbestos compensation funding proposal. I am sure shareholders will join me in particularly thanking Meredith for her role in achieving the asbestos compensation agreement endorsed in February 2007.

With the appointments of Brian Anderson, Michael Hammes, Rudy van der Meer and myself since December 2006, the planned renewal of James Hardie's Board is largely complete. We plan to recruit one or two more directors, one of whom will take over from James Loudon, who agreed in February to delay his planned departure to ensure a smooth transition to new directors.

I use this opportunity to thank my fellow directors for their on-going support, and to express my confidence that the company is well-served by the experience, insight and guidance they provide.

Dividend

In May, the company announced plans for a final dividend of US15 cents per share, an increase of US11 cents on last year's final dividend. This makes the full year dividend for fiscal year 2007 US20 cents per share, an increase of US12 cents on last year's full year dividend.

In closing, the fiscal year 2007 results illustrate that our business strategy is sound, and reflect the calibre of our people and the quality of our products. These fundamental strengths position us well for the future.

A handwritten signature in black ink, appearing to read "Donald DeFosset".

Donald DeFosset
Chairman