

DIRECTORS' REPORT

James Hardie Industries NV and Subsidiaries

Your Joint Board Directors present their report on the consolidated entity consisting of James Hardie Industries NV (JHI NV) and the entities it controlled at the end of, or during, the year ended 31 March 2007 (collectively referred to as the company).

DIRECTORS

At the date of this report the members of the Supervisory Board were: Donald DeFosset (Chairman), Donald McGauchie (Deputy Chairman), Brian Anderson, John Barr, Michael Hammes, James Loudon, and Rudy Van der Meer; and the members of the Managing Board were: Louis Gries (CEO), Russell Chenu (CFO) and Benjamin Butterfield (General Counsel & Company Secretary). The Joint Board consists of all of the members of the Supervisory Board plus Mr Gries.

Changes in the Managing and Supervisory Boards between 1 April 2006 and the date of this report were:

- Mr Clark resigned from the Supervisory and Joint Boards on 9 May 2006;
- Mr Anderson was appointed to the Supervisory and Joint Boards on 14 December 2006; and was re-elected to the Supervisory and Joint Boards by shareholders on 7 February 2007;
- Mr DeFosset was appointed to the Supervisory and Joint Boards on 14 December 2006; and was re-elected to the Supervisory and Joint Boards by shareholders on 7 February 2007;
- Mr Hammes was elected to the Supervisory and Joint Boards by shareholders on 7 February 2007;
- Mr van der Meer was elected to the Supervisory and Joint Boards by shareholders on 7 February 2007;
- Ms Hellicar resigned from the Supervisory Board and Joint Board on 20 February 2007;
- Mr Brown resigned from the Supervisory Board and Joint Board on 20 February 2007; and
- Mr Gillfillan resigned from the Supervisory Board and Joint Board on 20 February 2007.

Directors' qualifications, experience, special responsibilities and period in office are set out in the Directors' profiles on pages 26–28 of this annual report.

CORPORATE GOVERNANCE

Details of JHI NV's corporate governance policies and procedures, including information about the roles, structure and Charters of the Supervisory Board Committees, are set out on pages 67–75 of this report. Information about the activities of the Supervisory Board and its Committees appears below.

ACTIVITIES OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board and its Committees regularly held deliberations throughout fiscal year 2007. Details on the number of meetings of the Supervisory Board and its Committees and the attendance of members of the Supervisory Board and the Committees are set out on page 45 of this annual report.

In its meetings, the Supervisory Board discussed regularly:

- the performance of JHI NV's individual business groups;
- the culture change initiative;
- company and business unit budgets;
- monthly, quarterly, half-yearly and yearly results and financial statements;
- capital expenditure requests;
- the safety and environmental performance of the business;
- JHI NV's financing in general and its credit rating;
- the entry into the voluntary asbestos compensation arrangements with the New South Wales Government, including monitoring progress towards satisfying conditions precedent for lender support, production of an Explanatory Memorandum, and obtaining shareholder approval;
- taxation matters including the amended taxation assessment received by an Australian JHI NV subsidiary; and
- the civil proceedings launched by ASIC 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.

The Supervisory Board also discussed the operational and financial objectives of JHI NV, the strategy to achieve these objectives, the parameters to be applied in relation to the strategy, the business plans for the businesses, dividend distributions and capital management, the risks to the company and the reports by the Managing Board of the internal risk management and control systems and their developments.

In addition, the Supervisory Board discussed, without the members of the Managing Board being present, its own performance, composition, profile and competence; the performance of its individual members; succession; and its relationship with the Managing Board and the composition thereof.

The Supervisory Board also discussed, without the members of the Managing Board being present, the performance of the Managing Board and of its individual members and succession.

The **Audit Committee** reviewed JHI NV's quarterly, half-yearly and yearly results, financial statements and the annual report. The Audit Committee oversaw the relationship with the external auditor and internal auditor, including the compliance with recommendations and observations of internal and external auditors. It also discussed the effect of internal risk management and control systems.

The **Remuneration Committee** discussed the remuneration of the members of the Managing Board described within pages 48–62 of this annual report. Other topics included equity grants to executives; remuneration and performance objectives of the executive team; salary increase guidelines for each business; Supervisory Board Director remuneration and cap; Supervisory Board Director equity grant; Economic Profit Incentive Plan; executive contracts; management structure, succession planning and development; and US non-qualified deferred compensation plan.

The **Nominating and Governance Committee** discussed the size and composition of the Supervisory Board and the Managing Board as well as the functioning of the individual members of the Supervisory Board and the Managing Board. This committee also discussed corporate governance compliance developments.

ATTENDANCE AT MEETINGS

Directors' attendance at JHI NV Joint Board, Supervisory Board, Supervisory Board Committee and Managing Board meetings during the fiscal year ended 31 March 2007 is recorded below:

Member	Boards of Directors						Standing Committees					
	Joint Board		Supervisory Board		Audit		Remuneration		Nominating and Governance		Special Matter ¹	
	H	A	H	A	H	A	H	A	H	A	H	A
Donald DeFosset	4	4	4	4	–	–	3	3	–	–	3	3
Donald McGauchie	18	18	18	18	–	–	–	–	8	8	3	3
Brian Anderson	4	3	4	3	3	3	–	–	–	–	3	3
John Barr	18	14	18	14	–	–	7	7	1	1	3	3
Michael Hammes	3	3	3	3	2	2	–	–	–	–	3	2
James Loudon	18	16	18	16	8	5	7	5	–	–	3	1
Rudy van der Meer	3	3	3	3	–	–	–	–	1	1	3	3
Louis Gries	18	18	–	–	–	–	–	–	–	–	3	3
Former Members												
Meredith Hellicar	16	16	16	16	6	6	5	5	7	7	–	–
Michael Brown	16	16	16	16	6	6	–	–	–	–	–	–
Gregory Clark	4	4	4	4	1	1	–	–	1	1	–	–
Michael Gillfillan	16	12	16	12	6	4	–	–	5	4	–	–

¹ Immediately upon the commencement of proceedings by the Australian Securities and Investments Commission (ASIC Proceedings) the Supervisory Board established a Special Matter Committee (SMC) comprising all directors other than Ms Hellicar and Messrs Brown and Gillfillan to consider the corporate governance implications of the ASIC Proceedings for the company and to deal with the conduct of the ASIC Proceedings. The SMC made immediate recommendations in relation to the composition of the Audit Committee, and moved to address other issues facing the company in light of the commencement of the ASIC Proceedings.

Following the resignations of Ms Hellicar and Messrs Brown and Gillfillan as directors of the company, the SMC is now comprised of all directors and its composition will be reviewed from time to time, ensuring that the SMC, the Joint and the Supervisory Boards have sufficient oversight on the ASIC Proceedings.

Managing Board

Members		
	H	A
Louis Gries	35	35
Russell Chenu	35	34
Benjamin Butterfield	35	35

H = Number of meetings held during the time the Director held office or was a member of the Committee during the fiscal year.

A = Number of meetings attended during the time the Director held office or was a member of the Committee during the fiscal year.

Non-Committee members also attend Committee meetings from time to time; these attendances are not shown.

DIRECTORS' REPORT

(continued)

CHANGES IN DIRECTORS' INTERESTS IN JHI NV SECURITIES

Changes in Directors' relevant interests in JHI NV securities between 1 April 2006 and 31 March 2007 are set out in the table in the Remuneration Report on page 65 of this annual report.

OPTIONS

Supervisory Board Directors do not receive options. Details of JHI NV options granted to Managing Board members and specified key executives throughout the company, and exercised during the reporting period, are set out in Note 16 to the consolidated financial statements on page 99 of this annual report. Options granted to Managing Board Directors and the five key executives of the company (other than directors, called the Key Management Personnel) during the fiscal year are set out in the Remuneration Report on pages 58 and 59 of this annual report.

No options were granted between the end of the fiscal year and the date of this report. Between the end of the fiscal year and the date of this report 400,360 options were exercised in respect of ordinary shares/CUFS.

Options changes between 31 March 2007 and the date of this report are set out below.

Options changes during the period 1 April 2006 to 31 March 2007 are set out in Note 16 to the consolidated financial statements on page 99 of this annual report.

Range of exercise prices Prices A\$	Number of options outstanding at 31 March 2007	Options cancelled 1 April to 22 June 2007	Options exercised for equal number of shares /CUFS 1 April to 22 June 2007	Number of options outstanding at 22 June 2007
\$3.0921	423,723	–	(13,816)	409,907
\$3.1321	100,435	–	–	100,435
\$5.0586	712,419	–	(17,069)	695,350
\$5.9900	3,367,425	(105,800)	(123,500)	3,138,125
\$6.3000	273,000	–	–	273,000
\$6.4490	1,012,000	–	(93,500)	918,500
\$7.0500	2,461,000	–	(118,250)	2,342,750
\$8.3500	151,400	–	–	151,400
\$8.4000	4,365,615	(246,200)	(6,475)	4,112,940
\$8.5300	1,320,000	–	–	1,320,000
\$8.9000	4,712,600	(145,500)	(27,750)	4,539,350
\$9.5000	40,200	–	–	40,200
Total	18,939,817	(497,500)	(400,360)	18,041,957

PRINCIPAL ACTIVITIES

Principal activities of the company during fiscal year 2007 were the manufacture and marketing of fibre cement products in the USA, Australia, New Zealand, the Philippines and Europe. The company also sells fibre cement products in Asia.

REVIEW AND RESULTS OF OPERATIONS

A review of the company's operations during the fiscal year and of the results of those operations is contained in Management's Discussion and Analysis on pages 30–41 of this annual report.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Protecting the environment is critical to the way the company does business, and we continue to seek means of using materials and energy more efficiently and to reduce waste and emissions.

Our integrated environmental, health and safety management system includes regular monitoring, auditing and reporting within the company. The system is designed to continually improve

the company's performance and systems with training, regular review, improvement plans and corrective action as priorities.

The manufacturing and other ancillary activities conducted by the company are subject to licenses, permits and agreements issued under environmental laws that apply in each respective location.

Under the applicable licenses and trade waste agreements, discharges to water, air and the sewerage system and noise emissions are to be maintained below specified limits.

In addition, dust and odour emissions from the sites are regulated by local government authorities. The company employs dedicated resources and appropriate management systems at each site to ensure that our obligations are met. These resources are also employed to secure improvements in our systems and process that go beyond those required by law.

Solid wastes are removed to licensed landfills. Programs are in place to reduce waste that presently goes to landfills. These include expanded recycling programs. Further information about James Hardie's environmental aims is included in pages 22–23 of this annual report.

FINANCIAL POSITION, OUTLOOK AND FUTURE NEEDS

The financial position, outlook and future needs of the company are set out in Management's Discussion and Analysis, on pages 30–41 of this annual report.

AUDITORS

The company prepares its annual accounts in accordance with Dutch GAAP and US GAAP. Each set of accounts is audited by an independent registered public accounting firm in the countries concerned. The independent registered accounting firms have provided the company with a declaration of their independence.

NON-AUDIT SERVICES

Particulars of non-audit service fees for the fiscal year are set out in Remuneration Disclosures, on page 108 of this annual report under the headings Tax Fees and All Other Fees.

INSURANCE AND INDEMNIFICATION OF DIRECTORS AND OFFICERS

Like most publicly-listed companies, JHI NV provides insurances and indemnities to its Directors, Officers and senior executives. In accordance with common commercial practice, the insurance policies prohibit disclosure of the nature of the insurance cover and the amount of the premiums. Further details of these arrangements are set out in Note 12 to the consolidated financial statements on pages 90–95 of this annual report.

OTHER DISCLOSURES

Readers are referred to the company's Form 20-F document which is filed with the US Securities and Exchange Commission (SEC) annually, and which contains additional disclosures prescribed by the SEC. The Form 20-F filing can be accessed through the Investor Relations area of the company's website (www.jameshardie.com), or from the company's Corporate Headquarters in Amsterdam or Regional Office in Sydney.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Amended FFA was approved by the company's shareholders on 7 February 2007 and is operational. An initial contribution of US\$148.7 million was made by the company to the AICF on 9 February 2007.

Prior to the approval of the Amended FFA, the company had recorded a provision of US\$715.6 million being its estimate of the economic reality of the proposed FFA. During fiscal year 2007, adjustments were made to the provision to reflect the impact of foreign exchange, changes in the estimated liability as well as accounting entries relating to the consolidation of the AICF. The total of asbestos adjustments for the year was a charge to EBIT of US\$405.5 million and a tax benefit related to the implementation of the Amended FFA of US\$335.0 million.

POST FISCAL YEAR EVENTS

The Directors are not aware of any matter or circumstance since the end of fiscal year 2007 not otherwise dealt with in this annual report, that has significantly affected, or may significantly affect, the operations of the company, other than as contained in Management's Discussion and Analysis on pages 30–41.

DIVIDENDS

The Managing Board has declared a final dividend of US 15.0 cents per share. CUFS holders will be paid the dividend in Australian currency on 10 July 2007 if they were registered as at the close of business on 14 June 2007 (AEST). ADR holders will receive payment in US currency.

During fiscal year 2007, JHI NV paid dividends of US 4.0 cents per CUFS on 6 July 2006 totalling US\$18.7 million, and US 5.0 cents per CUFS on 8 January 2007 totalling US\$23.4 million. CUFS holders were paid in Australian currency. ADR holders received payment in US currency.