

CORPORATE GOVERNANCE PRINCIPLES

James Hardie Industries NV and Subsidiaries

This section of the annual report is a reproduction of the company's Corporate Governance Principles, as amended through June 2007. These principles have been developed and approved by the Nominating and Governance Committee and, on its recommendation, adopted by the Supervisory Board.

Our Corporate Governance Principles, as amended by the Supervisory Board from time to time, are available from the Investor Relations area of our website (www.jameshardie.com) and available in print to any holder 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 reviewed our corporate governance practices in each of the jurisdictions in which we operate and the results of this review are reflected in this report.

DUTCH CORPORATE GOVERNANCE CODE

Under the Dutch Code on Corporate Governance published by the Dutch Corporate Governance Committee (the Tabaksblat Committee) in 2003 (the Dutch Code), 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 Dutch Code and, if they do not, why and to what extent they do not apply to them. The Dutch 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 set out the extent to which it has not followed the ASX Corporate Governance Council Recommendations in its annual report.

For the benefit of Australian holders, the Investor Relations area of our website (www.jameshardie.com) contains more detail about the ways in which we comply with ASX Listing Rule disclosure requirements.

NYSE CORPORATE GOVERNANCE RULES

In accordance with the NYSE corporate governance standards, 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 116.

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

- In the US, an audit committee of a public company is required to be directly responsible for appointing such company's independent registered public accounting firm. Under Dutch law, the independent registered public accounting firm is appointed by the shareholders, or in the absence of such appointment, the Supervisory Board and then the Managing Board.
- 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. As 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.

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. The Joint Board comprises all non-executive directors and our CEO and is therefore 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 45 of this annual report show the composition of our boards and board committees and each member's attendance at meetings during the year.

Managing Board

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, or by the Supervisory Board if there is a vacancy. 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 Supervisory Board has appointed the current CEO to chair the Managing Board.

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. A member of the Managing Board appointed to fill a vacancy must submit him or her self for re-election at the next General Meeting.

Responsibilities

The Managing Board is responsible for:

- the general affairs, operations and finance;
- ensuring the implementation of James Hardie's goals, strategy and policies, to achieve results;
- complying with all relevant legislation and regulations and for managing the risks associated with our activities; and
- reporting and discussing the internal risk management and control systems with the Supervisory Board and the Audit Committee.

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. The Managing Board is accountable to the Supervisory Board and to shareholders for the performance of its duties.

Supervisory Board

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, or by the Supervisory Board if there is a vacancy. The Supervisory Board and any of James Hardie's shareholders have the right to make nominations for the Supervisory Board.

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. A member of the Supervisory Board appointed to fill a vacancy must submit him or herself for re-election at the next General Meeting.

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.

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

Responsibilities

The Supervisory Board is responsible for:

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

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.

Joint Board

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

Responsibilities

The Joint Board is responsible for:

- supervising the general course of affairs of James Hardie;
- approving the strategy set by the Managing Board;
- monitoring company performance; and
- putting in place effective external disclosure policies and procedures.

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.

BOARD MEETINGS

The Joint Board generally meets at least five times 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. The number of Joint Board and Committee meetings each director has attended is set out on page 45 of this annual report.

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 Joint Board in fulfilling its responsibilities, and assist the company to achieve future growth. The skills, experience and relevant expertise of our directors, and their terms of appointment, are summarised on pages 26-28 of this annual report and also appear in the Investor Relations area of our website (www.jameshardie.com).

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

Independence

The Joint Board requires a majority of members, and the Chairman, of the Joint Board and each Board Committee to 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.

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 has considered the issue of the independence of our non-executive directors and determined that each of them is independent, in accordance with the rules and regulations of the applicable exchange or regulatory body.

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 may determine, on a case-by-case basis, that a director is independent even if there is a material relationship with the company or another party. 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.

Directors' relevant interests are disclosed in the Remuneration Report within the Directors' Report on page 65 of this annual report and are not considered to detract from their independence.

Chairman

The Joint Board and the Supervisory Board appoint one of their members as the Chairman. The Chairman must be an independent, non-executive director.

The Chairman:

- provides leadership to the Supervisory and Joint Boards;
- facilitates Supervisory and Joint Board discussion; and
- monitors the performance of the company's Boards and committees.

The Chairman of the Joint Board may not be the Chairman of a standing Board Committee. The Chairman of the Joint Board also may not be the CEO, other than in exceptional circumstances and/or for a short period of time.

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The Joint Board and the Supervisory Board are currently chaired by Mr DeFosset. The company also has a Deputy Chairman, appointed by the Chairman. The role of Deputy Chairman is currently filled by Mr McGauchie.

Director Evaluation and Re-election

The Joint 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 is based on a director's individual performance and our needs.

The Nominating and Governance Committee reviews annually the results of a self-assessment by the Supervisory Board and each Board Committee and makes recommendations to the Joint Board.

Director Orientation

We have an orientation program for new directors. Our Managing Board is 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.

Remuneration

A detailed description of the company's remuneration policies for directors and executives, and the link to performance, is set out in the Remuneration Report within the Directors' Report on pages 48–66 of this annual report.

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.

The company and some of its subsidiaries have provided Deeds of Access, Insurance and Indemnity to members of the Managing, Joint and Supervisory Boards and senior executives who are officers or directors of the company or its subsidiaries. The indemnity provided is consistent with the Articles of Association and relevant laws.

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 such succession occurs as a result of a promotion, termination, resignation, retirement or an emergency.

SUPERVISORY BOARD COMMITTEES

Our Supervisory Board has three standing committees: the Audit Committee, the Nominating and Governance Committee and the Remuneration Committee. The complete Charters for each standing committee are available from the Investor Relations area of our website (www.jameshardie.com).

Members of these Board Committees have the authority to retain such outside counsel, experts, and other advisors as they determine appropriate to assist them in the full performance of their functions.

The Supervisory Board may also form ad hoc committees from time to time. Over the course of the last year, a Special Matter Committee was formed to guide the company's response to the proceedings brought by ASIC.

Audit Committee

The key aspects of the terms of reference in our Audit Committee Charter are set out in this report.

The Audit Committee oversees the adequacy and effectiveness of the company's accounting and financial policies and controls.

As determined by the Supervisory Board, all members of the Audit Committee 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 has determined that Messrs Anderson and Loudon are "audit committee financial experts".

Currently, the members of the Audit Committee are Messrs Anderson (Chairman), Loudon and Hammes. Each of these members is independent and a non-executive.

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 Anderson serves on the audit committees of three 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.

The Audit Committee provides advice and assistance to the Supervisory Board in fulfilling its responsibilities and:

- Oversees the company's financial reporting process and reports on the results of its activities to the Supervisory Board;
- Reviews with management and the External Auditor the company's annual and quarterly financial statements and reports to shareholders;
- Reviews the company's policies and procedures with respect to risk management;

- General oversight of the appointment and provision of all external audit services to the company and the company's internal audit function;
- Reviews the adequacy and effectiveness of the company's internal compliance and control procedures; and
- Establishes procedures for complaints regarding accounting, internal accounting controls and auditing matters.

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

Risk Management Sub-Committee

In November 2006, the Risk Management Sub-Committee ceased to be a committee containing Supervisory Board directors and became a management committee. It was felt that a management committee could advise and assist the Audit Committee to fulfil its responsibilities relating to the company's risk management and assessment and that an additional Sub-committee was not necessary.

Nominating and Governance Committee

The Nominating and Governance Committee is responsible for:

- identifying individuals qualified to become members of the Managing Board or Supervisory Board;
- recommending to the Supervisory Board candidates for the Managing Board or Supervisory Board (to be appointed by shareholders);
- recommending to the Supervisory Board a set of corporate governance principles; and
- performing a leadership role in shaping the company's corporate governance policies.

The current members of the Nominating and Governance Committee are Messrs McGauchie (Chairman), van der Meer and Barr.

Remuneration Committee

The Remuneration Committee is responsible for the remuneration policy that governs remuneration of the company's senior executives and non-executive directors and further advises the Supervisory Board on the company's remuneration practices.

Members of the Remuneration Committee must qualify as "non-employee directors" for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and "outside directors" for the purposes of Section 162(m) of the US Internal Revenue Code 1986, as amended.

Further details on the role of the Remuneration Committee are disclosed in the Remuneration Report within the Directors' Report on page 49 of this annual report.

The current members of the Remuneration Committee are Messrs Barr (Chairman), Loudon and McGauchie.

Special Matter Committee

Immediately upon the commencement of proceedings by ASIC (ASIC Proceedings) in February 2007, the Supervisory Board established a Special Matter Committee (SMC) comprising all Supervisory Board 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 now comprises 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 of JHI NV's involvement in the ASIC Proceedings.

Certifying Financial Reports

Under SEC rules, our principal executive officer and principal financial officer are required to provide certain certifications with respect to our financial statements, disclosure controls and procedures and internal controls over financial reporting, including the following certifications:

- our financial statements, and other financial information included in the annual report on Form 20-F that we file with the SEC, fairly present in all material respects our financial condition, results of operations and cash flows as of, and for, the periods presented in such annual report;
- they have designed James Hardie's disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under their supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which such report is being prepared;
- they have designed James Hardie's internal control over financial reporting, or caused such internal control over financial reporting to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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- they have evaluated the effectiveness of James Hardie's disclosure controls and procedures and presented in such report their conclusions about the effectiveness of the disclosure controls and procedures, as of the period covered by such report based on such evaluation;
- they have disclosed in such report any change in James Hardie's internal control over financial reporting that occurred during the period covered by such annual report that has materially affected, or is reasonably likely to materially affect, James Hardie's internal control over financial reporting; and
- based on their most recent evaluation of James Hardie's internal control over financial reporting, they have presented to our auditors and the audit committee:
 - (i) All significant deficiencies and material weaknesses in the design or operation of our internal control over financial reporting which are reasonably likely to adversely affect James Hardie's ability to record, process, summarize and report financial information; and
 - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in James Hardie's internal control over financial reporting.

Under SEC rules we are also required to provide a management's annual report on internal control over financial reporting that is accompanied by a separate auditor's attestation report on management's assessment in the annual report on Form 20-F that we file with the SEC for our fiscal year ended 31 March 2007.

In addition, the CEO/CFO provide a signoff on the financial statements that complies with the ASX Corporate Governance Council Recommendations.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the US Securities Exchange Act 1934. Management evaluated the effectiveness of the company's internal control over financial reporting based on criteria established in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, the management has concluded that James Hardie's internal control over financial reporting was effective as of 31 March 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of the company's internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The assessment of the company's management of the effectiveness of the its internal control over financial

reporting as of 31 March 2007 has been audited by PricewaterhouseCoopers LLP, the company's independent registered public accounting firm, as stated in their report appearing on page 76 of this annual report.

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; and
- Insider Trading.

Copies of all these policies are available in the Investor Relations area of our website (www.jameshardie.com).

Risk Management

The Managing, Supervisory and Joint Boards, together with the Audit Committee, are responsible for ensuring that:

- our risk management systems are effective;
- 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.

In addition to maintaining appropriate insurance and other risk management measures, the company has addressed identified risks by:

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

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.

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

Despite the steps outlined above, 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 Code is different from the report that we are 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 annual report on a company's internal control over financial reporting that is accompanied by a separate auditor's attestation report on management's assessment.

James Hardie will include a Section 404 report in our annual report on Form 20-F for the fiscal year ending 31 March 2007.

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 directors and employees. The Code covers many aspects of company policy that govern compliance with legal and other responsibilities to stakeholders.

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.

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.

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 and investment analysts to briefings, presentations and meetings and equality of media access to the company, on a reasonable basis.

Shareholders' Participation

Information Meeting

While the company's Annual General Meeting takes place in The Netherlands, we conduct a yearly Information Meeting in Australia to enable CUFS holders to attend a meeting 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 Information Meeting. Holders can also ask questions relevant to the business of the meeting during the Information Meeting.

For those 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 remains on the company's website so it can be replayed later if required.

The External Auditor attends the Annual Information Meeting by telephone.

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General Meeting

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.

While ADR holders cannot vote directly, ADR holders can direct the voting of their underlying shares through the ADR depository.

Insider Trading

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

Directors and senior executives may only buy or sell within four weeks beginning two days after the announcement of quarterly or full year results, provided they:

- give prior notice to the designated compliance officer, currently our General Counsel;
- do not deal in securities for Short Swing Profit (where a profit is realised, or expected to be realised from trading within any period of less than six months); and
- do not deal in securities as part of Hedging Transactions, (dealing in call or put options that limit the economic risk of company securities).

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.

COMPLIANCE WITH THE DUTCH CORPORATE GOVERNANCE CODE

James Hardie's corporate governance structure and compliance with the Dutch 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. The Supervisory Board will submit each substantial change in the existing corporate governance structure of the company and the compliance with the Dutch Code to the General Meeting for discussion.

Not applying a specific best practice provision is not in itself considered objectionable by the Dutch Code, and may well be justified because of particular circumstances relevant to James Hardie. As will be clear from the preceding description of our governance arrangements, James Hardie complies with almost all of the principles and best practice provisions of the Dutch Code. In accordance with the requirements of the Dutch Code, we describe below instances where James Hardie does not (yet) fully comply with the letter of a principle or best practice provision in the Dutch Code. 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 explain why.

Managing Board

Under Best Practice Provision II.1.1 of the Dutch 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.

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 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.

Best Practice Provision II.2.7 provides that a severance payment to a member of the Managing Board shall not exceed one time 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 two year consulting contract, as long as he maintains the company's non-compete and confidentiality agreements.

Best Practice Provision III.7.1 provides that members of the Supervisory Board shall not be granted shares by way of remuneration. Although our members of the Supervisory Board are not granted shares by way of remuneration, they are obliged on the basis of the James Hardie Supervisory Board Share Plan approved by shareholders at the 2006 General Meeting, to accumulate a minimum of three times their annual cash remuneration in share ownership (either personally or through a personal superannuation or pension plan) within the six year period from the date of their appointment as a director. We believe this practice is to the benefit of the company and is common practice in Australia. We intend to continue, and indeed enhance, this practice.

Risk Management and Control

James Hardie's control framework is described on pages 72–73. This incorporates risk management, internal control procedures and disclosure controls and procedures. Our procedures cover financial, operational, social, strategic and environmental risks and regulatory matters. On page 73 of this annual report we have identified certain specific risks that are areas of focus in fiscal year 2008. James Hardie has designed its internal risk management and control systems to provide reasonable (not absolute) assurance to ensure compliance with regulatory matters and to safeguard reliability of the financial reporting and its disclosures. Best Practice Provision II.1.4 requires our Board to make a statement on our internal risk management and control systems. The Board believes, having assessed our internal risk management and control systems, that:

- the risk management and control systems provide reasonable assurance that this annual report does not contain any material inaccuracies; and
- no material failings in the risk management and control systems were discovered in our fiscal year 2007.

This statement is not a statement in accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act. The statements we are required to make with respect to Section 404 of the US Sarbanes-Oxley Act pursuant to the SEC rules will be contained in the Certifications we file with the SEC along with our annual report Form 20-F in our management's annual report on internal control over financial reporting which will be included in our annual report on Form 20-F for the fiscal year ending 31 March 2007 (see "Certifying Financial Reports").

Conflict of Interest

Best Practice Provision III.6, which states that decisions to enter into transactions in which there are conflicts of interests with members of the Supervisory Board that are of material significance to the company require approval of the Supervisory Board, has been complied with, in the cases of the decisions to enter into the Amended FFA and with regard to decisions relating to dealings with ASIC.

Anti-takeover Constructions and Control Over the Company

The company is not formally subject to the takeover laws that apply to listed companies incorporated in Australia or in The Netherlands. Article 49 of our Articles of Association has been incorporated to provide shareholders with similar protections in the event of a potential change of control to those provided to shareholders in Australian listed companies under the Australian Corporations Act. The purpose of this article 49 is to ensure that:

- the acquisition of control over CUFS or shares takes place in an efficient, competitive and informed market;
- each shareholder and CUFS holder and as well as the Managing Board, Joint Board and Supervisory Board:
 - i. know the identity of any person who proposes to acquire a substantial interest in the company;
 - ii. are given reasonable time to consider a proposal to acquire a substantial interest in the company; and
 - iii. are given enough information to assess the merits of a proposal to acquire a substantial interest in the company; and
- as far as practicable, the shareholders and CUFS holders all have a reasonable and equal opportunity to participate in any benefits accruing through a proposal to acquire a substantial interest in the company.

Article 47.7 of our Articles of Association permits the company to take actions against any shareholder who is in breach of article 49 of the Articles of Association including ordering the shareholder to divest all or part of their shares held in breach of Article 49 of the Articles of Association; to disregard the exercise by a shareholder of all or part of the voting rights attached to their shares if the right to vote is held in breach of Article 49 of the Articles of Association; or suspend such shareholder from the right to receive all or part of the dividends or other distributions arising from the shares.

Article 49.9 of the Articles of Association permits the company to take the actions specified in article 49.7 after receiving advice from a senior Australian legal practitioner that a breach of the articles of association has occurred. Article 49.10 of the Articles of Association permits the company to take such action on a temporary basis of up to 21 days prior to obtaining advice from a senior Australian legal practitioner.

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.