## REMUNERATION REPORT

This remuneration report forms part of the Directors' Report.

It explains James Hardie's remuneration policies and arrangements, including the relationship between the company's performance and rewards.

The report also provides detailed information about the remuneration of the company's Supervisory Board Directors, Managing Board Directors and Key Management Personnel. The Managing Board Directors and Key Management Personnel are those who are responsible for planning, directing and controlling the company's activities. The individuals covered in this report are listed below:

**Supervisory Board Directors**

*Current*

| | |
|---|---|
| Donald DeFosset | Chairman (from 1 April 2007); Director (from 14 December 2006); Chairman Remuneration Committee (5 March 2007 – 31 March 2007); Member Remuneration Committee (14 December 2006 – 31 March 2007) |
| Donald McGauchie | Deputy Chairman (from 1 April 2007); Acting Deputy Chairman (20 February 2007 – 31 March 2007); Director; Chairman Nominating and Governance Committee; Member Remuneration Committee (from 1 April 2007) |
| Brian Anderson | Director (from 14 December 2006); Chairman Audit Committee (from 20 February 2007); Member Audit Committee (from 14 December 2006) |
| John Barr | Acting Chairman (20 February 2007 – 31 March 2007); Deputy Chairman (1 April 2006 – 20 February 2007); Director; Chairman Remuneration Committee (1 April 2006 – 5 March 2007 and from 1 April 2007); Member Remuneration Committee; Member Nominating & Governance Committee (from 20 February 2007) |
| Michael Hammes | Director (from 7 February 2007); Member Audit Committee (from 7 February 2007) |
| James Loudon | Director; Member Audit Committee and Remuneration Committee |
| Rudy van der Meer | Director (from 7 February 2007); Member Nominating and Governance Committee (from 7 February 2007) |

*Former*

| | |
|---|---|
| Meredith Hellicar | Chairman; Member Nominating and Governance Committee, Audit Committee and Remuneration Committee (All 1 April 2006 – 20 February 2007) |
| Michael Brown | Director; Chairman of the Audit Committee (All 1 April 2006 – 20 February 2007) |
| Michael Gillfillan | Director; Member Audit Committee and Nominating and Governance Committee (All 1 April 2006 – 20 February 2007) |
| Gregory Clark | Director; Member Audit Committee and Nominating and Governance Committee (All 1 April 2006– 9 May 2006) |

**Managing Board Directors**

*Current*

| | |
|---|---|
| Louis Gries | Chief Executive Officer |
| Russell Chenu | Chief Financial Officer |
| Benjamin Butterfield | Company Secretary and General Counsel |

**Key Management Personnel**

*Current*

| | |
|---|---|
| Jamie Chilcoff | Vice President – Marketing and International Business |
| Mark Fisher | Vice President – Research and Development |
| Grant Gustafson | Vice President – Interiors and Business Development |
| Nigel Rigby | Vice President – General Manager Northern Division* |
| Robert Russell | Vice President – Engineering and Process Development** |

* Effective 22 November 2006. From 1 April 2006 to 21 November 2006 Mr Rigby was Vice President Emerging Markets

** Effective 22 November 2006. From 1 April 2006 to 21 November 2006 Mr Russell was Vice President Established Markets

Joel Rood and Brian Holte joined the company late in fiscal year 2007 and will form part of the Key Management Personnel in fiscal year 2008.

*Former*

| | |
|---|---|
| Dave Merkley | Executive Vice President – Engineering and Process Development (1 April – 31 August 2006) |

Period of service for the people listed was from 1 April 2006 until the date of this report unless otherwise stated.

In preparing this remuneration report, James Hardie has chosen to comply on a voluntary basis with the Australian Corporations Act 2001 requirements in respect of remuneration reports.

## REMUNERATION COMMITTEE

James Hardie has a Remuneration Committee that oversees the company's overall remuneration structure, policies and programs; assesses whether the company's remuneration structure establishes appropriate incentives for management and employees; and approves any significant changes in the company's remuneration structure, policies and programs. It also:

– administers and makes recommendations on the company's incentive compensation and equity-based remuneration plans (2001 JHI NV Equity Incentive Plan; JHI NV Stock Appreciation Rights Incentive Plan; 2005 Managing Board Transitional Stock Option Plan; and James Hardie Industries NV Long Term Incentive Plan 2006);

– reviews the remuneration of Supervisory Board Directors for service on the Supervisory Board and Board Committees;

– reviews the remuneration policy for Managing Board Directors; and

– makes recommendations to the Supervisory Board on the company's recruitment, retention and termination policies and procedures for senior management.

Further information on the Remuneration Committee is set out in detail on page 71 of the Corporate Governance Report within this annual report.

During fiscal year 2007, the committee retained Hewitt Associates as an advisor.

At the date of this report, the members of the Remuneration Committee are Messrs Barr (Chairman), Loudon and McGauchie.

## 1. REMUNERATION FOR CEO AND KEY EXECUTIVES

### 1.1 Objectives

James Hardie aims to provide market-competitive total compensation by offering a package of fixed pay and benefits and variable performance pay, based on both long and short-term incentives which link executive remuneration with the interests of shareholders and attract and retain high-performing executives to ensure the success of the business.

### 1.2 Policy

The company's executive compensation program is based on a pay-for-performance policy that differentiates compensation amounts based on an evaluation of performance in two basic areas: the business and the individual.

### 1.3 Setting remuneration packages

The CEO's remuneration package is approved by the Remuneration Committee, which recommends it to the Supervisory Board for final approval. The CEO makes recommendations to the Remuneration Committee on the compensation of the company's key executives, based on performance, as well as assessments and advice from independent compensation consultants regarding the compensation practices of the company, and other practices specific to the markets and countries in which the company operates and the executives are based.

The Supervisory Board makes the final compensation decisions concerning these executives.

### 1.4 Structure

Remuneration for the CEO and key management personnel is divided into Not at Risk and At Risk components, in the proportions shown in the following table, and as described below:

#### 1.4.1 Remuneration components

| | Remuneration Not At Risk | | Remuneration At Risk[1] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Salary, non-cash benefits, superannuation, 401(k) etc | | Short-Term Cash Incentive[2] | | Long-Term Cash Incentive[3] | | Equity (stock options) | | Total at Risk | |
| | US$ | % | US$ | % | US$ | % | US$ | % | US$ | % |
| **Managing Board Directors** | | | | | | | | | | |
| Louis Gries | 994,714 | 21 | 800,000 | 17 | 925,664 | 19 | 2,019,670 | 43 | 3,745,334 | 79 |
| Russell Chenu | 805,563 | 61 | 198,251 | 15 | – | – | 317,300 | 24 | 515,551 | 39 |
| Benjamin Butterfield | 508,455 | 34 | 211,250 | 14 | 241,878 | 16 | 535,370 | 36 | 988,498 | 66 |
| **Current Key Management Personnel** | | | | | | | | | | |
| Jamie Chilcoff | 367,939 | 36 | 173,250 | 17 | 202,098 | 19 | 291,069 | 28 | 666,417 | 64 |
| Mark Fisher | 338,990 | 35 | 173,250 | 17 | 179,036 | 18 | 291,069 | 30 | 643,355 | 65 |
| Grant Gustafson | 390,236 | 47 | 145,750 | 18 | – | – | 291,069 | 35 | 436,819 | 53 |
| Nigel Rigby | 324,211 | 34 | 173,250 | 18 | 179,036 | 18 | 291,069 | 30 | 643,355 | 66 |
| Robert Russell | 369,163 | 36 | 173,250 | 17 | 179,036 | 18 | 291,069 | 29 | 643,355 | 64 |
| **Former Key Management Personnel** | | | | | | | | | | |
| Dave Merkley | 155,833 | 24 | 130,155 | 20 | 364,554 | 56 | – | – | 494,708 | 76 |

1 See section 1.4.3 At Risk Remuneration of this annual report on page 50.

2 See section 1.4.3 (a) At Risk Remuneration of this annual report on page 50.

3 Payments under EP Bonus Banking mechanism. See section 1.4.3 (b) At Risk Remuneration of this annual report on page 51.

### 1.4.2 Not at Risk remuneration

"Not at risk" remuneration comprises base salary, non-cash benefits and superannuation.

(a) *Base salaries* – James Hardie provides base salaries to attract and retain executives who are critical to the company's long-term success. The base salary provides a guaranteed level of income that recognises the market value of the position as well as internal equities between roles, and the individual's capability, experience and performance.

Base pay for executives typically approximates or is slightly above the median salary for positions of similar responsibility in peer groups. Base salaries are reviewed each year, although increases to them are not automatic.

(b) *Non-cash benefits* – James Hardie's executives may receive non-cash benefits such as medical and life insurance benefits, car allowances, membership of executive wellness programs, long service leave, and tax services to prepare their income tax returns if they are required to lodge returns in multiple countries.

(c) *Retirement Plans/Superannuation* – In every country in which it operates, the company offers employees access to superannuation or individual retirement savings plans.

In the US, the company sponsors a retirement plan, the James Hardie Retirement and Profit Sharing Plan, for its employees. The US plan is a tax-qualified defined contribution retirement and savings plan covering all US employees, subject to certain eligibility requirements and matches employee contributions (subject to limitations) dollar for dollar up to 6% of their salary or base compensation.

Employees in Australia participate in the James Hardie Australia Superannuation Plan, which is funded based on the statutory requirement of 9% of their base salary.

All employees in New Zealand are eligible to become members of the Mercer Super Trust-James Hardie New Zealand Superannuation Plan, under which they must contribute at least 2% of their base salary, and the company contributes 8.25% of their base salary. In the Philippines, the company contributes 12.5% of an employees' annual base salary to a Retirement Benefit Fund.

In Europe, employees contribute 4% of their salary or base compensation to a defined benefits pension plan, and the company contributes 2.7% to 30.1% of the employee's annual base salary, depending on his or her age.

### 1.4.3 At Risk remuneration

"At risk" remuneration consists of short-term incentives and long-term incentives.

**(a) Short-term incentives**

James Hardie operates two short-term incentive plans:

– an Economic Profit (EP) Incentive Plan; and

– an Individual Performance (IP) Incentive Plan

*The plans*

The EP Incentive Plan is designed to provide nominated executives and employees with incentive compensation which directly relates their financial reward to an increase in shareholder value. It has both short-term and long-term components which support the company's primary objective to create long-term value and rewards consistent value creation over a long-term horizon.

Economic Profit is defined as Net Operating Profit After Tax (NOPAT) minus Capital Charge. The philosophy behind the EP Plan is that economic value in the company's business must continue to be created in successive years in order for the full potential incentive to be paid. This is considered appropriate as it ties the incentives paid to the individuals with the greatest impact on the company's performance directly to the underlying operating performance of the business.

This plan also has an Individual Performance component that is paid when the executive achieves specific personal objectives.

The IP Incentive Plan provides incentive compensation for nominated employees who have less direct influence on the company's economic performance. The IP Incentive Plan relates participants' financial rewards to their achieving specific individual objectives that benefit the company and indirectly increase EP and shareholder value. This is considered appropriate for these individuals because it rewards them for achievements and performance over which they have direct influence.

*Participation in the plans*

Nominated executives and key employees within the company are eligible to participate in one or both of the IP and EP Incentive Plans.

Eligibility of executives and key employees for inclusion in a plan does not guarantee their participation in any future year.

Participation of any division/business unit in the plan is at the discretion of the Chief Executive Officer. Currently, approximately 135 employees throughout the group participate in the EP Incentive Plan and 783 in the IP Incentive Plan.

*Calculating bonuses*

Everyone who participates in a short-term incentive plan has a Target Bonus which specifies their potential bonus as a percentage of their base salary. This percentage is approved annually by the Remuneration Committee for senior executives; the Board for the CEO; and the CEO on the recommendation of the Vice President – Human Resources for other employees.

Depending on which plan they participate in, an individual's Target Bonus can comprise a percentage based on the company's Economic Profit (EP) achievement and a percentage based on Individual Performance (IP) achievement, or be based on the IP achievement alone.

IP Bonus:

The IP Bonus component of both plans is based on an individual's performance rating at the end of the Plan Year (year ending 31 March) and/or when he or she changes roles during the year. Individuals are given a rating which is determined by reviewing which of their individual objectives they achieved and how the objectives were achieved.

EP Bonus:

The EP Bonus component of the company's EP Incentive Plan is based entirely on the value created by the company's Economic Profit. Every three years, with the assistance of independent advisors, the Remuneration Committee recommends to the

Board the amount the company's Economic Profit must increase in each of the following three years to achieve the Target Bonus and the amount by which the company must exceed the target to pay greater than the Target Bonus. The target improvement in Economic Profit for fiscal year 2007 to fiscal year 2009 was set in 2006.

At the start of each Plan Year, the Board confirms the company's global "Expected Improvement" – the amount the company's Economic Profit needs to improve over the previous year in order to attain the Target Bonus. This figure is added to the actual Economic Profit for the prior Plan Year (adjusted for the change in the company's Weighted Average Cost of Capital rate) to arrive at the Target EP.

When the company's Economic Profit performance exceeds the Target EP by the predetermined annual amount, the percentage by which the performance target is exceeded is taken into consideration when calculating the EP Bonus for that year for the plan participants.

The performance potential of the EP Incentive Plan has unlimited upside and downside limited to zero, or loss of amounts accumulated from previous years in the employee's Bonus Bank.

In other words, the EP Bonus Multiple can be significantly greater than one or can be a negative number.

For any EP Bonus amounts realised in any one year in excess of the employee's Target Bonus:

- 1/3 of the excess will be considered earned and paid in that year; and
- the remaining 2/3 will be credited to the Bonus Bank of the employee and be subject to being paid out equally in the following two years, provided that the company performance target is met and the employee continues to meet the eligibility standards for additional payments. The Bonus Banking mechanism is explained in section 1.4.3(b) below.

*Payment of bonuses*

All bonus payments, less applicable withholdings, are made on or before the end of the third month following the end of the relevant Plan Year. Except in certain circumstances, participants must be employed at the end of the Plan Year in order to receive any bonus.

**(b) Long-term incentives**

Long-term incentives are provided through one or more of two mechanisms:

- Bonus Bank mechanism; and
- equity based incentives.

*EP Bonus Banking mechanism*

The EP Bonus includes a Bonus Banking mechanism that keeps participants focussed on sustaining Economic Profit performance over a three year term. This Bonus Banking mechanism creates a long-term incentive component.

If the company misses its Target EP in any given year, resulting in an EP Bonus Multiple of less than 1.0, funds are subtracted from the employee's Bonus Bank (if any) to fund his or her EP Bonus for that year.

The amounts in an employee's Bonus Bank represent nothing more than potential payments to the participant in the future. These amounts are neither earned nor vested until actual Bonus Bank payments are made.

*Equity-based incentives*

To reinforce executives' alignment with the financial interest of shareholders, James Hardie provides equity-based long-term incentives in the form of share options under the 2001 JHI NV Equity Incentive Plan (Option Plan) for all executives other than the Managing Board Directors, and under the James Hardie Industries NV Long Term Incentive Plan 2006 (LTIP) for Managing Board Directors. Award levels are determined based on market standards and the individual's responsibility, performance and potential to enhance shareholder value.

The details of the Option Plan and the LTIP, together with other long-term incentive plans with outstanding equity grants, are set out in section 1.6 on page 54.

The Remuneration Committee reviews the long-term incentive values award and determines the appropriate long-term incentive value for each executive. The individual values are converted to a specific number of options using the value of the options on the date of grant for all whole shares. The company estimates the option value using either the Black Scholes or Monte Carlo option pricing model, depending on the plan the options were issued under.

Details of the "at risk" compensation including the percentage of the at risk compensation awarded or forfeited in fiscal year 2007 for Managing Board Directors and Key Management Personnel broken down by its various components, are set out below. Equity long-term incentive is not included in the table as equity long-term incentive does not start to vest until at least 12 months after the grant date and it would only be forfeited during that fiscal year in limited circumstances all of which involve the employee ceasing employment.

| | Short-term incentive[1] | | Long-term incentive Bonus Bank[2] | |
|---|---|---|---|---|
| | Awarded % | Forfeited % | Awarded % | Forfeited % |
| **Managing Board Directors** | | | | |
| Louis Gries | 108 | – | 100 | – |
| Russell Chenu | 101 | – | N/A | – |
| Benjamin Butterfield | 105 | – | 100 | – |
| **Key Management Personnel** | | | | |
| Jamie Chilcoff | 105 | – | 100 | – |
| Mark Fisher | 105 | – | 100 | – |
| Grant Gustafson | 105 | – | 100 | – |
| Nigel Rigby | 105 | – | 100 | – |
| Robert Russell | 105 | – | 100 | – |
| **Former Key Management Personnel** | | | | |
| Dave Merkley[5] | – | 100 | – | 100 |

Details of the minimum and maximum value of the "at risk" compensation for fiscal year 2007 that may be paid to Managing Board Directors and Key Management Personnel over future years is set out below. The minimum amount payable is nil in all cases.

| | Long-term incentive Bonus Bank (US dollars) | | Long-term incentive Equity-Based[3] (US dollars) | | | | |
|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Managing Board Directors[4]** | | | | | | | |
| Louis Gries | $ 926,534 | $ 40,534 | $ 674,452 | $ 672,609 | $ 433,050 | $ – | $ – |
| Russell Chenu | – | – | 105,960 | 105,670 | 68,034 | – | – |
| Benjamin Butterfield | 252,582 | 10,704 | 178,782 | 178,294 | 114,792 | – | – |
| **Key Management Personnel** | | | | | | | |
| Jamie Chilcoff | 203,698 | 8,778 | 128,876 | 74,283 | 32,865 | – | – |
| Mark Fisher | 180,957 | 8,778 | 128,876 | 74,283 | 32,865 | – | – |
| Grant Gustafson | 7,203 | 7,203 | 128,876 | 74,283 | 32,865 | – | – |
| Nigel Rigby | 180,957 | 8,778 | 128,876 | 74,283 | 32,865 | – | – |
| Robert Russell | – | – | 128,876 | 74,283 | 32,865 | – | – |
| **Former Key Management Personnel** | | | | | | | |
| Dave Merkley[5] | $ – | $ – | $ – | $ – | $ – | $ – | $ – |

1 Awarded = % of target actually paid in fiscal year 2007.
Forfeited = % of target lost.

2 Awarded = % of possible Bonus Bank payment actually paid in fiscal year 2007.
Forfeited = % of possible payment lost.

3 Represents annual SG&A expense for the aggregate fiscal year 2007 stock option award fair market value estimated using the Black-Scholes or Monte Carlo option-pricing model depending on the plan the options were issued under.

4 The Managing Board Directors received performance options in fiscal year 2007 (calendar year 2006) which are referred to here. Since these are expensed whether or not they ever vest, they are recorded here.

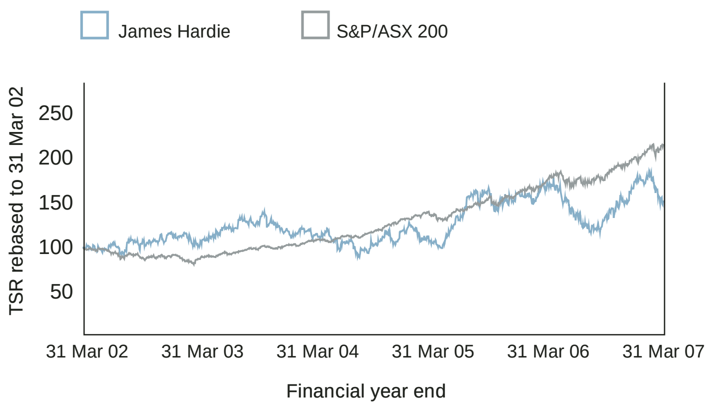
5 On 1 September 2006, Mr Merkley resigned from the company.

## 1.5 Link between remuneration policy and company performance

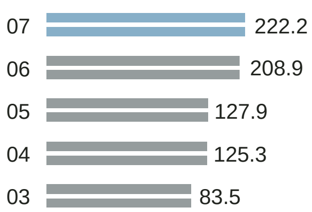
As shown in the table at 1.4.1 on page 49, a significant proportion of the remuneration for the CEO and senior executives is "at risk" remuneration. Both the EP Incentive Plan, including the Bonus Banking mechanism, and the long-term equity incentive plans, ensure a direct link between the performance of the company and bonuses paid and equity awarded.

In fiscal year 2007, a strong bottom line operating performance in our largest business, USA Fibre Cement, helped cap off a very solid year of results (excluding asbestos adjustments) amidst difficult and challenging market conditions. Compared with fiscal year 2006, both revenue and earnings (excluding asbestos adjustments) were stronger despite construction activity being considerably weaker in the US and weaker in Australia and New Zealand. The Economic Profit target for fiscal year 2007 was exceeded by a small amount and half of the Bonus Bank amounts accrued in fiscal year 2006 were paid to participating eligible employees with the balance to be paid out in full if the earnings performance targets for fiscal year 2008 are met or exceeded.

The performance of James Hardie CUFS against the S&P/ASX200 index over the past five years and the growth in James Hardie's earnings (excluding asbestos provision) are shown in the two graphs below.




5 Year TSR for James Hardie and S&P/ASX 200




5 year growth in earnings
(Millions of US dollars)

### *1.5.1 Managing Board long-term incentives and company performance*

Managing Board Directors have an added link between long-term incentives and the performance of the company. Options granted under the LTIP Plan (described on page 55) vest on the third anniversary of the issue date subject to one of two hurdles: Total Shareholder Return (TSR) and Return on Capital Employed (ROCE).

The LTIP Plan was approved by shareholders at the 2006 Annual General Meeting. The purpose of the LTIP is to retain and motivate executives and ensure they are making decisions that represent the best interests of shareholders as they drive the company's business forward. The proposed LTIP reflects the company's aim to achieve the best balance between:

– the approach to long-term incentive arrangements for executives in the United States, where the company conducts most of its business and sources the majority of its senior executives; and

– the company's commitment to good corporate governance practices which, in the context of the Australian market, requires appropriate performance hurdles for executive long-term incentives.

In fiscal year 2007 the long-term incentive provided to Managing Board Directors was composed of options under the LTIP with a ROCE and a TSR performance hurdle. The total value of the long-term incentive was apportioned 50:50 between options with ROCE and TSR performance hurdles (calculated using the Black-Scholes method).

*ROCE performance hurdle*

ROCE is calculated by dividing earnings before interest and taxes by net capital employed (ie fixed assets plus net working capital). This measures the efficiency with which capital is being used to generate revenue and earnings and provides a good basis for comparing with peers management performance in areas over which it has control. For the purposes of this calculation, all ROCE components exclude any amounts paid or provided for by way of contribution to the Asbestos Injuries Compensation Fund (relating to the company's voluntary compensation for proven asbestos-related personal injury and death claims), and any related foreign currency translation income or expense.

The number of options that vest will depend upon the company's ROCE performance relative to the peer group. No options will vest unless the company has achieved at least the 60th percentile relative to comparable companies over the performance period.

*TSR performance hurdle*

TSR refers to the total shareholder return of a peer group of comparable companies in the S&P/ASX 100. No options will vest unless the company has achieved at least the 50th percentile relative to the comparable companies in the S&P/ASX100 over the performance period.

**1.6 The key terms of outstanding equity grants are outlined below:**

| | |
|---|---|
| 2001 JHI NV Equity Incentive Plan (Option Plan) | Granted on 19 October 2001 in exchange for the termination of shadow stock awards, previously granted in November 1999 and 2000. |
| Offered to | Key US executives, not Managing Board Directors. |
| Vesting schedule | 20% of options vest each year on the anniversary of the original grant date in November. The original US shadow stock grant did not involve performance hurdles; this grant maintains these conditions. |
| Exercise period | November 2009 and November 2010. |

| | |
|---|---|
| 2001 JHI NV Equity Incentive Plan (Option Plan) | Annual grants made in December 2001, 2002, 2003, 2004 and 2005 and November 2006. Off-cycle grant made to new employees in March 2007. |
| Offered to | Key executives, not Managing Directors. |
| Vesting schedule | 25% of options vest on the 1st anniversary of the grant; 25% vest on the 2nd anniversary date and 50% vest on the 3rd anniversary date. As the majority of participants are US employees, this plan follows normal and customary US grant guidelines and has no performance hurdles. |
| Expiration date | 10th anniversary of each grant. |

| | |
|---|---|
| JHI NV Stock Appreciation Rights Incentive Plan | Granted on 14 December 2004. |
| Offered to | Interim Managing Board Directors. |
| | (CEO and former Company Secretary in the period between their appointments and the 2005 Annual Meeting at which shareholders elected them to the Managing Board). |
| Vesting schedule | 50% on 14 December 2006; 50% on 14 December 2007. |
| Expiration date | Gain in share price between grant and vesting date is paid in cash on vesting date, no shares are issued. |

| | |
|---|---|
| 2005 Managing Board Transitional Stock Option Plan | Granted on 22 November 2005. |
| Offered to | Managing Board Directors (CEO, CFO and Company Secretary and General Counsel). |
| Performance period | 22 November 2005 to 22 November 2008. |
| Retesting | Yes, on the last Business Day of each six month period following the Third Anniversary and before the Fifth Anniversary. |
| Exercise period | Until November 2015. |
| Performance condition | TSR performance hurdle compared to a peer group of companies in the S&P/ASX 200 Index on the grant date excluding the companies listed in the 200 Financials and 200 Property Trust indices.<br>While less usual in the USA, this condition is a normal hurdle from an Australian market perspective to align the Managing Board Directors' interests with shareholders. |
| Vesting criteria | – 0% of performance rights vest if the company's TSR is below the 50th percentile of the peer group.<br>– 50% of performance rights vest if the company's TSR is at the 50th percentile of the peer group.<br>– Between 50th and 75th percentile, vesting is on a straight line basis with the company's ranking against the peer group (+2% for each percentile over the 50th percentile of the peer group).<br>– 100% of performance rights vest if the company's TSR is in at least the 75th percentile of the peer group. |

| James Hardie Industries Long-Term Incentive Plan 2006 (LTIP) | Granted on 21 November 2006. |
|---|---|
| Offered to | Managing Board Directors (CEO, CFO and Company Secretary and General Counsel). |
| Performance period | 21 November 2006 to 21 November 2009. |
| Retesting | Yes, for the TSR tranche only, on the last Business Day of each six month period following the Third Anniversary and before the Fifth Anniversary. |
| Exercise period | Until November 2016. |
| Performance condition | *For the ROCE tranche:*<br>ROCE performance against a global peer group of building materials companies. The global peer group of building materials companies to be used for the ROCE performance hurdle will be determined by the Supervisory Board but would generally include global peer companies in USA, Europe and Australia specialising in building materials. When the LTIP was put to shareholders, it was expected that the following companies would comprise the peer group: Boral Limited, Valspar Corporation, Hanson plc, Rinker Group Limited, Weyerhaeuser Company, Lafarge SA, CSR Limited, Cemex SA de CV, Nichihia Corp, Fletcher Building Limited, Martin Marietta Materials Inc, Saint Gorbain, Eagle Materials Inc, Texas Industries, Wienerberger AG, Lousiana-Pacific Corporation, Florida Rock Industries Inc, CRH plc, USG Corporation, Vulcan Materials Co and The Siam Cement Plc. The Supervisory Board will have discretion to make adjustments to the list as it considers appropriate from time to time.<br>This condition aligns Managing Board Directors' interests with the underlying performance of the business relative to other comparable companies.<br>*For the TSR tranche:*<br>TSR performance against a peer group of comparable companies in the S&P/ASX 100 determined by the Supervisory Board but would generally exclude financial institutions, insurance companies, property trusts, oil and gas producers and mining companies and be adjusted to take into account additions and deletions to S&P/ASX 100 during the relevant period.<br>While less usual in the USA, this condition is a normal hurdle from an Australian market perspective to align the Managing Board Directors' interests with shareholders. |
| Vesting criteria | *For the ROCE tranche:*<br>– 0% of the options vest if the company's ROCE is not at the 60th percentile of the peer group.<br>– 50% of the options vest if the company's ROCE is at the 60th percentile of the peer group.<br>– Between the 60th and 85th percentile, vesting is on a straight line basis with the company's ranking against the peer group (+2% for each percentile over the 60th percentile of the peer group).<br>– 100% of the options vest if the company's performance is in at least the 85th percentile of the peer group.<br>*For the TSR tranche:*<br>– 0% of performance rights vest if the company's TSR is below the 50th percentile of the peer group.<br>– 50% of performance rights vest if the company's TSR is at the 50th percentile of the peer group.<br>– Between 50th and 75th percentile, vesting is on a straight line basis with the company's ranking against the peer group (+2% for each percentile over the 50th percentile of the peer group).<br>– 100% of performance rights vest if the company's TSR is in at least the 75th percentile of the peer group. |

Details of equity grant plans that expired during fiscal year 2007 are provided in Note 16 to the consolidated financial statements on page 99 of this annual report.

## 2. REMUNERATION TABLES FOR MANAGING BOARD DIRECTORS AND KEY MANAGEMENT PERSONNEL

**2.1 Total remuneration for Managing Board Directors for the years ended 31 March 2007 and 2006**

Details of the remuneration of each Managing Board Director of James Hardie are set out below:

| | Primary | | | Post-Employment | Equity | Other | Total |
|---|---|---|---|---|---|---|---|
| | Base Pay US$ | Bonuses[1] US$ | Non-Cash Benefits[2] US$ | Superannuation or 401(k) Benefits US$ | Stock Appreciation Rights and Options[3] US$ | Relocation and Expatriate Benefits US$ | |
| Managing Board Directors | | | | | | | |
| Louis Gries | | | | | | | |
| FY 2007 | 786,612 | 1,738,430 | 72,317 | 14,287 | 755,110 | 121,498 | 3,488,254 |
| FY 2006 | 740,385 | 1,890,363 | 42,657 | 10,478 | 717,218 | 110,774 | 3,511,875 |
| Russell Chenu | | | | | | | |
| FY 2007 | 596,181 | 200,161 | 57,628 | 57,776 | 101,282 | 79,849 | 1,092,877 |
| FY 2006 | 564,546 | 159,832 | 18,558 | 50,809 | 62,736 | 70,454 | 926,935 |
| Benjamin Butterfield | | | | | | | |
| FY 2007 | 322,497 | 466,516 | 61,598 | 13,200 | 206,351 | 111,160 | 1,181,322 |
| FY 2006 | 311,250 | 450,450 | 30,410 | 9,913 | 128,369 | 215,717 | 1,146,109 |
| Total Remuneration for Managing Board Directors | | | | | | | |
| FY 2007 | 1,705,290 | 2,405,107 | 191,543 | 85,263 | 1,062,743 | 312,507 | 5,762,453 |
| FY 2006 | 1,616,181 | 2,500,645 | 91,625 | 71,200 | 908,323 | 396,945 | 5,584,919 |

[1] Includes all incentive amounts paid in the year indicated, including the portion of any incentive awarded for performance in the indicated year that was paid in that year, as well as, any performance incentive amounts realised as a result of prior years' performance and paid in the applicable year as a result of the company achieving its predetermined financial targets pursuant to the terms of its Economic Profit Incentive Plan.

[2] Includes the aggregate amount of all non-cash benefits received by the executive in the year indicated. Examples of non-cash benefits that may be received by our executives include medical and life insurance benefits, car allowances, membership of executive wellness programs, long service leave, and tax services.

[3] Options are valued using either the Black-Scholes option-pricing model or the Monte Carlo option-pricing method, depending on the plan the options were issued under, and the fair value of options granted are included in compensation during the period in which the options vest. For the Black-Scholes model, the weighted average assumptions and weighted average fair value used for grants in fiscal year 2007 were as follows: 1.5% dividend yield; 28.1% expected volatility; 4.6% risk free interest rate; 5.1 years of expected life; and A$2.40 weighted average fair value at grant date. For the Monte Carlo method, the weighted average assumptions and weighted average fair value used for grants in fiscal year 2007 were as follows: 1.6% dividend yield; 28.1% expected volatility; 4.6% risk free interest rate; and A$3.30 weighted average fair value at grant date. The figures stated here for Mr Gries include Stock Appreciation Rights.

**2.2 Total remuneration for other Key Management Personnel for the years ended 31 March 2007 and 2006**

Details of the remuneration of each Key Management Personnel of James Hardie are set out below:

| | Primary | | | Post-employment | Equity | Other | Total |
|---|---|---|---|---|---|---|---|
| | Base Pay US$ | Bonuses[1] US$ | Non Cash Benefits[2] US$ | Superannuation or 401(k) Benefits US$ | Options[3] US$ | Relocation Allowances and Other Non-recurring[4] US$ | US$ |
| **Key Management Personnel** | | | | | | | |
| Jamie Chilcoff | | | | | | | |
| FY 2007 | 310,961 | 373,192 | 44,136 | 12,842 | 277,998 | – | 1,019,129 |
| FY 2006 | 290,385 | 418,231 | 13,899 | 13,269 | 157,409 | 113,038 | 1,006,231 |
| Mark Fisher | | | | | | | |
| FY 2007 | 301,538 | 346,849 | 24,044 | 13,408 | 295,748 | – | 981,587 |
| FY 2006 | 260,962 | 376,467 | 30,039 | 14,242 | 191,791 | – | 873,501 |
| Grant Gustafson[5] | | | | | | | |
| FY 2007 | 254,808 | 142,914 | 18,896 | 11,619 | 55,046 | 104,913 | 588,196 |
| FY 2006 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Nigel Rigby | | | | | | | |
| FY 2007 | 301,538 | 350,488 | 22,673 | – | 282,435 | – | 957,134 |
| FY 2006 | 260,962 | 356,419 | 32,919 | – | 159,020 | 1,257 | 810,577 |
| Robert Russell | | | | | | | |
| FY 2007 | 301,538 | 359,235 | 54,217 | 13,408 | 295,748 | – | 1,024,146 |
| FY 2006 | 260,962 | 374,403 | 35,100 | 14,338 | 195,253 | 10,192 | 890,248 |
| **Former Key Management Personnel** | | | | | | | |
| Dave Merkley[6] | | | | | | | |
| FY2007 | 148,564 | 9,277 | 125,329 | 7,269 | – | – | 290,439 |
| FY 2006 | 323,826 | 761,679 | 24,315 | 14,372 | 258,299 | 7,306 | 1,389,797 |
| **Total Remuneration for Key Management Personnel** | | | | | | | |
| FY 2007 | 1,618,947 | 1,581,955 | 289,295 | 58,546 | 1,206,975 | 104,913 | 4,860,631 |
| FY 2006 | 1,397,097 | 2,287,199 | 136,272 | 56,221 | 961,772 | 131,793 | 4,970,354 |

1 Includes all incentive amounts paid in the year indicated, including the portion of any incentive awarded for performance in the indicated year that was paid in that year, as well as, any performance incentive amounts realised as a result of prior years' performance and paid in the applicable year as a result of the company achieving its predetermined financial targets pursuant to the terms of its Economic Profit Incentive Plan.

2 Includes the aggregate amount of all non-cash benefits received by the executive in the year indicated. Examples of non-cash benefits that may be received by our executives include medical and life insurance benefits, car allowances, membership of executive wellness programs, long service leave, and tax services.

3 Options are valued using the Black-Scholes option-pricing model and the fair value of options granted are included in compensation during the period in which the options vest. The weighted average assumptions and weighted average fair value used for grants in fiscal year 2007 were as follows: 1.5% dividend yield; 28.1% expected volatility; 4.6% risk free interest rate; 5.1 years of expected life; and A$2.40 weighted fair value at grant date.

4 Other non-recurring includes cash paid in lieu of vacation accrued, as permitted under the company's US vacation policy and California law.

5 Mr Gustafson was not an executive for whom the company reported compensation in fiscal year 2006.

6 On 1 September 2006, Mr Merkley resigned from the company.

## 2.3 Equity holdings

### 2.3.1 Options granted to Managing Board Directors

| Name | Grant Date | Exercise Price per right (A$) | Holding at 1 April 2006 | Granted | Total Value at Grant[1] (US$) | Vested | Exercised | Value at Exercise per right[2] (US$) | Lapsed | Value at Lapse per right[3] (US$) | Holding at 31 March 2007 | Weighted Average Fair Value per right[4] (US$) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Managing Board Directors | | | | | | | | | | | | |
| Louis Gries | 19 Oct 01 | 3.1321 | 40,174 | 200,874 | 71,732 | 200,874 | 160,700 | 1.98 | – | – | 40,174 | 0.3571 |
| | 19 Oct 01 | 3.0921 | 175,023 | 437,539 | 168,321 | 437,539 | 262,516 | 2.11 | – | – | 175,023 | 0.3847 |
| | 17 Dec 01 | 5.0586 | 324,347 | 324,347 | 137,296 | 324,347 | – | – | – | – | 324,347 | 0.4233 |
| | 3 Dec 02 | 6.4490 | 325,000 | 325,000 | 210,633 | 325,000 | – | – | – | – | 325,000 | 0.6481 |
| | 5 Dec 03 | 7.0500 | 325,000 | 325,000 | 338,975 | 325,000 | – | – | – | – | 325,000 | 1.0430 |
| | 22 Nov 05 | 8.5300 | 1,000,000 | 1,000,000 | 2,152,500 | – | – | – | – | – | 1,000,000 | 2.1525 |
| | 21 Nov 06 | 8.4000 | – | 415,000 | 888,100 | – | – | – | – | – | 415,000 | 2.1400 |
| | 21 Nov 06 | 8.4000 | – | 381,000 | 1,131,570 | – | – | – | – | – | 381,000 | 2.9700 |
| Russell Chenu | 22 Feb 05 | 6.3000 | 93,000 | 93,000 | 107,973 | 46,500 | – | – | – | – | 93,000 | 1.1610 |
| | 22 Nov 05 | 8.5300 | 90,000 | 90,000 | 193,725 | – | – | – | – | – | 90,000 | 2.1525 |
| | 21 Nov 06 | 8.4000 | – | 65,000 | 139,100 | – | – | – | – | – | 65,000 | 2.1400 |
| | 21 Nov 06 | 8.4000 | – | 60,000 | 178,200 | – | – | – | – | – | 60,000 | 2.9700 |
| Benjamin Butterfield | 22 Feb 05 | 6.3000 | 180,000 | 180,000 | 208,980 | 90,000 | – | – | – | – | 180,000 | 1.1610 |
| | 22 Nov 05 | 8.5300 | 230,000 | 230,000 | 495,075 | – | – | – | – | – | 230,000 | 2.1525 |
| | 21 Nov 06 | 8.4000 | – | 110,000 | 235,400 | – | – | – | – | – | 110,000 | 2.1400 |
| | 21 Nov 06 | 8.4000 | – | 101,000 | 299,970 | – | – | – | – | – | 101,000 | 2.9700 |

1 Total Value at Grant = Weighted Average Fair Value per right multiplied by number of rights granted.

2 Value at Exercise/right = Value Market Value of a share of the company's stock at Exercise less the Exercise price per right.

3 Value at Lapse/right = Fair Market Value of a share of the company's stock at Lapse less the Exercise price per right.

4 Weighted Average Fair Value per right is estimated on the date of grant using the Black-Scholes option-pricing model or Monte Carlo option-pricing method, depending on the plan the options were issued under.

### 2.3.2 Options granted to other Key Management Personnel

| Name | Grant Date | Exercise Price per right (A$) | Holding at 1 April 2006 | Granted | Total Value at Grant[1] (US$) | Vested | Exercised | Value at Exercise per right[2] (US$) | Lapsed | Value at Lapse per right[3] (US$) | Holding at 31 March 2007 | Weighted Average Fair Value per right[4] (US$) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Current Key Management Personnel | | | | | | | | | | | | |
| Jamie Chilcoff | 19 Oct 01 | 3.1321 | 40,174 | 40,174 | 14,346 | 40,174 | 40,174 | 4.15 | – | – | – | 0.3571 |
| | 19 Oct 01 | 3.0921 | 92,113 | 92,113 | 35,436 | 92,113 | 92,113 | 4.18 | – | – | – | 0.3847 |
| | 17 Dec 01 | 5.0586 | 68,283 | 68,283 | 28,904 | 68,283 | 68,283 | 2.67 | – | – | – | 0.4233 |
| | 3 Dec 02 | 6.4490 | 111,000 | 111,000 | 71,939 | 111,000 | 111,000 | 1.61 | – | – | – | 0.6481 |
| | 14 Dec 04 | 5.9900 | 180,000 | 180,000 | 183,276 | 90,000 | 45,000 | 1.96 | – | – | 135,000 | 1.0182 |
| | 1 Dec 05 | 8.9000 | 190,000 | 190,000 | 386,137 | 47,500 | – | – | – | – | 190,000 | 2.0323 |
| | 21 Nov 06 | 8.4000 | – | 158,500 | 291,069 | – | – | – | – | – | 158,500 | 1.8364 |
| Mark Fisher | 19 Oct 01 | 3.1321 | – | 40,174 | 14,346 | 40,174 | 40,174 | 2.11 | – | – | – | 0.3571 |
| | 19 Oct 01 | 3.0921 | 92,113 | 92,113 | 35,436 | 92,113 | – | – | – | – | 92,113 | 0.3847 |
| | 17 Dec 01 | 5.0586 | 68,283 | 68,283 | 28,904 | 68,283 | – | – | – | – | 68,283 | 0.4233 |
| | 3 Dec 02 | 6.4490 | 74,000 | 74,000 | 47,959 | 74,000 | – | – | – | – | 74,000 | 0.6481 |
| | 5 Dec 03 | 7.0500 | 132,000 | 132,000 | 137,676 | 132,000 | – | – | – | – | 132,000 | 1.0430 |
| | 14 Dec 04 | 5.9900 | 180,000 | 180,000 | 183,276 | 90,000 | – | – | – | – | 180,000 | 1.0182 |
| | 1 Dec 05 | 8.9000 | 190,000 | 190,000 | 386,137 | 47,500 | – | – | – | – | 190,000 | 2.0323 |
| | 21 Nov 06 | 8.4000 | – | 158,500 | 291,069 | – | – | – | – | – | 158,500 | 1.8364 |
| Grant Gustafson[5] | 21 Nov 06 | 8.4000 | – | 158,500 | 291,069 | – | – | – | – | – | 158,500 | 1.8364 |
| Nigel Rigby | 17 Dec 01 | 5.0586 | 20,003 | 20,003 | 8,467 | 20,003 | – | – | – | – | 20,003 | 0.4233 |
| | 3 Dec 02 | 6.4490 | 27,000 | 27,000 | 17,499 | 27,000 | – | – | – | – | 27,000 | 0.6481 |
| | 5 Dec 03 | 7.0500 | 33,000 | 33,000 | 34,419 | 33,000 | – | – | – | – | 33,000 | 1.0430 |
| | 14 Dec 04 | 5.9900 | 180,000 | 180,000 | 183,276 | 90,000 | – | – | – | – | 180,000 | 1.0182 |
| | 1 Dec 05 | 8.9000 | 190,000 | 190,000 | 386,137 | 47,500 | – | – | – | – | 190,000 | 2.0323 |
| | 21 Nov 06 | 8.4000 | – | 158,500 | 291,069 | – | – | – | – | – | 158,500 | 1.8364 |
| Robert Russell | 19 Oct 01 | 3.1321 | – | 40,174 | 14,346 | 40,174 | 40,174 | 2.82 | – | – | – | 0.3571 |
| | 19 Oct 01 | 3.0921 | 27,634 | 138,170 | 53,154 | 138,170 | 138,170 | 3.08 | – | – | – | 0.3847 |
| | 17 Dec 01 | 5.0586 | – | 68,283 | 28,904 | 68,283 | 68,283 | 0.99 | – | – | – | 0.4233 |
| | 3 Dec 02 | 6.4490 | 111,000 | 111,000 | 71,939 | 111,000 | 111,000 | 1.46 | – | – | – | 0.6481 |
| | 5 Dec 03 | 7.0500 | 132,000 | 132,000 | 137,676 | 132,000 | 66,000 | 0.99 | – | – | 66,000 | 1.0430 |
| | 14 Dec 04 | 5.9900 | 180,000 | 180,000 | 183,276 | 90,000 | 45,000 | 1.82 | – | – | 135,000 | 1.0182 |
| | 1 Dec 05 | 8.9000 | 190,000 | 190,000 | 386,137 | 47,500 | – | – | – | – | 190,000 | 2.0323 |
| | 21 Nov 06 | 8.4000 | – | 158,500 | 291,069 | – | – | – | – | – | 158,500 | 1.8364 |
| Former Key Management Personnel | | | | | | | | | | | | |
| Dave Merkley[6] | 19 Oct 01 | 3.1321 | – | 120,524 | 43,039 | 120,524 | 120,524 | 2.75 | – | – | – | 0.3571 |
| | 19 Oct 01 | 3.0921 | – | 138,170 | 53,154 | 138,170 | 138,170 | 3.32 | – | – | – | 0.3847 |
| | 17 Dec 01 | 5.0586 | – | 102,425 | 43,357 | 102,425 | 102,425 | 3.00 | – | – | – | 0.4233 |
| | 3 Dec 02 | 6.4490 | 200,000 | 200,000 | 129,620 | 200,000 | 200,000 | 1.24 | – | – | – | 0.6481 |
| | 5 Dec 03 | 7.0500 | 250,000 | 250,000 | 260,750 | 125,000 | 125,000 | 0.77 | – | – | – | 1.0430 |
| | 14 Dec 04 | 5.9900 | 172,500 | 230,000 | 234,186 | 57,500 | 57,500 | 2.34 | – | – | – | 1.0182 |
| | 1 Dec 05 | 8.9000 | 190,000 | 190,000 | 386,137 | – | – | | – | – | – | 2.0323 |

1 Total Value at Grant = Weighted Average Fair Value per right multiplied by number of rights granted.

2 Value at Exercise/right = Value Market Value of a share of the company's stock at Exercise less the Exercise price per right.

3 Value at Lapse/right = Fair Market Value of a share of the company's stock at Lapse less the Exercise price per right.

4 Weighted Average Fair Value per right is estimated on the date of grant using the Black-Scholes option-pricing model.

5 Mr Gustafson was not an executive for whom the company reported compensation in fiscal year 2006.

6 On 1 September 2006, Mr Merkley resigned from the company.

### 2.3.3 Managing Board Directors' relevant interests in JHI NV

Changes in current and former Managing Board Directors' relevant interests in JHI NV securities between 1 April 2006 and 31 March 2007 are set out below:

| Managing Board Directors | CUFS at 1 April 2006 | CUFS at 31 March 2007 | Options at 1 April 2006 | Options granted 22 November 2006 | Options at 31 March 2007 |
|---|---|---|---|---|---|
| Louis Gries | 127,675 | 127,675 | 2,189,544 | 796,000 | 2,985,544 |
| Russell Chenu | 10,000 | 15,000 | 183,000 | 125,000 | 308,000 |
| Benjamin Butterfield | – | – | 410,000 | 211,000 | 621,000 |

### 2.4 Loans

The company did not grant loans to Managing Board Directors or Key Management Personnel during fiscal year 2007.

There are no loans outstanding to Managing Board Directors or Key Management Personnel.

## 3. EMPLOYMENT CONTRACTS

Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer, Company Secretary and General Counsel, and certain other senior executives are formalised in employment contracts. The main elements of these contracts are set out below.

### 3.1 Chief Executive Officer's employment contract

Details of the terms of the CEO's employment contract are as follows:

| Components | Details |
|---|---|
| Length of contract | Three year term, commencing 10 February 2005. Term is automatically extended on 9th day of each February for an additional one year unless either party notifies the other, 90 days in advance of the automatic renew date, that it does not want the term to renew. |
| Base salary | US$750,000 per year[1]. Salary will be reviewed annually in April by the JHI NV Board. |
| Short-term incentive | Annual incentive target is 100% of annual base salary:<br>– 80% of this incentive target is based on the company meeting or exceeding aggressive performance objectives;<br>– 20% of this incentive target is based on the CEO meeting or exceeding personal performance objectives.<br>The Remuneration Committee recommends the company's and CEO's performance objectives, and the performance against these objectives, to the JHI NV Supervisory Board for approval. If the company's performance exceeds the annual objective, the CEO realises an incentive greater than his target incentive, but only one-third of the excess incentive is paid to the participant at the end of the fiscal year. The remaining two-thirds is then deposited with a notional bank and is paid to the CEO over the following two years if the company's objectives are met in these years, or is reduced if the company's objectives are not met. |
| Long-term incentive | The banking mechanism of the annual incentive plan is considered a long-term incentive. Upon the approval of the shareholders, stock options with performance hurdles will be granted each year. The recommended number of options to be granted will be appropriate for this level of executive in the US. |
| Defined Contribution Plan | The CEO may participate in the US 401(k) defined contribution plan up to the annual IRS limit. The company will match his contributions into the plan up to the annual IRS limit. |
| Resignation | The CEO may cease his employment with the company by providing written notice. |
| Termination by James Hardie | The company may terminate the CEO's employment for cause or not for cause. If the company terminates the employment, not for cause, or the CEO terminates his employment "for good reason" the company will pay the following:<br>a. amount equivalent to 1.5 times the annual base salary at the time of termination; and<br>b. amount equivalent to 1.5 times the executive's Average Annual Incentive actually paid in up to the previous three fiscal years as CEO; and<br>c. continuation of health and medical benefits at the company's expense for the remaining term of the agreement and the consulting agreement referenced below. |
| Post-termination Consulting | The company will request the CEO, and the CEO will agree, to consult to the company upon termination for a minimum of two years, as long as he maintains the company's non-compete and confidentiality agreements, and he will receive his annual base salary and annual target incentive in exchange for this consulting and non-compete. |

[1] Actual salary paid in fiscal year 2007 is shown in Table 2.1 on page 56 of this annual report.

### 3.2 Chief Financial Officer's employment contract

Details of the CFO's employment contract are as follows:

| Components | Details |
|---|---|
| Length of contract | Fixed period of two and a half years concluding 5 October 2007. |
| Base salary | A$750,000 per year[1] |
| Short-term incentive | Annual incentive target is 33% of annual base salary based on the CFO meeting or exceeding personal performance objectives. |
| Long-term incentive | Upon the approval of the shareholders, stock options with performance hurdles will be granted each year. The recommended number of options to be granted will be a value equal to one-third of the executive's base salary. |
| Superannuation | The company will contribute 9% of gross salary to Superannuation in the executive's name. |
| Resignation or Termination | The company or CFO may cease the CFO's employment with the company by providing three months' notice in writing. |
| Redundancy or material change of role | If the position of CFO is determined to be redundant or subject to a material adverse change, the company or the CFO may terminate the CFO's employment. The company will pay the CFO a severance payment equal to the greater of 12 months' pay or the remaining proportion of the term of the contract. |

### 3.3 Company Secretary and General Counsel's employment contract

Details of the Company Secretary and General Counsel's employment contract are as follows:

| Components | Details |
|---|---|
| Length of contract | Indefinite. |
| Base salary | US$315,000 per year[1] |
| Short-term incentive | Annual incentive target is 65% of annual base salary:<br>– 80% of this incentive target is based on the company meeting or exceeding aggressive performance objectives;<br>– 20% of this incentive target is based on the General Counsel and Company Secretary meeting or exceeding personal performance objectives.<br>The CEO recommends the General Counsel and Company Secretary's performance objectives and the performance against these objectives, to the Remuneration Committee and JHI NV Supervisory Board for approval. The company's objectives are set by the Remuneration Committee's recommendation to the JHI NV Supervisory Board. If the company's performance exceeds the annual objective, the executive realises an incentive greater than his target incentive, but only one-third of the excess incentive is paid to the participant at the end of the fiscal year.<br>The remaining two-thirds is then deposited with a notional bank and is paid to the General Counsel and Company Secretary over the following two years if the company's objectives are met in these years, or is reduced if the company's objectives are not met. |
| Long-term incentive | The banking mechanism of the annual incentive plan is considered a long-term incentive. Upon the approval of the shareholders, stock options with performance hurdles will be granted each year. The recommended number of options to be granted will be appropriate for this level of executive in the US. |
| Defined Contribution Plan | Since the General Counsel and Company Secretary may not participate in the US 401(k) defined contribution plan up to the annual IRS limit while he is on assignment to The Netherlands, the company will provide a payment up to the annual IRS limit directly to the executive. |
| Resignation or Termination | The General Counsel and Company Secretary may cease his employment with the company by providing written notice. |
| Termination by James Hardie | The company may terminate the General Counsel and Company Secretary's employment for cause or not for cause. |
| Post-Termination Consulting | The company will request the General Counsel and Company Secretary, and he will agree, to consult to the company upon termination for a minimum of two years, as long as he maintains the company's non-compete and confidentiality agreements, and he will receive his annual base salary in exchange for this consulting and non-compete. |

[1] Annual salary rates are typically adjusted each year. Actual salary paid in fiscal year 2007 is shown in Table 2.1 on page 56 of this annual report.

### 3.4 Benefits contained in contracts for CEO, CFO and Company Secretary and General Counsel

Employment contracts for each of the CEO, CFO and General Counsel and Company Secretary also specify the following benefits:

| | |
|---|---|
| International Assignment | The executives receive additional benefits due to international assignment: housing allowance, expatriate Goods and Services allowance, moving and storage. |
| Other | Tax Equalisation: The company covers the extra personal tax burden for Managing Board Directors based in The Netherlands.<br>Tax Advice: The company will pay the costs of filing the executives' income tax returns to the required countries.<br>Health, Welfare and Vacation Benefits: The executives are eligible to receive all health, welfare and vacation benefits offered to all US employees. They are also eligible to participate in the company's Executive Health and Wellness program.<br>Business Expenses: The executives are entitled to receive reimbursement for all reasonable and necessary travel and other business expenses they incur or pay for in connection with the performance of their services under this Agreement.<br>Automobile: The company will either purchase or lease an automobile for business and personal use by the executives, or, in the alternative, the executives will be entitled to an automobile lease allowance not to exceed US$750 per month. Unused allowance or part thereof will be paid to the executives. |

### 3.5 Key Management Personnel employment contracts

Details of the employment contracts for Key Management Personnel are as follows:

| Components | Details |
|---|---|
| Length of contract | Indefinite. |
| Base salary | Base salary is subject to Remuneration Committee approval and reviewed annually in May for increase effective 1 July. |
| Short-term incentive | An annual incentive target is set at a percentage of the executive's salary. Target is 55%; 80% of this incentive target is based on the company meeting or exceeding aggressive performance objectives; 20% of this incentive target is based on the executive meeting or exceeding personal performance objectives. The CEO recommends the executive's performance objectives and the performance against these objectives, to the Remuneration Committee and JHI NV Supervisory Board for approval. The company's objectives are set by the Remuneration Committee's recommendation to the JHI NV Supervisory Board.<br>If the company's performance exceeds the annual objective, the executive realises an incentive greater than his target incentive, but only one-third of the excess incentive is paid to the participant at the end of the fiscal year. The remaining two-thirds is then deposited with a notional bank and is paid to the executive over the following two years if the company's objectives are met in these years, or is reduced if the company's objectives are not met. |
| Long-term incentive | The banking mechanism of the annual incentive plan is considered a long-term incentive. Upon the approval of JHINV Supervisory Board, stock options have been granted each year under the JHI NV 2001 Equity Incentive Plan. It is anticipated that upon the approval of the JHI NV Supervisory Board, equity will be granted under a new plan in the future. |
| Defined Contribution Plan | The executive may participate in the US 401(k) defined contribution plan up to the annual IRS limit. The company will match the executive's contributions into the plan up to the annual IRS limit. |
| Resignation | The executive may cease his employment with the company by providing written notice. |
| Termination by James Hardie | The company may terminate the executive's employment for cause or not for cause. |
| Post-termination Consulting | Depending on the executive's individual contract, and the reasons for termination, the company may, or may be required to, request the executive, and the executive will agree, to consult to the company for two years upon termination, as long as the executive maintains the company's non-compete and confidentiality agreements. In exchange for the consulting agreement, the company shall pay the executive's annual base salary as of the termination date for each year of consulting. |
| Other | Health, Welfare and Vacation Benefits: The executive is eligible to receive all health, welfare and vacation benefits offered to all US employees. The executive is also eligible to participate in the company's Executive Health and Wellness program. |
| | Business Expenses: The executive is entitled to receive reimbursement for all reasonable and necessary travel and other business expenses he or she incurs or pays in connection with the performance of his or her services under this Agreement. |
| | Automobile: The company will either lease an automobile for business and personal use by the executive, or, in the alternative, the executive will be entitled to an automobile lease allowance not to exceed US$750 per month. Unused allowance or part of this will be paid to the executive. |
| International Assignment | Executives who are on assignment in countries other than their own receive additional benefits which may include tax equalisation payment and tax advice, a car in the country they are assigned to, and financial assistance with housing, moving and storage. |

## 4. REMUNERATION FOR SUPERVISORY BOARD DIRECTORS FOR THE YEAR ENDED 31 MARCH 2007

Fees paid to the Supervisory Board Directors of James Hardie are determined by the Joint Board, with the advice of external remuneration advisors, within the maximum total amount approved by the shareholders from time to time. The current aggregate fee pool of US$1,500,000 was approved by shareholders in 2006.

Independent experts in Australia and the USA benchmark Supervisory Board Directors' remuneration against peer companies, taking into consideration the level of fees paid to board members of companies with similar size, complexity of operations and responsibilities and workload requirements of board members.

Board fees are not paid to Managing Board Directors since the responsibilities of board membership are considered in determining the remuneration provided as part of their normal employment conditions.

### 4.1. Remuneration Structure

During fiscal year 2006, Supervisory Board Directors were paid a base fee for service on the James Hardie Boards. Additional fees were paid to the position of Chairman, Deputy Chairman and Board Committee Chairmen.

Following the commencement of proceedings by ASIC against the company and some of its former officers, the company formed a Special Matter Committee to deal with issues related to the proceedings. After the resignation of Ms Hellicar as Chairman, an Acting Chairman and an Acting Deputy Chairman were immediately appointed until the Supervisory Board appointed a new permanent Chairman and Deputy Chairman. Directors who acted in the roles of Acting Chairman and Acting Deputy Chairman and who attended meetings of the Special Matter Committee received fees in addition to the base fee of $US75,000 per annum (pro-rata). Directors who attended meetings of the Special Matter Committee received fees of US$1,000 per meeting in addition to their base fee.

As the focus of the Board is on the long-term direction and well-being of James Hardie, there is no direct link between Supervisory Board Directors' remuneration and the short-term results of the company.

No Supervisory Board Director has been granted options or performance rights.

### 4.2 Supervisory Board Share Plan

At the 2006 JHI NV Annual General Meeting, shareholders approved the Supervisory Board Share Plan 2006 (SBSP-2006) and the participation of the Supervisory Board Directors under the SBSP-2006 for a three-year period. Under the SBSP-2006, Supervisory Board Directors can elect to receive some of their annual fees in ordinary shares/CUFS in JHI NV. This is different from the previous Supervisory Board Share Plan (SBSP) under which Supervisory Board Directors were required to contribute a portion of their annual fees in Shares/CUFS.

In 2006, the Supervisory Board also implemented a Board policy that Supervisory Board Directors 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 later of August 2006 or their appointment. For the purposes of calculating the value of this minimum shareholding, Directors' annual fees will still be classified as having both Cash and Shares components, where the Shares component is equal to half the total annual fees for Directors, and one third of the total annual fees for the Chairman.

To recognise the potential for share price fluctuations to have an impact on the funds required to be committed and the different taxation positions of individual Directors, no Director will be required to apply more than 50% of the cash component of his or her fees, on a post-tax basis, over a six year period, toward satisfying this requirement. For fiscal year 2008, the Supervisory Board (and each individual member of the Supervisory Board) has determined that the amount to be applied under the SBSP-2006 for each Supervisory Board Director will be US$50,000 and for the Chairman will be US$100,000, net of any applicable Dutch taxes, and that this amount will be paid in the fourth quarter of fiscal year 2008. Any Supervisory Board member who leaves the Supervisory Board during fiscal year 2008 will not participate in the SBSP-2006. Any person becoming a member of the Supervisory Board after the date of the calendar 2007 Annual General Meeting will apply a pro-rata reduced amount under the SBSP-2006 in the fourth quarter of fiscal year 2008.

Shares/CUFS received under the SBSP-2006 can be either issued or acquired on market. Where shares/CUFS are issued, the price is the average of the market closing prices at which CUFS were quoted on the ASX during the five business days preceding the day of issue. Where shares/CUFS are acquired on market, the price is the purchase price.

The SBSP-2006 does not include a performance condition because the amounts applied to acquire ordinary shares/CUFS under the SBSP-2006 are from the annual fees earned by the Supervisory Board Directors.

### 4.3 Director Retirement Benefits

In July 2002, the company discontinued a retirement plan that entitled some of our Supervisory Board Directors to receive, upon their termination for any reason other than misconduct, an amount equal to a multiple of up to five times their average annual fees for the three year period prior to their retirement.

The applicable multiple was based on the Director's years of service on the Supervisory Board, including service on the JHIL Board. Two of our former Directors, Ms Hellicar and Mr Brown, retained some benefits that had accrued as of 2002 under this retirement plan. Both Ms Hellicar and Mr Brown retired from our Supervisory Board on 20 February 2007 and we have determined that they are entitled to benefits pursuant to this plan, in the gross amount of US$833,979 and US$307,658 for Ms Hellicar and Mr Brown, respectively.

No other Directors retain any benefits under this plan.

### 4.4 Total remuneration for each Supervisory Board Director

| | Primary | Equity | Post-Employment | Other | Total |
|---|---|---|---|---|---|
| | Directors' Fees US$ | JHI NV Stock[1] US$ | Superannuation[2] US$ | Retirement Benefits US$ | US$ |
| **Supervisory Board Directors** | | | | | |
| Donald DeFosset | | | | | |
| FY 2007 | 32,959 | – | – | – | 32,959 |
| FY 2006 | N/A | N/A | N/A | N/A | N/A |
| Donald McGauchie | | | | | |
| FY 2007 | 96,071 | – | 9,402 | – | 105,473 |
| FY 2006 | 50,598 | 10,000 | 5,454 | – | 66,052 |
| Brian Anderson | | | | | |
| FY 2007 | 33,685 | – | – | – | 33,685 |
| FY 2006 | N/A | N/A | N/A | N/A | N/A |
| John Barr | | | | | |
| FY 2007 | 92,929 | 20,000 | – | – | 112,929 |
| FY 2006 | 51,100 | 10,000 | – | – | 61,100 |
| Michael Hammes | | | | | |
| FY 2007 | 16,247 | – | – | – | 16,247 |
| FY 2006 | N/A | N/A | N/A | N/A | N/A |
| James Loudon | | | | | |
| FY 2007 | 87,584 | – | – | – | 87,584 |
| FY 2006 | 47,767 | 10,000 | – | – | 57,767 |
| Rudy van der Meer | | | | | |
| FY 2007 | 17,247 | – | – | – | 17,247 |
| FY 2006 | N/A | N/A | N/A | N/A | N/A |
| **Former Supervisory Board Directors** | | | | | |
| Michael Brown[3] | | | | | |
| FY 2007 | 79,262 | – | 7,727 | 307,658 | 394,647 |
| FY 2006 | 50,598 | 10,000 | 5,454 | – | 66,052 |
| Gregory Clark[4] | | | | | |
| FY 2007 | 5,420 | – | – | – | 5,420 |
| FY 2006 | 51,100 | 10,000 | – | – | 61,100 |
| Michael Gillfillan[3] | | | | | |
| FY 2007 | 75,899 | – | – | – | 75,899 |
| FY 2006 | 51,100 | 10,000 | – | – | 61,100 |
| Meredith Hellicar[3] | | | | | |
| FY 2007 | 166,015 | 50,000 | 21,227 | 833,979 | 1,071,221 |
| FY 2006 | 178,777 | 20,000 | 17,890 | – | 216,667 |
| **Total Remuneration for Supervisory Board Directors** | | | | | |
| FY 2007 | 703,318 | 70,000 | 38,356 | 1,141,637 | 1,953,311 |
| FY 2006 | 481,040 | 80,000 | 28,798 | – | 589,838 |

[1] For fiscal year 2007, amount represents JHI NV stock issued or acquired on market under the 2006-SBSP under which a Director can elect to receive some of their annual fees in JHI NV stock. The number of shares was determined by dividing the amount which the member elects to apply under the 2006-SBSP (net of any applicable taxes and broker fees) by the market of purchase price.

For fiscal year 2006, the annual allocation to Supervisory Board Members of JHI NV stock to the value of US$10,000 was approved by shareholders at the Annual General Meeting held on 19 July 2002. The Supervisory Board Directors could also elect to additional stock in lieu of fees.

See sections 4.2 Supervisory Board Share Plan and 4.6 Shares/CUFS allotted to Supervisory Board Directors under the SBSP and SBSP-2006 of this annual report on pages 63 and 66 of this annual report for further information.

[2] The superannuation benefits include Australian 9% superannuation guarantee contributions which were paid on top of the Australian Directors' total fees until 25 September 2006. From 26 September 2006, superannuation is withheld from the Australian Directors' fees.

[3] On 20 February 2007, Chairman Ms Hellicar and Directors Messrs Brown and Gillfillan resigned from our Joint and Supervisory Boards. We have determined that two Directors, Ms Hellicar and Mr Brown, are entitled to benefits pursuent to this plan in the gross amounts of US$0.8 million and US$0.3 million for Ms Hellicar and Mr Brown, respectively. We expect to pay these amounts in fiscal year 2008. See section 4.3 Director Retirement Benefits on page 63 of this annual report.

[4] On 9 May 2006, Mr Clark resigned from the Joint and Supervisory Boards, Audit Committee and Nominating and Governance Committee.

### 4.5 Supervisory Board Directors' Relevant Interests in JHI NV

Changes in Supervisory Board Directors' relevant interests in JHI NV securities between 1 April 2006 and 31 March 2007 are set out below:

| | Number of Shares/CUFS At 1 April 2006 | Number of Shares/ CUFS at date of becoming Director | SBSP-2006[1] | Shares/CUFS at Date of resignation | Number of Shares/CUFS at 31 March 2007 |
|---|---|---|---|---|---|
| Supervisory Board Directors[2] | | | | | |
| Donald DeFosset[3] | N/A | 15,500 | – | N/A | 15,550 |
| Donald McGauchie | 9,569 | N/A | – | N/A | 9,569 |
| Brian Anderson[4] | N/A | – | – | N/A | – |
| John Barr | 22,826 | N/A | 1,651 | N/A | 24,477 |
| Michael Hammes[5] | N/A | – | – | N/A | – |
| James Loudon | 6,355 | N/A | – | N/A | 6,355 |
| Rudy van der Meer[5] | N/A | – | – | N/A | – |
| Former Supervisory Board Directors | | | | | |
| Michael Brown | 14,727 | N/A | – | 14,727 | N/A |
| Gregory Clark | 14,116 | N/A | – | 14,116 | N/A |
| Michael Gillfillan | 54,727 | N/A | – | 54,727 | N/A |
| Meredith Hellicar | 11,566 | N/A | 3,388 | 14,954 | N/A |

1 Acquisitions under the SBSP-2006 occurred on 12 December 2006 and 26 March 2007. The acquisition price for the 12 December acquisition was $8.39 per share/CUFS. The acquisition price for the 26 March 2007 acquisition was $8.50 per shares/CUFS. There is no escrow period on any of these acquisitions.

2 This includes holdings that are beneficially held.

3 Mr DeFosset became a Director of the company on 14 December 2006. Mr DeFosset's holding is through 3,100 ADRs which are equivalent to a holding of 15,500 CUFS.

4 Mr Anderson became a Director of the company on 14 December 2006.

5 Messrs Hammes and van der Meer became Directors of the company on 7 February 2007.

### 4.6 Shares/CUFS allotted to Supervisory Board Directors under the SBSP And SBSP-2006

Shares/CUFS allotted in fiscal year 2007 under the SBSP-2006:

| | 2007 Fiscal Year[1] |
|---|---|
| **Current Supervisory Board Directors** | |
| Donald DeFosset[2] | – |
| Donald McGauchie | – |
| Brian Anderson[2] | – |
| John Barr | 1,651 |
| Michael Hammes[3] | – |
| James Loudon | – |
| Rudy van der Meer[3] | – |
| **Former Supervisory Board Directors** | |
| Michael Brown | – |
| Gregory Clark | – |
| Michael Gillfillan | – |
| Meredith Hellicar | 3,388 |

Shares/CUFS allotted prior to fiscal 2007 under the SBSP:

| Name | 2006 Fiscal Year[4] | 2005 Fiscal Year[5] | 2004 Fiscal Year[6] | 2003 Fiscal Year[7] |
|---|---|---|---|---|
| **Current Supervisory Board Directors** | | | | |
| Donald DeFosset | N/A | N/A | N/A | N/A |
| Donald McGauchie | 758 | 1,068 | 1,743 | – |
| Brian Anderson | N/A | N/A | N/A | N/A |
| John Barr | 758 | 1,068 | – | – |
| Michael Hammes | N/A | N/A | N/A | N/A |
| James Loudon | 758 | 2,117 | 1,839 | 1,641 |
| Rudy van der Meer | N/A | N/A | N/A | N/A |
| **Former Supervisory Board Directors** | | | | |
| Michael Brown | 758 | 1,068 | 1,260 | 1,641 |
| Gregory Clark | 758 | 1,068 | 5,620 | 6,688 |
| Michael Gillfillan | 758 | 1,068 | 1,260 | 1,641 |
| Meredith Hellicar | 1,515 | 2,117 | 2,225 | 2,948 |

1 Acquisitions under the SBSP-2006 occurred on 12 December 2006 and 26 March 2007. The acquisition price for the 12 December acquisition was $8.39 per share/CUFS. The acquisition price for the 26 March 2007 acquisition was $8.50 per shares/CUFS. There is no escrow period on any of these acquisitions.

2 Messrs DeFosset and Anderson became Directors of the company on 14 December 2006.

3 Messrs Hammes and van der Meer became Directors of the company on 7 February 2007.

4 The acquisition price was $8.64 per share/CUFS. Each participant's 22 November 2005 mandatory participation of 758 JHI NV shares/CUFS is subject to a voluntary escrow period ending on 22 November 2007.

5 The acquisition price was $5.94 per share/CUFS. Each participant's 3 December 2004 mandatory participation of 1068 JHI NV shares/CUFS was subject to a voluntary escrow period which ended on 4 December 2006.

6 The acquisition price was $7.52 per share/CUFS. Each participant's 22 August 2003 mandatory participation of 1,260 JHI NV shares/was is subject to a voluntary escrow period which ended on 22 August 2005.

7 The acquisition price was $6.71 per share/CUFS. Each participant's 27 August 2002 mandatory participation of 1,641 JHI NV shares/CUFS was subject to a voluntary escrow period which ended on 27 August 2004.

Only Supervisory Board Directors are entitled to participate in the SBSP-2006.

This report is made in accordance with a resolution of the members of the Joint Board.

D DeFosset
Chairman
Supervisory and Joint Boards

L Gries
Chief Executive Officer and
Chairman Managing Board

Signed Amsterdam, The Netherlands, 22 June 2007