



Research and Development Expenditure¹
(Millions of US dollars)

¹ Research and development expenditure includes US GAAP research and development expenses and amounts classified as selling, general and administrative expense under US GAAP in the amounts of US\$4.1 million, US\$3.4 million, US\$5.5 million, US\$3.5 million and US\$2.7 million for the years ended 31 March 2007, 2006, 2005, 2004 and 2003, respectively.

This year we again increased sales of the differentiated products that are at the core of our growth strategy. The success of these products, and the cost-efficient manufacturing capacity and proprietary processes we use to create them, are the result of our investments in research and product, process and market development.

We have Research and Development Centres in Sydney, Australia and Fontana, California, where we employ over one hundred scientists, engineers and technicians in Core Research and Product & Process Development. Over 50% of our scientists have advanced degrees and 45% have worked for James Hardie for longer than five years.

Our operating returns allow us to continue to re-invest in products and processes that deliver increased customer value.

In North America, in fiscal year 2007:

- Sales of our higher-priced, differentiated ColorPlus® collection of products increased, despite the weaker residential housing market, due to the product's economies and superior performance and durability, which enable continued substitution for vinyl. We now offer our customers a choice of 20 colours and an interactive on-line James Hardie Design Centre where they can test colour and product combinations on their style of house.
- We also increased sales of our XLD® trim product by offering customers a coloured trim product to complement their ColorPlus® collection siding.
- Sales remained strong for our HardieBacker™ product line, featuring exclusive Moldblock™ technology. HardieBacker™ board is the lightest and strongest backerboard available and it combines a durable fibre

cement formulation with superior workability over traditional cement backerboards. HardieBacker™ ½" board is ideal for wet area wall applications and provides flexibility of finish, while HardieBacker™ ¼" EZ Grid® backerboard for floors is the only tile backer substrate to offer a recessed fastener pattern for even easier installation.

- We are in final phase of our efforts to launch a "next generation" lap siding product in the Pacific Northwest and Atlanta markets later this year. This product is currently sold in Australia and New Zealand as Linea® weatherboard, and we expect its combination of timber-like aesthetics and durable low-density to be popular in higher-end housing developments in North America.

In Asia Pacific, in fiscal year 2007:

- We launched the Scyon™ product range in Australia, using an advanced concrete formulation to create Scyon™ Interior Wet Area Flooring, a thick, easy-to-use flooring for interior wet areas; Scyon™ Matrix™ cladding, contributing to contemporary architectural design; Scyon™ Axon panel, with a sleek vertical design; and Scyon™ Trim, a finishing touch for edges and corners.
- We launched Axon™ panel for external cladding in New Zealand.

THE YEAR IN PRODUCTS