Risk Factors

We may be subject to potential liability because certain current and former James Hardie Group subsidiaries previously manufactured products that contained asbestos.

Prior to 1987, a New Zealand subsidiary in the James Hardie Group manufactured products in New Zealand that contained asbestos. Statutory provisions in New Zealand currently bar claims for compensatory damages arising from work-related asbestos exposure.

Prior to 1987, two former subsidiaries of ABN 60, Amaca Pty Limited ("Amaca") and Amaba Pty Limited ("Amaba"), which are now owned and controlled by the Medical Research and Compensation Foundation (the "Foundation"), manufactured products in Australia that contained asbestos. In addition, prior to 1937, ABN 60, which is now owned by the ABN 60 Foundation Pty Ltd ("ABN 60 Foundation"), manufactured products in Australia that contained asbestos. For reasons provided below under Item 4, "Information on the Company — Legal Proceedings," we do not believe that we will have any liability under current Australian law if future liabilities of ABN 60 or the ABN 60 Foundation exceed the funds available to those entities. However, we cannot predict with any certainty any future claims or allegations that may be made, how the laws of various jurisdictions may be applied to the facts or how the laws may change in the future. If a court of competent jurisdiction relying on applicable law at the time were to find JHI NV, our New Zealand subsidiary or another James Hardie Group subsidiary liable for damages connected with existing or former subsidiaries or their past manufacture of asbestos-containing products, we may incur significant liabilities in connection with any damages that may be awarded in the legal proceedings, in addition to the costs associated with defending against such claims. See Item 4, "Information on the Company — Legal Proceedings."

As a result of the Special Commission of Inquiry that was established in Australia to consider matters related to the Foundation, we may be subject to claims and allegations regarding asbestos-related liability and our corporate restructurings, including the corporate restructurings that resulted in the creation of the Foundation and the ABN 60 Foundation and associated intercompany transactions.

In February 2004, the Government of the State of New South Wales (the "NSW Government"), Australia established a Special Commission of Inquiry ("SCI") to investigate, among other matters, the circumstances in which the Foundation was established. The SCI heard evidence and received submissions from April 5, 2004 to August 13, 2004.

On July 14, 2004, the Company announced that it would recommend that its shareholders approve a form of statutory scheme to be developed in relation to the compensation of proven asbestos-related personal injury and death claims ("Claims") against Amaca, Amaba and ABN 60 (the "Liable Entities").

The SCI issued its report on September 21, 2004. The SCI indicated that the establishment of the Foundation and the establishment of the ABN 60 Foundation were legally effective, that any liabilities in relation to the asbestos claims for claimants remained with Amaca, Amaba or ABN 60 (as the case may be), and that no significant liabilities for those claims could likely be assessed directly against the Company. In relation to the question of the funding of the Foundation, the SCI found that there was a significant funding shortfall. In part, this was based on actuarial work commissioned by the Company indicating that the discounted value of the central estimate of the asbestos liabilities of Amaca and Amaba was approximately A$1.573 billion as of June 30, 2003. The central estimate was calculated in accordance with Australian Actuarial Standards, which differ from generally accepted practices in the United States. As of June 30, 2003, the undiscounted value of the central estimate of the asbestos liabilities of Amaca and Amaba, as determined by KPMG Actuaries Pty Ltd ("KPMG Actuaries"), was approximately A$3.403 billion ($2.272 billion). The SCI found that the net assets of the Foundation and the ABN 60 Foundation were not sufficient to meet these prospective liabilities and were likely to be exhausted in the first half of 2007. The SCI's findings are not binding and if the issues were presented to a court, it might come to different conclusions on one or more of the issues.

Accordingly, shortly after the release of the SCI report on September 21, 2004, the Company commenced negotiations with the Australian Council of Trade Unions ("ACTU"), the UnionsNSW (formerly known as the Labor Council of New South Wales) and a representative of the asbestos claimants (together, the "Representatives") and subsequently also with the NSW Government, in relation to the anticipated future funding shortfall of the Liable Entities in relation to their ability to meet expected future Claims. The statutory scheme that the Company proposed on July 14, 2004 was not accepted by the Representatives.

On October 28, 2004, the NSW Government announced its preparedness to pass legislation that would alter the Company's current liability position. See Item 4, "Information on the Company — Legal Proceedings," and the risk factor below entitled "The Government of the State of New South Wales has announced that it is prepared to pass legislation that would impose retroactive liability on the Company if current negotiations between the Company, the NSW Government, the ACTU and asbestos claimants do not reach an acceptable conclusion."

On November 5, 2004, the Australian Attorney-General and the Parliamentary Secretary to the Treasurer (the two relevant ministers of the Australian Federal Government) issued a news release stating that the Ministerial Council for Corporations (the relevant body of Federal, State and Territory Ministers, "MINCO") had unanimously agreed "to support a negotiated settlement that will ensure that victims of asbestos-related diseases receive full and timely compensation from James Hardie" and if "current negotiations between James Hardie, the ACTU and asbestos victims do not reach an acceptable conclusion, MINCO also agreed in principle to consider options for legislative reform." The news release of November 5, 2004 indicated that treaties to enforce Australian judgments in Dutch and U.S. courts are not required, but that the Australian Government has been involved in communications with Dutch and U.S. authorities regarding arrangements to ensure that Australian judgments are able to be enforced where necessary. If current negotiations do not lead to an acceptable conclusion, the Company is aware of suggestions of legislative intervention, but has no detailed information as to the content of any such legislation. The NSW Government has stated that it would not consider assisting the implementation of any proposal advanced by the Company unless it was the result of an agreement reached with the unions acting through the Representatives.

On December 21, 2004, the Company announced that it had entered into a non-binding Heads of Agreement with the NSW Government and the Representatives which is expected to form the basis of a proposed binding agreement (the "Principal Agreement") under which a subsidiary of JHI NV will agree to provide, and JHI NV will guarantee, funding payments to a special purpose fund (the "SPF") established to provide funding on a long-term basis to be applied towards meeting Claims against the Liable Entities. Once executed, the Principal Agreement will be a legally binding agreement. The implementation of the Principal Agreement will be subject to a number of conditions precedent, including the delivery of an independent expert's report and approval of the Company's board of directors, shareholders and lenders.

The Heads of Agreement contained two additional conditions precedent to the Principal Agreement. The first was the conduct of a review of legal and administrative costs associated with dust diseases compensation in New South Wales and the implementation of the results of that review by legislation of the NSW Government. The purpose of this review was primarily to determine ways to reduce legal and administrative costs, and to consider the current processes for handling and resolving dust diseases compensation claims in New South Wales. The NSW Government announced its findings on March 8, 2005. Legislation was passed in the NSW Lower House (Legislative Assembly) on May 24, 2005 and the Upper House (Legislative Council) on May 25, 2005. The bill became an act on May 26, 2005. The commencement date was July 1, 2005. Based upon the passage of the act and its terms, the Company believes that this condition has been satisfied.

The second additional condition precedent contained in the Heads of Agreement pertains to the certainty of the tax deductibility of potential asbestos compensation payments. The tax deductibility of such payments is one of the determinants of affordability which is important because it preserves the Company's ability to fund its expansion and growth initiatives. It is also important to Claimants because it improves the Company's capacity to fund Claims. The Company continues to be in discussions with the Australian Taxation Office and

the Treasury of the Australian Government to ensure the tax deductibility of all proposed asbestos compensation payments. Without certainty regarding the tax deductibility of the potential asbestos compensation payments, the Company may not enter into the Principal Agreement. As noted above, this could result in legislative action being taken.

On April 15, 2005, the Company announced that it had extended the coverage of the funding arrangements agreed under the Heads of Agreement to enable the SPF to settle or meet proven Claims by members of the Baryugil community in Australia against Asbestos Mines Pty Ltd ("Asbestos Mines"), a former ABN 60 subsidiary, which conducted asbestos-related mining activities in or around Baryugil. The Company has no current right to access any Claim information in relation to Claims against Asbestos Mines, and has no current involvement in the management or settlement of such Claims. The Company's proposal to provide additional funding to the SPF will be based on actuarial assessments of the estimated Claims against Asbestos Mines. The Company's proposal is not limited as to the time period to which the Claims arose.

The Company's offer to extend the funding arrangements of the SPF to permit the SPF to meet proven asbestos-related Claims from members of the Baryulgil community is proposed to be implemented subject to the same or similar conditions applicable to funding provided to the SPF for use in meeting proven claims from Amaca, Amaba and ABN 60, including that information in relation to the proven claims is provided to the Company. Asbestos Mines has not been part of the James Hardie Group since 1976, when it was sold to Woodsreef Mines Ltd, which was subsequently renamed Mineral Commodities Ltd. From 1954 until 1976, Asbestos Mines was a wholly owned subsidiary of James Hardie Industries Limited (now ABN 60). Except as described below, the Company has not had access to any information regarding claims or the decisions taken by the Foundation in relation to them.

The parties have announced a timetable for negotiations which envisages the signing of the Principal Agreement, depending on the timing of the resolution of certain matters, in late July/early August 2005 and the shareholder meeting to consider the voluntary funding proposal being held in late September/early October 2005.

If negotiations of the Principal Agreement are completed and the Principal Agreement is subsequently executed and becomes effective, the Company may be required to make a substantial provision in its financial statements and it is possible that the Company may need to seek additional borrowing facilities. If the terms of the Principal Agreement involve the Company making payments, either on an annual or other basis, the Company's financial position, results of operations and cash flows could be materially adversely affected and its ability to pay dividends could be impaired. See Item 4, "Information on the Company — Legal Proceedings."

If no resolution is reached and implemented, it is not possible to predict what action the Foundation, the ABN 60 Foundation, the NSW Government, other state and territory governments, the Australian federal government, the Representatives or others may take or what the outcome of any such actions may be, although certain government officials and others have stated their anticipated actions in such circumstances. See Item 4, "Information on the Company — Legal Proceedings" and risk factor below entitled "The Government of the State of New South Wales has announced that it is prepared to pass legislation that would impose retroactive liability on the Company if current negotiations between the Company, the NSW Government, the ACTU and asbestos claimants do not reach an acceptable conclusion" for more information. The impact of any such actions could be materially adverse to the Company.

We have continued to incur costs associated with the SCI and other related matters including: preparation and negotiation of a Principal Agreement with the NSW Government to provide long-term funding of proven asbestos-related claims for Australian personal injury claimants against certain former James Hardie Group Australian subsidiaries; finalization of the NSW Government's review of legal and administrative costs; and in cooperating with the Australian Securities and Investments Commission's (the "ASIC") investigation into the circumstances surrounding the establishment of the Foundation. SCI and other related expenses are again likely to be material over the short-term.

In the future, we may have difficulty maintaining existing financial accommodation on their current terms, obtaining financial accommodation (debt or equity) on usual terms for other entities in the same businesses or with the same credit ratings, or obtaining certain types of financial accommodation at all. In addition, we may not be able to maintain our historical level of liquidity because we may have to make significant payments under an agreement to resolve outstanding asbestos matters.

Historically, we have sought to renew our lines of credit, term revolving loan and 364-day stand-by loan facilities each year on substantially the same terms and conditions. We have recently entered into new credit facilities with several banks. Subject to the satisfaction of customary closing conditions, these new facilities will provide us with an increased amount of liquidity compared to what was available under our previous financing arrangements. These facilities are initially for a 364-day term, but we anticipate that two-thirds of them will be extended to a five-year term if negotiation of the Principal Agreement is completed and the Principal Agreement is subsequently executed and becomes effective. The extension of a facility will only occur if the relevant bank is satisfied with the terms of the Principal Agreement. If the final position reached in the Principal Agreement is materially different from the position in the Heads of Agreement, the extension may not occur and we may have to arrange a further refinancing.

In the future, we may not be able to renew credit facilities on substantially similar terms, or at all; we may have to pay additional fees and expenses that we might not have to pay under normal circumstances; and we may have to agree to terms that could increase the cost of our debt structure. If we are unable to renew our debt on terms which are not materially less favorable than the terms currently available to us, we may have to scale back our levels of planned capital expenditure and/or take other measures to conserve cash in order to meet our future cash flow requirements.

In addition, if the terms of the Principal Agreement involve us making payments, either on an annual or other basis, our financial position, results of operations and cash flows could be materially adversely affected and our ability to pay dividends could be impaired. See also Liquidity and Capital Resources under Item 5, “Operating and Financial Review and Prospects — Liquidity and Capital Resources.”

The Government of the State of New South Wales has announced that it is prepared to pass legislation that would impose retroactive liability on the Company if current negotiations between the Company, the NSW Government, the ACTU and asbestos claimants do not reach an acceptable conclusion.

If current negotiations concerning the Principal Agreement between the Company and the NSW Government do not reach an acceptable conclusion, the NSW Government has indicated that it may attempt to pass legislation that would seek to impose liability on the Company for asbestos claims on the Company. Negotiations with the NSW Government continues and no draft legislation which, if implemented, would impose retroactive liability, has been published, nor is any such legislation expected to be published while negotiations continue to progress. See Item 4, “Information on the Company — Legal Proceedings.”

We have experienced product bans and boycotts and negative publicity and have been subject to other measures taken by the Representatives and others to influence the resolution of matters relating to the SCI investigation and to encourage governmental action if there is no resolution.

The Representatives and others may continue to encourage consumers and union members in Australia and elsewhere to ban or boycott the Company’s products and to demonstrate or otherwise create negative publicity toward the Company in order to influence the Company’s approach to discussions with the Representatives and to encourage governmental action if the discussions are unsuccessful. The Representatives and others might also take such actions in an effort to influence the Company’s shareholders, a significant number of which are located in Australia, to approve any proposed arrangement. Any such measures, and the influences resulting from them, could have a material adverse impact on the Company’s financial position, results of operations and cash flows.

Continued scrutiny resulting from ongoing investigations may have an adverse effect on our business.

We are currently subject to an investigation by ASIC into the circumstances surrounding the establishment of the Foundation and associated matters. We cannot predict when this investigation will be completed or what the results of this investigation will be. It is possible that we or our current or former directors and officers will be required to pay material fines, suffer other penalties or become liable to provide indemnification payments, each of which could have a material adverse effect on our business. The results of these or other investigations could materially and adversely affect our business, financial condition, results of operations or liquidity.

Our board of directors and senior management continue to devote significant attention to matters arising from and related to the Special Commission of Inquiry, including the negotiation of the Principal Agreement.

Since the establishment of the SCI, our board of directors, our senior management and others within our organization have devoted a significant amount of time and resources to investigating the allegations raised in the report of the SCI, to producing documents to and complying with requests from governmental and regulatory authorities and others, to seeking resolution of issues arising out of the SCI, to preparing and negotiating the Principal Agreement and to finalizing the NSW Government's review of legal and administrative costs. The board of directors' and management's focus on issues related to the SCI and the Principal Agreement may distract them from conducting the business of the Company, and this could adversely affect our results of operations.

Continuing negative publicity may continue to adversely affect our business.

As a result of the events that were considered by the SCI, we have been the subject of negative publicity, both in Australia and elsewhere in the world. We believe that this negative publicity has contributed to declines in the price of our publicly traded securities in 2004 and 2005, and that this publicity has resulted in increased regulatory scrutiny on us. We also believe that many of our employees are operating under stressful conditions, which may reduce morale and could lead to increased employee turnover. Continuing negative publicity could have a material adverse effect on our results of operations and liquidity and the market price of our publicly traded securities and create difficulties in attracting or retaining high caliber staff.

We may be liable for costs, penalties, fees or expenses incurred by current or former directors, officers or employees of the James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the James Hardie Group to those persons.

We may be liable for costs, penalties, fees or expenses incurred by current or former directors, officers or employees of James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the James Hardie Group to those persons. To date, with respect to the application of our indemnity obligations to proceedings of the SCI and other regulatory bodies, we have paid all legal fees and costs incurred on behalf of any current or past employee, officer or director who has been involved in any such proceeding. In addition, our indemnification obligations would generally cover costs incurred by a director or officer in responding to an ASIC investigation or any other investigation conducted by a governmental agency or a liquidator. We or a relevant subsidiary may be reimbursed under directors' and officers' insurance policies taken out by us or a relevant subsidiary. However, there is no guarantee that such insurance will cover the nature of such claims or will completely cover any claims that are covered. If such costs are not insured or substantially exceed the amount of the insurance that we maintain, our business, financial condition, results of operations and liquidity could be adversely affected.

Under the U.S.-Netherlands income tax treaty and Dutch tax law, we derive substantial tax benefits from the group finance operations of our Netherlands-based finance subsidiary, and changes in either the treaty or laws applicable to the finance subsidiary, including the recent changes to the tax treaty, could increase our effective tax rate and, as a result, reduce our future profits and cash flows.

On December 28, 2004, the United States and The Netherlands amended the U.S.-Netherlands Income Tax Treaty (prior to amendment, the "Original U.S.-NL Treaty; post amendment, the "New U.S.-NL Treaty"). We believe that, based on the transitional rules set forth in the New U.S.-NL Treaty, the Original U.S.-NL Treaty will apply to us and to our Dutch and U.S. subsidiaries until February 1, 2006. Under the Original U.S.-NL Treaty, a reduced 5% U.S. withholding tax applied to dividends, and no U.S. withholding tax applied to interest or royalties that our U.S. subsidiaries paid to JHI NV or our Dutch finance subsidiary. The Original U.S.-NL Treaty had various conditions of eligibility for reduced U.S. withholding tax rates (and other treaty benefits), all of which we satisfied. If, however, we do not qualify for the benefits under the New U.S.-NL Treaty, such dividend, interest and royalty payments would be subject to a 30% U.S. withholding tax.

Companies eligible for benefits under the New U.S.-NL Treaty qualify for a zero percent U.S. withholding tax rate on dividends. However, the New U.S.-NL Treaty has a number of new, more restrictive eligibility requirements for reduced U.S. withholding tax rates and other treaty benefits. We are in the process of changing our organizational and operational structure to satisfy the requirements of the New U.S.-NL Treaty. Accordingly, we are planning to take a number of reorganization actions to satisfy those requirements and thus remain eligible for benefits under the New U.S.-NL Treaty. However, we cannot guarantee that we can remain eligible for benefits under the New U.S.-NL Treaty, or obtain an equally favorable result. If we elect to request a formal ruling from the U.S. tax authorities regarding whether our proposed plan meets the requirements of the New U.S.-NL Treaty provisions, we cannot assure you that we will receive a favorable ruling from them. Furthermore, we may not receive a formal ruling at all. As a result, we cannot guarantee that we will continue to receive the treaty benefits. The loss of treaty benefits could significantly increase our effective tax rate in the future, which could have a material adverse impact on our financial condition, cash flows and results of operations.

We have previously concentrated our finance and treasury activities in our Dutch finance subsidiary located in The Netherlands. In addition to providing financing to our various subsidiaries, the finance subsidiary owns and develops intellectual property that it licenses to our operating subsidiaries. Under the Netherlands International Group Finance Company rules, we have obtained a ruling from the Dutch Revenue authority that allows the finance subsidiary to set aside, in a Financial Risk Reserve ("FRR"), a portion of its taxable profits from financing and from licensing its intellectual property. The amounts set aside in the FRR are free of current Dutch income tax. Consequently, the finance subsidiary will generally incur a tax rate of approximately 15% to 18% on its qualifying financing and licensing income and a 34.5% statutory rate on all other income (34.5% is the Dutch corporate income tax rate through December 31, 2004. For calendar year 2005, the Dutch corporate income tax rate is 31.5%), including any amounts involuntarily released from the FRR to cover any risks (including currency, bad debt and foreign branch losses) for which the FRR was established. The tax rate on qualifying income may be reduced to as low as approximately 7% to 10% depending on the extent to which amounts from the FRR pay for capital expenditures of our operating companies. The Dutch revenue ruling became effective on July 1, 2001 and, when issued, was to apply for 10 years so long as we satisfied the requirements of the International Group Finance Company provisions under Dutch tax law. As discussed below, the Dutch revenue ruling is set to expire on December 31, 2010.

Under the European Union Code of Conduct on Direct Business Taxation, member states of the European Union have agreed to eliminate harmful tax competition within the European Union. Accordingly, the EU Council of Economic and Finance Ministers, a working group of EU member countries, reviewed the tax regimes of all its member countries and identified certain tax concessions the Council considered as harmfully competitive and therefore in violation of the Code of Conduct. Among the identified tax concessions is the Netherlands International Group Finance Company regime. In December 2002, The Netherlands agreed to end its International Group Finance Company regime for new entrants.

In a separate but related development, the European Commission, the executive arm of the European Union, also reviewed the tax regimes of its member countries to identify tax concessions that the European Commission considered to be a form of "prohibited state aid" and, therefore, contrary to the provisions of the European Community Treaty. In February 2003, the Commission concluded that the existence of special tax concessions in certain countries, including the Netherlands International Group Finance Company regime, cannot be reconciled with EU rules regarding state aid. Accordingly, the European Commission banned certain concessionary tax regimes, including the Netherlands International Group Finance Company regime, but allowed companies then operating under that regime, including our Dutch finance subsidiary, to continue to operate under the regime until December 31, 2010. Some uncertainty exists whether, during this extended period of the International Group Finance Company regime, qualifying companies can continue to set aside profits in their FRR and defer any taxable recovery of profits from their FRR until the expiration date. Until December 31, 2010, and absent further legal developments, we intend to maintain and continue to add to the FRR of our Dutch finance subsidiary all allowable profits the subsidiary earns, and to fund capital expenditures of our operating companies with amounts from the FRR.

Although our Dutch finance subsidiary can continue to derive benefits under the Netherlands International Group Finance Company rules until December 31, 2010, we cannot guarantee that either the EU, or another relevant authority or legislative body, would not attempt to repeal the law earlier or that a court of competent jurisdiction would not invalidate it, possibly with retrospective effect.

Substantial and increasing competition in the building products industry could adversely affect our business.

Competition in the building products industry is based largely on price and, to a lesser extent, quality, performance and service. Our fiber cement products compete with products manufactured from natural and engineered wood, vinyl, stucco, masonry, gypsum and other materials as well as fiber cement products offered by other manufacturers. Some of our competitors may have greater financial and other resources than we do and, among other factors, may be less affected by reductions in margins resulting from price competition.

Some of our competitors have lowered prices of their products to compete for sales. In addition, we expect our competitors to continue to expand their manufacturing capacities, to improve the design and performance of their products and to introduce new products with competitive price and performance characteristics. Increased competition by existing or future competitors could adversely impact fiber cement prices and could require us to increase our investment in product development, productivity improvements and customer service and support to compete in our markets.

Fiber cement product prices in the United States, Australia and New Zealand have fluctuated for a number of years due to the entry into the market of new producers and competition from alternative products, among other reasons, and these prices could continue to fluctuate in the future. Because of the maturity of the Australian and New Zealand markets, we believe that prices in those markets may decline and that sales volumes may not increase significantly or may decline in the future. Historically, increased sales volumes of our U.S. fiber cement products, the addition of proprietary products to our product mix and improved operating efficiencies have more than offset the decrease in pricing for such products in the United States. However, there may be future price decreases and we may not be able to offset such decreases with increased volume, new products or improved operating efficiencies. For instance, unanticipated technical problems could impair our efforts to commission new equipment aimed at improving operating efficiencies. Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

If damages resulting from product defects exceed our insurance coverage, paying these damages could result in a material adverse effect on our business, results of operations and financial condition.

The actual or alleged existence of defects in any of our products could subject us to significant product liability claims. Although we do not have replacement insurance coverage for damages to, or defects in, our products, we do have product liability insurance coverage for consequential damages that may arise from the use of our products. Although we believe this coverage is adequate and currently intend to maintain this

coverage in the future, we cannot assure you that this coverage will be sufficient to cover all future product liability claims or that this coverage will be available at reasonable rates in the future. The successful assertion of one or more claims against us that exceed our insurance coverage could require us to incur significant expenses to pay these damages. These additional expenses could have a material adverse effect on our business, results of operations and financial condition.

If one or more of our fiber cement products fail to perform as expected or contain a design defect, such failure or defect, and any resulting negative publicity, could result in lower sales and may subject us to claims from purchasers or users of our fiber cement products.

Because our fiber cement products have been used only since the early 1980s, we cannot assure you that these products will perform in accordance with our expectations over an extended period of time or that there are no serious design defects in such products. If our fiber cement technology fails to perform as expected or a product is discovered to have design defects, such failure or defects, and any resulting negative publicity, could result in lower sales of our products and may subject us to claims from purchasers or users of defective products, either of which could have a material adverse effect on our business, results of operations and financial condition.

Warranty claims resulting from unforeseen defects in our products and exceeding our warranty reserves could have a material adverse effect on our business, results of operations and financial condition.

We have offered, and continue to offer, various warranties on our products, including a 50-year limited warranty on certain of our fiber cement siding products in the United States. Although we maintain reserves for warranty-related claims and legal proceedings that we believe are adequate, we cannot assure you that warranty expense levels or the results of any warranty-related legal proceedings will not exceed our reserves. If our warranty reserves are significantly exceeded, the costs associated with such warranties could have a material adverse effect on our business, results of operation and financial condition.

We may incur significant costs in the future in complying with applicable environmental and health and safety laws and regulations. A failure to comply with or a change in these laws and regulations could subject us to significant liabilities, including, but not limited to, damages and penalties.

We are subject to U.S. federal, state and local and foreign environmental and health and safety laws and regulations governing, among other matters, our operations and the use, handling, disposal and remediation of hazardous substances currently or formerly used by us or any of our affiliates. Under these laws and regulations, we may be held jointly and severally responsible for the remediation of any hazardous substance contamination at our or our predecessors' past or present facilities and at third-party waste disposal sites. We may also be held liable for any claims arising out of human exposure to hazardous substances or other environmental damage. We will continue to be liable for any environmental problems that occurred while we owned or operated any of the three gypsum facilities that we sold in April 2002. See Item 4, "Information on the Company — Capital Expenditures and Divestitures — Divestitures."

In addition, many of our products contain crystalline silica, which can be released in a respirable form in connection with manufacturing practices and handling or use. The inhalation of respirable crystalline silica at certain exposure levels is known or suspected to be associated with silicosis, potentially causing lung cancer and other adverse human health effects. We may face future costs of engineering and compliance to meet new standards relating to crystalline silica if standards are made more stringent. In addition, there is a risk that claims for silica-related disease could be made against us. We cannot assure you that we will have adequate resources, including adequate insurance coverage, to satisfy any future silica-related disease claims or that there will not be adverse business consequences in the distribution, end user or other markets. Any such claims may have a material adverse effect on our financial condition. See also Risk Factor above captioned "If damages resulting from product defects exceed our insurance coverage, paying these damages could result in a material adverse effect on our business, results of operations and financial condition."

The costs of complying with environmental and health and safety laws relating to our operations or the liabilities arising from past or future releases of, or exposure to, hazardous substances or product liability matters may result in us making future expenditures that could have a material adverse effect on our business, results of operations or financial condition. In addition, we cannot make any assurances that the laws currently in place will not change. Also, if applicable laws or judicial interpretations related to successor liability or "piercing the corporate veil" were to change, it could have a material adverse effect on our business, results of operations and financial condition. See Item 4, "Information on the Company — Legal Proceedings."

Our business is dependent on the residential and commercial construction markets.

Demand for our products depends in large part on residential construction markets and, to a lesser extent, on commercial construction markets. The level of activity in residential construction markets depends on new housing starts and residential remodeling projects, which are a function of many factors not within our control, including general economic conditions, mortgage and other interest rates, inflation, unemployment, demographic trends, gross domestic product growth and consumer confidence in each of the countries and regions in which we operate. In addition, the level of activity in construction markets also depends on our ability to grow primary demand for fiber cement and convert sales of alternative materials to sales of fiber cement. Historically, in periods of economic decline, both new housing starts and residential remodeling also decline. The level of activity in the commercial construction market depends largely on vacancy rates and general economic conditions. Because residential and commercial construction markets are sensitive to cyclical changes in the economy, downturns in the economy or a lack of substantial improvement in the economy of any of our geographic markets could negatively affect operating results. Because of these and other factors, our operating results may be subject to substantial fluctuations and the results for any prior period may not be indicative of results for any future period.

Because demand for our products in our major markets is seasonal, our quarterly results of operations may vary throughout the year.

In the United States, a large proportion of our fiber cement products are sold in three regions: the Southeast, the Southcentral and the Pacific Northwest. Demand for building products in these regions is seasonal because construction activity diminishes during the winter season. In Australia, New Zealand and the Philippines, demand for building products is also seasonal because, in Australia and New Zealand, construction activity diminishes during the summer period of December to February, and in the Philippines, construction activity diminishes during the wet season from June to September and the last half of December due to the slowdown in business activity over the holiday period. We commenced production of fiber cement products in Chile in early 2001, where markets also experience decreased seasonal construction activity from May through September.

We may experience adverse fluctuations in the supply and cost of raw materials necessary to our business. A significant reduction or cessation of shipments from an important supplier could adversely affect our business if we are unable to secure alternative supplies within a short time or on reasonable terms.

Our fiber cement business periodically experiences fluctuations in the supply and costs of raw materials, and some of our supply markets are concentrated. Cellulose fiber, silica, cement and water are the principal raw materials used in the production of fiber cement. Cellulose fiber has been subject to significant price fluctuations. Although we have not recently experienced any shortages of raw materials that have materially affected our operations, price fluctuations or material delays may occur in the future due to lack of raw materials or suppliers. The loss or deterioration of our relationship with a major supplier, an increase in demand by third parties for a particular supplier's products or materials or delays in obtaining materials could have a material adverse effect on our business, results of operations and financial condition.

If our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall, which would have an adverse effect on our results of operations and financial condition.

We invest significantly in research and development because we believe that such efforts are key to sustaining and growing our existing market leadership position in fiber cement. Because profit margins for fiber cement products and building products generally erode the longer a product has been on the market, innovation is particularly important. We rely on our research and development efforts to generate new products and processes to increase demand and to protect profit margins. If our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall, which would have an adverse effect on our results of operations and financial condition.

Demand for our products is subject to changes in consumer preference.

The continued development of builder and consumer preference for our fiber cement products over competitive products is critical to sustaining and expanding demand for our products. Therefore, the failure to maintain and increase builder and consumer acceptance of our fiber cement products could have a material adverse effect on our growth strategy as well as our business, results of operations and financial condition.

We rely on only a few distributors to distribute our fiber cement products and the loss of any distributor could adversely affect our business.

Our top two distributors in the United States represented approximately 45% of our total U.S. fiber cement net sales in fiscal year 2005. In addition, a large home center retailer accounted for approximately 15% of our total U.S. fiber cement net sales in fiscal year 2005. Our top two distributors in Australia and our top four distributors in New Zealand accounted for approximately 20% and 95% of our total net sales of fiber cement in Australia and New Zealand, respectively, in fiscal year 2005. We generally do not have long-term contracts with our large distributors. Accordingly, if we were to lose one or more of these distributors because our competitors were able to offer distributors more favorable pricing terms or for any other reasons, we may not be able to replace distributors in a timely manner or on reasonable terms. The loss of one or more distributors could have a material adverse effect on our business, results of operations and financial condition.

Changes in, or failure to comply with, the laws, regulations, policies or conditions of any jurisdiction in which we conduct our business could result in, among other consequences, the loss of our assets in such jurisdiction, the elimination of certain rights that are critical to the operation of our business in such jurisdiction, a decrease in revenues or the imposition of additional taxes or other costs.

Because we own assets, manufacture and sell our products internationally, our activities are subject to political, economic, legal and other uncertainties, including:

- changing political and economic conditions;
- changing laws and policies;
- the general hazards associated with the assertion of sovereign rights over certain areas in which we conduct our business; and
- laws limiting or conditioning the right and ability of subsidiaries and joint ventures to pay dividends or remit earnings to affiliated companies.

Although we seek to take applicable laws, regulations and conditions into account in structuring our business on a global basis, changes in, or our failure to comply with, the laws, regulations, policies or conditions of any jurisdiction in which we conduct our business could result in, among other consequences, the loss of our assets in such jurisdiction, the elimination of certain rights that are critical to the operation of our business in such jurisdiction, a decrease in revenues or the imposition of additional taxes. Therefore, any

change in laws, regulations, policies or conditions of a jurisdiction could have a material adverse effect on our business, results of operations and financial condition.

Our reliance on intellectual property and other proprietary information subjects us to the risk that competitors could copy our products or processes.

Our success depends, in part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. To the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain necessary legal protection. Also, the laws of some foreign countries may not protect our intellectual property to the same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. We rely on employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which could harm our operating results and competitive position.

We rely on a continuous power supply and availability of utilities to conduct our operations, and any shortages or interruptions could disrupt our operations and increase our expenses.

In the manufacture of our products, we rely on a continuous and uninterrupted supply of electric power, water and natural gas as well as the availability of water, waste and emissions discharge facilities. Any future shortages or discharge curtailments could significantly disrupt our operations and increase our expenses. We currently do not have backup generators to maintain power and do not have alternate sources of power in the event of a blackout. In addition, our current insurance does not provide coverage for any damages that we or our customers may suffer as a result of any interruption in our power supply. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at the affected facilities. Any future interruption in our ability to continue operations at our facilities could damage our reputation, harm our ability to retain existing customers or obtain new customers and could result in lost revenue, any of which could have a material adverse effect on our business, results of operations and financial condition.

Because we have significant operations outside of the United States and report our earnings in U.S. dollars, unfavorable fluctuations in currency values and exchange rates could have a significant negative impact on our earnings.

Because our reporting currency is the U.S. dollar, our non-U.S. operations face the additional risk of fluctuating currency values and exchange rates. Such operations may also face hard currency shortages and controls on currency exchange. Approximately 21% and 24% of our net sales in fiscal years 2005 and 2004, respectively, were derived from sales outside the United States. Consequently, changes in the value of foreign currencies (principally Australian dollars, New Zealand dollars, Philippine pesos, Chilean pesos, Euros, U.K. pounds and Canadian dollars) could significantly affect our business, results of operations and financial condition. We generally attempt to mitigate foreign exchange risk by entering, where possible, into contracts that require payment in U.S. dollars instead of the local currency, hedging transactional risk, where appropriate, and having non-U.S. operations borrow in local currencies, particularly the Philippines and Chile. Although we did not have any material interest rate swaps or forward exchange contracts outstanding as of March 31, 2005, we may enter into such financial instruments from time to time to manage our market risks. There can be no assurance that we will be successful in these mitigation strategies, or that fluctuations in foreign currencies and other foreign exchange risks will not have a material adverse effect on our business, results of operations and financial condition.

Information technology systems integration issues could disrupt our internal operations, which could have significant adverse effects on our profitability.

Beginning in fiscal year 2006, we expect to commence implementation of a new enterprise resource planning (“ERP”) software system. Our ongoing systems integration work could cause portions of our

information technology infrastructure to experience interruptions, delays or cessations of service and produce system errors. We may not be successful in timely implementing these new systems, and transitioning data and other aspects of the process could be expensive, time consuming and disruptive. Any disruptions that may occur in the implementation of this new system could adversely affect our ability to accurately and timely report the financial results of our operations and otherwise efficiently operate our business, which could have a significant adverse effect on our profitability.

Our Articles of Association and Dutch law contain provisions that could delay or prevent a change of control that may otherwise be beneficial to you.

Our Articles of Association contain several provisions that could have the effect of delaying or preventing a change of control of our ownership. Our Articles of Association generally prohibit the holding of shares of our common stock if, because of an acquisition of a relevant interest (including interests held in the form of shares of our common stock, CUFS or ADRs) in such shares, a party's relevant interest in our common stock or voting rights increases from 20% or below to over 20% or from a starting point that is above 20% and below 90%. However, this prohibition is subject to exceptions, including acquisitions that result from acceptance under a takeover bid as described in our Articles of Association. Although these provisions in our Articles of Association may help to ensure that no person acquires voting control of us without making an offer to all shareholders, these provisions may also have the effect of delaying or preventing a change of control that may otherwise be beneficial to you. See Item 10, "Additional Information — Key Provisions of our Articles of Association — Limitations on Right to Hold Common Stock."

Because we are incorporated under Dutch laws, you may not be able to effectively seek legal recourse against us or our management and you may have difficulty enforcing any U.S. judgments or rulings in a foreign jurisdiction.

We are incorporated under the laws of The Netherlands. In addition, many of our directors and executive officers are residents of jurisdictions outside the United States and a substantial portion of our assets are located outside the United States. As a result, it may be difficult to effect service of process within the United States upon such persons, or to enforce outside the United States judgments obtained against such persons in U.S. courts, or to enforce in U.S. courts any judgments obtained against such persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts located in jurisdictions outside the United States, rights predicated upon the U.S. securities laws.

The rights of shareholders and the responsibilities of directors under the laws of The Netherlands may not be as clearly established as under statutes or judicial precedent in existence in certain U.S. jurisdictions, and such rights under the laws of The Netherlands may differ substantially from what those rights would be under the laws of various jurisdictions in the United States.. Therefore, our shareholders may have more difficulty in challenging the actions by our directors than they would otherwise as shareholders of a corporation incorporated in the United States.

The issuance of shares of common stock or the grant of options to acquire shares of common stock could dilute the value of your shares and adversely affect the price of our common stock.

Because the authority to issue shares, and to grant rights to subscribe for shares, such as options, up to the amount of our authorized share capital, has been delegated to our Supervisory Board, the issuance of such shares or rights could dilute the value of your shares and adversely affect the price of our common stock.

In addition, if we issue a large number of our equity securities, the trading price of our equity securities could decrease. We may pursue acquisitions of businesses and may issue equity securities in connection with these acquisitions, although we do not currently have specific acquisitions planned. We may also issue equity securities to satisfy other liabilities of the Company. We cannot predict the effect, if any, that future sales or issuances of our equity securities or the availability of such securities for future sale will have on our securities market price from time to time.

If we experience labor disputes or interruptions, as we have from time to time in the past, our operations may be disrupted and our business, financial condition and results of operations may be adversely affected.

Approximately 52% of our employees in Australia and 64% of our employees in New Zealand are currently represented by labor unions. Our unionized employees are covered by a range of federal and state-based agreements in Australia and New Zealand. Our Australian and New Zealand agreements expire at various times beginning September 2005. We cannot assure you that the agreements will be renewed on reasonable terms, or at all. During the past three years, we experienced occasional strikes and work interruptions lasting up to two days in Australia. In the event we experience a prolonged labor dispute at any of our facilities, any strikes or work interruptions associated with such dispute could have a material adverse effect on our business, financial condition and results of operations.

Our effective income tax rate could increase and adversely affect our operating results.

We operate in multiple jurisdictions and pay tax on our income according to the tax laws of these jurisdictions. Various factors, some of which are beyond our control, determine our effective tax rate, including changes in or interpretations of tax laws in any given jurisdiction, our ability to use net operating losses and tax credit carry forwards and other tax attributes, changes in geographical allocation of income and expense, and our judgment about the realizability of deferred tax assets.

If we are classified as a "controlled foreign corporation" or a "passive foreign investment company," our shareholders could be subject to increased tax liability as a consequence of their investment in our securities.

Our U.S. citizen and resident shareholders could incur adverse U.S. federal income tax consequences if, for federal income tax purposes, we are classified as a "controlled foreign corporation" or a "passive foreign investment company." For information regarding these consequences, see Item 10, "Additional Information — Taxation — United States Taxation." In addition, shareholders could be adversely affected by changes in the current tax laws, regulations and interpretations thereof in the United States and The Netherlands, including changes that could have retroactive effect.

We may acquire or divest businesses from time to time, and this may adversely affect our operating results and financial condition and may significantly change the nature of the company in which you have invested.

In the past, we have divested business segments. In the future, we may acquire other businesses or sell some or all of our assets or business segments. Any significant acquisition or sale may adversely affect our operating results and financial condition and could change the overall profile of our business. As a result, the value of our shares may decrease in response to any such acquisition or sale and, upon any such acquisition or sale, our shares may represent an investment in a company with significantly different assets and prospects from the Company when you made your initial investment in us.

Our current Chief Executive Officer and Chief Financial Officer were appointed in October 2004 after the resignations of our former Chief Executive Officer and Chief Financial Officer.

Although our current Chief Executive Officer has been employed by us for 14 years, he has been serving as our CEO for less than one year. Our Chief Financial Officer has also been with us for less than one year. Because of the unscheduled nature of the departure of our former CEO and CFO, and the essentially concurrent appointment of our current CEO and CFO, there was little time available to smoothly transition over to the current CEO and CFO. Accordingly, it may take time for our new CEO and CFO to effectively transition into their new roles and to develop effective working relationships with our board of directors, employees, shareholders and others. We cannot assure you that this restructuring of our senior management will not adversely affect our results of operations or otherwise adversely affect us.