

ANNEXURE P1

This is a copy of Exhibit 7, Volume 1, Tab 16

(F)

To be
Revised
—

13 February 2001

Mr Roy Williams
Allen Allen & Hemsley
The Chifley Tower
2 Chifley Square
Sydney NSW 2000

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Dear Roy

James Hardie Industries Limited – Asbestos Litigation

We refer to your letter dated 30 January 2001 on the above subject. You have asked us to revisit the claim number assumptions that we adopted for our draft advice on the future cost of asbestos-related disease claims in view of recent work that Trowbridge Consulting have carried out to estimate the impact of such claims on the insurance industry.

In setting the assumptions for the draft advice, we examined a considerable amount of the research conducted on the likely emergence of claims Australia-wide as well as some international material in order to establish the parameters of our model. In particular we considered the observations from the research paper "Recent Trends in Asbestos-Related Diseases" by Atkins, Smith and Watson that was presented to the Institute of Actuaries' 6th Accident Compensation Seminar in December 1996, together with the observations of the authors regarding the apparent trends since that paper was written.

Trowbridge is currently in the process of finalising a paper which discusses our recent review of trends in asbestos-related disease claims. This review shows that the number of new mesothelioma claims during the 1990's has been worse than even the high end of projections from earlier papers. Evidence also suggests that the tail of claims being reported may be longer than previously thought. Some sources have even suggested that claims will continue to be reported as late as 2050.

We have supplemented the results of the review, which concentrated mainly on mesothelioma experience, with other information on the likely future pattern of non-mesothelioma claims.

Based on all of the information available we would make the following observations in relation to the likely future experience of asbestos-related claim lodgements against Hardie group companies:


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- mesothelioma claim reports are likely to continue to be reported well past the last date assumed for our original advice;
- mesothelioma claim number reports are likely to be made at a higher rate than assumed for our previous advice;
- mesothelioma claim number reports Australia-wide may increase over the next 5 to 10 years before dropping off;
- asbestosis related claims are expected to drop off pretty quickly over the next ten years and then continue at a low level thereafter;
- lung cancer claim reports are expected to dry up about 5 to 10 years earlier than mesothelioma claims;
- there appears to be increasing pressure to compensate lung cancer sufferers based on exposure to asbestos rather than on evidence of asbestosis. A change in lung cancer criteria away from the Hans Weill theory, which requires lung cancer to be accompanied by asbestosis or a level of asbestos build up in the lung commensurate with asbestosis before a claim will be accepted, would raise the potential of significantly higher future claim numbers;
- pleural plaque claims are expected to be reported until later than mesothelioma claims.

With these observations in mind, we have constructed two further projections of claim numbers. These are described in detail below.

(i) Best Estimate Basis

For mesothelioma claims we have assumed that claim numbers will follow the Berry Medium pattern proposed by the draft Trowbridge paper. This assumes that claim numbers will increase slightly over the next two years and then fall away gradually until 2040.

For non-mesothelioma claims we have assumed that claims will continue to be reported until 2035. We have allowed for the fact that the bulk (about 75%) of the non-mesothelioma claims reported to Hardies each year relate to asbestosis and that asbestosis claim numbers are expected to reduce quite rapidly. This projection gives claim numbers less than our original projection up to 2018 and greater thereafter.

(ii) High Basis

For mesothelioma claims we have assumed that claim numbers will follow the Berry High pattern proposed by the draft Trowbridge paper. This assumes that


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claim numbers will increase over the next six years and then fall way gradually until 2040.

For non-mesothelioma claims we have assumed that claim numbers will follow the Berry Medium pattern proposed by the draft Trowbridge paper. This assumes that claim numbers will increase slightly over the next two years and then fall way gradually until 2040. This is a conservative approach considering that the bulk of Hardie's non-mesothelioma claims relate to asbestosis. However, in view of the potential for considerable increases in lung cancer claims, this basis is not unreasonable as a high basis.

For workers' compensation claims we have maintained the current basis due to lack of materiality.

The attached appendices provide the following information:

- Appendix A shows the projected cashflows over the period to 2020 for mesothelioma claims, non-mesothelioma claims and total claims (including workers' compensation claims) both gross and net of reinsurance recoveries. Three claim number projection scenarios are shown – current, best estimate and high. The cashflows are based on average claim sizes for mesothelioma and non-mesothelioma claims as assumed in our earlier work: we have not detected any trends that need to be built into the average cost assumptions.
- Appendix B illustrates these cashflows graphically.
- Appendix C gives the net present value of the cashflows over the next 10, 15 and 20 years based on discount rates of 7%, 8% and 9%.
- Appendix D illustrates the claim numbers projected for mesothelioma and non-mesothelioma claims for the three projection scenarios.

Reliances and Limitations

This letter has been prepared for the use of Mr Roy Williams, Solicitor of Allen Allen & Hemsley. No part of the content may be disclosed to any other party, referred to or cited in any material without our prior written consent.

While due care has been taken in preparation of the review Trowbridge Consulting accepts no responsibility for any action which may be taken based on its contents. The nature of the problem is such that experience could vary considerably from our estimates. Variations are normal and are to be expected.

The projections of future asbestos-related disease cases are based on epidemiological work that is subject to inherent uncertainty. In addition, the behaviour of potential claimants (the propensity to sue) is uncertain and the potential exposure will be heavily


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influenced by legal decisions that are impossible to predict. Our estimates are based on a continuation of the current environment regarding legal principles and settlement practices.

We have relied on the information supplied previously by Hardies for our investigations.

If you have any questions or need any clarification about the advice contained in this letter please contact Karl Marshall on (02) 9324 9154 or David Minty on (02) 9324 9047.

Yours sincerely,

David Minty

Karl Marshall

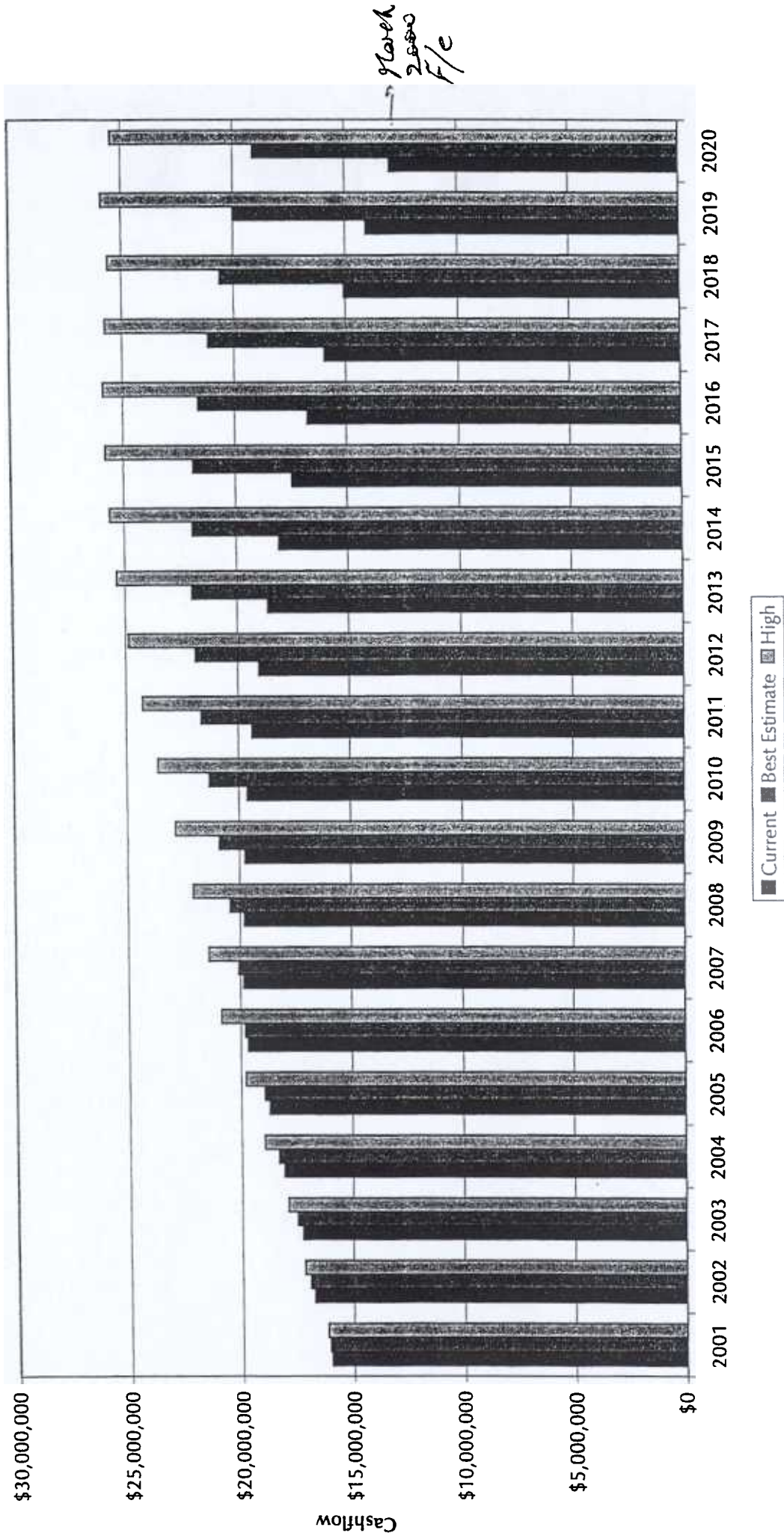
Cashflows on 3 bases for claim numbers

Year	Meso - gross		Non-meso - gross		Total - gross		Recoveries - meso		Recoveries - non-meso		Current
	Current	Best Estimate High	Current	Best Estimate High	Current	Best Estimate High	Current	Best Estimate High	Current	Best Estimate High	
2001	18,255,970	18,342,785	6,275,884	6,251,212	25,372,555	25,484,474	2,274,425	2,285,386	781,883	778,858	15,981,544
2002	19,147,326	19,338,361	5,901,946	5,821,047	25,974,769	26,269,756	2,387,325	2,411,559	735,866	724,900	16,760,001
2003	19,726,720	19,985,453	6,146,023	6,016,743	26,735,713	27,241,687	2,459,382	2,492,227	766,241	750,300	17,267,338
2004	20,663,449	20,944,732	6,428,144	6,351,214	27,962,213	28,702,203	2,576,194	2,611,804	801,422	788,399	18,087,255
2005	21,378,607	21,627,656	6,932,255	6,897,532	29,243,567	30,236,423	2,664,580	2,695,937	864,020	859,793	18,714,026
2006	22,459,480	22,606,566	7,281,982	7,288,593	30,560,711	31,880,121	2,799,300	2,817,744	907,610	908,470	19,660,180
2007	22,671,933	22,920,701	7,417,462	7,416,753	30,936,739	32,682,158	2,825,598	2,856,826	924,437	924,421	19,846,334
2008	22,629,290	23,351,143	7,618,842	7,584,020	31,559,726	33,810,647	2,819,704	2,910,399	949,339	945,244	19,809,586
2009	22,554,736	23,886,786	7,877,781	7,772,360	32,307,693	35,126,284	2,809,661	2,977,121	981,341	968,705	19,745,075
2010	22,402,323	24,361,205	7,934,486	7,719,980	32,752,182	36,197,730	2,790,387	3,036,816	988,303	962,356	19,611,936
2011	22,135,157	24,736,622	7,975,883	7,616,119	33,044,398	37,188,731	2,756,757	3,084,233	993,333	949,600	19,378,400
2012	21,753,469	25,000,409	7,981,587	7,451,326	33,161,979	38,055,999	2,709,103	3,117,815	993,908	929,239	19,046,366
2013	21,266,852	25,138,926	7,912,798	7,222,951	33,088,329	38,782,244	2,647,977	3,135,861	985,238	901,000	18,618,876
2014	20,666,952	25,063,159	7,748,124	6,928,457	32,729,573	39,177,669	2,573,134	3,127,203	964,678	864,484	18,093,818
2015	19,953,927	25,008,940	7,487,663	6,561,483	32,315,961	39,418,503	2,484,341	3,121,482	932,243	818,969	17,469,586
2016	19,134,618	24,718,911	7,154,794	6,182,951	31,651,701	39,512,959	2,382,399	3,086,198	890,824	771,952	16,752,220
2017	18,217,839	24,190,892	6,733,845	5,810,846	30,751,016	39,326,906	2,268,451	3,021,014	838,486	725,672	15,949,388
2018	17,197,102	23,557,634	6,213,296	5,434,786	29,738,020	39,013,768	2,141,718	2,942,633	773,801	678,870	15,055,383
2019	16,065,557	22,849,333	5,618,296	5,042,553	28,630,767	38,565,432	2,001,281	2,854,885	699,869	630,036	14,064,276
2020	14,815,973	21,804,752	4,939,568	4,634,383	27,167,389	37,807,709	1,846,262	2,724,945	615,534	579,160	12,969,711

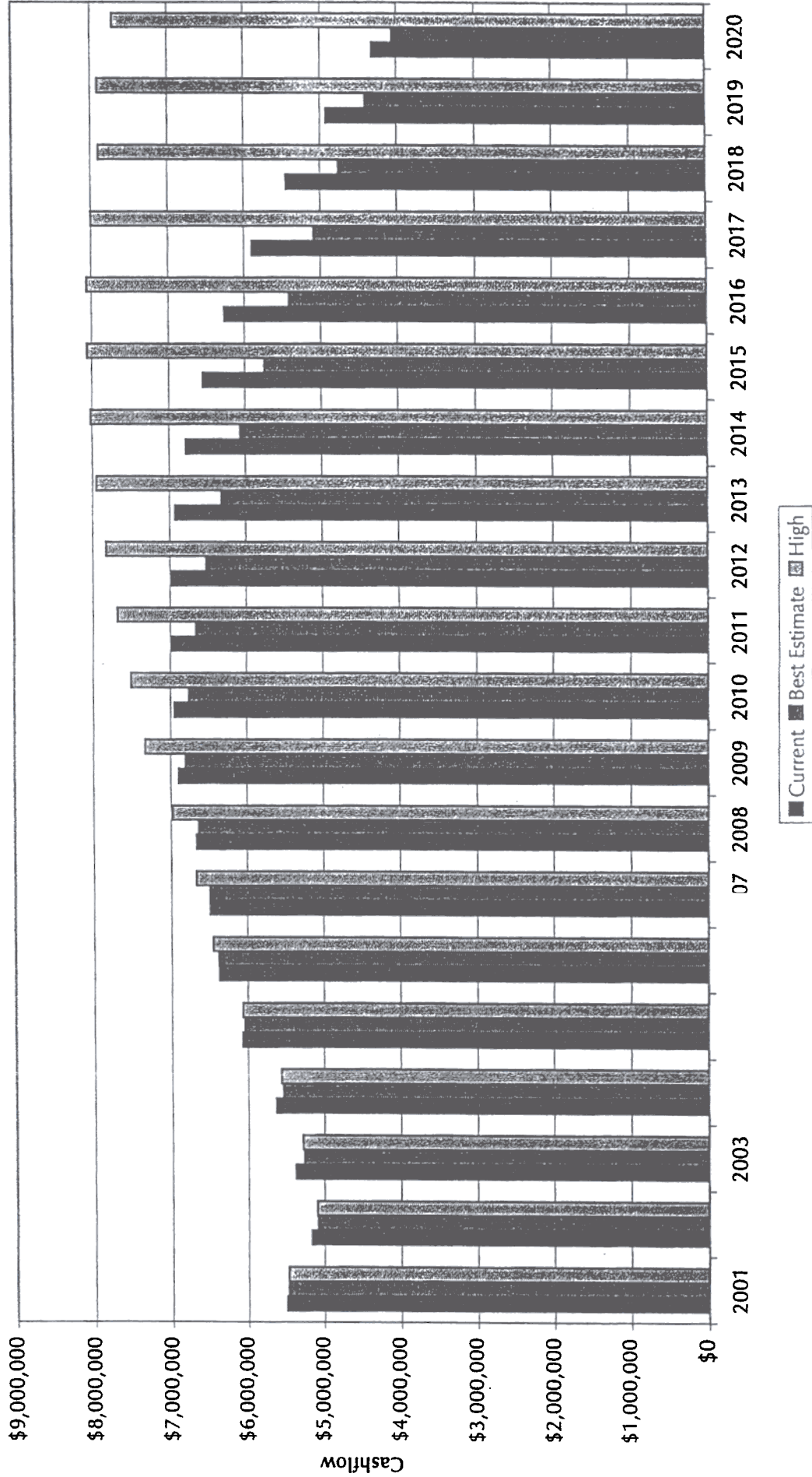


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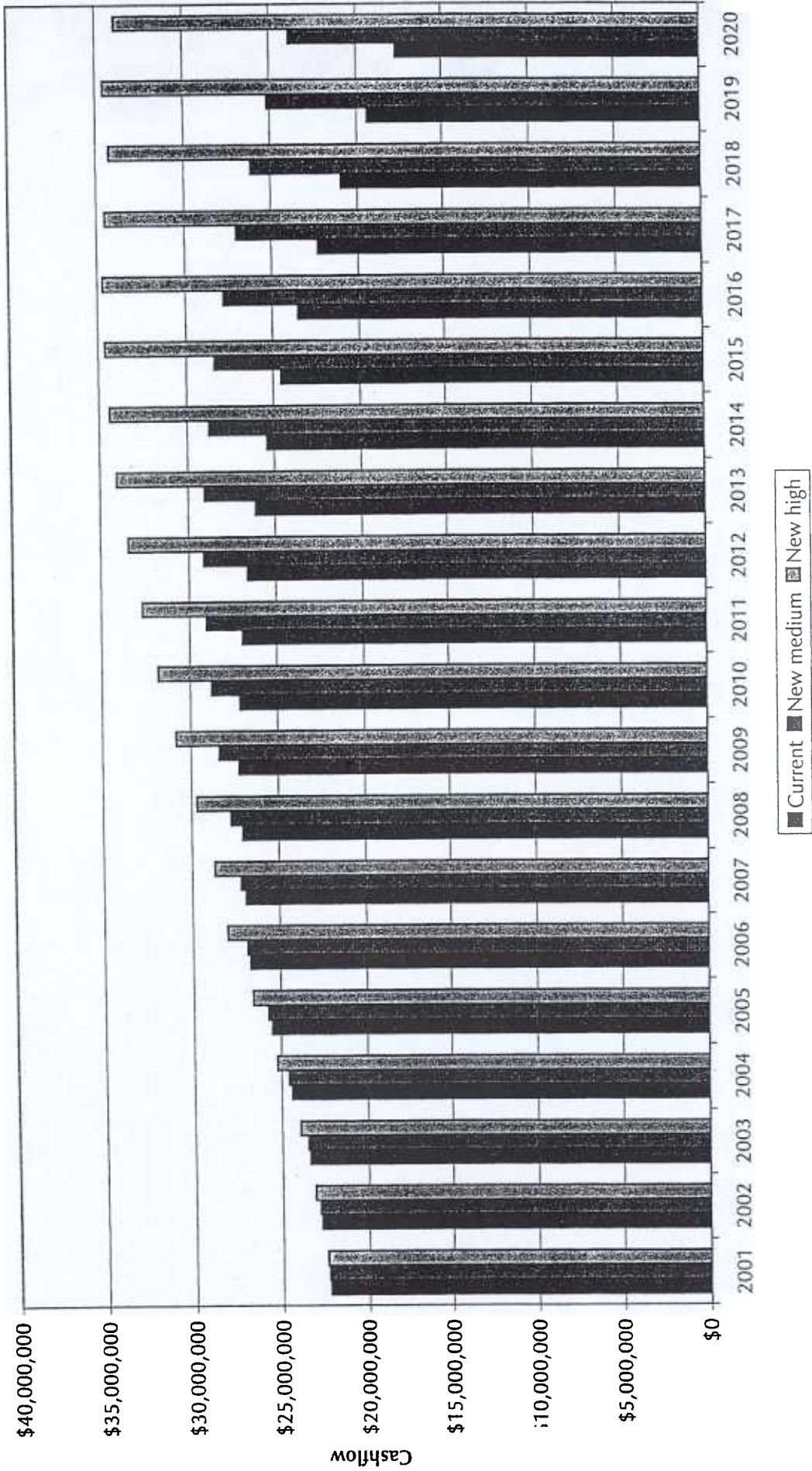
Projected undiscounted net cashflows to 30 June 2020 - mesothelioma general liability claims



Projected undiscounted net cashflows to 30 June 2020 - ■ non-mesothelioma general liability claims



Projected undiscounted net cashflows to 30 June 2020 - Total claims



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Discounted asbestos liabilities over next 10, 15 and 20 years

Discount Rate	Net meso - general liability			Net non-meso - general liability			Total - net (inc WC)		
	Current	Medium	High	Current	Medium	High	Current	Medium	High
7%									
10 years	132,932,258	135,865,969	142,538,871	43,561,565	43,112,455	44,230,141	181,398,631	184,111,303	191,901,891
15 years	173,003,570	183,007,751	196,721,279	58,355,034	56,683,414	61,250,481	237,442,862	246,377,538	264,658,133
20 years	196,193,528	214,648,266	236,265,370	66,707,768	64,046,202	73,434,298	269,678,188	286,523,135	317,528,334

Undiscounted asbestos liabilities over next 10, 15 and 20 years

Period	Net meso - general liability			Net non-meso - general liability			Total - net (inc WC)		
	Current	Medium	High	Current	Medium	High	Current	Medium	High
10 years	211,889,833	217,365,387	229,374,642	69,814,806	69,082,562	71,298,922	288,296,642	293,405,868	307,631,484
15 years	317,668,190	342,313,443	373,220,565	108,920,861	104,862,897	116,464,296	435,906,966	457,746,109	500,254,629
20 years	403,099,279	459,434,965	518,891,553	139,580,660	131,968,416	161,308,230	554,233,398	605,685,002	694,481,404

James Hardies Industries Limited

Discounted asbestos liabilities over next 10,15 and 20 years

Discount Rate	8%			Net non-meso - general liability			Total - net (inc WC)		
	Current	Medium	High	Current	Medium	High	Current	Medium	High
10 years	127,345,943	130,099,011	136,382,055	41,703,023	42,313,031	43,771,490	173,771,921	177,349,134	185,090,637
15 years	163,083,148	172,129,731	184,673,187	54,893,861	57,484,116	60,781,009	223,751,837	235,935,270	251,775,618
20 years	182,838,424	199,122,779	218,375,550	62,012,930	67,797,168	73,240,311	251,216,169	274,213,482	298,909,398

Undiscounted asbestos liabilities over next 10,15 and 20 years

Period	Net meso - general liability			Net non-meso - general liability			Total - net (inc WC)		
	Current	Medium	High	Current	Medium	High	Current	Medium	High
10 years	211,889,833	217,365,387	229,374,642	69,814,806	71,298,922	74,164,314	288,296,642	295,622,229	310,496,876
15 years	317,668,190	342,313,443	373,220,565	108,920,861	116,464,296	124,902,475	435,906,966	469,347,507	508,692,808
20 years	403,099,279	459,434,965	518,891,553	139,580,660	161,308,230	178,827,688	554,233,398	635,024,815	712,000,862



James Hardies Industries Limited

Discounted asbestos liabilities over next 10, 15 and 20 years

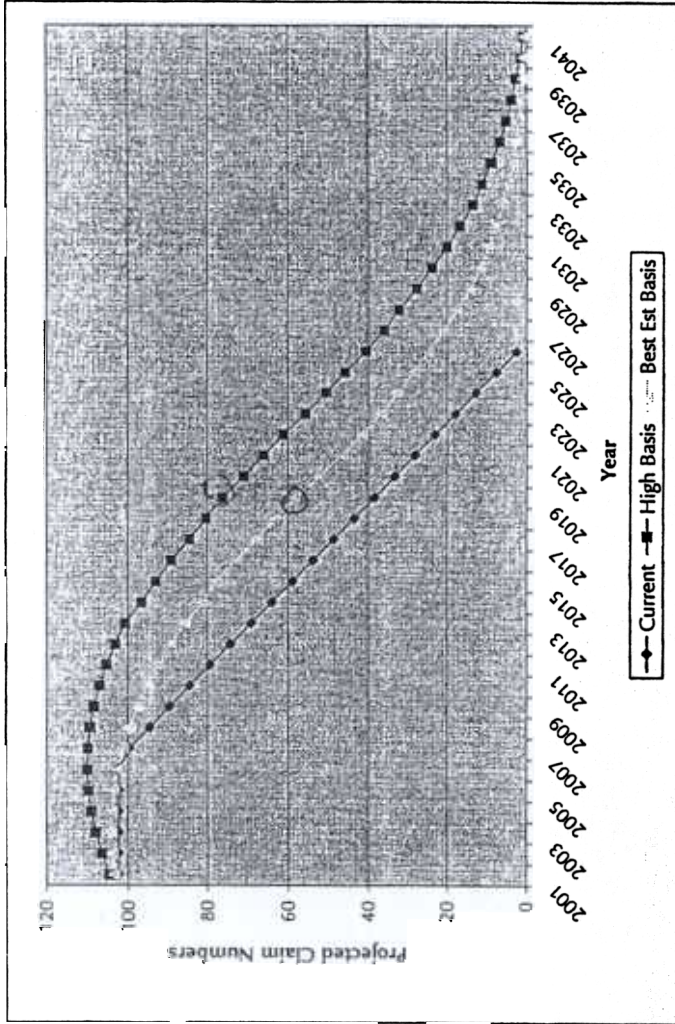
Discount Rate	9%			Net meso - general liability			Net non-meso - general liability			Total - net (inc WC)			
	Period	Current	Medium	High	Current	Medium	High	Current	Medium	High	Current	Medium	High
10 years	122,125,448	124,709,226	130,630,170	130,630,170	39,967,761	40,522,305	41,891,752	166,645,651	169,985,245	177,275,637	169,985,245	169,985,245	177,275,637
15 years	154,036,315	162,220,522	173,718,556	173,718,556	51,743,995	54,059,769	57,066,174	211,271,997	222,269,113	236,773,551	222,269,113	222,269,113	236,773,551
20 years	170,893,290	185,239,178	202,445,167	202,445,167	57,821,535	62,852,054	67,684,154	234,709,891	254,908,712	276,946,800	254,908,712	254,908,712	276,946,800

Undiscounted asbestos liabilities over next 10, 15 and 20 years

Period	Net meso - general liability			Net non-meso - general liability			Total - net (inc WC)		
	Current	Medium	High	Current	Medium	High	Current	Medium	High
10 years	211,889,833	217,365,387	229,374,642	69,814,806	71,298,922	74,164,314	288,296,642	295,622,229	310,496,876
15 years	317,668,190	342,313,443	373,220,565	108,920,861	116,464,296	124,902,475	435,906,966	469,347,507	508,692,808
20 years	403,099,279	459,434,965	518,891,553	139,580,660	161,308,230	178,827,688	554,233,398	635,024,815	712,000,862

Projected meso numbers

Year	Current	Estimate B	High Basis
2001	102	103	105
2002	102	104	106
2003	102	104	108
2004	102	104	109
2005	102	103	110
2006	102	103	110
2007	100	101	110
2008	95	100	109
2009	90	98	108
2010	84	95	107
2011	79	92	105
2012	74	89	103
2013	69	86	101
2014	64	81	97
2015	59	78	93
2016	54	73	89
2017	49	68	84
2018	43	63	80
2019	38	58	76
2020	33	52	71
2021	28	47	66
2022	23	41	61
2023	18	37	56
2024	13	32	50
2025	8	28	46
2026	3	25	41
2027		21	36
2028		17	32
2029		14	28
2030		12	24
2031		9	20
2032		8	17
2033		6	14
2034		5	11
2035		3	9
2036		3	7
2037		2	5
2038		1	4
2039		1	3
2040		1	2
2041		0	1



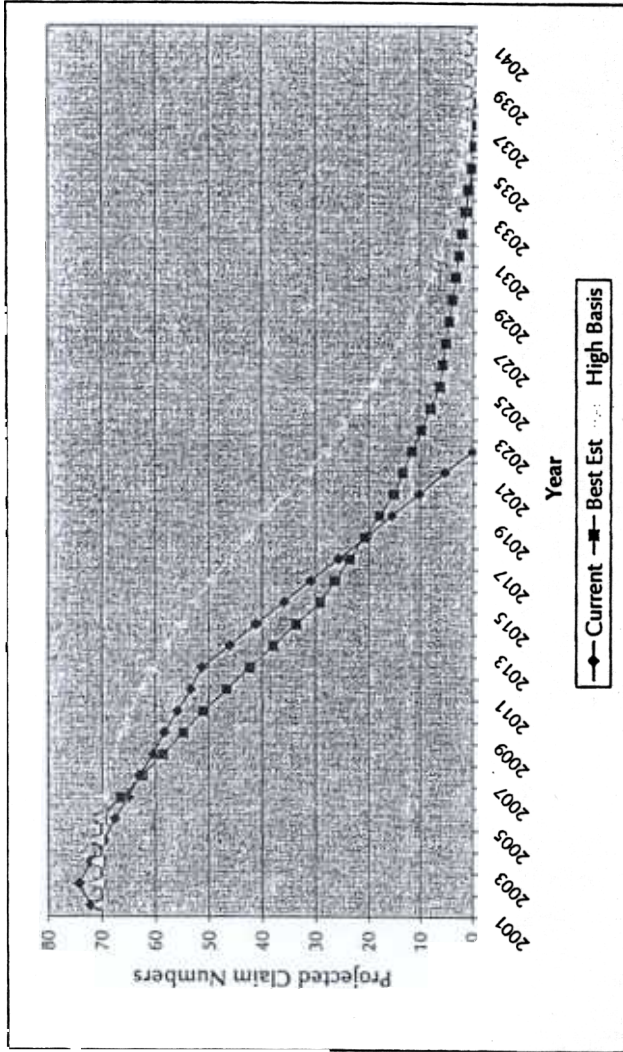
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Projected non-meso numbers

Year	Current	Best Est.	High Basis
2001	72	70	70
2002	74	70	71
2003	72	70	71
2004	70	70	71
2005	67	70	70
2006	65	66	70
2007	63	63	69
2008	60	59	68
2009	58	55	66
2010	56	51	65
2011	53	47	63
2012	51	42	61
2013	46	38	58
2014	41	34	55
2015	36	29	53
2016	31	26	50
2017	26	24	46
2018	20	21	43
2019	15	18	39
2020	10	15	35
2021	5	13	32
2022	0	12	28
2023	0	10	25
2024	0	8	22
2025	0	6	19
2026	0	6	17
2027		5	14
2028		4	12
2029		4	10
2030		3	8
2031		3	6
2032		2	5
2033		1	4
2034		1	3
2035		0	2
2036		0	2
2037		0	1
2038		0	1
2039		0	1
2040		0	0
2041		0	0



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