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## 1<sup>st</sup> quarter operating profit excluding foreign exchange effect on asbestos provision up 12% to US\$62.7 million

James Hardie today announced that for the three months ended 30 June 2006, operating profit, excluding the effect of foreign exchange on the asbestos provision it recorded last quarter, increased 12% compared to the same quarter last year, to US\$62.7 million from US\$55.9 million.

As the company's results are reported in US dollars and the asbestos provision is denominated in Australian dollars, exchange rate movements between the Australian and the US dollars can significantly affect reported earnings. The effect of the strengthening of the Australian dollar on the A\$1.0 billion net asbestos provision was an expense of US\$27.2 million. As a result, operating profit for the quarter declined to US\$35.5 million. This expense has no current period cash impact.

The asbestos provision is based on an estimate of future Australian asbestos-related liabilities in accordance with the Final Funding Agreement (FFA) that was signed with the NSW Government on 1 December 2005. The company is continuing discussions with the Australian Tax Office (ATO) and other stakeholders, including the NSW Government, with a view to satisfying one of the remaining conditions precedent to the FFA.

### Operating performance

The 1<sup>st</sup> quarter highlights include a 16% increase in net sales to US\$415.5 million and a 9% increase in gross profit to US\$157.7 million. EBIT, which fell 21% from US\$86.9 million to US\$68.9 million compared to the same quarter last year, was impacted significantly by the effect of foreign exchange on the asbestos provision. EBIT excluding the US\$27.2 million impact of foreign exchange on the asbestos provision increased 11% to US\$96.1 million.

USA Fibre Cement continued its strong growth momentum, with net sales up 21% for the quarter. However, higher costs in the quarter affected the bottom line, with EBIT increasing 10%.

Market conditions during the 1<sup>st</sup> quarter were weak in the Asia Pacific Fibre Cement businesses. Sales in the Australia and New Zealand business fell by 5%, while the Philippines remained EBIT positive.

Diluted earnings per share excluding the effect of foreign exchange on the asbestos provision increased from US12.1 cents to US13.4 cents.

Diluted earnings per share for the quarter decreased from US12.1 cents in the prior corresponding quarter to US7.6 cents.

*In this Media Release, James Hardie may present the financial measures, sales volume terms, financial ratios, and Non-US GAAP financial measures included in the Definitions section of this document starting on page 6 and in this document. The company presents financial measures that it believes are customarily used by its Australian investors. Specifically, these financial measures include "EBIT", "EBIT margin", and "Operating profit". The company may also present other terms for measuring its sales volumes ("million square feet (mmsf)" and "thousand square feet (msf)"); financial ratios ("Gearing ratio", "Net interest expense cover", "Net interest paid cover", "Net debt payback", "Net debt/cash"); and Non-US GAAP financial measures ("EBIT and EBIT margin excluding effect of foreign exchange on asbestos provision", "EBIT excluding effect of foreign exchange on asbestos provision, and SCI and other related expenses", "Operating profit excluding effect of foreign exchange on asbestos provision", "Operating profit excluding effect of foreign exchange on asbestos provision, SCI and other related expenses and make-whole payment", "Effective tax rate excluding the effect of foreign exchange on asbestos provision" "Diluted earnings per share excluding effect of foreign exchange on asbestos provision" and "EBITDA"). Unless otherwise stated, results are comparisons of the 1<sup>st</sup> quarter of the current fiscal year versus the 1<sup>st</sup> quarter of the prior fiscal year.*

## 1<sup>st</sup> Quarter at a Glance

US\$ Million	Q1 FY07	Q1 FY06	%+ \(-)
Net sales	\$415.5	\$359.4	16
Gross profit	157.7	145.3	9
SCI and other related expenses	(2.4)	(5.2)	(54)
EBIT excluding effect of foreign exchange on asbestos provision	96.1	86.9	11
Effect of foreign exchange on asbestos provision	(27.2)	-	-
EBIT	68.9	86.9	(21)
Net interest expense	(2.0)	(0.7)	-
Income tax expense	(32.3)	(30.3)	-
Operating profit	35.5	55.9	(36)

The 1<sup>st</sup> quarter results also include Special Commission of Inquiry (SCI) and other related expenses of US\$2.4 million (US\$2.2 million after tax) and a make-whole payment of US\$6.0 million (US\$5.6 million after tax) resulting from the prepayment of US\$ notes in May 2006.

Operating profit excluding the effect of foreign exchange on asbestos provision, SCI and other related expenses and the make-whole payment increased 16% for the quarter to US\$70.5 million as shown in the following table:

US\$ Million	Q1 FY07	Q1 FY06	% Change
Operating profit	\$ 35.5	\$ 55.9	(36)
Effect of foreign exchange on asbestos provision	27.2	-	-
Operating profit excluding effect of foreign exchange on asbestos provision	62.7	55.9	12
SCI and other related expenses (net of tax)	2.2	4.9	(55)
Make-whole payment (net of tax)	5.6	-	-
Operating profit excluding effect of foreign exchange on asbestos provision, SCI and other related expenses and make-whole payment	\$ 70.5	\$ 60.8	16

## Commentary

James Hardie's Chief Executive Officer, Louis Gries, said, "Operationally, our USA Fibre Cement business continued to perform strongly, maintaining the growth momentum of the previous fiscal year.

"The effects of the expected downturn in the housing market are beginning to be felt, but our ability to take market share from alternative materials is helping us to do better than the market overall.

"Due to the size of the asbestos provision recorded on the balance sheet in Australian dollars, fluctuations in the exchange rate will cause unpredictable volatility in the company's reported results for the foreseeable future," said Mr Gries.

## **USA Fibre Cement – Growth momentum continues**

Despite a softer US housing market, further penetration of our targeted markets helped increase net sales 21% over the same quarter last year to US\$348.9 million. Sales volume increased 16% to 605.7 million square feet, and the average net sales price was 5% higher at US\$576 per thousand square feet.

The strong sales performance for the quarter was partly offset by higher operating costs. Cost of sales was up 27% compared to the same quarter last year due to higher raw material and energy costs. Freight was up 24% due mainly to increases in oil prices, and SG&A expenses were up 27% due to increased spending on growth initiatives and organisational infrastructure to accommodate the company's continued growth. EBIT for the quarter was 10% higher at \$103.3 million. The EBIT margin was 29.6%.

## **Australia and New Zealand (ANZ) Fibre Cement**

Net sales for the quarter were down by 5% to US\$53.4 million compared to US\$56.1 million in the same period last year. In Australian dollars, net sales decreased 2% due to an increasingly competitive market, which led to a drop in the average sales price. The new housing and renovation markets softened further during the quarter, but the business increased sales volumes through market initiatives designed to grow primary demand for its products and by providing more value-added differentiated products.

The decrease in net sales, along with higher manufacturing, SG&A and freight costs resulted in a 20% decrease in the ANZ business' EBIT to US\$8.9 million for the quarter. The EBIT margin was 16.7%.

## **Philippines – EBIT positive**

Net sales increased 2% to US\$5.7 million compared to the same quarter last year due to an increase in sales volume as trading conditions stabilised. The business recorded a small positive EBIT for the quarter.

## **USA Hardie Pipe – Progress made**

Net sales for the quarter increased compared to the same period last year. The business is continuing to focus on growing sales in its core markets and improving profitability and recorded a small positive EBIT for the quarter. This is the first EBIT positive quarter for this business since its inception.

## **Europe Fibre Cement – Sales increasing**

The business continued to grow sales by building awareness of its backer and siding products among distributors, builders and contractors and through expansion of its distribution network.

## Income tax

The company's effective tax for the quarter of 48.3% was affected by the US\$27.2 million foreign exchange expense relating to the asbestos provision. For the quarter, the effective tax rate excluding the effect of foreign exchange on the asbestos provision was 34.3%.

In order to appeal the amended assessment of A\$378.0 million from the ATO in respect of RCI's (a James Hardie subsidiary company) income tax return for the year ended 31 March 1999, the company was required by the ATO to post a deposit payment. The ATO agreed that a partial payment of 50% would be required along with a guarantee from James Hardie Industries NV in favour of the ATO for the unpaid balance. This cash deposit of US\$140.4 million (A\$189.0 million) was paid on 5 July 2006. However, the company has not recorded any liability at 30 June 2006 for the amended assessment because, at this time, the company believes its tax position will be upheld on appeal, therefore no such liability is probable in accordance with US accounting standards.

Readers are referred to Note 9 of the company's 30 June 2006 Financial Report for further information on the ATO amended assessment.

## Asbestos compensation funding arrangement

The FFA is subject to a number of conditions precedent, including the granting of tax exempt status to the Special Purpose Fund (SPF) and receiving the approval of James Hardie's lenders and shareholders.

On 23 June 2006, the ATO advised the company that it has refused to endorse the SPF as a tax concession charity, arguing that, in its opinion, the scope of its activities under the Trust Deed and the FFA does not meet current legislative requirements for such an endorsement. The company is continuing discussions with the ATO and other stakeholders, including the NSW Government, with a view to satisfying one of the remaining conditions precedent to the FFA.

On 29 June 2006, the ATO issued a ruling to the company to the effect that James Hardie's contributions to the SPF would be tax deductible over the anticipated life of the arrangements in accordance with the recent "black hole expenditure" Federal Legislation enacted in April 2006.

Readers are referred to Note 7 of the company's 30 June 2006 Financial Report for further information on the voluntary funding proposal, and for information on the SCI and other related matters.

## Effect of foreign exchange on the asbestos provision

The asbestos provision is an Australian liability and is denominated in Australian dollars. The reported value of this liability in the consolidated balance sheets of James Hardie in US dollars is therefore subject to adjustment depending on the closing exchange rate between the two currencies at the balance sheet date.

<b>Asbestos Provision</b>	<b>A\$ millions</b>	<b>A\$ to US\$ rate</b>	<b>US\$ millions</b>
At 31 March 2006	A\$ 1,000.0	1.3975 to1	\$ 715.6
Effect of foreign exchange	-		27.2
At 30 June 2006	A\$ 1,000.0	1.3463 to1	\$ 742.8

## Cash flow

Operating cash flow for the quarter fell by 21% from US\$77.2 million to US\$60.7 million primarily due to increased working capital requirements of the company and the US\$6.0 million make-whole payment referred to above.

Capital expenditures increased from US\$34.0 million to US\$35.5 million as the company continued to invest in increasing its production capacity.

## Outlook

New housing construction in North America is slowing. The National Association of Home Builders (NAHB) currently predicts housing starts will continue to slow gradually with higher long-term rates through year-end to mid 2007. Furthermore, the NAHB cautions that downside risk to its "soft landing" prediction remains substantial.

The US business' focus on growing primary demand for fibre cement, increasing market share in exterior and interior product segments and increasing revenue per unit, is expected to help the business to continue to perform better than the overall market.

Repair and remodelling activity is expected to remain buoyant in the short term. This market accounts for approximately 30% of sales in the US business.

The upward pressure on raw materials and energy costs is expected to continue and the impact of high oil prices on freight costs shows no sign of abating.

The housing markets in Australia and New Zealand are also experiencing a downturn, but the company's initiatives to grow primary demand are expected to help dampen the impact.

In the Philippines, improvements in operational efficiency during the first quarter are expected to continue in spite of increased costs and sustained competitive market conditions.

In addition, as discussed in Note 7 of the company's 30 June 2006 Financial Report, the asbestos provision will be updated annually, based on the most recent actuarial determinations and claims experience and quarterly to reflect changes in foreign exchange rates. Such updates may have a material impact on James Hardie's consolidated financial statements.

The current range of analyst earnings estimates<sup>1</sup> for the fiscal year ending 31 March 2007 is for net profit from continuing operations excluding asbestos related expenses to be US\$207 million to US\$247 million. While the company's current projection for fiscal year 2007 is for net profit from continuing operations excluding asbestos related expenses to fall within this range, uncertainty surrounding the short to medium-term strength of the US housing market is at its highest in recent years.

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<sup>1</sup> Includes: ABN Amro, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs JB Were, Macquarie Research, Merrill Lynch, UBS

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This Media Release forms part of a package of information about the company's results. It should be read in conjunction with the other parts of the package, including Management's Analysis of Results, a Management Presentation, and a Financial Report.

These documents, along with an audio webcast of the management presentation on 17 August 2006, are available from the Investor Relations section of James Hardie's website at [www.jameshardie.com](http://www.jameshardie.com).

## Definitions

### Financial Measures – US GAAP equivalents

**EBIT and EBIT margin** – EBIT is equivalent to the US GAAP measure of operating income. EBIT margin is defined as EBIT as a percentage of net sales. James Hardie believes EBIT and EBIT margin to be relevant and useful information as these are the primary measures used by management to measure the operating profit or loss of its business. EBIT is one of several metrics used by management to measure the earnings generated by the company's operations, excluding interest and income tax expenses. Additionally, EBIT is believed to be a primary measure and terminology used by its Australian investors. EBIT and EBIT margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. EBIT and EBIT margin, as the company has defined them, may not be comparable to similarly titled measures reported by other companies.

**Operating profit – is** equivalent to the US GAAP measure of net income.

### Sales Volumes

**mmsf** – million square feet, where a square foot is defined as a standard square foot of 5/16" thickness.

**msf** – thousand square feet, where a square foot is defined as a standard square foot of 5/16" thickness.

### Financial Ratios

**Gearing Ratio** – Net debt/cash divided by net debt/cash plus shareholders' equity.

**Net interest expense cover** – EBIT divided by net interest expense.

**Net interest paid cover** – EBIT divided by cash paid during the period for interest, net of amounts capitalised.

**Net debt payback** – Net debt/cash divided by cash flow from operations.

**Net debt/cash** – short-term and long-term debt less cash and cash equivalents.

### Non-US GAAP Financial Measures

**EBIT and EBIT margin excluding effect of foreign exchange on asbestos provision** – EBIT and EBIT margin excluding effect of foreign exchange on asbestos provision are not measures of financial performance under US GAAP and should not be considered to be more meaningful than EBIT and EBIT margin. James Hardie has included these financial measures to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations without the potential distortion arising from foreign exchange fluctuation and provides useful information regarding its financial condition and results of operations. The company uses these non-US GAAP measures for the same purposes.

US\$ Million	Q1 FY07	Q1 FY06
EBIT	\$ 68.9	\$ 86.9
Effect of foreign exchange on asbestos provision	27.2	-
EBIT excluding effect of foreign exchange on asbestos provision	96.1	86.9
Net Sales	\$ 415.5	\$ 359.4
EBIT margin excluding effect of foreign exchange on asbestos provision	23.1%	24.2%

**EBIT excluding effect of foreign exchange on asbestos provision, and SCI and other related expenses** – EBIT excluding effect of foreign exchange on asbestos provision, and SCI and other related expenses is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than EBIT. James Hardie has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations and provides useful information regarding its financial condition and results of operations. The company uses this non-US GAAP measure for the same purposes.

<b>US\$ Million</b>	<b>Q1 FY07</b>	<b>Q1 FY06</b>
EBIT	\$ 68.9	\$ 86.9
Effect of foreign exchange on asbestos provision	27.2	-
SCI and other related expenses	2.4	5.2
EBIT excluding effect of foreign exchange on asbestos provision and SCI and other related expenses	<u>\$ 98.5</u>	<u>\$ 92.1</u>

**Operating profit excluding effect of foreign exchange on asbestos provision** – Operating profit excluding effect of foreign exchange on asbestos provision is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than net income. The company has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations. The company uses this non-US GAAP measure for the same purposes.

<b>US\$ Million</b>	<b>Q1 FY07</b>	<b>Q1 FY06</b>
Operating profit	\$ 35.5	\$ 55.9
Effect of foreign exchange on asbestos provision	27.2	-
Operating profit excluding effect of foreign exchange on asbestos provision	<u>\$ 62.7</u>	<u>\$ 55.9</u>

**Diluted earnings per share excluding effect of foreign exchange on asbestos provision** – Diluted earnings per share excluding effect of foreign exchange on asbestos provision is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than diluted earnings per share. The company has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations without the distortion arising from foreign exchange fluctuation. The company's management uses this non-US GAAP measure for the same purposes.

<b>US\$ Million (except share and per share data)</b>	<b>Q1 FY07</b>	<b>Q1 FY06</b>
Operating profit	\$ 35.5	\$ 55.9
Effect of foreign exchange on asbestos provision	27.2	-
Operating profit excluding effect of foreign exchange on asbestos provision	62.7	55.9
Weighted average common shares outstanding (Millions) – Diluted	466.9	462.7
Diluted earnings per share excluding effect of foreign exchange on asbestos provision (US cents)	<u>13.4</u>	<u>12.1</u>



**Effective tax rate excluding effect of foreign exchange on asbestos provision** – Effective tax rate excluding effect of foreign exchange on asbestos provision is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than effective tax rate. The company has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations without the distortion arising from foreign exchange fluctuation. The company's management uses this non-US GAAP measure for the same purposes.

US\$ Million	Q1 FY07	Q1 FY06
Operating profit before income taxes	\$ 66.9	\$ 86.2
Effect of foreign exchange on asbestos provision	27.2	-
Operating profit excluding effect of foreign exchange on asbestos provision	94.1	86.2
Income tax expense	32.3	30.3
Effective tax rate excluding effect of foreign exchange on asbestos provision	34.3%	35.2%

**EBITDA** – is not a measure of financial performance under US GAAP and should not be considered an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by US GAAP or as a measure of profitability or liquidity. Not all companies calculate EBITDA in the same manner as James Hardie has and, accordingly, EBITDA may not be comparable with other companies. The company has included information concerning EBITDA because it believes that this data is commonly used by investors to evaluate the ability of a company's earnings from its core business operations to satisfy its debt, capital expenditure and working capital requirements.

## Disclaimer

*This Media Release contains forward-looking statements. James Hardie may from time to time make forward-looking statements in its periodic reports filed with or furnished to the United States Securities and Exchange Commission on Forms 20-F and 6-K, in the annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by the company's officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of forward-looking statements include:*

- *expectations that the conditions precedent to the Final Funding Agreement will be satisfied;*
- *expectations about payments to a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;*
- *expectations concerning the company's Australian Tax Office amended assessment;*
- *expectations that the company's credit facilities will be extended or renewed;*
- *projections of operating results or financial condition;*
- *statements regarding plans, objectives or goals, including those relating to competition, acquisitions, dispositions and products;*
- *statements about future performance; and*
- *statements about product or environmental liabilities.*

*Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.*

*Forward-looking statements involve inherent risks and uncertainties. The company cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the risk factors discussed under "Risk Factors" beginning on page 6 of the Form 20-F filed on 7 July 2005, and: all matters relating to or arising out of the prior manufacture of products that contained asbestos by current and former James Hardie subsidiaries; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which the company operates; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; general economic and market conditions; the supply and cost of raw materials; the success of research and development efforts; reliance on a small number of product distributors; compliance with and changes in environmental and health and safety laws; risks of conducting business internationally; compliance with and changes in laws and regulations; foreign exchange risks; the successful implementation of new software systems and the successful implementation of the internal control over financial reporting requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as codified by Item 308 of Regulation S-K. The company cautions that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements. Forward-looking statements speak only as of the date they are made.*