

# JAMES HARDIE INDUSTRIES NV AND SUBSIDIARIES

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Item 1. Financial Statements

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	Notes	(Millions of US dollars)		(Millions of Australian dollars)	
		31 March		31 March	
		2005	2004	2005	2004
				(Unaudited)	(Unaudited)
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	3	\$ 113.5	\$ 72.3	A\$ 146.9	A\$ 95.1
Accounts and notes receivable, net of allowance for doubtful accounts of \$1.5 million (A\$1.9 million) and \$1.2 million (A\$1.6 million) as of 31 March 2005 and 31 March 2004, respectively	4	127.2	118.4	164.7	155.8
Inventories	5	99.9	103.2	129.3	135.8
Refundable income taxes	14	-	37.8	-	49.7
Prepaid expenses and other current assets		12.0	8.8	15.5	11.6
Deferred tax assets	14	26.0	24.7	33.7	32.5
Total current assets		<u>378.6</u>	<u>365.2</u>	<u>490.1</u>	<u>480.5</u>
Long-term receivables and other assets		0.8	9.8	1.0	12.9
Property, plant and equipment, net	6	685.7	567.1	887.7	746.1
Intangible assets, net	7	3.1	3.0	4.0	3.9
Prepaid pension cost	8	8.4	14.1	10.9	18.5
Deferred tax assets	14	12.3	12.0	15.9	15.8
Total assets		<u>\$ 1,088.9</u>	<u>\$ 971.2</u>	<u>A\$ 1,409.6</u>	<u>A\$ 1,277.7</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable and accrued liabilities	9	\$ 94.0	\$ 78.5	A\$ 121.7	A\$ 103.3
Current portion of long-term debt	10	25.7	17.6	33.3	23.2
Short-term debt	10	11.9	10.8	15.4	14.2
Accrued payroll and employee benefits		35.7	41.1	46.2	54.1
Accrued product warranties	12	8.0	9.7	10.4	12.8
Income taxes payable	14	21.4	9.8	27.7	12.9
Other liabilities		1.7	1.8	2.2	2.4
Total current liabilities		<u>198.4</u>	<u>169.3</u>	<u>256.9</u>	<u>222.9</u>
Long-term debt	10	121.7	147.4	157.6	193.9
Deferred income taxes	14	77.5	65.2	100.3	85.8
Accrued product warranties	12	4.9	2.3	6.3	3.0
Other liabilities	11,14	61.7	82.3	79.9	108.3
Total liabilities		<u>464.2</u>	<u>466.5</u>	<u>A\$ 601.0</u>	<u>A\$ 613.9</u>
Commitments and contingencies (Note 13)					
Shareholders' equity:					
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 459,373,176 shares issued and outstanding at 31 March 2005 and 458,558,436 shares issued and outstanding at 31 March 2004	16,20	245.8	245.2		
Additional paid-in capital	16,20	139.4	134.0		
Retained earnings		264.3	151.1		
Employee loans	16	(0.7)	(1.3)		
Accumulated other comprehensive loss	19	(24.1)	(24.3)		
Total shareholders' equity		<u>624.7</u>	<u>504.7</u>		
Total liabilities and shareholders' equity		<u>\$ 1,088.9</u>	<u>\$ 971.2</u>		

The accompanying notes are an integral part of these consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Millions of US dollars, except per share data)	Notes	Years Ended 31 March		
		2005	2004	2003
Net sales	18	\$ 1,210.4	\$ 981.9	\$ 783.6
Cost of goods sold		<u>(784.0)</u>	(623.0)	(492.8)
Gross profit		426.4	358.9	290.8
Selling, general and administrative expenses		(174.5)	(162.0)	(144.9)
Research and development expenses		(21.6)	(22.6)	(18.1)
SCI and other related expenses	13	(28.1)	-	-
Other operating (expense) income	8	(6.0)	(2.1)	1.0
Operating income		<u>196.2</u>	172.2	128.8
Interest expense		(7.3)	(11.2)	(23.8)
Interest income		2.2	1.2	3.9
Other (expense) income		(1.3)	3.5	0.7
Income from continuing operations before income taxes	18	<u>189.8</u>	165.7	109.6
Income tax expense		(61.9)	(40.4)	(26.1)
Income from continuing operations		<u>127.9</u>	125.3	83.5
Discontinued operations:				
(Loss) income from discontinued operations, net of income tax benefit (expense) of \$0.2 million, (\$0.1) million and (\$1.6) million for 2005, 2004 and 2003, respectively	15	(0.3)	0.2	3.0
(Loss) gain on disposal of discontinued operations, net of income tax benefit (expense) of nil, \$4.8 million and (\$45.3) million for 2005, 2004 and 2003, respectively	15	(0.7)	4.1	84.0
(Loss) income from discontinued operations		<u>(1.0)</u>	4.3	87.0
Net income		<u>\$ 126.9</u>	\$ 129.6	\$ 170.5
Income per share - basic:				
Income from continuing operations		\$ 0.28	\$ 0.27	\$ 0.18
Income from discontinued operations		-	\$ 0.01	\$ 0.19
Net income per share - basic		<u>\$ 0.28</u>	\$ 0.28	\$ 0.37
Income per share - diluted:				
Income from continuing operations		\$ 0.28	\$ 0.27	\$ 0.18
Income from discontinued operations		-	\$ 0.01	\$ 0.19
Net income per share - diluted		<u>\$ 0.28</u>	\$ 0.28	\$ 0.37
Weighted average common shares outstanding (Millions):				
Basic	2	458.9	458.1	456.7
Diluted	2	461.0	461.4	459.4

The accompanying notes are an integral part of these consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(Millions of Australian dollars, except per share data)	Years Ended 31 March		
	2005	2004	2003
Net sales	<b>A\$ 1,636.3</b>	A\$ 1,415.8	A\$ 1,395.5
Cost of goods sold	<b>(1,059.9)</b>	(898.3)	(877.6)
Gross profit	<b>576.4</b>	517.5	517.9
Selling, general and administrative expenses	<b>(235.9)</b>	(233.6)	(258.1)
Research and development expenses	<b>(29.2)</b>	(32.6)	(32.2)
SCI and other related expenses	<b>(38.0)</b>	-	-
Other operating (expense) income	<b>(8.1)</b>	(3.0)	1.8
Operating income	<b>265.2</b>	248.3	229.4
Interest expense	<b>(9.9)</b>	(16.1)	(42.4)
Interest income	<b>3.0</b>	1.7	6.9
Other (expense) income	<b>(1.8)</b>	5.0	1.2
Income from continuing operations before income taxes	<b>256.5</b>	238.9	195.1
Income tax expense	<b>(83.7)</b>	(58.3)	(46.5)
Income from continuing operations	<b>172.8</b>	180.6	148.6
Discontinued operations:			
(Loss) income from discontinued operations, net of income tax benefit (expense) of A\$0.3 million, (A\$0.1) million and (A\$2.8) million for 2005, 2004 and 2003, respectively	<b>(0.4)</b>	0.3	5.4
(Loss) gain on disposal of discontinued operations, net of income tax benefit (expense) of nil, A\$6.9 million and (A\$80.7) million for 2005, 2004 and 2003, respectively	<b>(0.9)</b>	5.9	149.6
(Loss) income from discontinued operations	<b>(1.3)</b>	6.2	155.0
Net income	<b>A\$ 171.5</b>	A\$ 186.8	A\$ 303.6
Income per share - basic:			
Income from continuing operations	<b>A\$ 0.38</b>	A\$ 0.40	A\$ 0.32
Income from discontinued operations	<b>-</b>	0.01	0.34
Net income per share - basic	<b>A\$ 0.38</b>	A\$ 0.41	A\$ 0.66
Income per share - diluted:			
Income from continuing operations	<b>A\$ 0.37</b>	A\$ 0.39	A\$ 0.32
Income from discontinued operations	<b>-</b>	0.01	0.34
Net income per share - diluted	<b>A\$ 0.37</b>	A\$ 0.40	A\$ 0.66
Weighted average common shares outstanding (Millions):			
Basic	<b>458.9</b>	458.1	456.7
Diluted	<b>461.0</b>	461.4	459.4

The accompanying notes are an integral part of these consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of US dollars)	Years Ended 31 March		
	2005	2004	2003
<b>Cash flows from operating activities:</b>			
Net income	\$ 126.9	\$ 129.6	\$ 170.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on disposal of subsidiaries and businesses	-	(4.1)	(84.8)
Loss (gain) on sale of land and buildings	0.7	(4.2)	-
Gain on disposal of investments and negotiable securities	-	-	(0.4)
Impairment loss on investment	2.1	2.2	-
Depreciation and amortisation	36.3	36.4	28.7
Deferred income taxes	11.1	14.6	(10.6)
Prepaid pension cost	7.6	1.8	2.3
Tax benefit from stock options exercised	0.4	0.4	0.8
Stock compensation	3.0	3.3	1.9
Other	-	0.7	-
Changes in operating assets and liabilities:			
Accounts receivable	(3.7)	(24.8)	(10.8)
Inventories	4.3	(24.9)	(8.5)
Prepaid expenses and other current assets	32.6	2.1	(12.5)
Accounts payable	15.0	1.3	14.5
Accrued liabilities and other liabilities	(16.5)	28.2	(26.3)
<b>Net cash provided by operating activities</b>	<b>219.8</b>	<b>162.6</b>	<b>64.8</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(153.2)	(74.8)	(90.2)
Proceeds from sale of property, plant and equipment	3.4	10.9	49.0
Proceeds from disposal of subsidiaries and businesses, net of cash invested	-	5.0	334.4
Proceeds from sale and maturity of investments	-	-	1.1
Collections on loans receivable	0.6	0.9	0.7
Cash transferred on establishment of ABN 60 Foundation	-	-	(57.1)
<b>Net cash (used in) provided by investing activities</b>	<b>(149.2)</b>	<b>(58.0)</b>	<b>237.9</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from line of credit	0.5	0.5	3.1
Proceeds from borrowings	-	-	2.4
Repayments of borrowings	(17.6)	-	(160.0)
Proceeds from issuance of shares	2.6	3.2	4.2
Repayments of capital	-	(68.7)	(94.8)
Dividends paid	(13.7)	(22.9)	(34.3)
<b>Net cash used in financing activities</b>	<b>(28.2)</b>	<b>(87.9)</b>	<b>(279.4)</b>
Effects of exchange rate changes on cash	(1.2)	0.5	0.7
Net increase in cash and cash equivalents	41.2	17.2	24.0
Cash and cash equivalents at beginning of period	72.3	55.1	31.1
<b>Cash and cash equivalents at end of period</b>	<b>113.5</b>	<b>72.3</b>	<b>55.1</b>
<b>Components of cash and cash equivalents:</b>			
Cash at bank and on hand	28.6	24.6	39.7
Short-term deposits	84.9	47.7	14.9
Cash and cash equivalents - continuing operations	113.5	72.3	54.6
Cash at bank and on hand - discontinued operations	-	-	0.5
<b>Cash and cash equivalents at end of period</b>	<b>\$ 113.5</b>	<b>\$ 72.3</b>	<b>\$ 55.1</b>
<b>Supplemental disclosure of cash flow activities:</b>			
Cash paid during the period for interest, net of amounts capitalised	\$ 10.7	\$ 11.7	\$ 28.1
Cash paid (refunded) during the period for income taxes, net	\$ 15.7	\$ (6.5)	\$ 77.3

The accompanying notes are an integral part of these consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Millions of Australian dollars)	Years Ended 31 March		
	2005	2004	2003
<b>Cash flows from operating activities:</b>			
Net income	A\$ 171.5	A\$ 186.8	A\$ 303.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on disposal of subsidiaries and businesses	-	(5.9)	(151.0)
Loss (gain) on sale of land and buildings	0.9	(6.1)	-
Gain on disposal of investments and negotiable securities	-	-	(0.7)
Impairment loss on investment	2.8	3.2	-
Depreciation and amortisation	49.1	52.5	51.1
Deferred income taxes	15.0	21.1	(18.9)
Prepaid pension cost	10.3	2.6	4.1
Tax benefit from stock options exercised	0.5	0.6	1.4
Stock compensation	4.1	4.8	3.4
Other	-	1.0	-
Changes in operating assets and liabilities:			
Accounts receivable	(5.0)	(35.8)	(19.2)
Inventories	5.8	(35.9)	(15.1)
Prepaid expenses and other current assets	44.1	3.1	(22.2)
Accounts payable	20.3	1.9	25.8
Accrued liabilities and other liabilities	(22.3)	40.7	(46.8)
<b>Net cash provided by operating activities</b>	<b>297.1</b>	<b>234.6</b>	<b>115.5</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(207.1)	(107.9)	(160.6)
Proceeds from sale of property, plant and equipment	4.6	15.7	87.3
Proceeds from disposal of subsidiaries and businesses, net of cash invested	-	7.2	595.5
Proceeds from sale and maturity of investments	-	-	2.0
Collections on loans receivable	0.8	1.3	1.2
Cash transferred on establishment of ABN 60 Foundation	-	-	(94.5)
<b>Net cash (used in) provided by investing activities</b>	<b>(201.7)</b>	<b>(83.7)</b>	<b>430.9</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from line of credit	0.7	0.7	5.5
Proceeds from borrowings	-	-	4.3
Repayments of borrowings	(23.8)	-	(284.9)
Proceeds from issuance of shares	3.5	4.6	7.5
Repayments of capital	-	(99.1)	(168.8)
Dividends paid	(18.5)	(33.0)	(61.1)
<b>Net cash used in financing activities</b>	<b>(38.1)</b>	<b>(126.8)</b>	<b>(497.5)</b>
Effects of exchange rate changes on cash	(5.5)	(20.2)	(16.2)
Net increase in cash and cash equivalents	51.8	3.9	32.7
Cash and cash equivalents at beginning of period	95.1	91.2	58.5
<b>Cash and cash equivalents at end of period</b>	<b>146.9</b>	<b>95.1</b>	<b>91.2</b>
<b>Components of cash and cash equivalents:</b>			
Cash at bank and on hand	37.0	32.4	65.7
Short-term deposits	109.9	62.7	24.7
Cash and cash equivalents - continuing operations	146.9	95.1	90.4
Cash at bank and on hand - discontinued operations	-	-	0.8
<b>Cash and cash equivalents at end of period</b>	<b>A\$ 146.9</b>	<b>A\$ 95.1</b>	<b>A\$ 91.2</b>
<b>Supplemental disclosure of cash flow activities:</b>			
Cash paid during the period for interest, net of amounts capitalised	A\$ 14.5	A\$ 16.9	A\$ 50.0
Cash paid (refunded) during the period for income taxes, net	A\$ 21.1	A\$ (9.4)	A\$ 137.7

The accompanying notes are an integral part of these consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Employee Loans	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balances as of 31 March 2002</b>	\$ 205.4	\$ 323.5	\$ (91.8)	\$ (2.1)	\$ (64.3)	\$ 370.7
Comprehensive income (loss):						
Net income	-	-	170.5	-	-	170.5
Other comprehensive income (loss):						
Amortisation of unrealised transition						
loss on derivative instruments	-	-	-	-	1.1	1.1
Foreign currency translation gain	-	-	-	-	21.9	21.9
Additional minimum pension liability adjustment	-	-	-	-	(7.7)	(7.7)
Other comprehensive income	-	-	-	-	15.3	15.3
Total comprehensive income						185.8
Dividends paid	-	-	(34.3)	-	-	(34.3)
Conversion of common stock from						
Euro 0.50 par value to						
Euro 0.85 par value	157.9	(157.9)	-	-	-	-
Conversion of common stock from						
Euro 0.85 par value to						
Euro 0.64 par value and subsequent						
return of capital	(94.8)	-	-	-	-	(94.8)
Stock compensation	-	1.9	-	-	-	1.9
Tax benefit from stock options						
exercised	-	0.8	-	-	-	0.8
Employee loans repaid	-	-	-	0.4	-	0.4
Stock options exercised	1.2	3.0	-	-	-	4.2
<b>Balances as of 31 March 2003</b>	<b>\$ 269.7</b>	<b>\$ 171.3</b>	<b>\$ 44.4</b>	<b>\$ (1.7)</b>	<b>\$ (49.0)</b>	<b>\$ 434.7</b>
Comprehensive income (loss):						
Net income	-	-	129.6	-	-	129.6
Other comprehensive income (loss):						
Amortisation of unrealised transition						
loss on derivative instruments	-	-	-	-	1.1	1.1
Foreign currency translation gain	-	-	-	-	16.0	16.0
Unrealised loss on available-for-sale securities	-	-	-	-	(0.1)	(0.1)
Additional minimum pension liability adjustment	-	-	-	-	7.7	7.7
Other comprehensive income	-	-	-	-	24.7	24.7
Total comprehensive income						154.3
Dividends paid	-	-	(22.9)	-	-	(22.9)
Conversion of common stock from						
Euro 0.64 par value to						
Euro 0.73 par value	48.4	(48.4)	-	-	-	-
Conversion of common stock from						
Euro 0.73 par value to						
Euro 0.5995 par value and subsequent						
return of capital	(68.7)	-	-	-	-	(68.7)
Conversion of common stock from						
Euro 0.5995 par value to						
Euro 0.59 par value	(5.0)	5.0	-	-	-	-
Stock compensation	-	3.3	-	-	-	3.3
Tax benefit from stock options						
exercised	-	0.4	-	-	-	0.4
Employee loans repaid	-	-	-	0.4	-	0.4
Stock options exercised	0.8	2.4	-	-	-	3.2
<b>Balances as of 31 March 2004</b>	<b>\$ 245.2</b>	<b>\$ 134.0</b>	<b>\$ 151.1</b>	<b>\$ (1.3)</b>	<b>\$ (24.3)</b>	<b>\$ 504.7</b>

The accompanying notes are an integral part of these consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Loans	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balances as of 31 March 2004</b>	\$ 245.2	\$ 134.0	\$ 151.1	\$ (1.3)	\$ (24.3)	\$ 504.7
Comprehensive income (loss):						
Net income	-	-	126.9	-	-	126.9
Other comprehensive income (loss):						
Amortisation of unrealised transition loss on derivative instruments	-	-	-	-	1.1	1.1
Foreign currency translation gain	-	-	-	-	(0.9)	(0.9)
Other comprehensive income	-	-	-	-	0.2	0.2
Total comprehensive income						127.1
Dividends paid	-	-	(13.7)	-	-	(13.7)
Stock compensation	-	3.0	-	-	-	3.0
Tax benefit from stock options exercised	-	0.4	-	-	-	0.4
Employee loans repaid	-	-	-	0.6	-	0.6
Stock options exercised	0.6	2.0	-	-	-	2.6
<b>Balances as of 31 March 2005</b>	<b>\$ 245.8</b>	<b>\$ 139.4</b>	<b>\$ 264.3</b>	<b>\$ (0.7)</b>	<b>\$ (24.1)</b>	<b>\$ 624.7</b>

The accompanying notes are an integral part of these consolidated financial statements.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Background and Basis of Presentation**

**Nature of Operations**

The Company manufactures and sells fibre cement building products for interior and exterior building construction applications primarily in the United States, Australia, New Zealand, Philippines, Chile and Europe. Prior to 25 April 2002, the Company manufactured gypsum wallboard for interior construction applications in the United States.

**Background**

On 2 July 1998, ABN 60 000 009 263 Pty Ltd, formerly James Hardie Industries Limited ("JHIL"), then a public company organised under the laws of Australia and listed on the Australian Stock Exchange, announced a plan of reorganisation and capital restructuring (the "1998 Reorganisation"). James Hardie N.V. ("JHNV") was incorporated in August 1998, as an intermediary holding company, with all of its common stock owned by indirect subsidiaries of JHIL. On 16 October 1998, JHIL's shareholders approved the 1998 Reorganisation. Effective as of 1 November 1998, JHIL contributed its fibre cement businesses, its US gypsum wallboard business, its Australian and New Zealand building systems businesses and its Australian windows business (collectively, the "Transferred Businesses") to JHNV and its subsidiaries. In connection with the 1998 Reorganisation, JHIL and its non-transferring subsidiaries retained certain unrelated assets and liabilities.

On 24 July 2001, JHIL announced a further plan of reorganisation and capital restructuring (the "2001 Reorganisation"). Completion of the 2001 Reorganisation occurred on 19 October 2001. In connection with the 2001 Reorganisation, James Hardie Industries N.V. ("JHI NV"), formerly RCI Netherlands Holdings B.V., issued common shares represented by CHESS Units of Foreign Securities ("CUFS") on a one for one basis to existing JHIL shareholders in exchange for their shares in JHIL such that JHI NV became the new ultimate holding company for JHIL and JHNV.

Following the 2001 Reorganisation, JHI NV controls the same assets and liabilities as JHIL controlled immediately prior to the 2001 Reorganisation.

**Basis of Presentation**

The consolidated financial statements represent the financial position, results of operations and cash flows of JHI NV and its current wholly owned subsidiaries, collectively referred to as either the "Company" or "James Hardie" and JHI NV together with its subsidiaries as of the time relevant to the applicable reference, the "James Hardie Group," unless the context indicates otherwise.

In accordance with accounting principles generally accepted in the United States of America, the transfers to JHI NV have been accounted for on a historical cost basis using the "as-if" pooling method on the basis that the transfers are between companies under common control.

The assets, liabilities, income statement and cash flows of the Company have been presented with accompanying Australian dollar (A\$) convenience translations as the majority of the Company's shareholder base is Australian. These A\$ convenience translations are not prepared in accordance with accounting principles generally accepted in the United States of America. The exchange rates used to calculate the convenience translations are as follows:

(US\$1 = A\$)	<b>2005</b>	31 March	
		2004	2003
Assets and liabilities	<b>1.2946</b>	1.3156	1.6559
Income statement	<b>1.3519</b>	1.4419	1.7809
Cash flows - beginning cash	<b>1.3156</b>	1.6559	1.8808
Cash flows - ending cash	<b>1.2946</b>	1.3156	1.6559
Cash flows - current period movements	<b>1.3519</b>	1.4419	1.7809

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies**

**Accounting Principles**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The US dollar is used as the reporting currency. All subsidiaries are consolidated and all significant intercompany transactions and balances are eliminated.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Reclassifications**

Certain prior year balances have been reclassified to conform with the current year presentation.

**Foreign Currency Translation**

All assets and liabilities are translated into US dollars at current exchange rates while revenues and expenses are translated at average exchange rates in effect for the period. The effects of foreign currency translation adjustments are included directly in other comprehensive income in shareholders' equity. Gains and losses arising from foreign currency transactions are recognised in income currently.

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts on deposit in banks and cash invested temporarily in various highly liquid financial instruments with original maturities of three months or less when acquired.

**Inventories**

Inventories are valued at the lower of cost or market. Cost is generally determined under the first-in, first-out method, except that the cost of raw materials and supplies is determined using actual or average costs. Cost includes the costs of materials, labour and applied factory overhead.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Property, plant and equipment of businesses acquired are recorded at their estimated cost based on fair value at the date of acquisition. Depreciation of property, plant and equipment is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Building improvements	5 to 10
Manufacturing machinery	20
General equipment	5 to 10
Computer equipment	3 to 4
Office furniture and equipment	3 to 10

The costs of additions and improvements are capitalised, while maintenance and repair costs are expensed as incurred. Interest is capitalised in connection with the construction of major facilities. Capitalised interest is recorded as part of the asset to which it relates and is amortised over the asset's estimated useful life. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation amounts with any resulting gain or loss reflected in the consolidated statements of income.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Intangible Assets**

Intangible assets consist primarily of goodwill, which represents cost in excess of the fair value of the identifiable net assets of businesses acquired. Effective 1 April 2002, the Company no longer amortizes goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Accordingly, the Company reviews goodwill for impairment annually, or more frequently if events or changes in circumstances warrant. If carrying values were to exceed their estimated fair values, the Company would record an impairment loss to write the assets down to their estimated fair values. There were no impairment charges recorded against goodwill for the years ended 31 March 2005, 2004 and 2003.

**Impairment of Long-Lived Assets**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets.

**Environmental**

Environmental remediation expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Estimated liabilities are not discounted to present value. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action.

**Mineral Acquisition Costs**

The Company records acquired proven and probable silica mineral ore reserves at their fair value at the date of acquisition. Depletion expense is recorded based on the estimated rate per ton multiplied by the number of tons extracted during the period. The rate per ton may be periodically revised by management based on changes in the estimated tons available to be extracted which, in turn, is based on third party studies of proven and probable reserves.

SFAS No. 143, "Accounting for Asset Retirement Obligations," requires the recording of a liability for an asset retirement obligation in the period in which the liability is incurred. The initial measurement is based upon the present value of estimated third party costs and a related long-lived asset retirement cost capitalised as part of the asset's carrying value and allocated to expense over the asset's useful life. Accordingly, the Company accrues for reclamation costs associated with mining activities, which are accrued during production and are included in determining the cost of production.

**Revenue Recognition**

The Company recognises revenue when the risks and obligations of ownership have been transferred to the customer, which generally occurs at the time of delivery to the customer. The Company records estimated reductions to sales for customer rebates and discounts including volume, promotional, cash and other discounts. Rebates and discounts are recorded based on management's best estimate when products are sold. The estimates are based on historical experience for similar programs and products. Management reviews these rebates and discounts on an ongoing basis and the related accruals are adjusted, if necessary, as additional information becomes available.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Cost of Goods Sold**

Cost of goods sold is primarily comprised of cost of materials, labour and manufacturing. Cost of goods sold also includes the cost of inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and shipping and handling costs.

**Shipping and Handling**

Shipping and handling costs are charged to costs of goods sold as incurred. Recovery of these costs is incorporated in the Company's sales price per unit and is therefore classified as part of net sales.

**Selling, General and Administrative**

Selling, general and administrative expenses primarily include costs related to advertising, marketing, selling, information technology and other general corporate functions. Selling, general and administrative expenses also include certain transportation and logistics expenses associated with the Company's distribution network. Transportation and logistic costs were US\$1.2 million, US\$1.3 million and US\$1.0 million for the years ended 31 March 2005, 2004 and 2003, respectively.

**Advertising**

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US\$15.7 million, US\$15.2 million and US\$10.5 million during the years ended 31 March 2005, 2004 and 2003, respectively.

**Accrued Product Warranties**

An accrual for estimated future warranty costs is recorded based on an analysis by the Company, including the historical relationship of warranty costs to sales.

**Income Taxes**

The Company accounts for income taxes under the liability method. Under this method, deferred income taxes are recognised by applying enacted statutory rates applicable to future years to differences between the tax bases and financial reporting amounts of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that all or some portion of deferred tax assets will not be realised.

**Financial Instruments**

To meet the reporting requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," the Company calculates the fair value of financial instruments and includes this additional information in the notes to the consolidated financial statements when the fair value is different than the carrying value of those financial instruments. When the fair value reasonably approximates the carrying value, no additional disclosure is made. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Periodically, interest rate swaps, commodity swaps and forward exchange contracts are used to manage market risks and reduce exposure resulting from fluctuations in interest rates, commodity prices and foreign currency exchange rates. Where such contracts are designated as, and are effective as, a hedge, gains and losses arising on such contracts are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Specifically, changes in the fair value of derivative instruments designated as cash flow hedges are deferred and recorded in other comprehensive income. These deferred gains or losses are recognised in income when the transactions being hedged are completed. The ineffective portion of these hedges is recognised in income currently. Changes in the fair value of derivative instruments designated as fair value hedges are recognised in income, as are changes in the fair value of the hedged item. Changes in the fair value of derivative instruments that are not designated as hedges for accounting purposes are recognised in income. The Company does not use derivatives for trading purposes.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Stock-Based Compensation**

In fiscal year 2003, the Company adopted the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which requires the Company to value stock options issued based upon an option pricing model and recognise this value as compensation expense over the periods in which the options vest. In accordance with the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123," the Company has elected to recognise stock-based compensation using the retroactive restatement method. Under this change in accounting method, the Company has restated its consolidated financial statements for all years presented herein to reflect stock-based compensation expense under a fair value based accounting method for all options granted, modified or settled in fiscal years beginning after 31 March 1995. See Note 16 for full disclosures required under SFAS No. 123 and SFAS No. 148.

**Employee Benefit Plans**

The Company sponsors both defined benefit and defined contribution retirement plans for its employees. Employer contributions to the defined contribution plans are recognised as periodic pension expense in the period that the employees' salaries or wages are earned. The defined benefit plan covers all eligible employees and takes into consideration the following components to calculate net periodic pension expense: (a) service cost; (b) interest cost; (c) expected return on plan assets; (d) amortisation of unrecognised prior service cost; (e) recognition of net actuarial gains or losses; and (f) amortisation of any unrecognised net transition asset. If the amount of the Company's total contribution to its pension plan for the period is not equal to the amount of net periodic pension cost, the Company recognises the difference either as a prepaid or accrued pension cost.

**Dividends**

Dividends are recorded as a liability on the date that the Board of Directors formally declares the dividend.

**Earnings per Share**

The Company is required to disclose basic and diluted earnings per share ("EPS"). Basic EPS is calculated using income divided by the weighted average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares calculated using the treasury method that would have been outstanding if the dilutive potential common shares, such as options, had been issued. Accordingly, basic and dilutive common shares outstanding used in determining net income per share are as follows:

(Millions of shares)	Years Ended 31 March		
	2005	2004	2003
Basic common shares outstanding	458.9	458.1	456.7
Dilutive effect of stock options	2.1	3.3	2.7
Diluted common shares outstanding	<u>461.0</u>	<u>461.4</u>	<u>459.4</u>
 (Continuing operations - US dollar)	<b>2005</b>	2004	2003
Net income per share - basic	\$ 0.28	\$ 0.28	\$ 0.37
Net income per share - diluted	\$ 0.28	\$ 0.28	\$ 0.37

Potential common shares of 8.2 million, 2.0 million and 1.3 million for the years ended 31 March 2005, 2004 and 2003, respectively, have been excluded from the calculation of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) includes foreign currency translation and derivative instruments and is presented as a separate component of shareholders' equity.

**Extinguishments of Debt**

In May 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections." Among other things, SFAS No. 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," are met. SFAS No. 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after 15 May 2002. As permitted under SFAS No. 145, the Company early adopted the provisions of this standard effective 1 April 2002. As a result of the early retirement of US\$60.0 million of the Company's long-term debt, the Company incurred charges of US\$9.9 million related to a make-whole payment paid to certain noteholders on 23 December 2002. Accordingly, this amount was included in interest expense in the year ended 31 March 2003 rather than as an extraordinary item.

**Recent Accounting Pronouncements**

*Employers' Disclosures about Pensions and Other Postretirement Benefits*

In December 2003, the FASB issued SFAS No.132 (revised 2003) ("SFAS No. 132R"), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statement 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions." SFAS No. 132R requires additional disclosures about the assets, obligations, cash flows and net periodic benefit/cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132R is effective for foreign plans for fiscal years ending after 15 June 2004. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

*Consolidation of Variable Interest Entities*

In December 2003, the FASB issued FASB Interpretation No. ("FIN") 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses how a business should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaced FIN 46, which was issued in January 2003. FIN 46 or FIN 46R applies immediately to entities created after 31 January 2003 and no later than the end of the first reporting period that ended after 15 December 2003 to entities considered to be special-purpose entities ("SPEs"). FIN 46R is effective for all other entities no later than the end of the first interim or annual reporting period ending after 15 March 2004. The adoption of the provisions of FIN 46 or FIN 46R relative to SPEs and for entities created after 31 January 2003 did not have a material impact on the Company's consolidated financial statements. The adoption of the other provisions of FIN 46R did not have a material impact on the Company's consolidated financial statements.

*The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*

In March 2004, the Emerging Issues Task Force ("EITF") ratified the provisions of Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," which clarifies the definition of other-than-temporary impairment for certain investments accounted for under the cost method. The recognition and measurement guidance in Issue 03-01 should be applied to other-than-temporary impairment evaluations in reporting periods beginning after 15 June 2004. For all other investments within the scope of this issue, the disclosure requirements are effective for fiscal years ending after 15 June 2004. The adoption of this issue did not have a material impact on the Company's consolidated financial statements.

*Inventory Costs*

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4." SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognised as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after 15 June 2005. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*American Jobs Creation Act*

In October 2004, the President of the United States signed into law the American Jobs Creation Act (the "Act"). The Act allows for a US federal income tax deduction for a percentage of income earned from certain US production activities. Based on the effective date of the Act, the Company will be eligible for this deduction in the first quarter of fiscal year 2006. Additionally, in December 2004, the FASB issued FASB Staff Position ("FSP") 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes ("SFAS No. 109"), to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." FSP 109-1, which was effective upon issuance, states the deduction under this provision of the Act should be accounted for as a special deduction in accordance with SFAS No 109. The Company is in the process of quantifying the impact this provision of the Act will have on the Company's consolidated financial statements.

The Act also allows for an 85% dividends received deduction on the repatriation of certain earnings of foreign subsidiaries. In December 2004, the FASB issued FSP 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-2, which was effective upon issuance, allows companies time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. Additionally, FSP 109-2 provides guidance regarding the required disclosures surrounding a company's reinvestment or repatriation of foreign earnings. The Company continues to evaluate this provision of the Act and as such, has not yet quantified the impact this provision will have on the Company's consolidated financial statements.

*Exchanges of Non-monetary Assets*

In December 2004, the FASB issued SFAS No. 153, "Exchange of Non-Monetary Assets - An Amendment of ARB Opinion No. 29," which requires non-monetary asset exchanges to be accounted for at fair value. The Company is required to adopt the provisions of SFAS No. 153 for non-monetary exchanges occurring in fiscal periods beginning after 15 June 2005. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

*Share-Based Payment*

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Generally, SFAS No. 123R is similar in approach to SFAS No. 123 and requires that compensation cost relating to share-based payments be recognised in the financial statements based on the fair value of the equity or liability instruments issued. SFAS No. 123R is effective as of the beginning of the first interim or annual reporting period that begins after 15 June 2005. In April 2005, the United States Securities and Exchange Commission delayed the effective date of SFAS No. 123R until fiscal years beginning after 15 June 2005. The Company adopted SFAS No. 123 in fiscal year 2003 and does not expect the adoption of SFAS No. 123R to have a material effect on the Company's consolidated financial statements.

*Conditional Asset Retirement Obligations*

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations." FIN 47 clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations." FIN 47 is effective no later than the end of the fiscal year ending after 15 December 2005. The Company is in the process of evaluating whether FIN 47 will result in the recognition of additional asset retirement obligations for the Company.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Cash and Cash Equivalents**

Cash and cash equivalents consist of the following components:

(Millions of US dollars)	31 March	
	2005	2004
Cash at bank and on hand	\$ 28.6	\$ 24.6
Short-term deposits	84.9	47.7
Total cash and cash equivalents	<u>\$ 113.5</u>	<u>\$ 72.3</u>

Short-term deposits are placed at floating interest rates varying between 2.70% to 2.76% and 0.90% to 1.02% as of 31 March 2005 and 2004, respectively.

**4. Accounts and Notes Receivable**

Accounts and notes receivable consist of the following components:

(Millions of US dollars)	31 March	
	2005	2004
Trade receivables	\$ 121.6	\$ 109.9
Other receivables and advances	7.1	9.7
Allowance for doubtful accounts	(1.5)	(1.2)
Total accounts and notes receivable	<u>\$ 127.2</u>	<u>\$ 118.4</u>

The collectibility of accounts receivable, consisting mainly of trade receivables, is reviewed on an ongoing basis and an allowance for doubtful accounts is provided for known and estimated bad debts. The following are changes in the allowance for doubtful accounts:

(Millions of US dollars)	31 March	
	2005	2004
Balance at 1 April	\$ 1.2	\$ 1.0
Charged to expense	0.4	0.9
Costs and deductions	(0.1)	(0.8)
Foreign currency movements	-	0.1
Balance at 31 March	<u>\$ 1.5</u>	<u>\$ 1.2</u>

**5. Inventories**

Inventories consist of the following components:

(Millions of US dollars)	31 March	
	2005	2004
Finished goods	\$ 71.1	\$ 76.7
Work-in-process	8.5	6.4
Raw materials and supplies	22.4	22.3
Provision for obsolete finished goods and raw materials	(2.1)	(2.2)
Total inventories	<u>\$ 99.9</u>	<u>\$ 103.2</u>

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Property, Plant and Equipment**

Property, plant and equipment consist of the following components:

(Millions of US dollars)	Land	Buildings	Machinery and Equipment	Construction in Progress	Total
<b>Balance at 1 April 2003:</b>					
Cost	\$ 8.6	\$ 119.8	\$ 444.4	\$ 107.0	\$ 679.8
Accumulated depreciation	-	(20.9)	(138.9)	-	(159.8)
Net book value	8.6	98.9	305.5	107.0	520.0
<b>Changes in net book value:</b>					
Capital expenditures	3.5	25.1	89.5	(44.0)	74.1
Retirements and sales	(0.8)	(5.3)	(0.6)	-	(6.7)
Depreciation	-	(4.7)	(31.2)	-	(35.9)
Other movement	-	-	(0.7)	-	(0.7)
Foreign currency translation adjustments	-	-	16.3	-	16.3
Total changes	2.7	15.1	73.3	(44.0)	47.1
<b>Balance at 31 March 2004:</b>					
Cost	11.3	135.0	562.8	63.0	772.1
Accumulated depreciation	-	(21.0)	(184.0)	-	(205.0)
Net book value	\$ 11.3	\$ 114.0	\$ 378.8	\$ 63.0	\$ 567.1

(Millions of US dollars)	Land	Buildings	Machinery and Equipment	Construction in Progress	Total
<b>Balance at 1 April 2004:</b>					
Cost	\$ 11.3	\$ 135.0	\$ 562.8	\$ 63.0	\$ 772.1
Accumulated depreciation	-	(21.0)	(184.0)	-	(205.0)
Net book value	11.3	114.0	378.8	63.0	567.1
<b>Changes in net book value:</b>					
Capital expenditures	0.2	3.2	32.5	117.1	153.0
Retirements and sales	-	-	-	(4.1)	(4.1)
Depreciation	-	(4.5)	(31.8)	-	(36.3)
Other movement	-	-	3.4	-	3.4
Foreign currency translation adjustments	-	-	2.6	-	2.6
Total changes	0.2	(1.3)	6.7	113.0	118.6
<b>Balance at 31 March 2005:</b>					
Cost	11.5	131.1	606.6	176.6	925.8
Accumulated depreciation	-	(24.4)	(215.7)	-	(240.1)
Net book value	\$ 11.5	\$ 106.7	\$ 390.9	\$ 176.6	\$ 685.7

Construction in progress consists of plant expansions and upgrades.

Interest related to the construction of major facilities is capitalised and included in the cost of the asset to which it relates. Interest capitalised was US\$5.9 million, US\$1.6 million and US\$1.7 million for the years ended 31 March 2005, 2004 and 2003, respectively. Depreciation expense for continuing operations was US\$36.3 million, US\$35.9 million and US\$27.2 million for the years ended 31 March 2005, 2004 and 2003, respectively.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Intangible Assets**

Intangible assets consist of the following components:

(Millions of US dollars)	Goodwill	Other	Total
<b>Balance at 1 April 2004:</b>			
Cost	\$ 2.3	\$ 2.1	\$ 4.4
Accumulated amortisation	(0.2)	(1.2)	(1.4)
Net book value	2.1	0.9	3.0
<b>Changes in net book value:</b>			
Amortisation	-	-	-
Foreign currency translation adjustments	0.1	-	0.1
Total changes	0.1	-	0.1
<b>Balance at 31 March 2005:</b>			
Cost	2.4	2.1	4.5
Accumulated amortisation	(0.2)	(1.2)	(1.4)
Net book value	\$ 2.2	\$ 0.9	\$ 3.1

The Company recorded amortisation expense of nil, US\$0.5 million and US\$0.2 million for the years ended 31 March 2005, 2004 and 2003, respectively, related to other intangibles.

**8. Retirement Plans**

The Company sponsors a US retirement plan, the James Hardie Retirement and Profit Sharing Plan, for its employees in the United States and a retirement plan, the James Hardie Australia Superannuation Plan, for its employees in Australia. The US plan is a tax-qualified defined contribution retirement and savings plan covering all US employees subject to certain eligibility requirements and matches employee contributions (subject to limitations) dollar for dollar up to 6% of their salary or base compensation. The James Hardie Australia Superannuation Plan has two types of participants. Participants who joined the plan prior to 1 July 2003 have rights and benefits that are accounted for as a defined benefit plan in the Company's financial statements while participants who joined the plan subsequent to 1 July 2003 have rights and benefits that are accounted for as a defined contribution plan in the Company's financial statements. Both of these participant plans are funded based on statutory requirements in Australia. The Company's expense for its defined contribution plans totalled US\$5.2 million, US\$3.8 million and US\$2.9 million for the years ended 31 March 2005, 2004 and 2003, respectively. Details of the defined benefit participant plan of the James Hardie Australia Superannuation Plan ("Defined Benefit Plan") are as follows.

The investment strategy/policy of the Defined Benefit Plan is set by the Trustee (Mercer) for each investment option. The strategy includes the selection of a long-term mix of investments (asset classes) that supports the option's aims.

The aims of the Mercer Growth option, in which the Defined Benefit Plan assets are invested, are:

- to achieve a rate of return (net of tax and investment expenses) that exceeds inflation (CPI) increases by at least 3% per annum over a moving five year period;
- to achieve a rate of return (net of tax and investment expenses) above the median result for the Mercer Pooled Fund Survey over a rolling three year period; and
- over shorter periods, outperform the notional return of the benchmark mix of investments.

The assets are invested by appointing professional investment managers and/or from time to time investing in a range of investment vehicles offered by professional investment managers.

Investment managers may utilise derivatives in managing investment portfolios for the Trustee. However, the Trustee doesn't undertake day-to-day management of derivative instruments. Derivatives may be used, among other things, to manage risk (e.g., for currency hedging). Losses from derivatives can occur (e.g., due to stock market movements). The Trustee seeks to manage risk by placing limits on the extent of derivative use in any relevant Investment Management Agreements between the Trustee and investment managers. The Trustee also considers the risks and the controls set out in the managers' Risk Management Statements. The targeted ranges of asset allocations are:

Equity securities	40-75%
Debt securities	15-60%
Real Estate	0-20%

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following are the actual asset allocations by asset category for the Defined Benefit Plan:

	Years Ended 31 March	
	2005	2004
Equity securities	62.5%	61.5%
Debt securities	30.3%	30.1%
Real Estate	7.2%	8.4%
Total	<u>100.0%</u>	<u>100.0%</u>

The following are the components of net periodic pension cost for the Defined Benefit Plan:

(Millions of US dollars)	Years Ended 31 March		
	2005	2004	2003
Service cost	\$ 2.5	\$ 2.9	\$ 2.7
Interest cost	2.5	2.9	2.9
Expected return on plan assets	(3.2)	(3.6)	(3.2)
Amortisation of unrecognised transition asset	-	(0.9)	(0.8)
Amortisation of prior service costs	0.1	0.1	-
Recognised net actuarial loss	0.4	0.4	0.7
Net periodic pension cost	<u>2.3</u>	<u>1.8</u>	<u>2.3</u>
Settlement loss	5.3	-	-
Net pension cost	<u>\$ 7.6</u>	<u>\$ 1.8</u>	<u>\$ 2.3</u>

The settlement loss in fiscal year 2005 relates to lump sum payments made to terminated participants of the Defined Benefit Plan and is included in other operating expense in the consolidated statement of income.

The following are the assumptions used in developing the net periodic benefit cost and projected benefit obligation as of 31 March for the Defined Benefit Plan:

	31 March		
	2005	2004	2003
<b>Net Periodic Benefit Cost Assumptions:</b>			
Discount rate	6.5%	6.8%	7.0%
Rate of increase in compensation	4.0%	3.5%	3.5%
Expected return on plan assets	6.5%	6.8%	7.0%
<b>Projected Benefit Obligation Assumptions:</b>			
Discount rate	6.5%	6.5%	6.8%
Rate of increase in compensation	4.0%	4.0%	3.5%

The discount rate methodology is based on the yield on 10-year high quality investment securities in Australia adjusted to reflect the rates at which pension benefits could be effectively settled. The change in the discount rate used on the projected benefit obligation from 2003 to 2004 is a direct result of the change in yields of high quality investment securities over the same periods, adjusted to rates at which pension benefits could be effectively settled. The increase in the rate of increase in compensation under the projected benefit obligation assumption from 2003 to 2004 reflects an increase in the expected margin of compensation increases over price inflation. The decrease in the expected return on plan assets from 2004 to 2005 and from 2003 to 2004 is a result of lower expected after-tax rates of return. The expected return on plan assets assumption is determined by weighting the expected long-term return for each asset class by the target/actual allocation of assets to each class. The returns used for each class are net of investment tax and investment fees. Net unrecognised gains and losses are amortised over the average remaining service period of active employees. A market related value of assets is used to determine pension costs with the difference between actual and expected investment return each year recognised over 5 years.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following are the actuarial changes in the benefit obligation, changes in plan assets and the funded status of the Defined Benefit Plan:

(Millions of US dollars)	Years Ended 31 March	
	2005	2004
<b>Changes in benefit obligation:</b>		
Benefit obligation at 1 April	\$ 40.7	\$ 38.5
Service cost	2.5	2.9
Interest cost	2.5	2.9
Plan participants' contributions	0.9	0.3
Actuarial loss (gain)	2.0	(1.5)
Benefits paid	(11.4)	(11.8)
Foreign currency translation	0.4	9.4
Benefit obligation at 31 March	<u>\$ 37.6</u>	<u>\$ 40.7</u>
<b>Changes in plan assets:</b>		
Fair value of plan assets at 1 April	\$ 41.2	\$ 37.7
Actual return on plan assets	4.7	3.0
Employer contributions	1.8	2.8
Participant contributions	0.9	0.3
Benefits paid	(11.4)	(11.8)
Foreign currency translation	0.5	9.2
Fair value of plan assets at 31 March	<u>\$ 37.7</u>	<u>\$ 41.2</u>
Funded status	\$ 0.1	\$ 0.5
Unamortised prior service cost	-	0.1
Unrecognised actuarial loss	8.3	13.5
Net asset	<u>\$ 8.4</u>	<u>\$ 14.1</u>

The following table provides further details of the Defined Benefit Plan:

(Millions of US dollars)	Years Ended 31 March	
	2005	2004
Projected benefit obligation	\$ 37.6	\$ 40.7
Accumulated benefit obligation	37.6	40.6
Fair market value of plan assets	37.7	41.2

The Defined Benefit Plan measurement date is 31 March 2005. The Company expects to make contributions to the Defined Benefit Plan of approximately US\$1.8 million during fiscal year 2006.

The following are the expected Defined Benefit Plan benefits to be paid in each of the following ten fiscal years:

(Millions of US dollars)	
Years Ending 31 March:	
2006	\$ 2.5
2007	2.6
2008	2.3
2009	2.3
2010	2.4
2011 - 2015	12.0
Estimated future benefit payments	<u>\$ 24.1</u>

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following components:

(Millions of US dollars)	31 March	
	2005	2004
Trade creditors	\$ 65.3	\$ 54.7
Other creditors and accruals	28.7	23.8
Total accounts payable and accrued liabilities	<u>\$ 94.0</u>	<u>\$ 78.5</u>

**10. Short and Long-Term Debt**

Long-term debt consists of the following components:

(Millions of US dollars)	31 March	
	2005	2004
US\$ noncollateralised notes - current portion	\$ 25.7	\$ 17.6
US\$ noncollateralised notes - long-term portion	121.7	147.4
Total debt at 7.12% average rate	<u>\$ 147.4</u>	<u>\$ 165.0</u>

The US\$ non-collateralised notes form part of a seven tranche private placement facility which provides for maximum borrowings of US\$165.0 million. Principal repayments are due in seven instalments that commenced on 5 November 2004 and end on 5 November 2013. The tranches bear fixed interest rates of 6.86%, 6.92%, 6.99%, 7.05%, 7.12%, 7.24% and 7.42%. Interest is payable 5 May and 5 November each year. The first tranche of US\$17.6 million was repaid in November 2004.

At 31 March 2005, the following are the scheduled maturities of long-term debt for each of the next five years and in total thereafter:

(Millions of US dollars)	
Years Ending 31 March:	
2006	\$ 25.7
2007	27.1
2008	8.1
2009	46.2
2010	-
Thereafter	40.3
Total	<u>\$ 147.4</u>

The Company has a short-term US\$ line of credit which provides for maximum borrowings and foreign exchange facilities of US\$15.0 million. At 31 March 2005, the Company had drawn down US\$11.9 million on this line of credit. The line of credit can be repaid and redrawn until maturity in April and December 2005 (US\$ 7.5 million on each date). Interest is recalculated at the commencement of each draw-down period based on the 90-day Chilean Tasa Activa Bancaria ("TAB") rate plus a margin and is payable at the end of each draw-down period. At 31 March 2005 and 2004, the weighted average interest rate on outstanding borrowings under this facility was 3.52% and 3.24%, respectively.

The Company has an A\$ denominated non-collateralised revolving loan facility, which can be repaid and redrawn until maturity in November 2006 and provides for maximum borrowings of A\$200.0 million (US\$154.5 million). Interest is recalculated at the commencement of each draw-down period based on the US\$ LIBOR or the average Australian bank bill rate plus the margins of individual lenders, and is payable at the end of each draw-down period. During the year ended 31 March 2005, the Company paid US\$0.5 million in commitment fees. At 31 March 2005, there was US\$154.5 million available under this revolving loan facility.

The Company has short-term non-collateralised stand-by loan facilities which provide for maximum borrowings of US\$132.5 million. At 31 March 2005, five out of six facilities or US\$117.5 million had a maturity date of 30 April 2005 and the sixth facility or US\$15.0 million had a maturity date of 30 October 2005. At 31 March 2005, the Company had not drawn down any of these facilities. Interest is recalculated at the commencement of each draw-down period based on either the US\$ LIBOR or the average A\$ bank bill bid rate plus the margins of the individual lenders and is payable at the end of each draw-down period. During the year ended 31 March 2005, the Company paid US\$0.3 million in commitment fees.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Historically, the Company has sought to renew its lines of credit, revolving loan and stand-by loan facilities each year under substantially the same terms and conditions. The Company is currently in negotiations with a number of banks to refinance all of its debt in a manner that provides the Company with the same amount of liquidity. However, in light of the events resulting from the Special Commission of Inquiry (see Note 13), the Company may not be able to refinance its debt facilities by the time they expire or at all. The Company may not be able to enter into new debt financing agreements on terms that provide the same level of liquidity as its current debt structure provides. Also, the company may have to agree to other terms that could increase the cost of having these debt facilities in place.

Subsequent to 31 March 2005, US\$117.5 million of the US\$ stand-by loan facilities are not available to the Company during refinancing negotiations. Also, the short-term US\$ line of credit that matured in April 2005 was renewed through March 2006.

As a consequence of the completion of the sale of the Gypsum business on 25 April 2002, the Company was technically not in compliance as of that date with certain pre-approval covenants of its US\$ non-collateralised note agreements totalling US\$225.0 million. Effective 23 December 2002, the note purchase agreement was amended to, among other matters, modify these covenants to remove the technical non-compliance caused by the sale of the Gypsum business. In connection with such amendment, the Company prepaid US\$60.0 million in principal amount of notes. As a result of the early retirement, the Company incurred a US\$9.9 million make-whole payment charge. The make-whole payment was charged to interest expense during the year ended 31 March 2003.

At 31 March 2005, management believes that the Company was in compliance with all restrictive covenants contained in the non-collateralised notes, revolving loan facility and the stand-by credit facility agreements. Under the most restrictive of these covenants, the Company is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and has limits on how much it can spend on an annual basis in relation to asbestos payments to either Amaca Pty Ltd (formerly James Hardie & Coy Pty Ltd) ("Amaca"), Amaba Pty Ltd (formerly Jsekarb Pty Ltd) ("Amaba") or ABN 60 Pty Ltd ("ABN 60").

**11. Non-Current Other Liabilities**

Non-current other liabilities consist of the following components:

(Millions of US dollars)	31 March	
	<b>2005</b>	2004
<b>Non-current other liabilities:</b>		
Employee entitlements	\$ 5.3	\$ 13.5
Product liability	4.7	5.6
Other	51.7	63.2
Total non-current other liabilities	<u>\$ 61.7</u>	<u>\$ 82.3</u>

**12. Product Warranties**

The Company offers various warranties on its products, including a 50-year limited warranty on certain of its fibre cement siding products in the United States. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty related costs based on an analysis of actual historical warranty costs as they relate to sales. Based on this analysis and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates.

Additionally, the Company includes in its accrual for product warranties amounts for a Class Action Settlement Agreement (the "Settlement Agreement") related to its previous roofing product, which is no longer manufactured in the United States. On 14 February 2002, the Company signed the Settlement Agreement for all product, warranty and property related liability claims associated with its previously manufactured roofing products. These products were removed from the marketplace between 1995 and 1998 in areas where there had been any alleged problems. Consequently, the Company recorded a pre-tax charge of US\$12.6 million in fiscal year 2002 comprised of US\$11.5 million to cover the estimated cost of the settlement and the estimated cost of any other pending claims or lawsuits remaining which are not covered by the settlement and US\$1.1 million of other costs related to the Settlement Agreement. The total amount included in the product warranty provision relating to the Settlement Agreement is US\$5.8 million and US\$4.7 million as of 31 March 2005 and 2004, respectively.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following are the changes in the product warranty provision:

(Millions of US dollars)	31 March	
	2005	2004
Balance at beginning of period	\$ 12.0	\$ 14.8
Accruals for product warranties	4.3	2.2
Settlements made in cash or in kind	(3.4)	(5.7)
Foreign currency translation adjustments	-	0.7
Balance at end of period	<u>\$ 12.9</u>	<u>\$ 12.0</u>

The "Accruals for product warranties" line item above includes an additional accrual of US\$2.0 million for the year ended 31 March 2005 related to the Settlement Agreement. This increase reflects the results of the Company's most recent estimate of its total exposure. The "Settlements made in cash or in kind" line item above includes settlements related to the Settlement Agreement of US\$0.9 million and US\$4.4 million for the years ended 31 March 2005 and 2004, respectively.

**13. Commitments and Contingencies**

**Claims Against Former Subsidiaries**

*Amaca Pty Ltd, Amaba Pty Ltd and ABN 60*

In February 2001, ABN 60, formerly known as James Hardie Industries Limited ("JHIL"), established the Medical Research and Compensation Foundation (the "Foundation") by gifting A\$3.0 million (US\$1.7 million) in cash and transferring ownership of Amaca and Amaba to the Foundation. The Foundation is a special purpose charitable foundation established to fund medical and scientific research into asbestos-related diseases. Amaca and Amaba were Australian companies which had manufactured and marketed asbestos-related products prior to 1987.

The Foundation is managed by independent trustees and operates entirely independently of the Company and its current subsidiaries. The Company does not control (directly or indirectly) the activities of the Foundation in any way and, effective from 16 February 2001, has not owned, or controlled (directly or indirectly) the activities of Amaca or Amaba. In particular, the trustees of the Foundation are responsible for the effective management of claims against Amaca and Amaba, and for the investment of Amaca's and Amaba's assets. Other than the offers to provide interim funding to the Foundation and the indemnity to the directors of ABN 60 referred to later in this footnote, the Company has no commitment to or interest in the Foundation, Amaca or Amaba, and it has no right to dividends or capital distributions made by the Foundation.

On 31 March 2003, the Company transferred control of ABN 60 to a newly established company named ABN 60 Foundation Pty Ltd ("ABN 60 Foundation"). ABN 60 Foundation was established to be the sole shareholder of ABN 60 and to ensure that ABN 60 meets payment obligations to the Foundation owed under the terms of a deed of covenant and indemnity described below. Following the establishment of the ABN 60 Foundation, the Company no longer owned any shares in ABN 60. ABN 60 Foundation is managed by independent directors and operates entirely independently of the Company. The Company does not control the activities of ABN 60 or ABN 60 Foundation in any way, it has no economic interest in ABN 60 or ABN 60 Foundation, and it has no right to dividends or capital distributions made by the ABN 60 Foundation.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Up to the date of the establishment of the Foundation, Amaca and Amaba incurred costs of asbestos-related litigation and settlements. From time to time, ABN 60 was joined as a party to asbestos suits which were primarily directed at Amaca and Amaba. Because Amaca, Amaba and ABN 60 are no longer a part of the Company, and all relevant claims against ABN 60 had been successfully defended, no provision for asbestos-related claims was established in the Company's consolidated financial statements at 31 March 2005 and 2004.

It is possible that the Company could become subject to suits for damages for personal injury or death in connection with the former manufacture or sale of asbestos products that are or may be filed against Amaca, Amaba or ABN 60. However, as described further below, the ability of any claimants to initiate or pursue such suits may be restricted or removed by legislation which the New South Wales ("NSW") Government has agreed to contemplate following the Company's entry into a Heads of Agreement, also described further below. Although it is difficult to predict the incidence or outcome of future litigation, the Company believes that, in the absence of governmental action introducing legislation or a change in jurisprudence as previously adopted in prior case law before the NSW Supreme Court and Federal High Court, as more fully described below, the risk that such suits could be successfully asserted against the Company is not probable and estimable at this time. This belief is based in part on the fact that, following the transfers of Amaca and Amaba to the Foundation and of ABN 60 to the ABN 60 Foundation: none of those companies are part of the Company; the separateness of corporate entities under Australian law; the limited circumstances where "piercing the corporate veil" might occur under Australian and Dutch law; there is no equivalent under Australian common law of the US legal doctrine of "successor liability," and because JHI NV has been advised that the principle applicable under Dutch law, to the effect that transferees of assets may be held liable for the transferor's liabilities when they acquire assets at a price that leaves the transferor with insufficient assets to meet claims, is not triggered by those transfers of Amaca, Amaba and ABN 60 or the restructure of the Company in 2001 or previous group transactions. The courts in Australia have generally refused to hold parent entities responsible for the liabilities of their subsidiaries absent any finding of fraud, agency, direct operational responsibility or the like. However, if suits are made possible and/or successfully brought, they could have a material adverse effect on the Company's business, results of operations or financial condition.

During the year ended 31 March 2005, James Hardie has not been a party to any material asbestos litigation and has not made any settlement payments in relation to such litigation.

*Special Commission of Inquiry*

On 29 October 2003, the Foundation issued a press release stating that its "most recent actuarial analysis estimates that the compensation bill for the organisation could reach one billion Australian dollars in addition to those funds already paid out to claimants since the Foundation was formed and that existing funding could be exhausted within five years." In February 2004, the NSW Government established a Special Commission of Inquiry ("SCI") to investigate, among other matters described below, the circumstances in which the Foundation was established. The SCI was instructed to determine the current financial position of the Foundation and whether it is likely to meet its future asbestos-related claims in the medium to long-term. It was also instructed to report on the circumstances in which the Foundation was separated from ABN 60 and whether this may have resulted in or contributed to a possible insufficiency of assets to meet future asbestos-related liabilities, and the circumstances in which any corporate restructure or asset transfers occurred within or in relation to the James Hardie Group prior to the funding of the Foundation to the extent that this may have affected the Foundation's ability to meet its current and future liabilities. The SCI was also instructed to report on the adequacy of current arrangements available to the Foundation under the Corporations Act of Australia to assist the Foundation in managing its liabilities and whether reform is desirable in order to assist the Foundation in managing its obligations to current and future claimants.

On 14 July 2004, following the receipt of a new actuarial estimate of asbestos liabilities of the Foundation by KPMG Actuaries Pty Ltd ("KPMG Actuaries"), the Company lodged a submission with the SCI stating that the Company would recommend to its shareholders that they approve the provision of an unspecified amount of additional funding to enable an effective statute-based scheme to compensate all future claimants for asbestos-related injuries for which Amaca and Amaba are liable. The Company proposed that the statutory scheme include the following elements: speedy, fair and equitable compensation for all existing and future claimants; objective criteria to reduce superimposed (judicial) inflation; contributions to be made in a manner which provide certainty to claimants as to their entitlement, the scheme administrator as to the amount available for distribution, and the proposed contributors (including the Company) as to the ultimate amount of their contributions; significant reductions in legal costs through reduced and more abbreviated litigation; and limitation of legal avenues outside of the scheme. The submission stated that the proposal was made without any admission of liability or prejudice to the Company's rights or defences.

The SCI finished taking evidence on 13 August 2004 and issued its report on 21 September 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.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In relation to the assertions by the Foundation concerning the circumstances of its establishment, the SCI examined these in detail. Although the SCI made certain adverse findings against Mr Macdonald (former CEO) and Mr Shafron (former CFO), it did not find that their conduct caused any material loss to the Foundation or the asbestos claimants which would create a cause of action against, and therefore a material liability of the Company or would lead to any of the restructuring arrangements being reversed. Indeed, the SCI specifically noted that there were significant hurdles, which might be insuperable, to establishing any liability in respect of these claims against the Company, ABN 60 or their respective directors, and that, even if liability were established, there were further hurdles which might prove to be insuperable against any substantial recovery or remedy by such potential claimants in respect of them.

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 30 June 2003. The central estimate was calculated in accordance with Australian Actuarial Standards, which differ from generally accepted accounting practices in the United States. As of 30 June 2003, the undiscounted value of the central estimate of the asbestos liabilities of Amaca and Amaba, as determined by KPMG Actuaries, was approximately A\$3.403 billion (US\$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.

In relation to the Company's statutory scheme proposal, the SCI reported that there were several issues that needed to be refined quite significantly but that it would be an appropriate starting point for devising a compensation scheme.

The SCI's findings are not binding and a court consideration of the issues presented could lead to one or more different conclusions.

The NSW Government 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 Australian Council of Trade Unions ("ACTU"), UnionsNSW (formerly known as the Labour Council of New South Wales), and a representative of the asbestos claimants (together, the "Representatives"). Without any discussion with the Company, the statutory scheme that the Company proposed on 14 July 2004 was not accepted by the Representatives.

The Company believes that, except to the extent that it agrees otherwise as a result of these discussions with the NSW Government and as discussed later in this footnote under the subheading *Interim Funding and ABN 60 Indemnity*, under current Australian law, it is not legally liable for any shortfall in the assets of Amaca, Amaba, the Foundation, the ABN 60 Foundation or ABN 60.

It is also possible that the Representatives and/or others may encourage or continue to encourage consumers and union members in Australia and elsewhere to boycott the Company's products, to demonstrate or otherwise create negative publicity toward the Company in order to influence the Company's approach to the discussions with the NSW Government or to encourage governmental action if the discussions are unsuccessful. The Representatives and/or 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.

On 28 October 2004, the NSW Premier announced that the NSW Government would seek the agreement of the Ministerial Council comprising Ministers of the Commonwealth and the Australian States and Territories, to allow the NSW Government to pass legislation which he announced would "wind back James Hardie's corporate restructure and rescind the cancellation of A\$1.9 billion in partly paid shares." The announcement said that "the laws will effectively enforce the liability [for asbestos-related claims] against the Dutch parent company." On 5 November 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 "the 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 5 November 2004 indicated that treaties to enforce Australian judgments in Dutch and US courts are not required, but that the Australian Government has been involved in communications with Dutch and US authorities regarding arrangements to ensure that Australian judgments are able to be enforced where necessary. If 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.

*Heads of Agreement*

On 21 December 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") to establish and fund a special purpose fund (the "SPF") to provide funding on a long-term basis for asbestos-related injury and death claims (the "Claims") against Amaca, Amaba, and ABN 60 (the "Liable Entities").

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The principles set out in the Heads of Agreement include:

- the establishment of the SPF to compensate asbestos claimants;
- initial funding of the SPF by the Company on the basis of a November 2004 KPMG report (which provided a net present value central estimate of A\$1.536 billion (US\$1.03 billion) for all present and future claims at 30 June 2004). The undiscounted value of the central estimate of the asbestos liabilities of Amaca and Amaba as determined by KPMG was approximately A\$3.586 billion (US\$2.471 billion). At 21 December 2004, the initial funding for the first three years was expected to be A\$239 million (based on KPMG's estimate of liabilities as of 30 June 2004) less the assets to be contributed by the Foundation which were expected to be approximately A\$125 million. The actuarial assessment is to be updated annually;
- a two year rolling cash buffer in the SPF and an annual contribution in advance based on actuarial assessments of expected claims for the next three years, to be revised annually;
- a cap on the annual payments made by the Company to the SPF, initially set at 35% of annual net operating cash flow (defined as cash from operations in accordance with US GAAP) for the immediately preceding year, with provisions for the percentage to decline over time depending upon the Company's financial performance and claims outlook; and
- no cap on individual payments to Claimants.

The Heads of Agreement contains an agreement from the NSW Government to provide releases to the James Hardie Group and to its present and past directors, officers and employees from all civil liabilities (if any) incurred prior to the date of the Principal Agreement in relation to the events and transactions examined by the SCI. These releases will take the form of legislation to be passed by the NSW Parliament and other state and territory parliaments in Australia (and the Commonwealth Parliament) will be approached by the Company and the NSW Government to pass similar legislation.

As noted above, the NSW Government conducted a review of legal and administrative costs in dust diseases compensation in New South Wales. 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 8 March 2005. The draft legislation and regulations for public comment were released on 12 April 2005 for comment and the closing date for responses of 26 April 2005. The bill containing the proposed legislation was introduced into NSW Parliament on 5 May 2005, and is due to be debated in the week commencing 23 May 2005. The timing of passing and commencement of this potential legislation remains uncertain.

As part of the discussions surrounding the Principal Agreement, the Company is examining all relevant options in relation to the establishment of the SPF referred to above, including the possibility of reacquiring all of the share capital of Amaca, Amaba and/or ABN 60.

The Principal Agreement will be subject to a number of conditions precedent, including the delivery of an independent expert's report and approval by the Company's board of directors, shareholders and lenders. Once executed, the Principal Agreement will be a legally binding agreement.

The parties have announced their intention to execute the Principal Agreement, depending on the timing of the resolution of certain of the conditions precedent in late June 2005. The parties believe that the agreement will become effective in August or September 2005, although the timing remains uncertain depending upon the status of the various conditions that need to be satisfied.

If an agreement is reached with the NSW Government and approved by the Company's board of directors, lenders and shareholders, the Company may be required to make a substantial provision in its financial statements at a later date, and it is possible that the Company may need to seek additional borrowing facilities. If the terms of a future resolution involve the Company making payments, either on an annual or other basis, pursuant to the Principal Agreement, James Hardie's financial position, results of operations and cash flows could be materially adversely affected and its ability to pay dividends could be reduced or otherwise impaired.

*Updated Actuarial Study; Claims Estimate*

The Company commissioned updated actuarial studies of potential asbestos-related liabilities as of 30 June 2004 and 31 March 2005. Based on the results of these studies, it is estimated that the discounted value of the central estimate for claims against the Liable Entities was approximately A\$1.536 billion (US\$1.059 billion) and A\$1.685 billion (US\$1.302 billion) as of 30 June 2004 and 31 March 2005, respectively. The undiscounted value of the central estimate of the asbestos liabilities of Amaca and Amaba as determined by KPMG Actuaries was approximately A\$3.586 billion (US\$2.471 billion) and A\$3.604 billion (US\$2.784 billion) as of 30 June 2004 and 31 March 2005, respectively. Actual liabilities of those companies for such claims could vary, perhaps materially, from the central estimate described above. This central estimate is calculated in accordance with Australian Actuarial Standards, which differ from generally accepted accounting practices in the United States.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In estimating the potential financial exposure, the actuaries made assumptions related to the total number of claims which were reasonably estimated to be asserted through 2071, the typical cost of settlement (which is sensitive to, among other factors, the industry in which the plaintiff claims exposure, the alleged disease type and the jurisdiction in which the action is being brought), the legal costs incurred in the litigation of such claims, the rate of receipt of claims, the settlement strategy in dealing with outstanding claims and the timing of settlements.

Further, the actuaries have relied on the data and information provided by the Foundation and Amaca Claim Services and assumed that it is accurate and complete in all material respects. The actuaries have not verified that information independently nor established the accuracy or completeness of the data and information provided or used for the preparation of the report.

Due to inherent uncertainties in the legal and medical environment, the number and timing of future claim notifications and settlements, the recoverability of claims against insurance contracts; and in estimating the future trends in average claim awards as well as the extent to which the above-named entities will contribute to the overall settlements, the actual liability amount could differ materially from that currently projected.

A sensitivity analysis has been performed to determine how the actuarial estimates would change if certain assumptions (i.e., the rate of inflation and superimposed inflation, the average costs of claims and legal fees, and the projected numbers of claims) were different than the assumptions used to determine the central estimates. This analysis shows that the discounted central estimates could fall in a range of A\$1.0 billion to A\$2.3 billion (undiscounted estimates of A\$2.0 billion to A\$5.7 billion) and A\$1.1 billion to A\$2.6 billion (undiscounted estimates of A\$2.0 billion to A\$5.9 billion) as of 30 June 2004 and 31 March 2005, respectively. It should be noted that the actual cost of the liabilities could fall outside of that range depending on the out-turn of actual experience relative to the assumptions made.

The potential range of costs as estimated by KPMG Actuaries is affected by a number of variables such as nil settlement rates (where no settlement is payable by the Liable Entities as the claim settlement is borne by other (non-Liable Entities) asbestos defendants who are held liable), peak year of claims, past history of claims numbers, average settlement rates, past history of Australian asbestos-related medical injuries, current number of claims, average defence and plaintiff legal costs, base wage inflation and superimposed inflation. The potential range of losses disclosed includes both asserted and unasserted claims. While no assurances can be provided, if the Company signs the Principal Agreement and it is approved by all of the necessary parties, including the board of directors, shareholders and lenders, the Company expects to be able to partially recover losses from various insurance carriers. As of 31 March 2005, KPMG Actuaries' undiscounted central estimate of asbestos-related liabilities was A\$3.604 billion. This undiscounted central estimate is net of expected insurance recoveries of A\$453.0 million after making a general credit risk allowance for bad debt of insurance carriers and an allowance for A\$49.8 million of "by claim" or subrogation recoveries from other third parties.

Currently, the timing of any potential payments is uncertain because the Company has not yet reached agreement with the NSW Government and the conditions precedent to any agreement that may be reached have not been satisfied. In addition, the Company has not yet incurred any settlement costs because the Foundation continues to meet all claims of the Liable Entities. The Company is currently unable to estimate the expected cost of administering and litigating the claims under the potential agreement with the NSW Government because this is highly contingent upon the final outcome of the NSW Government's review of legal and administrative costs.

Accordingly, the Company has not established a provision for asbestos-related liabilities as of 31 March 2005 because at this time it is not probable and estimable in accordance with SFAS No. 5, "Accounting for Contingencies."

*Claims Data*

The following table, provided by KPMG Actuaries, shows the number of claims pending as of 31 March 2005 and 2004.

	31 March	
	2005	2004
Australia	712	687
New Zealand	-	-
Unknown-Court Not Identified <sup>(1)</sup>	36	51
USA	1	5

<sup>(1)</sup> The "Unknown – Court Not Identified" designation reflects that the information for such claims had not been, as of the date of publication, entered into the database which the Foundation maintains. Over time, as the details of "unknown" claims are provided to the Foundation, the Company believes the database is updated to reflect where such claims originate. Accordingly, the Company understands the number of unknown claims pending fluctuates due to the resolution of claims as well as the reclassification of such claims.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the years ended 31 March 2005, 2004 and 2003, the following tables, provided by KPMG Actuaries, show the claims filed, the number of claims dismissed, settled or otherwise resolved for each period, and the average settlement amount per claim.

	Australia		
	Years Ended 31 March		
	2005	2004	2003
Number of claims filed	489	379	402
Number of claims dismissed	62	119	29
Number of claims settled or otherwise resolved	402	316	231
Average settlement amount per claim	A\$157,594	A\$167,450	A\$204,194

	New Zealand		
	Years Ended 31 March		
	2005	2004	2003
Number of claims filed	-	-	-
Number of claims dismissed	-	-	2
Number of claims settled or otherwise resolved	-	-	1
Average settlement amount per claim	-	-	A\$2,000

	Unknown - Court Not Identified		
	Years Ended 31 March		
	2005	2004	2003
Number of claims filed	7	1	7
Number of claims dismissed	20	15	-
Number of claims settled or otherwise resolved	2	-	3
Average settlement amount per claim	A\$47,000	-	A\$37,090

	USA		
	Years Ended 31 March		
	2005	2004	2003
Number of claims filed	-	-	-
Number of claims dismissed	3	1	-
Number of claims settled or otherwise resolved	1	-	-
Average settlement amount per claim	A\$228,293	-	-

The following table, provided by KPMG Actuaries, shows the activity related to the numbers of open claims, new claims, and closed claims during each of the past five years and the average settlement per settled claim and case closed.

	As of 31 March				
	2005	2004	2003	2002	2001
Number of open claims at beginning of year	743	814	671	569	507
Number of new claims	496	380	409	375	284
Number of closed claims	490	451	266	273	222
Number of open claims at year-end	749	743	814	671	569
Average settlement amount per settled claim	A\$157,223	A\$167,450	A\$201,200	A\$197,941	A\$179,629
Average settlement amount per case closed	A\$129,949	A\$117,327	A\$177,752	A\$125,435	A\$128,653

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has not had any responsibility or involvement in the management of claims against ABN 60 since the time it left the James Hardie Group in 2003. Since February 2001, when Amaca and Amaba were separated from the James Hardie Group neither JHI NV nor any current subsidiary of JHI NV has had any responsibility or involvement in the management of claims against those entities. Prior to that date, the principal entity potentially involved in relation to such claims was ABN 60, which (as described above) has not been a member of the James Hardie Group since March 2003.

On 15 April 2005, the Company announced that it had extended the coverage of the SPF to permit members of the Baryugil community in Australia to receive compensation funding from the SPF for proven and valid claims against a former subsidiary, Asbestos Mines Pty Ltd ("Asbestos Mines"). The Company has no current right to access any claims information in relation to claims against Asbestos Mines. The Company's proposal to provide funding with respect to claims against Asbestos Mines is not limited to the time period to which the claim arose - including the period after the former subsidiary was sold by James Hardie.

The Company's recently announced offer to provide funding to the SPF for use in meeting proven claims against Asbestos Mines will 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.

On 26 October 2004, the Company, the Foundation and KPMG Actuaries entered into an agreement under which the Company would be entitled to obtain a copy of the actuarial report prepared by KPMG Actuaries in relation to the claims liabilities of the Foundation and Amaba and Amaca, and would be entitled to publicly release the final version of such reports. The Company is seeking to obtain similar rights of access to actuarial information produced for the SPF by the actuary to be appointed by the SPF (the "Approved Actuary"). The terms of such access are not yet settled. The Company's future disclosures with respect to claims statistics is subject to it obtaining such information from the Approved Actuary. The Company has had no general right (and will not obtain any right under the Principal Agreement) to audit or otherwise itself independently verify such information as the methodologies to be adopted by the Approved Actuary. As a result of the above, the Company cannot make any representations or warranties as to the accuracy or completeness of the actuarial information to be disclosed.

*SCI and Other Related Expenses*

The Company has incurred substantial costs associated with the SCI and may incur material costs in the future related to the SCI or subsequent legal proceedings. The following are the components of SCI and other related expenses:

(Millions of US dollars)	<b>Year Ended 31 March 2005</b>
SCI	<b>\$ 6.8</b>
Internal investigation	<b>4.9</b>
ASIC investigation	<b>1.2</b>
Severance and consulting	<b>6.0</b>
Resolution advisory fees	<b>6.4</b>
Funding advice and other	<b>2.8</b>
Total SCI and other related expenses	<b><u>\$ 28.1</u></b>

Internal investigation costs relate to an internal investigation conducted by independent legal advisors to investigate the impact on the financial statements of allegations raised during the SCI and in order to assist in completion of the preparation and filing of the Company's Form 20-F in the United States for the year ended 31 March 2004.

*Australian Securities and Investments Commission Investigation*

The Australian Securities and Investments Commission ("ASIC") has announced that it is conducting an investigation into the events examined by the SCI, without limiting itself to the evidence compiled by the SCI. ASIC has served notices to produce relevant documents upon the Company, various directors and officers of the Company and on certain of its advisers and auditors at the time of the separation and restructure transactions described above. To date, ASIC has announced that it is investigating various matters, but it has not specified the particulars of alleged contraventions under investigation, nor has it announced that it has reached any conclusion that any person or entity has contravened any relevant law.

To assist ASIC's investigation, the Australian Federal Government enacted legislation to abrogate the legal professional privilege which would otherwise have attached to certain documents relevant to matters under investigation or to any future proceedings to be taken. The legislation is set out in the James Hardie (Investigations and Proceedings) Act 2004.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company may incur costs of current or former officers of the James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the Company to those persons. To date, no claims have been received by any current or former officers in relation to the ASIC investigation and, if claims do arise, the Company may be reimbursed in whole or in part under directors' and officers' insurance policies maintained by the Company.

*Severance Agreements*

On 20 October 2004, Mr Peter Shafron resigned from the Company and on 21 October 2004, Mr Peter Macdonald resigned from the Company. In connection with these resignations, the Company incurred severance costs of US\$8.9 million in the period ended 31 March 2005. These costs comprised US\$6.0 million of additional expense and US\$2.9 million of previously existing accruals.

*Interim Funding and ABN 60 Indemnity*

The Company has undertaken a number of initiatives to seek to ensure that payment of asbestos-related Claims by the Foundation is not interrupted due to insolvency of Amaba or Amaca prior to the Company's entry into the Principal Agreement. The initiatives are described further below. The Company believes that the Foundation is unlikely to need to avail itself of the financial assistance which has been offered by the Company, on the basis that on 3 December 2004 and in part as a result of the initiatives undertaken by the Company, the Foundation received a payment of approximately A\$88.5 million from ABN 60 for use in processing and meeting asbestos-related claims pursuant to the terms of a deed of covenant and indemnity which ABN 60, Amaca and Amaba had entered into in February 2001.

The Company facilitated the payment of such funds by granting an indemnity (under a separate deed on indemnity) to the directors of ABN 60, which it announced on 16 November 2004. Under the terms of that indemnity, the Company agreed to meet any liability incurred by the ABN 60 directors resulting from the release of the A\$88.5 million by ABN 60 to the Foundation. The Company believes that the release of funding by ABN 60 is in accordance with law and contracts in place and therefore the Company should not incur liability under this indemnity. The Company did not make any payments in relation to this indemnity during the year ended 31 March 2005.

Additionally, on 16 November 2004, the Company offered to provide funding to the Foundation on an interim basis for a period of up to six months from that date. Such funding would only be provided once existing Foundation funds have been exhausted. The Company believes, based on actuarial and legal advice, that claims against the Foundation should not exceed the funds which are available to the Foundation (particularly in the light of its receipt of the A\$88.5 million described above) or which are expected to become available to the Foundation during the period of the interim funding proposal.

On 31 March 2005, the Company renewed its commitment to assist the Foundation to provide interim funding, if necessary, prior to the Principal Agreement being finalised in accordance with the updated timetable announced at that date and described above.

The Company has not recorded a provision for either the proposed indemnity or the potential payments under the interim funding proposal. The Company has not made any payments in relation to this offer.

With regard to the ABN 60 indemnity, there is no maximum value or limit on the amount of payments that may be required. As such, the Company is unable to disclose a maximum amount that could be required to be paid. The Company believes, however, that the expected value of any potential future payments resulting from the ABN 60 indemnity is zero and that the likelihood of any payment being required under this indemnity is remote.

*Financial Position of the Foundation*

On the basis of the current cash and financial position of the Foundation's subsidiaries (Amaca and Amaba) and following the Company's entry into the Heads of Agreement, the applications previously made to the Supreme Court of NSW for the appointment of a provisional liquidator to the Foundation's subsidiaries, were dismissed with their consent.

**Environmental and Legal**

The operations of the Company, like those of other companies engaged in similar businesses, are subject to various federal, state and local laws and regulations on air and water quality, waste handling and disposal. The Company's policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

The Company is involved from time to time in various legal proceedings and administrative actions incidental or related to the normal conduct of its business. Although it is impossible to predict the outcome of any pending legal proceeding, management believes that such proceedings and actions should not, individually or in the aggregate, have a material adverse effect on either its consolidated financial position, results of operations or cash flows.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company believes that future legal costs related to the Company's negotiations toward a Principal Agreement are reasonably possible, but the amount of such costs cannot be estimated at this time. The Company does not expect any additional legal costs to be incurred in connection with the SCI.

**Gypsum Business**

Under the terms of the Company's agreement to sell its Gypsum business to BPB US Holdings, Inc., the Company agreed to customary indemnification obligations related to its representations and warranties in the agreement. The Company's indemnification obligation generally extends for two years from the closing date of 25 April 2002 and arises only if claims exceed US\$5 million in the aggregate and is limited to US\$100 million in the aggregate. This obligation expired 25 April 2004. In addition, the Company agreed to indemnify BPB US Holdings, Inc. for any future liabilities arising from asbestos-related injuries to persons or property. Although the Company is not aware of any asbestos-related claims arising from the Gypsum business, nor circumstances that would give rise to such claims, under the sale agreement, the Company's obligation to indemnify the purchaser for liabilities arising from asbestos-related injuries arises only if such claims exceed US\$5 million in the aggregate, is limited to US\$250 million in the aggregate and will continue for 30 years after the closing date of the sale of the Gypsum business.

Pursuant to the terms of the Company's agreement to sell its Gypsum business, the Company also retained responsibility for any losses incurred by the purchaser resulting from environmental conditions at the Duwamish River in Washington state so long as notice of a claim is given within 10 years of closing. The Company's indemnification obligations are subject to a US\$34.5 million limitation. The Seattle gypsum facility had previously been included on the "Confirmed and Suspected Contaminate Sites Report" released in 1987, prior to the Company's ownership, due to the presence of metals in the groundwater. Because the Company believes the metals found emanated from an offsite source, the Company does not believe it is liable for, and has not been requested to conduct, any investigation or remediation relating to the metals in the groundwater.

**Operating Leases**

As the lessee, the Company principally enters into property, building and equipment leases. The following are future minimum lease payments for non-cancellable operating leases having a remaining term in excess of one year at 31 March 2005:

(Millions of US dollars)	
Years Ending 31 March:	
2006	\$ 11.7
2007	10.8
2008	10.6
2009	9.7
2010	9.7
Thereafter	81.3
Total	<u>\$ 133.8</u>

Rental expense amounted to US\$9.1 million, US\$8.1 million and US\$9.0 million for the years ended 31 March 2005, 2004 and 2003, respectively.

**Capital Commitments**

Commitments for the acquisition of plant and equipment and other purchase obligations, primarily in the United States, contracted for but not recognised as liabilities and generally payable within one year, were US\$50.2 million at 31 March 2005.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Income Taxes**

The income tax (expense) benefit includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The income tax expense for continuing operations consists of the following components:

(Millions of US dollars)	Years Ended 31 March		
	2005	2004	2003
Income from continuing operations before income taxes:			
Domestic <sup>1</sup>	\$ 90.5	\$ 103.5	\$ 38.6
Foreign	99.3	62.2	71.0
Income from continuing operations before income taxes:	<u>\$ 189.8</u>	<u>\$ 165.7</u>	<u>\$ 109.6</u>
Income tax (expense) benefit:			
Current:			
Domestic <sup>1</sup>	(14.1)	(6.7)	(7.0)
Foreign	(37.1)	(20.4)	1.3
Current income tax expense	<u>(51.2)</u>	<u>(27.1)</u>	<u>(5.7)</u>
Deferred:			
Domestic <sup>1</sup>	5.0	(3.9)	0.1
Foreign	(15.7)	(9.4)	(20.5)
Deferred income tax expense	<u>(10.7)</u>	<u>(13.3)</u>	<u>(20.4)</u>
Total income tax expense for continuing operations	<u>\$ (61.9)</u>	<u>\$ (40.4)</u>	<u>\$ (26.1)</u>

<sup>1</sup> Since JHI NV is the Dutch parent holding company, domestic represents The Netherlands.

The income tax (expense) benefit computed at the statutory rates represents taxes on income applicable to all jurisdictions in which the Company conducts business, calculated as the statutory income tax rate in each jurisdiction multiplied by the pre-tax income attributable to that jurisdiction. The income tax expense from continuing operations is reconciled to the tax at the statutory rates as follows:

(Millions of US dollars)	Years Ended 31 March		
	2005	2004	2003
Income tax expense computed at statutory tax rates	\$ (65.3)	\$ (60.7)	\$ (37.2)
US state income taxes, net of the federal benefit	(5.3)	(0.2)	(1.2)
Benefit from Dutch financial risk reserve regime	18.1	24.8	11.9
Expenses not deductible	(2.3)	(2.5)	(4.7)
Non-assessable items	-	1.3	-
Losses not available for carryforward	(2.4)	-	(1.4)
Taxes related to 2001 Reorganisation	-	-	3.5
Net operating losses brought back to account	-	-	13.0
Increase in reserves	(3.7)	-	(10.0)
Result of tax audits	-	(3.9)	-
Other items	(1.0)	0.8	-
Total income tax expense	<u>\$ (61.9)</u>	<u>\$ (40.4)</u>	<u>\$ (26.1)</u>
Effective tax rate	<u>32.6%</u>	<u>24.4%</u>	<u>23.8%</u>

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Deferred tax balances consist of the following components:

(Millions of US dollars)	31 March	
	2005	2004
<b>Deferred tax assets:</b>		
Provisions and accruals	\$ 29.0	\$ 18.3
Net operating loss carryforwards	12.8	14.6
Capital loss carryforwards	33.7	33.2
Prepaid interest	-	16.6
Taxes on intellectual property transfer	7.5	8.7
Other	-	0.3
Total deferred tax assets	<u>83.0</u>	<u>91.7</u>
Valuation allowance	<u>(38.1)</u>	<u>(37.7)</u>
Total deferred tax assets net of valuation allowance	<u>44.9</u>	<u>54.0</u>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	(86.9)	(76.3)
Prepaid pension cost	(2.5)	(4.2)
Foreign currency movements	2.8	(1.1)
Prepayments	2.5	-
Other	-	(0.9)
Total deferred tax liabilities	<u>(84.1)</u>	<u>(82.5)</u>
Total deferred taxes, net	<u>\$ (39.2)</u>	<u>\$ (28.5)</u>

Under SFAS No. 109, "Accounting for Income Taxes," the Company establishes a valuation allowance against a deferred tax asset if it is more likely than not that some portion or all of the deferred tax asset will not be realised. The Company has established a valuation allowance pertaining to a portion of its Australian net operating loss carryforwards and all of its Australian capital loss carryforwards. The valuation allowance increased by US\$0.4 million during the year primarily due to foreign currency movements.

At 31 March 2005, the Company had Australian tax loss carryforwards of approximately US\$30.6 million that will never expire. During fiscal year 2004, the Company wrote-off US\$43.1 million in Australian tax loss carryforwards that are permanently impaired. The Company had previously provided a 100% valuation allowance against these carryforwards.

At 31 March 2005, the Company had US\$112.2 million in Australian capital loss carryforwards which will never expire. During fiscal years 2005 and 2004, the Company used US\$0.2 million and US\$21.4 million of these losses, respectively. During fiscal year 2004, the Company added Australian capital loss carryforwards of approximately US\$99.4 million primarily as a result of the Company electing to file its Australian income tax returns as a single consolidated group. At 31 March 2005, the Company had a 100% valuation allowance against the Australian capital loss carryforwards.

Under Australian legislation in fiscal year 2003, the Company's Australian entities have elected to file their Australian income tax returns as a single consolidated group. The election allows the group to recognise value in certain deferred tax assets against which the Company had in prior years established a valuation allowance. Accordingly, the Company released US\$13.0 million of valuation allowance during the year ended 31 March 2003.

At 31 March 2005, the undistributed earnings of non-Dutch subsidiaries approximated US\$425.0 million. The Company intends to indefinitely reinvest these earnings, and accordingly, has not provided for taxes that would be payable upon remittance of those earnings. The amount of the potential deferred tax liability is impracticable to determine at this time.

Due to the size of the Company and the nature of its business, the Company is subject to ongoing reviews by the Internal Revenue Service ("IRS") and other taxing jurisdictions on various tax matters, including challenges to various positions the Company asserts. The Company accrues for tax contingencies based upon its best estimate of the taxes ultimately expected to be paid, which it updates over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If the Company ultimately determines that payment of these amounts is unnecessary, the Company reverses the liability and recognises a tax benefit during the period in which the Company determines that the liability is no longer necessary. The Company records an additional charge in the period in which it determines that the recorded tax liability is less than it expects the ultimate assessment to be.

The IRS has audited the Company's U.S. income tax returns for all the years ended through 31 March 2000. The California Franchise Tax Board ("FTB") audited the Company's California franchise tax returns for all tax years ended through 31 March 1999 and proposed substantial assessments. The Company settled the audits with the FTB during fiscal year 2005 and also filed amended income tax returns and paid additional tax for the years ended 31 March 2000 through 2003. The Company recorded a US\$2.5 million tax benefit to reduce amounts accrued in excess of all amounts paid to the FTB through 31 March 2003.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Tax authorities from various jurisdictions in which the Company operates are in the process of auditing the Company's respective jurisdictional income tax returns for various ranges of years. None of the audits have progressed sufficiently to predict their ultimate outcome. The Company has accrued income tax liabilities for these audits based upon knowledge of all relevant facts and circumstances, taking into account existing tax laws, its experience with previous audits and settlements, the status of current tax examinations, and how the tax authorities view certain issues.

The Company currently derives significant tax benefits under the US-Netherlands tax treaty. During fiscal year 2005, this treaty was amended to provide, among other things, new requirements that the Company must meet for the Company to continue to qualify for treaty benefits. If the Company is unable to satisfy the requirements for treaty benefits it could significantly increase the Company's effective tax rate in fiscal year 2006 forward. The Company is in the process of considering changes to its organisational and operational structure to satisfy the requirements of the amended treaty. Accordingly, the Company is planning to implement various reorganisation options to satisfy those requirements to be eligible for benefits under the amended treaty. However, the Company cannot guarantee that it will be successful in implementing these plans, or that the restructured organisation and operations will comply with the new treaty requirements.

#### **15. Discontinued Operations**

##### **Building Systems**

On 30 May 2003, the Company sold its New Zealand Building Systems business to a third party. A gain of US\$1.9 million represented the excess of net proceeds from the sale of US\$6.7 million over the net book value of assets sold of US\$4.8 million. The proceeds from the sale were comprised of cash of US\$5.0 million and a note receivable in the amount of US\$1.7 million. As of March 2005, the US\$1.7 million note receivable had been collected in full.

##### **Gypsum**

On 13 March 2002, the Company announced that it had signed an agreement to sell the Gypsum business to a third party. The transaction was completed on 25 April 2002. A pre-tax gain of US\$81.4 million was recorded representing the excess of net proceeds from the sale of US\$334.4 million over the net book value of assets sold of US\$253.0 million. The sale resulted in income tax expense of US\$26.1 million. The proceeds from the sale were comprised of cash of US\$345.0 million less selling costs of US\$10.6 million.

On 28 June 2001, the Company entered into an agreement to sell its gypsum mine property in Las Vegas, Nevada to a developer. The transaction was completed on 21 March 2003. A pre-tax gain of US\$49.2 million represented the excess of net proceeds from the sale of US\$48.4 million less the cost of assets sold of US\$0.7 million and the assumption of US\$1.5 million in liabilities by the buyer. The sale resulted in income tax expense of US\$19.2 million. The proceeds from the sale were comprised of cash of US\$50.6 million less selling costs of US\$2.2 million.

##### **Building Services**

During the year ended 31 March 2003, the Company recorded a loss of US\$1.3 million related to its Building Services business which was disposed of in November 1996. The loss consisted of expenses of US\$0.8 million and a US\$0.5 million write down of an outstanding receivable that was retained as part of the sale.

##### **ABN 60**

On 31 March 2003, James Hardie transferred control of ABN 60 to a newly established company named ABN 60 Foundation. ABN 60 Foundation was established to be the sole shareholder of ABN 60 and to ensure ABN 60 meets its payment obligations to the Foundation. Following the establishment of the ABN 60 Foundation, JHI NV no longer owns any shares of ABN 60. ABN 60 Foundation is managed by independent directors and operates entirely independently of James Hardie. James Hardie does not control the activities of ABN 60 or ABN 60 Foundation in any way. James Hardie has no economic interest, other than described in Note 13, in ABN 60 or ABN 60 Foundation and has no right to dividends or capital distributions. Apart from the express indemnity for non-asbestos matters provided to ABN 60 and a possible arrangement to fund some or all future claimants for asbestos-related injuries caused by former James Hardie subsidiary companies and to the potential liabilities more fully described in Note 13, the Company does not believe it will have any liability under current Australian law should future liabilities of ABN 60 or ABN 60 Foundation exceed the funds available to those entities. As a result of the change in ownership of ABN 60 on 31 March 2003, a loss on disposal of US\$0.4 million was recorded by James Hardie at 31 March 2003, representing the liabilities of ABN 60 (to the Foundation) of A\$94.6 million (US\$57.2 million), the A\$94.5 million (US\$57.1 million) in cash held on the balance sheet, and costs associated with the establishment and funding of ABN 60 Foundation.

JHI NV has agreed to indemnify ABN 60 Foundation for any non asbestos-related legal claims made on ABN 60. There is no maximum amount of the indemnity and the term of the indemnity is in perpetuity. James Hardie believes that the likelihood of any material non asbestos-related claims occurring is remote. As such, the Company has not recorded a liability for the indemnity. James Hardie has not pledged any assets as collateral for such indemnity.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amaca, Amaba and ABN 60 have all agreed to indemnify JHI NV and its related corporate entities for past and future asbestos-related liabilities as part of the establishment of the respective foundations. Amaca, Amaba and ABN 60's obligation to indemnify JHI NV and its related entities includes claims that may arise associated with the manufacturing activities of those companies.

The following are the results of operations of discontinued businesses:

(Millions of US dollars)	Years Ended 31 March		
	2005	2004	2003
<b>Building Systems</b>			
Net sales	\$ -	\$ 2.9	\$ 20.1
Income before income tax expense	-	0.3	2.8
Income tax expense	-	(0.1)	(0.9)
Net income	-	0.2	1.9
<b>Building Services</b>			
Net sales	\$ -	\$ -	\$ -
Loss before income tax benefit	(0.5)	-	-
Income tax benefit	0.2	-	-
Net loss	(0.3)	-	-
<b>Gypsum</b>			
Net sales	-	-	18.7
Income before income tax expense	-	-	1.8
Income tax expense	-	-	(0.7)
Net income	-	-	1.1
<b>Total</b>			
Net sales	-	2.9	38.8
(Loss) income before income tax benefit (expense)	(0.5)	0.3	4.6
Income tax benefit (expense)	0.2	(0.1)	(1.6)
Net (loss) income	(0.3)	0.2	3.0
(Loss) gain on disposal, net of income taxes	(0.7)	4.1	84.0
(Loss) income from discontinued operations	\$ (1.0)	\$ 4.3	\$ 87.0

**16. Stock-Based Compensation**

At 31 March 2005, the Company had the following stock-based compensation plans: three Peter Donald Macdonald Share Option Plans; the Executive Share Purchase Plan; the 2001 Equity Incentive Plan; one Shadow Stock Plan and one Stock Appreciation Rights Plan.

In fiscal year 2003, the Company adopted the fair value provisions of SFAS No. 123, which requires the Company to value stock options issued based upon an option pricing model and recognise this value as compensation expense over the periods in which the options vest (see Note 2).

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. In the table below are the weighted average assumptions and weighted average fair values used for grants in fiscal years 2005, 2004 and 2003:

	Years Ended 31 March		
	2005	2004	2003
Dividend yield	1.1%	1.0%	2.9%
Expected volatility	29.1%	26.0%	27.0%
Risk free interest rate	3.2%	2.7%	2.9%
Expected life in years	3.3	3.3	4.6
Weighted average fair value at grant date	A\$1.35	A\$1.42	A\$1.12

Compensation expense arising from stock option grants as determined using the Black-Scholes model was US\$3.0 million, US\$3.2 million and US\$1.9 million for the fiscal years ended 31 March 2005, 2004 and 2003, respectively.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Peter Donald Macdonald Share Option Plans**

Peter Donald Macdonald Share Option Plan

As a replacement for options previously granted by JHIL on 17 November 1999, Mr Macdonald was granted an option to purchase 1,200,000 shares of the Company's common stock at an exercise price of A\$3.87 per share under the JHI NV Peter Donald Macdonald Share Option Plan. As with the original JHIL option grant, this stock option became fully vested and exercisable on 17 November 2004. The options expired on 20 April 2005, six months after the date of Mr Macdonald's resignation. The exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions, as set out in the plan rules. Consequently, the exercise price was reduced by A\$0.21, A\$0.38 and A\$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively. All 1,200,000 options were outstanding and exercisable at 31 March 2005. Mr Macdonald exercised all of these options in April 2005.

Peter Donald Macdonald Share Option Plan 2001

As a replacement for options previously granted by JHIL on 12 July 2001, Mr Macdonald was granted an option to purchase 624,000 shares of the Company's common stock at an exercise price per share equal to A\$5.45 under the JHI NV Peter Donald Macdonald Share Option Plan 2001. The replacement options were to become exercisable for 468,000 shares on the first business day on or after 12 July 2004, if JHI NV's total shareholder returns ("TSR") (essentially its dividend yield and common stock performance) from 12 July 2001 to that date was at least equal to the median TSR for the companies comprising JHI NV's peer group, as set out in the plan. In addition, the replacement options were to become exercisable on that same day for an additional 6,240 shares for each one-percent improvement in JHI NV's TSR ranking above the median total shareholder returns for its peer group (up to a total of 156,000 additional shares). On the first business day of each month from November 2004 until the options expired on 20 April 2005, six months after the date of Mr Macdonald's resignation, JHI NV's total shareholder returns were compared with that of its peer group to determine if any previously unvested options vest according to the applicable test described above. As set out in the plan rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A\$0.21, A\$0.38 and A\$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively. All 624,000 options were outstanding at 31 March 2005. As the TSR requirement had not been met six months after Mr Macdonald ceased to be employed by JHI NV, all of these options expired in April 2005.

Peter Donald Macdonald Share Option Plan 2002

On 19 July 2002, under the JHI NV Peter Donald Macdonald 2002 Share Option Plan, Mr Macdonald was granted an option to purchase 1,950,000 shares of the Company's common stock at an exercise price of A\$6.30 per share. These options will become exercisable for 1,462,500 shares of JHI NV's common stock on the first business day on or after 19 July 2005, if JHI NV's TSR from 19 July 2002 to that date is at least equal to the median TSR for the companies comprising its peer group, which comprises those companies included in the S&P/ASX 200 index excluding the companies listed in the 200 Financials and 200 Property Trust indices. Additionally, for each one-percent improvement in JHI NV's TSR ranking above the median TSR for its peer group 19,500 shares become exercisable (up to a total of 487,500 additional shares). If any options remain unexercisable on that date because the applicable test for TSR is not satisfied, then on the first business day of each month occurring from that day until 31 October 2005, JHI NV's TSR will again be compared with that of its peer group to determine if any previously unvested options vest according to the applicable test described above. The vested options will remain exercisable until the tenth anniversary of the issue date, 19 July 2012. As set out in the plan rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A\$0.21 and A\$0.38 for the November 2003 and November 2002 returns of capital, respectively. All 1,950,000 options were outstanding at 31 March 2005.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Executive Share Purchase Plan**

Prior to July 1998, JHIL issued stock under an Executive Share Purchase Plan (the "Plan"). Under the terms of the Plan, eligible executives purchased JHIL shares at their market price when issued. Executives funded purchases of JHIL shares with non-recourse, interest-free loans provided by JHIL and collateralised by the shares. In such cases, the amount of indebtedness is reduced by any amounts payable by JHIL in respect of such shares, including dividends and capital returns. These loans are generally payable within two years after termination of an executive's employment. As part of the 2001 Reorganisation, the identical terms of the agreement have been carried over to JHI NV. Variable plan accounting under the provisions of APB Opinion No. 25 has been applied to the Executive Share Purchase Plan shares granted prior to 1 April 1995 and fair value accounting, pursuant to the requirements of SFAS No. 123, has been applied to shares granted after 31 March 1995. Accordingly, the Company recorded variable compensation expense of nil, US\$0.1 million and nil for the years ended 31 March 2005, 2004 and 2003, respectively. No shares were issued to executives during fiscal years 2005, 2004 and 2003.

**2001 Equity Incentive Plan**

On 19 October 2001 (the grant date), JHI NV granted a total of 5,468,829 stock options under the JHI NV 2001 Equity Incentive Plan (the "2001 Equity Incentive Plan") to key US executives in exchange for their previously granted Key Management Equity Incentive Plan ("KMEIP") shadow shares that were originally granted in November 2000 and 1999 by JHIL. These options may be exercised in five equal tranches (20% each year) starting with the first anniversary of the original shadow share grant.

Original Shadow Share Grant Date	Original Exercise Price	Number of Options Granted	Option Expiration Date
November 1999	A\$3.82	1,968,544	November 2009
November 2000	A\$3.78	3,500,285	November 2010

As set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A\$0.21, A\$0.38 and A\$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively.

Under the 2001 Equity Incentive Plan, additional grants have been made at fair market value to management and other employees of the Company as follows:

Share Grant Date	Original Exercise Price	Number of Options Granted	Option Expiration Date
December 2001	A\$5.65	4,248,417	December 2011
December 2002	A\$6.66	4,037,000	December 2012
December 2003	A\$7.05	6,179,583	December 2013
December 2004	A\$5.99	5,391,100	December 2014
February 2005	A\$6.30	273,000	February 2015

Each option confers the right to subscribe for one ordinary share in the capital of JHI NV. The options may be exercised as follows: 25% after the first year; 25% after the second year; and 50% after the third year. All unexercised options expire 10 years from the date of issue or 90 days after the employee ceases to be employed by the Company. Also, as set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price on the December 2002 and December 2001 option grants were reduced by A\$0.21 for the November 2003 return of capital and the December 2001 option grant was reduced by A\$0.38 for the November 2002 return of capital.

The Company is authorised to issue 45,077,100 shares under the 2001 Equity Incentive Plan. The following table summarises the shares available for grant under this plan:

Shares Available for Grant	Years Ended 31 March		
	2005	2004	2003
Shares available at 1 April	27,293,210	32,884,940	35,435,281
Awards granted	(5,664,100)	(6,179,583)	(4,037,000)
Options forfeited	2,711,148	587,853	1,486,659
Shares available at 31 March	24,340,258	27,293,210	32,884,940

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table shows the movement in all of the Company's outstanding options:

(In Australian dollars)	2005		2004		2003	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at 1 April	17,978,707	A\$ 5.72	13,410,024	A\$ 5.20	10,969,562	A\$4.54
Granted	5,664,100	6.00	6,179,583	7.05	5,987,000	6.42
Exercised	(803,049)	4.13	(1,023,047)	4.38	(2,059,879)	3.57
Forfeited	(2,711,148)	6.56	(587,853)	5.79	(1,486,659)	4.95
Outstanding at 31 March	<b>20,128,610</b>	<b>A\$ 5.75</b>	17,978,707	A\$ 5.72	13,410,024	A\$5.20
Options exercisable at 31 March	<b>7,155,625</b>	<b>A\$ 5.08</b>	3,858,736	A\$ 4.54	1,948,346	A\$4.17

(In Australian dollars)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 31 March 2005	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at 31 March 2005	Weighted Average Exercise Price
A\$3.09	1,114,562	5.6	A\$3.09	718,489	A\$3.09
3.13	369,598	4.6	3.13	369,598	3.13
3.18	1,200,000	4.6	3.18	1,200,000	3.18
4.76	624,000	6.3	4.76	-	-
5.06	2,153,525	6.7	5.06	2,153,525	5.06
5.71	1,950,000	7.3	5.71	-	-
5.99	5,193,100	9.7	5.99	25,000	5.99
6.30	273,000	9.9	6.30	-	-
6.45	2,696,575	7.7	6.45	1,435,975	6.45
7.05	4,554,250	8.7	7.05	1,253,038	7.05
A\$3.09 to A\$7.05	<b>20,128,610</b>	<b>7.9</b>	<b>A\$5.75</b>	<b>7,155,625</b>	<b>A\$5.08</b>

**Shadow Stock and Stock Appreciation Rights Plans**

The US Shadow Stock Plan provides an incentive to certain key employees in the United States based on growth in the JHI NV share price over time as if such employees were the owners of that number of JHI NV's common stock equal to the number of shares of shadow stock issued to employees. The vesting period of this shadow stock plans is five years. The last grant date under the US Shadow Stock Plan was 17 December 2001.

In December 1998, a shadow stock plan for non-US based employees was instituted under similar terms to the US Shadow Stock Plan with a vesting period of three years. The last grant date under this plan was 15 August 2001.

Both the US Shadow Stock Plan and the December 1998 Non-US Based Employees Stock Plan were terminated on 28 February 2005. The value on that day of all the outstanding shares of those plans was paid to the participants.

On 5 December 2003, 12,600 shadow stock shares were granted under the terms and conditions of the Key Management Shadow Stock Incentive Plan. At 31 March 2005, 12,600 shadow stock shares were outstanding. All of these shadow stock shares were cancelled in April 2005.

On 14 December 2004, 527,000 stock appreciation rights were granted under the terms and conditions of the JHI NV Stock Appreciation Rights Incentive Plan. This plan provides similar incentives as the 2001 Equity Incentive Plan. All of these stock appreciation rights were outstanding at 31 March 2005 and will vest over three years from date of grant.

All of these plans have been accounted for as stock appreciation rights under SFAS No. 123 and, accordingly, compensation expense of nil, US\$2.6 million and US\$1.9 million was recognised in fiscal years 2005, 2004 and 2003, respectively.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Financial Instruments**

**Foreign Currency**

As a multinational corporation, the Company maintains significant operations in foreign countries. As a result of these activities, the Company is exposed to changes in exchange rates which affect its results of operations and cash flows. At 31 March 2005 and 2004, the Company had not entered into any material contracts to hedge these exposures.

The Company purchases raw materials and fixed assets and sells some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, the Company may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 31 March 2005 and 2004, there were no material contracts outstanding.

**Credit Risk**

Financial instruments which potentially subject the Company to credit risk consist primarily of cash and cash equivalents, investments and trade accounts receivable.

The Company maintains cash and cash equivalents, investments and certain other financial instruments with various major financial institutions. At times, these financial instruments may be in excess of federally insured limits. To minimise this risk, the Company performs periodic evaluations of the relative credit standing of these financial institutions and, where appropriate, places limits on the amount of credit exposure with any one institution.

For off-balance sheet financial instruments, including derivatives, credit risk also arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. The Company controls risk through the use of credit ratings and reviews of appropriately assessed authority limits.

The Company is exposed to losses on forward exchange contracts in the event that counterparties fail to deliver the contracted amount. The credit exposure to the Company is calculated as the mark-to-market value of all contracts outstanding with that counterparty. At 31 March 2005 and 2004, total credit exposure arising from forward exchange contracts was not material.

Credit risk with respect to trade accounts receivable is concentrated due to the concentration of the distribution channels for the Company's fibre cement products. Credit is extended based on an evaluation of each customer's financial condition and, generally, collateral is not required. The Company has historically not incurred significant credit losses.

**Interest Rates**

At 31 March 2005, the Company had US\$11.9 million outstanding under its short-term line of credit, which is subject to variable interest rates. No interest rate hedging contracts in respect to that debt have been entered into.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fair Values**

The carrying values of cash and cash equivalents, marketable securities, accounts receivable, short-term borrowings and accounts payable and accrued liabilities are a reasonable estimate of their fair value due to the short-term nature of these instruments. The following table summarises the estimated fair value of the Company's long-term debt (including current portion of long-term debt):

(Millions of US dollars)	31 March			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt:				
Floating	\$ -	\$ -	\$ -	\$ -
Fixed	147.4	173.6	165.0	186.8
Total	<u>\$ 147.4</u>	<u>\$ 173.6</u>	<u>\$ 165.0</u>	<u>\$ 186.8</u>

Fair values of long-term debt were determined by reference to the 31 March 2005 and 2004 market values for comparably rated debt instruments.

**18. Operating Segment Information and Concentrations of Risk**

The Company has reported its operating segment information in the format that the operating segment information is available to and evaluated by the Board of Directors. USA Fibre Cement manufactures and sells fibre cement interior linings, exterior siding and related accessories products in the United States. Asia Pacific Fibre Cement includes all fibre cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand and Asia. Research and Development represents the cost incurred by the research and development centres. Other includes the manufacture and sale of fibre cement products in Chile, the manufacture and sale of fibre cement reinforced pipes in the United States, fibre cement operations in Europe and fibre cement roofing operations in the United States. The Company's reportable operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

**Operating Segments**

The following are the Company's operating segments and geographical information:

(Millions of US dollars)	Net Sales to Customers <sup>1</sup> Years Ended 31 March		
	2005	2004	2003
USA Fibre Cement	\$ 939.2	\$ 738.6	\$ 599.7
Asia Pacific Fibre Cement	236.1	219.8	174.3
Other Fibre Cement	35.1	23.5	9.6
Worldwide total from continuing operations	<u>\$ 1,210.4</u>	<u>\$ 981.9</u>	<u>\$ 783.6</u>

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Millions of US dollars)	Income from Continuing Operations Before Income Taxes Years Ended 31 March		
	2005	2004	2003
USA Fibre Cement <sup>2</sup>	\$ 241.5	\$ 195.6	\$ 155.1
Asia Pacific Fibre Cement <sup>2</sup>	46.8	37.6	27.3
Research and Development <sup>2</sup>	(17.5)	(17.6)	(13.0)
Other Fibre Cement	(11.8)	(15.9)	(10.7)
Segments total	259.0	199.7	158.7
General Corporate <sup>3,4</sup>	(62.8)	(27.5)	(29.9)
Total operating income	196.2	172.2	128.8
Net interest expense <sup>5</sup>	(5.1)	(10.0)	(19.9)
Other (expense) income, net	(1.3)	3.5	0.7
Worldwide total from continuing operations	\$ 189.8	\$ 165.7	\$ 109.6

(Millions of US dollars)	Total Identifiable Assets 31 March	
	2005	2004
USA Fibre Cement	\$ 670.1	\$ 554.9
Asia Pacific Fibre Cement	181.4	175.9
Other Fibre Cement	81.6	74.7
Segments total	933.1	805.5
General Corporate <sup>6</sup>	155.8	165.7
Worldwide total	\$ 1,088.9	\$ 971.2

(Millions of US dollars)	Additions to Property, Plant and Equipment <sup>7</sup> Years Ended 31 March		
	2005	2004	2003
USA Fibre Cement	\$ 144.8	\$ 56.2	\$ 81.0
Asia Pacific Fibre Cement	4.1	8.4	6.6
Other Fibre Cement	4.1	9.5	2.5
Segments total	153.0	74.1	90.1
General Corporate	-	-	0.1
Worldwide total	\$ 153.0	\$ 74.1	\$ 90.2

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Millions of US dollars)	Depreciation and Amortisation Years Ended 31 March		
	2005	2004	2003
USA Fibre Cement	\$ 23.1	\$ 25.1	\$ 18.2
Asia Pacific Fibre Cement	10.1	9.7	8.7
Other Fibre Cement	3.1	1.5	0.3
Segments total	36.3	36.3	27.2
General Corporate	-	0.1	0.2
Discontinued operations	-	-	1.3
Worldwide total	\$ 36.3	\$ 36.4	\$ 28.7

**Geographic Areas**

(Millions of US dollars)	Net Sales to Customers <sup>1</sup> Years Ended 31 March		
	2005	2004	2003
USA	\$ 955.7	\$ 748.9	\$ 605.0
Australia	160.5	154.9	124.7
New Zealand	49.6	40.6	31.6
Other Countries	44.6	37.5	22.3
Worldwide total from continuing operations	\$ 1,210.4	\$ 981.9	\$ 783.6

(Millions of US dollars)	Total Identifiable Assets 31 March	
	2005	2004
USA	\$ 729.2	\$ 609.8
Australia	118.8	119.1
New Zealand	21.4	19.7
Other Countries	63.7	56.9
Segments total	933.1	805.5
General Corporate <sup>6</sup>	155.8	165.7
Worldwide total	\$ 1,088.9	\$ 971.2

<sup>1</sup> Export sales and inter-segmental sales are not significant.

<sup>2</sup> Research and development costs of US\$7.6 million, US\$6.3 million and US\$5.3 million in fiscal years 2005, 2004 and 2003, respectively, were expensed in the USA Fibre Cement operating segment. Research and development costs of US\$1.9 million, US\$2.2 million and US\$2.4 million in 2005, 2004 and 2003, respectively, were expensed in the Asia Pacific Fibre Cement segment. Research and development costs of US\$12.0 million, US\$14.1 million and US\$10.4 million in fiscal years 2005, 2004 and 2003, respectively, were expensed in the Research and Development segment. The Research and Development segment also included selling general and administrative expenses of US\$5.5 million, US\$3.5 million and US\$2.7 million in fiscal years 2005, 2004 and 2003 respectively.

Research and development expenditures are expensed as incurred and in total amounted to US\$21.6 million, US\$22.6 million and US\$18.1 million for the years ended 31 March 2005, 2004 and 2003, respectively.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<sup>3</sup> The principal components of General Corporate are officer and employee compensation and related benefits, professional and legal fees, administrative costs and rental expense, net of rental income, on the Company's corporate offices.

Net periodic pension cost related to the Australian Defined Benefit Plan for the Asia Pacific Fibre Cement segment totalling US\$2.3 million, US\$1.8 million and US\$2.3 million in fiscal years 2005, 2004 and 2003, respectively, has been included in the General Corporate segment. Also a settlement loss of US\$5.3 million on the Defined Benefit Plan in fiscal year 2005 has been included in the General Corporate segment.

<sup>4</sup> Includes costs of US\$28.1 million for SCI and other related expenses. See Note 13.

<sup>5</sup> The Company does not report net interest expense for each reportable segment as reportable segments are not held directly accountable for interest expense.

<sup>6</sup> The Company does not report deferred tax assets and liabilities for each reportable segment as reportable segments are not held directly accountable for deferred taxes. All deferred taxes are included in General Corporate.

<sup>7</sup> Additions to property, plant and equipment are calculated on an accrual basis, and therefore differ from property, plant and equipment in the consolidated statements of cash flows.

**Concentrations of Risk**

The distribution channels for the Company's fibre cement products are concentrated. If the Company were to lose one or more of its major customers, there can be no assurance that the Company will be able to find a replacement. Therefore, the loss of one or more customers could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has three major customers that individually account for over 10% of the Company's net sales.

These three customers' accounts receivable represented 49% and 50% of the Company's trade accounts receivable at 31 March 2005 and 2004, respectively. The following are net sales generated by these three customers, which are all from the USA Fibre Cement segment:

(Millions of US dollars)	Years Ended 31 March		
	2005	2004	2003
Customer A	\$ 131.8	\$ 111.3	\$ 125.1
Customer B	295.4	252.2	211.4
Customer C	131.7	112.9	84.3
Total	<u>\$ 558.9</u>	<u>\$ 476.4</u>	<u>\$ 420.8</u>

Approximately 21% of the Company's fiscal year 2005 net sales from continuing operations were derived from outside the United States. Consequently, changes in the value of foreign currencies could significantly affect the consolidated financial position, results of operations and cash flows of the Company's non-US operations on translation into US dollars.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Other Comprehensive Loss**

The following are the components of total accumulated other comprehensive loss, net of related tax, which is displayed in the consolidated balance sheets:

(Millions of US dollars)	31 March	
	2005	2004
Unrealised transition loss on derivative instruments classified as cash flow hedges	\$ (4.9)	\$ (4.9)
Accumulated amortisation of unrealised transition loss on derivative instruments	4.4	3.3
Foreign currency translation adjustments	(23.6)	(22.7)
Total accumulated other comprehensive loss	\$ (24.1)	\$ (24.3)

In August 2000, the Company entered into a contract with a third party to hedge the price of 5,000 metric tonnes per month of pulp, a major commodity used in the manufacture of fibre cement products. The original contract term was effective from 1 September 2000 to 31 August 2005, with settlement payments due each month. On 1 April 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The cumulative effect on 1 April 2001 of adopting this statement was to reduce other comprehensive income, a component of shareholders' equity, by US\$4.9 million. Subsequently, this amount is being amortised over the original term of the pulp contract to cost of goods sold.

On 2 December 2001, the counterparty to this pulp contract filed for bankruptcy. This had the effect of terminating all outstanding swap transactions immediately prior to the bankruptcy filing. The estimated fair value at the date of termination of the pulp contract was a US\$6.2 million liability and was recorded in other non-current liabilities at 31 March 2002. Also a current payable of US\$0.6 million related to the contract was recorded at 31 March 2002. In November 2002, the Company settled its obligation under this contract for a cash payment of US\$5.8 million. Accordingly, a gain on settlement of the contract in the amount of US\$1.0 million was recorded in other operating income during the fiscal year ended 31 March 2003.

**20. Shareholders' Equity**

On 5 November 2003, the Company converted its common stock par value from Euro dollar 0.64 to Euro dollar 0.73. This resulted in an increase in common stock and a decrease in additional paid-in capital of US\$48.4 million. Simultaneously, the Company returned capital of Euro dollar 0.1305 per share to shareholders in the amount of US\$68.7 million. Effectively, the return of capital decreased the par value of common stock to Euro dollar 0.5995. The Company then converted its common stock par value from Euro dollar 0.5995 to Euro dollar 0.59. This resulted in a decrease in common stock and an increase in additional paid-in capital of US\$5.0 million.

On 1 November 2002, the Company converted its common stock par value from Euro 0.50 to Euro 0.85. This resulted in an increase in common stock and a decrease in additional paid-in capital of US\$157.9 million. Simultaneously, the Company returned capital to shareholders in the amount of US\$94.8 million. Effectively, the return of capital decreased the par value of common stock to Euro 0.64.

**21. Related Party Transactions**

**Directors**

The names of persons who were Directors of JHI NV at any time during the financial year will be disclosed in the Directors' Report in the Annual Report.

**Remuneration and Retirement Benefits**

Information on remuneration of Directors and Directors' retirement benefits will be disclosed in the Remuneration Report in the Annual Report.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**JHI NV Directors' Securities Transactions**

The Company's Directors and their director-related entities held an aggregate of 266,217 ordinary shares and 9,170,726 ordinary shares at 31 March 2005 and 2004, respectively, and 1,189,544 options and 3,782,775 options at 31 March 2005 and 2004, respectively.

Supervisory Board members on 3 December 2004 participated in an allotment of 11,691 shares at A\$5.94 per share under the terms of the Supervisory Board Share Plan which was approved by JHI NV shareholders on 19 July 2002.

Directors' allocations were as follows:

Director	Shares Allotted
M Hellicar	2,117
J Barr	1,068
MR Brown	1,068
PS Cameron	2,117
GJ Clark	1,068
MJ Gillfillan	1,068
JRH Loudon	2,117
DG McGauchie	1,068
Total	11,691

The JHI NV dividend paid on 1 July 2004 to Directors and their related entities was on the same terms and conditions that applied to other holders.

**Existing Loans to the Company's Directors and Directors of James Hardie Subsidiaries**

At 31 March 2005 and 2004, loans totalling US\$33,204 and US\$167,635 respectively were outstanding from directors of JHI NV and its subsidiaries under the terms and conditions of the Executive Share Purchase Plan (the "Plan"). Loans under the Plan are interest free and repayable from dividend income earned by, or capital returns from, securities acquired under the Plan. The loans are collateralised by CUFS under the Plan. No new loans to Directors or executive officers of JHI NV, under the plan or otherwise, and no modifications to existing loans have been made since December 1997.

During fiscal years 2005 and 2004, repayments totalling US\$18,632 and US\$22,693, respectively, were received in respect of the Plan from AT Kneeshaw, PD Macdonald, PG Morley and DAJ Salter. During fiscal years 2005 and 2004, Directors resigned with loans outstanding totalling US\$117,688 and US\$26,204, respectively, at the date of their resignation.

**Payments Made to Directors and Director Related Entities of the Company's Subsidiaries During the Year**

In August 2004, Chairman Meredith Hellicar was appointed to a role as Chairman of a special committee of the Board of Directors. The special committee was established to oversee the Company's asbestos matters. In this role, she received a fee of US\$45,000 for the year ended 31 March 2005.

Supervisory Board Director GJ Clark is a director of ANZ Banking Group Limited with whom the Company transacts banking business. Supervisory Board Director DG McGauchie is also a director of Telstra Corporation Limited from whom the Company purchases communications services. All transactions were in accordance with normal commercial terms and conditions. It is not considered that these Directors had significant influence over these transactions.

In February 2004, a subsidiary of the Company entered into a consulting agreement in usual commercial terms and conditions with The Gries Group in respect to professional services. The principal of The Gries Group, James P. Gries, is Mr Louis Gries' brother. Under the agreement, approximately US\$12,000 is paid each month to The Gries Group. The agreement expires in June 2005 and payments of US\$157,080 and US\$18,423 were made for the year ended 31 March 2005 and 2004, respectively. Mr Louis Gries has no economic interest in The Gries Group.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Payments of US\$6,817 and US\$13,240 for the years ended 31 March 2005 and 2004, respectively, were made to Grech, Vella, Tortell & Hyzler Advocates. Dr JJ Vella was a director of a number of the Company's subsidiaries. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

Payments of US\$86,822 and US\$111,705 for the years ended 31 March 2005 and 2004, respectively, were made to Pether and Associates Pty Ltd, technical contractors. The late JF Pether was a director of a subsidiary of the Company and was a director of Pether and Associates Pty Ltd. The payments were in respect of technical services and were negotiated in accordance with usual commercial terms and conditions.

Payments totalling US\$27,634 and US\$845 for the years ended 31 March 2005 and 2004, respectively, were made to R Christensen and T Norman who are directors of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

Payments totalling US\$71,849 for the year ended 31 March 2005 were made to M Helyar, R Le Tocq and N Wild who are directors of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

Payments totalling US\$15,488 for the year ended 31 March 2005 were made to Marlee (UK) Ltd. Marlee (UK) Ltd is a director of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

Payments totalling US\$4,730 for the year ended 31 March 2005 were made to Bernaldo, Mirador and Directo Law Offices. R Bernaldo is a director of a subsidiary of the Company. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

## JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES

### Remuneration Disclosures

(Unaudited, not forming part of the Consolidated Financial Statements)

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#### Remuneration of Directors

Income paid or payable, or otherwise made available by the Company and related parties to Directors of the Company in connection with the management of affairs of the Company totalled US\$15.1 million and US\$11.5 million for the years ended 31 March 2005 and 2004, respectively.

Remuneration for non-executive Directors includes fees for attendance at meetings of the Board of Directors and its subcommittees. Remuneration for the executive Director is determined on the same basis as for other executives as described in below.

#### Remuneration of Executives

Remuneration received or receivable from the Company by all executives (including Directors) whose remuneration was at least US\$100,000 was US\$18.5 million and US\$13.4 million for the years ended 31 March 2005 and 2004, respectively. Remuneration for each executive includes salary, incentives, superannuation, stock options, retirement and termination payments, motor vehicles, fringe benefits, tax and other benefits.

The number of such executives within the specified bands are as follows:

(US dollars) Range starting at:	31 March	
	2005	2004
\$ 320,000	1	-
\$ 340,000	-	-
\$ 370,000	-	2
\$ 430,000	1	1
\$ 440,000	1	-
\$ 460,000	-	1
\$ 480,000	-	-
\$ 530,000	1	2
\$ 620,000	2	-
\$ 630,000	-	1
\$ 660,000	2	1
\$ 710,000	-	-
\$ 770,000	-	-
\$ 850,000	-	1
\$ 930,000	1	1
\$ 1,070,000	-	1
\$ 1,120,000	1	-
\$ 1,140,000	1	-
\$ 1,390,000	-	2
\$ 1,500,000	1	-
\$ 2,030,000	1	-
\$ 3,189,000	-	1
\$ 7,153,000	1	-
	<b>14</b>	<b>14</b>

An executive is defined as the Chief Executive Officer, members of the Group Management Team, General Managers of Business Units and Company Secretaries of JHI NV.

Remuneration is determined on the basis of the cost of the remuneration to the Company, but excludes insurance premiums paid by the Company in respect of directors' and officers' liability insurance contracts.

Options and shares issued to executives under the Executive Share Purchase Plan are valued using the Black-Scholes model and the fair value of options granted is included in remuneration.

**JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES**

**Remuneration Disclosures**

(Unaudited, not forming part of the Consolidated Financial Statements)

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***Remuneration of Auditors***

Remuneration to the Company's auditors for services provided for fiscal years 2005, 2004 and 2003 were as follows:

*Audit Fees*

The aggregate fees for professional services rendered by our independent auditors during the years ended 31 March 2005, 2004 and 2003 were US\$3.1 million, including internal investigation fees of US\$1.9 million, US\$1.2 million and US\$1.1 million, respectively. Professional services include the audit of the Company's annual financial statements and services that are normally provided in connection with statutory and regulatory filings.

*Audit Related Fees*

The aggregate fees billed for assurance and related services rendered by its independent auditors during the years ended 31 March 2005, 2004 and 2003 were US\$0.2 million, US\$0.1 million and US\$0.6 million, respectively.

*Tax Fees*

The aggregate fees billed for tax compliance, tax advice and tax planning services rendered by its independent auditors during the years ended 31 March 2005, 2004 and 2003 were US\$4.2 million, US\$3.5 million and US\$3.4 million, respectively.

*All Other Fees*

In addition to the fees described above, the Company incurred minor fees from its independent auditors related to the purchase and use of software.

**JAMES HARDIE INDUSTRIES N.V AND SUBSIDIARIES**

**Selected Quarterly Financial Data (Unaudited, not forming part of the consolidated financial statements)**

The information furnished in the selected quarterly financial data for the years ended 31 March 2005 and 2004 is unaudited but includes all adjustments which, in the opinion of management, are necessary for a fair statement of the financial results of the respective interim periods. Such adjustments are of a normal recurring nature. Interim financial statements are by necessity somewhat tentative; judgments are used to estimate interim amounts for items that are normally determinable only on an annual basis.

(Millions of US dollars)	Year Ended 31 March 2005				Year Ended 31 March 2004			
	By Quarter				By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	\$ 306.1	\$ 300.9	\$ 287.0	\$ 316.4	\$ 241.5	\$ 251.6	\$ 237.5	\$ 251.3
Cost of goods sold	(194.8)	(203.8)	(190.3)	(195.1)	(152.2)	(159.2)	(150.0)	(161.6)
Gross profit	111.3	97.1	96.7	121.3	89.3	92.4	87.5	89.7
Operating income	58.3	40.0	33.3	64.6	48.3	47.9	41.2	34.8
Interest expense	(2.8)	(1.9)	(1.3)	(1.3)	(2.5)	(2.8)	(3.0)	(2.9)
Interest income	0.3	0.6	0.6	0.7	0.2	0.4	0.2	0.4
Other (expense) income, net	0.0	(1.9)	0.4	0.2	-	(3.3)	(0.1)	6.9
Income from continuing operations before income taxes	55.8	36.8	33.0	64.2	46.0	42.2	38.3	39.2
Income tax expense	(18.7)	(12.1)	(13.2)	(17.9)	(13.1)	(9.4)	(10.0)	(7.9)
Income from continuing operations	37.1	24.7	19.8	46.3	32.9	32.8	28.3	31.3
Discontinued operations:								
(Loss) income from discontinued operations net of income tax	-	-	(0.3)	-	0.2	-	-	-
(Loss) gain on disposal of discontinued operations net of income tax	(0.8)	0.1	-	(0.0)	1.6	-	1.8	0.7
(Loss) income from discontinued operations	(0.8)	0.1	(0.3)	(0.0)	1.8	-	1.8	0.7
Net income	\$ 36.3	\$ 24.8	\$ 19.5	\$ 46.3	\$ 34.7	\$ 32.8	\$ 30.1	\$ 32.0

**GROUP STATISTICS**

(Unaudited, not forming part of the Consolidated Financial Statements)

(Millions of US dollars)

	2005	2004	2003	2002	2001
<b>Profit and Loss Account</b>					
Net Sales					
USA Fibre Cement	\$ 939.2	\$ 738.6	\$ 599.7	\$ 444.8	\$ 373.0
Asia Pacific Fibre Cement	236.1	219.8	174.3	141.7	152.0
Other Fibre Cement	35.1	23.5	9.6	4.2	-
Segment total	1,210.4	981.9	783.6	590.7	525.0
General Corporate	-	-	-	1.0	1.3
Worldwide total	\$ 1,210.4	\$ 981.9	\$ 783.6	\$ 591.7	\$ 526.3
<b>Operating Income</b>					
USA Fibre Cement	\$ 241.5	\$ 195.6	\$ 155.1	\$ 85.8	\$ 73.5
Asia Pacific Fibre Cement	46.8	37.6	27.3	20.9	3.6
Research and Development	(17.5)	(17.6)	(13.0)	(10.0)	(6.5)
Other Fibre Cement	(11.8)	(15.9)	(10.7)	(8.9)	(3.7)
Eliminate intercompany transactions	-	-	-	-	1.7
Segments total	259.0	199.7	158.7	87.8	68.6
General Corporate	(62.8)	(27.5)	(29.9)	(41.0)	(28.1)
Total operating income	196.2	172.2	128.8	46.8	40.5
Net interest expense	(5.1)	(10.0)	(19.9)	(16.0)	(13.2)
Other income (expense), net	(1.3)	3.5	0.7	(0.4)	1.6
Income from continuing operations before income taxes	189.8	165.7	109.6	30.4	28.9
Income tax (expense) benefit	(61.9)	(40.4)	(26.1)	(3.1)	0.6
Income from continuing operations	\$ 127.9	\$ 125.3	\$ 83.5	\$ 27.3	\$ 29.5
Dividends paid	\$ 13.7	\$ 22.9	\$ 34.3	\$ 20.3	\$ 43.0
<b>Balance Sheet</b>					
Net current assets	\$ 180.2	\$ 195.9	\$ 159.4	\$ 115.1	\$ 84.9
Total assets	1,088.9	971.2	851.8	968.0	969.0
Long-term debt <sup>1</sup>	147.4	165.0	165.0	325.0	357.3
Shareholders' equity	\$ 624.7	\$ 504.7	\$ 434.7	\$ 370.7	\$ 281.1
<b>Other Statistics</b>					
Number of employees:					
USA Fibre Cement	1,872	1,722	1,500	1,177	1,140
Asia Pacific Fibre Cement	892	955	931	977	1,109
Research and Development	131	117	107	51	58
Other Fibre Cement	189	245	283	109	87
Corporate	38	34	34	34	57
Total from continuing operations	3,122	3,073	2,855	2,348	2,451
Number of shareholders	17,347	22,600	21,688	22,259	21,484
Weighted average number of common shares outstanding:					
Basic	458.9	458.1	456.7	438.4	409.6
Diluted	461.0	461.4	459.4	440.4	409.6
Capital expenditures <sup>2</sup>	153.0	74.1	90.2	50.8	114.7
Depreciation and amortisation <sup>3</sup>	36.3	36.4	27.4	23.5	20.6
Dividends paid per share <sup>4</sup>	3.0¢	5.0¢	7.5¢	4.6¢	10.4¢
Return of capital per share <sup>5</sup>	-	15.0¢	20.0¢	5.0¢	-
Basic earnings per share - continuing operations <sup>6</sup>	27.9¢	27.4¢	18.3¢	6.2¢	7.2¢
Diluted earnings per share - continuing operations <sup>7</sup>	27.7¢	27.2¢	18.2¢	6.2¢	7.2¢
Gearing ratio <sup>8</sup>	6.8%	17.0%	21.4%	44.7%	56.1%

## Notes:

<sup>1</sup> Includes current portion of long-term debt.<sup>2</sup> Capital investment on property, plant and equipment includes both cash and credit purchases, and is for continuing operations only.<sup>3</sup> Information for depreciation and amortisation is for continuing operations only.<sup>4</sup> Dividends paid divided by the weighted average number of ordinary and employee shares on issue during the year.<sup>5</sup> On 19 November 2003, the Company paid a capital return of \$0.15 per share to shareholders for a total of \$68.7 million. On 1 November 2002, the Company paid a capital return of \$0.20 per share to shareholders for a total of \$94.8 million.<sup>6</sup> Net income divided by the weighted average number of ordinary and employee shares on issue during the year.<sup>7</sup> Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued.<sup>8</sup> Borrowings less cash (net debt) divided by net debt plus total shareholders' equity.

## Item 2. Quantitative and Qualitative Disclosures About Market Risk

In this report, James Hardie Industries N.V. and its subsidiaries are collectively referred to as “we,” “us,” or “our,” and the terms “US\$”, “A\$”, “NZ\$”, “PHP”, refer to United States dollars, Australian dollars, New Zealand dollars and Philippine pesos, respectively.

We have operations in foreign countries and, as a result, are exposed to foreign currency exchange rate risk inherent in purchases, sales, assets and liabilities denominated in currencies other than the U.S. dollar. We also are exposed to interest rate risk associated with our long-term debt and to changes in prices of commodities we use in production.

Our policy is to enter into derivative instruments solely to mitigate risks in our business and not for trading or speculative purposes.

### **Foreign Currency Exchange Rate Risk**

We have significant operations outside of the United States and, as a result, are exposed to changes in exchange rates which affect our financial position, results of operations and cash flows. For our year ended 31 March 2005, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	<u>US\$</u>	<u>A\$</u>	<u>NZ\$</u>	<u>Other</u> <sup>(1)</sup>
Net sales.....	79.0%	13.3%	4.1%	3.6%
Cost of goods sold.....	81.5%	12.0%	3.1%	3.4%
Expenses.....	60.3%	31.5%	2.5%	5.7%
Liabilities (excluding borrowings).....	73.9%	17.6%	5.1%	3.4%

<sup>(1)</sup> Comprised of Philippine pesos, Euros and Chilean pesos.

We purchase raw materials and fixed assets and sell some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 31 March 2005, outstanding foreign exchange contracts were not material.

### **Interest Rate Risk**

We have market risk from changes in interest rates, primarily related to our borrowings. At 31 March 2005, 93% of our borrowings were fixed-rate and 7% variable-rate. The large percentage of fixed-rate debt reduces the earnings volatility that would result from changes in interest rates. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. During the half year ended 31 March 2005, no interest rate swap contracts were entered into and no contracts were outstanding.

The following table presents our long-term borrowings at 31 March 2005, the expected maturity date of future principal repayments and related weighted average interest rates. The fair value of our outstanding debt is what we likely would have to pay over the term of the loan if we were to enter into debt on substantially the same terms today. At 31 March 2005, all of our outstanding fixed-rate borrowings were denominated in U.S. dollars.

**Future Principal Repayments by Expected Maturity Date**  
(in millions of US dollars, except percentages)

**For the Years Ended 31 March**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Fixed rate debt.....	\$ 25.7	\$ 27.1	\$ 8.1	\$ 46.2	—	\$ 40.3	\$ 147.4	\$ 173.6
Weighted-average interest rate.....	6.92%	6.99%	7.05%	7.12%	—	7.35%	7.12%	
Variable rate debt.....	\$ 11.9	—	—	—	—	—	\$ 11.9	\$ 11.9
Weighted-average interest rate.....	3.52%	—	—	—	—	—	3.52%	

**Commodity Price Risk**

Pulp is a raw material we use to produce fibre cement, and it has historically demonstrated more price sensitivity than other raw materials we use in our manufacturing process. Although we have entered into contracts to hedge pulp prices in the past, we do not anticipate entering in such transactions in the near future.

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

**Disclaimer**

*This Financial Report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports filed with the Securities and Exchange Commission on Forms 20-F and 6-K, in our annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of such forward-looking statements include:*

- *projections of our operating results or financial condition;*
- *statements of our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;*
- *statements about our future economic performance or that of the United States, Australia or other countries in which we operate; 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. We caution you 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: all matters relating to or arising out of the prior manufacture of asbestos by ABN 60 and certain former subsidiaries; competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with and possible changes in environmental and health and safety laws; the successful transition of new senior management; the success of our research and development efforts; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; risks of conducting business internationally; compliance with and changes in tax laws and treatments; and foreign exchange risks. We caution you 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.*