

# **James Hardie Industries N.V. and Subsidiaries**

**Consolidated Financial Statements  
As of 31 March 2007 and 2006**

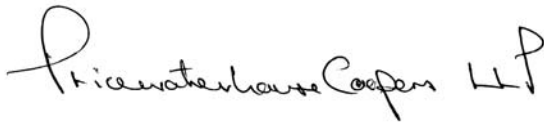
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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
James Hardie Industries N.V. and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows, and changes in shareholders' equity present fairly, in all material respects, the financial position of James Hardie Industries N.V. and Subsidiaries at 31 March 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation and defined benefit pension plans.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in dark ink and is positioned above the printed text of the firm's name and location.

Los Angeles, California  
27 May 2007

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 2007	31 March 2006	31 March 2007 (Unaudited)	31 March 2006 (Unaudited)
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	3	\$ 34.1	\$ 315.1	A\$ 42.3	A\$ 440.4
Restricted cash and cash equivalents	4	151.9	-	188.3	-
Accounts and notes receivable, net of allowance for doubtful accounts of \$1.5 million (A\$1.9 million) and \$1.3 million (A\$1.8 million) as of 31 March 2007 and 31 March 2006, respectively	5	163.4	153.2	202.5	214.1
Inventories	6	147.6	124.0	183.0	173.3
Prepaid expenses and other current assets		32.4	33.8	40.2	47.2
Insurance receivable - Asbestos	12	9.4	-	11.7	-
Workers' compensation - Asbestos	12	2.7	-	3.3	-
Deferred income taxes	13	27.3	30.7	33.8	42.9
Deferred income taxes - Asbestos	12	7.8	-	9.7	-
<b>Total current assets</b>		<b>576.6</b>	<b>656.8</b>	<b>714.8</b>	<b>917.9</b>
Property, plant and equipment, net	7	827.7	775.6	1,025.9	1,083.9
Insurance receivable - Asbestos	12	165.1	-	204.6	-
Workers' compensation - Asbestos	12	76.5	-	94.8	-
Deferred income taxes	13	6.9	4.8	8.6	6.7
Deferred income taxes - Asbestos	12	318.2	-	394.4	-
Deposit with Australian Taxation Office	14	154.8	-	191.9	-
Other assets		2.3	8.2	2.9	11.5
<b>Total assets</b>		<b>\$ 2,128.1</b>	<b>\$ 1,445.4</b>	<b>A\$ 2,637.9</b>	<b>A\$ 2,020.0</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable and accrued liabilities	8	\$ 100.8	\$ 117.8	A\$ 124.9	A\$ 164.6
Short-term debt	9	83.0	181.0	102.9	252.9
Current portion of long-term debt	9	-	121.7	-	170.1
Accrued payroll and employee benefits		42.0	46.3	52.1	64.7
Accrued product warranties	11	5.7	11.4	7.1	15.9
Income taxes payable	13	10.6	24.5	13.1	34.2
Asbestos liability	12	63.5	-	78.7	-
Workers' compensation - Asbestos	12	2.7	-	3.3	-
Other liabilities		9.3	3.3	11.5	4.6
<b>Total current liabilities</b>		<b>317.6</b>	<b>506.0</b>	<b>393.6</b>	<b>707.0</b>
Long-term debt	9	105.0	-	130.1	-
Deferred income taxes	13	93.8	79.8	116.3	111.5
Accrued product warranties	11	9.5	4.1	11.8	5.7
Asbestos liability	12	1,225.8	715.6	1,519.4	1,000.0
Workers' compensation - Asbestos	12	76.5	-	94.8	-
Other liabilities	10	41.2	45.0	51.1	62.9
<b>Total liabilities</b>		<b>1,869.4</b>	<b>1,350.5</b>	<b>A\$ 2,317.1</b>	<b>A\$ 1,887.1</b>
Commitments and contingencies (Note 12)					
Shareholders' equity:					
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 467,295,391 shares issued and outstanding at 31 March 2007 and 463,306,511 shares issued and outstanding at 31 March 2006	15	251.8	253.2		
Additional paid-in capital	15	180.2	158.4		
Accumulated deficit		(178.7)	(288.3)		
Accumulated other comprehensive income (loss)	19	5.4	(28.4)		
<b>Total shareholders' equity</b>		<b>258.7</b>	<b>94.9</b>		
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,128.1</b>	<b>\$ 1,445.4</b>		

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

# James Hardie Industries N.V. and Subsidiaries

## Consolidated Statements of Operations

(Millions of US dollars, except per share data)	Notes	Years Ended 31 March		
		2007	2006	2005
Net sales	18	\$ 1,542.9	\$ 1,488.5	\$ 1,210.4
Cost of goods sold		<u>(969.9)</u>	<u>(937.7)</u>	<u>(784.0)</u>
Gross profit		573.0	550.8	426.4
Selling, general and administrative expenses		(214.6)	(209.8)	(174.5)
Research and development expenses		(25.9)	(28.7)	(21.6)
SCI and other related expenses	12	(13.6)	(17.4)	(28.1)
Impairment of roofing plant		-	(13.4)	-
Asbestos adjustments	12	(405.5)	(715.6)	-
Other operating expense		<u>-</u>	<u>(0.8)</u>	<u>(6.0)</u>
Operating (loss) income		(86.6)	(434.9)	196.2
Interest expense		(12.0)	(7.2)	(7.3)
Interest income		5.5	7.0	2.2
Other expense		<u>-</u>	<u>-</u>	<u>(1.3)</u>
(Loss) income from continuing operations before income taxes	18	(93.1)	(435.1)	189.8
Income tax benefit (expense)	13	243.9	(71.6)	(61.9)
Income (loss) from continuing operations		<u>150.8</u>	<u>(506.7)</u>	<u>127.9</u>
Discontinued operations:				
Loss from discontinued operations, net of income tax benefit of nil, nil and \$0.2 million, respectively	15	-	-	(0.3)
Loss on disposal of discontinued operations		<u>-</u>	<u>-</u>	<u>(0.7)</u>
Loss from discontinued operations		<u>-</u>	<u>-</u>	<u>(1.0)</u>
Income (loss) before cumulative effect of change in accounting principle		150.8	(506.7)	126.9
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of \$0.4 million, nil and nil, respectively		0.9	-	-
Net income (loss)		<u>\$ 151.7</u>	<u>\$ (506.7)</u>	<u>\$ 126.9</u>
Net income (loss) per share - basic		\$ 0.33	\$ (1.10)	\$ 0.28
Net income (loss) per share - diluted		\$ 0.33	\$ (1.10)	\$ 0.28
Weighted average common shares outstanding (Millions):				
Basic	2	464.6	461.7	458.9
Diluted	2	466.4	461.7	461.0

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

# James Hardie Industries N.V. and Subsidiaries

## Consolidated Statements of Operations

(A\$ Unaudited)

(Millions of Australian dollars, except per share data)	Years Ended 31 March		
	2007	2006	2005
Net sales	<b>A\$ 2,016.0</b>	A\$ 1,977.5	A\$ 1,636.3
Cost of goods sold	<b>(1,267.3)</b>	(1,245.7)	(1,059.9)
Gross profit	<b>748.7</b>	731.8	576.4
Selling, general and administrative expenses	<b>(280.4)</b>	(278.7)	(235.9)
Research and development expenses	<b>(33.8)</b>	(38.1)	(29.2)
SCI and other related expenses	<b>(17.8)</b>	(23.1)	(38.0)
Impairment of roofing plant	-	(17.8)	-
Asbestos adjustments	<b>(529.8)</b>	(1,000.0)	-
Other operating expense	-	(1.1)	(8.1)
Operating (loss) income	<b>(113.1)</b>	(627.0)	265.2
Interest expense	<b>(15.7)</b>	(9.6)	(9.9)
Interest income	<b>7.2</b>	9.3	3.0
Other expense	-	-	(1.8)
(Loss) income from continuing operations before income taxes	<b>(121.6)</b>	(627.3)	256.5
Income tax benefit (expense)	<b>318.7</b>	(95.1)	(83.7)
Income (loss) from continuing operations	<b>197.1</b>	(722.4)	172.8
Discontinued operations:			
Loss from discontinued operations, net of income tax benefit of nil, nil and A\$0.3 million, respectively	-	-	(0.4)
Loss on disposal of discontinued operations	-	-	(0.9)
Loss from discontinued operations	-	-	(1.3)
Income (loss) before cumulative effect of change in accounting principle	<b>197.1</b>	(722.4)	171.5
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of A\$0.5 million, nil and nil, respectively	<b>1.2</b>	-	-
Net income (loss)	<b>A\$ 198.3</b>	A\$ (722.4)	A\$ 171.5
Net income (loss) per share - basic	<b>A\$ 0.43</b>	A\$ (1.56)	A\$ 0.38
Net income (loss) per share - diluted	<b>A\$ 0.43</b>	A\$ (1.56)	A\$ 0.37
Weighted average common shares outstanding (Millions):			
Basic	<b>464.6</b>	461.7	458.9
Diluted	<b>466.4</b>	461.7	461.0

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		
	2007	2006	2005
<b>Cash Flows From Operating Activities</b>			
Net income (loss)	\$ 151.7	\$ (506.7)	\$ 126.9
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Loss on sale of land and buildings	-	-	0.7
Loss on disposal of subsidiaries and businesses	-	-	2.1
Depreciation and amortisation	50.7	45.3	36.3
Deferred income taxes	(310.4)	4.3	11.1
Prepaid pension cost	(0.4)	2.9	7.6
Tax benefit from stock options exercised	-	2.2	0.4
Stock-based compensation	4.5	5.9	3.0
Asbestos adjustments	405.5	715.6	-
Impairment of roofing plant	-	13.4	-
Cumulative effect of change in accounting principle	(0.9)	-	-
Deposit with Australian Taxation Office	(154.8)	-	-
Other	1.3	1.7	-
Changes in operating assets and liabilities:			
Restricted cash and cash equivalents	(151.9)	-	-
Accounts and notes receivable	(4.8)	(24.0)	(3.7)
Inventories	(19.5)	(26.6)	4.3
Prepaid expenses and other current assets	(0.1)	(24.8)	32.6
Accounts payable and accrued liabilities	(18.4)	24.4	15.0
Other accrued liabilities and other liabilities	(19.6)	7.0	(16.5)
<b>Net cash (used in) provided by operating activities</b>	<b>(67.1)</b>	<b>240.6</b>	<b>219.8</b>
<b>Cash Flows From Investing Activities</b>			
Purchases of property, plant and equipment	(92.6)	(162.0)	(153.2)
Proceeds from sale of property, plant and equipment	-	-	3.4
Proceeds from disposal of subsidiaries and businesses, net of cash divested	-	8.0	-
<b>Net cash used in investing activities</b>	<b>(92.6)</b>	<b>(154.0)</b>	<b>(149.8)</b>
<b>Cash Flows From Financing Activities</b>			
Net proceeds from line of credit	-	-	0.5
Proceeds from short-term borrowings	-	181.0	-
Repayments of short-term borrowings	(98.0)	-	-
Proceeds from long-term borrowings	105.0	-	-
Repayments of long-term borrowings	(121.7)	(37.6)	(17.6)
Proceeds from issuance of shares	18.5	18.7	2.6
Tax benefit from stock options exercised	1.8	-	-
Dividends paid	(42.1)	(45.9)	(13.7)
Collections on loans receivable	0.1	0.3	0.6
<b>Net cash (used in) provided by financing activities</b>	<b>(136.4)</b>	<b>116.5</b>	<b>(27.6)</b>
Effects of exchange rate changes on cash	15.1	(1.5)	(1.2)
Net (decrease) increase in cash and cash equivalents	(281.0)	201.6	41.2
Cash and cash equivalents at beginning of period	315.1	113.5	72.3
<b>Cash and cash equivalents at end of period</b>	<b>\$ 34.1</b>	<b>\$ 315.1</b>	<b>\$ 113.5</b>
<b>Components of Cash and Cash Equivalents</b>			
Cash at bank and on hand	\$ 26.1	\$ 24.9	\$ 28.6
Short-term deposits	8.0	290.2	84.9
<b>Cash and cash equivalents at end of period</b>	<b>\$ 34.1</b>	<b>\$ 315.1</b>	<b>\$ 113.5</b>
<b>Supplemental Disclosure of Cash Flow Activities</b>			
Cash paid during the year for interest, net of amounts capitalised	\$ 3.9	\$ 3.5	\$ 10.7
Cash paid during the year for income taxes, net	\$ 80.8	\$ 93.4	\$ 15.7

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

# James Hardie Industries N.V. and Subsidiaries

## Consolidated Statements of Cash Flows

(A\$ Unaudited)

(Millions of Australian dollars)	Years Ended 31 March		
	2007	2006	2005
<b>Cash Flows From Operating Activities</b>			
Net income (loss)	A\$ 198.3	A\$(722.4)	A\$ 171.5
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Loss on sale of land and buildings	-	-	0.9
Loss on disposal of subsidiaries and businesses	-	-	2.8
Depreciation and amortisation	66.2	60.2	49.1
Deferred income taxes	(405.6)	5.7	15.0
Prepaid pension cost	(0.5)	3.9	10.3
Tax benefit from stock options exercised	-	2.9	0.5
Stock-based compensation	5.9	7.8	4.1
Asbestos adjustments	529.8	1,000.0	-
Impairment of roofing plant	-	17.8	-
Cumulative effect of change in accounting principle	(1.2)	-	-
Deposit with Australian Taxation Office	(202.3)	-	-
Other	1.7	2.3	-
Changes in operating assets and liabilities:			
Restricted cash and cash equivalents	(198.5)	-	-
Accounts and notes receivable	(6.3)	(31.9)	(5.0)
Inventories	(25.5)	(35.3)	5.8
Prepaid expenses and other current assets	(0.1)	(32.9)	44.1
Accounts payable and accrued liabilities	(24.0)	32.4	20.3
Other accrued liabilities and other liabilities	(25.6)	9.3	(22.3)
<b>Net cash (used in) provided by operating activities</b>	<b>(87.7)</b>	<b>319.8</b>	<b>297.1</b>
<b>Cash Flows From Investing Activities</b>			
Purchases of property, plant and equipment	(121.0)	(215.2)	(207.1)
Proceeds from sale of property, plant and equipment	-	-	4.6
Proceeds from disposal of subsidiaries and businesses, net of cash divested	-	10.6	-
<b>Net cash used in investing activities</b>	<b>(121.0)</b>	<b>(204.6)</b>	<b>(202.5)</b>
<b>Cash Flows From Financing Activities</b>			
Net proceeds from line of credit	-	-	0.7
Proceeds from short-term borrowings	-	240.5	-
Repayments of short-term borrowings	(128.0)	-	-
Proceeds from long-term borrowings	137.2	-	-
Repayments of long-term borrowings	(159.0)	(50.0)	(23.8)
Proceeds from issuance of shares	24.2	24.8	3.5
Tax benefit from stock options exercised	2.4	-	-
Dividends paid	(55.0)	(61.0)	(18.5)
Collections on loans receivable	0.1	0.3	0.8
<b>Net cash (used in) provided by financing activities</b>	<b>(178.1)</b>	<b>154.6</b>	<b>(37.3)</b>
Effects of exchange rate changes on cash	(11.3)	23.7	(5.5)
Net (decrease) increase in cash and cash equivalents	(398.1)	293.5	51.8
Cash and cash equivalents at beginning of period	440.4	146.9	95.1
<b>Cash and cash equivalents at end of period</b>	<b>A\$ 42.3</b>	<b>A\$ 440.4</b>	<b>A\$ 146.9</b>
<b>Components of Cash and Cash Equivalents</b>			
Cash at bank and on hand	A\$ 32.4	A\$ 34.8	A\$ 37.0
Short-term deposits	9.9	405.6	111.7
Cash and cash equivalents at end of period	<b>A\$ 42.3</b>	<b>A\$ 440.4</b>	<b>A\$ 146.9</b>
<b>Supplemental Disclosure of Cash Flow Activities</b>			
Cash paid during the year for interest, net of amounts capitalised	A\$ 4.8	A\$ 4.9	A\$ 14.5
Cash paid during the year for income taxes, net	A\$ 100.2	A\$ 130.5	A\$ 21.1

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	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive (Loss) Income	Total
<b>Balances as of 31 March 2004</b>	\$ 245.2	\$ 132.7	\$ 151.1	\$ (24.3)	\$ 504.7
Comprehensive income:					
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 loss	-	-	-	(0.9)	(0.9)
Other comprehensive income	-	-	-	0.2	0.2
Total comprehensive income					127.1
Dividends paid	-	-	(13.7)	-	(13.7)
Stock-based 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>138.7</b>	<b>264.3</b>	<b>(24.1)</b>	<b>624.7</b>
Comprehensive loss:					
Net loss	-	-	(506.7)	-	(506.7)
Other comprehensive income (loss):					
Amortisation of unrealised transition loss on derivative instruments	-	-	-	0.5	0.5
Foreign currency translation loss	-	-	-	(4.8)	(4.8)
Other comprehensive loss	-	-	-	(4.3)	(4.3)
Total comprehensive loss					(511.0)
Dividends paid	-	-	(45.9)	-	(45.9)
Stock-based compensation	-	5.9	-	-	5.9
Tax benefit from stock options exercised	-	2.2	-	-	2.2
Employee loans repaid	-	0.3	-	-	0.3
Stock options exercised	7.4	11.3	-	-	18.7
<b>Balances as of 31 March 2006</b>	<b>253.2</b>	<b>158.4</b>	<b>(288.3)</b>	<b>(28.4)</b>	<b>94.9</b>
Comprehensive income:					
Net income	-	-	151.7	-	151.7
Unrecognised pension losses	-	-	-	(2.7)	(2.7)
Foreign currency translation gain	-	-	-	36.5	36.5
Other comprehensive income	-	-	-	33.8	33.8
Total comprehensive income					185.5
Dividends paid	-	-	(42.1)	-	(42.1)
Stock-based compensation	-	4.5	-	-	4.5
Tax benefit from stock options exercised	-	1.8	-	-	1.8
Employee loans repaid	-	0.1	-	-	0.1
Stock options exercised	3.1	15.4	-	-	18.5
Other	(4.5)	-	-	-	(4.5)
<b>Balances as of 31 March 2007</b>	<b>\$ 251.8</b>	<b>\$ 180.2</b>	<b>\$ (178.7)</b>	<b>\$ 5.4</b>	<b>\$ 258.7</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 and Europe.

#### 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 CHES 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.

Previously deconsolidated entities have been consolidated at 31 March 2007 as part of the accounting for the asbestos liability. Upon approval of the restated and Amended Final Funding Agreement on 7 February 2007 (the "Amended FFA"), the Asbestos Injuries Compensation Fund (the "AICF") was deemed a special purpose entity and, as such, it was consolidated with the results for JHI NV. See Note 2 and Note 12 for additional information.

#### 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 and special interest entities, 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.

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\$)	2007	31 March	
		2006	2005
Assets and liabilities	<b>1.2395</b>	1.3975	1.2946
Income statement	<b>1.3066</b>	1.3285	1.3519
Cash flows - beginning cash	<b>1.3975</b>	1.2946	1.3156
Cash flows - ending cash	<b>1.2395</b>	1.3975	1.2946
Cash flows - current period movements	<b>1.3066</b>	1.3285	1.3519

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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The Asbestos liability on the A\$ unaudited consolidated statements of operations and A\$ unaudited consolidated statements of cash flows is translated using the assets and liabilities rate at 31 March 2007 and 31 March 2006.

## 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 and special purpose entities 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. The reclassifications do not materially impact shareholders' equity.

### 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.

### Restricted Cash and Cash Equivalents

Restricted cash includes amounts on deposits with insurance companies and cash on deposit for purposes of meeting claims from asbestos claimants.

### Accounts Receivable

The Company reviews trade receivables and estimates of the allowance for doubtful accounts each period. The allowance is determined by analyzing specific customer accounts and assessing the risk of uncollectability based on insolvency, disputes or other collection issues.

### 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. On a regular basis, the Company evaluates its inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are written down, if necessary.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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### 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:

	Years
Buildings	40
Building improvements	5 to 10
Manufacturing machinery	20
General equipment	5 to 10
Computer equipment, software and software development	3 to 7
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 operations.

### Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("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 amortisation 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 recognised 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.

### 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

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### **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 cost 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\$2.1 million, US\$2.5 million and US\$1.2 million for the years ended 31 March 2007, 2006 and 2005, respectively.

### **Advertising**

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US\$17.0 million, US\$19.1 million and US\$15.7 million during the years ended 31 March 2007, 2006 and 2005, respectively.

### **Research and Development**

Research and development costs are charged to expense when incurred.

### **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 asset and 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

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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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.

### **Stock-Based Compensation**

The Company implemented the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," using the retroactive restatement method provided by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of SFAS No. 123." When SFAS No. 123 was adopted, the retroactive restatement method required the restatement of prior periods' reported net income to give effect to the fair value based method of accounting for awards granted, modified or settled in years beginning after 15 December 1994. In adopting this standard, the Company employed the modified prospective transition method.

SFAS No. 123R, "Share-Based Payments" requires that a company estimate forfeitures of stock options at the date of grant rather than allowing a company to account for forfeitures as they occur. At the time the Company adopted SFAS No. 123, it decided to account for forfeitures as they occurred, primarily due to the limited historical data to accurately estimate a forfeiture rate at the date of grant.

The Company recognised stock-based compensation expense (included in selling, general and administrative expense) of US\$5.8 million, US\$5.9 million and US\$3.0 million for the years ended 31 March 2007, 2006 and 2005, respectively. This excludes the forfeiture adjustment of US\$1.3 million (US\$0.9 million net of tax expense) recorded upon adoption of the standard as of 1 April 2006, which is separately disclosed as "Cumulative effect of change in accounting principle for stock-based compensation." The tax benefit related to the forfeiture adjustment was US\$0.4 million for the year ended 31 March 2007.

The Company analysed forfeiture rates on all of the 2001 Stock Option Plan grants for which vesting was complete resulting in an estimated weighted average forfeiture rate of 30.7%. Based on this calculated rate, a cumulative adjustment to stock-based compensation expense of US\$1.3 million was recorded for the year ended 31 March 2007, upon adoption of SFAS No. 123R. The adjustment is presented on the consolidated statements of operations as a cumulative effect of change in accounting principle (net of income tax).

The portion of the cumulative adjustment that relates to USA-based employees caused a reduction in the deferred tax asset previously recorded. The amount of the cumulative adjustment related to USA-based employees was US\$1.0 million. Therefore, the related USA income tax adjustment was US\$0.4 million which was recorded to income tax expense.

### **Employee Retirement Benefit Plans**

The Company implemented the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The statement requires an employer to (a) recognise the funded status of a benefit plan in its statement of financial position, (b) recognise as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognised as components of net periodic benefit cost pursuant to SFAS No. 87, "Employers' Accounting for Pensions," or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position, and (d) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits and transitional asset or obligation. Adopting this standard resulted in the recognition of a loss of US\$2.7 million net of a tax benefit of US\$1.2 million which has been treated as other comprehensive income.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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 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 (loss) per share are as follows:

(Millions of shares)	Years Ended 31 March		
	2007	2006	2005
Basic common shares outstanding	464.6	461.7	458.9
Dilutive effect of stock options	1.8	-	2.1
Diluted common shares outstanding	<u>466.4</u>	<u>461.7</u>	<u>461.0</u>
(US dollars)	2007	2006	2005
Net income (loss) per share - basic	\$ 0.33	\$ (1.10)	\$ 0.28
Net income (loss) per share - diluted	\$ 0.33	\$ (1.10)	\$ 0.28

Potential common shares of 7.7 million, 6.6 million and 8.2 million for the years ended 31 March 2007, 2006 and 2005, respectively, have been excluded from the calculation of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive. Due to the net loss for the year ended 31 March 2006, the assumed net exercise of stock options was excluded, as the effect would have been anti-dilutive.

### Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes foreign currency translation and previously unrecognised pension costs, and is presented as a separate component of shareholders' equity.

### Accounting for Asbestos-related Liabilities

Prior to 31 March 2007, the Company's consolidated financial statements included an asbestos provision relating to its anticipated future payments to a Special Purpose Fund ("SPF") based on the terms of the Original Final Funding Agreement ("Original FFA") entered into on 1 December 2005.

In February 2007, the Amended FFA was approved to provide long-term funding to the AICF, a special purpose fund that provides compensation for Australian-related personal injury claims against certain former James Hardie companies (being Amaca Pty Ltd ("Amaca"), Amaba Pty Ltd ("Amaba") and ABN 60 000 009 263 Pty Ltd ("ABN 60") (the "Former James Hardie Companies").

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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After the Amended FFA was approved, shares in Amaca and Amaba were transferred from the Medical Research and Compensation Foundation to the AICF. In addition, shares in ABN 60 were transferred from the ABN 60 Foundation to the AICF.

Although the Company has no legal ownership in the AICF, it has contractual and pecuniary interests in the AICF as a result of funding arrangements outlined in the Amended FFA. The Amended FFA results in James Hardie 117 Pty Ltd (formerly LGTDD Pty Ltd) (the "Performing Subsidiary") having a contractual liability to pay the initial funding and ongoing annual payments to the AICF. These payments to the AICF will result in the Company having a pecuniary interest in the AICF. The interest is considered variable because the potential impact on us will vary based upon the annual actuarial assessments obtained by the Company with respect to asbestos related claims..

Due to the Company's variable interest in the AICF, it consolidates the AICF in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities."

Following rulings received from the Australian Taxation Office, the Performing Subsidiary will be able to claim a taxable deduction for its contributions to the AICF. Consequently, a deferred tax asset has been recorded equivalent to the anticipated tax benefit over the life of the Amended FFA.

The amount of the asbestos liability reflects the terms of the Amended FFA, which has been calculated by reference to (but is not exclusively based upon) the most recent actuarial estimate of projected future cash flows prepared by KPMG Actuaries Pty Ltd ("KPMG Actuaries"). The asbestos liability includes these cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows is not fixed or readily determinable.

The asbestos liability also includes an allowance for the future operating costs of the AICF.

An updated actuarial assessment will be performed as of 31 March each year. Any changes in the estimate will be reflected as a charge or credit to the consolidated statements of operations for the year then ended.

### **Quantifying Financial Statement Misstatements**

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 108, "Quantifying Financial Statements Misstatements," in order to address the observed diversity in quantification practices with respect to annual financial statements. For a number of years, the SEC staff has expressed concern over the diversity of practice surrounding how public companies (and their auditors) quantify financial statement misstatements.

Under SAB No. 108, the SEC staff establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the company's financial statements and the related financial statement disclosures. The Company has adopted the provisions of SAB No. 108 as of 31 March 2007 and the adoption did not have an impact on the consolidated financial statements.

### **Recent Accounting Pronouncements**

#### *Uncertain Tax Positions*

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with SFAS No. 109. Unlike SFAS No. 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will adopt the provisions of FIN 48 effective 1 April 2007.



# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

The Company is continuing to evaluate the impact of adopting FIN 48 on its financial statements; however, at this stage, it is not possible to determine whether that impact will be material. The cumulative effect of applying the new standard will be reflected as an adjustment to retained earnings in the period of adoption. The Company expects that the requirements of FIN 48 may add volatility to its effective tax rate, and therefore its income tax expense, in future periods.

### 3. 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.

Cash and cash equivalents consist of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Cash at bank and on hand	\$ 26.1	\$ 24.9
Short-term deposits	8.0	290.2
Total cash and cash equivalents	<u>\$ 34.1</u>	<u>\$ 315.1</u>

Short-term deposits are placed at floating interest rates varying between 4.85% to 5.25% and 4.60% to 4.85% as of 31 March 2007 and 2006, respectively.

### 4. Restricted Cash and Cash Equivalents

Included in restricted cash is US\$5.0 million related to an insurance policy as of 31 March 2007 and US\$146.9 million held by the AICF for compensation of asbestos claimants.

### 5. Accounts and Notes Receivable

Accounts and notes receivable consist of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Trade receivables	\$ 152.4	\$ 146.5
Other receivables and advances	12.5	8.0
Allowance for doubtful accounts	(1.5)	(1.3)
Total accounts and notes receivable	<u>\$ 163.4</u>	<u>\$ 153.2</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	
	2007	2006
Balance at beginning of period	\$ 1.3	\$ 1.5
Charged to expense	0.5	0.3
Costs and deductions	(0.3)	(0.5)
Balance at end of period	<u>\$ 1.5</u>	<u>\$ 1.3</u>

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

### 6. Inventories

Inventories consist of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Finished goods	\$ 101.5	\$ 84.1
Work-in-process	12.3	9.2
Raw materials and supplies	37.8	33.0
Provision for obsolete finished goods and raw materials	(4.0)	(2.3)
Total inventories	<u>\$ 147.6</u>	<u>\$ 124.0</u>

### 7. 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
			Machinery and Equipment	Construction in Progress		
<b>Balance at 1 April 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
<b>Changes in net book value:</b>						
Capital expenditures	4.1	16.4	90.8	51.5	-	162.8
Retirements and sales	-	-	(8.9)	-	-	(8.9)
Depreciation	-	(7.3)	(38.0)	-	-	(45.3)
Impairment	-	-	(13.4)	-	-	(13.4)
Other movements	-	-	(0.9)	-	-	(0.9)
Foreign currency translation adjustments	-	-	(4.4)	-	-	(4.4)
Total changes	4.1	9.1	25.2	51.5	-	89.9
<b>Balance at 31 March 2006:</b>						
Cost	15.6	147.5	669.8	228.1	-	1,061.0
Accumulated depreciation	-	(31.7)	(253.7)	-	-	(285.4)
Net book value	<u>\$ 15.6</u>	<u>\$ 115.8</u>	<u>\$ 416.1</u>	<u>\$ 228.1</u>	<u>\$</u>	<u>\$ 775.6</u>
(Millions of US dollars)	Land	Buildings	Machinery and Equipment		Construction in Progress	Total
			Machinery and Equipment	Construction in Progress		
<b>Balance at 1 April 2006:</b>						
Cost	\$ 15.6	\$ 147.5	\$ 669.8	\$ 228.1	\$	\$ 1,061.0
Accumulated depreciation	-	(31.7)	(253.7)	-	-	(285.4)
Net book value	15.6	115.8	416.1	228.1	-	775.6
<b>Changes in net book value:</b>						
Capital expenditures	1.3	70.8	131.3	(110.8)	-	92.6
Retirements and sales	-	-	(0.6)	-	-	(0.6)
Depreciation	-	(8.3)	(42.4)	-	-	(50.7)
Other movements	-	-	0.6	-	-	0.6
Foreign currency translation adjustments	-	-	10.2	-	-	10.2
Total changes	1.3	62.5	99.1	(110.8)	-	52.1
<b>Balance at 31 March 2007:</b>						
Cost	16.9	218.3	811.3	117.3	-	1,163.8
Accumulated depreciation	-	(40.0)	(296.1)	-	-	(336.1)
Net book value	<u>\$ 16.9</u>	<u>\$ 178.3</u>	<u>\$ 515.2</u>	<u>\$ 117.3</u>	<u>\$</u>	<u>\$ 827.7</u>

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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\$5.3 million, US\$5.7 million and US\$5.9 million for the years ended 31 March 2007, 2006 and 2005, respectively. Depreciation expense for continuing operations was US\$50.7 million, US\$45.3 million and US\$36.3 million for the years ended 31 March 2007, 2006 and 2005, respectively. The impairment charge for the pilot roofing plant was US\$13.4 million for the year ended 31 March 2006.

Included in property, plant and equipment are restricted assets with a net book value of US\$0.4 million for the year ended 31 March 2007.

### 8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Trade creditors	\$ 57.7	\$ 66.0
Other creditors and accruals	43.1	51.8
Total accounts payable and accrued liabilities	<u>\$ 100.8</u>	<u>\$ 117.8</u>

### 9. Short and Long-Term Debt

Debt consists of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Short-term debt	\$ 83.0	\$ 302.7
Long-term debt	105.0	-
	<u>\$ 188.0</u>	<u>\$ 302.7</u>

Total debt at 5.91% and 7.11% weighted average rates, respectively.

The Company's credit facilities currently consist of 364-day facilities in the amount of US\$110.0 million, which as of 31 March 2007, all had a maturity date of December 2007. In May 2007, the maturity date of US\$38.3 million of the US\$110.0 million was extended to June 2008. The Company is in discussions with its lenders to extend the maturity date to June 2008 for the remainder of the facilities. The Company also has term facilities in the amount of US\$245.0 million, which had an original maturity date of March 2007. Upon satisfaction of the conditions precedent to the full implementation of the Amended FFA, which occurred on 7 February 2007 with shareholder approval, the maturity date of the term facilities was automatically extended to June 2010. For both facilities, interest is calculated at the commencement of each draw-down period based on the US\$ London Interbank Offered Rate ("LIBOR") plus the margins of individual lenders, and is payable at the end of each draw-down period. The Company paid commitment fees in the amount of US\$0.7 million for the years ended 31 March 2007 and 2006. At 31 March 2007, there was US\$188.0 million drawn under the combined facilities and US\$167.0 million was available.

Short-term debt at 31 March 2007 comprised US\$83.0 drawn under the 364-day facilities.

Long-term debt at 31 March 2007 comprised US\$105.0 million drawn under the term facilities.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

At 31 March 2007, management believes that the Company was in compliance with all restrictive covenants contained in its 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 the AICF.

Debt at 31 March 2006 comprised US\$ non-collateralised notes which formed part of a seven tranche private placement facility which provided for maximum borrowings of US\$165.0 million. Principal repayments were due in seven installments that commenced on 5 November 2004 and were to end on 5 November 2013. The tranches had fixed interest rates of 6.86%, 6.92%, 6.99%, 7.05%, 7.12%, 7.24% and 7.42%. Interest was payable 5 May and 5 November each year.

As a result of recording the asbestos provision at 31 March 2006, and the Supervisory Board's approval on 12 May 2006 of the recording of this provision, the Company would not have been in compliance with certain of the restrictive covenants in respect of the US\$ non-collateralised notes. However, under the terms of the non-collateralised notes agreement, prepayment of these notes was permitted, and on 28 April 2006, the Company issued a notice to all noteholders to prepay in full all outstanding notes on 8 May 2006. On that date, the US\$ non-collateralised notes were prepaid in full, incurring a make-whole payment of US\$6.0 million. This make-whole payment is included in interest expense in the consolidated statements of operations for the year ended 31 March 2007.

The Company anticipates being able to meet its future payment obligations from existing cash, unutilised committed facilities and future net operating cash flows. At 31 March 2007, the Company entered into a forward rate agreement of US\$25.0 million with a fixed rate of 5.07% excluding the margin from February 2007 to February 2008. The contract is accounted for as a financial derivative and is marked to market every month.

### 10. Non-Current Other Liabilities

Non-current other liabilities consist of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Employee entitlements	\$ 11.9	\$ 17.0
Other	29.3	28.0
Total non-current other liabilities	<u>\$ 41.2</u>	<u>\$ 45.0</u>

### 11. 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 the Company to 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 differ from 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 products, which are 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 these previously manufactured roofing products. These products were removed from the marketplace between 1995 and 1998 in areas where there had been any alleged problems. The total amount included in the product warranty provision relating to the Settlement Agreement is US\$3.5 million and US\$5.7 million as of 31 March 2007 and 2006, respectively.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

The following are the changes in the product warranty provision:

(Millions of US dollars)	Years Ended 31 March	
	2007	2006
Balance at beginning of period	\$ 15.5	\$ 12.9
Accruals for product warranties	4.4	6.2
Settlements made in cash or in kind	(4.9)	(3.4)
Foreign currency translation adjustments	0.2	(0.2)
Balance at end of period	<u>\$ 15.2</u>	<u>\$ 15.5</u>

The "Accruals for product warranties" line item above includes an additional accrual of US\$2.0 million and US\$0.6 million for the years ended 31 March 2007 and 2006, respectively, 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\$0.2 million and US\$0.7 million for the years ended 31 March 2007 and 2006, respectively.

## 12. Commitments and Contingencies

### Commitment to provide funding on a long-term basis in respect of asbestos-related liabilities of former subsidiaries

On 21 November 2006, the Company signed the Amended FFA with the NSW Government to provide long-term funding to the AICF that will provide compensation for Australian asbestos-related personal injury claims against Former James Hardie Companies. While the Amended FFA is consistent in all material respects with the terms of the Final Funding Agreement entered into on 1 December 2005 among the Company, the NSW Government and a wholly owned Australian subsidiary of the Company, the Performing Subsidiary, the Amended FFA set forth certain changes to the original proposed arrangements as approved by the Company's Managing and Supervisory Boards of Directors.

In summary, the Amended FFA provided for the following key steps to occur if the remaining conditions precedent to that agreement be satisfied or waived in writing by the parties:

- the establishment of the AICF to provide compensation to Australian asbestos-related personal injury claimants with proven claims against the Former James Hardie Companies;
- initial funding of approximately A\$184.3 million provided by the Performing Subsidiary to the AICF, calculated on the basis of an actuarial report prepared by KPMG Actuaries as of 30 September 2006. That report provided an estimate of the discounted net present value of all present and future Australian asbestos-related personal injury claims against the Former James Hardie Companies of A\$1.55 billion (US\$1.25 billion);
- subject to the cap described below, an annual contribution in advance to top up the funds in the AICF to equal the actuarially calculated estimate of expected Australian asbestos-related personal injury claims against the Former James Hardie Companies for the following three years, to be revised annually (so as to create a rolling cash "buffer" in the AICF);
- a cap on the annual payments made by the Performing Subsidiary to the AICF, initially set at 35% of the Company's free cash flow (defined as cash from operations in accordance with US GAAP in force at the date of the Original FFA) for the immediately preceding financial year, with provisions for the percentage to decline over time depending upon the Company's financial performance (and therefore the contributions already made to the AICF) and the claims outlook;

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

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- an initial term to 31 March 2045, at the end of which time the parties may either agree upon a final payment to be made by the Company in satisfaction of any further funding obligations, or have the term automatically extended for further periods of 10 years until such agreement is reached or the relevant asbestos-related liabilities cease to arise;
- the entry by the parties and/or others into agreements ancillary to or connected with the Amended FFA (the “Related Agreements”);
- no cap on individual payments to asbestos claimants;
- the Performing Subsidiary’s payment obligations are guaranteed by James Hardie Industries N.V.;
- the AICF’s claims to the funding payments required under the Amended FFA will be subordinated to the claims of the Company’s lenders;
- the compensation arrangements will extend to members of the Baryulgil community for asbestos-related claims arising from the activities of a former subsidiary of ABN 60; and
- James Hardie Industries N.V. will, for ten years, provide an annual sum of A\$0.5 million for the purpose of medical research into the prevention, treatment and cure of asbestos disease and contribute an annual sum of A\$0.075 million towards an education campaign for the benefit of the Australian public on the dangers of asbestos.

On 9 November 2006, James Hardie announced that it, the AICF and others had received private binding rulings relating to the expected tax consequences arising to the AICF and others in connection with the Amended FFA. In the Amended FFA, all parties to the Amended FFA agreed to these rulings resulting in the tax conditions precedent set out in that agreement.

In the fourth quarter of fiscal year 2007, the following conditions precedent were satisfied:

- receipt of an independent expert’s report confirming that the funding proposal is in the best interests of the Company and its enterprise as a whole;
- approval of the Company’s lenders and confirmation satisfactory to the Company’s Board of Directors, acting reasonably, that the contributions to be made by JHI NV and the Performing Subsidiary under the Amended FFA will be tax deductible;
- confirmation as to the expected tax consequences arising to the AICF and others from implementing the arrangements;
- approval of the Company’s shareholders at the Extraordinary General Meeting held on 7 February 2007; and
- initial funding payment of A\$184.3 million paid to the AICF on 9 February 2007.

In addition to entering into the Amended FFA, one or more of the Company, the Performing Subsidiary, the AICF and the NSW Government have entered into a number of Related Agreements, including a trust deed (for a trust known as the AICF, referred to as the Trust Deed), for the establishment of the AICF; a deed of guarantee under which James Hardie Industries N.V. provides the guarantee described above; intercreditor deeds to achieve the subordination arrangements described above; and deeds of release in connection with the releases from civil liability described below.

The Performing Subsidiary also signed an Interim Funding Deed with Amaca to provide funding to Amaca of up to A\$24.1 million in the event that Amaca’s finances are otherwise exhausted before the Amended FFA was implemented in full. The commercial terms of such funding were settled and the Performing Subsidiary entered into interim funding documentation dated 16 November 2006. An interim funding payment of A\$9.0 million (US\$7.1 million) was made to Amaca in December 2006.

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

That sum was subsequently repaid by Amaca out of part of the proceeds of the initial funding on 12 February 2007.

#### *Actuarial Study; Claims Estimate*

The AICF commissioned an updated actuarial study of potential asbestos-related liabilities as of 31 March 2007. Based on the results of these studies, it is estimated that the discounted value of the central estimate for claims against the Former James Hardie Companies was approximately A\$1.4 billion (US\$1.1 billion). The undiscounted value of the central estimate of the asbestos-related liabilities of Amaca and Amaba as determined by KPMG Actuaries was approximately A\$2.8 billion (US\$2.3 billion). 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 accounting principles generally accepted in the United States of America. The asbestos liability includes projected future cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows is not fixed or readily determinable.

The tables below are designed to show the various components and effective grossing up of the net Amended FFA liability at 31 March 2007.

The asbestos liability has been revised to reflect the most recent actuarial estimate prepared by KPMG Actuaries as of 31 March 2007 and to adjust for payments made to claimants during the year then ended.

Adjustments to the net Amended FFA liability are shown in the table below:

	US\$ millions	A\$ millions
At 31 March 2006	\$ (715.6)	A\$ (1,000.0)
Effect of changes in foreign exchange rates	(94.5)	-
Other adjustments to net Amended FFA liability	24.0	25.7
<b>Net Amended FFA liability at 31 March 2007</b>	<b>\$ (786.1)</b>	<b>A\$ (974.3)</b>

#### Components of the net Amended FFA liability:

Insurance receivables - current	\$ 9.4	A\$ 11.7
Workers' compensation - Asbestos - current	2.7	3.4
Deferred tax assets - current	7.8	9.7
Income tax payable (reduction to income tax payable)	9.0	11.2
Insurance receivables - non-current	165.1	204.6
Workers' compensation - Asbestos - non-current	76.5	94.8
Deferred tax assets - non-current	318.2	394.4
Workers' compensation liabilities - current	(2.7)	(3.4)
Asbestos liability - current	(63.5)	(78.7)
Asbestos liability - non-current	(1,225.8)	(1,519.4)
Workers' compensation liabilities - non-current	(76.5)	(94.8)
Other net liabilities	(6.3)	(7.8)
<b>Net Amended FFA liability at 31 March 2007</b>	<b>\$ (786.1)</b>	<b>A\$ (974.3)</b>

In estimating the potential financial exposure, KPMG 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 a plaintiff claims exposure, the alleged disease type and the jurisdiction in which the action is 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.

## James Hardie Industries N.V. and Subsidiaries

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Further, KPMG Actuaries relied on the data and information provided by the AICF and Amaca Claims Services, Amaca Pty Ltd (under NSW External Administration) ("ACS") and assumed that it is accurate and complete in all material respects. The actuaries have not verified the 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 estimates of 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 amount of liability could differ materially from that which is 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 from the assumptions used to determine the central estimates. This analysis shows that the discounted central estimates could be in a range of A\$0.9 billion (US\$0.7 billion) to A\$2.0 billion (US\$1.6 billion) (undiscounted estimates of A\$1.6 billion (US\$1.3 billion) to A\$5.1 billion (US\$4.1 billion) as of 31 March 2007. It should be noted that the actual cost of the liabilities could be outside of that range depending on the results 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 Former James Hardie Companies because the claim settlement is borne by other asbestos defendants (other than the former James Hardie subsidiaries) which 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, the Company believes that it is likely to be able to partially recover losses from various insurance carriers. As of 31 March 2007, KPMG Actuaries' undiscounted central estimate of asbestos-related liabilities was A\$2.8 billion (US\$2.3 billion). This undiscounted central estimate is net of expected insurance recoveries of A\$488.1 million (US\$393.8 million) after making a general credit risk allowance for bad debt insurance carriers and an allowance for A\$91.6 million (US\$73.9 million) of "by claim" or subrogation recoveries from other third parties.

#### *Claims Data*

The following table, provided by KPMG Actuaries, shows the number of claims pending as of 31 March 2007 and 2006:

	31 March	
	2007	2006 <sup>(1)</sup>
Australia	490	556
New Zealand	-	-
Unknown - Court Not Identified	13	20
USA	1	1

<sup>(1)</sup> Information includes claims data for only 11 months ended 28 February 2006. Claims data for the 12 months ended 31 March 2006 was not available at the time our financial statements were prepared.



## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

For the years ended 31 March 2007, 2006 and 2005, 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.

	Years Ended 31 March		
	2007	2006 <sup>(1)</sup>	2005
Number of claims filed	463	346	489
Number of claims dismissed	121	97	62
Number of claims settled or otherwise resolved	416	405	402
Average settlement amount per settled claim	A\$ 166,164	A\$ 151,883	A\$ 157,594
Average settlement amount per settled claim	US\$ 127,165	US\$ 114,322	US\$ 116,572

	Unknown - Court Not Identified Years Ended 31 March		
	2007	2006 <sup>(1)</sup>	2005
Number of claims filed	-	6	7
Number of claims dismissed	3	10	20
Number of claims settled or otherwise resolved	5	12	2
Average settlement amount per settled claim	A\$ 12,165	A\$ 198,892	A\$ 47,000
Average settlement amount per settled claim	US\$ 9,310	US\$ 149,706	US\$ 34,766

	USA Years Ended 31 March		
	2007	2006 <sup>(1)</sup>	2005
Number of claims filed	1	-	-
Number of claims dismissed	1	-	3
Number of claims settled or otherwise resolved	-	-	1
Average settlement amount per settled claim	A\$ -	A\$ -	A\$ 228,293
Average settlement amount per settled claim	US\$ -	US\$ -	US\$ 168,868

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.

	2007	2006 <sup>(1)</sup>	2005	2004	2003
Number of open claims at beginning of year	586	749	743	814	671
Number of new claims	464	352	496	380	409
Number of closed claims	546	524	490	451	266
Number of open claims at year-end	504	577	749	743	814
Average settlement amount per settled claim	A\$ 164,335	A\$ 153,236	A\$ 157,223	A\$ 167,450	A\$ 201,200
Average settlement amount per case closed	A\$ 126,713	A\$ 121,945	A\$ 129,949	A\$ 117,327	A\$ 177,752
Average settlement amount per settled claim	US\$ 125,766	US\$ 115,341	US\$ 116,298	US\$ 116,127	US\$ 112,974
Average settlement amount per case closed	US\$ 96,973	US\$ 91,788	US\$ 96,123	US\$ 81,366	US\$ 99,808

<sup>(1)</sup> Information includes claims data for only 11 months ended 28 February 2006. Claims data for the 12 months ended 31 March 2006 was not available at the time our financial statements were prepared.

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

The Company did not have any responsibility or involvement in the management of claims against ABN 60 between the time ABN 60 left the James Hardie Group in March 2003 and February 2007 when the Amended FFA was approved. Since February 2001, when Amaca and Amaba were separated from the James Hardie Group, neither the Company nor any of its current subsidiaries had any responsibility or involvement in the management of claims against those entities. Prior to February 2001, the principal entity potentially involved in relation to such claims was ABN 60, which was not a member of the James Hardie Group between March 2003 and February 2007. However, the Amended FFA and associated New South Wales legislation provides that the AICF will have both the responsibility for, and management of claims against, the Former James Hardie Companies, and that the Company will have the right to appoint a majority of the directors of the AICF, unless a special default or insolvency event arises.

On 26 October 2004, the Company, the Medical Research and Compensation Fund (“MRCF”) 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 MRCF and Amaba and Amaca, and would be entitled to publicly release the final version of such reports. Under the terms of the Amended FFA, the Company has obtained similar rights of access to actuarial information produced for the AICF by the actuary to be appointed by the AICF (the “Approved Actuary”). 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 has not obtained any right under the Amended FFA) to audit or otherwise require independent verification of such information or the methodologies to be adopted by the Approved Actuary. As such the Company will need to rely on the accuracy and completeness of the information and analysis of the Approved Actuary when making future disclosures with respect to claims statistics.

#### *SCI and Other Related Expenses*

The Company has incurred substantial costs associated with the Special Commission of Inquiry (“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)	Years Ended 31 March		
	2007	2006	2005
SCI	\$ -	\$ -	\$ 6.8
Internal investigation	-	-	4.9
ASIC investigation	1.7	0.8	1.2
Severance and consulting	0.2	0.1	6.0
Resolution advisory fees	8.8	9.8	6.4
Funding advice	0.7	2.9	0.6
Other	2.2	3.8	2.2
Total SCI and other related expenses	<u>\$ 13.6</u>	<u>\$ 17.4</u>	<u>\$ 28.1</u>

Internal investigation costs reflect costs incurred by the Company in connection with an internal investigation conducted by independent legal advisors to investigate allegations raised during the SCI and the preparation and filing of the Company’s annual financial statements in the United States.

#### *Australian Securities and Investments Commission (“ASIC”) Proceedings and Investigation*

On 14 February 2007, ASIC commenced civil proceedings in the Supreme Court of New South Wales (the “Court”) against the Company, ABN 60 and ten then-present or former officers and directors of the James Hardie Group. While the subject matter of the allegations varies between individual defendants, the allegations against the Company are confined to alleged contraventions of provisions of the Australian Corporations Act/Law relating to continuous disclosure, a director’s duty of care and diligence, and engaging in misleading or deceptive conduct in respect of a security.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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In the proceedings, ASIC seeks:

- declarations regarding the alleged contraventions;
- orders for pecuniary penalties in such amount as the Court thinks fit up to the limits specified in the Corporations Act;
- orders that Michael Brown, Michael Gillfillan, Meredith Hellicar, Martin Koffel, Peter Macdonald, Philip Morley, Geoffrey O'Brien, Peter Shafron, Gregory Terry and Peter Willcox be prohibited from managing an Australian corporation for such period as the Court thinks fit;
- an order that the Company execute a deed of indemnity in favour of ABN 60 Pty Limited in the amount of A\$1.9 billion or such amount as ABN 60 or its directors consider is necessary to ensure that ABN 60 remains solvent; and
- its costs of the proceedings.

ASIC stated in February 2007 that it would not pursue the claim for indemnity if the conditions precedent to the Original FFA as announced on 1 December 2005 were satisfied. The Company and the other parties to the agreement provided certification to ASIC in March 2007 that the conditions precedent to the Amended FFA dated 21 November 2006 have been satisfied. ASIC is considering its position and has not yet taken any step to withdraw the indemnity claim.

ASIC has indicated that its investigations continue and may result in further actions, both civil and criminal. However, it has not indicated the possible defendants to any such actions.

On 20 February 2007, the Company announced that the three serving directors named in the ASIC proceedings had resigned from the Board and Board committees.

The Company has entered into deeds of indemnity with certain of its directors and officers as is common practice for publicly listed companies. The Company's articles of association also contain an indemnity for directors and officers and the Company has granted indemnities to certain of its former related corporate bodies which may require the Company to indemnify those entities against indemnities they have granted their directors and officers. To date, claims for payments of expenses incurred have been received from certain former directors and officers in relation to the ASIC investigation, and in relation to the examination of these persons by ASIC delegates, the amount of which is not significant. Now that proceedings have been brought against former directors and officers of the James Hardie Group, the Company is likely to incur further liabilities under these indemnities. Initially, the Company has obligations, or has offered, to advance funds in respect of defence costs and depending on the outcome of the proceedings, may be or become responsible for these and other amounts. Any obligations of the Company in this regard are expected to be substantially recovered through the Company's insurance.

There remains considerable uncertainty surrounding the likely outcome of the ASIC proceedings in the longer term and there is a possibility that the related costs to the Company could be material. However, at this stage, it is not possible to determine the amount of any such liability. Therefore, the Company believes that both the probable and estimable requirements under SFAS No. 5, "Accounting for Contingencies," for recording a liability have not been met.

### **Environmental and Legal**

The operations of the Company, like those of other companies engaged in similar businesses, are subject to a number of 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 except as set forth above, 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

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

outcome of any pending legal proceeding, management believes that such proceedings and actions should not, except as it relates to asbestos as described above, individually or in the aggregate, have a material adverse effect on its consolidated financial position, statement of operations or cash flows.

### 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 2007:

Years ending 31 March:	(Millions of US dollars)
2008	\$ 15.0
2009	14.6
2010	12.5
2011	12.6
2012	9.0
Thereafter	73.3
Total	<u>\$ 137.0</u>

Rental expense amounted to US\$12.1 million, US\$12.5 million and US\$9.1 million for the years ended 31 March 2007, 2006 and 2005, 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\$12.2 million at 31 March 2007.

## 13. Income Taxes

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

(Millions of US dollars)	Years Ended 31 March		
	2007	2006	2005
(Loss) income from continuing operations before income taxes:			
Domestic <sup>1</sup>	\$ 110.9	\$ 113.7	\$ 90.5
Foreign	(204.0)	(548.8)	99.3
(Loss) income from continuing operations before income taxes	<u>\$ (93.1)</u>	<u>\$ (435.1)</u>	<u>\$ 189.8</u>
Income tax expense (benefit):			
Current:			
Domestic <sup>1</sup>	\$ 0.4	\$ (9.0)	\$ (14.1)
Foreign	(63.7)	(91.5)	(37.1)
Current income tax benefit	<u>(63.3)</u>	<u>(100.5)</u>	<u>(51.2)</u>
Deferred:			
Domestic <sup>1</sup>	0.1	(0.3)	5.0
Foreign	307.1	29.2	(15.7)
Deferred income tax benefit (expense)	<u>307.2</u>	<u>28.9</u>	<u>(10.7)</u>
Total income tax benefit (expense) for continuing operations	<u>\$ 243.9</u>	<u>\$ (71.6)</u>	<u>\$ (61.9)</u>

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

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

Income tax benefit (expense) 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. Income tax benefit (expense) from continuing operations is reconciled to the tax at the statutory rates as follows:

(Millions of US dollars)	Years Ended 31 March		
	2007	2006	2005
Income tax benefit (expense) computed at statutory tax rates	\$ 16.2	\$ 121.0	\$ (65.3)
US state income taxes, net of the federal benefit	(6.5)	(7.1)	(5.3)
Asbestos adjustment	242.0	(214.7)	-
Asbestos - effect of foreign exchange	(24.1)	-	-
Benefit from Dutch financial risk reserve regime	8.1	12.7	18.1
Expenses not deductible	(1.7)	(3.4)	(2.3)
Non-assessable items	1.8	1.4	-
Losses not available for carryforward	(3.2)	(2.6)	(2.4)
Change in reserves	10.4	20.7	(3.7)
Change in tax law	3.0	-	-
Other items	(2.1)	0.4	(1.0)
Total income tax benefit (expense)	<u>\$ 243.9</u>	<u>\$ (71.6)</u>	<u>\$ (61.9)</u>
Effective tax rate	<u>262.0%</u>	<u>16.5%</u>	<u>32.6%</u>

Deferred tax balances consist of the following components:

(Millions of US dollars)	31 March	
	2007	2006
Deferred tax assets:		
Asbestos liability	\$ 326.0	\$ -
Other provisions and accruals	33.3	33.2
Net operating loss carryforwards	7.8	8.9
Capital loss carryforwards	35.2	31.2
Taxes on intellectual property transfer	6.5	6.0
Other	7.5	2.3
Total deferred tax assets	<u>416.3</u>	<u>81.6</u>
Valuation allowance	<u>(39.7)</u>	<u>(35.2)</u>
Total deferred tax assets, net of valuation allowance	<u>376.6</u>	<u>46.4</u>
Deferred tax liabilities:		
Property, plant and equipment	(108.4)	(91.7)
Prepaid pension cost	-	(1.8)
Foreign currency movements	(5.2)	2.8
Other	(0.1)	-
Total deferred tax liabilities	<u>(113.7)</u>	<u>(90.7)</u>
Net deferred tax liabilities	<u>\$ 262.9</u>	<u>\$ (44.3)</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\$4.5 million during fiscal year 2007 due to foreign currency movements.

## **James Hardie Industries N.V. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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At 31 March 2007, the Company had Australian tax loss carryforwards of approximately US\$24.9 million that will never expire. At 31 March 2007, the Company had a US\$15.5 million valuation allowance against the Australian tax loss carryforwards.

At 31 March 2007, the Company had US\$117.2 million in Australian capital loss carryforwards which will never expire. At 31 March 2007, the Company had a 100% valuation allowance against the Australian capital loss carryforwards.

At 31 March 2007, the undistributed earnings of non-Dutch subsidiaries approximated US\$639.8 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 related to undistributed earnings 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 taxing jurisdictions on various tax matters, including challenges to various positions the Company asserts on its income tax returns. 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 additional tax expense in the period in which it determines that the recorded tax liability is less than the ultimate assessment it expects.

In fiscal years 2007, 2006 and 2005, the Company recorded income tax benefit of US\$10.4 million, US\$20.7 million and US\$2.5 million, respectively, as a result of the finalization of certain tax audits (whereby certain matters were settled), the expiration of the statute related to certain tax positions and adjustments to income tax balances based on the filing of amended income tax returns, which give rise to the benefit recorded by the Company.

Relevant 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. In particular, the Australian Taxation Office (ATO) is auditing the Company's Australian income tax return for the year ended 31 March 2002. The ATO has indicated that further investigation is required and is working with the Company and the Company's advisors to conclude its inquiries.

Of the audits currently being conducted, none have progressed sufficiently to predict their ultimate outcome. The Company accrues 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. The treaty was amended during fiscal year 2005 and became effective for the Company on 1 February 2006. The amended treaty provides, among other things, new requirements that the Company must meet for the Company to continue to qualify for treaty benefits and its effective income tax rate. During fiscal year 2006, the Company made changes to its organisational and operational structure to satisfy the requirements of the amended treaty and believes that it is now in compliance and should continue qualifying for treaty benefits. However, if during a subsequent tax audit or related process, the Internal Revenue Service ("IRS") determines that these changes do not meet the new requirements, the Company may not qualify for treaty benefits, its effective income tax rate could significantly increase beginning in the fiscal year that such determination is made and it could be liable for taxes owed from the effective date of the amended treaty provisions.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

### 14. Amended ATO Assessment

In March 2006, RCI Pty Ltd ("RCI"), a wholly owned subsidiary of the Company, received an amended assessment from the ATO in respect of RCI's income tax return for the year ended 31 March 1999. The amended assessment relates to the amount of net capital gains arising as a result of an internal corporate restructure carried out in 1998 and has been issued pursuant to the discretion granted to the Commissioner of Taxation under Part IVA of the Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A\$412.0 million. However, after two subsequent remissions of general interest charges by the ATO, the total was revised to A\$368.0 million and is comprised of the following as of 31 March 2007:

(Millions of dollars)	US\$ <sup>(1)</sup>	A\$
Primary tax after allowable credits	\$ 138.8	A\$ 172.0
Penalties <sup>(2)</sup>	34.7	43.0
General interest charges	123.4	153.0
Total amended assessment	\$ 296.9	A\$ 368.0

<sup>(1)</sup> US\$ amounts calculated using the A\$/US\$ foreign exchange spot rate at 31 March 2007.

<sup>(2)</sup> Represents 25% of primary tax.

On 23 June 2006, following negotiation with the ATO regarding payment options for the amended assessment, the Company was advised by the ATO that, in accordance with the ATO Receivable policy, it was able to make a payment of 50% of the total amended assessment then due of A\$378.0 million (US\$305.0 million), being A\$189.0 million (US\$152.5 million), and provide a guarantee from James Hardie Industries N.V. in favour of the ATO for the remaining unpaid 50% of the amended assessment, pending outcome of the appeal of the amended assessment. Payment of 50% of the amended assessment became due and was paid on 5 July 2006. The Company also agreed to pay general interest charges ("GIC") accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued GIC was paid on 16 October 2006 in respect of the quarter ended 30 September 2006.

On 10 November 2006, the ATO granted a further remission of GIC reducing total GIC on the amended assessment from A\$163.0 million to A\$153.0 million and thereby reducing the total amount due under the amended assessment from A\$378.0 million to A\$368.0 million. The reduction in the total amount due under the amended assessment resulted in a reduction in the 50% payment required under the agreement with the ATO from A\$189.0 million to A\$184.0 million. This gave rise to an amount of A\$5.0 million being available for offset against future GIC accruing on the unpaid balance of the amended assessment. Accordingly, no GIC was required to be paid in respect of the quarter ended 31 December 2006 and a reduced amount of GIC of A\$1.2 million was paid in respect of the quarter ended 31 March 2007.

RCI strongly disputes the amended assessment and is pursuing all avenues of objection and appeal to contest the ATO's position in this matter. The ATO has confirmed that RCI has a reasonably arguable position that the amount of net capital gains arising as a result of the corporate restructure carried out in 1998 has been reported correctly in the fiscal year 1999 tax return and that Part IVA does not apply. As a result, the ATO reduced the amount of penalty from an automatic 50% of primary tax that would otherwise apply in these circumstances, to 25% of primary tax. In Australia, a reasonably arguable position means that the tax position is about as likely to be correct as it is not correct. The Company and RCI received legal and tax advice at the time of the transaction, during the ATO enquiries and following receipt of the amended assessment. The Company believes that the tax position reported in RCI's tax return for the 1999 fiscal year will be upheld on appeal. Therefore, the Company believes that the probable requirements under SFAS No. 5, "Accounting for Contingencies," for recording a liability have not been met and therefore it has not recorded any liability at 31 March 2007 for the remainder of the amended assessment.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

The Company expects that amounts paid on 5 July 2006 and, any later time, would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. As a result, the Company has treated the payments on 5 July 2006 and 16 October 2006 as a deposit and it is the Company's intention to treat any payments to be made at a later date as a deposit.

### 15. Discontinued Operations

#### Chile Fibre Cement

In June 2005, the Company approved a plan to dispose of its Chile Fibre Cement business to Compania Industrial El Volcan S.A. (Volcan). The sale closed on 8 July 2005. The Company received net proceeds of US\$3.9 million and recorded a loss on disposal of US\$0.8 million. This loss on disposal was included in other operating expense in the Company's consolidated statements of operations for the year ended 31 March 2006.

As part of the terms of the sale of the Chile Fibre Cement business to Volcan, the Company entered into a two-year take or pay purchase contract for fibre cement product manufactured by Volcan. The first year of the contract amounted to a purchase commitment of approximately US\$2.8 million and the second year amounted to a purchase commitment of approximately US\$2.1 million. As this contract qualified as continuing involvement per SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the operating results and loss on disposal of the Chile Fibre Cement business are included in the Company's income (loss) from continuing operations and are comprised of the following components:

(Millions of US dollars)	Years Ended 31 March	
	2006	2005
Chile Fibre Cement		
Net sales	\$ 5.1	\$ 13.3
Cost of goods sold	(3.5)	(10.1)
Gross profit	1.6	3.2
Selling, general and administrative expenses	(1.2)	(2.0)
Loss on disposal of business	(0.8)	-
Operating (loss) income	(0.4)	1.2
Interest expense	(0.2)	(0.4)
Net (loss) income	<u>\$ (0.6)</u>	<u>\$ 0.8</u>

The following are the results of operations of discontinued businesses:

(Millions of US dollars)	Year Ended 31 March 2005
<b>Building Services</b>	
Loss before income taxes	(0.5)
Income tax benefit	0.2
Loss before discontinued operations	(0.3)
Loss on disposal, net of income taxes	(0.7)
Loss from discontinued operations	<u>\$ (1.0)</u>



# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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### 16. Stock-Based Compensation

At 31 March 2007, the Company had the following stock-based compensation plans: the Executive Share Purchase Plan; the Managing Board Transitional Stock Option Plan; the JHI NV 2001 Equity Incentive Plan; the JHI NV Stock Appreciation Rights Incentive Plan; the Supervisory Board Share Plan; the Supervisory Board Share Plan 2006 and the Long-Term Incentive Plan. As of 31 March 2006, the Company had no units outstanding under the following stock-based compensation plans: the Peter Donald Macdonald Share Option Plan, the Peter Donald Macdonald Share Option Plan 2001 and the Peter Donald Macdonald Share Option Plan 2002 (collectively the "Peter Donald Macdonald Share Option Plans").

#### *Executive Share Purchase Plan*

Prior to July 1998, James Hardie Industries Limited ("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 repayable within two years after termination of an executive's employment. Variable plan accounting under the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," 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. 123R, has been applied to shares granted after 31 March 1995. The Company recorded no compensation expense during the years ended 31 March 2007, 2006 and 2005. No shares were issued under this plan during years ended 31 March 2007, 2006 and 2005.

#### *Managing Board Transitional Stock Option Plan*

The Managing Board Transitional Stock Option Plan provides an incentive to the members of the Managing Board. The maximum number of ordinary shares that may be issued and outstanding or subject to outstanding options under this plan shall not exceed 1,380,000 shares. At 31 March 2007, there were 1,320,000 options outstanding under this plan.

On 22 November 2005, the Company granted options to purchase 1,320,000 shares of the Company's common stock at an exercise price per share equal to A\$8.53 to the Managing Directors under the Managing Board Transitional Stock Option Plan. 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. 50% of these options become exercisable on the first business day on or after 22 November 2008 if the total shareholder returns ("TSR") (essentially its dividend yield and common stock performance) from 22 November 2005 to that date were at least equal to the median TSR for the companies comprising the Company's peer group, as set out in the plan. In addition, for each 1% increment that the Company's TSR is above the median TSR, an additional 2% of the options become exercisable. If any options remain unvested on the last business day of each six month period following 22 November 2008 and 22 November 2010, the Company will reapply the vesting criteria to those options on that business day.

#### *JHI NV 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.

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

Original Shadow Share Grant Date	Original Exercise Price	October 2001 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 are adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise prices were 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. 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.

The following table summarises the additional option grants:

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
December 2005	A\$ 8.90	5,224,100	December 2015
March 2006	A\$ 9.50	40,200	March 2016
November 2006	A\$ 8.40	3,499,490	November 2016
March 2007	A\$ 8.90	179,500	March 2017
March 2007	A\$ 8.35	151,400	March 2017

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 prices 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.

### *JHI NV Stock Appreciation Rights Incentive Plan*

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 ("Stock Appreciation Rights Plan") with an exercise price of A\$5.99. All of these stock appreciation rights were outstanding as of 31 March 2005. In April 2005, 27,000 stock appreciation rights were cancelled. In December 2006, 250,000 of these stock appreciation rights vested and were exercised at A\$8.99, the closing price of the Company's stock on the exercise day. These rights have been accounted for as stock appreciation rights under SFAS No. 123R and, accordingly, compensation expense of US\$0.5

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

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million, US\$0.5 million and nil was recognised in the years ended 31 March 2007, 2006 and 2005, respectively.

### *Supervisory Board Share Plan*

At the 2002 Annual General Meeting, the shareholders approved a Supervisory Board Share Plan ("SBSP"), which required that all non-executive directors on the Joint Board and Supervisory Board receive shares of the Company's common stock as payment for a portion of their director fees. The SBSP required that the directors take at least US\$10,000 of their fees in shares and allowed directors to receive additional shares in lieu of fees at their discretion. Shares issued under the US\$10,000 compulsory component of the SBSP are subject to a two-year escrow that requires members of the Supervisory Board to retain those shares for at least two years following issue. The issue price for the shares is the market value at the time of issue. No loans were entered into by the Company in relation to the grant of shares pursuant to the SBSP. During fiscal year 2007, this plan was replaced with the Supervisory Board Share Plan 2006. At 31 March 2007, there were 6,063 shares still subject to escrow under this plan.

### *Supervisory Board Share Plan 2006*

At the 2006 Annual General Meeting, the Company's shareholders approved the replacement of its SBSP with a new plan called the Supervisory Board Share Plan 2006 ("SBSP 2006"). Participation by members of the Supervisory Board in the SBSP 2006 is not mandatory. The SBSP 2006 allows the Company to issue new shares or acquire shares on the market on behalf of the participant. The total remuneration of a Supervisory Board member will take into account any participation in the SBSP 2006 and shares under the SBSP 2006. At 31 March 2007, 5,039 shares had been acquired under this plan.

### *Long-Term Incentive Plan*

At the 2006 Annual General Meeting, the Company's shareholders approved the establishment of a Long-Term Incentive Plan ("LTIP") to provide incentives to members of the Company's Managing Board and to certain members of its management ("Executives"). The shareholders also approved, in accordance with certain LTIP rules, the issue of certain options or other rights over, or interest in, ordinary fully-paid shares in the Company ("Shares"), the issue and/or transfer of Shares under them, and the grant of cash awards to members of the Company's Managing Board and to Executives. At the same meeting, the shareholders approved participation in the LTIP and issue of options to the Managing Board to a maximum of 1,418,000 options. In November 2006, 1,132,000 options were granted under the LTIP to the Managing Board. The vesting of these options are subject to 'performance hurdles' as outlined in the LTIP rules. Unexercised options expire 10 years from the date of issue. At 31 March 2007, there were 1,132,000 options outstanding under this plan.

### *Peter Donald Macdonald Share Option Plans*

The Company granted Mr Macdonald options to purchase 1,200,000 shares, 624,000 shares and 1,950,000 shares under the Peter Donald Macdonald Share Option Plan, Peter Donald Macdonald Share Option Plan 2001 and Peter Donald Macdonald Share Option Plan 2002, respectively. In April 2005, Mr Macdonald exercised all options granted under the Peter Donald Macdonald Share Option Plan. Such shares had an original exercise price of A\$3.87 per share. However, 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 shares and 1,950,000 shares in the other two plans expired in April 2005 and October 2005, respectively, as the performance hurdles were not met.

### *Valuation and Expense Information Under SFAS No. 123R*

The Company accounts for stock options in accordance with the fair value provisions of SFAS No. 123R, which requires the Company to estimate the value of stock options issued based upon an option-pricing model and recognise this estimated value as compensation expense over the periods in which the options vest.

The Company estimates the fair value of each option grant on the date of grant using either the Black-Scholes option-pricing model or a lattice model that incorporates a Monte Carlo Simulation

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

(the "Monte Carlo method"). Options granted under the 2001 Equity Incentive Plan and the Managing Board Transitional Stock Option Plan are valued using the Black-Scholes option-pricing model since the vesting of these options is based solely on a requisite service condition. Options granted under the LTIP were valued using the Monte Carlo method since vesting of these options requires that certain target market conditions are achieved.

The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free rate and expected dividends. We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. We estimate the volatility of our common stock based on historical daily stock price volatility. We base the risk-free interest rate on US Treasury notes with terms similar to the expected term of the options. We calculate dividend yield using the current management dividend policy at the time of option grant.

The following table includes the weighted average assumptions and weighted average fair values used for grants valued using the Black-Scholes option-pricing model during the year ended 31 March:

	2007	2006	2005
Dividend yield	1.5%	0.9%	1.1%
Expected volatility	28.1%	27.9%	29.1%
Risk-free interest rate	4.6%	4.5%	3.2%
Expected life in years	5.1	5.6	3.3
Weighted average fair value at grant date	A\$ 2.40	A\$ 2.78	A\$ 1.35
Number of stock options	3,830,390	6,584,300	5,664,100

The following table includes the weighted average assumptions and weighted average fair values used for grants valued using the Monte Carlo method during the year ended 31 March:

	2007	2006	2005
Dividend yield	1.6%	N/A	N/A
Expected volatility	28.1%	N/A	N/A
Risk-free interest rate	4.6%	N/A	N/A
Weighted average fair value at grant date	A\$ 3.30	N/A	N/A
Number of stock options	1,132,000	N/A	N/A

Compensation expense arising from stock option grants as estimated using option-pricing models was US\$5.8 million, US\$5.9 million and US\$3.0 million for the years ended 31 March 2007, 2006 and 2005, respectively. As of 31 March 2007, the unrecorded deferred stock-based compensation balance related to stock options was US\$10.5 million after estimated forfeitures and will be recognised over an estimated weighted average amortisation period of 1.5 years.

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

#### General Share-Based Award Information

The following table summarises all of the Company's shares available for grant and the movement in all of the Company's outstanding options:

	Shares Available for Grant	Outstanding Options	
		Number	Weighted Average Exercise Price
Balance at 1 April 2005	24,340,258	20,128,610	A\$ 5.75
Newly Authorised	1,380,000	-	
Granted	(6,584,300)	6,584,300	A\$ 8.83
Exercised	-	(3,925,378)	A\$ 4.79
Forfeited	3,274,275	(3,274,275)	A\$ 5.68
Expired	(2,574,000)	-	
Balance at 1 April 2006	<u>19,836,233</u>	<u>19,513,257</u>	A\$ 6.99
Newly Authorised	3,000,000	-	
Granted	(4,962,390)	4,962,390	A\$ 8.42
Exercised	-	(3,988,880)	A\$ 5.96
Forfeited	1,546,950	(1,546,950)	A\$ 7.70
<b>Balance at 31 March 2007</b>	<b><u>19,420,793</u></b>	<b><u>18,939,817</u></b>	<b>A\$ 7.52</b>

The total intrinsic value of stock options exercised was A\$10.3 million, A\$11.5 million and A\$1.7 million for the years ended 31 March 2007, 2006 and 2005, respectively.

The weighted average grant-date fair value of stock options granted was A\$2.61, A\$2.78 and A\$1.35 during the years ended 31 March 2007, 2006 and 2005, respectively.

Windfall tax benefits realised in the United States from stock options exercised and included in cash flows from financing activities in the consolidated statements of cash flows were US\$1.8 million for the year ended 31 March 2007. Tax benefits of US\$2.2 million and US\$0.4 million for the years ended 31 March 2006 and 2005, respectively, are included in cash flows from operating activities in the consolidated statements of cash flows.

# James Hardie Industries N.V. and Subsidiaries

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The following table summarises outstanding and exercisable options as of 31 March 2007:

Exercise Price	Options Outstanding			Options Exercisable			
	Number	Weighted Average Remaining Life (in Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value
A\$ 3.09	423,723	3.6	A\$ 3.09	A\$ 2,233,020	423,723	A\$ 3.09	A\$ 2,233,020
3.13	100,435	2.6	3.13	525,275	100,435	3.13	525,275
5.06	712,419	4.7	5.06	2,350,983	712,419	5.06	2,350,983
5.99	3,367,425	7.7	5.99	7,980,797	1,344,125	5.99	3,185,576
6.30	273,000	7.9	6.30	562,380	136,500	6.30	281,190
6.45	1,012,000	5.7	6.45	1,932,920	1,012,000	6.45	1,932,920
7.05	2,461,000	6.7	7.05	3,223,910	2,461,000	7.05	3,223,910
8.35	151,400	9.9	8.35	1,514	-	8.35	-
8.40	4,365,615	9.6	8.40	-	7,025	8.40	-
8.53	1,320,000	8.7	8.53	-	-	8.53	-
8.90	4,712,600	8.7	8.90	-	1,139,650	8.90	-
A\$ 9.50	40,200	8.9	9.50	-	10,050	9.50	-
Total	<u>18,939,817</u>	8.2	A\$ 7.52	<u>A\$ 18,810,799</u>	<u>7,346,927</u>	A\$ 6.56	<u>A\$ 13,732,874</u>

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value based on stock options with an exercise price less than the Company's closing stock price of A\$8.36 as of 31 March 2007, which would have been received by the option holders had those option holders exercised their options as of that date, although a significant portion had not vested.

## 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.

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 2006, 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 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.

## James Hardie Industries N.V. and Subsidiaries

### Notes to Consolidated Financial Statements

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 2007 and 2006, 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.

#### 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			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt:				
Floating	\$ 105.0	\$ 105.0	\$ -	\$ -
Fixed	-	-	121.7	133.8
Total	<u>\$ 105.0</u>	<u>\$ 105.0</u>	<u>\$ 121.7</u>	<u>\$ 133.8</u>

Fair values of long-term debt were determined by reference to the 31 March 2007 and 2006 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 (fiscal year 2005 only), the manufacture and sale of fibre cement reinforced pipes in the United States, fibre cement operations in Europe and roofing operations in the United States. The roofing plant was closed and the business ceased operations in April 2006. The Company's operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

# James Hardie Industries N.V. and Subsidiaries

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### 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		
	2007	2006	2005
USA Fibre Cement	\$ 1,262.3	\$ 1,218.4	\$ 939.2
Asia Pacific Fibre Cement	251.7	241.8	236.1
Other	28.9	28.3	35.1
Worldwide total from continuing operations	<u>\$ 1,542.9</u>	<u>\$ 1,488.5</u>	<u>\$ 1,210.4</u>

(Millions of US dollars)	(Loss) Income from Continuing Operations		
	Before Income Taxes		
	Years Ended 31 March		
	2007	2006	2005
USA Fibre Cement <sup>2</sup>	\$ 362.4	\$ 342.6	\$ 241.5
Asia Pacific Fibre Cement <sup>2</sup>	39.4	41.7	46.8
Research and Development <sup>2</sup>	(17.1)	(15.7)	(17.5)
Other	(9.3)	(26.5)	(11.8)
Segments total	375.4	342.1	259.0
General Corporate <sup>3,4,8</sup>	(462.0)	(777.0)	(62.8)
Total operating (loss) income	(86.6)	(434.9)	196.2
Net interest expense <sup>5</sup>	(6.5)	(0.2)	(5.1)
Other expense	-	-	(1.3)
Worldwide total from continuing operations	<u>\$ (93.1)</u>	<u>\$ (435.1)</u>	<u>\$ 189.8</u>

(Millions of US dollars)	Total Identifiable Assets	
	31 March	
	2007	2006
USA Fibre Cement	\$ 893.0	\$ 826.0
Asia Pacific Fibre Cement	199.3	170.4
Other	52.5	54.8
Segments total	1,144.8	1,051.2
General Corporate <sup>6,8</sup>	983.3	394.2
Worldwide total	<u>\$ 2,128.1</u>	<u>\$ 1,445.4</u>



# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

(Millions of US dollars)	Additions to Property, Plant and Equipment <sup>7</sup> Years Ended 31 March		
	2007	2006	2005
USA Fibre Cement	\$ 80.3	\$ 154.5	\$ 144.8
Asia Pacific Fibre Cement	10.5	6.6	4.1
Other	1.3	1.7	4.1
Worldwide total	<u>\$ 92.1</u>	<u>\$ 162.8</u>	<u>\$ 153.0</u>

(Millions of US dollars)	Depreciation and Amortisation Years Ended 31 March		
	2007	2006	2005
USA Fibre Cement	\$ 37.8	\$ 32.4	\$ 23.1
Asia Pacific Fibre Cement	10.1	10.0	10.1
Other	2.8	2.9	3.1
Worldwide total	<u>\$ 50.7</u>	<u>\$ 45.3</u>	<u>\$ 36.3</u>

### Geographic Areas

(Millions of US dollars)	Net Sales to Customers <sup>1</sup> Years Ended 31 March		
	2007	2006	2005
USA	\$ 1,279.4	\$ 1,233.7	\$ 955.7
Australia	169.0	164.5	160.5
New Zealand	54.4	53.6	49.6
Other Countries	40.1	36.7	44.6
Worldwide total from continuing operations	<u>\$ 1,542.9</u>	<u>\$ 1,488.5</u>	<u>\$ 1,210.4</u>

(Millions of US dollars)	Total Identifiable Assets 31 March	
	2007	2006
USA	\$ 935.7	\$ 870.3
Australia	127.1	108.5
New Zealand	23.1	18.7
Other Countries	58.9	53.7
Segments total	<u>1,144.8</u>	<u>1,051.2</u>
General Corporate <sup>6,8</sup>	983.3	394.2
Worldwide total	<u>\$ 2,128.1</u>	<u>\$ 1,445.4</u>

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

<sup>2</sup>Research and development costs of US\$10.8 million, US\$13.2 million and US\$7.6 million in fiscal years 2007, 2006 and 2005, respectively, were expensed in the USA Fibre Cement operating segment. Research and development costs of US\$1.8 million, US\$2.3 million and US\$1.9 million in fiscal years 2007, 2006 and 2005, respectively, were expensed in the Asia Pacific Fibre Cement segment. Research and development costs of US\$13.0 million, US\$12.3 million and US\$12.0 million in fiscal year 2007, 2006 and 2005, respectively, were expensed in the Research and Development segment. Research and Development costs of US\$0.3 million, US\$0.9 million and US\$0.1 million in

# James Hardie Industries N.V. and Subsidiaries

## Notes to Consolidated Financial Statements

fiscal year 2007, 2006 and 2005, respectively, were expensed in other segment. The Research and Development segment also included selling, general and administrative expenses of US\$4.1 million, US\$3.4 million and US\$5.5 million in fiscal year 2007, 2006 and 2005, respectively.

Research and development expenditures are expensed as incurred and in total amounted to US\$25.9 million, US\$28.7 million and US\$21.6 million for the years ended 31 March 2007, 2006 and 2005, respectively.

<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.

<sup>4</sup>Includes costs of US\$13.6 million, US\$17.4 million and US\$28.1 million for SCI and other related expenses in fiscal years 2007, 2006 and 2005, respectively. See Note 12.

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

<sup>6</sup>The Company does not report deferred tax assets and liabilities for each operating segment as operating segments are not held directly accountable for deferred income taxes. All deferred income 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.

<sup>8</sup>Included in General Corporate are asbestos adjustments of US\$405.5 million and US\$579.7 million for the years ended 31 March 2007 and 2006, respectively. Asbestos related assets at 31 March 2007 are US\$727.6 million and are included in the General Corporate segment. See Note 12.

### 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 gross sales.

These three customers' accounts receivable represented 58% and 60% of the Company's trade accounts receivable at 31 March 2007 and 2006, respectively. The following are gross sales generated by these three customers, which are all from the USA Fibre Cement segment:

(Millions of US dollars)	Years Ended 31 March					
	2007		2006		2005	
	\$	%	\$	%	\$	%
Customer A	446.3	26.7	426.2	35.0	295.4	31.4
Customer B	172.3	10.3	168.5	13.8	131.8	14.0
Customer C	168.9	10.1	156.6	12.9	131.7	14.0
Total	<u>787.5</u>		<u>751.3</u>		<u>558.9</u>	

Approximately 17% of the Company's fiscal year 2007 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.

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### 19. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) as reported in the consolidated balance sheets is US\$5.4 million and US\$(28.4) million as of 31 March 2007 and 2006, respectively, and includes US\$(2.7) million, net of tax benefit of US\$1.2 million, relating to the cumulative adjustment of unrecognised pension losses and cumulative foreign currency gains of US\$8.1 million, without any associated tax impact. The balance sheet at 31 March 2006 is comprised of cumulative foreign currency losses.

### 20. Related Party Transactions

#### JHI NV Directors' and Former Directors' Securities Transactions

The Company's Directors and Former Directors' and their director-related entities held an aggregate of 210,530 ordinary shares and 271,561 ordinary shares at 31 March 2007 and 2006, respectively, and 3,914,544 options and 2,782,544 options at 31 March 2007 and 2006, respectively.

Supervisory Board members on 12 December 2006 and 26 March 2007 participated in an acquisition of shares at A\$8.39 and A\$8.50, respectively, under the terms of the Supervisory Board Share Plan 2006 which was approved by JHI NV shareholders on 25 September 2006. Directors' acquisitions were as follows:

Director	Shares Issued/Acquired
D DeFosset	-
B Anderson	-
DG McGauchie AO	-
J Barr <sup>(1)</sup>	1,651
JRH Loudon	-
M Hammes	-
R van der Meer	-
 <u>Former Directors</u>	
M Hellicar <sup>(2)</sup>	3,388
GJ Clark	-
MJ Gillfillan	-
MR Brown	-
Total	5,039

<sup>(1)</sup> 779 shares at A\$8.39 and 872 shares at A\$8.50

<sup>(2)</sup> 3,388 shares at A\$8.39

The JHI NV dividends paid on 6 July 2006 and 8 January 2007 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 2007 and 2006, loans totaling US\$30,774, and US\$30,466, respectively, were outstanding from certain executive directors or former directors of subsidiaries of JHI NV 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.

## **James Hardie Industries N.V. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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During fiscal years 2007 and 2006, repayments totaling US\$3,517 and US\$1,892, respectively, were received in respect of the Plan from AT Kneeshaw, PD Macdonald, PG Morley and DAJ Salter. During fiscal year 2005, an executive director of a subsidiary resigned with loans outstanding of US\$117,688. Under the terms of the plan, this director had two years from the date of his resignation to repay such loan. The loan was repaid in full in the year ended 31 March 2007.

#### **Payments Made to Directors and Director Related Entities of JHI NV during the Year**

In August 2004, Former Chairman M 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 and was dissolved on 31 March 2005. In this role, she received a fee of nil and US\$33,777 for the years ended 31 March 2007 and 2006, respectively.

Former Supervisory Board Director GJ Clark is a director of ANZ Banking Group Limited with whom the Company transacts banking business. Deputy Chairman DG McGauchie AO is 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 L Gries' brother. The agreement expired in June 2005 and payments of nil and US\$50,876 were made for the years ended 31 March 2007 and 2006, respectively. Mr L Gries has no economic interest in The Gries Group.

#### **Payments made to Director and Director Related Entities of Subsidiaries of JHI NV**

The Company has subsidiaries located in various countries, many of which require that at least one director be a local resident. All payments described below arise because of these requirements.

Payments of US\$4,507 and US\$8,829 for the years ended 31 March 2007 and 2006, respectively, were made to Grech, Vella, Tortell & Hyzler Advocates. Dr JJ Vella was a director of one of the Company's subsidiaries. The payments were in respect of legal services and were negotiated in accordance with usual commercial terms and conditions.

Payments totaling nil and US\$78,496 for the years ended 31 March 2007 and 2006, respectively, were made to M Helyar, R Le Tocq and N Wild who were 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 totaling US\$5,364 and US\$4,984 for the years ended 31 March 2007 and 2006, respectively, 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

## Consolidated Financial Statements

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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 the Media Release, Management Presentation and Management's Analysis of Results.

### *Disclaimer*

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

- expectations about the timing and amount of payments to the Asbestos Injuries Compensation Fund (AICF), a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;
- expectations with respect to the effect on the Company's financial statements of those payments;
- statements as to the possible consequences of proceedings brought against the Company and certain of its former directors and officers by the Australian Securities and Investments Commission;
- projections of the Company's operating results or financial condition;
- statements regarding the Company's plans, objectives or goals, including those relating to competition, acquisitions, dispositions and the Company's products;
- statements about the Company's future performance; and
- statements about product or environmental liabilities.

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

Forward-looking statements involve inherent risks and uncertainties. The Company cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the risk factors discussed under "Risk Factors" beginning on page 5 of the Form 20-F filed on 29 September 2006 with the Securities and Exchange Commission, include but are not limited to: all matters relating to or arising out of the prior manufacture of products that contained asbestos by current and former James Hardie subsidiaries; required contributions to the AICF and the effect of foreign exchange on the amount recorded in our financial statements as an asbestos liability; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which the Company operates; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; general economic and market conditions; the supply and cost of raw materials; the success of research and development efforts; reliance on a small number of product distributors; compliance with and changes in environmental and health and safety laws; risks of conducting business internationally; compliance with and changes in laws and regulations; foreign exchange risks; the successful implementation of new software systems; and the successful implementation of the internal control over financial reporting requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as codified by Item 308 of Regulation S-K. The Company cautions that the foregoing list of factors is not exhaustive 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.