James Hardie Industries N.V. and Subsidiaries

Condensed Consolidated Financial Statements
For the Period Ended 30 September 2007

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of James Hardie Industries N.V. and its subsidiaries as of 30 September 2007, and the related condensed consolidated statements of operations for each of the three-month and six-month periods ended 30 September 2007 and 2006 and the condensed consolidated statement of cash flows for the six-month periods ended 30 September 2007 and 2006 and the condensed consolidated statement of changes in shareholders' equity for the six-month period ended 30 September 2007, as stated in US dollars. We have not reviewed any amounts stated in Australian dollars included in the accompanying condensed consolidated financial statements. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's consolidated balance sheet as of 31 March 2007, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended (not presented herein), and in our report dated 28 June 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth as stated in US dollars in the accompanying condensed consolidated balance sheet information as of 31 March 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Los Angeles, California
12 November 2007

Item 1. Financial Statements

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	(Millions of US dollars)		(Millions of Australian dollars)	
	30 September 2007	31 March 2007	**30 September 2007**	31 March 2007
Assets				
Current assets:				
Cash and cash equivalents	**$ 33.1**	$ 34.1	**A$ 37.5**	A$ 42.3
Restricted cash and cash equivalents	**5.0**	5.0	**5.7**	6.2
Restricted cash and cash equivalents - Asbestos	**61.6**	146.9	**69.7**	182.1
Restricted short-term investments - Asbestos	**78.5**	-	**88.9**	-
Accounts and notes receivable, net of allowance for doubtful accounts of $1.8 million (A$2.0 million) and $1.5 million (A$1.9 million) as of 30 September 2007 and 31 March 2007, respectively	**171.1**	163.4	**193.7**	202.5
Inventories	**136.2**	147.6	**154.2**	183.0
Prepaid expenses and other current assets	**37.2**	32.4	**42.1**	40.2
Insurance receivable - Asbestos	**10.3**	9.4	**11.7**	11.7
Workers' compensation - Asbestos	**3.0**	2.7	**3.4**	3.3
Deferred income taxes	**25.8**	27.3	**29.2**	33.8
Deferred income taxes - Asbestos	**9.1**	7.8	**10.3**	9.7
Total current assets	**570.9**	576.6	**646.4**	714.8
Property, plant and equipment, net	**839.0**	827.7	**950.0**	1,025.9
Insurance receivable - Asbestos	**171.0**	165.1	**193.6**	204.6
Workers' compensation - Asbestos	**83.7**	76.5	**94.8**	94.8
Deferred income taxes	**3.1**	6.9	**3.5**	8.6
Deferred income taxes - Asbestos	**342.5**	318.2	**387.8**	394.4
Deposit with Australian Taxation Office	**186.3**	154.8	**210.9**	191.9
Other assets	**1.4**	2.3	**1.6**	2.9
Total assets	**$ 2,197.9**	$ 2,128.1	**A$ 2,488.6**	A$ 2,637.9
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$ 150.9**	$ 100.8	**A$ 170.9**	A$ 124.9
Short-term debt	**93.0**	83.0	**105.3**	102.9
Accrued payroll and employee benefits	**38.1**	42.0	**43.1**	52.1
Accrued product warranties	**7.3**	5.7	**8.3**	7.1
Income taxes payable	**11.8**	10.6	**13.4**	13.1
Asbestos liability	**69.5**	63.5	**78.7**	78.7
Workers' compensation - Asbestos	**3.0**	2.7	**3.4**	3.3
Other liabilities	**14.8**	9.3	**16.8**	11.5
Total current liabilities	**388.4**	317.6	**439.9**	393.6
Long-term debt	**30.0**	105.0	**34.0**	130.1
Deferred income taxes	**123.9**	93.8	**140.3**	116.3
Accrued product warranties	**10.0**	9.5	**11.3**	11.8
Asbestos liability	**1,309.1**	1,225.8	**1,482.3**	1,519.4
Workers' compensation - Asbestos	**83.7**	76.5	**94.8**	94.8
Other liabilities	**140.4**	41.2	**159.0**	51.1
Total liabilities	**2,085.5**	1,869.4	**A$ 2,361.6**	A$ 2,317.1
Commitments and contingencies (Note 7)				
Shareholders' equity:				
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 467,701,751 shares issued at 30 September 2007 and 467,295,391 shares issued at 31 March 2007	**252.1**	251.8		
Additional paid-in capital	**185.4**	180.2		
Accumulated deficit	**(281.6)**	(178.7)		
Common stock in treasury, at cost, 7,516,387 shares and nil shares at 30 September 2007 and 31 March 2007, respectively	**(47.1)**	-		
Accumulated other comprehensive income	**3.6**	5.4		
Total shareholders' equity	**112.4**	258.7		
Total liabilities and shareholders' equity	**$ 2,197.9**	$ 2,128.1		

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

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(Millions of US dollars, except per share data)	Three Months Ended 30 September **2007**	Three Months Ended 30 September 2006	Six Months Ended 30 September **2007**	Six Months Ended 30 September 2006
Net sales	**$ 390.1**	$ 411.4	**$ 814.5**	$ 826.9
Cost of goods sold	**(251.3)**	(256.2)	**(508.8)**	(514.0)
Gross profit	**138.8**	155.2	**305.7**	312.9
Selling, general and administrative expenses	**(58.1)**	(57.2)	**(113.6)**	(108.9)
Research and development expenses	**(7.1)**	(6.6)	**(13.4)**	(14.1)
SCI and other related expenses	**-**	(3.2)	**-**	(5.6)
Asbestos adjustments	**(28.9)**	(47.2)	**(59.0)**	(74.4)
Operating income	**44.7**	41.0	**119.7**	109.9
Interest expense	**(2.5)**	(0.2)	**(3.8)**	(5.8)
Interest income	**4.5**	1.2	**6.3**	4.8
Income before income taxes	**46.7**	42.0	**122.2**	108.9
Income tax expense	**(27.6)**	(20.9)	**(64.0)**	(53.2)
Income before cumulative effect of change in accounting principle	**19.1**	21.1	**58.2**	55.7
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of nil and $0.4 million, respectively	**-**	-	**-**	0.9
Net income	**$ 19.1**	$ 21.1	**$ 58.2**	$ 56.6
Net income per share - basic	**$ 0.04**	$ 0.04	**$ 0.12**	$ 0.12
Net income per share - diluted	**$ 0.04**	$ 0.04	**$ 0.12**	$ 0.12
Weighted average common shares outstanding (Millions):				
Basic	**467.2**	463.4	**467.3**	463.4
Diluted	**468.3**	465.1	**468.5**	466.0

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

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(Millions of Australian dollars, except per share data)	Three Months Ended 30 September 2007	Three Months Ended 30 September 2006	Six Months Ended 30 September 2007	Six Months Ended 30 September 2006
Net sales	**A$ 459.7**	A$ 546.8	**A$ 970.0**	A$ 1,099.1
Cost of goods sold	**(296.3)**	(340.5)	**(605.9)**	(683.2)
Gross profit	**163.4**	206.3	**364.1**	415.9
Selling, general and administrative expenses	**(68.6)**	(76.0)	**(135.3)**	(144.7)
Research and development expenses	**(8.4)**	(8.8)	**(16.0)**	(18.7)
SCI and other related expenses	**-**	(4.3)	**-**	(7.4)
Asbestos adjustments	**(34.1)**	(62.8)	**(70.3)**	(98.9)
Operating income	**52.3**	54.4	**142.5**	146.2
Interest expense	**(2.9)**	(0.3)	**(4.5)**	(7.7)
Interest income	**5.3**	1.6	**7.5**	6.4
Income before income taxes	**54.7**	55.7	**145.5**	144.9
Income tax expense	**(32.4)**	(27.7)	**(76.2)**	(70.9)
Income before cumulative effect of change in accounting principle	**22.3**	28.0	**69.3**	74.0
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of nil and A$0.5 million, respectively	-	-	**-**	1.2
Net income	**A$ 22.3**	A$ 28.0	**A$ 69.3**	A$ 75.2
Net income per share - basic	**A$ 0.05**	A$ 0.06	**A$ 0.15**	A$ 0.16
Net income per share - diluted	**A$ 0.05**	A$ 0.06	**A$ 0.15**	A$ 0.16
Weighted average common shares outstanding (Millions):				
Basic	**467.2**	463.4	**467.3**	463.4
Diluted	**468.3**	465.1	**468.5**	466.0

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

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Millions of US dollars)	Six Months Ended 30 September **2007**	2006
Cash Flows From Operating Activities		
Net income	**$ 58.2**	$ 56.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	**27.7**	24.2
Deferred income taxes	**30.7**	17.4
Prepaid pension cost	**0.9**	1.5
Stock-based compensation	**3.1**	1.4
Asbestos adjustments	**59.0**	74.4
Cumulative effect of change in accounting principle	**-**	(0.9)
Other	**(2.3)**	-
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents	**21.5**	(5.0)
Accounts and notes receivable	**(3.6)**	(1.9)
Inventories	**14.6**	(16.8)
Prepaid expenses and other current assets	**(4.1)**	(16.6)
Insurance receivable	**9.4**	-
Accounts payable and accrued liabilities	**41.5**	(1.9)
Asbestos liability	**(31.2)**	-
Deposit with Australian Taxation Office	**(3.7)**	(141.4)
Other accrued liabilities and other liabilities	**9.3**	(13.3)
Net cash provided by (used in) operating activities	**231.0**	(22.3)
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(24.2)**	(61.4)
Net cash used in investing activities	**(24.2)**	(61.4)
Cash Flows From Financing Activities		
Proceeds from short-term borrowings	**10.0**	-
Repayments of short-term borrowings	**-**	(46.0)
Repayments of long-term borrowings	**(75.0)**	(121.7)
Proceeds from issuance of shares	**2.2**	1.5
Tax benefit from stock options exercised	**0.2**	0.1
Treasury stock purchased	**(47.1)**	-
Dividends paid	**(70.7)**	(18.7)
Collections on loans receivable	**-**	0.1
Net cash used in financing activities	**(180.4)**	(184.7)
Effects of exchange rate changes on cash	**(27.4)**	0.6
Net decrease in cash and cash equivalents	**(1.0)**	(267.8)
Cash and cash equivalents at beginning of period	**34.1**	315.1
Cash and cash equivalents at end of period	**$ 33.1**	$ 47.3
Components of Cash and Cash Equivalents		
Cash at bank and on hand	**$ 29.5**	$ 27.0
Short-term deposits	**3.6**	20.3
Cash and cash equivalents at end of period	**$ 33.1**	$ 47.3

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

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Millions of Australian dollars)	Six Months Ended 30 September **2007**	2006
Cash Flows From Operating Activities		
Net income	**A$ 69.3**	A$ 75.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	**33.0**	32.2
Deferred income taxes	**36.6**	23.1
Prepaid pension cost	**1.1**	2.0
Stock-based compensation	**3.7**	1.9
Asbestos adjustments	**70.3**	98.9
Cumulative effect of change in accounting principle	**-**	(1.2)
Other	**(2.7)**	-
Changes in operating assets and liabilities:	**-**	
Restricted cash and cash equivalents	**25.6**	(6.6)
Accounts and notes receivable	**(4.3)**	(2.5)
Inventories	**17.4**	(22.3)
Prepaid expenses and other current assets	**(4.9)**	(22.1)
Insurance receivable	**11.2**	-
Accounts payable and accrued liabilities	**49.4**	(2.5)
Asbestos liability	**(37.2)**	-
Deposit with Australian Taxation Office	**(4.4)**	(189.0)
Other accrued liabilities and other liabilities	**11.1**	(17.7)
Net cash provided by (used in) operating activities	**275.2**	(30.6)
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(28.8)**	(81.6)
Net cash used in investing activities	**(28.8)**	(81.6)
Cash Flows From Financing Activities		
Proceeds from short-term borrowings	**11.9**	-
Repayments of short-term borrowings	**-**	(61.1)
Repayments of long-term borrowings	**(89.3)**	(161.8)
Proceeds from issuance of shares	**2.6**	2.0
Tax benefit from stock options exercised	**0.2**	0.1
Treasury stock purchased	**(56.1)**	-
Dividends paid	**(84.2)**	(24.9)
Collections on loans receivable	**-**	0.1
Net cash used in financing activities	**(214.9)**	(245.6)
Effects of exchange rate changes on cash	**(36.3)**	(19.4)
Net decrease in cash and cash equivalents	**(4.8)**	(377.2)
Cash and cash equivalents at beginning of period	**42.3**	440.4
Cash and cash equivalents at end of period	**A$ 37.5**	A$ 63.2
Components of Cash and Cash Equivalents		
Cash at bank and on hand	**A$ 33.4**	A$ 36.1
Short-term deposits	**4.1**	27.1
Cash and cash equivalents at end of period	**A$ 37.5**	A$ 63.2

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

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances as of 31 March 2007	**$ 251.8**	**$ 180.2**	**$ (178.7)**	**$ 5.4**	**$ -**	**$ 258.7**
Comprehensive income (loss):						
Net income	-	-	58.2	-	-	58.2
Pension and post-retirement benefit adjustments	-	-	-	(0.2)	-	(0.2)
Unrealised loss on investments	-	-	-	(0.8)	-	(0.8)
Foreign currency translation loss	-	-	-	(0.8)	-	(0.8)
Other comprehensive loss	-	-	-	(1.8)	-	(1.8)
Total comprehensive income						56.4
Adoption of FIN 48	-	-	(90.4)	-	-	(90.4)
Stock-based compensation	-	3.1	-	-	-	3.1
Tax benefit from stock options exercised	-	0.2	-	-	-	0.2
Stock options exercised	0.3	1.9	-	-	-	2.2
Dividends paid	-	-	(70.7)	-	-	(70.7)
Treasury stock purchased	-	-	-	-	(47.1)	(47.1)
Balances as of 30 September 2007	**$ 252.1**	**$ 185.4**	**$ (281.6)**	**$ 3.6**	**$ (47.1)**	**$ 112.4**

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

1. 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.

Basis of Presentation

The condensed consolidated financial statements represent the financial position, results of operations and cash flows of James Hardie Industries N.V. ("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. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in the Company's Annual Report on Form 20-F for the fiscal year ended 31 March 2007.

The condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring adjustments which, in the opinion of the Company's management, are necessary to state fairly the consolidated financial position of the Company at 30 September 2007, the consolidated results of operations for the three and six months ended 30 September 2007 and 2006 and the consolidated cash flows for the six months ended 30 September 2007 and 2006. Income from continuing operations for the three and six months ended 30 September 2007 includes a charge of US$2.7 million relating to prior period lease costs. The impact of this adjustment on prior periods' financial statements is not material. The results of operations for the three and six months ended 30 September 2007 are not necessarily indicative of the results to be expected for the full year. The balance sheet at 31 March 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The assets, liabilities, statements of operations and statements of 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:

	31 March	30 September	
(US$1 = A$)	2007	**2007**	2006
Assets and liabilities	1.2395	**1.1323**	1.3365
Statements of operations	n/a	**1.1909**	1.3292
Cash flows - beginning cash	n/a	**1.2395**	1.3975
Cash flows - ending cash	n/a	**1.1323**	1.3365
Cash flows - current period movements	n/a	**1.1909**	1.3292

2. Summary of Significant Accounting Policies

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 dilutive potential common shares, such as options, had been exercised. Accordingly, basic and dilutive common shares outstanding used in determining net income per share are as follows:

	Three Months Ended 30 September		Six Months Ended 30 September	
(Millions of shares)	**2007**	2006	**2007**	2006
Basic common shares outstanding	**467.2**	463.4	**467.3**	463.4
Dilutive effect of stock options	**1.1**	1.7	**1.2**	2.6
Diluted common shares outstanding	**468.3**	465.1	**468.5**	466.0

(US dollars)	**2007**	2006	**2007**	2006
Net income per share - basic	**$ 0.04**	$ 0.04	**$ 0.12**	$ 0.12
Net income per share - diluted	**$ 0.04**	$ 0.04	**$ 0.12**	$ 0.12

Potential common shares of 10.3 million and 10.3 million for the three months ended 30 September 2007 and 2006, respectively, and 10.0 million and 6.5 million for the six months ended 30 September 2007 and 2006, respectively, have been excluded from the calculations of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

Advertising

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US$1.9 million and US$4.6 million for the three months ended 30 September 2007 and 2006, respectively, and US$5.9 million and US$8.9 million for the six months ended 30 September 2007 and 2006, respectively.

Stock-Based Compensation

The Company recognised stock-based compensation expense (included in selling, general and administrative expenses) of US$1.6 million and US$1.2 million for the three months ended 30 September 2007 and 2006, respectively, and US$3.1 million and US$2.7 million for the six months ended 30 September 2007 and 2006, respectively. The amount for the six months ended 30 September 2006 excludes the forfeiture adjustment of US$1.3 million (US$0.9 million net of tax) 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 six months ended 30 September 2006.

Upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Accounting for Stock-Based Compensation", at the beginning of fiscal year 2007, the Company analysed forfeiture rates on all of its 2001 Stock Option Plan grants for which vesting was complete resulting in an estimated weighted average forfeiture rate of 30.7%. Based on this estimated rate, a cumulative adjustment to stock-based compensation expense of US$1.3 million net of an income tax benefit of US$0.4 million was recorded effective 1 April 2006. 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. For the six months ended 30 September 2006, the amount of the cumulative adjustment related to USA-based employees was US$1.0 million for which the related USA income tax adjustment was US$0.4 million.

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.

Asbestos

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 shareholders approved the Amended Final Funding Agreement ("Amended FFA") entered into on 21 November 2006 to provide long-term funding to the Asbestos Injuries Compensation Fund ("AICF"), a special purpose fund that provides compensation for Australian-related personal injury claims against certain former subsidiary companies of James Hardie in Australia (being Amaca Pty Ltd ("Amaca"), Amaba Pty Ltd ("Amaba") and ABN 60 Pty Ltd ("ABN 60") (collectively, the "Liable Entities")).

Amaca and Amaba separated from the James Hardie Group in February 2001. ABN 60 separated from the James Hardie Group in March 2003. Upon shareholder approval of the Amended FFA in February 2007, shares in the Liable Entities were transferred to the AICF. The Company appoints three of the AICF directors and the NSW state government appoints two of the AICF directors. The AICF manages Australian asbestos-related personal injury claims made against the Liable Entities, and makes compensation payments in respect of those proven claims.

AICF

Under the terms of the Amended FFA, James Hardie 117 Pty Ltd (the "Performing Subsidiary") has a contractual liability to make payments to the AICF. This funding to the AICF results in the Company having a pecuniary interest in the AICF. The interest is considered variable because the potential impact on the Company will vary based upon the annual actuarial assessments obtained by the Company with respect to asbestos-related personal injury claims against the Liable Entities. 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".

The AICF has operating costs that are claims related and non-claims related. Claims related costs incurred by the AICF are treated as reductions to the accrued asbestos liability balances previously reflected in the consolidated balance sheets. Non-claims related operating costs incurred by the AICF are expensed as incurred in the line item *Selling, general and administrative expenses* in the consolidated statements of operations. The AICF earns interest on its cash and cash equivalents and on its short-term investments; these amounts are included in the line item *Interest income* in the consolidated statements of operations.

Asbestos-Related Assets and Liabilities
The Company has recorded on its consolidated balance sheets certain assets and liabilities under the terms of the Amended FFA. These items are Australian dollar-denominated and are subject to translation into US dollars at each reporting date. These assets and liabilities are commonly referred to by the Company as *Asbestos-Related Assets and Liabilities* and include:

<u>Asbestos Liability</u>
The amount of the asbestos liability reflects the terms of the Amended FFA and 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 are not fixed or readily determinable. The asbestos liability also includes an allowance for the future claims-handling costs of the AICF.

Adjustments in the asbestos liability due to changes in the actuarial estimate of projected future cash flows and changes in the estimate of future operating costs of the AICF are reflected in the consolidated statements of operations during the period in which they occur. Claims paid by the AICF and claims-handling costs incurred by the AICF are treated as reductions in the accrued balances previously reflected in the consolidated balance sheets.

<u>Insurance Receivable</u>
There are various insurance policies and insurance companies with exposure to the asbestos claims. The insurance receivable determined by KPMG Actuaries reflects the recoveries expected from all such policies based on the expected pattern of claims against such policies less an allowance for credit risk based on credit agency ratings. The insurance receivable generally 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 are not fixed or readily determinable. The Company only records insurance receivables that it deems to be probable.

Included in insurance receivable is US$14.3 million recorded on a discounted basis because the timing of the recoveries has been agreed with the insurer.

Adjustments in insurance receivable due to changes in the actuarial estimate, or changes in the Company's assessment of recoverability are reflected in the consolidated statements of operations during the period in which they occur. Insurance recoveries are treated as a reduction in the insurance receivable balance.

<u>Workers' Compensation</u>
Workers' compensation claims are claims made by former employees of the Liable Entities. Such past, current and future reported claims were insured with various insurance companies and the various Australian State-based workers' compensation schemes (collectively "workers' compensation schemes or policies"). An estimate of the liability related to workers' compensation claims is prepared by KPMG Actuaries as part of the annual actuarial assessment. This estimate contains two components, amounts that will be met by a workers' compensation scheme or policy, and amounts that will be met by the Liable Entities.

The portion of the KPMG Actuaries estimate that is expected to be met by the Liable Entities is included as part of the *Asbestos Liability*. Adjustments to this estimate are reflected in the consolidated statements of operations during the period in which they occur.

The portion of the KPMG Actuaries estimate that is expected to be met by the workers' compensation schemes or policies of the Liable Entities is recorded by the Company as a workers' compensation liability. Since these amounts are expected to be met by the workers' compensation schemes or policies, the Company records an equivalent workers' compensation receivable. Adjustments to the workers' compensation liability result in an equal adjustment in the workers' compensation receivable recorded by the Company and have no effect on the consolidated statements of operations.

Asbestos-Related Research and Education Contributions

The Company has agreed to fund asbestos-related research and education initiatives for a period of 10 years, beginning in fiscal year 2007. The liabilities related to these agreements are included in "Other Liabilities" on the consolidated balance sheets.

Restricted Cash Assets of the AICF

Cash and cash equivalents of the AICF are reflected as restricted assets, as the use of these assets is restricted to the settlement of asbestos claims and payment of the operating costs of the AICF.

Restricted Short-Term Investments

Short-term investments consist of highly liquid investments held in the custody of major financial institutions. All short-term investments are classified as available for sale and are recorded at market value using the specific identification method. Unrealised gains and losses on these investments are included as a separate component of accumulated other comprehensive income, net of tax.

AICF – Other Assets and Liabilities

Other assets and liabilities of the AICF, including fixed assets, trade receivables and payables are included on the consolidated balance sheets under the appropriate captions and their use is restricted to the operations of the AICF.

Deferred Income Taxes

The Performing Subsidiary is able to claim a taxation deduction for its contributions to the AICF over a five-year period from the date of contribution. Consequently, a deferred tax asset has been recognised equivalent to the anticipated tax benefit over the life of the Amended FFA.

Adjustments are made to the deferred income tax asset as adjustments to the asbestos-related assets and liabilities are recorded.

Foreign Currency Translation

The asbestos-related assets and liabilities are denominated in Australian dollars and thus the reported value of these asbestos-related assets and liabilities in the Company's consolidated balance sheets in US dollars are subject to adjustment depending on the closing exchange rate between the two currencies at the balance sheet date. The effect of foreign exchange rate movements between these currencies is included in *Asbestos Adjustments* in the consolidated statements of operations.

Recent Accounting Pronouncements

Fair Value Measurements
In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements," ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. The expanded disclosures in this statement about the use of fair value to measure assets and liabilities should provide users of financial statements with better information about the extent to which fair value is used to measure recognised assets and liabilities, the inputs used to develop the measurements, and the effect of certain measurements on earnings (or changes in net assets) for the period. The provisions of SFAS No. 157 are effective for the Company on 1 April 2008, and it is currently evaluating the impact on its financial statements of adopting SFAS No. 157.

Fair Value Option for Financial Assets and Financial Liabilities
In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which allows for voluntary measurement of financial assets and liabilities as well as certain other items at fair value. Unrealised gains and losses on financial instruments for which the fair value option has been elected are reported in earnings. The provisions of SFAS No. 159 are effective for the Company on 1 April 2008, and it is currently evaluating the impact on its financial statements of adopting SFAS No. 159.

3. Inventories

Inventories consist of the following components:

(Millions of US dollars)	**30 September 2007**	31 March 2007
Finished goods	**$ 80.4**	$ 101.5
Work-in-process	**9.9**	12.3
Raw materials and supplies	**52.3**	37.8
Provision for obsolete finished goods and raw materials	**(6.4)**	(4.0)
Total inventories	**$ 136.2**	$ 147.6

4. 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 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.

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

Operating Segments

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 September **2007**	Net Sales to Customers Three Months Ended 30 September 2006	Net Sales to Customers Six Months Ended 30 September **2007**	Net Sales to Customers Six Months Ended 30 September 2006
USA Fibre Cement	**$ 308.0**	$ 339.0	**$ 654.1**	$ 687.9
Asia Pacific Fibre Cement	**76.1**	63.8	**147.3**	123.0
Other	**6.0**	8.6	**13.1**	16.0
Worldwide total	**$ 390.1**	$ 411.4	**$ 814.5**	$ 826.9

(Millions of US dollars)	Income (loss) Before Income Taxes Three Months Ended 30 September **2007**	Income (loss) Before Income Taxes Three Months Ended 30 September 2006	Income (loss) Before Income Taxes Six Months Ended 30 September **2007**	Income (loss) Before Income Taxes Six Months Ended 30 September 2006
USA Fibre Cement	**$ 84.3**	$ 97.8	**$ 198.7**	$ 201.1
Asia Pacific Fibre Cement	**12.4**	11.5	**24.8**	21.8
Research and Development	**(4.8)**	(4.1)	**(8.9)**	(8.7)
Other	**(1.9)**	(1.5)	**(3.2)**	(4.2)
Segments total	**90.0**	103.7	**211.4**	210.0
General Corporate[1]	**(45.3)**	(62.7)	**(91.7)**	(100.1)
Total operating income	**44.7**	41.0	**119.7**	109.9
Net interest income (expense)[2]	**2.0**	1.0	**2.5**	(1.0)
Worldwide total	**$ 46.7**	$ 42.0	**$ 122.2**	$ 108.9

(Millions of US dollars)	Total Identifiable Assets **30 September 2007**	Total Identifiable Assets 31 March 2007
USA Fibre Cement	**$ 883.4**	$ 893.0
Asia Pacific Fibre Cement	**213.7**	199.3
Other	**59.7**	52.5
Segments total	**1,156.8**	1,144.8
General Corporate[3]	**1,041.1**	983.3
Worldwide total	**$ 2,197.9**	$ 2,128.1

Geographic Areas (Millions of US dollars)	Net Sales to Customers Three Months Ended 30 September **2007**	2006	Net Sales to Customers Six Months Ended 30 September **2007**	2006
USA	**$ 310.0**	$ 344.5	**$ 659.1**	$ 698.2
Australia	**51.3**	43.3	**98.1**	84.3
New Zealand	**16.3**	13.5	**33.6**	25.9
Other Countries	**12.5**	10.1	**23.7**	18.5
Worldwide total	**$ 390.1**	$ 411.4	**$ 814.5**	$ 826.9

(Millions of US dollars)	Total Identifiable Assets **30 September 2007**	31 March 2007
USA	**$ 928.6**	$ 935.7
Australia	**138.5**	127.1
New Zealand	**25.3**	23.1
Other Countries	**64.4**	58.9
Segments total	**1,156.8**	1,144.8
General Corporate[3]	**1,041.1**	983.3
Worldwide total	**$ 2,197.9**	$ 2,128.1

[1] Included in General Corporate for the three months ended 30 September 2007 are unfavourable asbestos adjustments of US$28.9 million and AICF SG&A expenses of US$1.1 million. Included in General Corporate for the three months ended 30 September 2006 are unfavourable asbestos adjustments of US$47.2 million. Included in General Corporate for the six months ended 30 September 2007 are unfavourable asbestos adjustments of US$59.0 million and AICF SG&A expenses of US$1.7 million. Included in General Corporate for the six months ended 30 September 2006 are unfavourable asbestos adjustments of US$74.4 million. See Note 6.

[2] Included in Net Interest Income for the three and six months ended 30 September 2007 is AICF interest income of US$2.6 million and US$4.2 million, respectively. See Note 6.

[3] Asbestos-related assets at 30 September 2007 and 31 March 2007 are US$760.7 million and US$727.6 million, respectively, and are included in the General Corporate segment. See Note 6.

5. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following components:

(Millions of US dollars)		**30 September 2007**		31 March 2007
Pension and post-retirement benefit adjustments (net of US$1.2 million and US$1.2 million tax benefit, respectively)	**$**	**(2.9)**	$	(2.7)
Unrealised loss on restricted short-term investments		**(0.8)**		-
Foreign currency translation adjustments		**7.3**		8.1
Total accumulated other comprehensive income	**$**	**3.6**	$	5.4

6. Asbestos

The Amended FFA to provide long-term funding to the AICF was approved by shareholders in February 2007. The accounting policies utilised by the Company to account for the Amended FFA are described in Note 2, *Summary of Significant Accounting Policies*.

Asbestos Adjustments

The asbestos adjustments included in the condensed consolidated statements of operations comprise the following:

	Three Months Ended 30 September		Six Months Ended 30 September	
(Millions of US dollars)	**2007**	2006	**2007**	2006
Effect of foreign exchange	**$ (27.0)**	$ (5.4)	**$ (60.2)**	$ (32.6)
Other adjustments	**(1.9)**	(41.8)	**1.2**	(41.8)
Total Asbestos Adjustments	**$ (28.9)**	$ (47.2)	**$ (59.0)**	$ (74.4)

Asbestos-Related Assets and Liabilities

Under the terms of the Amended FFA, the Company has included on its consolidated balance sheets certain asbestos-related assets and liabilities. These amounts are detailed in the table below, and the net total of these asbestos-related assets and liabilities is commonly referred to by the Company as the "Net Amended FFA Liability".

(Millions of US dollars)	**30 September 2007**	31 March 2007
Asbestos liability – current	**$ (69.5)**	$ (63.5)
Asbestos liability – non-current	**(1,309.1)**	(1,225.8)
Asbestos liability - Total	**(1,378.6)**	(1,289.3)
Insurance receivable – current	**10.3**	9.4
Insurance receivable – non-current	**171.0**	165.1
Insurance receivable – Total	**181.3**	174.5
Workers' compensation asset – current	**3.0**	2.7
Workers' compensation asset – non-current	**83.7**	76.5
Workers' compensation liability – current	**(3.0)**	(2.7)
Workers' compensation liability – non-current	**(83.7)**	(76.5)
Workers' compensation – Total	**-**	-
Deferred income taxes – current	**9.1**	7.8
Deferred income taxes – non-current	**342.5**	318.2
Deferred income taxes – Total	**351.6**	326.0
Income tax payable (reduction in income tax payable)	**14.7**	9.0
Other net liabilities	**(4.0)**	(6.3)
Net Amended FFA liability	**(835.0)**	(786.1)
Restricted cash and short-term investment assets of the AICF	**140.1**	146.9
Unfunded Net Amended FFA liability	**$ (694.9)**	$ (639.2)

Asbestos Liability

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 the projected future asbestos-related cash flows prepared by KPMG Actuaries. The asbestos liability also includes an allowance for the future claims-handling costs of the AICF. The Company will receive an updated actuarial estimate as of 31 March each year. The last actuarial assessment was performed as of 31 March 2007.

The changes in the asbestos liability for the six months ended 30 September 2007 are detailed in the table below:

	A$ Millions	A$ to US$ rate	US$ Millions
Asbestos liability – 31 March 2007	A$ (1,598.1)	1.2395	$ (1,289.3)
Asbestos claims paid[1]	35.7	1.1909	30.0
AICF claims-handling costs incurred[1]	1.4	1.1909	1.2
Effect of foreign exchange			(120.5)
Asbestos liability – 30 September 2007	**A$ (1,561.0)**	1.1323	**$ (1,378.6)**

Insurance Receivable – Asbestos

The changes in the insurance receivable for the six months ended 30 September 2007 are detailed in the table below:

	A$ Millions	A$ to US$ rate	US$ Millions
Insurance receivable – 31 March 2007	A$ 216.3	1.2395	$ 174.5
Insurance recoveries[1]	(11.2)	1.1909	(9.4)
Change in estimate[2]	0.2	1.1782	0.2
Effect of foreign exchange			16.0
Insurance receivable – 30 September 2007	**A$ 205.3**	1.1323	**$ 181.3**

Deferred Income Taxes – Asbestos

The changes in the deferred income taxes - asbestos for the six months ended 30 September 2007 are detailed in the table below:

	A$ Millions	A$ to US$ rate	US$ Millions
Deferred income taxes – 31 March 2007	A$ 404.1	1.2395	$ 326.0
Amounts offset against income tax payable[1]	(5.5)	1.1909	(4.6)
Impact of asbestos adjustments[1]	(0.5)	1.1909	(0.4)
Effect of foreign exchange			30.6
Deferred income taxes – 30 September 2007	**A$ 398.1**	1.1323	**$ 351.6**

Other Net Liabilities
Other net liabilities include a provision for asbestos-related education and medical research contributions of US$3.8 million at 30 September 2007. Also included in other net liabilities are the other assets and liabilities of the AICF at 30 September 2007, which include US$0.6 million of trade receivables and prepayments, US$0.4 million of fixed assets, and US$1.2 million of trade payables and accruals.

Restricted Cash and Short-term Investment Assets of the AICF
Cash and cash equivalents and short-term investments of the AICF are reflected as restricted assets as these assets are restricted for use in the settlement of asbestos claims and payment of the operating costs of the AICF. During the three and six months ended 30 September 2007 no short-term investments were purchased or sold

The changes in the restricted cash and short-term investment assets of the AICF for the six months ended 30 September 2007 are detailed in the table below:

	A$ Millions	A$ to US$ rate	US$ Millions
Restricted cash and short-term investment assets – 31 March 2007	A$ 182.1	1.2395	$ 146.9
Asbestos claims paid[1]	(35.7)	1.1909	(30.0)
AICF operating costs paid - claims-handling[1]	(1.4)	1.1909	(1.2)
AICF operating costs paid - non claims-handling[1]	(2.0)	1.1909	(1.7)
Insurance recoveries[1]	11.2	1.1909	9.4
Interest and investment income[1]	5.0	1.1909	4.2
Unrealized loss on investments[1]	(0.9)	1.1909	(0.8)
Other[1]	0.3	1.1909	0.3
Effect of foreign exchange	-		13.0
Restricted cash and short-term investment assets – 30 September 2007	**A$ 158.6**	1.1323	**$ 140.1**

[1] The average exchange rate for the period is used to convert the Australian dollar amount to US dollars based on the assumption that these transactions occurred evenly throughout the period.

[2] The spot exchange rate at 30 June 2007 is used to convert the Australian dollar amount to US dollars as the adjustment to the estimate was made on that date.

Claims Data

The AICF provides compensation payments for Australian asbestos-related personal injury claims against the Liable Entities. The claims data in this section are only reflective of these Australian asbestos-related personal injury claims against the Liable Entities.

For the six months ended 30 September 2007 and twelve months ended 31 March 2007, the following table, provided by KPMG Actuaries, shows the claims filed, the number of claims dismissed, settled or otherwise resolved for each period and the average settlement amount per claim:

	Six Months Ended 30 September 2007	Twelve Months Ended 31 March 2007
Number of claims filed	**275**	463
Number of claims dismissed	**38**	121
Number of claims settled or otherwise resolved	**219**	416
Average settlement amount per settled claim	**A$ 147,249**	A$ 166,164
Average settlement amount per settled claim	**US$ 123,645**	US$ 127,165

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:

	For the Period Ended 30 September 2007	For the Year Ended 31 March			
		2007	2006 [1]	2005	2004
Number of open claims at beginning of period	**490**	564	712	687	743
Number of new claims	**275**	463	346	489	379
Number of closed claims	**257**	537	502	464	435
Number of open claims at end of period	**508**	490	556	712	687
Average settlement amount per settled claim	**A$ 147,249**	A$ 166,164	A$ 151,883	A$ 157,594	A$ 167,450
Average settlement amount per case closed	**A$ 125,477**	A$ 128,723	A$ 122,535	A$ 136,536	A$ 121,642
Average settlement amount per settled claim	**US$ 123,645**	US$ 127,165	US$ 114,318	US$ 116,572	US$ 116,127
Average settlement amount per case closed	**US$ 105,363**	US$ 98,510	US$ 92,229	US$ 100,996	US$ 84,356

[1] Information includes claims data for only 11 months ended 28 February 2006. Claims data for the 12 months ended 31 March 2006 were not available at the time the Company's financial statements were prepared.

Under the terms of the Amended FFA, the Company has obtained rights of access to actuarial information produced for the AICF by the actuary appointed by the AICF (the "Approved Actuary"). The Company's future disclosures with respect to claims statistics are 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.

7. Commitments and Contingencies

ASIC Proceedings
In February 2007 ASIC commenced civil proceedings in the Supreme Court of New South Wales (the "Court") against the Company, ABN 60 and ten 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.

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 former James Hardie group directors or officers 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.

The Company is defending each of the allegations made by ASIC and the orders sought against it in the proceedings, as are the other former directors and officers.

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

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 will 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.

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 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, results of operations or cash flows.

8. Short and Long-Term Debt

Debt consists of the following components:

(Millions of US dollars)	**30 September 2007**	31 March 2007
Short-term debt	**$ 93.0**	$ 83.0
Long-term debt	**30.0**	105.0
Total debt[1]	**$ 123.0**	$ 188.0

[1] Total debt at 5.93% and 5.91% weighted average rates at 30 September 2007 and 31 March 2007, respectively.

The Company's credit facilities currently consist of 364-day facilities in the amount of US$110.0 million, which as of 30 September 2007, US$68.3 million had a maturity date in June 2008 and US$41.7 million had a maturity date in December 2008. The Company also has term facilities in the amount of US$245.0 million, which as of 30 September 2007, had a maturity date in June 2010. For all facilities, interest is calculated at the commencement of each draw-down period based on the US$ London Interbank Offered Rate ("LIBOR") plus the margins of individual lenders, and is payable at the end of each draw-down period. During the three months ended 30 September 2007 and 2006, the Company paid commitment fees in the amount of US$0.1 million and US$0.2 million, respectively, and US$0.2 million and US$0.4 million for the six months ended 30 September 2007 and 2006, respectively. At 30 September 2007, there was US$123.0 million drawn under the combined facilities and US$232.0 million was available.

Short-term debt at 30 September 2007 and 31 March 2007 comprised US$93.0 million and US$83.0 million, respectively, drawn under the 364-day facilities. Long-term debt at 30 September 2007 and 31 March 2007 comprised US$30.0 million and US$105.0 million, respectively, drawn under the term facilities.

At 30 September 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 (i) is required to maintain a certain ratio of debt to equity, (ii) must maintain a certain level of net worth, (iii) must maintain a certain ratio of earnings before interest and taxes to net interest charges and (iv) has limits on how much it can spend on an annual basis in relation to asbestos payments to the AICF. Such limits are consistent with the contractual liabilities of the Performing Subsidiary and the Company under the Amended FFA.

The Company anticipates being able to meet its future payment obligations from existing cash, unutilised committed facilities and future net operating cash flows.

9. Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48 ("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 adopted FIN 48 on 1 April 2007. The adoption of FIN 48 resulted in the reduction of the Company's consolidated beginning retained earnings of US$90.4 million. As of the adoption date, the Company had US$39.0 million of gross unrecognised tax benefits that, if recognised, would affect the effective tax rate. As of the adoption date, the Company's opening accrual for interest and penalties is US$52.1 million.

During the three and six months ended 30 September 2007, the gross increase in unrecognised tax benefits as a result of tax positions taken during a prior period was nil and US$1.5 million, respectively. For the three and six months ended 30 September 2007, there was an unfavourable impact of changes in foreign currency exchange rates of US$1.7 million and US$3.7 million, respectively. If recognised, US$40.6 million, of the 30 September 2007 balance would affect the effective tax rate.

The Company recognises penalties and interest accrued related to unrecognised tax benefits in income tax expense. During the three and six months ended 30 September 2007, the Company recognised increases of US$3.4 million and US$4.3 million, respectively, in interest and penalties and recognised these amounts as income tax expense. For the three and six months ended 30 September 2007, there was an unfavourable impact of changes in foreign currency exchange rates of US$2.4 million and US$5.1 million, respectively. At 30 September 2007, the accrual for interest and penalties is US$60.8 million.

The Company or one of its subsidiaries files income tax returns in the US federal jurisdiction, and various states and foreign jurisdictions including Australia and the Netherlands. The Company is no longer subject to US federal examinations by US Internal Revenue Service ("IRS") for tax years prior to tax year 2004. The Company is no longer subject to examinations by the Netherlands tax authority, the Belastingdienst, for tax years prior to tax year 2002. With certain limited exceptions, the Company is no longer subject to Australian federal examinations by the Australian Taxation Office ("ATO") for tax years prior to tax year 2000. The Company is currently subject to audit and review in a number of jurisdictions in which it operates and has been advised that further audits will commence in the next 12 months. It is anticipated that the audits and reviews currently being conducted will be completed within the next 12 months.

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognised tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the settlement of ongoing litigation, the completion of ongoing examinations, the expiration of the statute of limitations, or other circumstances. At this time, an estimate of the range of the reasonably possible change cannot be made.

10. 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 Australian Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A$412.0 million. However, after two remissions of general interest charges ("GIC") made by the ATO during fiscal year 2007, the total was revised to A$368.0 million and is comprised of the following as of 30 September 2007:

(Millions of dollars)	US$ [1]	A$
Primary tax after allowable credits	$ 151.9	A$ 172.0
Penalties [2]	38.0	43.0
GIC	135.1	153.0
Total amended assessment	$ 325.0	A$ 368.0

[1] US$ amounts calculated using the A$/US$ foreign exchange spot rate at 30 September 2007.
[2] Represents 25% of primary tax.

During fiscal year 2007, the Company agreed with the ATO that in accordance with the ATO Receivable Policy, the Company would pay 50% of the total amended assessment being A$184.0 million (US$162.5 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. The Company also agreed to pay GIC accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. Up to 30 September 2007, GIC totalling A$88.7 million has been paid to the ATO. On 15 October 2007, the Company paid A$3.2 million in GIC in respect of the quarter ended 30 September 2007.

On 30 May 2007, the ATO issued a Notice of Decision disallowing the Company's objection to the amended assessment. On 11 July 2007, the Company filed an application appealing the Objection Decision with the Federal Court of Australia.

RCI strongly disputes the amended assessment and is pursuing all avenues of 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 it is more likely than not 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 requirements under FIN 48 for recording a liability have not been met and therefore it has not recorded any liability at 30 September 2007 for the remainder of the amended assessment.

The Company expects that amounts paid in respect of the amended assessment 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 all payments in respect of the amended assessment that have been made up to 30 September 2007 as a deposit and it is the Company's intention to treat any payments to be made at a later date as a deposit.

11. Stock-Based Compensation

At 30 September 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.

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

		Outstanding Options		
	Shares Available for Grant	Number	Weighted Average Exercise Price	
Balance at 1 April 2007	19,420,793	18,939,817	A$	7.52
Granted	(1,016,000)	1,016,000	A$	7.83
Exercised	-	(406,360)	A$	6.50
Forfeited	1,077,500	(1,077,500)	A$	8.03
Balance at 30 September 2007	**19,482,293**	**18,471,957**	**A$**	**7.53**

Compensation expense arising from stock option grants, as estimated using option-pricing models, was US$1.6 million and US$1.2 million for the three months ended 30 September 2007 and 2006, respectively, and US$3.1 million and US$2.7 million for the six months ended 30 September 2007 and 2006, respectively. As of 30 September 2007, the unrecorded deferred stock-based compensation balance related to stock options was US$9.9 million after estimated forfeitures and will be recognised over an estimated weighted average amortisation period of 2.0 years.

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. In November 2006, 1,132,000 options were granted under the LTIP to the Managing Board. In August 2007 an additional 1,016,000 options were granted to the Managing Board under the LTIP. The vesting of these options is subject to 'performance hurdles' as outlined in the LTIP rules. Unexercised options expire 10 years from the date of issue. At 30 September 2007, there were 2,148,000 options outstanding under this plan.

Options granted under the LTIP are valued using a lattice model that incorporates a Monte Carlo Simulation 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 behaviours, 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 company 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 Monte Carlo method during the six months ended 30 September 2007:

Dividend yield	**1.6%**
Expected volatility	**32.1%**
Risk-free interest rate	**4.2%**
Weighted average fair value at grant date	**A$ 3.14**
Number of stock options	**1,016,000**

12. Share Repurchase Program

On 15 August 2007, the Company announced a share repurchase program of up to 10% of the Company's issued capital, approximately 46.8 million shares. The Company repurchased approximately 7.5 million shares of common stock having an aggregate cost of A$54.0 million (US$47.1 million) during the three and six months ended 30 September 2007. The average price paid per share of common stock was A$7.18 (US$6.28). During the period between 1 October 2007 and 12 October 2007, the Company repurchased approximately 4.2 million shares of common stock having an aggregate cost of A$30.8 million (US$27.1 million).

13. Subsequent Events

Suspension of Production at Blandon
On 31 October 2007, the Company announced plans to suspend production at its Blandon, Pennsylvania plant in North America. The Company will record an impairment of approximately US$31.7 million and a provision for closure costs currently estimated at US$1.8 million in the third quarter of fiscal year 2008.

Interim Dividend
On 19 November 2007, the Company announced an interim dividend of US12 cents a share. The dividend was declared in United States currency and will be paid on 18 December 2007, with a record date of 4 December 2007.

James Hardie Industries N.V. and Subsidiaries
(Unaudited)

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

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

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

Foreign Currency Exchange Rate Risk
We have significant operations outside of the United States and, as a result, are exposed to changes in exchange rates which affect our financial position, results of operations and cash flows. In addition, payments to the AICF are required to be made in Australian dollars which, because the majority of our revenues is produced in US dollars, exposes the Company to risks associated with fluctuations in the US dollar/Australian dollar exchange rate.

For the six months ended 30 September 2007, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	US$	A$	NZ$	Other [1]
Net sales	80.9%	12.0%	4.1%	3.0%
Cost of goods sold	81.9%	12.2%	3.4%	2.5%
Expenses[2]	48.1%	46.2%	2.1%	3.6%
Liabilities (excluding borrowings)[2]	13.7%	84.6%	1.1%	0.6%

[1] Comprises Philippine pesos and Euros.

[2] Liabilities include A$ denominated asbestos liability, which was initially recorded in the fourth quarter of fiscal year 2006. Expenses include adjustments to the liability. See Note 6 for further information.

We purchase raw materials and fixed assets and sell some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 30 September 2007, there were no such material contracts outstanding.

Interest Rate Risk
We have market risk from changes in interest rates, primarily related to our borrowings. At 30 September 2007, all of the Company's borrowings were variable-rate. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. As of 30 September 2007, the Company had no interest swap contracts outstanding. As of 30 September 2007, the Company had outstanding forward rate agreements totalling US$35.0 million with a fixed rate of 4.30% excluding margin from July 2008 to October 2008.

James Hardie Industries N.V. and Subsidiaries
(Unaudited)

Commodity Price Risk

The Company is exposed to changes in prices of commodities used in its operations, primarily associated with energy, fuel and raw materials such as pulp and cement. Pulp has historically demonstrated more price sensitivity than other raw materials that we use in our manufacturing process. In addition, energy, fuel, and cement prices rose in fiscal year 2007 and continued to rise during the first half of fiscal year 2008. Pulp prices have also been subject to significant price fluctuations in the past. The Company expects that pulp, energy, fuel and cement prices will continue to fluctuate in the near future. To minimise the additional working capital requirements caused by rising prices related to these commodities, the Company may seek to enter into contracts with suppliers for the purchase of these commodities that could fix the Company's prices over the longer-term. However, if the Company enters into such contracts with suppliers and if such commodity prices decrease, the Company's cost of sales may be negatively impacted due to the fixed pricing over the longer-term.

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, invitation memoranda 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, lenders and potential lenders, 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;
- expectations that our credit facilities will be extended or renewed;
- 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;
- statements about product or environmental liabilities; and
- statements regarding tax liabilities and related proceedings.

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, some of which are discussed under "Risk Factors" beginning on page 6 of the Form 20-F filed on 6 July 2007 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 the Company's 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 effect of natural disasters. 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.