James Hardie

management's analysis of results

27 February 2006

James Hardie Industries N.V.
Results for the 3rd Quarter and Nine Months Ended 31 December 2005

US GAAP - US$ Million	Three Months and Nine Months Ended 31 December					
	Q3 FY06	Q3 FY05	% Change	9 Mths FY06	9 Mths FY05	% Change
Net Sales						
USA Fibre Cement	$297.9	$220.3	35	$892.8	$692.0	29
Asia Pacific Fibre Cement	59.4	58.1	2	184.6	177.9	4
Other	5.4	8.6	(37)	21.3	24.1	(12)
Total Net Sales	$362.7	$287.0	26	$1,098.7	$894.0	23
Cost of goods sold	(234.0)	(190.3)	23	(687.4)	(588.9)	17
Gross profit	128.7	96.7	33	411.3	305.1	35
Selling, general & administrative expenses	(51.2)	(41.5)	23	(146.4)	(132.1)	11
Research & development expenses	(8.3)	(6.1)	36	(21.7)	(16.4)	32
Special Commission of Inquiry (SCI) & other related expenses	(4.8)	(15.9)	(70)	(14.7)	(24.4)	(40)
Other operating income (expense)	-	0.1	-	(0.8)	(0.6)	33
EBIT	64.4	33.3	93	227.7	131.6	73
Net interest income (expense)	0.8	(0.7)	-	(0.9)	(4.5)	-
Other income (expense), net	-	0.4	-	-	(1.5)	-
Operating profit from continuing operations before income taxes	65.2	33.0	98	226.8	125.6	81
Income tax expense	(24.5)	(13.2)	86	(82.6)	(44.0)	88
Operating Profit From Continuing Operations	$40.7	$19.8	106	$144.2	$81.6	77
Net Operating Profit Including Discontinued Operations	$40.7	$19.5	109	$144.2	$80.6	79
Tax rate	37.6%	40.0%		36.4%	35.0%	
Volume (mmsf)						
USA Fibre Cement	527.5	432.4	22	1,607.7	1,382.5	16
Asia Pacific Fibre Cement	92.3	90.6	2	278.0	287.4	(3)
Average net sales price per unit (per msf)						
USA Fibre Cement	US$565	US$509	11	US$555	US$501	11
Asia Pacific Fibre Cement	A$865	A$851	2	A$877	A$850	3

In this Management's Analysis of Results, James Hardie may present the financial measures, sales volume terms, financial ratios, and Non-US GAAP financial measures included in the Definitions section of this document starting on page 12. The company presents financial measures that it believes are customarily used by its Australian investors. Specifically, these financial measures include "EBIT", "EBIT margin", "Operating profit from continuing operations", and "Net operating profit including discontinued operations". James Hardie also presents other terms for measuring its sales volumes ("million square feet (mmsf)" and "thousand square feet (msf)"); financial ratios ("Gearing ratio" , "Net interest expense cover", Net interest paid cover", "Net debt payback", "Net debt/cash"); and Non-US GAAP financial measures ("EBIT and EBIT margin excluding SCI and other related expenses", and "Operating profit from continuing operations excluding SCI and other related expenses"). Unless otherwise stated, results are for continuing operations only and comparisons are of the 3rd quarter and first nine months of the current fiscal year versus the 3rd quarter and first nine months of the prior fiscal year.

Total Net Sales

Total net sales for the quarter increased 26% compared to the same quarter of the previous year, from US$287.0 million to US$362.7 million. For the nine months, total net sales increased 23% from US$894.0 million to US$1,098.7 million.

Net sales from USA Fibre Cement for the quarter increased 35% from US$220.3 million to US$297.9 million and 29% for the nine months from US$692.0 million to US$892.8 million, due to continued growth in sales volume and a higher average net sales price.

Net sales from Asia Pacific Fibre Cement for the quarter increased 2% from US$58.1 million to US$59.4 million and 4% for the nine months from US$177.9 million to US$184.6 million primarily due to higher average net sales prices.

Other segment net sales for the quarter decreased 37% from US$8.6 million to US$5.4 million and decreased 12% for the nine months from US$24.1 million to US$21.3 million. The decrease in Other segment net sales was primarily due to the sale of the company's Chilean flat sheet business in July 2005.

USA Fibre Cement

Quarter

Net sales for the quarter increased 35% from US$220.3 million to US$297.9 million due to increased sales volumes and a higher average net sales price.

Sales volume increased 22% from 432.4 million square feet to 527.5 million square feet for the quarter, as primary demand for fibre cement products continued its strong growth.

The average net sales price increased 11% from US$509 per thousand square feet to US$565 per thousand square feet due to price increases for some products implemented during the past fiscal year and a favourable product mix.

Nine months

Net sales increased 29% from US$692.0 million to US$892.8 million due to increased sales volumes and a higher average net sales price.

Sales volume increased 16% from 1,382.5 million square feet to 1,607.7 million square feet for the nine months due mainly to growth in primary demand coupled with a resilient housing market.

The average net sales price increased 11% from US$501 per thousand square feet to US$555 per thousand square feet. The increase was due to price increases for some products that were implemented during the past fiscal year and proportionally stronger growth of differentiated, higher-priced products.

Discussion

New housing construction was slightly down for the quarter but has remained at very solid levels for the nine months, buoyed by low interest rates and strong house prices. Repair and remodelling activity has also remained at healthy levels due to a resilient residential construction market, strong house prices, increased owner equity and relatively low interest rates.

Strong demand continued in both emerging and established markets and in interior and exterior product categories.

In exterior products, demand grew across all regions and the company achieved further market share growth at the expense of alternative materials, mainly vinyl and wood-based siding. There was strong sales growth in higher-priced differentiated products including the ColorPlus® Collection of pre-painted siding, Harditrim® XLD® planks, vented soffits and Heritage® panels.

During the quarter, James Hardie continued to roll-out and drive its ColorPlus™ business strategy in its emerging markets. The company's aim is to provide proprietary pre-painted exterior products for new residential construction and to move sales of exterior products to pre-painted over the medium to longer-term. The aim is to improve product positioning in markets dominated by vinyl siding and increase revenue and contribution per unit. The roll-out is progressing well and the number of colours in the range was increased from 12 to 20.

In the company's interior products market, sales grew strongly and additional market share was gained during the quarter, and nine months, for both Hardibacker 500® half-inch backerboard and quarter-inch backerboard products.

Strong sales growth momentum continued during the first nine months, despite volumes at the beginning of the fiscal year being weaker than management's expectations.

In the company's established markets, we continued to focus on growth strategies, including an increased focus on the repair and remodel segment. In the nine-month period, sales in established markets were slightly affected by the impact of hurricanes in September that caused considerable damage along the Gulf Coast, particularly in the states of Louisiana and Mississippi. Sales in these states account for less than 5% of total sales of the USA Fibre Cement business.

During the quarter, James Hardie completed the ramp-up of additional pre-finishing capacity at the Peru, Illinois, plant and initiated plans for additional pre-finishing capacity at other plants.

In the nine months, the company commenced the ramp-up of its new trim line at Peru, Illinois and continued the ramp-up of its new west coast manufacturing plant at Reno, Nevada. We expect to construct additional pre-finishing capacity at other plants in our emerging markets during the remainder of this fiscal year.

Asia Pacific Fibre Cement

Net sales for the quarter increased 2% from US$58.1 million to US$59.4 million. Net sales increased 4% in Australian dollars due to a 2% increase in sales volume from 90.6 million square feet to 92.3 million square feet together with a 2% increase in the average net sales price.

Net sales for the nine months increased 4% from US$177.9 million to US$184.6 million. Net sales remained flat in Australian dollars due to a 3% decline in sales volume from 287.4 million square feet to 278.0 million square feet, offset by a 3% increase in average net sales price.

Australia and New Zealand Fibre Cement

Quarter

Net sales increased 3% from US$51.8 million to US$53.1 million primarily due to a 5% increase in sales volume. In Australian dollars, net sales increased 4%. The average net selling price in Australian dollars was down 1% from last year.

Nine months

Net sales increased 5% from US$159.2 million to US$167.0 million primarily due to favourable currency exchange rates, along with a 1% increase in sales volume. In Australian dollars, net sales increased 1%. The average net sales price in Australian dollars was down 1% compared to the same period last year.

Discussion

In Australia, the residential housing construction market continued to soften during the quarter, particularly in the eastern states. Compared to the same quarter last year, new housing approvals were 7% lower in total and 20% lower in New South Wales. In New Zealand, new housing approvals were down by 15% from the prior year, although the non-residential market continued to perform well.

Despite the weaker market, market strategies designed to grow primary demand for fibre cement have helped the Australian business increase market share over the quarter and the nine-month period.

During the quarter, James Hardie began the selective launch of AquaTec™ wet area flooring in Victoria; recorded strong sales of Linea® weatherboards, which were launched in Queensland during the first nine months of this fiscal year; and continued to roll-out its Business Builder Program across all states to develop primary demand.

Linea® weatherboards also continued to generate significant demand in New Zealand, following their launch there in 2003.

Results for the quarter were affected by industrial action in the company's manufacturing plants in Queensland and New Zealand concerning the negotiation of new site agreements. These issues have been resolved in New Zealand and discussions continue in Australia.

Many of the product bans and boycotts have been lifted following the signing of the Final Funding Agreement (FFA, formerly referred to as the Principal Deed) on 1 December 2005 and we believe the remaining bans and boycotts will be lifted when the FFA is implemented.

Philippines Fibre Cement

Quarter

Net sales remained flat at US$6.3 million with a 9% fall in sales volumes offset by a 6% increase in the average net sales price and favourable currency exchange rates. In local currency, net sales decreased 4%. An improvement in domestic sales was outweighed by a 20% drop in exports compared to the prior quarter, partially attributable to greater price competition in our export markets.

Nine months

Net sales decreased 6% from US$18.7 million to US$17.5 million due to an 18% decrease in sales volumes partly offset by a 13% increase in average net sales price and favourable exchange rate differences. In local currency, net sales decreased 8%.

Demand was adversely affected by weaker construction activity resulting from uncertainty associated with increased domestic political and economic instability.

Other

USA Hardie Pipe

In spite of considerable effort focussed on improving market share, sales volumes fell short of last year for the quarter and nine months. The decrease in sales volumes was partially offset by an increase in average net sales price.

Europe Fibre Cement

Net sales increased in both the quarter and the nine months compared to the corresponding periods of last year due to strong demand, increased average net sales prices and the expansion into new markets. The business continues to expand its distribution network and increase awareness of its products among builders, distributors and contractors.

Artisan™ Roofing

The business strategy and manufacturing operation for this product continue to be refined. Artisan™ Shake has now been launched throughout California as part of the company's market development plans.

Chile Fibre Cement

The Chilean business was sold in July 2005 due to its small scale and limited strategic fit.

Gross Profit

Quarter

Gross profit increased 33% from US$96.7 million to US$128.7 million primarily due to strong gross profit improvement in the USA Fibre Cement business. The gross profit margin increased 1.8 percentage points to 35.5%.

USA Fibre Cement gross profit increased 45% compared to the same quarter last year due to higher volume and average net sales price partially offset by increased cost of sales and freight costs. Increased costs resulted from product mix changes and higher cement and energy costs. Freight costs were pushed up by higher cost of fuel. The gross margin increased 2.5 percentage points.

Asia Pacific Fibre Cement gross profit decreased 11% in the quarter due to reduced profitability, particularly in Australia, together with less favourable currency movements. In Australian dollars, gross profit decreased 9% largely due to the impact in Australia of one-off costs associated with bringing an upgraded plant on-line at the Rosehill, Sydney, factory; industrial action at two other plants; and increased freight costs. The reduction in the gross profit performance of the Philippines business was due to lower activity levels and higher unit production costs.

Nine months

Gross profit increased 35% from US$305.1 million to US$411.3 million due mainly to a strong gross profit improvement in our USA Fibre Cement business. The gross profit margin increased 3.3 percentage points to 37.4%.

USA Fibre Cement gross profit increased 43% compared to the same period last year as a result of increases in both volume and average net sales price, partially offset by higher manufacturing costs and freight. The gross profit margin increased 3.9 percentage points.

Asia Pacific Fibre Cement gross profit decreased 1% due to reduced profitability in Australia and the Philippines, partly offset by improvements in New Zealand and favourable currency movements. In local currency, gross profit decreased 5% due to lower sales and increased costs in the Philippines and increased costs in Australia, partly offset by higher volumes in New Zealand.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 23% for the quarter, from US$41.5 million to US$51.2 million, mainly due to increased corporate costs reflecting increases in professional service fees and employee numbers as well as increased spending on growth initiatives in the USA, Australia and Europe Fibre Cement businesses. As a percentage of sales, SG&A expenses were down by 0.4 percentage points to 14.1%.

For the nine months, SG&A expenses increased 11% from US$132.1 million to US$146.4 million, due mainly to increased corporate costs reflecting increases in professional service fees and employee numbers, and increased marketing spending in the USA, Australia and Europe Fibre Cement businesses. As a percentage of sales, SG&A expenses decreased 1.5 percentage points to 13.3%.

Research and Development Expenses

Research and development expenses include costs associated with “core” research projects that are designed to benefit all business units. These costs are recorded in the Research and Development segment rather than being attributed to individual business units. These costs were 16% higher for the quarter at US$3.6 million, and 8% higher for the nine months at US$9.7 million.

Other research and development costs associated with commercialisation projects in business units are included in the business related unit segment results. In total, these costs increased 57% to US$4.7 million for the quarter, and 62% to US$12.0 million for the nine months.

Increased Capacity

The company will begin producing exterior cladding products on the first line at its new Pulaski, Virginia, plant in March 2006. Construction of the plant, the company’s tenth, began in March 2005.

When its second line is completed in July 2006, Pulaski will have an annual production capacity of 600 million standard feet – the largest of all James Hardie plants.

Pulaski will produce exterior cladding and interior backerboard products for new residential construction, repair and remodel and manufactured housing markets.

As well as ensuring there is sufficient production capacity to meet growing demand, Pulaski will enable James Hardie to reduce the cost of distributing its products in the east-coast region and, at the same time, improve service to its growing customer base throughout North America.

SCI and Other Related Expenses

In February 2004, the Government of New South Wales in Australia established the SCI to investigate, among other matters, the circumstances in which the Medical Research and Compensation Foundation was established.

Shortly after the release of the SCI report on 21 September 2004, the company commenced negotiations with the NSW Government, the Australian Council of Trade Unions (ACTU), UnionsNSW and a representative of asbestos claimants in relation to its offer to the SCI on 14 July 2004 to provide funds voluntarily for proven Australia-based asbestos-related injury and death claims against certain former group subsidiary companies. On 21 December 2004, James Hardie entered into a Heads of Agreement with the above parties to establish and fund a Special Purpose Fund (SPF) to provide funding for these claims on a long-term basis. We subsequently entered negotiations with the NSW Government on a binding agreement that we intend to put to shareholders for approval upon completion. On 1 December 2005, the Board approved the FFA. The FFA is subject to certain conditions precedent, including our ability to obtain full tax deductibility for the contributions under this agreement, and approval by the company's lenders and shareholders.

Further information on the SCI and other related matters can be found in Note 8 of the company's Financial Report as at 31 December 2005.

Costs incurred during the quarter associated with the SCI and other related matters totalled US$4.8 million, bringing the total for the nine months to US$14.7 million.

EBIT

For the quarter, EBIT increased 93% from US$33.3 million to US$64.4 million. EBIT margin increased 6.2 percentage points to 17.8%. EBIT for the quarter includes SCI and other related expenses of US$4.8 million.

For the nine months, EBIT increased 73% from US$131.6 million to US$227.7 million. EBIT margin increased 6.0 percentage points to 20.7%. EBIT for the nine months includes SCI and other related expenses of US$14.7 million.

USA Fibre Cement

USA Fibre Cement EBIT for the quarter increased 52% from US$52.3 million to US$79.7 million. The increase was due to increased sales volume and higher average net sales price, partially offset by higher manufacturing costs, freight costs and SG&A expenses. The USA Fibre Cement EBIT margin was 3.1 percentage points higher at 26.8% for the quarter.

For the nine months, EBIT increased 58% from US$164.4 million to US$259.9 million. The increase was due to increased sales volume and higher average net sales price partially offset by higher unit costs, freight costs and SG&A expenses. The EBIT margin was 5.3 percentage points higher at 29.1% for the nine months.

Asia Pacific Fibre Cement

Asia Pacific Fibre Cement EBIT for the quarter decreased 22% from US$10.2 million to US$8.0 million, largely as a result of a decrease in EBIT in the Australian Fibre Cement business. The EBIT margin decreased 4.1 percentage points to 13.5%. For the nine months, EBIT decreased by 6% from US$34.5 million to US$32.4 million. The EBIT margin was 1.8 percentage points lower at 17.6%.

Australia and New Zealand Fibre Cement EBIT for the quarter decreased 20% from US$9.1 million to US$7.3 million. In Australian dollars, EBIT fell by 18% due to increased cost of sales and SG&A expenses in Australia. The EBIT margin decreased by 3.9 percentage points to 13.7%. For the nine months, EBIT decreased 5% from US$31.2 million to US$29.7 million. In Australian dollars, EBIT fell by 9% due to increased costs in Australia, partially offset by increased sales volumes in New Zealand. The EBIT margin for the nine months was 1.8 percentage points lower at 17.8%.

The Philippines Fibre Cement business recorded a decrease in EBIT for the quarter and nine months due to the impact of weaker domestic construction activity on demand for our products as well as increased competitive activity in its export markets.

Other

USA Hardie Pipe EBIT loss was flat for the quarter, despite a decline in net sales for the quarter.

Europe Fibre Cement incurred an EBIT loss for the quarter and nine months as it continues to build net sales.

The Chilean Fibre Cement business was sold in July 2005.

General Corporate Costs

General corporate costs for the quarter decreased by US$7.2 million from US$22.7 million to US$15.5 million. This decrease was primarily due to a US$11.1 million decrease in SCI and other related expenses and a net decrease of US$0.1 million in other general corporate costs, partly offset by a US$2.9 million increase in employee bonus plan expense and a US$1.1 million increase in employee share-based compensation expense from stock options and from stock appreciation rights primarily caused by an increase in the company's share price.

For the nine months, general corporate costs decreased by US$2.3 million from US$45.8 million to US$43.5 million. This decrease was primarily due to a US$9.7 million decrease in SCI and other related expenses and a US$0.7 million loss in the prior year on the sale of land owned in Sacramento that did not recur this year. These decreases were partly offset by a US$2.9 million increase in employee bonus plan expense, a US$2.7 million increase in employee share based compensation expense from stock options and from stock appreciation rights primarily caused by an increase in the company's share price, and a net increase of US$2.5 million in other general corporate costs.

Net Interest

Net interest for the quarter decreased by US$1.5 million from an expense of US$0.7 million to an income of US$0.8 million. For the nine months, net interest expense decreased by US$3.6 million from US$4.5 million to US$0.9 million. The decrease in net interest for the quarter and nine months was primarily due to higher interest income resulting from higher average cash balances and lower interest expense due to lower average debt balances.

Income Tax Expense

Income tax expense for the quarter increased US$11.3 million from US$13.2 million to US$24.5 million. Income tax expense for the nine months increased US$38.6 million from US$44.0 million to US$82.6 million.

The increase in the quarter and nine months was primarily due to an increase in profits and the geographic mix of earnings. Additionally, there was only a small tax benefit from the SCI and other related expenses incurred during the quarter and nine months due to a portion of the costs being non-deductible.

Operating Profit from Continuing Operations

Operating profit from continuing operations for the quarter increased 106% from US$19.8 million to US$40.7 million due mainly to improved performance from the USA Fibre Cement business. Operating profit from continuing operations for the quarter includes SCI and other related expenses of US$4.8 million and a small related tax benefit.

Operating profit from continuing operations for the nine months increased 77% from US$81.6 million to US$144.2 million due mainly to improved performance from the USA Fibre Cement business. Operating profit from continuing operations for the nine months includes SCI and other related expenses of US$14.7 million and a small related tax benefit.

Discontinued Operations

Net expense of US$1.0 million in the nine month period of fiscal year 2005 relates primarily to additional costs associated with the sale of New Zealand land in March 2004 and settlement of a dispute associated with a former business. Net expense of US$0.3 million in the prior quarter relates primarily to settlement of a dispute associated with a former business.

Liquidity and Capital Resources

James Hardie has historically met its working capital needs and capital expenditure requirements through a combination of cash flow from operations, proceeds from the divestiture of businesses, credit facilities and other borrowings, proceeds from the sale of property, plant and equipment and proceeds from the redemption of investments. Seasonal fluctuations in working capital generally have not had a significant impact on our short-term or long-term liquidity. We believe that we can meet our present working capital requirements for at least the next 12 months based on our current capital resources. Any cash commitments arising from the FFA will be met either from that generated by our operating activities or, should this prove insufficient, from borrowings under our existing credit facilities.

The company had cash and cash equivalents of US$149.0 million as of 31 December 2005. At that date we also had credit facilities totalling US$476.7 million of which US$121.7 million was outstanding. Our credit facilities are all uncollateralised and consist of the following:

Description	**Effective Interest Rate at 31 Dec 2005**	**Total Facility at 31 Dec 2005** (US$ millions)	**Principal Outstanding at 31 Dec 2005**
US$ notes, fixed interest, repayable annually in varying tranches from November 2006 through November 2013	7.16%	$ 121.7	$ 121.7
US$ 364-day facilities, can be drawn in US$, variable interest rates based on LIBOR plus margin, can be repaid and redrawn until maturity in June 2006 (US$245.0 million) and December 2006 (US$110.0 million)	N/A	355.0	-
Total		$ 476.7	$ 121.7

At 31 December 2005 the company had net cash of US$27.3 million, compared with net debt of US$45.8 million at 31 March 2005. The March 2005 net debt figure includes Chile debt of US$11.9 million, which is included in “Liabilities of business held for sale” on the company’s consolidated balance sheets.

In June 2005, James Hardie entered into new unsecured debt facilities totalling US$355.0 million. These new facilities replaced our previous A$ revolving loan and US$ stand-by-loan facilities. These new facilities were for an initial term of 364 days, although the maturity of US$110.0 million of these facilities has been extended to December 2006. The interest rate for each facility is the London Inter-Bank Offered Rate (“LIBOR”) for US dollar deposits plus a margin. The facilities also require us to maintain certain financial ratios of debt to capitalisation and levels of net worth and earnings before interest and taxes, as well as to comply with certain other undertakings.

Upon bank and shareholder approval of the FFA, and the FFA becoming effective, US$245.0 million of these facilities will be extended to a term of five years from their signing date. With the exception of margins and commitment fees, the terms of these extended facilities would not change.

At 31 December 2005, there were no amounts outstanding under any of these facilities and management believes that the company was in compliance with all facility restrictive covenants. In January 2006, these facilities were drawn, in the amount of US$200 million, for various floating rate terms, at an initial weighted average interest rate of 5.2%.

In the future, the company may not be able to renew credit facilities on substantially similar terms, or at all; we may have to pay additional fees and expenses that we might not have to pay under normal circumstances; and we may have to agree to terms that could increase the cost of our debt structure. If we are unable to renew our debt on terms which are not materially less favorable than the terms currently available to us, we may have to scale back our levels of planned capital expenditure and /or take other measures to conserve cash in order to meet our future cash flow requirements.

Asbestos Compensation Funding Agreement

During the quarter, the Board of JHI NV approved the FFA to provide long-term funding for Australian asbestos-related personal injury claims that result from exposure to products made by former James Hardie Australian subsidiaries. Representatives of JHI NV and the New South Wales Government signed the FFA on 1 December 2005.

The FFA was negotiated in accordance with the terms of the Heads of Agreement signed on 21 December 2004 by the Australian Council of Trade Unions (ACTU), NSW Government, UnionsNSW, a representative of asbestos claimants and JHI NV. It is a legally-binding agreement and sets out the basis on which James Hardie will provide funding to the Special Purpose Fund (SPF). The arrangements include:

- the establishment of the SPF to compensate asbestos sufferers with claims against the former James Hardie Group subsidiaries, Amaca Pty Ltd, Amaba Pty Ltd or ABN 60 Pty Ltd;
- initial funding of the SPF by James Hardie of approximately A$154 million;
- a two-year rolling cash ‘buffer’ in the SPF and an annual contribution in advance, based on actuarial assessments of expected claims for the following three years, revised annually and subject to certain limitations;
- a cap on the annual James Hardie payments to the SPF in all years, except the first year, initially set at 35% of annual net operating cash flow of the JHI NV Group for the immediately preceding financial year, with provision for the percentage to decline over time, depending on James Hardie's financial performance and the claims outlook;
- no cap on individual payments to proven claimants; and
- special compensation arrangements for members of the Baryulgil community for asbestos-related claims arising from the activities of Marlew Mining Pty Ltd.

The FFA is subject to a number of conditions precedent, including James Hardie being satisfied with the tax treatment of the proposed funding arrangements and receiving the approval of its lenders and shareholders.

All parties to the Heads of Agreement agreed that tax deductibility of the payments was a critical factor regarding affordability of the proposed voluntary funding arrangements. We are continuing to discuss tax treatment with the Australian Taxation Office and the Commonwealth Treasury.

Under applicable accounting standards, James Hardie has not established a provision for asbestos-related liabilities as at 31 December 2005, because at this time such liabilities do not fall within the relevant accounting definitions of being probable and estimable. The company will continue to review the need to establish a provision for asbestos-related liabilities in relation to the conditions precedent.

See Note 8 of the 31 December 2005 Financial Report for further information on the voluntary funding proposal, and for information on the SCI and related matters.

End.

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

These documents, along with a video and audio webcast of the presentation, will be available from the Investor Relations area of the company's website at www.jameshardie.com

DEFINITIONS

Financial Measures – US GAAP equivalents

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

Operating profit from continuing operations - is equivalent to the US GAAP measure of income from continuing operations.

Net operating profit including discontinued operations - is equivalent to the US GAAP measure of net income.

Sales Volumes

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

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

Financial Ratios

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

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

Net interest paid cover – EBIT divided by cash paid during the period for interest.

Net debt payback – Net debt/cash divided by annualized cash flow from operations times 12 months.

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

Non-US GAAP Financial Measures

EBIT and EBIT margin excluding SCI and other related expenses – EBIT and EBIT margin excluding SCI and other related expenses are not measures of financial performance under US GAAP and should not be considered to be more meaningful than EBIT and EBIT margin. We have included these financial measures to provide investors with an alternative method for assessing our operating results in a manner that is focussed on the performance of our ongoing operations and provides useful information regarding our financial condition and results of operations. We use this non-US GAAP measure for the same purposes.

US$ Million	**Q3 FY06**	**Q3 FY05**	**9 Mth FY06**	**9 Mth FY05**
EBIT	$64.4	$33.3	$227.7	$131.6
SCI and other related expenses	4.8	15.9	14.7	24.4
EBIT excluding SCI and other related expenses	69.2	49.2	242.4	156.0
Net Sales	$362.7	$287.0	$1,098.7	$894.0
EBIT margin excluding SCI and other related expenses	19.1%	17.1%	22.1%	17.4%

Operating profit from continuing operations excluding SCI and other related expenses – Operating profit from continuing operations excluding SCI and other related expenses is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than Operating profit from continuing operations. We have included this financial measure to provide investors with an alternative method for assessing our operating results in a manner that is focussed on the performance of our ongoing operations. We use this non-US GAAP measure for the same purposes.

US$ Million	**Q3 FY06**	**Q3 FY05**	**9 Mth FY06**	**9 Mth FY05**
Operating (loss) profit from continuing operations	$40.7	$19.8	$144.2	$81.6
SCI and other related expenses, net of tax	4.4	11.7	14.1	20.2
Operating profit from continuing operations excluding SCI and other related expenses	45.1	31.5	158.3	101.8

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

Disclaimer

This Management's Analysis 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 that the conditions precedent to the Final Funding Agreement will be satisfied;*
- *expectations about payments to a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;*
- *projections of our operating results or financial condition;*
- *statements regarding our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;*
- *statements about our 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. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, some of which are discussed under "Risk Factors" beginning on page 6 of our Form 20-F filed on 7 July 2005 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 Australian subsidiaries; the settlement of those claims; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which we operate; 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 our research and development efforts; our 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 transition of our new senior management. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements. Forward-looking statements speak only as of the date they are made.