



Meredith Hellicar, Chairman



This has been a year of considerable achievement and ongoing challenges for James Hardie.

Our results

Operationally, we saw increased benefits from the company's successful growth strategy with net sales up 23% to US\$1,488.5 million, gross profit up 29% to US\$550.8 million, and net operating profit from continued operations up 63% to US\$208.9 million.

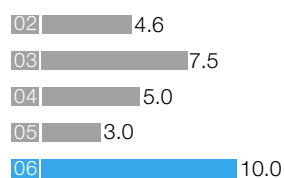
Our USA Fibre Cement business performed exceptionally well again this year, growing more than twice the rate of its end-markets. We expect fiscal year 2007 to be more challenging, with US housing activity showing signs that it is softening from its previous very high levels. However, we believe the business is well-positioned to continue outperforming the end-markets, with our US growth strategy expected to deliver further market share gains at the expense of alternative materials.

These results are a credit to all at James Hardie, and demonstrate the skill with which our CEO, Louis Gries, has assembled and guided his new leadership team of talented and dedicated managers who are running our operations and major functional areas so effectively.

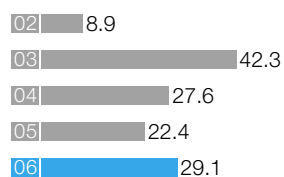
Asbestos compensation

There have been significant achievements in the important issue of providing funding for asbestos claimants as well, with the signing of the Final Funding Agreement (FFA) with the NSW Government last December. The process of implementing our commitment to fund future Australian asbestos claimants is taking longer than anyone would want or could have expected. However, we are determined that any arrangement we put to shareholders will allow James Hardie to continue to grow so it can meet its commitment to funding claimants as well as its obligations to its shareholders, customers, suppliers and employees. More detail on the progress made during the year is set out on pages 10 – 11 in this report.

On 29 June we were advised by the Australian Taxation Office (ATO) that James Hardie's contributions to the SPF would be tax deductible over the anticipated life of the arrangements in accordance with the recent "blackhole expenditure" legislation. Shortly before this, on 23 June, the ATO advised that it has refused to endorse the SPF as a tax concession charity, arguing that the scope of its activities agreed under the FFA does not meet current legislative requirements for such an endorsement.



Dividends Paid per Share (US cents)



Return on Shareholders Funds (%)

... ours will not be a narrow agenda: in seeking to guide the company's on-going vision, strategy and operations, we will continue to be mindful of the effect of all our decisions on our wide range of stakeholders.



While the decision on tax deductibility is a welcome one, the refusal to endorse the SPF as a tax concession charity means that an important condition precedent to the completion of the FFA is still to be resolved at the time of finalising this annual report. It is my strongest hope that all conditions precedent will be satisfied very shortly after this report is issued so that we can finalise the documents shareholders need to consider the proposal in the FFA.

RCI tax assessment

Another challenge for James Hardie this year has been the receipt of a new tax assessment from the ATO in respect of the income tax return for RCI Pty Ltd (RCI), a wholly-owned subsidiary of James Hardie, 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. This issue is discussed in detail in the *Financial Review* on pages 8 – 9, in *Management's Discussion and Analysis* on pages 40 – 53, and Note 13 to the consolidated financial statements. We strongly dispute the assessment and will pursue all avenues of objection and appeal to contest the ATO's position on this matter. On 23 June 2006, the ATO advised that in order to appeal the assessment, the company would be

required to make a partial payment of 50% of the amended assessment of A\$378 million (ie A\$189 million).

Creating a culture for growth

One of the characteristics that defines James Hardie is its relentless drive for improvement in its business and its determination not to be satisfied with what has been achieved, but to constantly seek further gains.

In this regard I commend Louis Gries on his recognition that the culture that has so successfully brought the company to this stage in its development, needs itself to develop in maturity so we can continue to achieve the high growth we target. More details about his initiatives in this area are provided in our report on *Working at James Hardie*, on pages 34 – 35.

In support of the new values and behaviours inherent in this culture, the company has introduced a system of 360-degree reviews of senior managers, considering their performance from the perspectives of all those with whom they have dealings and in the context of the culture we want for the future.

The JHI NV Board

The James Hardie Board has the same focus on improvement. During fiscal year 2006, we commissioned a further performance review by an external consultant who drew on the views and experiences of each Director, as well as those who work with the Directors at different levels, and from a selection of shareholders and shareholder representatives.

The Board found the exercise very valuable, especially as we look to the resolution of our asbestos compensation proposal and, with that, a time when the balance of the Board's focus and deliberation moves away from being dominated by the issue of asbestos compensation, towards the sorts of activities that face any successful, responsible, high-growth company.

I want to assure all those who have a stake in James Hardie's future success that ours will not be a narrow agenda: in seeking to guide the company's on-going vision, strategy and operations, we will continue to be mindful of the effect of all our decisions on our wide range of stakeholders.

In the context of the Board's performance, I pay tribute to another year of extraordinary contribution from our Supervisory Board Directors. Their commitment of time and the depth of their involvement in guiding the company with skill, integrity and good governance reflect their appreciation of the seriousness of our corporate issues and business growth challenges for all the company's stakeholders.

The intense involvement of all Supervisory Board Directors in implementing our commitment to asbestos compensation funding for Australian claimants also reflects the Board's desire to ensure that our operating management can focus the bulk of its attention on driving the growth and profitability of the company's businesses. We see this as vital to ensure the on-going success of the company.

Directors have also focussed on ensuring we continue to work to comply with the corporate governance and financial reporting requirements of the company's multiple jurisdictions and with our own high standards as reflected in our Corporate Governance Principles, Policies and Charters.

Board renewal

I announced in September 2004 that I would commence a process of Board renewal, and the subject has gained more importance this year in light of the departure of two Directors, Peter Cameron and Greg Clark. I record my appreciation for the contribution both these men made to James Hardie, and my particular appreciation of Peter's determination to see the implementation of our asbestos compensation commitment, despite the sudden onset of ill-health in August last year that led to his untimely resignation in January and, only one month later, his death.

As I have previously mentioned to you, we have been seeking new Supervisory Board Directors, primarily from the United States, which continues to offer us our biggest opportunities for growth, and also from Europe, and we want to increase the level of industry and operational expertise available to us so we can continue to support the company's extraordinary growth and prospects.

Following the signing of the FFA, I have stepped up our search and am hopeful that, subject to the resolution of the asbestos-related tax deductibility and tax status issues and in anticipation of your approval for an increase in the Supervisory Board Directors' fee pool at our next Annual Meeting, I can announce some appointments prior to the meeting so that you have an opportunity to vote on their election to the Board.

I thank all those who have worked so hard to achieve the results described in this report. Given the additional initiatives described herein, I am confident that there are many opportunities still ahead of us, and that we will be well-equipped to rise successfully to meet them.

Meredith Hellicar
Chairman