

Directors' Report

Your Joint Board Directors present their report on the consolidated entity consisting of James Hardie Industries NV (JHI NV) and the entities it controlled at the end of, or during, the year ended 31 March 2006 (collectively referred to as the company).

Directors

At the date of this report the members of the **Supervisory Board** are: Ms M Hellicar (Chairman), Mr JD Barr (Deputy Chairman), Messrs MR Brown, MJ Gillfillan, JRH Loudon and DG McGauchie; and the members of the **Managing Board** are: Messrs L Gries (CEO), BP Butterfield (General Counsel & Company Secretary) and RL Chenu (CFO). The **Joint Board** consists of all of the members of the Supervisory Board plus Mr Gries.

Changes in the Managing and Supervisory Boards between 1 April 2005 and the date of this report were:

- Mr GJ Clark resigned from the Supervisory Board and Joint Board on 9 May 2006;
- Mr PS Cameron resigned from the Supervisory Board and Joint Board on 19 January 2006;
- Mr W Vlot, an interim member of the Managing Board since 22 October 2004, resigned from the Managing Board and as Company Secretary on 30 June 2005;
- Mr L Gries, an interim member of the Managing Board since 22 October 2004, was appointed to the Managing Board by shareholders on 22 August 2005;
- Mr BP Butterfield was appointed Company Secretary and an interim member of the Managing Board on 1 July 2005 and was appointed to the Managing Board by shareholders on 22 August 2005; and
- Mr RL Chenu was appointed to the Managing Board by shareholders on 22 August 2005.

Directors' qualifications, experience, special responsibilities and period in office are set out in the Directors' profiles on pages 28 – 29 of this report.

Corporate Governance

Details of JHI NV's corporate governance policies and procedures, including detailed information about the roles, structure and Charters of the Supervisory Board Committees, are set out on pages 74 – 85 of this report. Information about the activities of the Supervisory Board and its Committees appears below.

Activities of the Supervisory Board and its Committees

The Supervisory Board and its Committees regularly held deliberations throughout fiscal year 2006. Details on the number of meetings of the Supervisory Board and its Committees and the attendance of members of the Supervisory Board and the Committees are set out on page 55 of this report.

In its meetings, the Supervisory Board discussed regularly:

- the performance of the JHI NV's individual business groups;
- the culture change initiative;

- company and business unit budgets;
- monthly, quarterly, half-yearly and yearly results and financial statements;
- capital expenditure requests;
- the safety and environmental performance of the business;
- JHI NV's financing in general and its credit rating;
- the entry into voluntary asbestos compensation arrangements with the New South Wales Government and monitoring of FFA conditions precedent status, including taxation approvals, lender support and drafting of an Explanatory Memorandum to seek shareholder approval; and
- taxation matters including the amended taxation assessment received by an Australian JHI NV subsidiary.

The Supervisory Board also discussed the operational and financial objectives of JHI NV, the strategy to achieve these objectives, the parameters to be applied in relation to the strategy, the business plans for the businesses, the sale of the Chile Fibre Cement business and the closure of the roofing business, dividend distributions and capital management, the risks to the company and the reports by the Managing Board of the internal risk management and control systems and their developments.

In addition, the Supervisory Board commissioned an external review, and discussed, without the members of the Managing Board being present, its own performance, composition, profile and competence; the performance of its individual members; succession; and its relationship with the Managing Board and the composition thereof. The Supervisory Board also discussed, without the members of the Managing Board being present, the performance of the Managing Board and of its individual members and succession.

The **Audit Committee** reviewed JHI NV's quarterly, half-yearly and yearly results, financial statements and the annual report. The Audit Committee oversaw the relationship with the external auditor and internal auditor, including the compliance with recommendations and observations of internal and external auditors. It also discussed the effect of internal risk management and control systems.

The **Remuneration Committee** discussed the remuneration of the members of the Managing Board described on pages 58 – 73 of this report. Other topics included equity grants to executives; remuneration and performance objectives of the executive team; salary increase guidelines for each business; Supervisory Board Director remuneration and cap; Supervisory Board Director equity grant; Economic Profit Incentive Plan; executive contracts; management structure, succession planning and development; and US non-qualified deferred compensation plan.

The **Nominating and Governance Committee** discussed the size and composition of the Supervisory Board and the Managing Board as well as the functioning of the individual members of the Supervisory Board and the Managing Board. This committee also discussed corporate governance compliance developments.

Attendance at meetings

Directors' attendance at JHI NV Joint Board, Supervisory Board, Supervisory Board Committee and Managing Board meetings during the fiscal year ended 31 March 2006 is recorded below:

Member	Boards of Directors				Committee							
	Joint Board		Supervisory Board		Audit		Remuneration		Nominating and Governance		Risk Management Sub-committee ¹	
	H	A	H	A	H	A	H	A	H	A	H	A
M Hellicar	20	20	20	20	9	9	4	4	3	3	-	-
JD Barr	20	16	20	16	-	-	4	4	-	-	-	-
MR Brown	20	17	20	17	9	9	-	-	-	-	-	-
MJ Gillfillan	20	18	20	18	9	9	-	-	-	-	-	-
JRH Loudon	20	15	20	15	9	8	4	4	-	-	-	-
DG McGauchie	20	18	20	18	-	-	-	-	3	3	-	-
L Gries	20	19	-	-	-	-	-	-	-	-	3	2
Former Members												
GJ Clark	20	17	20	17	5	3	-	-	3	3	3	3
PS Cameron ²	17	12	17	12	-	-	-	-	2	2	-	-

¹ The Risk Management Sub-committee is a sub-committee of the Audit Committee.

² Mr Cameron was granted leave of absence from the Boards from August until his resignation on 19 January 2006.

Managing Board		
Members	H	A
L Gries	28	27
BP Butterfield	21	21
RL Chenu	17	15
Former Member		
W Vlot	7	7

H = Number of meetings held during the time the Director held office or was a member of the Committee during the fiscal year.

A = Number of meetings attended during the time the Director held office or was a member of the Committee during the fiscal year. Non-Committee members also attend Committee meetings from time to time; these attendances are not shown.

Changes in Directors' interests in JHI NV securities

Changes in Directors' relevant interests in JHI NV securities between 1 April 2005 and 31 March 2006 are set out in the tables in the Remuneration Report on page 73.

Options

Supervisory Board Directors do not receive options. Details of JHI NV options granted to Managing Board members and specified key executives throughout the company, and exercised during the reporting period, are set out in Note 15 to the consolidated financial statements on page 119. Options granted to Managing Board Directors and the five most highly remunerated officers of the company (other than directors, called the Specified Executives) during the fiscal year are set out in the Remuneration Report on pages 66 and 67.

No options were granted between the end of the fiscal year and the date of this report. Between the end of the fiscal year and the date of this report 19,500 options were exercised in respect of ordinary shares/CUFS.

Directors' Report

(continued)

Options changes between 31 March 2006 and the date of this report are set out below. Options changes during the period 1 April 2005 to 31 March 2006 are set out in Note 15 to the consolidated financial statements on page 119.

Range of exercise prices Prices A\$	Number of options outstanding at 31 March 2006	Options cancelled 1 April to 21 June 2006	Options exercised for equal number of shares/CUFS 1 April to 21 June 2006	Number of options outstanding at 21 June 2006
\$3.0921	773,750	–	–	773,750
\$3.1321	257,113	–	–	257,113
\$5.0586	1,270,724	–	–	1,270,724
\$5.9900	4,464,850	–	(19,500)	4,445,350
\$6.3000	273,000	–	–	273,000
\$6.4490	2,064,800	–	–	2,064,800
\$7.0500	3,857,720	–	–	3,857,720
\$8.5300	1,320,000	–	–	1,320,000
\$8.9000	5,191,100	(5,000)	–	5,186,100
\$9.5000	40,200	–	–	40,200
Total	19,513,257	(5,000)	(19,500)	19,488,757

Principal activities

Principal activities of the company during fiscal year 2006 were the manufacture and marketing of fibre cement products in the USA, Australia, New Zealand, the Philippines and Europe. The company also sells fibre cement products in Asia. The company sold its Chile Fibre Cement business in July 2005 because of its small scale and limited strategic fit.

Review and results of operations

A review of the company's operations during the fiscal year and of the results of those operations is contained in Management's Discussion and Analysis on pages 40 – 53.

Environmental regulations and performance

Protecting the environment is critical to the way the company does business, and we continue to seek means of using materials and energy more efficiently and to reduce waste and emissions.

Our integrated environmental, health and safety management system includes regular monitoring, auditing and reporting within the company. The system is designed to continually improve the company's performance and systems with training, regular review, improvement plans and corrective action as priorities.

The manufacturing and other ancillary activities conducted by the company are subject to licenses, permits and agreements issued under environmental laws that apply in each respective location.

Under the applicable licenses and trade waste agreements, discharges to water, air and the sewerage system and noise emissions are to be maintained below specified limits. In addition, dust and odour emissions from the sites are regulated by local government authorities. The company employs dedicated resources and appropriate management systems at each site to ensure that our obligations are met. These resources are also employed to secure improvements in our systems and process that go beyond those required by law.

Solid wastes are removed to licensed landfills. Programs are in place to reduce waste that presently goes to landfills. These include expanded recycling programs.

Further information about James Hardie's environmental aims is included in pages 36 – 38.

Financial position, outlook and future needs

The financial position, outlook and future needs of the company are set out in Management's Discussion and Analysis, on pages 40 – 53.

Auditors

The company prepares its annual accounts in accordance with Dutch GAAP and US GAAP. Each set of accounts is audited by an independent registered public accounting firm in the countries concerned. The independent registered accounting firms have provided the company with a declaration of their independence.

Particulars of non-audit service fees for the fiscal year are set out in Remuneration Disclosures, on page 128.

Insurance and indemnification of Directors and officers

During the fiscal year, the company paid premiums for insurance policies insuring any past, present or future Director, secretary, executive officer or employee of the company, including the JHI NV Directors named above, against certain liabilities. In accordance with common commercial practice, the insurance policies prohibit disclosure of the nature of the insurance cover and the amount of the premiums.

JHI NV's Articles of Association provide that JHI NV shall generally indemnify any person who is or was a member of JHI NV's Managing, Supervisory or Joint Boards or one of JHI NV's employees, officers or agents, and who suffers any loss as a result of any action in connection with their service to JHI NV, provided they acted in good faith in carrying out their duties and in a manner they reasonably believed to be in JHI NV's interest. This indemnification generally will not be available if the person seeking indemnification acted with gross negligence or wilful misconduct in the performance of their duties to JHI NV. A court in which an action is brought may, however, determine that indemnification is appropriate nonetheless.

During fiscal year 2006, Mr Butterfield and Mr Chenu, as newly-appointed members of the Managing Board of JHI NV, received a deed of indemnification in accordance with the Articles of Association and Dutch law.

Other disclosures

Readers are referred to the company's Form 20-F document which is filed with the US Securities and Exchange Commission (SEC) annually, and which contains additional disclosures prescribed by the SEC. The Form 20-F filing can be accessed through the Investor Relations area of the company's website (www.jameshardie.com), or from the company's Registered Offices in Amsterdam and Sydney.

Significant changes in state of affairs

The company recorded an asbestos provision of US\$715.6 million (A\$1.0 billion) at 31 March 2006 because it is probable and estimable, in accordance with US GAAP FAS No. 5, that payments will be made to fund asbestos-related claims on a long-term basis.

On 22 March 2006 a wholly owned subsidiary of JHI NV received an amended assessment from the ATO for a tax return for the year ended 31 March 1999. Further information on the amended assessment is set out in Management's Discussion and Analysis on pages 48 – 54 and in Note 13 to the consolidated financial statements on page 115.

Post fiscal year events

The Directors are not aware of any matter or circumstance since the end of fiscal year 2006 not otherwise dealt with in this annual report, that has significantly affected, or may significantly affect, the operations of the company, other than as contained in Management's Discussion and Analysis on pages 40 – 53 and in Note 20 to the consolidated financial statements on page 127.

Dividends

The Managing Board has declared a final dividend of US 4.0 cents per share. CUFS holders will be paid the dividend in Australian currency on 6 July 2006 if they were registered as at the close of business on 14 June 2006 (AEST). ADR holders will receive payment in US currency.

During fiscal year 2006, JHI NV paid dividends of US 6.0 cents per share on 1 July 2005 and US 4.0 cents on 16 December 2005 totalling US\$45.9 million. CUFS holders were paid in Australian currency. ADR holders received payment in US currency.