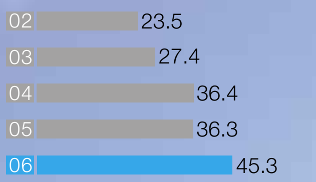
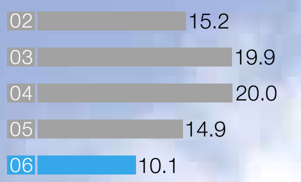
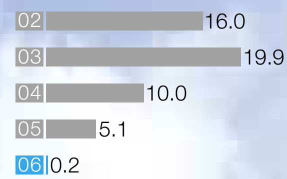
Financial Review



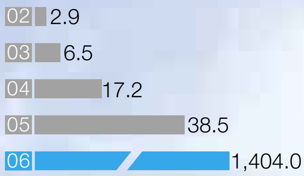
Depreciation and Amortisation
(Millions of US dollars)



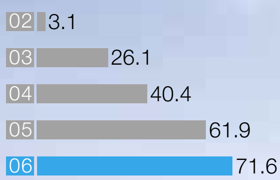
Working Capital to Net Sales
(%)



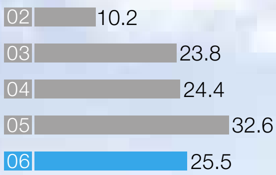
Net Interest Expense
(Millions of US dollars)



Net Interest Expense Cover
(times)



Income Tax Expense (Benefit)
(Millions of US dollars)



Effective Income Tax Rate
(%)

Gearing Ratio
(%)

[1] Capital expenditure includes both cash and credit purchases and therefore differs from the consolidated statements of cash flow. See Note 17 to the consolidated financial statements on page 124.

Russell Chenu, Chief Financial Officer

The company's statement of operations and balance sheet were substantially affected by our booking of a net provision for estimated future asbestos-related compensation payments of US$715.6 million at 31 March 2006, because we believe that we now qualify as being within the "probable and estimable" definition of Statement of Financial Accounting Standard (SFAS) No. 5 under US GAAP.

The amount of the provision is primarily based on KPMG Actuaries' assessment, at 31 March 2006, of projected cash flows, undiscounted and uninflated and assumes the anticipated tax deduction arising from Australian legislation which came into force on 6 April 2006.

On 23 June 2006, the ATO advised the company 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. We are still considering the implications of this advice.

On 29 June 2006, the ATO issued a private ruling to the company to the effect 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" Federal Legislation which was enacted in April 2006.

At the time of filing this report, the company believes that the ATO's refusal to endorse the SPF as a tax concession charity continues to place the FFA in doubt.

As previously announced on 22 March 2006, RCI Pty Ltd (RCI), a wholly-owned subsidiary of James Hardie, received an amended assessment from the ATO for 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. The original amended assessment was for A$412.0 million. After a subsequent remission of general interest charges by the ATO, the total is now A$378.0 million comprising A$172.0 million of primary tax after allowable credits, A$43.0 million of penalties (25% of primary tax) and A$163.0 million of general interest charges.

We believe the tax position reported in RCI's tax return for 1999 will be upheld on appeal. On 23 June 2006, the ATO advised that, in order to appeal the assessment, the company will be required to make a partial payment of 50% of the amended assessment (ie A$189.0 million).

Looking at the underlying fibre cement business, our performance for the year, and our financial position, remain strong. Sales were up 23% to US$1,488.5 million and gross profit was up 29% to US$550.8 million. After the asbestos provision, we recorded an EBIT loss of US$434.9 million. This, and an income tax expense of US$71.6 million, resulted in an operating loss from continuing operations of US$506.7 million.

It is important to look at the company's performance excluding the asbestos provision: EBIT was up 43% to US$280.7 million and operating profit from continuing operations was up 63% to US$208.9 million – an outstanding year for the fibre cement business as a whole and for the US business in particular. These results are described in more detail in *Management's Discussion and Analysis* on pages 40 – 53.

Currency of Borrowings

(Millions of US dollars)	As at 31 March 2006	2005
Borrowings		
USD	**$ 302.7**	$ 147.4
Other	**–**	11.9
Total Borrowings	**$ 302.7**	$ 159.3
Deposits		
AUD	**$ 4.4**	$ 4.4
USD	**302.5**	97.7
NZD	**2.0**	4.9
PHP	**5.4**	4.6
Other	**0.8**	1.9
Total Deposits	**$ 315.1**	$ 113.5
Net Borrowings	**$ (12.4)**	$ 45.8

Debt Maturity Profile

(Millions of US dollars)	2006	2005
Less than one year	**$ 302.7**	$ 37.6
1-2 years	**–**	27.1
2-3 years	**–**	8.1
3-4 years	**–**	46.2
4-5 years	**–**	–
Greater than 5 years	**–**	40.3
Total Borrowings	**$ 302.7**	$ 159.3

Capital Expenditure[1]

(Millions of US dollars)	Year ended 31 March 2006	2005
USA Fibre Cement	**$ 154.5**	$ 144.8
Asia Pacific Fibre Cement	**6.6**	4.1
Other	**1.5**	4.1
Corporate	**0.2**	–
Continuing Operations	**$ 162.8**	$ 153.0

Exchange Rates (US$1=)

Weighted Average	2006	2005
AUD	**1.3285**	1.3519
NZD	**1.4466**	1.4448
Closing Spot		
AUD	**1.3975**	1.2946
NZD	**1.6348**	1.4071

Gross Capital Employed

(Millions of US dollars)	2006	2005
Fixed assets	**$ 775.6**	$ 685.7
Inventories	**124.0**	99.9
Receivables/prepayments	**175.0**	140.0
Other	**7.1**	11.5
Accounts payable and accruals	**(109.3)**	(101.5)
Gross capital employed	**$ 972.4**	$ 835.6

The balance sheet disclosed net cash of US$12.4 million at 31 March 2006, a US$58.2 million turn-around from last year, and we had US$489.1 million available in cash and unused term facilities.

We also continued to generate substantial operating cash flow of US$240.6 million in the year. Since 31 March 2006, we retired US$121.7 million of fixed rate debt with a make-whole payment of US$6.0 million, and the company's other lenders have agreed to extend our facilities by six months.

General corporate costs for the year included:

– expenses of US$17.4 million arising from SCI and other related expenses, down from US$28.1 million last year;

– stock compensation expense of US$6.4 million; and

– earnings-related bonuses of US$9.5 million.

The increase in these stock compensation expenses and earnings-related bonuses reflected the improvement in James Hardie's share price and fibre cement business operating performance.

EBIT for USA Fibre Cement was up significantly, by 42% to US$342.6 million; EBIT for Asia Pacific Fibre Cement declined by 11% to US$41.7 million. Our net interest expense of US$0.2 million reflects the company's very low level of average net debt during the past year. Our effective tax rate excluding the asbestos provision, but including a tax provision write-back, was 25.5%.

Adjusted EBITDA, excluding asbestos provision, was US$326.0 million, a 40% increase on last year. The net cash provided by operating activities was up 9% to US$240.6 million, which exceeded our capital expenditure requirements.

The increase in capital expenditure for the year, up slightly to US$162.8 million, demonstrates the company's on-going commitment to invest in increasing production capacity and in differentiated products. Expenditure included the significant progress made in completing Line 1 at our new plant at Pulaski, Virginia and adding ColorPlus® product or coating capability in the US. Excluding the asbestos provision, our key performance ratios for the year show:

– A significant improvement in diluted earnings per share, from US27.7 cents to US44.9 cents;

– A very significant increase in return on shareholders' funds from 22.4% to 29.1%;

– A rise in return on capital employed, from 23.6% to 28.9%;

– EBIT margin of 18.9%;

– Our net interest paid cover improved from 18.3 times to 80.2 times; and

– Our gearing ratio decreased from 6.8% to (1.6%).

– Total dividends of US10.0 cents per share were paid in the fiscal year.

The results reflect the company's strong operating performance from the fibre cement business and show that its financial position remains strong. Looking ahead, tax treatment of James Hardie's contributions to the proposed asbestos compensation fund in Australia, and the tax status of the fund, are key issues in the affordability of the asbestos compensation arrangements agreed to in the past year. SCI and other related expenses are likely to continue to be material in the year ahead.

Russell Chenu

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Chief Financial Officer