OVERVIEW

This discussion is intended to provide information that will assist in understanding James Hardie's (the company's) 31 March 2007 consolidated financial statements, the changes in significant items in those consolidated financial statements from year to year, and the primary reasons for those changes. It includes information about James Hardie's critical accounting policies and how these policies affect its consolidated financial statements, and information about the consolidated financial results of each business segment to provide a better understanding of how each segment and its results affect the financial condition and results of operations as a whole.

James Hardie's pre-tax results for fiscal year 2007 were substantially and adversely affected by asbestos adjustments of US$405.5 million. The asbestos provision was originally recorded in fiscal year 2006 for US$715.6 million for estimated future asbestos-related compensation payments. The company also incurred significant costs associated with the Special Commission of Inquiry (SCI) and other related matters during fiscal years 2007 and 2006. Information regarding the asbestos-related matters and the SCI and other related matters can be found in this discussion and in Note 12 of the consolidated financial statements on pages 90–95 of this annual report.

The Company and the Building Product Markets

Based on net sales, James Hardie believes it is the largest manufacturer of fibre cement products and systems for internal and external building construction applications in the United States, Australia, New Zealand and the Philippines. The company's current primary geographic markets include the United States, Australia, New Zealand, the Philippines, Europe and Canada. Through significant research and development expenditure, James Hardie develops key product and production process technologies that it patents or holds as trade secrets. James Hardie believes that these technologies give it a competitive advantage.

James Hardie manufactures numerous types of fibre cement products with a variety of patterned profiles and surface finishes for a range of applications including external siding and soffit lining, trim, fencing, internal linings, facades, floor and tile underlayments, flooring, drainage pipes and decorative columns. The company's products are used in various market segments, including new residential construction, manufactured housing, repair and remodel and a variety of commercial and industrial construction applications. It believes that, in certain construction applications, its fibre cement products and systems provide a combination of distinctive performance, design and cost advantages over competing building products and systems.

The company's products are primarily sold in the residential housing markets. Residential construction levels fluctuate based on new home construction activity and the repair and renovation of existing homes. These levels of activity are affected by many factors, including home mortgage interest rates, the availability of finance to homeowners to purchase a new home or make improvements to their existing homes, inflation rates, unemployment levels, existing home sales, the average age and the size of housing inventory, consumer home repair and renovation spending, gross domestic product growth and consumer confidence levels. A number of these factors were generally unfavourable during fiscal year 2007, resulting in weaker residential construction activity.

Fiscal Year 2007 Key Results

As of 31 March 2007, James Hardie implemented the Final Funding Agreement as amended, (Amended FFA), to provide compensation for Australian asbestos-related personal injury claims against certain former companies of the James Hardie Group.

Total net sales increased 4% to US$1,542.9 million. However, the asbestos adjustments resulted in an EBIT loss of US$86.6 million compared to an EBIT loss of US$434.9 million. Operating profit from continuing operations increased to US$150.8 million.

Excluding the asbestos adjustments, EBIT increased 14% to US$318.9 million and net operating profit increased by 6% to US$222.2 million.

The company's largest market is North America, where fibre cement is one of the fastest growing segments of the external siding market. During the year, USA Fibre Cement net sales contributed approximately 82% of total net sales, and its EBIT was the primary contributor of total company EBIT before asbestos adjustments. Net sales for the USA Fibre Cement business increased due to a higher average net sales price. EBIT for the USA Fibre Cement business increased primarily due to increased net sales and lower freight costs, which were partially offset by higher selling, general and administrative expenses.

Asia Pacific Fibre Cement net sales contributed approximately 16% of total net sales, and its EBIT was the second largest contributor of total company EBIT (before the asbestos adjustments) in 2007. Net sales increased in the company's Australia, New Zealand and Philippines businesses. The increase in net sales in the Australia and New Zealand business, which was due to increased volume, was partially offset by a reduction in average net sales price. Sales in the Philippines business increased due to higher sales volume, partially offset by a reduction in average net sales price.

The company's emerging businesses of Europe Fibre Cement and USA Hardie Pipe continued to make good progress. The USA Hardie Pipe business recorded a small profit. Sales in the Europe Fibre Cement business continued to grow steadily, albeit from a low base.

(Millions of US dollars)	2007	2006	% Change
Net sales			
USA Fibre Cement	$ 1,262.3	$ 1,218.4	4
Asia Pacific Fibre Cement	251.7	241.8	4
Other	28.9	28.3	2
Total net sales	1,542.9	1,488.5	4
Cost of goods sold	(969.9)	(937.7)	(3)
Gross profit	573.0	550.8	4
Selling, general and administrative expenses	(214.6)	(209.8)	(2)
Research and development expenses	(25.9)	(28.7)	10
SCI and other related expenses	(13.6)	(17.4)	22
Impairment of roofing plant	–	(13.4)	–
Asbestos adjustments	(405.5)	(715.6)	43
Other operating expense	–	(0.8)	–
EBIT	(86.6)	(434.9)	80
Net interest expense	(6.5)	(0.2)	–
Operating loss from continuing operations before income taxes	(93.1)	(435.1)	79
Income tax benefit (expense)	243.9	(71.6)	–
Operating profit (loss) from continuing operations	$ 150.8	$ (506.7)	–
Net Operating profit (loss)	$ 151.7	$ (506.7)	–
Volume (mmsf)			
USA Fibre Cement	2,148.0	2,182.8	(2)
Asia Pacific Fibre Cement	390.8	368.3	6
Average net sales price per unit (per msf)			
USA Fibre Cement	US$ 588	US$ 558	5
Asia Pacific Fibre Cement	A$ 842	A$ 872	(3)

All results are for continuing operations unless otherwise stated. See Definitions starting on page 42 of this annual report.

TOTAL NET SALES

Total net sales increased 4% from US$1,488.5 million to US$1,542.9 million.

Net sales from USA Fibre Cement increased 4% from US$1,218.4 million to US$1,262.3 million due to a higher average net sales price partially offset by decreased sales volume.

Net sales from Asia Pacific Fibre Cement increased 4% from US$241.8 million to US$251.7 million due to increased sales volumes and favourable currency exchange rate differences, partially offset by a decreased average net sales price.

Other net sales increased by 2% from US$28.3 million to US$28.9 million due to improved sales performance in the USA Hardie Pipe business and the Europe Fibre Cement business partially offset by decreased sales resulting from the sale of the Chile Fibre Cement business in July 2005.

USA FIBRE CEMENT

Net sales increased 4% from US$1,218.4 million to US$1,262.3 million due to a higher average net sales price partially offset by decreased sales volume. Sales volume decreased 2% from 2,182.8 million square feet to 2,148.0 million square feet, due mainly to a decrease in base demand in the company's products during the second half of the year as a result of weaker residential housing construction activity, partially offset by growth in primary demand during the first half of the year. The average net sales price increased 5% from US$558 per thousand square feet to US$588 per thousand square feet primarily due to price increases for certain products that were implemented during the year and an increased proportion of higher-priced, differentiated products in the sales mix. The new housing construction market continued to weaken, with the US Census Bureau reporting that new housing starts were down 25% and 30%, respectively for the three months ended 31 December 2006 and 31 March 2007, compared to the same periods last year. Despite interest rates remaining relatively low, deepening problems in the sub-prime mortgage market kept builder and consumer confidence at weak levels.

According to Brian Catalde, President of the NAHB, "Builders, overall, have been systematically cutting back on new building activity for more than a year now. This slowdown is enabling them to reduce their inventory and better position themselves for the balance of the year, especially when faced with uncertainties over the impacts of the sub-prime-related tightening of mortgage lending standards on home sales". Despite this, supply of new residential housing remains greater than demand and industry inventory levels at the end of the quarter continued to be above optimal levels at around 7 to 8 months supply, as reported by the NAHB.

Demand in our exterior products category for fiscal year 2007 was affected significantly by weaker housing construction activity. The decrease in net sales was due mainly to softer demand in our exterior products category, which spanned all regions except the mid-Atlantic region. Net sales were lower for all products in the exteriors category other than the higher-priced, differentiated products, XLD® trim and the ColorPlus® collection.

With all ColorPlus® product lines now complete and operational, including those in the plants in Reno, Nevada and Pulaski, Virginia, the business has commenced launching the ColorPlus® collection of products into both the Western and Southern divisions.

Repair and remodelling activity was relatively steady during fiscal year 2007 and sales in our interior products category were flat compared to the same period last year. Continued acceptance of HardieBacker ½" board as a wet area wall solution helped grow sales for that product during the quarter, almost off-setting weaker sales of our HardieBacker™ ¼" product in a number of our larger markets.

The net sales growth for the year largely reflects further market penetration against alternative materials, mainly wood and vinyl, across the Northern, Southern and Western Divisions and in the exterior and interior product categories, and an increase in the average net sales price.

ASIA PACIFIC FIBRE CEMENT

Net sales increased 4% from US$241.8 million to US$251.7 million. Net sales in Australian dollars increased 2% due to a 6% increase in sales volume from 368.3 million square feet to 390.8 million square feet, partially offset by a 3% decrease in the average Australian dollar net sales price.

Australia and New Zealand Fibre Cement
Net sales increased 2% from US$218.1 million to US$223.4 million. In Australian dollars, net sales increased 1% due to a 5% increase in sales volumes, partially offset by a 4% decrease in the average Australian dollar net sales price.

In the Australia and New Zealand business, both the new housing and renovation markets weakened during the year, but sales volumes increased due to market initiatives designed to grow primary demand for fibre cement and increase sales of value-added, differentiated products. There was strong sales growth in the recently-launched Scyon™ range of products and in Linea® weatherboards. Selling prices for non-differentiated products continue to be subject to strong competitive pressures, leading to a lower average net sales price.

Philippines Fibre Cement
Net sales increased due to increased sales volumes, partially offset by a slight decrease in the average Philippine peso net sales price. The increase in sales volume was due to stronger domestic building and construction activity and increased export demand.

OTHER

Other sales include sales of Hardie® pipe in the United States and fibre cement operations in Europe.

USA Hardie Pipe
Net sales increased in fiscal year 2007 as compared to fiscal year 2006 due to an increase in sales volume and a higher average net sales price.

Europe Fibre Cement
Net sales continued to grow steadily, albeit from a low base.

GROSS PROFIT

Gross profit increased 4% from US$550.8 million to US$573.0 million. The gross profit margin increased 0.1 percentage points to 37.1%.

USA Fibre Cement gross profit increased 5% due mainly to increases in net sales and, to a lesser extent, lower freight costs. The gross profit margin increased 0.5 percentage points.

Asia Pacific Fibre Cement gross profit decreased 3% primarily due to reduced profitability in the Australian Fibre Cement business. The decrease was due mainly to a lower average net sales price, increased freight and raw material costs in Australia, costs associated with the start-up of the manufacture of new products, and inefficiencies associated with the rebuild of inventory at the Rosehill, New South Wales plant associated with the plant's temporary closure in December 2006 for asbestos-related reasons. In Australian dollars, gross profit decreased 5%. The gross profit margin decreased 2.2 percentage points.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

SG&A expense increased 2% from US$209.8 million to US$214.6 million, mainly due to an increase in spending in the USA Fibre Cement business reflecting expenditures on business initiatives including build-up of organisational infrastructure to drive growth strategies. As a percentage of sales, SG&A expense decreased 0.2 of a percentage point to 13.9%.

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 10% lower at US$25.9 million. Other research and development costs associated with commercialisation projects in business units are included in the business unit segment results. In total, these costs decreased 21% to US$12.9 million.

SCI AND OTHER RELATED EXPENSES

Costs incurred associated with the SCI and other related expenses totalled US$13.6 million compared to US$17.4 million in the previous year.

Further information on the SCI and other related matters can be found in Note 12 to the consolidated financial statements on pages 90–95 of this annual report.

ASBESTOS ADJUSTMENTS

The asbestos adjustments are derived from an estimate of future Australian asbestos-related liabilities in accordance with the Amended FFA that was signed with the NSW Government on 21 November 2006 and approved by the company's shareholders on 7 February 2007. The adjustments include the full implementation of the Amended FFA.

The asbestos adjustments are comprised of the following components for the fiscal years ended 31 March:

(Millions of US dollars)	2007	2006
Adjustments to the net Amended FFA liability at 30 September 2006	$ (41.8)	$ –
Adjustments to the net Amended FFA liability at 31 March 2007	70.3	–
Tax impact related to implementation of the Amended FFA	(335.0)	–
Effect of foreign exchange	(94.5)	–
Contributions to asbestos research and education	(4.5)	–
Initial recording of provision at 31 March 2006	–	(715.6)
Asbestos adjustments	$ (405.5)	$ (715.6)

Adjustments to the Net Amended FFA Liability

The discounted central estimate as calculated by KPMG Actuaries is the main component of the net Amended FFA liability. In addition to the discounted central estimates, there are US Generally Accepted Accounting Principles (GAAP) adjustments that are required to be made as the standards of US GAAP differ from actuarial standards. KPMG Actuaries issued two additional reports during fiscal year 2007 (at 30 September 2006 and at 31 March 2007) adjusting the discounted central estimate and other amounts related to the net Amended FFA liability. The following table illustrates the impact on the net Amended FFA liability of the updated KPMG Actuaries' valuations:

September 2006 Valuation: (In millions, except exchange rate data)	30 September 2006	31 March 2006	Increase/ (decrease)
Discounted Central Estimate	A$ 1,554.8	A$ 1,517.0	A$ 37.8
US GAAP Adjustments			
Discounting and inflation allowance	(112.6)	(113.2)	0.6
Uninflated and undiscounted central estimate	1,442.2	1,403.8	38.4
Provision for claims handling costs of AICF	67.7	67.7	–
Other US GAAP adjustments	31.5	28.7	2.8
Net (assets) liabilities of AICF excluding funding payments	(33.0)	(71.6)	38.6
Total net Amended FFA liability pre-tax	1,508.4	1,428.6	79.8
Total net Amended FFA liability post-tax	A$ 1,055.9	A$ 1,000.0	A$ 55.9
Exchange rate – A$ to US$ – 30 September 2006			1.3365
Increase in the net Amended FFA liability			US$ 41.8

March 2007 Valuation: (In millions, except exchange rate data)	31 March 2007	30 September 2006	Increase/ (decrease)
Discounted Central Estimate	A$ 1,355.1	A$ 1,554.8	A$ (199.7)
US GAAP Adjustments			
Discounting and inflation allowance	(82.1)	(112.6)	30.5
Uninflated and undiscounted central estimate	1,273.0	1,442.2	(169.2)
Provision for claims handling costs of AICF	69.2	67.7	1.5
Other US GAAP adjustments	39.6	31.5	8.1
Net (assets) liabilities of AICF excluding funding payments	2.2	(33.0)	35.2
Total net Amended FFA liability pre-tax	1,384.0	1,508.4	(124.4)
Total net Amended FFA liability post-tax	A$ 968.8	A$ 1,055.9	A$ (87.1)
Exchange rate – A$ to US$ – 31 March 2007			1.2395
Decrease in the net Amended FFA liability			US$ (70.3)

The uninflated and undiscounted central estimate and the provision for claims handling costs of the AICF are recorded on the balance sheet under the caption asbestos liability. The other US GAAP adjustments, net assets (liabilities) of the AICF, and the tax impact of the implementation of the Amended FFA are recorded within other captions on the balance sheet; readers are referred to the section Net Amended FFA Liability below for further details.

Tax Impact Related to the Implementation of the Amended FFA
Following final approval of the Amended FFA by shareholders on 7 February 2007, a deferred tax asset of US$335.0 million has been recorded to reflect the anticipated tax deductions commensurate with the projected payments under the Amended FFA to the AICF.

Effect of Foreign Exchange
The components of the net Amended FFA liability are denominated in Australian dollars and thus the reported value of the net Amended FFA liability in the company's consolidated balance sheets in US dollars is 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 has caused an increase in the net Amended FFA liability of US$94.5 million for the fiscal year ended 31 March 2007.

Contributions to Asbestos Research and Education
Following the adoption of the Amended FFA, a provision of US$4.5 million was recorded for amounts James Hardie will pay for asbestos medical research funding and an asbestos education campaign over the next ten years based on the provisions of the Amended FFA.

Net Amended FFA Liability
The net Amended FFA liability is presented in the consolidated balance sheet within the following captions at 31 March 2007:

(Millions of US dollars)		
Insurance receivables	– current	$ 9.4
	– non-current	165.1
Workers' compensation receivable	– current	2.7
	– non-current	76.5
Workers' compensation liability	– current	(2.7)
	– non-current	(76.5)
Asbestos liability	– current	(63.5)
	– non-current	(1,225.8)
Deferred tax asset	– current	7.8
	– non-current	318.2
Income taxes payable (reduction to income tax payable)		9.0
Other net liabilities		(6.3)
Net Amended FFA liability at 31 March 2007		$ (786.1)

Further information on the asbestos adjustments, the SCI, and other related matters can be found in Note 12 to the consolidated financial statements on pages 90–95 of this annual report.

EBIT

EBIT decreased from a loss of US$434.9 million to a loss of US$86.6 million. EBIT includes asbestos adjustments of a US$405.5 million and SCI and other related expenses of US$13.6 million.

As shown in the table below, EBIT excluding asbestos adjustments, impairment charge and SCI and other related expenses, increased 7% to US$332.5 million. EBIT margin excluding these items increased 0.7 percentage points to 21.6%.

EBIT

(Millions of US dollars)	2007	2006	% Change
USA Fibre Cement	$ 362.4	$ 342.6	6
Asia Pacific Fibre Cement	39.4	41.7	(6)
Research & Development	(17.1)	(15.7)	(9)
Other	(9.3)	(13.1)	29
Impairment of roofing plant	–	(13.4)	–
General Corporate	(56.5)	(61.4)	8
Asbestos adjustments	(405.5)	(715.6)	43
EBIT	(86.6)	(434.9)	80
Excluding			
Impairment of roofing plant	–	13.4	–
Asbestos adjustments	405.5	715.6	43
SCI and other related expenses	13.6	17.4	22
EBIT excluding asbestos adjustments, impairment charge and SCI and other related expenses	$ 332.5	$ 311.5	7
Net sales	$ 1,542.9	$ 1,488.5	4
EBIT margin excluding asbestos adjustments, impairment charge and SCI and other related expenses	21.6%	20.9%	–

USA Fibre Cement EBIT increased 6% from US$342.6 million to US$362.4 million. The increase was primarily due to increased net sales and lower unit freight costs, partially offset by higher SG&A expenses. The EBIT margin was 0.6 percentage points higher at 28.7%.

Asia Pacific Fibre Cement EBIT decreased 6% from US$41.7 million to US$39.4 million due to reduced EBIT performance in the Australia and New Zealand Fibre Cement business, partly offset by improved EBIT performance in the Philippines Fibre Cement business. In Australian dollars, EBIT decreased 7%. Asia Pacific Fibre Cement EBIT margin was 1.5 percentage points lower at 15.7%.

Australia and New Zealand Fibre Cement EBIT decreased 8% from US$38.9 million to US$35.7 million. In Australian dollars, the Australia and New Zealand business EBIT fell by 10% due to increased manufacturing costs, including costs associated with the temporary closure of the Rosehill plant in late 2006 and a lower average net sales price, partially offset by an increase in sales volume and decreased SG&A spending. The Australia and New Zealand business' EBIT margin was 1.8 percentage points lower at 16.0%. The Philippines Fibre Cement business recorded an increase in EBIT due to increases in volume and improved operating efficiencies, partially offset by increased SG&A costs.

The USA Hardie Pipe business recorded a small EBIT in fiscal year 2007 compared to an EBIT loss in the previous year.

The Europe Fibre Cement business incurred an EBIT loss as it continued to build net sales.

Following a review of the results of its roofing product trials in California, James Hardie announced on 18 April 2006 that the pilot plant was to close. This business incurred closure costs of US$1.2 million during the year.

General corporate costs decreased by US$4.9 million from US$61.4 million to US$56.5 million. The reduction was primarily caused by a decrease of US$6.5 million in earnings-related bonuses and a decrease of US$3.8 million in SCI and other related expenses, partially offset by an increase of US$1.0 million in defined benefit pension costs and an increase of US$4.5 million in other corporate costs.

NET INTEREST EXPENSE

Net interest expense increased by US$6.3 million to US$6.5 million. The increase in net interest expense was due to the higher average level of net debt outstanding as compared to the previous year.

INCOME TAX BENEFIT (EXPENSE)

Income tax benefit (expense) increased US$315.5 million from an expense of US$71.6 million to an income tax benefit of US$243.9 million. The increase was due primarily to the US$335.0 million tax benefit related to implementation of the Amended FFA and the tax provision write-back of US$10.4 million, partially offset by the increase in taxable income and a change in the geographical mix of earnings.

DISPUTED AMENDED AUSTRALIAN INCOME TAX ASSESSMENT

As announced on 22 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 Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A$412.0 million. However, after subsequent remissions of general interest charges by the ATO, the total was changed to A$368.0 million, comprising A$172.0 million of primary tax after allowable credits, A$43.0 million of penalties (representing 25% of primary tax) and A$153.0 million of general interest charges.

RCI is appealing the amended assessment. On 5 July 2006, pursuant to the agreement negotiated with the ATO and in accordance with the ATO Receivable Policy, the company made a payment of A$189.0 million (US$152.5 million). The company also agreed to guarantee the payment of the remaining 50% of the amended assessment should its appeal not be successful and to pay general interest charges accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued general interest charges of A$2.9 million (US$2.3 million) was paid on 16 October 2006. However, the company has not recorded any liability at 31 March 2007 for the remainder of the amended assessment because, at this time, the company believes RCI's view of its tax position will be upheld on appeal; therefore no such liability is probable in accordance with US accounting standards.

At the end of May 2007, the ATO disallowed the company's objection to RCI Pty Ltd's notice of amended assessment for RCI Pty Ltd for the year ended 31 March 1999. The company will continue to pursue all avenues of appeal to contest the ATO's position in this matter and may incur substantial legal and other expenses in pursuing this appeal.

The company has treated all payments in relation to the disputed assessment as a deposit in the consolidated financial statements and the company currently intends to treat any future payments as a deposit pending resolution of this matter.

See Note 14 to the consolidated financial statements on page 97 of this annual report for further information on the amended ATO assessment.

OPERATING PROFIT

Net operating profit increased from a loss of US$506.7 million to a profit of US$151.7 million. Net operating profit includes asbestos adjustments of US$405.5 million and a tax benefit related to implementation of the Amended FFA of US$335.0 million. Also included in net operating profit are SCI and other related expenses of US$13.6 million (US$12.6 million, after tax), the make-whole payment on the prepayment of notes of US$6.0 million (US$5.6 million, after tax) and a tax provision write-back of US$10.4 million.

Operating profit from continuing operations excluding asbestos adjustments, tax benefit related to implementation of the Amended FFA, impairment charge, SCI and other related expenses, make-whole payment and tax provision write-back, increased 8% to US$230.0 million as shown in the table below:

(Millions of US dollars)	2007	2006	% Change
Net operating profit (loss)	$ 151.7	$ (506.7)	–
Excluding			
Asbestos adjustments	405.5	715.6	43
Tax benefit related to implementation of the Amended FFA	(335.0)	–	–
Impairment of roofing plant (net of tax)	–	8.0	–
SCI and other related expenses	12.6	16.5	24
Make-whole payment (net of tax)	5.6	–	–
Tax provision write-back	(10.4)	(20.7)	(50)
Net operating profit excluding asbestos adjustments, tax benefit related to implementation of the Amended FFA, impairment charge, SCI and other related expenses, make-whole payment and tax provision write-back	$ 230.0	$ 212.7	8

LIQUIDITY AND CAPITAL RESOURCES

The company's treasury policy regarding liquidity management, foreign exchange risk management, interest rate risk management and cash management is administered by its treasury department and is centralised in The Netherlands. This policy is reviewed annually and is designed to ensure that the company has sufficient liquidity to support its business activities and meet future business requirements in the countries in which it operates. Counterparty limits are managed by the treasury department and based upon the counterparty credit rating; total exposure to any one counterparty is limited to specified amounts and signed off annually by the CFO.

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 the company's short-term or long-term liquidity. The company believes that it can meet its present working capital requirements for at least the next 12 months based on its current capital resources. Any cash commitments arising from the Amended FFA will be met either from cash generated by operating activities or, should this prove insufficient, from borrowings under its existing credit facilities.

The company had cash and cash equivalents of US$34.1 million as of 31 March 2007. At that date, the company also had credit facilities totalling US$355.0 million, of which US$188.0 million was outstanding. The credit facilities are all non-collateralised and as of 31 March 2007 consisted of the following:

(Millions of US dollars)	At 31 March 2007		
Description	Effective Interest Rate	Total Facility	Principal Outstanding
US$ 364-day facilities, can be drawn in US$, variable interest rates based on LIBOR plus margin, can be repaid and redrawn until December 2007	5.82%	$ 110.0	$ 83.0
US$ term facilities, can be drawn in US$, variable interest rates based on LIBOR plus margin, can be repaid and redrawn until June 2010	5.98%	245.0	105.0
Total		$ 355.0	$ 188.0

As of 31 March 2007 the company had net debt of US$153.9 million, compared with net cash of US$12.4 million, a decrease of US$166.3 million.

The company's credit facilities currently consist of 364-day facilities in the amount of US$110.0 million, which as of 31 March 2007, all had a maturity date of December 2007. As of June 2007, the maturity dates of all of the 364-day facilities have been extended to June 2008. The company also has term facilities in the amount of US$245.0 million, which mature in June 2010. For both types of facilities, interest is calculated at the commencement of each draw-down period based on the US-dollar London Interbank Offered Rate, or LIBOR, plus the margins of individual lenders, and is payable at the end of each draw-down period. During fiscal year 2007, the company paid US$0.7 million in commitment fees. As of 31 March 2007, US$188.0 million was drawn under the combined facilities and US$167.0 million was available.

In March 2006, a wholly owned subsidiary of the Company, RCI, received an amended assessment from the ATO of A$412.0 million. The assessment was subsequently amended to A$368.0 million (US$296.9 million).

RCI is appealing the amended assessment. On 5 July 2006, pursuant to an agreement negotiated with the ATO and in accordance with the ATO Receivable Policy, the company made a payment of A$189.0 million (US$152.5 million) being 50% of the then amended assessment, and guaranteed the remaining unpaid 50% of the amended assessment, pending the outcome of the appeal of the amended assessment. The company also agreed to pay general interest charges accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued general interest charges was paid on 16 October 2006 in respect of the quarter ended 30 September 2006. These payments will reduce the company's liquidity. The company believes that RCI's view on its tax position will ultimately prevail in this matter. Accordingly, it is expected that any amounts paid would be recovered, with interest, by RCI at the time RCI is successful in its appeal against the amended assessment. However, if RCI is unsuccessful in its appeal, RCI will be required to pay the entire assessment. As of 31 March 2007, the company had not recorded any liability for the remainder of the amended assessment. For more information, see Note 14 to the consolidated financial statements on page 97 of this annual report.

At the end of May 2007, the ATO disallowed the company's objection to RCI's notice of amended assessment for RCI for the year ended 31 March 1999. The company will continue to pursue all avenues of appeal to contest the ATO's position in this matter.

If the company is unable to extend its credit facilities, or is unable to renew its credit facilities on terms that are substantially similar to the ones it presently has, it may experience liquidity issues and will have to reduce its levels of planned capital expenditures, reduce or eliminate dividend payments, or take other measures to conserve cash in order to meet its future cash flow requirements. Nevertheless, the company believes it will have sufficient funds to meet its working capital and other cash requirements for at least the next 12 months based on its existing cash balances and anticipated operating cash flows arising during the year.

At 31 March 2007, the company's management believes that it was in compliance with all restrictive covenants contained in its credit facility agreements. Under the most restrictive of these covenants, it is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and is limited in how much it can spend on an annual basis in relation to asbestos payments to the AICF.

Cash Flow

Net operating cash inflows decreased from US$240.6 million in fiscal year 2006 to cash outflows of US$67.1 million in fiscal year 2007 primarily due to the ATO deposit payment of US$154.8 million and the initial funding payment made to the AICF of US$148.7 million.

Net cash used in investing activities decreased from US$154.0 million in fiscal year 2006 to US$92.6 million in fiscal year 2007 as capital expenditures were reduced.

Net cash provided by financing activities decreased from US$116.5 million in fiscal year 2006 to a utilisation of US$136.4 million in fiscal year 2007 primarily due to the repayment of US$219.7 million of debt facilities, partly offset by the drawdown of US$105.0 million on the company's debt facilities.

Capital Requirements and Resources

James Hardie's capital requirements consist of expansion, renovation and maintenance of its production facilities and construction of new facilities. The company's working capital requirements, consisting primarily of inventory and accounts receivable and payables, fluctuate seasonally during months of the year when overall construction and renovation activity volumes increase.

During the fiscal year ended 31 March 2007, the company met its capital requirements through a combination of internal cash and funds from its credit facilities. As it continues expanding its fibre cement businesses, the company expects to use cash primarily generated from its operations to fund capital expenditures and working capital. During fiscal year 2008, the company expects to spend approximately US$60 million on capital expenditures, including facility upgrades and capital to implement of new fibre cement technologies. The company plans to fund any cash flow shortfalls that it may experience due to payments related to the Amended FFA and payments made to the ATO under the amended assessment, with future cash flow surpluses, cash on hand of US$34.1 million at 31 March 2007, and cash that it anticipates will be available to it under credit facilities.

Under the terms of the Amended FFA, the company is required to fund the AICF on an annual basis. The initial funding payment of A$184.3 million was made to the AICF in February 2007 and annual payments will be made each July beginning in July 2007. The amounts of these annual payments are dependent on several factors, including the company's free cash flow (defined as cash from operations in accordance with GAAP in force at the date of the Original FFA), actuarial estimations, actual claims paid, operating expenses of the AICF and the annual cash flow cap.

The company anticipates that cash flows from operations, net of estimated payments under the Amended FFA, will be sufficient to fund its planned capital expenditure and working capital requirements in the short-term. If the company does not generate sufficient cash from operations to fund its planned capital expenditures and working capital requirements, it believes the cash and cash equivalents of US$34.1 million at 31 March 2007, and the cash that it anticipates will be available to it under credit facilities, will be sufficient to meet any cash shortfalls during at least the next 12 months.

The company expects to rely primarily on increased market penetration of its products and increased profitability from a more favourable product mix to generate cash to fund its long-term growth. Historically, the company's products have been well-accepted by the market and the product mix has changed towards higher-priced, differentiated products that generate higher margins.

The company has historically reinvested a portion of the cash generated from its operations to fund additional capital expenditures, including research and development activities, which the company believes has facilitated greater market penetration and increased profitability. The company's ability to meet its long-term liquidity needs, including its long-term growth plan, is dependent on the continuation of this trend and other factors discussed herein.

The company expects the dividend payment ratio in the future to be between 50% and 75% of net income before asbestos adjustments, subject to funding requirements.

The company believes its business is affected by general economic conditions and interest rates in the United States and in other countries because these factors affect the number of new housing starts and the level of housing prices. It believes that higher housing prices, which may affect available owner equity and household net worth, are contributors to the currently strong renovation and remodel markets for its products. Over the past several years, favourable economic conditions and historically-reasonable mortgage interest rates in the United States helped sustain new housing starts and renovation and remodel expenditures. However, the ongoing sub-prime mortgage fallout and high current inventory of unsold homes may cause a levelling-off or decrease in new housing starts over the short-term. The company expects that business derived from current US forecasts of new housing starts and continued healthy renovation and remodel expenditures will result in its operations generating cash flow sufficient to fund the majority of its planned capital expenditures.

It is possible that a deeper than expected decline in new housing starts in the United States or in other countries in which the company manufactures and sells its products would negatively impact the company's growth and its current levels of revenue and profitability and therefore decrease its liquidity and ability to generate sufficient cash from operations to meet its capital requirements. During calendar year 2005, US home mortgage interest rates and housing prices increased, while through calendar year 2006 the US housing affordability index has decreased. The company believes that these economic factors, along with others, may cause a slowdown in growth of US new housing construction over the short-term, which may reduce demand for its products.

Pulp and cement are primary ingredients in James Hardie's fibre cement formulation, which have been subject to price volatility, affecting the company's working capital requirements. The company expects that cement prices may continue to increase on a regional basis in fiscal year 2008 causing overall prices to remain high. Pulp prices are discounted from a global index, Northern Bleached Softwood Kraft (NBSK), which, based on information the company receives from RISI and other sources, the company predicts to increase through fiscal year 2008 thus causing pulp prices to increase. To minimise additional working capital requirements caused by rising cement prices, the company has sought to enter into regional contracts with suppliers for the purchase of cement that will help mitigate its cement price increases over the longer-term.

Freight costs decreased in fiscal year 2007 primarily due to improved logistics and transport efficiencies despite higher fuel prices. However, the company expects fuel costs will continue to increase.

The collective impact of the foregoing factors, and other factors, including those identified in the Cautionary Note Concerning Forward-Looking Statements on page 116 of this annual report, may affect the company's ability to generate sufficient cash flows from operations to meet its short and longer-term capital requirements. The company believes that it will be able to fund any cash shortfalls for at least the next 12 months with cash that it anticipates will be available under its credit facilities and that it will be able to maintain sufficient cash available under those facilities. Additionally, the company could determine it necessary to reduce or eliminate dividend payments, scale back or postpone its expansion plans and/or take other measures to conserve cash to maintain sufficient capital resources over the short and longer-term.

Capital Expenditures

James Hardie's total capital expenditures, including amounts accrued, for continuing operations for fiscal year 2007 was US$92.1 million. The capital expenditures were primarily used to create additional low cost, high volume manufacturing capacity to meet increased demand for the company's fibre cement products and to create new manufacturing capacity for new fibre cement products.

Significant capital expenditures in fiscal year 2007 included (i) completion of the second line at the Pulaski, Virginia plant and (ii) completion of construction of, and commencement of production on, new ColorPlus® product lines at the Reno, Nevada and Pulaski, Virginia plants.

Contractual Obligations

The following table summarises the company's significant contractual obligations at 31 March 2007:

		Payments due During Fiscal Year Ending 31 March			
(Millions of US dollars)	Total	2008	2009 to 2010	2011 to 2012	Thereafter
Asbestos Liability[1]	$ 1,289.3	$ N/A	$ N/A	$ N/A	$ N/A
Long-Term Debt	105.0	–	–	105.0	–
Operating Leases	137.0	15.0	27.1	21.6	73.3
Purchase Obligations[2]	12.2	12.2	–	–	–
Total	$ 1,543.5	$ 27.2	$ 27.1	$ 126.6	$ 73.3

[1] The table above does not include any amounts related to the annual payment due to the AICF under the terms of the Amended FFA. The amount of this annual payment is dependent on several factors, including the company's free cash flow (defined as cash from operations in accordance with GAAP in force at the date of the original FFA), actuarial estimations, actual claims paid, operating expenses of the AICF and the annual cash flow cap. These amounts cannot be reasonably estimated for future periods and thus no amounts for such periods have been included for this contractual obligation in the table above. For additional information regarding future obligations under the Amended FFA, see Note 12 to the consolidated financial statements on pages 90–95 of this annual report.

[2] Purchase Obligations are defined as agreements to purchase goods or services that are enforceable and legally-binding on the company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

See Notes 9 and 12 to the consolidated financial statements starting on pages 89 and 90 of this annual report for further information regarding long-term debt and operating leases, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

As of 31 March 2007 and 2006, the company did not have any material off-balance sheet arrangements.

INFLATION

The company does not believe that inflation has had a significant impact on its results of operations for the fiscal years ended 31 March 2007, 2006 or 2005.

SEASONALITY AND QUARTERLY VARIABILITY

James Hardie's earnings are seasonal and typically follow activity levels in the building and construction industry. In the United States, the calendar quarters ending December and March reflect reduced levels of building activity depending on weather conditions. In Australia and New Zealand, the calendar quarter ending March is usually affected by a slowdown due to summer holidays. In the Philippines, construction activity diminishes during the wet season from June to September and during the last half of December due to the slowdown in business activity over the holiday period. Also, general industry patterns can be affected by weather, economic conditions, industrial disputes and other factors.

OUTLOOK

In North America, there is still considerable uncertainty over the outlook for new residential housing construction activity. Recently released housing data shows a continued deterioration in the new housing market, with April 2007 annualised housing starts at an estimated 1,528,000, up slightly (2.5%) from March 2007 but down 16.1% from April 2006. Building permits, an indicator of future activity, deteriorated in April and are running significantly below the pace of a year ago.

Despite the recent slight improvement in new housing starts, the supply of new homes for sale still appears to be greater than demand, and builder confidence levels remain low.

While interest rates continue to be relatively low, tightening of lending standards related to problems of the sub-prime mortgage sector is causing increased uncertainty over the short to medium-term outlook for credit availability and demand for new housing.

The NAHB Chief Economist, David Seiders, made the following statement on 16 May 2007: "The pattern of building permits clearly shows that the dramatic downward correction in housing production is still underway. Homebuyer demand has been sent into another down leg by the abrupt tightening of mortgage lending standards, and there is an increasingly heavy supply of vacant housing units on the market. Under these conditions, builders are cutting back on new construction and intensifying their efforts to bolster sales and limit cancellations". The NAHB is now projecting that housing production will not begin improving until late calendar year 2007, and that the early stages of the subsequent recovery will be quite sluggish.

The USA Fibre Cement business underwent some re-setting in late 2006 early 2007 to address the weaker market conditions and remains well positioned to "flex-up" in response to higher-than-anticipated demand.

Sales volumes for the first quarter of fiscal year 2008 are expected to be adversely affected by the weaker new housing market, but the business remains focussed on, and has strategies in place to grow primary demand for fibre cement and take further market share from alternative materials including wood and vinyl siding. It is also continuing to focus on cost management.

The repair and remodelling market is anticipated to remain relatively stable in the short-term and further market share gains for the interior products category are expected.

In the Australia and New Zealand Fibre Cement business, weak market conditions are forecast to continue, but further volume growth is expected from market initiatives aimed at driving primary demand for fibre cement. Prices for non-differentiated products are expected to remain under pressure due to price competition in Australia. Manufacturing and other cost efficiencies are targeted to improve profitability.

In the Philippines, healthy building and construction activity is expected to help domestic demand in the short-term. Competitive pricing pressure is continuing in both the Philippines domestic and export markets.

In addition, the asbestos liability will be updated annually, based on the most recent actuarial determinations and claims experience, and quarterly to reflect changes in foreign exchange rates. Changes to the actuarial reports may have a material impact on the company's consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The accounting policies affecting James Hardie's financial condition and results of operations are more fully described in Note 2 to the consolidated financial statements on page 83 of this annual report. Certain of the company's accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying value of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. The company considers the following policies to be the most critical in understanding the judgments that are involved in preparing its consolidated financial statements and the uncertainties that could impact its results of operations, financial condition and cash flows.

Accounting for Contingencies
James Hardie accounts for loss contingencies in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies", under which it accrues amounts for losses arising from contingent obligations when the obligations are probable and the amounts are reasonably estimable. As facts concerning contingencies become known, the company reassesses its situation and makes appropriate adjustments to the consolidated financial statements. For additional information regarding asbestos-related matters and the ATO assessment see Notes 12 and 14 to the consolidated financial statements starting on pages 90 and 97 of this annual report.

Accounting for the Asbestos Funding Agreement
Prior to 31 March 2007, the company's consolidated financial statements included an asbestos provision relating to its anticipated future payments to the AICF based on the terms of the Original FFA.

In February 2007, the Amended FFA was approved to provide long-term funding to the AICF, a special purpose fund that provides compensation for the Former James Hardie Companies.

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 projected future cash flows prepared by 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 is not fixed or readily determinable.

The asbestos liability also includes an allowance for the future operating costs of the AICF.

In estimating the potential financial exposure, KPMG Actuaries have made a number of assumptions. These include an estimate of the total number of claims by disease type which are reasonably estimated to be asserted through 2071, the typical average cost of a claim settlement (which is sensitive to, among other factors, the industry in which the plaintiff claims exposure, the alleged disease type and the jurisdiction in which the action is being brought), the legal costs incurred in the litigation of such claims, the proportion of claims for which liability is repudiated, the rate of receipt of claims, the settlement strategy in dealing with outstanding claims, the timing of settlements of future claims and the long-term rate of inflation of claim awards and legal costs.

Further, KPMG Actuaries have relied on the data and information provided by the AICF and Amaca Claim Services, Amaca Pty Ltd (under NSW External Administration), referred to as ACS, and have assumed that it is accurate and complete in all material respects. The actuaries have neither verified the information independently nor established the accuracy or completeness of the data and information provided or used for the preparation of the report.

Due to inherent uncertainties in the legal and medical environment, the number and timing of future claim notifications and settlements, the recoverability of claims against insurance contracts, and estimates of future trends in average claim awards, as well as the extent to which the above-named entities will contribute to the overall settlements, the actual amount of liability could differ materially from that which is currently projected and could result in significant debits or credits to the consolidated balance sheet and statement of operations.

An updated actuarial assessment will be performed as of 31 March each year. Any changes in the estimate will be reflected as a charge or credit to the consolidated statements of operations for the year then ended. Material adverse changes to the actuarial estimate would have an adverse effect on the business, results of operations and financial condition.

For additional information regarding the asbestos liability, see Note 12 to the consolidated financial statements on pages 90–95 of this annual report.

Sales
James Hardie records estimated reductions to sales for customer rebates and discounts including volume, promotional, cash and other rebates and discounts. Rebates and discounts are recorded based on management's best estimate when products are sold. The estimates are based on historical experience for similar programs and products. Management reviews these rebates and discounts on an ongoing basis and the related accruals are adjusted, if necessary, as additional information becomes available.

Accounts Receivable
James Hardie evaluates the collectibility of accounts receivable on an ongoing basis based on historical bad debts, customer credit-worthiness, current economic trends and changes in its customer payment activity. An allowance for doubtful accounts is provided for known and estimated bad debts. Although credit losses have historically been within the company's expectations, it cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. Because the company's accounts receivable are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any of these customers could affect their ability to make payments and result in the need for additional allowances which would decrease the company's net sales.

Inventory
Inventories are recorded at the lower of cost or market. In order to determine market, management regularly reviews inventory quantities on hand and evaluates significant items to determine whether they are excess, slow-moving or obsolete. The estimated value of excess, slow-moving and obsolete inventory is recorded as a reduction to inventory and an expense in cost of sales in the period it is identified. This estimate requires management to make judgments about the future demand for inventory, and is therefore at risk to change from period to period. If the estimate for the future demand for inventory is greater than actual demand and the company fails to reduce manufacturing output accordingly, it could be required to record additional inventory reserves, which would have a negative impact on its gross profit.

Accrued Warranty Reserve
James Hardie offers various warranties on its products, including a 50-year limited warranty on certain of its fibre cement siding products in the United States. Because its fibre cement products have only been used in North America since the early 1990s, there is a risk that these products will not perform in accordance with the company's expectations over an extended period of time. A typical warranty program requires that the company replace defective products within a specified time period from the date of sale. The company records an estimate for future warranty-related costs based on an analysis of actual historical warranty costs as they relate to sales. Based on this analysis and other factors, it adjusts the amount of its warranty provisions as necessary. Although warranty costs have historically been within calculated estimates, if the company's experience is significantly different from its estimates, it could result in the need for additional reserves.

Accounting for Income Tax
The company accounts for income taxes according to SFAS No. 109, "Accounting for Income Taxes", under which it computes its deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. It must assess whether, and to what extent, it can recover its deferred tax assets. If full or partial recovery is unlikely, the company must increase its income tax expense by recording a valuation allowance against the portion of deferred tax assets that it cannot recover. The company believes that it will recover all of the deferred tax assets recorded (net of valuation allowance) on its consolidated balance sheet at 31 March 2007. However, if facts later indicate that it will be unable to recover all or a portion of its net deferred tax assets, the company's income tax expense would increase in the period in which it determines that recovery is unlikely.

Due to the size and nature of its business, the company is subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions it asserts on its income tax returns. The company accrues for tax contingencies based upon its best estimate of the taxes ultimately expected to be paid, which it updates over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If the company ultimately determines that payment of these amounts is unnecessary, it reverses the liability and recognises a tax benefit during the period in which it determines that the liability is no longer necessary. The company records additional tax expense in the period in which it determines that the recorded tax liability is less than it expects the ultimate assessment to be.

For additional information regarding income tax, see Note 13 to the consolidated financial statements on pages 96–97 of this annual report.

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 net sales. James Hardie believes EBIT and EBIT margin to be relevant and useful information as these are the primary measures used by management to measure the operating profit or loss of its business. EBIT is one of several metrics used by management to measure the earnings generated by the company's operations, excluding interest and income tax expenses. Additionally, EBIT is believed to be a primary measure and terminology used by its 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 the company has defined them, may not be comparable to similarly titled measures reported by other companies.

Operating profit – is equivalent to the US GAAP measure of income.

Net operating profit – 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 of amounts capitalised.

Net debt payback – Net debt/cash divided by cash flow from operations.

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

NON-US GAAP FINANCIAL MEASURES

EBIT and EBIT margin excluding asbestos adjustments – EBIT and EBIT margin excluding asbestos adjustments are not measures of financial performance under US GAAP and should not be considered to be more meaningful than EBIT and EBIT margin. James Hardie has included these financial measures to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations and provides useful information regarding its financial condition and results of operations. The company uses these non-US GAAP measures for the same purposes.

(Millions of US dollars)	FY07	FY06
EBIT	$ (86.6)	$ (434.9)
Asbestos adjustments	405.5	715.6
EBIT excluding asbestos adjustments	318.9	280.7
Net Sales	$ 1,542.9	$ 1,488.5
EBIT margin excluding asbestos adjustments	20.7%	18.9%

EBIT excluding asbestos adjustments, impairment charge and SCI and other related expenses – EBIT excluding asbestos adjustments, impairment charge and 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 EBIT. James Hardie has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations and provides useful information regarding its financial condition and results of operations. The company uses this non-US GAAP measure for the same purposes.

(Millions of US dollars)	FY07	FY06
EBIT	$ (86.6)	$ (434.9)
Asbestos adjustments	405.5	715.6
Impairment of roofing plant	–	13.4
SCI and other related expenses	13.6	17.4
EBIT excluding asbestos adjustments, impairment charge and SCI and other related expenses	$ 332.5	$ 311.5

Net operating profit excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA – Net operating profit excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than net income. The company has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations. The company uses this non-US GAAP measure for the same purposes.

(Millions of US dollars)	FY07	FY06
Net operating profit (loss)	$ 151.7	$ (506.7)
Asbestos adjustments	405.5	715.6
Tax benefit related to implementation of the Amended FFA	(335.0)	–
Net operating profit excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA	$ 222.2	$ 208.9

Diluted earnings per share excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA – Diluted earnings per share excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than diluted earnings per share. The company has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations. The company's management uses this non-US GAAP measure for the same purposes.

(Millions of US dollars)	FY07	FY06
Net operating (loss) profit	$ 151.7	$ (506.7)
Asbestos adjustments	405.5	715.6
Tax benefit related to implementation of the Amended FFA	(335.0)	–
Net operating profit excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA	$ 222.2	$ 208.9
Weighted average common shares outstanding – Diluted (millions)	466.4	461.7
Diluted earnings per share excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA (US cents)	47.6	45.2

Effective tax rate excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA – Effective tax rate excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA is not a measure of financial performance under US GAAP and should not be considered to be more meaningful than effective tax rate. The company has included this financial measure to provide investors with an alternative method for assessing its operating results in a manner that is focussed on the performance of its ongoing operations. The company's management uses this non-US GAAP measure for the same purposes.

(Millions of US dollars)	FY07	FY06
Operating loss before income taxes	$ (93.1)	$ (435.1)
Asbestos adjustments	405.5	715.6
Operating profit before income taxes excluding asbestos adjustments	312.4	280.5
Income tax benefit/(expense)	243.9	(71.6)
Tax benefit related to implementation of the Amended FFA	(335.0)	–
Income tax expense excluding tax benefit related to implementation of the Amended FFA	$ (91.1)	$ (71.6)
Effective tax rate excluding asbestos adjustments and tax benefit related to implementation of the Amended FFA	29.2%	25.5%

Adjusted EBITDA – Adjusted 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 profitability or liquidity. Not all companies calculate Adjusted EBITDA in the same manner as James Hardie has and, accordingly, Adjusted EBITDA may not be comparable with other companies. The company has included information concerning Adjusted EBITDA because it believes 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.

Reconciliation of Adjusted EBITDA and Adjusted EBITDA excluding asbestos adjustments to net cash provided by operating activities:

(Millions of US dollars)	FY07	FY06
Net cash (used in) provided by operating activities	$ (67.1)	$ 240.6
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities	4.5	(791.3)
Change in operating assets and liabilities, net	214.3	44.0
Net income (loss)	151.7	(506.7)
Cumulative effect of change in accounting principle	(0.9)	–
Income tax (benefit) expense	(243.9)	71.6
Interest expense	12.0	7.2
Interest income	(5.5)	(7.0)
Depreciation and amortisation	50.7	45.3
Adjusted EBITDA	$ (35.9)	$ (389.6)
Asbestos adjustments	405.5	715.6
Adjusted EBITDA excluding asbestos adjustments	$ 369.6	$ 326.0

ABBREVIATIONS

The following abbreviations are used throughout this annual report:

AICF – Asbestos Injuries Compensation Fund.
Amended FFA – Amended Final Funding Agreement.
ASIC – Australian Securities and Investments Commission.
ATO – Australian Taxation Office.
FFA – Final Funding Agreement.
NSW – New South Wales.