James Hardie Industries N.V. and Subsidiaries

Condensed Consolidated Financial Statements
For the Period Ended 30 September 2006

Page

Item 1. Condensed Consolidated Financial Statements (Unaudited)

Report of Independent Registered Public Accounting Firm……………………………………..F-3

Condensed Consolidated Balance Sheets as of 30 September 2006 and 31 March 2006 ....F-4

Condensed Consolidated Statements of Income for the Three and Six Months Ended 30 September 2006 and 2005 ....F-5

Condensed Consolidated Statements of Cash Flows for the Six Months Ended 30 September 2006 and 2005 ....F-7

Condensed Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended 30 September 2006 ....F-9

Notes to Condensed Consolidated Financial Statements F-10

Item 2. Quantitative and Qualitative Disclosures About Market Risk…………………F-31

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
James Hardie Industries N.V. and Subsidiaries:

We have reviewed the accompanying condensed consolidated balance sheet of James Hardie Industries N.V. and Subsidiaries as of 30 September 2006, and the related condensed consolidated statements of income for each of the three-month and six-month periods ended 30 September 2006 and 2005 and the condensed consolidated statements of cash flows for the six-month periods ended 30 September 2006 and 2005 and the condensed consolidated statement of changes in shareholders' equity for the six-month period ended 30 September 2006, as stated in U.S. dollars. We have not reviewed any amounts stated in Australian dollars included in the accompanying condensed consolidated financial statements. These interim financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of 31 March 2006, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended (not presented herein), and in our report dated 12 May 2006, except for Note 20, as to which the dates were 23 June 2006, 29 June 2006 and 5 July 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet information as of 31 March 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Notes 7 and 9 to the condensed consolidated financial statements, the Company is subject to certain significant contingencies, including asbestos-related claims against former subsidiaries for which a provision in an amount representing the Company's best estimate of the probable outcome has been established; a Special Commission of Inquiry established by the government of New South Wales, Australia; a Final Funding Agreement; an investigation by the Australian Securities and Investments Commission; an offer of an indemnity to ABN 60 together with a related commitment to provide funding to the Medical Research and Compensation Foundation; and a significant amended tax assessment from the Australian Taxation Office.

PricewaterhouseCoopers LLP

Los Angeles, California
10 November 2006

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	Millions of US Dollars		Millions of Australian Dollars	
	30 September 2006	31 March 2006	**30 September 2006**	31 March 2006
Assets				
Current assets:				
Cash and cash equivalents	**$ 47.3**	$ 315.1	**A$ 63.2**	A$ 440.4
Restricted cash	**5.0**	-	**6.7**	-
Accounts and notes receivable, net of allowance for doubtful accounts of $1.5 million (A$2.0 million) and $1.3 million (A$1.8 million) as of 30 September 2006 and 31 March 2006, respectively	**157.6**	153.2	**210.6**	214.1
Inventories	**142.2**	124.0	**190.1**	173.3
Prepaid expenses and other current assets	**49.3**	33.8	**65.9**	47.2
Deferred income taxes	**24.8**	30.7	**33.1**	42.9
Total current assets	**426.2**	656.8	**569.6**	917.9
Property, plant and equipment, net	**816.1**	775.6	**1,090.7**	1,083.9
Deferred income taxes	**5.3**	4.8	**7.1**	6.7
Deposit with Australian Taxation Office	**141.4**	-	**189.0**	-
Other assets	**7.3**	8.2	**9.8**	11.5
Total assets	**$ 1,396.3**	$ 1,445.4	**A$ 1,866.2**	A$ 2,020.0
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$ 116.5**	$ 117.8	**A$ 155.7**	A$ 164.6
Current portion of long-term debt	**-**	121.7	**-**	170.1
Short-term debt	**135.0**	181.0	**180.4**	252.9
Accrued payroll and employee benefits	**38.5**	46.3	**51.5**	64.7
Accrued product warranties	**8.1**	11.4	**10.8**	15.9
Income taxes payable	**16.4**	24.5	**21.9**	34.2
Other liabilities	**3.1**	3.3	**4.1**	4.6
Total current liabilities	**317.6**	506.0	**424.4**	707.0
Deferred income taxes	**91.6**	79.8	**122.4**	111.5
Accrued product warranties	**7.3**	4.1	**9.8**	5.7
Asbestos provision	**790.0**	715.6	**1,055.9**	1,000.0
Other liabilities	**49.1**	45.0	**65.6**	62.9
Total liabilities	**1,255.6**	1,350.5	**A$ 1,678.1**	A$ 1,887.1
Commitments and contingencies (Note 7)				
Shareholders' equity:				
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 463,735,445 shares issued and outstanding at 30 September 2006 and 463,306,511 shares issued and outstanding at 31 March 2006	**253.2**	253.2		
Additional paid-in capital	**161.8**	158.8		
Accumulated deficit	**(250.4)**	(288.3)		
Employee loans	**(0.3)**	(0.4)		
Accumulated other comprehensive loss	**(23.6)**	(28.4)		
Total shareholders' equity	**140.7**	94.9		
Total liabilities and shareholders' equity	**$ 1,396.3**	$ 1,445.4		

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

(Millions of US dollars, except per share data)	Three Months Ended 30 September **2006**	Three Months Ended 30 September 2005	Six Months Ended 30 September **2006**	Six Months Ended 30 September 2005
Net sales	**$ 411.4**	$ 376.6	**$ 826.9**	$ 736.0
Cost of goods sold	**(256.2)**	(239.3)	**(514.0)**	(453.4)
Gross profit	**155.2**	137.3	**312.9**	282.6
Selling, general and administrative expenses	**(57.2)**	(49.7)	**(108.9)**	(95.2)
Research and development expenses	**(6.6)**	(7.1)	**(14.1)**	(13.4)
SCI and other related expenses	**(3.2)**	(4.7)	**(5.6)**	(9.9)
Other operating income (expense)	**-**	0.6	**-**	(0.8)
Adjustments to asbestos provision	**(47.2)**	-	**(74.4)**	-
Operating income	**41.0**	76.4	**109.9**	163.3
Interest expense	**(0.2)**	(2.3)	**(5.8)**	(4.0)
Interest income	**1.2**	1.3	**4.8**	2.3
Income before income taxes	**42.0**	75.4	**108.9**	161.6
Income tax expense	**(20.9)**	(27.8)	**(53.2)**	(58.1)
Income before cumulative effect of change in accounting principle	**21.1**	47.6	**55.7**	103.5
Cumulative effect of change in accounting principle for stock-based compensation (net of US$0.4 million of tax for the six months ended 30 September 2006)	**-**	-	**0.9**	-
Net income	**$ 21.1**	$ 47.6	**$ 56.6**	$ 103.5
Net income per share - basic	**$ 0.04**	$ 0.10	**$ 0.12**	$ 0.22
Net income per share - diluted	**$ 0.04**	$ 0.10	**$ 0.12**	$ 0.22
Weighted average common shares outstanding (Millions):				
Basic	**463.4**	461.4	**463.4**	461.0
Diluted	**465.1**	466.8	**466.0**	465.0

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended 30 September		Six Months Ended 30 September	
(Millions of Australian dollars, except per share data)	**2006**	2005	**2006**	2005
Net sales	**A$ 546.8**	A$ 492.9	**A$ 1,099.1**	A$ 963.3
Cost of goods sold	**(340.5)**	(313.2)	**(683.2)**	(593.4)
Gross profit	**206.3**	179.7	**415.9**	369.9
Selling, general and administrative expenses	**(76.0)**	(65.0)	**(144.7)**	(124.6)
Research and development expenses	**(8.8)**	(9.3)	**(18.7)**	(17.5)
SCI and other related expenses	**(4.3)**	(6.2)	**(7.4)**	(13.0)
Other operating income (expense)	**-**	0.8	**-**	(1.0)
Adjustments to asbestos provision	**(62.8)**	-	**(98.9)**	-
Operating income	**54.4**	100.0	**146.2**	213.8
Interest expense	**(0.3)**	(3.0)	**(7.7)**	(5.2)
Interest income	**1.6**	1.7	**6.4**	3.0
Income before income taxes	**55.7**	98.7	**144.9**	211.6
Income tax expense	**(27.7)**	(36.4)	**(70.9)**	(76.0)
Income before cumulative effect of change in accounting principle	**28.0**	62.3	**74.0**	135.6
Cumulative effect of change in accounting principle for stock-based compensation (net of A$0.5 million of tax for the six months ended 30 September 2006)	**-**	-	**1.2**	-
Net income	**A$ 28.0**	A$ 62.3	**A$ 75.2**	A$ 135.6
Net income per share - basic	**A$ 0.06**	A$ 0.14	**A$ 0.16**	A$ 0.29
Net income per share - diluted	**A$ 0.06**	A$ 0.14	**A$ 0.16**	A$ 0.29
Weighted average common shares outstanding (Millions):				
Basic	**463.4**	461.4	**463.4**	461.0
Diluted	**465.1**	466.8	**466.0**	465.0

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Millions of US dollars)	Six Months Ended 30 September 2006	2005
Cash Flows From Operating Activities		
Net income	**$ 56.6**	$ 103.5
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loss on disposal of subsidiaries and businesses	**-**	0.8
Depreciation and amortisation	**24.2**	22.5
Deferred income taxes	**17.4**	5.8
Prepaid pension cost	**1.5**	1.3
Stock-based compensation	**1.4**	1.9
Adjustments to asbestos provision	**74.4**	-
Cumulative effect of change in accounting principle	**(0.9)**	-
Deposit with Australian Taxation Office	**(141.4)**	-
Other	**-**	0.6
Changes in operating assets and liabilities:		
Restricted cash	**(5.0)**	-
Accounts and notes receivable	**(1.9)**	(8.5)
Inventories	**(16.8)**	(12.2)
Prepaid expenses and other current assets	**(16.6)**	(7.2)
Accounts payable and accrued liabilities	**(1.9)**	28.3
Other accrued liabilities and other liabilities	**(13.3)**	9.7
Net cash (used in) provided by operating activities	**(22.3)**	146.5
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(61.4)**	(75.0)
Proceeds from disposal of subsidiaries and businesses, net of cash divested	**-**	2.9
Net cash used in investing activities	**(61.4)**	(72.1)
Cash Flows From Financing Activities		
Repayments of long-term debt	**(121.7)**	-
Repayments of short-term debt	**(46.0)**	-
Proceeds from issuance of shares	**1.5**	9.4
Windfall income tax benefit from stock options exercised	**0.1**	1.3
Dividends paid	**(18.7)**	(27.5)
Collections on loans receivable	**0.1**	0.2
Net cash used in financing activities	**(184.7)**	(16.6)
Effects of exchange rate changes on cash	**0.6**	(0.4)
Net (decrease) increase in cash and cash equivalents	**(267.8)**	57.4
Cash and cash equivalents at beginning of period	**315.1**	113.5
Cash and cash equivalents at end of period	**$ 47.3**	$ 170.9
Components of Cash and Cash Equivalents		
Cash at bank and on hand	**$ 27.0**	$ 33.0
Short-term deposits	**20.3**	137.9
Cash and cash equivalents at end of period	**$ 47.3**	$ 170.9

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Millions of Australian dollars)	Six Months Ended 30 September 2006	Six Months Ended 30 September 2005
Cash Flows From Operating Activities		
Net income	**A$ 75.2**	A$ 135.6
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loss on disposal of subsidiaries and businesses	**-**	1.0
Depreciation and amortisation	**32.2**	29.4
Deferred income taxes	**23.1**	7.6
Prepaid pension cost	**2.0**	1.7
Stock-based compensation	**1.9**	2.5
Adjustments to asbestos provision	**98.9**	-
Cumulative effect of change in accounting principle	**(1.2)**	-
Deposit with Australian Taxation Office	**(189.0)**	-
Other	**-**	0.8
Changes in operating assets and liabilities:		
Restricted cash	**(6.6)**	-
Accounts and notes receivable	**(2.5)**	(11.1)
Inventories	**(22.3)**	(16.0)
Prepaid expenses and other current assets	**(22.1)**	(9.4)
Accounts payable and accrued liabilities	**(2.5)**	37.0
Other accrued liabilities and other liabilities	**(17.7)**	12.7
Net cash (used in) provided by operating activities	**(30.6)**	191.8
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(81.6)**	(98.2)
Proceeds from disposal of subsidiaries and businesses, net of cash divested	**-**	3.8
Net cash used in investing activities	**(81.6)**	(94.4)
Cash Flows From Financing Activities		
Repayments of long-term debt	**(161.8)**	-
Repayments of short-term debt	**(61.1)**	-
Proceeds from issuance of shares	**2.0**	12.3
Windfall income tax benefit from stock options exercised	**0.1**	1.7
Dividends paid	**(24.9)**	(36.0)
Collections on loans receivable	**0.1**	0.3
Net cash used in financing activities	**(245.6)**	(21.7)
Effects of exchange rate changes on cash	**(19.4)**	1.8
Net (decrease) increase in cash and cash equivalents	**(377.2)**	77.5
Cash and cash equivalents at beginning of period	**440.4**	146.9
Cash and cash equivalents at end of period	**A$ 63.2**	A$ 224.4
Components of Cash and Cash Equivalents		
Cash at bank and on hand	**A$ 36.1**	A$ 43.3
Short-term deposits	**27.1**	181.1
Cash and cash equivalents at end of period	**A$ 63.2**	A$ 224.4

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Employee Loans	Accumulated Other Comprehensive (Loss) Income	Total
Balances as of 31 March 2006	$ 253.2	$ 158.8	$ (288.3)	$ (0.4)	$ (28.4)	$ 94.9
Comprehensive income:						
Net income	-	-	56.6	-	-	56.6
Other comprehensive income:						
Foreign currency translation	-	-	-	-	4.8	4.8
Total comprehensive income						61.4
Dividends paid	-	-	(18.7)	-	-	(18.7)
Stock-based compensation	-	1.4	-	-	-	1.4
Tax benefit from stock options exercised	-	0.1	-	-	-	0.1
Employee loans repaid	-	-	-	0.1	-	0.1
Stock options exercised	-	1.5	-	-	-	1.5
Balances as of 30 September 2006	**$ 253.2**	**$ 161.8**	**$ (250.4)**	**$ (0.3)**	**$ (23.6)**	**$ 140.7**

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1. Basis of Presentation

Nature of Operations

The Company manufactures and sells fibre cement building products for interior and exterior building construction applications, primarily in the United States, Australia, New Zealand, Philippines and Europe.

Basis of Presentation

The condensed consolidated financial statements represent the financial position, results of operations and cash flows of James Hardie Industries N.V. (“JHI NV”) and its current wholly owned subsidiaries, collectively referred to as either the "Company" or "James Hardie" and JHI NV together with its subsidiaries as of the time relevant to the applicable reference, are collectively referred to as the “James Hardie Group,” unless the context indicates otherwise. Intercompany transactions have been eliminated in consolidation.

The consolidated financial statements included herein are unaudited; however, they contain all normal recurring adjustments which, in the opinion of the Company’s management, are necessary to state fairly the consolidated financial position of the Company at 30 September 2006, and the consolidated results of operations and the consolidated cash flows for the three and six months ended 30 September 2006 and 2005. The results of operations for the three and six months ended 30 September 2006 are not necessarily indicative of the results to be expected for the full year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America.

The assets, liabilities, statements of income and statements of cash flows of the Company have been presented with accompanying Australian dollar (A$) convenience translations as the majority of the Company's shareholder base is Australian. These A$ convenience translations are not prepared in accordance with accounting principles generally accepted in the United States of America. The exchange rates used to calculate the convenience translations are as follows:

	31 March	30 September	
(US$1 = A$)	2006	**2006**	2005
Assets and liabilities	1.3975	**1.3365**	1.3133
Income statement	n/a	**1.3292**	1.3088
Cash flows - beginning cash	n/a	**1.3975**	1.2946
Cash flows - ending cash	n/a	**1.3365**	1.3133
Cash flows - current period movements	n/a	**1.3292**	1.3088

The asbestos provision on the A$ unaudited consolidated statements of income and A$ unaudited consolidated statements of cash flows is the difference in the balance sheet rate at 30 September and 31 March 2006, respectively, translated using the assets and liabilities rate at 30 September 2006.

2. Summary of Significant Accounting Policies

Earnings Per Share

The Company is required to disclose basic and diluted earnings per share ("EPS"). Basic EPS is calculated using income divided by the weighted average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares calculated using the treasury method that would have been outstanding if dilutive potential common shares, such as options, had been exercised. Accordingly, basic and dilutive common shares outstanding used in determining net income per share are as follows:

	Three Months Ended 30 September		Six Months Ended 30 September	
(Millions of shares)	**2006**	2005	**2006**	2005
Basic common shares outstanding	**463.4**	461.4	**463.4**	461.0
Dilutive effect of stock options	**1.7**	5.4	**2.6**	4.0
Diluted common shares outstanding	**465.1**	466.8	**466.0**	465.0

US dollars	**2006**	2005	**2006**	2005
Net income per share - basic	**$ 0.04**	$0.10	**$ 0.12**	$0.22
Net income per share - diluted	**$ 0.04**	$0.10	**$ 0.12**	$0.22

Potential common shares of 10.3 million and nil for the three months ended 30 September 2006 and 2005, respectively, and 6.5 million and nil for the six months ended 30 September 2006 and 2005, respectively, have been excluded from the calculations of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

Advertising
The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US$4.6 million and US$4.9 million for the three months ended 30 September 2006 and 2005, respectively, and US$8.9 million and US$9.3 million for the six months ended 30 September 2006 and 2005, respectively.

Stock-Based Compensation
The Company implemented the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, using the retroactive restatement method provided by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment SFAS No. 123*. When SFAS No. 123 was adopted, the retroactive restatement method required the restatement of prior periods' reported net income to give effect to the fair value based method of accounting for awards granted, modified or settled in fiscal years beginning after 15 December 1994. Therefore, no transition adjustments are required upon the Company adopting SFAS No. 123R, *Shared-based Payments*. In adopting this standard the Company has employed the modified prospective transition method.

SFAS No. 123R requires that a company estimate forfeitures of stock options at the date of grant rather than allowing the company to account for forfeitures as they occur. At the time the Company adopted SFAS No. 123, it decided to account for forfeitures as they occur, primarily due to the limited historical data to accurately estimate a forfeiture rate at the date of grant.

The Company recognised stock-based compensation expense (included in selling, general and administrative expense) of US$1.2 million and US$0.9 million for the three months ended 30 September 2006 and 2005, respectively, and US$2.7 million and US$1.9 million for the six months ended 30 September 2006 and 2005, respectively. This excludes the forfeiture adjustment of US$1.3 million (US$0.9 million net of tax) for the six months ended 30 September 2006, which is separately disclosed as "Cumulative effect of change in accounting principle for stock-based compensation." The tax benefit related to the forfeiture adjustment was US$0.4 million for the six months ended 30 September 2006.

The Company analysed forfeiture rates on all of the 2001 Stock Option Plan grants for which vesting was complete resulting in an estimated weighted average forfeiture rate of 30.7%. Based on this calculated rate, a cumulative adjustment to stock-based compensation expense of US$1.3 million was recorded for the six months ended 30 September 2006, upon adoption of SFAS No. 123R. The adjustment is presented on the condensed consolidated statements of income as a cumulative effect of change in accounting principle (net of income tax).

The portion of the forfeiture cumulative adjustment that relates to USA-based employees did cause a reduction in the deferred tax asset previously recorded. The amount of the cumulative adjustment related to USA-based employees was approximately US$1.0 million. Therefore, the related USA income tax adjustment was approximately US$0.4 which was recorded to income tax expense.

Recent Accounting Pronouncements

Uncertain Tax Positions
In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standard No. 109 ("SFAS No. 109").* FIN 48 clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with SFAS No. 109. Unlike SFAS No. 109, *Accounting for Income Taxes*, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will adopt the provisions of FIN 48 effective 1 April 2007. The Company has not yet determined the effect of the adoption of FIN 48 on its financial position or results of operations.

Defined Benefit and Other Postretirement Plans
In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The statement requires an employer to (a) recognise the funded status of a benefit plan in its statement of financial position, (b) recognise as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognised as components of net periodic benefit cost pursuant to SFAS No. 87, *Employers' Accounting for Pensions*, or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position, and (d) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits and transitional asset or obligation. The Company will adopt the provisions of SFAS No. 158 effective 31 March 2007. As of 31 March 2006, the valuation of the unallocated unrecognised loss was US$5.2 million which is the Company's best estimate of the effect of adoption. On adoption of the standard, an updated valuation of this amount will be performed and all required adjustments will be recorded.

The Process of Quantifying Financial Statement Misstatements
In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 108 ("SAB No. 108") in order to address the observed diversity in quantification practices with respect to annual financial statements. For a number of years, the SEC staff has expressed concern over the diversity of practice surrounding how public companies (and their auditors) quantify financial statement misstatements.

Per SAB No. 108, the SEC staff establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the company's financial statements and the related financial statement disclosures. The Company does not expect the adoption of this standard will have any impact on the consolidated financial statements.

3. Inventories

Inventories consist of the following components:

(Millions of US dollars)	**30 September 2006**	31 March 2006
Finished goods	**$ 93.4**	$ 84.1
Work-in-process	**15.2**	9.2
Raw materials and supplies	**36.5**	33.0
Provision for obsolete finished goods and raw materials	**(2.9)**	(2.3)
Total inventories	**$ 142.2**	$ 124.0

Inventories are valued at the lower of cost or market. Cost is generally determined under the first-in, first-out method, except that the cost of raw materials and supplies is determined using actual or average costs. Cost includes the costs of materials, labour and applied factory overhead.

4. Disposal of Chile Business

In June 2005, the Company approved a plan to dispose of its Chile Fibre Cement business to Compania Industrial El Volcan S.A. (Volcan). The sale closed on 8 July 2005. The Company received net proceeds of US$3.9 million and recorded a loss on disposal of US$0.8 million.

As part of the terms of the sale of the Chile Fibre Cement business to Volcan, the Company entered into a two-year take or pay purchase contract for fibre cement product manufactured by Volcan. The first year of the contract amounts to a purchase commitment of approximately US$2.8 million and the second year amounts to a purchase commitment of approximately US$2.1 million. As this contract qualifies as continuing involvement per SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, the operating results and loss on disposal of the Chile Fibre Cement business are included in the Company's income from operations and are comprised of the following components:

(Millions of US dollars)	Three Months Ended 30 September 2005	Six Months Ended 30 September 2005
Chile Fibre Cement		
Net sales	$ 0.5	$ 5.1
Cost of goods sold	(0.4)	(3.5)
Gross profit	0.1	1.6
Selling, general and administrative expenses	(0.2)	(1.2)
Income (loss) on disposal of business	0.6	(0.8)
Operating income (loss)	0.5	(0.4)
Interest expense	-	(0.2)
Net income (loss)	$ 0.5	$ (0.6)

5. Operating Segment Information and Concentrations of Risk

The Company has reported its operating segment information in the format that the operating segment information is available to and evaluated by the Board of Directors. USA Fibre Cement manufactures and sells fibre cement interior linings, exterior siding and related accessories products in the United States. Asia Pacific Fibre Cement includes all fibre cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand and Asia. Research and Development represents the cost incurred by the research and development centres. Other includes the manufacture and sale of fibre cement products in Chile (through June 2005), the manufacture and sale of fibre cement reinforced pipes in the United States, fibre cement operations in Europe and roofing operations in the United States. The Company sold its Chile business in July 2005. In April 2006, the roofing plant was closed and the business ceased operations. The Company's operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

The asbestos provision and adjustments thereto are treated as a separate caption.

Operating Segments
The following are the Company's operating segments and geographical information:

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 September **2006**	2005	Net Sales to Customers Six Months Ended 30 September **2006**	2005
USA Fibre Cement	**$ 339.0**	$ 307.4	**$ 687.9**	$ 594.9
Asia Pacific Fibre Cement	**63.8**	63.5	**123.0**	125.2
Other	**8.6**	5.7	**16.0**	15.9
Worldwide total	**$ 411.4**	$ 376.6	**$ 826.9**	$ 736.0

(Millions of US dollars)	Income Before Income Taxes Three Months Ended 30 September **2006**	2005	Income Before Income Taxes Six Months Ended 30 September **2006**	2005
USA Fibre Cement	**$ 97.8**	$ 86.1	**$ 201.1**	$ 180.2
Asia Pacific Fibre Cement	**11.5**	12.0	**21.8**	24.4
Research and Development	**(4.1)**	(4.0)	**(8.7)**	(7.2)
Other	**(1.5)**	(2.6)	**(4.2)**	(6.1)
Segments total	**103.7**	91.5	**210.0**	191.3
General Corporate	**(15.5)**	(15.1)	**(25.7)**	(28.0)
Adjustments to asbestos provision	**(47.2)**	-	**(74.4)**	-
Total operating income	**41.0**	76.4	**109.9**	163.3
Net interest income (expense)	**1.0**	(1.0)	**(1.0)**	(1.7)
Worldwide total	**$ 42.0**	$ 75.4	**$ 108.9**	$ 161.6

	Total Identifiable Assets	
	30 September	31 March
(Millions of US dollars)	**2006**	2006
USA Fibre Cement	**$ 881.3**	$ 826.0
Asia Pacific Fibre Cement	**188.2**	170.4
Other	**56.5**	54.8
Segments total	**1,126.0**	1,051.2
General Corporate	**270.3**	394.2
Worldwide total	**$ 1,396.3**	$ 1,445.4

Geographic Areas	Net Sales to Customers Three Months Ended 30 September		Net Sales to Customers Six Months Ended 30 September	
(Millions of US dollars)	**2006**	2005	**2006**	2005
USA	**$ 344.5**	$ 310.9	**$ 698.2**	$ 602.1
Australia	**43.3**	43.6	**84.3**	86.1
New Zealand	**13.5**	14.2	**25.9**	27.8
Other Countries	**10.1**	7.9	**18.5**	20.0
Worldwide total	**$ 411.4**	$ 376.6	**$ 826.9**	$ 736.0

	Total Identifiable Assets	
	30 September	31 March
(Millions of US dollars)	**2006**	2006
USA	**$ 925.4**	$ 870.3
Australia	**121.3**	108.5
New Zealand	**20.8**	18.7
Other Countries	**58.5**	53.7
Segments total	**1,126.0**	1,051.2
General Corporate	**270.3**	394.2
Worldwide total	**$ 1,396.3**	$ 1,445.4

6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss as reported in the condensed consolidated balance sheets is comprised entirely of foreign currency translation adjustments of US$23.6 million and US$28.4 million at 30 September 2006 and 31 March 2006, respectively.

7. Commitments and Contingencies

Commitment to provide funding on a long-term basis in respect of asbestos-related liabilities of former subsidiaries

On 1 December 2005, the Company announced that it, the NSW Government and a wholly owned Australian subsidiary of the Company (James Hardie 117 Pty Ltd (formerly LGTDD Pty Ltd), described below as the “Performing Subsidiary”) had entered into a conditional agreement (the “Final Funding Agreement”) to provide long-term funding to a special purpose fund (“SPF”) that will provide compensation for Australian asbestos-related personal injury claims against certain former James

Hardie companies (being Amaca Pty Ltd ("Amaca"), Amaba Pty Ltd ("Amaba") and ABN 60 000 009 263 Pty Ltd ("ABN 60")) (the "Former James Hardie Companies").

Key events occurring since 2001 that led to the signing of the Final Funding Agreement ("FFA") are summarised in the Company's Annual Report on Form 20-F for the year ended 31 March 2006 as further updated below.

The FFA is subject to a number of conditions precedent, including the receipt of an independent expert's report confirming that the funding proposal is in the best interests of the Company and its enterprise as a whole, approval of the Company's shareholders and lenders, and confirmation satisfactory to the Company's Board of Directors, acting reasonably, that the contributions to be made by JHI NV and the Performing Subsidiary under the FFA will be tax deductible and confirmation as to the expected tax consequences arising to the SPF and others from implementing the arrangements (or that alternative arrangements will exist which are satisfactory to the Company's Board of Directors).

In summary, the FFA provides for the following key steps to occur if the conditions precedent to that agreement are satisfied or waived in writing by the parties:

- the establishment of the SPF to provide compensation to Australian asbestos-related personal injury claimants with proven claims against the Former James Hardie Companies;
- initial funding of approximately A$154 million provided by the Performing Subsidiary to the SPF, calculated on the basis of an actuarial report prepared by KPMG Actuaries Pty Ltd ("KPMG Actuaries") as of 31 March 2006. That report provided an estimate of the discounted net present value of all present and future Australian asbestos-related personal injury claims against the Former James Hardie Companies of A$1.52 billion (US$1.14 billion);
- subject to the cap described below, an annual contribution in advance to top up the funds in the SPF to equal the actuarially calculated estimate of expected Australian asbestos-related personal injury claims against the Former James Hardie Companies for the following three years, to be revised annually (so as to create a rolling cash "buffer" in the SPF);
- a cap on the annual payments made by the Performing Subsidiary to the SPF, initially set at 35% of the Company's free cash flow (defined as cash from operations in accordance with US GAAP in force at the date of the FFA) for the immediately preceding financial year, with provisions for the percentage to decline over time depending upon the Company's financial performance (and therefore the contributions already made to the SPF) and the claims outlook;
- an initial term of approximately 40 years, at the end of which time the parties may either agree upon a final payment to be made by the Company in satisfaction of any further funding obligations, or have the term automatically extended for further periods of 10 years until such agreement is reached or the relevant asbestos-related liabilities cease to arise;
- the entry by the parties and/or others into agreements ancillary to or connected with the FFA (the "Related Agreements");
- no cap on individual payments to asbestos claimants;
- the Performing Subsidiary's payment obligations are guaranteed by James Hardie Industries N.V.;
- the SPF's claims to the funding payments required under the FFA will be subordinated to the claims of the Company's lenders; and

- the compensation arrangements will extend to members of the Baryulgil community for asbestos-related claims arising from the activities of a former subsidiary of ABN 60, as described below.

The Company has made significant progress towards satisfying the tax related conditions precedent described above.

The Company's ability to obtain a tax deduction has been confirmed by the Australian Taxation Office ("ATO") in a form binding on the Australian Federal Commissioner of Taxation ("Commissioner") for the term of the FFA. The private ruling issued by the ATO provides deductibility over a five year period from the date of contribution, whereas the condition precedent in the FFA provides for deductibility of contributions in the year incurred. The Company has indicated to the NSW Government that it is prepared to accept this basis of deductibility of the funding payments, if the tax condition relating to the tax exempt status of the SPF can be satisfactorily resolved.

On 9 November 2006, James Hardie announced that it, the SPF and others had received private binding rulings relating to the expected tax consequences arising to the SPF and others that the company believes will deliver an acceptable outcome for the proposed SPF. The rulings have also been welcomed by both the New South Wales ("NSW") Government and the Australian Council of Trade Unions (ACTU), with whom James Hardie settled the terms of the FFA and related agreements.

The Company is now seeking to finalise an amended FFA and related agreements with the NSW Government so that all relevant documents can be signed as soon as possible and the Company can seek lender and shareholder approval. In order to do so, James Hardie and the NSW Government need to execute an amended FFA in a form which reflects the changes which were the subject of the ruling applications. In recent weeks the NSW Government and James Hardie have worked together to obtain these rulings. Thoughout this process, James Hardie has provided the NSW Government with copies of submissions provided to the ATO, including relevant draft agreements, and copies of the private rulings.

In addition to entering into the FFA, one or more of the Company, the Performing Subsidiary, the SPF and the NSW Government have entered into a number of Related Agreements, including a trust deed (for a trust known as the Asbestos Injuries Compensation Fund), which we refer to as the Trust Deed, for the establishment of the SPF; a deed of guarantee under which James Hardie Industries N.V. provides the guarantee described above; intercreditor deeds to achieve the subordination arrangements described above; and deeds of release in connection with the releases from civil liability described below.

As part of those discussions, it is likely that the agreed amount set out in the FFA as the initial funding payment will be recalculated so as to take into account updated claims data and the effect of delays in implementing the FFA.

The Company considers that the principal outstanding conditions which remain to be fulfilled before the FFA becomes effective are those relating to the approval of the FFA by the Company's shareholders and lenders.

James Hardie and other relevant parties are well advanced in their work to secure lender approval, obtain an independent experts' report and prepare the Explanatory Memorandum for shareholders.

In addition, in order to implement the amended FFA, certain conditions precedent will need to be satisfied, including the NSW Parliament passing facilitating legislation. The resolution of these issues involves uncertainty and there can be no assurance that the obtaining of the ATO rulings will lead to a finalisation of the amended FFA that is required to resolve the position, or that the NSW

Parliament will pass such facilitating legislation. It is possible that further amendments to the FFA and related agreements or to such facilitating legislation may be sought or necessary in order to achieve an arrangement which is fully acceptable to the NSW Government as well as James Hardie. However, James Hardie believes (and understands that the NSW Government agrees) that the obtaining of the ATO rulings is an important milestone towards implementing the funding proposal.

It is anticipated that an extraordinary general meeting of shareholders to approve the implementation of the amended FFA could be convened within 10 weeks of James Hardie and the NSW Government executing the amended FFA. Given the close proximity to the Christmas and New Year holiday period and the difficulty of convening shareholder meetings during this period, the Company expects this meeting could be held in February 2007.

The recording of the asbestos provision is in accordance with US accounting standards because it is probable that the Company will make payments to fund asbestos-related claims on a long-term basis. The amount of the asbestos provision of US$790.0 million (A$1.06 billion) at 30 September 2006 is the Company's best estimate of the probable outcome. This estimate is based on the terms of the FFA, which includes an actuarial estimate prepared by KPMG Actuaries as of 30 September 2006 of the projected future cash outflows, undiscounted and uninflated.

Even if the conditions to the Company's funding obligations under the FFA are not fulfilled, the Company has determined that it is nevertheless likely that it will make payments in respect of certain claimants who were injured by asbestos-containing products manufactured by certain former Australian subsidiary companies. The Company's Joint Board has made it clear that, in a manner consistent with its obligations to shareholders and other stakeholders in the Company, it intends to proceed with fair and equitable actions to provide funding which can be applied towards compensating the injured parties. Any such alternative settlement may be subject to conditions precedent and would require lender and shareholder approval. However, if the Company proceeds with an alternative settlement without the assurance that the intended tax consequences would arise, it is likely, as a function of economic reality, that the Company will have less funds to support payments in respect of asbestos claims. While the Company continues to hope that the conditions precedent to the FFA will be fulfilled, it has determined that its intention to continue to proceed responsibly in either event makes it appropriate for the Company to record the asbestos provision in the amounts set forth in the condensed consolidated financial statements.

Actuarial Study; Claims Estimate
The Company commissioned an updated actuarial study of potential asbestos-related liabilities as of 30 September 2006. Based on the results of these studies, it is estimated that the discounted value of the central estimate for claims against the Former James Hardie Companies was approximately A$1.52 billion (US$1.14 billion). The undiscounted value of the central estimate of the asbestos-related liabilities of Amaca and Amaba as determined by KPMG Actuaries was approximately A$3.08 billion (US$2.3 billion). Actual liabilities of those companies for such claims could vary, perhaps materially, from the central estimate described above. This central estimate is calculated in accordance with Australian Actuarial Standards, which differ from accounting principles generally accepted in the United States of America.

At 30 September 2006, the estimates underlying the asbestos provision have been revised to reflect the most recent actuarial estimate prepared by KPMG Actuaries and to adjust for payments made to claimants during the half year. This has resulted in an increase in the provision as set out in the table below:

	Three Months Ended 30 September	
	US$ millions	A$ millions
At 30 June 2006	$ 742.8	A$ 1,000.0
Effect of foreign exchange for the second quarter	5.4	-
Other adjustments to provision[1]	41.8	55.9
At 30 September 2006	**$ 790.0**	**A$ 1,055.9**

	Six Months Ended 30 September	
	US$ millions	A$ millions
At 31 March 2006	$ 715.6	A$ 1,000.0
Effect of foreign exchange for the half year	32.6	-
Other adjustments to provision[1]	41.8	55.9
At 30 September 2006	**$ 790.0**	**A$ 1,055.9**

[1]Other adjustments to provision converted at spot rate at 30 September 2006.

In estimating the potential financial exposure, KPMG Actuaries made assumptions related to the total number of claims which were reasonably estimated to be asserted through 2071, the typical cost of 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 rate of receipt of claims, the settlement strategy in dealing with outstanding claims and the timing of settlements.

Further, KPMG Actuaries has relied on the data and information provided by the Medical Research and Compensation Foundation ("Foundation") and Amaca Claim Services, Amaca Pty Ltd (under NSW External Administration) ("ACS") and assumed that it is accurate and complete in all material respects. The actuaries have not 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.

A sensitivity analysis has been performed to determine how the actuarial estimates would change if certain assumptions (i.e., the rate of inflation and superimposed inflation, the average costs of claims and legal fees, and the projected numbers of claims) were different from the assumptions used to determine the central estimates. This analysis shows that the discounted central estimates could be in a range of A$1.0 billion (US$0.7 billion) to A$2.4 billion (US$1.8 billion) (undiscounted estimates of A$1.8 billion (US$1.3 billion) to A$5.7 billion (US$4.3 billion) as of 30 September 2006). It should be noted that the actual cost of the liabilities could be outside of that range depending on the results of actual experience relative to the assumptions made.

The potential range of costs as estimated by KPMG Actuaries is affected by a number of variables such as nil settlement rates (where no settlement is payable by the Former James Hardie Companies because the claim settlement is borne by other asbestos defendants (other than the Former James Hardie subsidiaries) which are held liable), peak year of claims, past history of claims numbers, average settlement rates, past history of Australian asbestos-related medical injuries, current number of claims, average defence and plaintiff legal costs, base wage inflation and superimposed inflation. The potential range of losses disclosed includes both asserted and unasserted claims. While no assurances can be provided, if the FFA is approved by all of the necessary parties, including the Company's Board of Directors, shareholders and lenders, the Company expects to be able to partially recover losses from various insurance carriers. As of 30 September 2006, KPMG Actuaries' undiscounted central estimate of asbestos-related liabilities was A$3.2 billion (US$2.4 billion). This undiscounted central estimate is net of expected insurance recoveries of A$503.5 million (US$376.7 million) after making a general credit risk allowance for bad debt insurance carriers and an allowance for A$66.7 million (US$49.9 million) of "by claim" or subrogation recoveries from other third parties.

Currently, the timing of any potential payments is uncertain because the conditions precedent to the FFA have not yet been satisfied. In addition, the Company has not yet incurred any settlement costs pursuant to its offer to provide the Foundation with interim funding, because the Foundation continues to meet all claims of Amaca and Amaba.

Claims Data

The following table, provided by KPMG Actuaries, shows the number of claims pending as of 30 September 2006 and 31 March 2006:

	30 September 2006	31 March 2006[1]
Australia	**503**	556
New Zealand	**-**	-
Unknown - Court Not Identified[1]	**17**	20
USA	**-**	1

[1] Information only includes claims data for the 11 months ended 28 February 2006. Claims data for the 12 months ended 31 March 2006 was not available at the time our financial statements were prepared.

For the six months ended 30 September 2006 and twelve months ended 31 March 2006 the following tables, provided by KPMG Actuaries, show the claims filed, the number of claims dismissed, settled or otherwise resolved for each period, and the average settlement amount per claim.

Australia	**Six Months Ended 30 September 2006**	Twelve Months Ended 31 March 2006[1]
Number of claims filed	**218**	346
Number of claims dismissed	**73**	97
Number of claims settled or otherwise resolved	**206**	405
Average settlement amount per settled claim	**A$ 146,177**	A$ 151,883
Average settlement amount per settled claim	**US$ 109,373**	US$ 114,322

Unknown - Court Not Identified	**Six Months Ended 30 September 2006**		Twelve Months Ended 31 March 2006[1]	
Number of claims filed		**-**		6
Number of claims dismissed		**2**		10
Number of claims settled or otherwise resolved		**2**		12
Average settlement amount per settled claim	**A$**	**7,356**	A$	198,892
Average settlement amount per settled claim	**US$**	**5,504**	US$	149,706

USA	**Six Months Ended 30 September 2006**		Twelve Months Ended 31 March 2006[1]	
Number of claims filed		**-**		-
Number of claims dismissed		**1**		-
Number of claims settled or otherwise resolved		**-**		-
Average settlement amount per settled claim	**A$**	**-**	A$	-
Average settlement amount per settled claim	**US$**	**-**	US$	-

The following table, provided by KPMG Actuaries, shows the activity related to the numbers of open claims, new claims, and closed claims during each of the past five years and the average settlement per settled claim and case closed.

	As of 30 September 2006		As of 31 March 2006[1]		2005		2004		2003	
Number of open claims at beginning of period		**586**		749		743		814		671
Number of new claims		**218**		352		496		380		409
Number of closed claims		**284**		524		490		451		266
Number of open claims at period-end		**520**		577		749		743		814
Average settlement amount per settled claim	**A$**	**144,843**	A$	153,236	A$	157,223	A$	167,450	A$	201,200
Average settlement amount per case closed	**A$**	**106,082**	A$	121,945	A$	129,949	A$	117,327	A$	177,752
Average settlement amount per settled claim	**US$**	**108,375**	US$	115,341	US$	116,298	US$	116,127	US$	112,974
Average settlement amount per case closed	**US$**	**79,373**	US$	91,788	US$	96,123	US$	81,366	US$	99,808

[1] Information only includes claims data for the 11 months ended 28 February 2006. Claims data for the 12 months ended 31 March 2006 was not available at the time our financial statements were prepared.

The Company has not had any responsibility or involvement in the management of claims against ABN 60 since the time ABN 60 left the James Hardie Group in 2003. Since February 2001, when Amaca and Amaba were separated from the James Hardie Group, neither the Company nor any of its current subsidiaries has had any responsibility or involvement in the management of claims against those entities. Prior to that date, the principal entity potentially involved in relation to such claims was ABN 60, which has not been a member of the James Hardie Group since March 2003. However, the FFA and associated New South Wales legislation contemplates that the SPF will have both the responsibility for and management of claims against the Former James Hardie Companies, and that the Company will have the right to appoint a majority of the directors of the SPF unless a special default or insolvency event arises.

On 26 October 2004, the Company, the Foundation and KPMG Actuaries entered into an agreement under which the Company would be entitled to obtain a copy of the actuarial report prepared by KPMG Actuaries in relation to the claims liabilities of the Foundation and Amaba and Amaca, and would be entitled to publicly release the final version of such reports. Under the terms of the FFA, but subject to it being implemented, the Company has obtained similar rights of access to actuarial information produced for the SPF by the actuary to be appointed by the SPF (the “Approved Actuary”). The Company’s future disclosures with respect to claims statistics is subject to it obtaining such information from the Approved Actuary. The Company has had no general right (and has not obtained any right under the FFA) to audit or otherwise require independent verification of such information or the methodologies to be adopted by the Approved Actuary. As a result, the Company cannot make any representations or warranties as to the accuracy or completeness of the actuarial information disclosed herein or that may be disclosed in the future.

SCI and Other Related Expenses
The Company has incurred substantial costs associated with the Special Commission of Inquiry (“SCI”) and may incur material costs in the future related to the SCI or subsequent legal proceedings. The following are the components of SCI and other related expenses:

(Millions of US dollars)	Three Months Ended 30 September **2006**	Three Months Ended 30 September 2005	Six Months Ended 30 September **2006**	Six Months Ended 30 September 2005
ASIC investigation	**$ 0.2**	$ -	**$ 0.3**	$ 0.2
Resolution advisory fees	**1.5**	3.3	**2.9**	5.7
Funding advice	**0.2**	1.4	**0.4**	4.0
Other	**1.3**	-	**2.0**	-
Total SCI and other related expenses	**$ 3.2**	$ 4.7	**$ 5.6**	$ 9.9

Australian Securities and Investments Commission Investigation (“ASIC”)
ASIC has announced that it is conducting an investigation into the events examined by the SCI, without limiting itself to the evidence compiled by the SCI. ASIC has served notices to produce relevant documents upon the Company and various directors and officers of the Company and upon certain of the Company’s advisers and auditors at the time of the separation and restructure transactions described in the Company’s annual report at 31 March 2006. ASIC has also served notices requiring the Company and ABN 60 to produce certain computerised information and requiring certain current and former directors and officers of ABN 60 or the Company to present themselves for examination by ASIC delegates. So far as the Company is aware, individuals who have been required to attend such examinations have done so. To date, ASIC has announced that it is investigating various matters, but it has not specified the particulars of alleged contraventions under investigation, nor has it announced that it has reached any conclusion that any person or entity has contravened any relevant law.

To assist ASIC’s investigation, the Australian Federal Government enacted legislation to abrogate the legal professional privilege which would otherwise have attached to certain documents relevant to matters under investigation or to any future civil proceedings to be taken. The legislation is set out in the *James Hardie (Investigations and Proceedings) Act 2004*.

The Company may incur liability to cover the costs of current or former directors, officers or employees of the James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the Company to those persons. To date, claims have been received from certain current or former officers in relation to the ASIC investigation, and in relation to the examination of these officers by ASIC delegates, the amount of which cannot be assessed at present. In relation to these claims and any others that may arise, the Company may be reimbursed in whole or in part under directors' and officers' insurance policies maintained by the Company.

Financial Position of the Foundation
On the basis of the then current cash and financial position of the Foundation's subsidiaries (Amaca and Amaba) and following the Company's entry into the Heads of Agreement, the applications previously made to the Supreme Court of NSW by the Foundation for the appointment of a provisional liquidator to the Foundation's subsidiaries were dismissed with the Foundations consent. Such applications have now been rendered unnecessary by the passage of the civil liability release legislation described above.

The potential for Amaba, Amaca or ABN 60 to be placed into insolvency has been further reduced by legislation passed in NSW (the *James Hardie Former Subsidiaries (Winding Up and Administration) Act 200*5), parts of which came into force on 2 December 2005 and which will, when fully effective, replace the *James Hardie Former Subsidiaries (Special Provisions) Act 2005*. That legislation maintains the *status quo* of Amaca, Amaba and ABN 60, including by providing for a statutory form of administration for those entities so as to prevent them being placed into administration or liquidation under the provisions of the Australian Corporations Act which would usually apply to an insolvent Australian company. The legislation also sought to ensure that the directors of those entities would not seek to remove the assets or the register of shares in those entities outside New South Wales.

James Hardie has offered to provide interim funding to Amaca in the event that Amaca's finances are otherwise exhausted before the FFA is implemented in full. The commercial terms of such funding have been settled and it is expected that James Hardie will enter into interim funding documentation during November 2006.

The Company believes it is possible that future costs related to the Company's implementation of the FFA may be material.

Environmental and Legal
The operations of the Company, like those of other companies engaged in similar businesses, are subject to a number of federal, state and local laws and regulations on air and water quality, waste handling and disposal. The Company's policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known except as set forth above, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

The Company is involved from time to time in various legal proceedings and administrative actions incidental or related to the normal conduct of its business. Although it is impossible to predict the outcome of any pending legal proceeding, management believes that such proceedings and actions should not, except as it relates to asbestos as described above, individually or in the aggregate, have a material adverse effect on its consolidated financial position, statement of income or cash flows.

8. Short and Long-Term Debt

The Company's credit facilities currently consists of 364-day facilities in the amount of US$110.0 million, of which US$55.0 million matures in June 2007 and US$55.0 million matures in December 2007. The Company is in the process of completing the extension of the June 2007 maturity to December 2007. The Company also has term facilities in the amount of US$245.0 million, of which US$110.0 million matures in December 2006 and US$135.0 million matures in March 2007. The Company is in the process of completing the extension of the December 2006 maturity to March 2007. For both facilities, interest is calculated at the commencement of each draw-down period based on the US$ London Interbank Offered Rate ("LIBOR") plus the margins of individual lenders, and is payable at the end of each draw-down period. During the three months ended 30 September

2006 and 2005, the Company paid US$0.2 million and US$0.3 million, respectively, and US$0.4 million and US$0.3 million for the six months ended 30 September 2006 and 2005, respectively, in commitment fees. At 30 September 2006, there was US$135.0 million drawn under the combined facilities and US$220.0 million was available.

The Company anticipates being able to meet its payment obligations from:

- existing cash and unutilised committed facilities;
- net operating cash flow during the current year;
- an extension of the term of existing credit facilities; and
- the addition of proposed new funding facilities.

Upon satisfaction of the conditions precedent to the full implementation of the FFA, including lender approval, the maturity date of the US$245.0 million term facilities will be automatically extended until June 2010. However, if the conditions precedent to the full implementation of the FFA are not satisfied, the Company may not be able to renew its credit facilities on substantially similar terms, or at all; it may have to pay additional fees and expenses that it might not have to pay under normal circumstances; and it may have to agree to terms that could increase the cost of its debt structure.

Additionally, in March 2006, RCI Pty Ltd ("RCI"), a wholly owned subsidiary of the Company, received an amended assessment from the ATO. RCI is appealing this 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$141.4 million) being 50% of the 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. Even if the Company is ultimately successful in its appeal and the cash deposit is refunded, this procedural requirement to post a cash deposit was material and adversely affected the Company's financial position and liquidity. See Note 9 below for additional information.

At 30 September 2006, management believes that the Company was in compliance with all restrictive covenants contained in its credit facility agreements. Under the most restrictive of these covenants, the Company is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and has limits on how much it can spend on an annual basis in relation to asbestos payments to either Amaca, Amaba or ABN 60.

Long-term debt comprised US$ non-collateralised notes which formed part of a seven tranche private placement facility which provided for maximum borrowings of US$165.0 million. Principal repayments were due in seven installments that commenced on 5 November 2004 and was to end on 5 November 2013. The tranches had fixed interest rates of 6.86%, 6.92%, 6.99%, 7.05%, 7.12%, 7.24% and 7.42%. Interest was payable 5 May and 5 November each year.

As a result of recording the asbestos provision at 31 March 2006, and the Supervisory Board's approval on 12 May 2006 of the recording of this provision, the Company would not have been in compliance with certain of the restrictive covenants in respect of the US$ non-collateralised notes. However, under the terms of the non-collateralised notes agreement, prepayment of these notes was permitted, and on 28 April 2006 the Company issued a notice to all noteholders to prepay in full all outstanding notes on 8 May 2006. On that date, the US$ non-collateralised notes were prepaid in full, incurring a make-whole payment of US$6.0 million. This make-whole payment is included in interest expense in the condensed consolidated statements of income.

9. Amended ATO Assessment

As discussed above, in March 2006, RCI 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 a subsequent remission of general interest charges by the ATO, the total was revised to A$378.0 million and is comprised of the following:

(Millions of dollars)	US$	A$
Primary tax after allowable credits	$ 128.7	A$ 172.0
Penalties [1]	32.2	43.0
General interest charges	121.9	163.0
Total amended assessment	$ 282.8	A$ 378.0

[1] Represents 25% of primary tax

In late 2005, the Tax Laws Amendment (Improvements to Self Assessment Act (No. 2)) 2005 of Australia (the "ROSA" Act) went into effect. Prior to the ROSA Act becoming law, the ATO had the power to amend earlier tax assessments to give effect to a determination under the general anti-avoidance provisions of the tax legislation, Part IVA, within six years after the date on which tax became due and payable under the earlier assessment. The ROSA Act changed this period from six to four years. Unlike the other changes made by the ROSA Act to the ATO's powers to amend earlier assessments (which apply only to the 2005 and later tax years), the changes to Part IVA operated immediately from royal assent on 15 December 2005. The amended assessment was issued to RCI to give effect to a Part IVA determination after the ROSA Act became law, but was issued after the four year period had expired (although just before the old six year period had expired). On 30 June 2006, Tax Laws Amendments (2006 Measures No. 3) 2006 of Australia ("TLA No. 3") was enacted. TLA No. 3 retrospectively ensures that the relevant Part IVA changes only take effect from the 2005 and later tax years. The consequence of TLA No. 3 is that the amended assessment is not invalid.

On 23 June 2006, following negotiation with the ATO regarding payment options for the amended assessment, the Company was advised by the ATO that, in accordance with the ATO Receivable policy, it is able to make a payment of 50% of the A$378.0 million (US$282.8 million), being A$189.0 million (US$ 141.4 million), and provide a guarantee from James Hardie Industries N.V. in favour of the ATO for the remaining unpaid 50% of the amended assessment, pending outcome of the appeal of the amended assessment. Following enactment of TLA No. 3, payment of 50% of the amended assessment became due and was paid on 5 July 2006. 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 due 15 October 2006, in respect of the quarter ended 30 September 2006.

RCI strongly disputes the amended assessment and is pursuing all avenues of objection and appeal to contest the ATO's position in this matter. The ATO has confirmed that RCI has a reasonably arguable position that the amount of net capital gains arising as a result of the corporate restructure carried out in 1998 has been reported correctly in the fiscal year 1999 tax return and that Part IVA does not apply. As a result, the ATO reduced the amount of penalty from an automatic 50% of primary tax that would otherwise apply in these circumstances, to 25% of primary tax. In Australia, a reasonably arguable position means that the tax position is about as likely to be correct as it is not correct. The Company and RCI received legal and tax advice at the time of the transaction, during the ATO enquiries and following receipt of the amended assessment. The Company believes that the tax position reported in RCI's tax return for the 1999 fiscal year will be upheld on appeal. Accordingly, at this time, the Company is unable to determine with any certainty whether any amount will ultimately become payable by RCI. Therefore, the Company believes that the probable requirements under SFAS No. 5*, Accounting for Contingencies*, for recording a liability have not been met and therefore it has not recorded any liability at 30 September 2006 for the remainder of the amended assessment.

The Company expects that amounts paid on 5 July 2006 (or any later time) would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. As a result, the Company has treated the payment on 5 July 2006 as a deposit and it is the Company's intention to treat any payments to be made at a later date as a deposit.

The general interest charges (GIC) of A$163.0 million (US$121.9 million) are an allowable expense for corporate tax in Australia. As such the Company will claim an allowable deduction in the same amount on its income tax return for the year ended 31 March 2006 to be filed with the ATO. However, a deferred tax asset in relation to this amount has not been recognised in the condensed consolidated financial statements at 30 September 2006 because the Company believes the GIC will be reversed once the appeal against the amended assessment has been settled in RCI's favour.

During the three month period ended 30 September 2006, the Company recorded an A$9.9 million (US$7.4 million) tax benefit from the expiration of the relevant statute of limitation related to an uncertain income tax position.

10. Stock-Based Compensation

At 30 September 2006, the Company had the following stock-based compensation plans: the Executive Share Purchase Plan; the Managing Board Transitional Stock Option Plan; the 2001 Equity Incentive Plan; one Stock Appreciation Rights Plan; the Supervisory Board Share Plan 2006 and the Long-Term Incentive Plan. As of 30 September 2006, the Company has no units outstanding under the following stock-based compensation plans: Peter Donald Macdonald Share Option Plan; Peter Donald Macdonald Share Option Plan 2001; Peter Donald Macdonald Share Option Plan 2002; and Key Management Shadow Stock Incentive Plan.

The Company accounts for stock options using the fair value provisions of SFAS No. 123R, which requires the Company to value stock options issued based upon an option-pricing model and recognise this value as compensation expense over the periods in which the options vest.

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. Compensation expense arising from stock option grants as determined using the Black-Scholes model was US$1.2 million and US$0.9 million for the three months ended 30 September 2006 and 2005, respectively, and US$2.7 million and US$1.9 million for the six months ended 30 September 2006 and 2005, respectively. As of 30 September 2006, the unrecorded deferred stock-based compensation balance related to stock options was US$6.7 million after estimated forfeitures and will be recognised over an estimated weighted average amortisation period of 1.5 years.

Managing Board Transitional Stock Option Plan
The Managing Board Transitional Stock Option Plan provides an incentive to the members of the Managing Board. The maximum number of ordinary shares that may be issued and outstanding or subject to outstanding options under this plan shall not exceed 1,380,000 shares. At 30 September 2006, there were 1,320,000 options outstanding under this plan.

On 22 November 2005, the Company granted options to purchase 1,320,000 shares of the Company's common stock at an exercise price per share equal to A$8.53 to the Managing Directors under the Managing Board Transitional Stock Option Plan. As set out in the plan rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. 50% of these options become exercisable on the first business day on or after 22 November 2008, if the total shareholder returns (“TSR”) (essentially its dividend yield and common stock performance) from 22 November 2005 to that date were at least equal to the median TSR for the companies comprising the Company’s peer group, as set out in the plan. In addition, for each 1% increment that the Company’s TSR is above the median TSR an additional 2% of the options become exercisable. If any options remain unvested on the last business day of each six month period following 22 November 2008 and 22 November 2010, the Company will reapply the vesting criteria to those options on that business day.

2001 Equity Incentive Plan
On 19 October 2001 (the grant date), JHI NV granted a total of 5,468,829 stock options under the JHI NV 2001 Equity Incentive Plan (the “2001 Equity Incentive Plan") to key US executives in exchange for their previously granted Key Management Equity Incentive Plan ("KMEIP") shadow shares that were originally granted in November 2000 and 1999 by JHIL. These options may be exercised in five equal tranches (20% each year) starting with the first anniversary of the original shadow share grant.

Original Shadow Share Grant Date	Original Exercise Price	October 2001 Number of Options Granted	Option Expiration Date
November 1999	A$ 3.82	1,968,544	November 2009
November 2000	A$ 3.78	3,500,285	November 2010

As set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A$0.21, A$0.38 and A$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively.

Under the 2001 Equity Incentive Plan, additional grants have been made at fair market value to management and other employees of the Company, as follows:

Share Grant Date	Original Exercise Price	Number of Options Granted	Option Expiration Date
December 2001	A$ 5.65	4,248,417	December 2011
December 2002	A$ 6.66	4,037,000	December 2012
December 2003	A$ 7.05	6,179,583	December 2013
December 2004	A$ 5.99	5,391,100	December 2014
February 2005	A$ 6.30	273,000	February 2015
December 2005	A$ 8.90	5,224,100	December 2015
March 2006	A$ 9.50	40,200	March 2016

Each option confers the right to subscribe for one ordinary share in the capital of JHI NV. The options may be exercised as follows: 25% after the first year; 25% after the second year; and 50% after the third year. All unexercised options expire 10 years from the date of issue or 90 days after the employee ceases to be employed by the Company. Also, as set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions.

Consequently, the exercise price on the December 2002 and December 2001 option grants were reduced by A$0.21 for the November 2003 return of capital and the December 2001 option grant was reduced by A$0.38 for the November 2002 return of capital.

The Company is authorised to issue 45,077,100 shares under the 2001 Equity Incentive Plan. The following table summarises the shares available for grant under this plan:

Shares Available for Grant	**30 September 2006**	31 March 2006
Shares available at 1 April	**19,776,233**	24,340,258
Awards granted	**-**	(5,264,300)
Options forfeited	**751,625**	700,275
Shares available at end of period	**20,527,858**	19,776,233

The following table shows the movement in all of the Company's outstanding options:

(In Australian dollars)	**30 September 2006**			31 March 2006		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding at beginning of period	**19,513,257**	**A$**	**6.99**	20,128,610	A$	5.75
Granted	**-**		**-**	6,584,300		8.83
Exercised	**(428,934)**		**5.99**	(3,925,378)		4.79
Forfeited	**(751,625)**		**7.21**	(3,274,275)		5.68
Outstanding at end of period	**18,332,698**	**A$**	**7.01**	19,513,257	A$	6.99
Options exercisable at end of period	**6,830,338**	**A$**	**5.84**	7,234,897	A$	5.82

The total intrinsic value of stock options exercised for the three months ended 30 September 2006 and 2005 was A$0.6 million and A$3.2 million, respectively, and A$0.7 million and A$7.2 million for the six months ended 30 September 2006 and 2005, respectively. Windfall tax benefits realised in the United States from exercised stock options and included in financing activities in the condensed consolidated statements of cash flows was US$0.1 million and US$1.3 million for the six months ended 30 September 2006 and 2005, respectively.

(In Australian dollars)		Options Outstanding				Options Exercisable		
Range of Exercise Price		Number Outstanding at 30 September 2006	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price		Number Exercisable at 30 September 2006	Weighted Average Exercise Price	
A$	3.09	773,750	4.1	A$	3.09	773,750	A$	3.09
	3.13	257,113	3.1		3.13	257,113		3.13
	5.06	997,590	5.1		5.06	997,590		5.06
	5.99	4,176,350	8.2		5.99	956,900		5.99
	6.30	273,000	8.4		6.30	68,250		6.30
	6.45	1,917,500	6.2		6.45	1,917,500		6.45
	7.05	3,704,720	7.2		7.05	1,842,360		7.05
	8.53	1,320,000	9.1		8.53	-		-
	8.90	4,872,475	9.2		8.90	16,875		8.90
	9.50	40,200	9.4		9.50	-		-
A$3.09 to A$9.50		18,332,698	7.7	A$	7.01	6,830,338	A$	5.84

Options exercisable at 30 September 2006 had an aggregate intrinsic value of A$13.8 million and a weighted average remaining contractual term of 7.7 years.

Supervisory Board Share Plan
At the 2002 Annual General Meeting, the shareholders approved a Supervisory Board Share Plan (“SBSP”), which required that all non-executive directors on the Joint Board and Supervisory Board receive shares of the Company’s common stock as payment for a portion of their director fees. The SBSP required that the directors take at least US$10,000 of their fees in shares and allowed directors to receive additional shares in lieu of fees in their discretion. Shares issued under the US$10,000 compulsory component of the SBSP are subject to a two-year escrow that requires members of the Supervisory Board to retain those shares for at least two years following issue. The issue price for the shares is the market value at the time of issue. No loans will be entered into by the Company in relation to the grant of shares pursuant to the SBSP.

Supervisory Board Share Plan 2006
At the 2006 Annual General Meeting, the Company’s shareholders approved the replacement of its Supervisory Board Share Plan (“SBSP”) with a new plan called the Supervisory Board Share Plan 2006 (“SBSP 2006”). Participation by members of the Supervisory Board in the SBSP 2006 is not mandatory. The SBSP 2006 allows the Company to issue new shares or acquire shares on the market on behalf of the participant. The total remuneration of a Supervisory Board member will take into account any participation in the SBSP 2006 and shares under the SBSP 2006 will be issued no later than three years after the passing of the resolution approving the SBSP 2006.

Long-Term Incentive Plan
At the 2006 Annual General Meeting, the Company’s shareholders approved the establishment of a Long-Term Incentive Plan (“LTIP”) to provide incentives to members of the Company’s Managing Board and to certain members of its management (“Executives”). The shareholders also approved, in accordance with certain LTIP rules, the issue of certain options or other rights over, or interest in, ordinary fully-paid shares in the Company (“Shares”), the issue and/or transfer of Shares under them, and the grant of cash awards to members of our Managing Board and to Executives. At the same meeting, the shareholders approved participation in the LTIP and issue of options to Messrs

Gries, Chenu and Butterfield to a maximum of 1,000,000 options, 155,000 options and 263,000 options, respectively.

Stock Appreciation Rights Plan

On 14 December 2004, 527,000 stock appreciation rights were granted under the terms and conditions of the JHI NV Stock Appreciation Rights Incentive Plan. All of these stock appreciation rights were outstanding as of 31 March 2005. In April 2005, 27,000 stock appreciation rights were cancelled. The remaining 500,000 stock appreciation rights were outstanding at 30 September 2006 and will vest 50% December 2006 and 50% December 2007 and will be settled in cash. These rights have been accounted for as stock appreciation rights under SFAS No. 123R and, accordingly, compensation expense of nil and US$0.1 million was recognised in the three months ended 30 September 2006 and 2005, respectively, and compensation income of US$0.2 million and US$0.4 million was recognised in the six months ended 30 September 2006 and 2005, respectively.

Peter Donald Macdonald Share Option Plans

The Company granted Mr Macdonald options to purchase 1,200,000 shares, 624,000 shares and 1,950,000 shares under the Peter Donald Macdonald Share Option Plan, Peter Donald Macdonald Share Option Plan 2001 and Peter Donald Macdonald Share Option Plan 2002, respectively. In April 2005, Mr Macdonald exercised all 1,250,000 options granted under the Peter Donald Macdonald Share Option Plan. Such shares had an original exercise price of A$3.87 per share. However, the exercise price was reduced by A$0.21, A$0.38 and A$0.10 for the November 2003, November 2002 and December 2001 returns of capital, respectively. All 624,000 shares and 1,950,000 shares in the other two plans expired in April 2005 and October 2005, respectively, as the performance hurdles were not met.

James Hardie Industries N.V. and Subsidiaries

In this report, James Hardie Industries N.V. and its subsidiaries are collectively referred to as “we,” “us,” or “our,” and the terms “US$”, “A$”, “NZ$”, “PHP”, refer to United States dollars, Australian dollars, New Zealand dollars and Philippine pesos, respectively.

We have operations in foreign countries and, as a result, are exposed to foreign currency exchange rate risk inherent in purchases, sales, assets and liabilities denominated in currencies other than the U.S. dollar. We also are exposed to interest rate risk associated with our long-term debt and to changes in prices of commodities we use in production.

Our policy is to enter into derivative instruments solely to mitigate risks in our business and not for trading or speculative purposes.

Foreign Currency Exchange Rate Risk
We have significant operations outside of the United States and, as a result, are exposed to changes in exchange rates which affect our financial position, results of operations and cash flows.

In addition, if conditions precedent to the Final Funding Agreement are met and we are required to make payments to the SPF, those payments will be required to be made in Australian dollars which, because the majority of our revenues are produced in U.S. dollars, would expose the Company to risks associated with fluctuations in the U.S. dollar/Australian dollar exchange rate.

For the six months ended 30 September 2006, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	US$	A$	NZ$	Other (1)
Net sales	84.4%	10.2%	3.1%	2.3%
Cost of goods sold	84.0%	10.8%	2.8%	2.4%
Expenses (2)	53.3%	40.8%	1.6%	4.3%
Liabilities (excluding borrowings) (2)	31.9%	65.7%	1.5%	0.9%

(1) Comprises Philippine pesos and Euros.
(2) Includes A$1.0 billion of asbestos provision which is denominated in Australian dollars and initially recorded in the fourth quarter of fiscal year 2006.

We purchase raw materials and fixed assets and sell some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 30 September 2006, there were no such material contracts outstanding.

Interest Rate Risk
We have market risk from changes in interest rates, primarily related to our borrowings. At 30 September 2006, all of the Company’s borrowings were variable-rate. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. As of 30 September 2006, the Company had no interest rate swap contracts outstanding.

Commodity Price Risk
The Company is exposed to changes in prices of commodities used in its operations, primarily associated with energy, fuel and raw materials such as pulp and cement. Pulp has historically demonstrated more price sensitivity than other raw materials that we use in our manufacturing process. In addition, energy, fuel, and cement prices rose in fiscal year 2006 and continued to rise in the first six months of fiscal year 2007. Pulp prices are at their highest level for many years. We

expect that pulp, energy, fuel and cement prices will continue to fluctuate in the near future. To minimize the additional working capital requirements caused by rising prices related to these commodities, the Company may seek to enter into contracts with suppliers for the purchase of these commodities that could fix the Company's prices over the longer-term. However, if such commodity prices do not continue to rise, the Company's cost of sales may be negatively impacted due to the fixed pricing over the longer-term.

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

Disclaimer

This Financial Report of results contains forward-looking statements. James Hardie may from time to time make forward-looking statements in its periodic reports filed with or furnished to the United States Securities and Exchange Commission on Forms 20-F and 6-K, in the annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by the Company's officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of forward-looking statements include:

- expectations that the conditions precedent to the Final Funding Agreement will be satisfied;
- expectations about payments to a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;
- expectations concerning the Australian Taxation Office amended assessment;
- expectations that the Company's credit facilities will be extended or renewed;
- projections of the Company's results of operations or financial condition;
- statements regarding the Company's plans, objectives or goals, including those relating to competition, acquisitions, dispositions and the Company's products;
- statements about the Company's future performance; and
- statements about product or environmental liabilities.

Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. The Company cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the risk factors discussed under "Risk Factors" beginning on page 5 of the Form 20-F filed on 29 September 2006, and: all matters relating to or arising out of the prior manufacture of products that contained asbestos by current and former James Hardie subsidiaries; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which the Company operates; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; general economic and market conditions; the supply and cost of raw materials; the success of research and development efforts; reliance on a small number of product distributors; compliance with and changes in environmental and health and safety laws; risks of conducting business internationally; compliance with and changes in laws and regulations; foreign exchange risks; the successful implementation of new software systems; and our successful implementation of the internal control over financial reporting requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as codified by Item 308 of Regulation S-K. The Company cautions that the foregoing list of factors is not exhaustive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements. Forward-looking statements speak only as of the date they are made.