HARDIE JAMES INDUSTRIES NV
Form 20-F
September 29, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report For the transition period from to
Commission file number 1-15240

JAMES HARDIE INDUSTRIES N.V.
(Exact name of Registrant as specified in its charter)
N/ A
(Translation of Registrant s name into English)

The Netherlands
(Jurisdiction of incorporation or organization)

Atrium, 8th floor
Strawinskylaan 3077
1077 ZX Amsterdam, The Netherlands
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common stock, represented by CHESS Units of Foreign Securities	New York Stock Exchange*
CHESS Units of Foreign Securities	New York Stock Exchange*
	New York Stock Exchange

American Depositary Shares, each representing five units of CHESS Units of Foreign Securities

* Listed, not for trading, but only in connection with the registered American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act. None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 463,306,511 shares of common stock at March 31, 2006.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. o Yes þ No

Note Checking the box will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 þ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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EXHIBIT 99.5

PART I

Item 1. ***Identity of Directors, Senior Management and Advisers***

Not Required.

Item 2. ***Offer Statistics and Expected Timetable***

Not Applicable.

Item 3. ***Key Information***

In this annual report, unless the context otherwise indicates, James Hardie Industries N.V., a naamloze vennootschap, or a Dutch public limited liability company incorporated and existing under the laws of The Netherlands, is referred to as JHI NV. JHI NV together with its direct and indirect wholly owned subsidiaries as of the time relevant to the applicable reference, are collectively referred to as the James Hardie Group. JHI NV and its current direct and indirect wholly owned subsidiaries are collectively referred to as we, us, our, JHI NV and its wholly owned subsidiaries, or the Company.

The term fiscal year refers to our fiscal year ended March 31 of such year; the term dollars or $ refers to U.S. dollars; the term A$ refers to Australian dollars; the term NZ$ refers to New Zealand dollars; the term PHP refers to Philippine pesos; and the term CLP refers to Chilean pesos. The term msf or thousand square feet refers to thousands of square feet, where a square foot is defined as a standard square foot of 5/16 thickness and the term mmsf or million square feet refers to millions of square feet, where a square foot is defined as a standard square foot of 5/16 thickness.

As a company incorporated under the laws of The Netherlands, we have listed our securities for trading on the Australian Stock Exchange, or ASX, through the use of the Clearing House Electronic Subregister System, or CHESS, Units of Foreign Securities, or CUFS. CUFS are a form of depositary security that represents a beneficial ownership interest in the securities of a non-Australian corporation. Each of our CUFS represents the beneficial ownership of one share of common stock of JHI NV, the legal ownership of which is held by CHESS Depositary Nominees Pty Ltd. The CUFS are listed and traded on the ASX under the symbol JHX.

We have also listed our securities for trading on the New York Stock Exchange, or NYSE. We sponsor a program, whereby beneficial ownership of five CUFS is represented by one American Depositary Share, or ADS, which is issued by The Bank of New York. These ADSs trade on the NYSE in the form of American Depositary Receipts, or ADRs, under the symbol JHX. Unless the context indicates otherwise, when we refer to ADRs, we are referring to ADRs or ADSs and when we refer to our common stock we are referring to the shares of our common stock that are represented by CUFS.

Selected Financial Data

We have included in Item 18 of this annual report the audited consolidated financial statements of JHI NV, consisting of our consolidated balance sheets as of March 31, 2006 and March 31, 2005, our consolidated statements of changes in shareholders equity as of March 31, 2006, March 31, 2005 and March 31, 2004, and our consolidated statements of operations and cash flows for the years ended March 31, 2006, 2005 and 2004, together with the related notes thereto. For periods prior to October 19, 2001, the effective date of our corporate restructuring (see Item 4, Information on the Company History and Development of the Company Corporate Restructuring), the consolidated financial statements represent the financial position, results of operations and cash flows of ABN 60 000 009 263 Pty Ltd, which we refer to as ABN 60, which was formerly known as James Hardie Industries Limited, which we refer to as JHIL, and its wholly owned subsidiaries. For periods after October 19, 2001, our consolidated financial statements represent the financial position, results of operations and cash flows of JHI NV and its wholly owned subsidiaries.

The consolidated financial statements included in this annual report have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

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The selected consolidated financial information summarized below has been derived in part from JHI NV s financial statements. You should read the selected consolidated financial information in conjunction with JHI NV s financial statements and related notes contained in Item 18 and with the information provided in the section of this report entitled Operating and Financial Review and Prospects contained in Item 5. Historic financial data is not necessarily indicative of our future results and you should not unduly rely on it.

	Fiscal Years Ended March 31,				
	2006	2005	2004	2003	2002
	(In millions, except sales price per unit and per share data)				
Consolidated Statements of Operations Data:					
Net Sales					
USA Fiber Cement	$ 1,218.4	$ 939.2	$ 738.6	$ 599.7	$ 444.8
Asia Pacific Fiber Cement(1)	241.8	236.1	219.8	174.3	141.7
Other(2)	28.3	35.1	23.5	9.6	5.2
Total net sales	$ 1,488.5	$ 1,210.4	$ 981.9	$ 783.6	$ 591.7
Operating (loss) income(3)	$ (434.9)	$ 196.2	$ 172.2	$ 128.8	$ 46.8
Interest expense	(7.2)	(7.3)	(11.2)	(23.8)	(18.4)
Interest income	7.0	2.2	1.2	3.9	2.4
Other (expense) income(4)		(1.3)	3.5	0.7	(0.4)
(Loss) income from continuing operations before income taxes	(435.1)	189.8	165.7	109.6	30.4
Income tax expense	(71.6)	(61.9)	(40.4)	(26.1)	(3.1)
(Loss) income from continuing operations	$ (506.7)	$ 127.9	$ 125.3	$ 83.5	$ 27.3
Net (loss) income	$ (506.7)	$ 126.9	$ 129.6	$ 170.5	$ 30.8
(Loss) income from continuing operations per common share basic	$ (1.10)	$ 0.28	$ 0.27	$ 0.18	$ 0.06
Net (loss) income per common share basic	$ (1.10)	$ 0.28	$ 0.28	$ 0.37	$ 0.07
(Loss) income from continuing operations per common share diluted	$ (1.10)	$ 0.28	$ 0.27	$ 0.18	$ 0.06
Net (loss) income per common share diluted	$ (1.10)	$ 0.28	$ 0.28	$ 0.37	$ 0.07
Dividends paid per share	$ 0.10	$ 0.03	$ 0.05	$ 0.08	$ 0.05
Return of capital per share	$	$	$ 0.15	$ 0.20	$ 0.05
Weighted average number of common shares outstanding					
Basic	461.7	458.9	458.1	456.7	438.4

Diluted		461.7		461.0		461.4		459.4		440.4
Consolidated Cash Flow Information:										
Cash flows provided by operating activities	$	240.6	$	219.8	$	162.6	$	64.8	$	76.6
Cash flows (used in) provided by investing activities	$	(154.0)	$	(149.2)	$	(58.0)	$	237.9	$	(77.2)
Cash flows provided by (used in) financing activities	$	116.5	$	28.2	$	(87.9)	$	(279.4)	$	(40.8)
Other Data:										
Depreciation and amortization(5)	$	45.3	$	36.3	$	36.4	$	27.4	$	23.5
Adjusted EBITDA(6)	$	(389.6)	$	232.5	$	208.6	$	156.2	$	70.3
Capital expenditures(7)	$	162.8	$	153.0	$	74.1	$	90.2	$	50.8
Volume (million square feet)(8)										
USA Fiber Cement		2,182.8		1,855.1		1,519.9		1,273.6		988.5
Asia Pacific Fiber Cement(1)		368.3		376.9		362.1		349.9		320.7
Average sales price per unit (per thousand square feet)										
USA Fiber Cement	$	558	$	506	$	486	$	471	$	450
Asia Pacific Fiber Cement(1)	A $	872	A $	846	A $	862	A $	887	A $	861

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	Fiscal Years Ended March 31,				
	2006	2005	2004	2003	2002
	(In millions, except sales price per unit and per share data)				
Consolidated Balance Sheet Data:					
Net current assets(9)	$ 150.8	$ 180.2	$ 195.9	$ 159.4	$ 115.1
Total assets	$ 1,445.4	$ 1,088.9	$ 971.2	$ 851.8	$ 968.0
Long-term debt(10)	$ 121.7	$ 147.4	$ 165.0	$ 165.0	$ 325.0
Common stock	$ 253.2	$ 245.8	$ 245.2	$ 269.7	$ 205.4
Shareholders equity	$ 94.9	$ 624.7	$ 504.7	$ 434.7	$ 370.7

(1) Asia Pacific Fiber Cement includes all fiber cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand and Asia.

(2) Includes fiber cement manufactured and sold in Chile (for fiscal year 2002 to July 2005 only), fiber reinforced concrete pipes manufactured and sold in the United States, fiber cement operations in Europe and a roofing pilot plant in the United States. Also includes general corporate income in fiscal year 2002 comprised primarily of rental income from subleasing office space in Sydney, Australia. Our Chilean business was sold in July 2005. Our roofing pilot plant was closed and the business ceased operations in April 2006. See Item 4, Information on the Company Capital Expenditures and Divestitures, Item 4 Information on the Company Recent Developments and Note 14 to our consolidated financial statements in Item 18.

(3) For fiscal years 2006 and 2005, operating (loss) income includes Special Commission of Inquiry and other related expenses of $17.4 million and $28.1 million, respectively. In addition, operating loss in fiscal year 2006 includes $715.6 million related to the establishment of the asbestos provision and $13.4 million related to the impairment of our former roofing plant.
Operating (loss) income also includes restructuring and other operating income/expenses as follows: (i) for fiscal year 2006, an $0.8 million loss related to the disposal of our Chilean fiber cement business; (ii) for fiscal year 2005, $6.0 million consisting of a settlement loss of $5.3 million related to an employee retirement plan and a $0.7 million loss on the sale of land in Sacramento, California; (iii) for fiscal year 2004, $2.1 million expense primarily related to an increase in cost provisions for our Australian and New Zealand business; (iv) for fiscal year 2003, $1.0 million income related to the settlement of a terminated derivative contract; and (v) for fiscal year 2002, $12.6 million expense related to the roofing Class Action Settlement Agreement in the United States, $7.4 million expense associated with the corporate reorganization and $8.1 million expense related to the decrease in fair value of derivative contracts.

(4) Consists primarily of the following: (i) for fiscal year 2005, the $1.3 million expense consisted of a $2.1 million impairment charge that we recorded on an investment in a company that filed a voluntary petition for reorganization under Chapter 11 of the U.S. bankruptcy code, partly offset by a $0.8 million gain on a separate investment; (ii) for fiscal year 2004, the net gain achieved after accounting for income items, including a $4.5 million profit on the sale of our New Zealand property, was partially offset by expense items, including $3.2 million primarily due to a capital duty fee paid in conjunction with our Dutch corporate structure; (iii) for fiscal year 2003, investment income of $0.7 million; and (iv) for fiscal year 2002, investment expenses of $0.4 million.

(5) Information for depreciation and amortization is for continuing businesses only.

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(6) Adjusted EBITDA represents income from continuing operations before interest income, interest expense, income taxes, other nonoperating expenses, described in footnote four above, net, and depreciation and amortization charges as follows:

	Fiscal Years Ended March 31,				
	2006	2005	2004	2003	2002
	(In millions)				
Net cash provided by operating activities	$ 240.6	$ 219.8	$ 162.6	$ 64.8	$ 76.6
Adjustments to reconcile net (loss) income to net cash provided by operating activities, net	(791.3)	(61.2)	(51.1)	62.1	(41.1)
Change in operating assets and liabilities, net	44.0	(31.7)	18.1	43.6	(4.7)
Net (loss) income	(506.7)	126.9	129.6	170.5	30.8
Loss (income) from discontinued operations		1.0	(4.3)	(87.0)	(3.5)
Income tax expense	71.6	61.9	40.4	26.1	3.1
Interest expense	7.2	7.3	11.2	23.8	18.4
Interest income	(7.0)	(2.2)	(1.2)	(3.9)	(2.4)
Other expense (income)		1.3	(3.5)	(0.7)	0.4
Depreciation and amortization	45.3	36.3	36.4	27.4	23.5
Adjusted EBITDA	$ (389.6)	$ 232.5	$ 208.6	$ 156.2	$ 70.3

Adjusted EBITDA is not a measure of financial performance under U.S. GAAP and should not be considered an alternative to, or more meaningful than, income from operations, net income or cash flows as defined by U.S. GAAP or as a measure of our profitability or liquidity. Not all companies calculate Adjusted EBITDA in the same manner as we have and, accordingly, Adjusted EBITDA may not be comparable with other companies. We have included information concerning Adjusted EBITDA because we believe 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. To permit evaluation of this data on a consistent basis from period to period, Adjusted EBITDA has been adjusted for noncash charges such as goodwill and asset impairment charges, as well as nonoperating income and expense items. See our consolidated financial statements and our discussion under Operating and Financial Review and Prospects for further information to assist in identifying and evaluating trends in Adjusted EBITDA.

(7) Information for capital expenditures includes both cash and credit purchases, and is for continuing businesses only.

(8) Fiber cement volume is measured in $^{5}/16$ thick square feet, which are referred to as standard feet.

(9) Total current assets less total current liabilities.

(10) Includes current portion of long-term debt.

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Risk Factors

If the conditions precedent to the Final Funding Agreement are met, our wholly owned Australian subsidiary, James Hardie 117 Pty Ltd (formerly known as LGTDD Pty Ltd), will be required to start making payments to a special purpose fund. Even if the conditions precedent to the Final Funding Agreement are not met and the Final Funding Agreement is terminated, we may negotiate an alternative settlement requiring cash settlement. Such payments will reduce funds available for capital expenditures on existing and new business opportunities, repayments of debt, payments of dividends or other distributions; may restrict our ability to access equity or debt capital markets; and will adversely affect our financial position, liquidity, results of operations and cash flows.

On December 1, 2005, we, the Government of the State of New South Wales, Australia, which we refer to as the NSW Government, and our wholly owned Australian subsidiary, James Hardie 117 Pty Ltd, which we refer to as the Performing Subsidiary, entered into a Final Funding Agreement to provide long-term funding to a special purpose fund, or SPF, that will provide compensation for Australian asbestos-related personal injury claims against certain former James Hardie companies, including ABN 60, Amaca Pty Ltd (which we refer to as Amaca) and Amaba Pty Ltd (which we refer to as Amaba), which we collectively refer to as the Former James Hardie Companies.

Our obligations to provide funding to the SPF pursuant to the Final Funding Agreement are subject to certain conditions precedent, including obtaining tax exempt status for the SPF and the approval of our lenders and shareholders. If these conditions are met, under the Final Funding Agreement as executed on December 1, 2005 we will be required to make an initial payment to the SPF on the commencement date of approximately A$154 million and to make annual payments to the SPF, the first payment of which will also be required on the commencement date. In addition, we have also agreed that for a limited period (which currently remains subject to negotiation as a result of delays in the conditions precedent to the Final Funding Agreement being satisfied), we will provide or arrange for the provision of interim funding to the Foundation if its existing funding is exhausted prior to satisfaction of the conditions precedent to the implementation of the Final Funding Agreement. However, the amount and terms of such interim funding, and the manner in which it will be provided remain to be agreed with the Foundation. Moreover, even if the conditions precedent to the Final Funding Agreement are not met and the Final Funding Agreement is terminated, the Company has determined that it is nevertheless likely that it will make payments in respect of certain claimants who were injured by asbestos products manufactured by the Former James Hardie Companies. If we are required to make these payments or if we make payments pursuant to any alternative settlement, the funds available for capital expenditure (either with respect to our existing business or new business opportunities), repayments of debt principal, or distributions to our shareholders and for other corporate purposes will be reduced by the funding paid to the SPF or the amount of such other settlement payments, as applicable, and as a result, our financial position, liquidity, results of operations, and cash flows will be reduced or materially adversely affected.

Our obligation to make these payments could also affect or restrict our ability to access equity or debt capital markets. For example, had we not prepaid in full the outstanding amount of our US$ non-collateralized notes prior to making the decision to record the asbestos provision, we would not have been in compliance with certain restrictive covenants pertaining to those notes. If our financial position deteriorates, we may not be able to access the capital markets to replace those notes on terms as advantageous as those that were applicable to those notes and as a result our financial position and liquidity will be materially adversely affected. See Item 4, Information on the Company Legal Proceedings for additional information concerning the Final Funding Agreement.

In addition, since unexpected developments late in a fiscal year could result in material increases in the amount of the next annual payment due, we will need to be prepared to fund any such increased obligations with little or no advance notice. As a result, our cash management processes will need to take into account such contingencies and therefore may adversely affect our ability to manage our cash resources as efficiently as would be the case if the funding obligations were able to be known in advance or ascertained further in advance than is the case under the Final Funding Agreement.

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Even if the Final Funding Agreement is implemented, we may be subject to potential additional liabilities (including claims for compensation or property remediation outside the arrangements reflected in the Final Funding Agreement) because certain current and former James Hardie subsidiaries previously manufactured products that contained asbestos.

Up to 1987, two former subsidiaries of ABN 60, Amaca and Amaba, which are now owned and controlled by the Medical Research and Compensation Foundation, which we refer to as the Foundation, manufactured products in Australia that contained asbestos. In addition, prior to 1937, ABN 60, which is now owned by the ABN 60 Foundation Pty Ltd, which we refer to as the ABN 60 Foundation, manufactured products in Australia that contained asbestos. ABN 60 also held shares in companies that manufactured asbestos-containing products in Indonesia and Malaysia, and held minority shareholdings in companies that conducted asbestos-mining operations based in Canada and Southern Africa. Former ABN 60 subsidiaries also exported asbestos-containing products to various countries around the world. The SPF is designed to provide compensation only for certain claims and to meet certain related expenses and liabilities, and the legislation introduced in New South Wales in connection with the Final Funding Agreement seeks to defer all other claims against the former James Hardie subsidiaries. The funds contributed to the SPF will not be available to meet any asbestos-related claims made outside Australia, or claims made arising from exposure to asbestos occurring outside Australia, or any claim for pure property loss or pure economic loss or remediation of property. In these circumstances, it is possible that persons with such excluded claims may seek to pursue those claims directly against us. Defending any such litigation could be costly and time consuming.

Prior to 1988, a New Zealand subsidiary in the James Hardie Group manufactured products in New Zealand that contained asbestos. In New Zealand, asbestos-related disease compensation claims are managed by the state-run Accident Compensation Commission or ACC. Our New Zealand subsidiary that manufactured products that contained asbestos contributed financially to the ACC fund as required by law via payment of an annual levy. All decisions relating to the amount and allocation of payments to claimants in New Zealand are made by the ACC in accordance with New Zealand law. The Injury Prevention, Rehabilitation and Compensation Act 2001 (NZ) bars compensatory damages for claims that are covered by the legislation which may be made against the ACC Fund. However, we may be subject to potential liability if any of these claims are found not to be covered by the legislation and are later brought against us.

Apart from the funding obligations arising out of the Final Funding Agreement, it is possible that we could become subject to suits for damages for personal injury or death in connection with the former manufacture or sale of asbestos products that have been or may be filed against the Former James Hardie Companies. Although the ability of any claimants to initiate or pursue such suits is restricted by the legislation enacted by the NSW Government under the terms of the Final Funding Agreement (see Item 4, Information on the Company Legal Proceedings), we cannot predict with any certainty the outcome of any future claims or allegations that may be made, how the laws of various jurisdictions may be applied to the facts or how the laws may change in the future. If a court of competent jurisdiction relying on applicable law at the time were to find JHI NV, our New Zealand subsidiary or another James Hardie Group subsidiary liable for damages connected with existing or former subsidiaries or their past manufacture of asbestos-containing products, we may incur significant liabilities in connection with any damages that may be awarded in the legal proceedings, in addition to the costs associated with defending against such claims.

We have agreed to indemnify the buyer of our former Gypsum manufacturing facilities for certain asbestos-related claims.

When we sold our former United States gypsum wallboard manufacturing facilities in April 2002, we agreed to indemnify the buyer from certain future liabilities, for a period of 30 years, arising from asbestos-related claims related to injuries to persons or property arising from our former gypsum business. See Item 10, Additional Information Material Contracts.

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The Final Funding Agreement imposes certain non-monetary obligations which could materially adversely affect our financial position, results of operations, cash flows and outlook.

If the Final Funding Agreement is implemented, we will become subject to certain non-monetary obligations that could prove to be onerous or to otherwise materially adversely affect our ability to undertake proposed transactions or to pay dividends. For example, the Final Funding Agreement contains certain restrictions that would generally prohibit us from undertaking transactions that would materially adversely affect the relative priority of the SPF as a creditor, or that would materially impair our legal or financial capacity and that of the Performing Subsidiary, in each case such that we and the Performing Subsidiary would cease to be likely to be able to meet the funding obligations that would have arisen under the Final Funding Agreement had the relevant transaction not occurred. Those restrictions apply to dividends and other distributions, reorganizations of or dealings in share capital which create or vest rights in such capital in third parties, or non-arm s length transactions. While the Final Funding Agreement contains certain exemptions from such restrictions (including, for example, exemptions for arm s length dealings; transactions in the ordinary course of business; certain issuances of equity securities or bonds; and certain transactions provided certain financial ratios are met and certain amounts of dividends), implementing such restrictions could materially adversely affect our financial position, results of operations, cash flows and outlook.

The Final Funding Agreement does not eliminate the risk of adverse action being taken against us.

Even if our shareholders approve the implementation of the Final Funding Agreement and the other conditions precedent are satisfied and the Final Funding Agreement is implemented, there is a possibility that, despite certain covenants agreed to by the NSW Government in that agreement, adverse action could be directed against us by one or more of the NSW Government, the government of the Commonwealth of Australia, governments of the states or territories of Australia or any other governments, unions or union representative groups, or asbestos disease groups with respect to the asbestos liabilities of Amaba, Amaca and ABN 60. Any such adverse action could materially adversely affect our financial position, results of operations, cash flows and outlook.

We have incurred substantial costs in connection with the events leading up to, and the negotiation and settlement of, the Final Funding Agreement and may in the future continue to incur substantial costs or be subject to further legal proceedings.

In February 2004, the NSW Government established a Special Commission of Inquiry, which we refer to as the SCI, to investigate, among other matters, the circumstances in which the Foundation was established. The SCI issued its report on September 21, 2004. The SCI found that there was a significant funding shortfall. In part, this was based on actuarial work commissioned by us. As of March 31, 2006, an updated actuarial study completed by KPMG Actuaries Pty Ltd, or KPMG Actuaries, estimated that the undiscounted value of the central estimate of the asbestos-related liabilities of Amaba and Amaca was approximately A$3.08 billion ($2.3 billion). See Note 12 to our consolidated financial statements in Item 18 for additional information. The SCI found that the net assets of the Foundation, Amaba, Amaca and the ABN 60 Foundation were not sufficient to meet these prospective liabilities and were likely to be exhausted in the first half of 2007. The SCI s findings are not binding and if the same issues were presented to a court, the court might come to different conclusions on one or more of the issues.

If the conditions precedent to the full implementation of the Final Funding Agreement are not met or the Final Funding Agreement is terminated, it is not possible to predict what actions the NSW Government may take. In addition, in fiscal years 2006 and 2005 we incurred $17.4 million and $28.1 million, respectively, of expenses related to the events and negotiations leading to the signing of the Final Funding Agreement, including the SCI. We expect to continue to incur material costs associated with the Final Funding Agreement and other related matters, including costs related to: discussions with the Commonwealth Treasury and Australian Taxation Office, or ATO, on the tax exempt status of the SPF; cooperating with an ongoing investigation by the Australian Securities and Investments Commission, or ASIC, into the circumstances surrounding and leading up to the establishment of the Foundation, the corporate reorganizations in 2001 and 2003, and associated matters; providing an updated actuarial assessment of the total asbestos liabilities of the Former James Hardie Companies; and associated legal and advisory costs.

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If the conditions precedent to the full implementation of the Final Funding Agreement are not satisfied or if the Final Funding Agreement is terminated, the NSW Government may pass legislation that would seek to impose liability on us for asbestos claims.

The full implementation of the Final Funding Agreement is subject to a number of conditions precedent, including obtaining tax exempt status for the SPF and approval of our lenders and shareholders. We are currently engaged in consultation and negotiations with the NSW Government to determine whether the outstanding conditions precedent, and in particular the condition that the SPF is exempt from tax, can be satisfied, amended or resolved in a manner satisfactory to the parties to the Final Funding Agreement. If the Final Funding Agreement is not implemented or if the Final Funding Agreement is terminated, the NSW Government has indicated that it may pass or attempt to pass legislation to impose liability on us for certain asbestos claims of the former James Hardie subsidiaries. The Australian Commonwealth Government and governments of other states and territories in Australia could also seek to introduce legislation seeking to have a similar effect. However, the Company has no detailed information as to the content of any such legislation. See Item 4, Information on the Company Legal Proceedings. Any such legislation could materially adversely affect our financial position, results of operations, cash flows and outlook.

In addition, if the Final Funding Agreement is not implemented or if the Final Funding Agreement is terminated without a suitable alternative having been reached, our share price and access to capital markets may be adversely affected due to uncertainties surrounding our potential exposure to the asbestos-related liabilities of the Former James Hardie Companies, and any related liability which may arise by legislation which may be introduced by one or more of the Australian Commonwealth Governments, the NSW Government and other state and territory governments.

Since our revenues are primarily derived from sales in U.S. dollars and payments pursuant to the Final Funding Agreement are to be made in Australian dollars, unfavorable fluctuations in the U.S. dollar (and other currencies from which we derive our sales) compared to the Australian dollar, will require us to pay more of our revenues to discharge our obligations under the Final Funding Agreement. In addition, since our results of operations are reported in U.S. dollars, unfavorable fluctuations in the U.S. dollar compared to the Australian dollar will require us to expense the difference in the reported period in order to increase the amount of our asbestos provision on our balance sheet.

Approximately 11% and 13% of our net sales in fiscal years 2006 and 2005, respectively, were derived from sales in Australia. If we are required to make payments pursuant to the Final Funding Agreement, any such payments would be required to be made to the SPF in Australian dollars. In addition, annual payments to the SPF will be calculated based on various estimates that will be denominated in Australian dollars. To the extent that our future obligations exceed our Australian dollar cash flows, and we do not hedge this foreign exchange exposure, we will need to convert U.S. dollars or other foreign currency into Australian dollars in order to meet our obligations pursuant to the Final Funding Agreement. As a result, any unfavorable fluctuations in the U.S. dollar (the majority of our revenues is derived from sales in U.S. dollars) and other currencies from which we derive our sales compared to the Australian dollar will require us to convert more U.S. dollars and other currencies from which we derive our sales to pay the same amount of Australian denominated annual payments to the SPF.

In addition, since our results of operations are reported in U.S. dollars and the asbestos provision is based on estimated payments denominated in Australian dollars, unfavorable fluctuations in the U.S. dollar compared to the Australia dollar will significantly affect our reported results of operations since we will be required to expense any such fluctuations in the reported period in order to increase the reported value of the asbestos provision on our balance sheet. For example, due to the strengthening of the Australian dollar compared to the U.S. dollar, in the quarter ended June 30, 2006, we had to increase our asbestos provision from $715.6 million, as of March 31, 2006, to $742.8 million, which resulted in an expense of $27.2 million that was recorded in that quarter.

As of March 31, 2006, we had not entered into any forward exchange contracts to mitigate this risk. Accordingly, due to the size of the asbestos provision recorded on our balance sheet, fluctuations in the exchange rate will cause unpredictable volatility in our reported results for the foreseeable future and any unfavorable fluctuation in U.S. dollar and the other currencies from which we derive our sales compared to the Australian dollar would have a significant negative impact on our business, earnings, results of operations and financial condition.

Continued scrutiny resulting from ongoing investigations may have an adverse effect on our business.

We are currently subject to an investigation by ASIC into the circumstances surrounding the establishment of the Foundation and associated matters. We cannot predict when this investigation will be completed or what the results of this investigation will be. It is possible that we or our current or former directors and officers will be required to pay material fines, suffer other penalties or become liable to provide indemnification payments, any of which could have a material adverse effect on our business. The results of this or other investigations could materially and adversely affect our business, financial condition, results of operations or liquidity.

Our board of directors and senior management continue to devote significant attention to seeking to implement the Final Funding Agreement and associated issues.

Our board of directors, senior management and others within our organization have devoted a significant amount of time and resources to investigating the allegations raised in the report of the SCI, producing documents to and complying with requests from governmental and regulatory authorities and others, preparing and negotiating the Final Funding Agreement, and making submissions relating to the NSW Government s review of legal and administrative costs. To the extent our board of directors and management are required to devote time and resources to dealing with such issues rather than solely focusing on conducting the business of the Company, this could adversely affect our results of operations.

Negative publicity may continue to adversely affect our business.

As a result of the events that were considered by the SCI, we have been the subject of negative publicity, both in Australia and elsewhere in the world which we believe has contributed to declines in the price of our publicly traded securities in recent years. While such negative publicity has been significantly less frequent following our entry into the Final Funding Agreement, the potential for such negative publicity to increase in the future cannot be eliminated. Any uncertainty created by future negative publicity or by the events underlying such negative publicity could have a material adverse effect on our results of operations, staff morale and the market price of our publicly traded securities and create difficulties in attracting or retaining high caliber staff.

We may have insufficient Australian taxable income to utilize tax deductions.

We may not have sufficient Australian taxable income in future years to utilize the tax deductions resulting from payments made to the SPF. Further, if as a result of making such funding payments we incur tax losses, we may not be able to fully utilize such tax losses in future years of income. Any inability to utilize such deductions or losses could adversely affect our financial position or results of operations.

Potential escalation in proven claims made against, and associated costs of, the SPF could increase our annual funding payments required to be made under the Final Funding Agreement, which may cause us to have to increase our asbestos provision in the future.

In fiscal year 2006, we recorded a provision for estimated future asbestos-related compensation payments of $715.6 million. The amount of this asbestos provision was based, in part, on actuarially determined, anticipated (estimated), future annual funding payments to be made to the SPF on an undiscounted and uninflated basis. Future annual payments to the SPF will be based on updated actuarial assessments that are to be performed as of March 31 of each year to determine expected asbestos-related personal injury liabilities to be funded under the Final Funding Agreement for the financial year in which the payment is made and the next two financial years. Estimates of actuarial liabilities are based on many assumptions, which may not prove to be correct, and which are subject to considerable uncertainty, since the ultimate number and cost of claims are subject to the outcome of events that have not yet occurred, including social, legal and medical developments as well as future economic conditions. For instance, it is possible that the categories of payable claims could be extended to include claims that are not presently compensable or legally recognized. Further,

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estimating the future extent and pattern of asbestos-related diseases that will arise from past exposure to asbestos and the proportion of those claims that will be successful is inherently difficult and therefore could materially differ from actual results. If future proven claims are more numerous or the liabilities arising from them are larger than that currently estimated by KPMG Actuaries, it is possible that pursuant to the terms of the Final Funding Agreement, we will be required to pay higher annual funding payments to the SPF than currently anticipated and on which our asbestos provision is based. If this occurs, we may be required to increase our asbestos provision which would be reflected as a charge in our consolidated statements of operations at that date. Any such changes to actuarial estimates which require us to increase our asbestos provision could have a material adverse effect on our business, results of operations and financial condition.

We have experienced product bans and boycotts and have been subject to other measures taken in response to the events investigated by the SCI and could continue to experience product bans and boycotts in the future.

Following the release of the SCI report, the Australian Council of Trade Unions (which we refer to as the ACTU), UnionsNSW (formerly known as the Labour Council of New South Wales), and a representative of the asbestos claimants, which we collectively refer to as the Representatives, and others indicated that they would encourage or continue to encourage consumers and union members in Australia and elsewhere to ban or boycott the Company s products, to demonstrate or otherwise create negative publicity toward the Company in order to influence the Company s approach to the discussions with the NSW Government or to encourage governmental action if the discussions are unsuccessful. As previously disclosed, our financial position, results of operations and cash flows were affected by such bans and boycotts.

Pursuant to the Final Funding Agreement, the Representatives agreed to use their best endeavors to achieve forthwith the lifting of all bans or boycotts on any products manufactured, produced or sold by the Company, and the Company and the Representatives signed a deed of release in December 2005 under which the Company agreed to release the Representatives and the members of the ACTU and UnionsNSW from civil liability arising in relation to bans or boycotts instituted as a result of the events described above. However, some bans and boycotts have remained in effect. Such releases did not extend to any new bans or boycotts, if applicable, implemented after the date of the signing of the Final Funding Agreement, or to any bans or boycotts which persisted beyond January 1, 2006. If the conditions precedent to the Final Funding Agreement are not satisfied or if for any reason that agreement is not implemented, new bans or boycotts could be implemented against the Company s products. Additionally, any remaining bans or boycotts that have remained in effect may not be lifted. Any such measures, and the influences resulting from them, could have a material adverse impact on the Company s financial position, results of operations and cash flows.

The complexity and long-term nature of the Final Funding Agreement and related legislation and agreements may result in litigation as to their interpretation or one or more of the parties to the agreements may seek to renegotiate their terms.

Certain legislation, the Final Funding Agreement and related agreements which govern the implementation and performance of the Final Funding Agreement are complex and have been negotiated over the course of extended negotiation periods between various parties. There is a risk that, over the term of the Final Funding Agreement, some or all parties may become involved in disputes as to the interpretation of such legislation, the Final Funding Agreement or related agreements. We cannot guarantee that no party will commence litigation seeking remedies with respect to such a dispute, nor can we guarantee that a court will not order other remedies which may adversely affect the Company.

Due to the long-term nature of the Final Funding Agreement, unforeseen events may result in one or more of the parties to the Final Funding Agreement (including the Company) wishing to renegotiate the terms and conditions of the Final Funding Agreement or any of the related agreements. In addition, we are currently engaged in consultation and negotiation with the NSW Government to determine whether the outstanding conditions precedent (and in particular the condition that the SPF is exempt from tax) can be satisfied, amended or resolved in a manner satisfactory to the parties to the Final Funding Agreement. Any amendments to the Final Funding Agreement or related agreements in the future would require the consent of

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the Company, the NSW Government and the Asbestos Injuries Compensation Fund, or AICF, and therefore may not be achieved.

In the future, we may be unable to renew our credit facilities on their current terms or terms that are customary for other companies in our industry or who have similar credit ratings, or be able to obtain any credit facilities at all.

Our credit facilities currently consist of 364-day facilities in the amount of $110.0 million, which mature in June 2007 and term facilities in the amount of $245.0 million, which mature in December 2006. Upon satisfaction of the conditions precedent to the full implementation of the Final Funding Agreement, including lender approval, the maturity date of the $245.0 million term facilities will be automatically extended until June 2010. However, if the conditions precedent to the full implementation of the Final Funding Agreement are not satisfied, we may not be able to renew our credit facilities on substantially similar terms, or at all; we may have to pay additional fees and expenses that we might not have to pay under normal circumstances; and we may have to agree to terms that could increase the cost of our debt structure. If we are unable to extend our credit facilities, or are unable to renew our credit facilities on terms that are substantially similar to the ones we presently have, we may experience liquidity issues and will have to reduce our levels of planned capital expenditures and/or take other measures to conserve cash in order to meet our future cash flow requirements.

We may be liable for costs, penalties, fees or expenses incurred by 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 James Hardie Group to those persons.

We may be liable for costs, penalties, fees or expenses incurred by 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 James Hardie Group to those persons. To date, with respect to the application of our indemnity obligations to proceedings of the SCI and other regulatory bodies, we have paid all legal fees and costs incurred on behalf of any current or past employee, officer or director who has been involved in any such proceeding. In addition, our indemnification obligations would generally cover costs incurred by a director or officer in responding to an ASIC investigation or any other investigation conducted by a governmental agency or a liquidator. We or a relevant subsidiary may be reimbursed under directors and officers insurance policies taken out by us or a relevant subsidiary. However, there is no guarantee that such insurance will cover the nature of such claims or will completely insure any claims that are covered. If such costs are not insured or substantially exceed the amount of the insurance that we maintain, our business, financial condition, results of operations and liquidity could be adversely affected.

Our subsidiary, RCI Pty Ltd, has been required to post a substantial cash deposit and may incur substantial expenses in order to pursue an appeal of an assessment by the Australian Taxation Office and, if it is unsuccessful in its appeal, our financial position, liquidity, and cash flow will be materially and adversely affected.

In March 2006, RCI Pty Ltd, a wholly owned subsidiary of the Company which we refer to as RCI, received an amended assessment from the ATO. The amended assessment is based on the ATO s calculation of RCI s net capital gains arising as a result of an internal corporate restructuring carried out in 1998. The amended assessment originally was for A$412.0 million ($310.0 million). After remission of general interest charges by the ATO, the total assessment was changed to A$378.0 million ($284.6 million), which includes: A$172.0 million ($129.5 million) as the primary tax after allowable credits; A$43.0 million ($32.4 million) in penalties (representing 25% of the primary tax); and A$163.0 million ($122.7 million) in general interest charges.

RCI is appealing the amended assessment and may incur substantial legal and other expenses in pursuing this appeal. On July 5, 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 ($140.4 million converted using the assets and liabilities rate at June 30, 2006) 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. The first payment of accrued general interest charges will be due October 15, 2006 in respect of the quarter ending September 30, 2006.

Even if RCI is successful in appealing the amended assessment and the amount paid to the ATO is ultimately refunded to it the requirement to initially pay 50% of the amended assessment and ongoing payments of accruing general interest charges pending the outcome of the appeal could materially and adversely affect our financial position and liquidity as the cash required to make these payments is not available during the appeals process for ordinary corporate purposes. If RCI is unsuccessful in appealing the amended assessment, RCI will be required to pay the remaining 50% of the unpaid amended assessment in which case our financial position, liquidity and cash flow will be materially and adversely affected. As of March 31, 2006 we had not recorded any liability for the amended assessment. See Item 4, Information on the Company Legal Proceedings and Notes 13 and 20 to the notes to our consolidated financial statements included in Item 18 for more information.

Under the U.S.-Netherlands income tax treaty and Dutch tax law, we derive tax benefits from the group finance operations of our Netherlands-based finance subsidiary, and changes in either the treaty or laws applicable to the finance subsidiary, including the recent changes to the tax treaty, could increase our effective tax rate and, as a result, reduce our future profits and cash flows.

On December 28, 2004, the United States and The Netherlands amended the U.S.-Netherlands Income Tax Treaty (prior to amendment, the Original U.S.-NL Treaty; post amendment, the New U.S.-NL Treaty). We believe that, based on the transitional rules set forth in the New U.S.-NL Treaty, the Original U.S.-NL Treaty applied to us and to our Dutch and U.S. subsidiaries until January 31, 2006. We believe that, under the Original U.S.-NL Treaty, a 5% U.S. withholding tax applied to dividends, and no U.S. withholding tax applied to interest or royalties, that our U.S. subsidiaries paid to JHI NV or our Dutch finance subsidiary. The Original U.S.-NL Treaty had various conditions of eligibility for reduced U.S. withholding tax rates (and other treaty benefits), all of which we satisfied. If, however, we do not qualify for the benefits under the New U.S.-NL Treaty, such dividend, interest and royalty payments would be subject to a 30% U.S. withholding tax.

Companies eligible for benefits under the New U.S.-NL Treaty qualify for a zero percent U.S. withholding tax rate on dividends. However, the New U.S.-NL Treaty has a number of new, more restrictive eligibility requirements for reduced U.S. withholding tax rates and other treaty benefits. We have changed our organizational and operational structure as of January 1, 2006 to satisfy the requirements of the New U.S.-NL Treaty and believe we are eligible for benefits under the New U.S.-NL Treaty commencing on February 1, 2006. We have requested a formal ruling from the U.S. tax authorities regarding whether our recent organizational and operational changes meet the requirements of the New U.S.-NL Treaty provisions. We cannot assure you that we will receive a favorable ruling from them. Furthermore, we may not receive a formal ruling at all. As a result, we cannot guarantee that we will continue to receive the treaty benefits. If, during a tax audit or related process for a period beginning after the effective date of the amended treaty provisions, the IRS determines that these changes do not meet the new requirements, we may not qualify for treaty benefits, and our effective income tax rate could significantly increase beginning in the fiscal year that such determination is made, and we could be liable for taxes owed from the effective date of the amended treaty provisions.

We have previously concentrated our finance and treasury activities in our Dutch finance subsidiary located in The Netherlands. In addition to providing financing to our various subsidiaries, the finance subsidiary owns and develops intellectual property that it licenses to our operating subsidiaries. Under the Netherlands International Group Finance Company rules, we have obtained a ruling from the Dutch Revenue authority that allows the finance subsidiary to set aside, in a Financial Risk Reserve, or FRR, a portion of its taxable profits from financing and from licensing its intellectual property. The amounts set aside in the FRR are free of current Dutch income tax. Consequently, the finance subsidiary will generally incur a tax rate of approximately 15% to 18% on its qualifying financing and licensing income and a 29.6% statutory rate on all other income (29.6% is the Dutch statutory rate for calendar year 2006), including any amounts involuntarily released from the FRR to cover any risks (including currency, bad debt and foreign branch losses) for which

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the FRR was established. The tax rate on qualifying income may be reduced to as low as approximately 7% to 10% depending on the extent to which amounts from the FRR pay for capital expenditures of our operating companies. The Dutch revenue ruling became effective on July 1, 2001 and, when issued, was to apply for 10 years so long as we satisfied the requirements of the International Group Finance Company provisions under Dutch tax law. As discussed below, the Dutch revenue ruling is set to expire on December 31, 2010.

Under the European Union Code of Conduct on Direct Business Taxation, member states of the European Union, or EU, have agreed to eliminate harmful tax competition within the EU. Accordingly, the EU Council of Economic and Finance Ministers, a working group of EU member countries, reviewed the tax regimes of all its member countries and identified certain tax concessions the Council considered as harmfully competitive and therefore in violation of the Code of Conduct. Among the identified tax concessions is the Netherlands International Group Finance Company regime. In December 2002, The Netherlands agreed to end its International Group Finance Company regime for new entrants.

In a separate but related development, the European Commission, the executive arm of the EU, also reviewed the tax regimes of its member countries to identify tax concessions that the European Commission considered to be a form of prohibited state aid and, therefore, contrary to the provisions of the European Community Treaty. In February 2003, the Commission concluded that the existence of special tax concessions in certain countries, including the Netherlands International Group Finance Company regime, cannot be reconciled with EU rules regarding state aid. Accordingly, the European Commission banned certain concessionary tax regimes, including the Netherlands International Group Finance Company regime, but allowed companies then operating under that regime, including our Dutch finance subsidiary, to continue to operate under the regime until December 31, 2010. Some uncertainty exists whether, during this extended period of the International Group Finance Company regime, qualifying companies can continue to set aside profits in their FRR and defer any taxable recovery of profits from their FRR until the expiration date. Until December 31, 2010, and absent further legal developments, we intend to maintain and continue to add to the FRR of our Dutch finance subsidiary all allowable profits the subsidiary earns, and to fund capital expenditures of our operating companies with amounts from the FRR.

Although our Dutch finance subsidiary can continue to derive benefits under the Netherlands International Group Finance Company rules until December 31, 2010, we cannot guarantee that either the EU, or another relevant authority or legislative body, would not attempt to repeal the law earlier or that a court of competent jurisdiction would not invalidate it, possibly with retrospective effect.

Substantial and increasing competition in the building products industry could adversely affect our business.

Competition in the building products industry is based largely on price and, to a lesser extent, quality, performance and service. Our fiber cement products compete with products manufactured from natural and engineered wood, vinyl, stucco, masonry, gypsum and other materials as well as fiber cement products offered by other manufacturers. Some of our competitors may have greater product diversity and greater financial and other resources than we do and, among other factors, may be less affected by reductions in margins resulting from price competition.

Some of our competitors have lowered prices of their products to compete for sales. In addition, we expect our competitors to continue to expand their manufacturing capacities, to improve the design and performance of their products and to introduce new products with competitive price and performance characteristics. Increased competition by existing or future competitors could adversely impact fiber cement prices and could require us to increase our investment in product development, productivity improvements and customer service and support to compete in our markets.

Fiber cement product prices in the United States, Australia and New Zealand have fluctuated for a number of years due to the entry into the market of new producers and competition from alternative products, among other reasons, and these prices could continue to fluctuate in the future. Because of the maturity of the Australian and New Zealand markets, we believe that prices in those markets may decline and that sales volumes may not increase significantly or may decline in the future.

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Historically, increased sales volumes of our U.S. fiber cement products, the addition of proprietary products to our product mix and improved operating efficiencies have more than offset the decrease in pricing for such products in the United States. However, there may be future price decreases that we may not be able to offset with increased volume, new products or improved operating efficiencies. For instance, unanticipated technical problems could impair our efforts to commission new equipment aimed at improving operating efficiencies. Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

If damages resulting from product defects exceed our insurance coverage, paying these damages could result in a material adverse effect on our business, results of operations and financial condition.

The actual or alleged existence of defects in any of our products could subject us to significant product liability claims. Although we do not have replacement insurance coverage for damages to, or defects in, our products, we do have product liability insurance coverage for consequential damages that may arise from the use of our products. Although we believe this coverage is adequate and currently intend to maintain this coverage in the future, we cannot assure you that this coverage will be sufficient to cover all future product liability claims or that this coverage will be available at reasonable rates in the future. The successful assertion of one or more claims against us that exceed our insurance coverage could require us to incur significant expenses to pay these damages. These additional expenses could have a material adverse effect on our business, results of operations and financial condition.

If one or more of our fiber cement products fail to perform as expected or contain a design defect, such failure or defect, and any resulting negative publicity, could result in lower sales and may subject us to claims from purchasers or users of our fiber cement products.

Because our fiber cement products have been used only since the early-1980s, we cannot assure you that these products will perform in accordance with our expectations over an extended period of time or that there are no serious design defects in such products. If our fiber cement technology fails to perform as expected or a product is discovered to have design defects, such failure or defects, and any resulting negative publicity, could result in lower sales of our products and may subject us to claims from purchasers or users of defective products, either of which could have a material adverse effect on our business, results of operations and financial condition.

Warranty claims resulting from unforeseen defects in our products and exceeding our warranty reserves could have a material adverse effect on our business, results of operations and financial condition.

We have offered, and continue to offer, various warranties on our products, including a 50-year limited warranty on certain of our fiber cement siding products in the United States. Although we maintain reserves for warranty-related claims and legal proceedings that we believe are adequate, we cannot assure you that warranty expense levels or the results of any warranty-related legal proceedings will not exceed our reserves. If our warranty reserves are significantly exceeded, the costs associated with such warranties could have a material adverse effect on our business, results of operations and financial condition.

We may incur significant costs in the future in complying with applicable environmental and health and safety laws and regulations. A failure to comply with or a change in these laws and regulations could subject us to significant liabilities, including, but not limited to, damages and penalties.

We are subject to U.S. federal, state, local and foreign environmental, health and safety laws and regulations governing, among other matters, our operations, including the air and water quality of our plants, and the use, handling, disposal and remediation of hazardous substances currently or formerly used by us or any of our affiliates. Under these laws and regulations, we may be held jointly and severally responsible for the remediation of any hazardous substance contamination at our or our predecessors past or present facilities and at third-party waste disposal sites. We may also be held liable for any claims arising out of human exposure to hazardous substances or other environmental damage and our failure to comply with air, water, waste, and other environmental regulations. We will continue to be liable for any environmental problems that occurred while we owned or operated any of the three gypsum facilities that we sold in April 2002. See Item 10, Additional Information Material Contracts.

In addition, many of our products contain crystalline silica, which can be released in a respirable form in connection with manufacturing practices and handling or use. The inhalation of respirable crystalline silica at certain exposure levels is known or suspected to be associated with silicosis, potentially causing lung cancer and other adverse human health effects. We may face future costs of engineering and compliance to meet new standards relating to crystalline silica if standards are made more stringent. In addition, there is a risk that claims for silica-related health effects could be made against us. We cannot assure you that we will have adequate resources, including adequate insurance coverage, to satisfy any future silica-related health effect claims. In addition, our sales could decrease if silica-related health effect claims are made against us and as a result potential users of our products decide not to use our products. Any such claims may have a material adverse effect on our financial condition. See also Risk Factor above captioned If damages resulting from product defects exceed our insurance coverage, paying these damages could result in a material adverse effect on our business, results of operations and financial condition.

The costs of complying with environmental and health and safety laws relating to our operations or the liabilities arising from past or future releases of, or exposure to, hazardous substances or product liability matters, or our failure to comply with air, water, waste, and other existing environmental regulations may result in us making future expenditures that could have a material adverse effect on our business, results of operations or financial condition. In addition, we cannot make any assurances that the laws currently in place will not change. Also, if applicable laws or judicial interpretations related to successor liability or piercing the corporate veil were to change, it could have a material adverse effect on our business, results of operations and financial condition. See Item 4, Information on the Company Legal Proceedings.

Our business is dependent on the residential and commercial construction markets and we expect a slow down in housing construction in the markets we serve, including the U.S., Australia and New Zealand, over the short to medium term.

Demand for our products depends in large part on residential construction markets and, to a lesser extent, on commercial construction markets. The level of activity in residential construction markets depends on new housing starts and residential remodeling projects, which are a function of many factors not within our control, including general economic conditions, mortgage and other interest rates, inflation, unemployment, demographic trends, gross domestic product growth and consumer confidence in each of the countries and regions in which we operate. While residential construction in the U.S. remained relatively strong in fiscal year 2006, the National Association of Home Builders, or NAHB, and other market analysts expect the new construction single-family residential segment to slow during the remainder of calendar year 2006. We also expect the Australian and New Zealand housing markets to slow over the short to medium term. Any slow down in the markets we serve could result in decreased demand for our products and cause us to experience decreased sales and operating income. In addition, the level of activity in construction markets also depends on our ability to grow primary demand for fiber cement and convert sales of alternative materials to sales of fiber cement. Historically, in periods of economic decline, both new housing starts and residential remodeling also decline. The level of activity in the commercial construction market depends largely on vacancy rates and general economic conditions. Because residential and commercial construction markets are sensitive to cyclical changes in the economy, downturns in the economy or a lack of substantial improvement in the economy of any of our geographic markets could negatively affect operating results. Because of these and other factors, our results of operations may be subject to substantial fluctuations and the results for any prior period may not be indicative of results for any future period.

Because demand for our products in our major markets is seasonal, our quarterly results of operations may vary throughout the year.

In the United States, a large proportion of our fiber cement products are sold in the Southeastern, Southcentral and Pacific Northwest regions of the country. Demand for building products in these regions is seasonal because construction activity diminishes during the winter season. In addition, the September 2005 hurricanes that caused considerable damage along the Gulf Coast in the United States had some impact on carrier availability and transportation costs through the initial phases of the hurricane relief efforts. In Australia, New Zealand and the Philippines, demand for building products is also seasonal because, in

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Australia and New Zealand, construction activity diminishes during the summer period of December to February, and in the Philippines, construction activity diminishes during the wet season from June to September and the last half of December due to the slowdown in business activity over the holiday period. Because of these and other factors, our quarterly results of operations may vary throughout the year and the results for any quarterly period may not be indicative of results for any future period.

We may experience adverse fluctuations in the supply and cost of raw materials necessary to our business. A significant reduction or cessation of shipments from an important supplier could adversely affect our business if we are unable to secure alternative supplies within a short time or on reasonable terms.

Our fiber cement business periodically experiences fluctuations in the supply and costs of raw materials, and some of our supply markets are concentrated. For example, during fiscal year 2006 in the United States, natural gas costs increased significantly, and to a lesser extent, we also experienced increases in costs associated with electric power and some of our major material components including cement. Cellulose fiber, silica, cement and water are the principal raw materials used in the production of fiber cement. Cellulose fiber and cement have been subject to significant price fluctuations in the past. Price fluctuations or material delays may occur in the future due to lack of raw materials or suppliers. The loss or deterioration of our relationship with a major supplier, an increase in demand by third parties for a particular supplier s products or materials or delays in obtaining materials could have a material adverse effect on our business, results of operations and financial condition.

If our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall, which would have an adverse effect on our results of operations and financial condition. In addition we may incur substantial expenses and write-off charges related to unsuccessful research and development efforts.

We invest significantly in research and development because we believe that such efforts are key to sustaining and growing our existing market leadership position in fiber cement. Because profit margins for fiber cement products and building products generally erode the longer a product has been on the market, innovation is particularly important. We rely on our research and development efforts to generate new products and processes to increase demand and to protect profit margins. If our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall, which would have an adverse effect on our results of operations and financial condition. In addition, we may incur substantial expenses and write-offs related to unsuccessful research and development efforts.

Demand for our products is subject to changes in consumer preference.

The continued development of builder and consumer preference for our fiber cement products over competitive products is critical to sustaining and expanding demand for our products. Therefore, the failure to maintain and increase builder and consumer acceptance of our fiber cement products could have a material adverse effect on our growth strategy as well as our business, results of operations and financial condition.

We rely on only a few distributors to distribute our fiber cement products and the loss of any distributor could adversely affect our business.

Our top two distributors in the United States represented approximately 46% of our total USA Fiber Cement gross sales in fiscal year 2006. In addition, a large home center retailer accounted for approximately 12% of our total USA Fiber Cement gross sales in fiscal year 2006. Our top two distributors in Australia and our top three distributors in New Zealand accounted for approximately 28% and 65% of our total gross sales of fiber cement in Australia and New Zealand, respectively, in fiscal year 2006. We generally do not have long-term contracts with our large distributors. Accordingly, if we were to lose one or more of these distributors because our competitors were able to offer distributors more favorable pricing terms or for any other reasons, we may not be able to replace distributors in a timely manner or on reasonable terms. The loss of one or more distributors could have a material adverse effect on our business, results of operations and financial condition.

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Changes in, or failure to comply with, the laws, regulations, policies or conditions of any jurisdiction in which we conduct our business could result in, among other consequences, the loss of our assets in such jurisdiction, the elimination of certain rights that are critical to the operation of our business in such jurisdiction, a decrease in revenues or the imposition of additional taxes or other costs.

Because we own assets, manufacture and sell our products internationally, our activities are subject to political, economic, legal and other uncertainties, including:

- changing political and economic conditions;
- changing laws and policies;
- the general hazards associated with the assertion of sovereign rights over certain areas in which we conduct our business; and
- laws limiting or conditioning the right and ability of subsidiaries and joint ventures to pay dividends or remit earnings to affiliated companies.

Although we seek to take applicable laws, regulations and conditions into account in structuring our business on a global basis, changes in, or our failure to comply with, the laws, regulations, policies or conditions of any jurisdiction in which we conduct our business could result in, among other consequences, the loss of our assets in such jurisdiction, the elimination of certain rights that are critical to the operation of our business in such jurisdiction, a decrease in revenues or the imposition of additional taxes. Therefore, any change in laws, regulations, policies or conditions of a jurisdiction could have a material adverse effect on our business, results of operations and financial condition.

Our reliance on publicly available intellectual property and other proprietary information subjects us to the risk that competitors could copy our products or processes.

Our success depends, in part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. To the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain adequate legal or equitable relief. Also, the laws of some foreign countries may not protect our intellectual property to the same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. To safeguard our confidential information, we rely on employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which could harm our results of operations and competitive position.

We rely on a continuous power supply and availability of utilities to conduct our operations, and any shortages or interruptions could disrupt our operations and increase our expenses.

In the manufacture of our products, we rely on a continuous and uninterrupted supply of electric power, water and natural gas as well as the availability of water, waste and emissions discharge facilities. Any future shortages or discharge curtailments could significantly disrupt our operations and increase our expenses. We currently do not have backup generators to maintain power and do not have alternate sources of power in the event of a blackout. In addition, our current insurance does not provide coverage for any damages that we or our customers may suffer as a result of any interruption in our power supply. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at the affected facilities. Any future interruption in our ability to continue operations at our facilities could damage our reputation, harm our ability to retain existing customers or obtain new customers and could result in lost revenue, any of which could have a material adverse effect on our business, results of operations and financial condition.

Because we have significant operations outside of the United States and report our earnings in U.S. dollars, unfavorable fluctuations in currency values and exchange rates could have a significant negative impact on our earnings.

Because our reporting currency is the U.S. dollar, our non-U.S. operations face the additional risk of fluctuating currency values and exchange rates. Such operations may also face hard currency shortages and controls on currency exchange. Approximately 17% and 21% of our net sales in fiscal years 2006 and 2005, respectively, were derived from sales outside the United States. Consequently, changes in the value of foreign currencies (principally Australian dollars, New Zealand dollars, Philippine pesos, Euros, U.K. pounds and Canadian dollars) could significantly affect our business, results of operations and financial condition. We generally attempt to mitigate foreign exchange risk by entering, where possible, into contracts that require payment in local currency, hedging transactional risk, where appropriate, and having non-U.S. operations borrow in local currencies, particularly that of the Philippines. Although we did not have any material interest rate swaps or forward exchange contracts outstanding as of March 31, 2006, we may enter into such financial instruments from time to time to manage our market risks. There can be no assurance that we will be successful in these mitigation strategies, or that fluctuations in foreign currencies and other foreign exchange risks will not have a material adverse effect on our business, results of operations and financial condition.

Information technology systems integration issues could disrupt our internal operations, which could have significant adverse effects on our profitability.

In fiscal year 2006, we commenced our implementation of a new enterprise resource planning, or ERP, software system. Our ongoing systems integration work could cause portions of our information technology infrastructure to experience interruptions, delays or cessations of service and produce system errors. We may not be successful in timely implementing these new systems, and transitioning data and other aspects of the process could be expensive, time consuming and disruptive. Any disruptions that may occur in the implementation of this new system could adversely affect our ability to accurately and timely report the financial results of our operations and otherwise efficiently operate our business, which could have a significant adverse effect on our profitability.

Our Articles of Association and Dutch law contain provisions that could delay or prevent a change of control that may otherwise be beneficial to you.

Our Articles of Association contain several provisions that could have the effect of delaying or preventing a change of control of our ownership. Our Articles of Association generally prohibit the holding of shares of our common stock if, because of an acquisition of a relevant interest (including interests held in the form of shares of our common stock, CUFS or ADRs) in such shares, the number of shares in which a person holds relevant interests increases from 20% or below to over 20% or from a starting point that is above 20% and below 90%. However, this prohibition is subject to exceptions, including acquisitions that result from acceptance under a takeover bid as described in our Articles of Association. Although these provisions in our Articles of Association may help to ensure that no person acquires voting control of us without making an offer to all shareholders, these provisions may also have the effect of delaying or preventing a change of control that may otherwise be beneficial to you. See Item 10, Additional Information Key Provisions of our Articles of Association Limitations on Right to Hold Common Stock.

Because we are incorporated under Dutch laws, you may not be able to effectively seek legal recourse against us or our management and you may have difficulty enforcing any U.S. judgments or rulings in a foreign jurisdiction.

We are incorporated under the laws of The Netherlands. In addition, many of our directors and executive officers are residents of jurisdictions outside the United States and a substantial portion of our assets are located outside the United States. As a result, it may be difficult to effect service of process within the United States upon such persons, or to enforce outside the United States judgments obtained against such persons in U.S. courts, or to enforce in U.S. courts any judgments obtained against such persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the

U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts located in jurisdictions outside the United States, rights predicated upon the U.S. securities laws.

The rights of shareholders and the responsibilities of directors under the laws of The Netherlands may not be as clearly established as under statutes or judicial precedent in existence in certain U.S. jurisdictions, and such rights under the laws of The Netherlands may differ substantially from what those rights would be under the laws of various jurisdictions in the United States. Therefore, our shareholders may have more difficulty in challenging the actions by our directors than they would otherwise as shareholders of a corporation incorporated in the United States.

The issuance of shares of common stock or the grant of options to acquire shares of common stock could dilute the value of your shares and adversely affect the price of our common stock.

Because the authority to issue shares, and to grant rights to subscribe for shares, such as options, up to the amount of our authorized share capital, has been delegated to our Supervisory Board, the issuance of such shares or rights could dilute the value of your shares and adversely affect the price of our common stock.

In addition, if we issue a large number of our equity securities, the trading price of our equity securities could decrease. We may pursue acquisitions of businesses and may issue equity securities in connection with these acquisitions, although we do not currently have specific acquisitions planned. We may also issue equity securities to satisfy other liabilities of the Company. We cannot predict the effect, if any, that future sales or issuances of our equity securities or the availability of such securities for future sale will have on our securities market price from time to time.

If we experience labor disputes or interruptions, as we have from time to time in the past, our operations may be disrupted and our business, financial condition and results of operations may be adversely affected.

As of August 31, 2006, approximately 41%, or 185, of our employees in Australia and approximately 46%, or 81, of our employees in New Zealand were represented by labor unions. Our unionized employees are covered by a range of federal and state-based agreements in Australia and other agreements in New Zealand. Two Australian labor agreements applying to our NSW operation expired in June 2006. Of these, one has been renewed for two years, expiring in June 2008. The other is still in negotiation. Negotiations over labor agreements to cover each of our two Queensland plants are continuing. Our New Zealand labor agreement expires in September 2007. We cannot assure you that any of these agreements will be renewed on reasonable terms, or at all. During the past three years, we experienced occasional strikes and work interruptions lasting up to 5 days in Australia. In the event we experience a prolonged labor dispute at any of our facilities, any strikes or work interruptions associated with such dispute could have a material adverse effect on our business, financial condition and results of operations.

Our effective income tax rate could increase and adversely affect our operating results.

We operate in multiple jurisdictions and pay tax on our income according to the tax laws of these jurisdictions. Various factors, some of which are beyond our control, determine our effective tax rate, including changes in or interpretations of tax laws in any given jurisdiction, our ability to use net operating losses and tax credit carry forwards and other tax attributes, changes in geographical allocation of income and expense, and our judgment about the realizability of deferred tax assets.

If we are classified as a controlled foreign corporation or a passive foreign investment company, our shareholders could be subject to increased tax liability as a consequence of their investment in our securities.

Our U.S. citizen and resident shareholders could incur adverse U.S. federal income tax consequences if, for federal income tax purposes, we are classified as a controlled foreign corporation or a passive foreign investment company. For information regarding these consequences, see Item 10, Additional Information Taxation United States Taxation. In addition, shareholders could be adversely affected by changes in the current tax laws, regulations and interpretations thereof in the United States and The Netherlands, including changes that could have retroactive effect.

We may acquire or divest businesses from time to time, and this may adversely affect our results of operations and financial condition and may significantly change the nature of the company in which you have invested.

In the past, we have divested business segments. In the future, we may acquire other businesses or sell some or all of our assets or business segments. Any significant acquisition or sale may adversely affect our results of operations and financial condition and could change the overall profile of our business. As a result, the value of our shares may decrease in response to any such acquisition or sale and, upon any such acquisition or sale, our shares may represent an investment in a company with significantly different assets and prospects from the Company when you made your initial investment in us.

We expect to incur substantial accounting and legal costs in order to comply with 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, and we may experience a loss in investor confidence, and a decrease in the market price of our ADRs, if we are unable to so comply.

Commencing with our annual report for the fiscal year ending March 31, 2007, we will be required to comply with the internal control over financial reporting requirements of Item 308 of Regulation S-K. As part of these new rules, we will be required to include in our annual report on Form 20-F, a report containing management s assessment of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to and report on management s assessment of the effectiveness of our internal controls over financial reporting.

We expect to incur substantial legal and accounting costs in order to initially comply and continue to comply with the internal control over financial reporting requirements of Item 308 of Regulation S-K. In addition, if we fail to achieve and maintain the adequacy of our internal controls over financial reporting, or otherwise fail to comply with the requirements of Item 308 of Regulation S-K, we could experience a loss in investor confidence in the reliability of our financial statements, which could lead to a decrease in the market price for our ADRs and harm our business.

Forward-Looking Statements

This annual report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports filed with or furnished to the United States Securities and Exchange Commission on Forms 20-F and 6-K, in our annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by our 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 Tax Office amended assessment;
- expectations that our credit facilities will be extended or renewed;
- projections of our results of operations or financial condition;
- statements regarding our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;
- statements about our future performance; and
- statements about product or environmental liabilities.

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

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Forward-looking statements involve inherent risks and uncertainties. We caution 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 Key Information Risk Factors beginning on page 5, 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 we operate; 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. We caution that the foregoing list of factors is not exclusive 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.

Item 4. *Information on the Company*

History and Development of the Company

Our legal name was changed to James Hardie Industries N.V. from RCI Netherlands Holdings B.V. in July 2001 when our legal form was converted from a *besloten vennootschap met beperkte aansprakelijkheid* (a B.V.), or private limited liability company, to a *naamloze vennootschap* (a N.V.), or a public limited liability company whose stock, unlike a private limited liability company, may be transferred without executing a notarial deed if such company is listed on a recognized stock exchange. We operate under Dutch law. Our corporate seat is located in Amsterdam, The Netherlands. The address of our registered office in The Netherlands is Atrium, 8th floor, Strawinskylaan 3077, 1077 ZX Amsterdam. The telephone number there is 011 31 20 301 2980. Our Company Secretary is Mr. Benjamin Butterfield who is based in The Netherlands.

Corporate Restructuring

On July 2, 1998, James Hardie Industries Limited, or JHIL, now called ABN 60, which was then a public company organized under the laws of Australia and listed on the Australian Stock Exchange, announced a plan of reorganization and capital restructuring, which we refer to as the 1998 Reorganization.

James Hardie N.V., or JHNV, was incorporated in August 1998 as an intermediary holding company, with all of its common stock owned by indirect subsidiaries of ABN 60. On October 16, 1998, the shareholders of ABN 60 approved the 1998 Reorganization. We began our restructuring in November 1998, primarily to address the structural imbalance and resulting operational, financial and commercial issues associated with the increasing significance and growth opportunities of our U.S. operations and the location of corporate management and our shareholder base in Australia. At that time, we successfully completed:

- the formation of JHNV;
- the transfer to subsidiaries of JHNV of all of our fiber cement businesses, our U.S. gypsum wallboard business, our Australian and New Zealand building systems business and our Australian windows business, all of which, except for fiber cement, were subsequently sold;
- a debt financing, consisting of an issuance of notes to U.S. purchasers, and the arrangement of an Australian credit facility; and
- the relocation of most of our senior executives and managers to our operational headquarters in the United States.

In February 2001, ABN 60, formerly known as James Hardie Industries Limited, or JHIL, established the Medical Research and Compensation Foundation, which we refer to as the Foundation, by gifting

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A$3.0 million ($1.7 million) in cash and transferring ownership of Amaca and Amaba to the Foundation. See Legal Proceedings Separation of Amaca Pty Ltd, Amaba Pty Ltd and ABN 60 for more information.

On July 24, 2001, ABN 60 announced a further plan of reorganization and capital restructuring, which we refer to as the 2001 Reorganization. On October 19, 2001, we completed our 2001 Reorganization. This restructuring was done to provide us with a more efficient financial structure in light of potential global expansion, to allow us to use our stock for acquisitions if necessary and to increase overall returns to our shareholders. The 2001 Reorganization consisted of the following:

- the issuance of shares of JHI NV common stock represented by CUFS to substantially all ABN 60 shareholders in exchange for their shares of ABN 60 common stock pursuant to an approved Australian scheme of arrangement;
- the transfer by ABN 60 of all of the outstanding shares of JHNV (which directly or indirectly held substantially all of the assets of the James Hardie Group at that time) to JHI NV;
- a capital reduction and payment of a dividend by ABN 60 to its then sole shareholder, JHI NV;
- the issuance by ABN 60 of 100,000 partly-paid ordinary shares to JHI NV for a total issue price approximately equal to the market value of the James Hardie Group immediately prior to the scheme s implementation (which equaled approximately A$1.9 billion). There was an initial subscription price paid of A$50 per partly-paid ordinary share (that is, for a total subscription price for such shares of A$5 million), and the remainder was left uncalled. A partly-paid share is a share that is issued with only part of its value paid by the owner of the share. The partly-paid shares were issued by ABN 60 to enable it to call on JHI NV for funds in the future if ABN 60 needed such funds to maintain its solvency;
- the listing of the shares of JHI NV represented by CUFS on the Australian Stock Exchange and the listing of ADRs, representing CUFS, which in turn represent shares of JHI NV, on the New York Stock Exchange; and
- the establishment of a Dutch financing subsidiary, James Hardie International Finance B.V., or JHIF BV.

As a result of the share exchange, ABN 60 shareholders ceased to hold any direct interest in ABN 60 and instead became the holders of interests in JHI NV common shares, receiving substantially their same proportional ownership interests in the Company as they had in ABN 60 before exchanging their shares.

In addition, as a result of the exchange, ABN 60 and JHNV became direct subsidiaries of JHI NV.

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The 2001 Reorganization is generally depicted in the following simplified diagrams:

Following the 2001 Reorganization, JHI NV controlled the same assets and liabilities as ABN 60 controlled immediately prior to the 2001 Reorganization.

During fiscal year 2003:

JHI NV and ABN 60 cancelled the partly-paid shares. The decision to cancel the partly-paid shares was taken by the directors of ABN 60 who did so based on a determination that the reduction in capital would not materially prejudice ABN 60 s ability to pay its creditors, including Amaba and Amaca, which, under the terms of the Deed of Covenant and Indemnity, were creditors of ABN 60 only to the extent of the limited financial obligations under that Deed. The directors of ABN 60, after due consideration of ABN 60 s financial position, determined that the reduction in capital would not materially prejudice ABN 60 s ability to pay its creditors;

ABN 60 transferred control of all of its non-operating subsidiaries to RCI Holdings Pty Ltd, a wholly owned subsidiary of JHI NV, to distinguish between the operating group of companies and non-operating subsidiaries; and

Following the consolidation of the operating assets of the James Hardie Group under JHI NV and JHNV in fiscal year 2003, the principal activity of ABN 60 was paying amounts in accordance with the Deed of Covenant and Indemnity. At that time, the cash position of the Company had improved significantly as a result of the sale of the Company s Gypsum business in the United States and the impending sale of a gypsum mine in Nevada. On March 31, 2003, following a review of all available options to address this issue and after a thorough review had been conducted to determine that the funds available to ABN 60 would be sufficient to meet the claims of all creditors, the shares in ABN 60 were transferred to a newly established company named the ABN 60 Foundation. ABN 60 Foundation was established to be the sole shareholder of ABN 60. ABN 60 is managed by independent directors and operates entirely independently of the Company.

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During fiscal year 2006, we completed a further restructuring which we believe will maximize our ability to continue paying dividends and continue realizing benefits available under the Dutch Financial Risk Reserve regime, in the event that the conditions precedent to the full implementation of the Final Funding Agreement are met. See Item 3, Key Information Risk Factors.

The 2006 reorganization consisted of the following: The subsidiary that owns our United States operations issued a second series of shares to a new subsidiary of JHIF BV. Our United States operations are now partly owned by JHI NV and the new subsidiary of JHIF BV. In the event that the conditions precedent to the full implementation of the Final Funding Agreement are met, we expect that dividends paid to the new subsidiary of JHIF BV will be used to fund our ongoing obligations pursuant to the Final Funding Agreement to the SPF through James Hardie 117 Pty Ltd, which we refer to as the Performing Subsidiary, while dividends paid to JHI NV will be available for other corporate purposes.

The following is a simplified diagram of our current corporate structure:

Recent Developments

Australian Taxation Office Assessment

In March 2006, RCI, a wholly owned subsidiary of the Company, received an amended assessment from the ATO. The amended assessment is based on the ATO s calculation of RCI s net capital gains arising as a result of an internal corporate restructuring carried out in 1998. The amended assessment originally was for A$412.0 million ($310.0 million). After remission of general interest charges by the ATO the total assessment was changed to A$378.0 million ($284.6 million), which includes: A$172.0 million ($129.5 million) as the primary tax after allowable credits; A$43.0 million ($32.4 million) in penalties (representing 25% of the primary tax); and A$163.0 million ($122.7 million) in general interest charges.

RCI is appealing the amended assessment and may incur substantial legal and other expenses in pursuing this appeal. See Item 3, Key Information Risk Factors. On July 5, 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 ($140.4 million converted using the assets and liabilities rate at June 30, 2006) 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. The first payment of accrued general interest charges will be due October 15, 2006 in respect of the quarter ending September 30, 2006.

We believe RCI s view of its tax position will ultimately prevail in the matter. Accordingly, as of March 31, 2006 we had not recorded a liability for the amended assessment. For more information, see Notes 13 and 20 to our consolidated financial statements included in Item 18 below.

ATO Decision on Tax Deductibility of SPF and Related Matters

On June 23, 2006, the ATO advised us that it has refused to endorse the SPF as a tax concession charity, arguing that, in its opinion, the scope of its activities under the Trust Deed and the Final Funding Agreement does not meet current legislative requirements for such an endorsement. At the time of filing this report, the Company is in further discussions with the ATO and other stakeholders, including the NSW Government, seeking to resolve this unsatisfied condition precedent to the Final Funding Agreement.

On June 29, 2006, the ATO issued a ruling to us to the effect that our contributions to the SPF would be tax deductible over the anticipated life of the arrangements in accordance with the recent blackhole expenditure Federal Legislation which was enacted in April 2006. The ruling issued by the ATO provides deductibility over a five-year period from the date of contribution, whereas the condition precedent in the Final Funding Agreement provides for deductibility of contributions in the year incurred.

Debt Facilities

In June 2006, our lenders agreed to extend the maturity date of our 364-day facilities in the amount of $110.0 million from December 2006 to June 2007, and to extend the maturity date of our term facilities in the amount of $245.0 million from June 2006 to December 2006.

Closure of Roofing Pilot Plant

We had a small-scale roofing manufacturing plant constructed in Fontana, California in 2003. Since that time, we had been undertaking production and market trials of our new roofing product in Southern California to quantify the market potential of the new product. In April 2006, we ceased our market development initiatives for Artisan® roofing and closed our roofing pilot plant. Our decision not to proceed with the roofing product was made after a review of market testing results which concluded that greater shareholder value would be created by focusing on other fiber cement growth initiatives. The closure of the roofing pilot plant resulted in an impairment charge of $13.4 million in fiscal year 2006 and closure costs of $1.1 million in the first quarter of fiscal year 2007.

Special Commission of Inquiry and Related Developments

On December 1, 2005, we announced that we, the NSW Government, and a wholly owned subsidiary of the Company had entered into the Final Funding Agreement to provide long-term funding to a special purpose fund that will provide compensation for Australian asbestos-related personal injury claims against the Former James Hardie Companies. Additional information about the Final Funding Agreement, the Special Commission of Inquiry, or SCI, and other related matters can be found below under the heading Legal Proceedings, under Item 3, Key Information Risk Factors, and in Notes 12 and 20 to our consolidated financial statements included below in Item 18.

Disposal of Chile Business

In June 2005, we approved a plan to dispose of our Chile Fiber Cement business to Compañía Industrial El Volcan S.A., which we refer to as Volcan. The sale closed in July 2005. We received net proceeds of $3.9 million and recorded a loss on disposal of $0.8 million, which is included in other operating expense in our consolidated statements of operations.

As part of the terms of the sale of the Chile Fiber Cement business to Volcan, we entered into a two-year take or pay purchase contract for fiber cement product manufactured by Volcan. The first and second years of the contract amount to purchase commitments of approximately $2.8 million and $2.1 million, respectively. As this contract qualifies as continuing involvement per Statement of Financial Accounting Standards, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, the results of operations and loss on disposal of the Chile Fiber Cement business are included in our income from continuing operations.

Board and Management Changes

On June 30, 2005, Mr. W. (Pim) Vlot, an interim member of our Managing Board since October 22, 2004, resigned from the Managing Board and as Company Secretary.

On July 1, 2005, Mr. Benjamin Butterfield was appointed our Company Secretary and an interim member of the Managing Board, and on August 22, 2005 he was appointed to the Managing Board by our shareholders.

On August 22, 2005, Mr. Russell Chenu was appointed to the Managing Board by our shareholders.

On August 22, 2005, Mr. Louis Gries, an interim member of the Managing Board since October 22, 2004, was appointed to the Managing Board by our shareholders.

On September 1, 2005, Ms. Cathy Wallace joined the Company as Vice President, Human Resources.

On December 19, 2005, Mr. Donald Merkley resigned from his position as Executive Vice President Research & Development and from the Company. Mr. Mark Fisher replaced Mr. Merkley in the research & development role.

On January 19, 2006, Mr. Peter Cameron, a non-executive director, resigned from our Joint and Supervisory Boards and from our Nominating and Governance Committee for health reasons. Mr. Cameron died in February 2006.

On April 10, 2006, Mr. Grant Gustafson joined the Company as Vice President, Interiors & Business Development.

On May 9, 2006, Dr. Gregory Clark, a non-executive director, resigned from our Joint and Supervisory Boards, and from our Audit Committee and Nominating and Governance Committee.

On September 1, 2006, Mr. David Merkley resigned from his position as our Executive Vice President, Engineering and Process Development.

2006 Annual General Meeting

At the 2006 Annual General Meeting held on September 25, 2006, the following matters (in addition to certain routine matters) were approved by our shareholders. Due to the recent nature of these developments, except as set forth in this section, the disclosure in this Form 20-F generally does not reflect these recent developments.

Election of Members of the Supervisory and Joint Boards

At our Annual General Meeting on September 25, 2006, our shareholders voted to approve the re-appointment of Ms. Meredith Hellicar, Mr. Michael Gillfillan and Mr. Donald McGauchie as members of our Supervisory and Joint Boards.

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Supervisory Board Remuneration

At our Annual General Meeting on September 25, 2006, our shareholders approved an increase in the aggregate amount of remuneration payable to members of our Supervisory Board from $650,000 per annum to a sum not to exceed the aggregate maxium amount of $1.5 million per annum, to be divided in accordance with our Articles of Association.

Supervisory Board Share Plan

At our Annual General Meeting on September 25, 2006, our shareholders approved the replacement of our Supervisory Board Share Plan, or SBSP, with a new plan called the Supervisory Board Share Plan 2006, or SBSP 2006. The following is a brief summary of the SBSP 2006 and is qualified in its entirety by reference to the full plan which is attached as Exhibit 4.4 to this Annual Report on Form 20-F and is hereby incorporated by reference in its entirety:

Participation by members of the Supervisory Board in the SBSP 2006 is not mandatory, and no holding lock applies to any shares acquired under the SBSP 2006;

The SBSP 2006 allows us to issue new shares or acquire shares on the market on behalf of the participant;

We will not provide any loans in relation to the issue or purchase of shares under the SBSP 2006;

The number of shares issued or transferred to a member of the Supervisory Board will be determined by dividing the amount which the member elects to apply under the SBSP 2006 (net of any applicable taxes) by the market price (defined below);

The total remuneration of a Supervisory Board member will take into account any participation in the SBSP 2006. Accordingly, the maximum amount of his or her participation will be determined by the maximum remuneration payable to them. Therefore, the maximum number of shares that may be issued under the SBSP 2006 to all participants in any single year is equal to the aggregate remuneration payable to members of the Supervisory Board pursuant to Article 25 of our Articles of Association, divided by the market price (defined below);

Where new shares are issued under the SBSP 2006, the market price is the average of the closing prices for CUFS on the ASX during the period of five business days preceding the day of issue of the shares. Where shares are purchased on the market, the market price is the price at which the relevant CUFS are acquired;

The SBSP 2006 is administered by the Managing Board and is governed by the laws of The Netherlands. The Managing Board may at any time vary or terminate the SBSP 2006 by resolution (subject to any applicable ASX listing rule requirements);

Shares under the SBSP 2006 will be issued no later than three years after the passing of the resolution approving the SBSP 2006; and

Any new member of the Supervisory Board will not be issued new shares under the SBSP 2006 until further shareholder approval is obtained pursuant to relevant ASX listing rules. However, any new member of the Supervisory Board appointed prior to the next Annual General Meeting may participate in the SBSP 2006 by the Company acquiring shares on the market (which does not require shareholder approval under ASX listing rules).

In connection with those 2006 changes to the SBSP, the Supervisory Board has resolved to introduce certain minimum shareholding requirements (which will not form part of the SBSP 2006), as follows:

Within the six-year period up to August 2012, members of the Supervisory Board must accumulate a minimum of 1.5 times their annual remuneration (excluding fees for Committee or Deputy Chairmanship) in share ownership (either personally or through a personal superannuation or pension plan);

Within the six-year period up to August 2012, the Chairman must accumulate a minimum of twice her or his annual remuneration in share ownership (either personally or through a personal superannuation or pension plan);

Newly-appointed members of the Supervisory Board will have six years from the date of joining the Supervisory Board to satisfy the minimum share ownership requirements mentioned above;

No director will be required to apply more than 50% of their fees, on a post-tax basis, over a six-year period toward satisfying the minimum share ownership requirements mentioned above;

Failure to comply (as determined by the Supervisory Board) with the minimum share ownership requirements mentioned above will not automatically result in a director being obliged to resign as a member of the Supervisory Board or Joint Board, but levels of director shareholding will be disclosed in our annual reports and thus our shareholders will be able to monitor such compliance; and

The minimum share ownership requirements mentioned above will not form part of the rules of the SBSP 2006 and are subject to change by the Supervisory Board from time to time.

In connection with the SBSP 2006, at our Annual General Meeting on September 25, 2006 our shareholders also approved the issue of ordinary fully-paid shares in the Company to members of our Supervisory Board (under the SBSP 2006) in accordance with the SBSP 2006 initialed by our Chairman; and approved the participation in the SBSP 2006 by Ms. Meredith Hellicar, and Messrs. John Barr, Michael Brown, Michael Gillfillan, James Loudon, and Donald McGauchie.

Long Term Incentive Plan

At our Annual General Meeting on September 25, 2006, our shareholders voted to approve:

the establishment of a plan, to be called the James Hardie Industries N.V. Long Term Incentive Plan 2006, which we refer to as the LTIP, to provide incentives to members of our Managing Board and to certain members of our management, which we refer to as Executives; and

in accordance with certain LTIP rules, the issue of certain options or other rights over, or interests in, ordinary fully-paid shares in the Company, which we refer to as 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, our shareholders approved the following in accordance with the terms of the LTIP:

participation in the LTIP to a maximum of 1,000,000 options by Mr. Louis Gries;

acquisition accordingly by Mr. Gries of Shares up to the stated maximum;

participation in the LTIP to a maximum of 155,000 options by Mr. Russell Chenu;

acquisition accordingly by Mr. Chenu of Shares up to the stated maximum;

participation in the LTIP to a maximum of 263,000 options by Mr. Benjamin Butterfield; and

acquisition accordingly by Mr. Butterfield of Shares up to the stated maximum.

This description of the LTIP is qualified in its entirety by reference to the full plan which is attached as Exhibit 4.5 to this Annual Report on Form 20-F and which is hereby incorporated by reference in its entirety.

Renewal of Authority for the Company to Acquire its Own Shares

At our Annual General Meeting on September 25, 2006, our shareholders voted to allow our Managing Board to be irrevocably authorized to cause the Company to acquire shares in the capital of the Company for valuable consideration within a defined price range for an 18-month period, whether as an on- or off-financial market purchase, and up to the maximum number of shares permitted by Dutch law.

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Renewal of Rights Relating to Takeover Provisions

At our Annual General Meeting on September 25, 2006, our shareholders approved the extension of the application of Articles 49.9 and 49.10 of our Articles of Association for a period of five years commencing on the passing of the resolution, subject to the confirmation of this extension by the Managing Board on the recommendation of the Joint Board, in accordance with Article 51 of our Articles of Association. These Article 49 provisions are intended, in the event of a potential change in control of the Company, to provide our shareholders with takeover protections similar to those afforded to shareholders in Australian-listed companies under the Australian Corporations Act. The purposes of Article 49 are to ensure that:

- the acquisition of control over CUFS or Shares takes place in an efficient, competitive and informed market;

- each holder of any Shares or CUFS and also the members of the Managing Board, Joint Board, and Supervisory Board know the identity of any person who proposes to acquire a substantial interest in the Company, and are given reasonable time and enough information to consider and assess the merits of a proposal to acquire a substantial interest in the Company; and

- as far as practicable, the holders of Shares or CUFS all have a reasonable and equal opportunity to participate in benefits accruing through a proposal to acquire a substantial interest in the Company.

General Overview of Our Business

Based on net sales, we believe we are the largest manufacturer of fiber cement products and systems for internal and external building construction applications in the United States, Australia, New Zealand and the Philippines. Fiber cement is currently one of the fastest growing segments of the U.S. residential exteriors industry. Based on our knowledge, experience and third-party data regarding our industry, we estimate that total U.S. industry shipments of fiber cement siding, trim, soffit and fascia were approximately 2.0 billion square feet during fiscal year 2006, an increase of approximately 17% from fiscal year 2005. Based on our knowledge, experience and third-party data, we estimate that we have 30% to 40% of the USA Interior Cement Board Market. We market our fiber cement products and systems under various Hardie brand names and other brand names such as Cemplank® siding (we also formerly marketed siding under the brand name Sentry®). We believe that, in certain applications, our fiber cement products and systems provide a combination of distinctive performance, design and cost advantages when compared to other fiber cement products and alternative products and systems that use solid wood, engineered wood, vinyl, brick, stucco or gypsum wallboard.

The sale of fiber cement products in the United States accounted for 82%, 78% and 75% of our total net sales from continuing operations in fiscal years 2006, 2005 and 2004, respectively.

Our fiber cement products are used in a number of markets, including new residential construction (single and multi-family housing), manufactured housing (mobile and pre-fabricated homes), repair and remodeling and a variety of commercial and industrial applications (stores, warehouses, offices, hotels, motels, schools, libraries, museums, dormitories, hospitals, detention facilities, religious buildings and gymnasiums). We manufacture numerous types of fiber cement products with a variety of patterned profiles and surface finishes for a range of applications, including external siding and soffit lining, internal linings, facades, fencing, pipes and floor and tile underlayments. In contrast to some other building materials, fiber cement provides durability attributes, such as strong resistance to moisture, fire, impact and termites, requires relatively little maintenance and can be used as a substrate to create a wide variety of architectural effects with textured and colored finishes. Based on our knowledge, experience and third-party data regarding our industry, we estimate that, in fiscal year 2006, we sold approximately 13% of the estimated total 11.3 billion square foot U.S. exterior siding market (includes all cladding materials as summarized by the NAHB s Siding and Exterior Wall Finish in New Construction and Repair and Remodel Reports for 2004).

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The breakdown of our net sales by operating segment for each of our last three fiscal years is as follows:

	Fiscal Year Ended March 31,		
	2006	2005	2004
	(In millions)		
Continuing Operations			
USA Fiber Cement	$ 1,218.4	$ 939.2	$ 738.6
Asia Pacific Fiber Cement	241.8	236.1	219.8
Other	28.3	35.1	23.5
Total Continuing Operations	$ 1,488.5	$ 1,210.4	$ 981.9
Discontinued Operations			
Building Systems (New Zealand)	$	$	$ 2.9
Total Discontinued Operations	$	$	$ 2.9
Total (Continuing and Discontinued Operations)	$ 1,488.5	$ 1,210.4	$ 984.8

Industry Overview

U.S. Housing Industry, Fiber Cement Industry and Pipe Industry

In the United States, fiber cement is principally used in the residential building industry. Such usage fluctuates based on the level of new home construction and the repair and remodeling of existing homes. The level of activity is generally a function of interest rates, inflation, unemployment levels, demographic trends, gross domestic product growth and consumer confidence. Demand for building products is also affected by residential housing starts and existing home sales, the age and size of the housing stock and overall home improvement expenditures. According to the U.S. Census Bureau, annual domestic housing starts increased from approximately 1.85 million in calendar year 2003 to approximately 2.07 million in calendar year 2005 and residential remodeling expenditures increased from approximately $176.9 billion in calendar year 2003 to approximately $215.0 billion in calendar year 2005.

Based on our knowledge, experience and third-party data regarding our industry, we estimate that total U.S. industry shipments of fiber cement siding, trim, soffit and fascia were approximately 2.0 billion square feet during fiscal year 2006, up approximately 17% from fiscal year 2005. The future growth of fiber cement products will depend on overall demand for building products and on the rate of penetration of fiber cement products against competing materials such as wood, engineered wood (hardboard and oriented strand board), vinyl, masonry and stucco. See Item 3, Key Information Risk Factors.

In the United States, the largest application for fiber cement products is in the external siding industry. Fiber cement is one of the fastest growing segments of the siding industry. Based on our knowledge, experience and third-party data regarding our industry, we estimate that, in fiscal year 2006, we sold approximately 13% of the NAHB-estimated total 11.3 billion square foot U.S. exterior siding market (includes all cladding materials as summarized by the NAHB s Siding and Exterior Wall Finish in New Construction and Repair and Remodel Reports for 2004). Siding is a component of every building and it usually occupies more square footage than any other building component, such as windows and doors. Selection of siding material is based on installed cost, durability, aesthetic appeal, strength, weather resistance, maintenance requirements and cost, insulating properties and other features. Different regions of the United States show a decided preference among siding materials according to economic conditions, weather, materials availability and local taste. The principal siding materials are solid wood, engineered wood, fiber cement, vinyl, masonry and stucco. Vinyl has the largest share of the siding market. In recent years, fiber cement has been gaining market share against vinyl and wood, and this is believed to be due to durability concerns and higher maintenance requirements of those products.

In the U.S. civil construction market, large diameter pipes are used for major public infrastructure projects such as storm water, sewer, water distribution and other non-pressurized drainage applications. According to the most recent Freedonia Report on Large Diameter Pipes, in 2004 there was demand for approximately 184 million linear feet of large diameter pipes in the United States. Of this amount, approximately 46% was used for storm water and sewer applications, approximately 19% was used in drainage and irrigation applications and approximately 35% was used for a variety of other applications. According to the report, demand for large diameter pipes is expected to grow at a rate of approximately 2.4% annually.

International Fiber Cement Industry

In Australia and New Zealand, fiber cement building products are used in both the residential and commercial building industries with applications in external siding, internal walls, ceilings, floors, soffits and fences. The residential building industry represents the principal market for fiber cement products. We believe the level of activity in this industry is generally a function of interest rates, inflation, unemployment levels, demographic trends, gross domestic product growth and consumer confidence. Demand for fiber cement building products is also affected by the level of new housing starts and renovation activity. According to the Australian Bureau of Statistics, or ABS, total dwelling commencements in Australia declined from approximately 174,025 in calendar year 2002 to approximately 152,716 in calendar year 2005. Renovation activity, as measured in local currency expenditures by the ABS has increased from calendar year 2002 to calendar year 2005 for a total increase over this period of approximately 16%. According to Statistics New Zealand, new dwellings authorized in New Zealand declined from approximately 28,320 in fiscal year 2003 to 25,406 in fiscal year 2006. Residential renovation activity in New Zealand has increased from fiscal year 2003 to fiscal year 2006 for a total increase over this period of approximately 12%. The Housing Industry Association of Australia & InfoMetrics New Zealand believe new housing construction and renovation activity is expected to soften over the short to medium term in Australia and New Zealand respectively.

Fiber cement products have, across a range of product applications, gained broader acceptance in Australia and New Zealand than in the United States primarily due to earlier introduction in Australia and New Zealand. Former subsidiaries of ABN 60 developed fiber cement in Australia as a replacement for asbestos cement in the early 1980s. Asbestos sheet production ceased in the early 1980s and asbestos pipe-based production ceased in early 1987. Competition has intensified over the past decade in Australia. In addition to competition from solid wood, engineered wood, wallboard, masonry and brick, two Australian competitors have established fiber cement manufacturing facilities in Australia and fiber cement imports are also available. Competition has also intensified in New Zealand as fiber cement imports have increased with the strengthening New Zealand dollar, resulting in increasingly competitive market pricing. See Item 3, Key Information Risk Factors.

Management believes that fiber cement has good long-term growth potential in some Asian markets because of the benefits of framed construction over traditional masonry construction. In addition, we believe the opportunity to replace wood-based products, such as plywood, with more durable fiber cement will be attractive to consumers in these markets.

Products

We manufacture fiber cement products in the United States, Australia, New Zealand and the Philippines. In July 2005, we sold our Chilean fiber cement business. In fiscal year 2004, we commenced our European fiber cement business by distributing our fiber cement products in the U.K. and France. Our total product offering is aimed at the building and construction markets, including new residential construction, manufactured housing, repair and remodeling and a variety of commercial and industrial building applications.

We offer a wide range of fiber cement products for both exterior and interior applications, some of which have not yet been introduced into the United States. In the United States and elsewhere, our products are typically sold as planks or flat sheets with a variety of patterned profiles and finishes. Planks are used for external siding while flat sheets are used for internal and external wall linings and floor and tile underlayments. At our Plant City, Florida facility, we manufacture fiber reinforced concrete pipes for use as large diameter

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storm water and non-pressurized drainage applications. Outside the United States, we also manufacture fiber cement products for use in other applications such as building facades, lattice, trim, fencing, decorative columns and ceiling applications. We also manufacture products used in soffit lining.

We have developed a proprietary technology platform that enables us to produce thicker yet lighter-weight fiber cement products that are generally lighter and easier to handle than traditional building products. The first application of this technology has been our Harditrim® plank. Harditrim plank is a fiber cement trim product that is used on the exterior of residential and commercial construction to replace traditional wood and engineered wood trim. Harditrim plank was launched in fiscal year 1999, with the introduction of Harditrim® HLD® plank, from our Cleburne, Texas plant and demand has been strong since that time. A new production process for manufacturing Harditrim plank was completed at the Cleburne plant and production commenced in fiscal year 2002. Additional trim capacity was added in the Peru plant in fiscal years 2004 and 2005.

We believe that our products provide certain performance, design and cost advantages. The principal fiber cement attribute in exterior applications is durability, particularly when compared to competing wood and wood-based products, while offering comparable aesthetics. Our fiber cement products exhibit superior resistance to the damaging effects of moisture, fire, impact and termites compared to wood and wood-based products, which has enabled us to gain a competitive advantage over competing products. Vinyl siding products generally have better durability characteristics than wood-based products, but typically cannot duplicate the superior aesthetics of fiber cement and lack the characteristics necessary for effectively accepting paint applications.

Our fiber cement products provide strength and the ability to imprint simulated patterns that closely resemble patterns and profiles of traditional materials such as wood and stucco. The surface properties provide a superior paint-holding finish to wood and engineered wood products such that the periods between necessary maintenance and repainting are longer. Compared to masonry construction, fiber cement is lightweight, physically flexible and can be cut using readily available tools. This makes fiber cement suitable for lightweight construction across a range of architectural styles. Fiber cement is well suited to both timber and steel framed construction.

In our interior product range, our ceramic tile underlayment products provide superior handling and installation characteristics compared to fiberglass mesh cement boards. Compared to wood and wood-based products, our products provide the same general advantages that apply to external applications. In addition, our fiber cement products exhibit less movement in response to exposure to moisture than many alternative competing products, providing a more consistent and durable substrate on which to install tiles. In internal lining applications where exposure to moisture and impact damage are significant concerns, our products provide superior moisture resistance and impact resistance to traditional gypsum wet area wallboard and other competing products.

Our USA Hardie Pipe business manufactures fiber-reinforced concrete pipes at a custom-built facility in Plant City, Florida. The pipes are used for below-ground stormwater drainage in civil and commercial construction projects and in the development of residential subdivisions. Our strategy in our USA Hardie Pipe business is to establish Hardie™ pipe as the preferred solution for stormwater applications that use pipes with diameters ranging from 12 to 36 . We believe that Hardie™ pipe offers this market significant installation and performance benefits because our product features span those offered by traditional concrete pipes and newer flexible pipes. We provide the initial crush strength of rigid pipes, combined with the lighter-weight, longer-lengths and ease of installation of flexible pipes.

We seek to emphasize the performance attributes of our products and continue to develop new products that, due to the materials used and the process technology employed in their manufacture, may be difficult for competitors to emulate. While no assurances can be given, we believe that the proprietary nature of these products, our ability to competitively source raw materials for these products and the economies of scale that are derived from their manufacture should assist our efforts to maintain our leadership and low cost competitive position. See Research and Development. Also see Item 3, Key Information Risk Factors.

During fiscal year 2002, we introduced James Hardie® building products with ColorPlus® technology, a new finished product available in specific lap siding, shingles, trim, and soffit products. In the years since, we have added pre-finished trim accessories, several new colors and more board profiles. With ColorPlus® pre-finished products, customers are saved the trouble or expense of finding tradesmen to finish their siding. We added a further enhancement to ColorPlus® products by fitting a laminate to all ColorPlus® pre-painted siding so it can be delivered and installed in the best possible condition.

During fiscal year 2003, we expanded our new ColorPlus® line of pre-finished exterior products with the addition of several new colors, and successfully launched a new all-weather low density trim product utilizing our new proprietary XLD® trim low density fiber cement technology. In that same year we also launched our new improved proprietary grid quarter-inch backer product EzGrid® underlayment.

During fiscal year 2004, we introduced pre-finished trim accessories to further expand our ColorPlus® collection line.

During fiscal years 2005 and 2006, after considerable market research, we re-launched the ColorPlus® collection of products with additional colors, board profiles, and pallet sizes. In addition, we expanded our manufacturing capacity and capabilities to meet increasing demand for our siding, trim and soffit products with ColorPlus® Technology.

During fiscal year 2006, we added Moldblock™ Protection to our EZGrid® underlay and Hardibacker® sheets. Additionally, in the past five years, we launched many new textures, styles and coatings in fiber cement siding products in the United States to capitalize on demand for a variety of styles among homebuilders and homeowners. In Australia and New Zealand, new products released over the past five years include EziGrid® tile underlay, Eclipsa™ eaves lining, Linea® weatherboards, ExoTec® facade panel, Hardirock® board (in Australia only) and Monotek® facade panel and ShingleSide panel (in New Zealand only).

During fiscal year 2006 in the Philippines, our HardiFlex® board (developed since 1999) competed against plywood applications in ceilings, walls and eaves; HardiFlex Senepa® boards countered timber fascia board applications; and HardiPlank® siding competed with exterior rendered systems.

More generally, during the past five years we have introduced many new textures, styles and coatings to our fiber cement siding products in North America to capitalize on homeowners and homebuilders demands for a variety of cladding styles. At the same time, research and development has allowed us to find the optimum balance between low maintenance and appearance.

Seasonality

Our earnings are seasonal and typically follow activity levels in the building and construction industry. In the United States, the calendar quarters ending in December and March generally reflect reduced levels of building activity depending on weather conditions. In Australia and New Zealand, the calendar quarter ending in March is usually affected by a slowdown due to summer holidays. In the Philippines, construction activity diminishes during the wet season from June through 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. See Item 3, Key Information Risk Factors.

Raw Materials

All of the raw materials required in the manufacture of our fiber cement products are available from a number of sources and we have not experienced any shortages that have materially affected our operations. The principal raw materials used in the manufacture of fiber cement are cellulose fiber (wood-based pulp), silica (sand), portland cement and water.

Cellulose Fiber. Reliable access to specialized, consistent quality, low cost pulp is critical to the production of fiber cement building materials. Cellulose fiber is sourced from New Zealand, the United States, Canada, and South America (Chile) and is processed to our specifications. It is further processed using our proprietary technology to provide the reinforcing material in the cement matrix of fiber cement. We have developed a high level of internal expertise in the production and use of wood-based pulps. This expertise is shared with pulp producers, which have access to appropriate raw wood stocks, in order to formulate superior reinforcing pulps. The resulting pulp formulas are typically proprietary and are the subject of confidentiality agreements between the pulp producers and us. Although we have entered into contracts to hedge pulp prices in the past, we currently have none in effect. However, we continue to evaluate options on agreements with suppliers for the purchase of pulp that could fix our pulp prices over the longer-term.

Silica. High purity silica is sourced locally by the various production plants. In the majority of locations, we use silica sand as a silica source. In certain other locations, however, we process quartz rock and beneficiate silica sand to ensure the quality and consistency of this key raw material.

Cement. Cement is acquired in bulk from local suppliers and is supplied on a just-in-time basis to our manufacturing facilities. The silos at each fiber cement plant hold between one and three days of our cement requirements. During fiscal year 2006 we experienced cost increases related to increases in the price of cement. We continue to evaluate options on agreements with suppliers for the purchase of cement that could fix our cement prices over longer periods of time.

Water. We use local water supplies and seek to process all wastewater to comply with environmental requirements.

Sales, Marketing and Distribution

The principal markets for our fiber cement products are the United States, Australia, New Zealand, the Philippines, the United Kingdom, and France. In addition, we sell fiber cement products in Canada, South Korea, China, Hong Kong, Macau, Taiwan, Japan, Malaysia, Indonesia, Malta, Guam, Sri Lanka, Vietnam, Turkey, the Middle East (Iran, Israel, United Arab Emirates, Kuwait, and Saudi Arabia), Papua New Guinea and the Pacific Islands (including, for example, Fiji, New Caledonia, and Western and American Samoa), Ireland, Spain, Italy, Switzerland, Belgium, The Netherlands, Denmark, Greece, Cyprus, Norway, Finland, and Sweden. Our brand name, customer education in comparative product advantages, differentiated product range and customer service, including technical advice and assistance, provide the basis for our marketing strategy. We offer our customers support through a specialized fiber cement sales force and customer service infrastructure in the United States, Australia, New Zealand, the Philippines, Europe, and Canada. The customer service infrastructure includes inbound customer service support coordinated nationally in each country, and is complemented by outbound telemarketing capability. Within each regional market, we provide sales and marketing support to building products dealers and lumber yards and also provide support directly to the customers of these distribution channels, principally homebuilders and building contractors.

In the United States, we sell fiber cement products for new residential construction predominantly to distributors, which then sell these products to dealers or lumber yards. This two-step distribution process is supplemented with direct sales to customers as a means of accelerating product penetration and sales. Our top two U.S. distributors accounted for approximately 46% of our total USA Fiber Cement gross sales in fiscal year 2006. In addition, a large home center retailer accounted for approximately 12% of our total USA Fiber Cement gross sales in fiscal year 2006. Repair and remodel products in the United States are typically sold through the large home center retailers and specialist distributors. In Australia and New Zealand, both new construction and repair and remodel products are generally sold directly to distributor/hardware stores and lumber yards rather than through the two-step distribution process used in the United States. In the Philippines, a network of thousands of small to medium size dealer outlets sells our fiber cement products to consumers, builders and real estate developers. Physical distribution of product in each country is primarily by road or sea transport, except for in the United States where transportation is primarily by road and a small use of rail.

We maintain dedicated regional sales management teams in our major sales territories. As of August 31, 2006, the sales teams (including telemarketing staff) consisted of approximately 359 people in the United States and Canada, 71 people in Australia, 27 people in New Zealand, 28 people in the Philippines, and 28 people in Europe. We also employ one person based in Taiwan who functions as a regional export salesperson,

and who covers markets such as South Korea, Hong Kong, Macau, China and the Middle East. Our national sales managers and national account managers, together with the regional sales managers and sales representatives, maintain relationships with national and other major accounts. Our sales force includes skilled trades people who provide on-site technical advice and assistance. In some cases, sales forces manage specific product categories. For example, in the United States, there are separate sales forces for siding products, interior products, and pipes. The interior products sales force provides in-store merchandising support for home center retailers.

We also use trade and consumer advertising and public relations campaigns to generate demand for our products. These campaigns usually explain the differentiating attributes of our fiber cement products and the suitability of our fiber cement products and systems for specific applications.

Despite the fact that distributors are generally our direct customers, we also aim to increase primary demand for our products by marketing our products directly to homeowners, architects and builders. We encourage them to specify and install James Hardie® products because of the quality and craftsmanship of our products. This pull through strategy, in turn, assists us in expanding sales for our distribution network as distributors benefit from the increasing demand for our products.

Geographic expansion of our fiber cement business has occurred in markets where framed construction is prevalent for residential applications or where there are opportunities to change building practices from masonry to framed construction. Expansion is also possible where there are direct substitution opportunities irrespective of the methods of construction. Our entry into the Philippines is an example of the ability to substitute fiber cement for an alternative product (in this case plywood). With the exception of our current major markets, as well as Japan and certain rural areas in Asia, Scandinavia, and Eastern Europe, most markets in the world principally utilize masonry construction for external walls in residential construction. Accordingly, further geographic expansion depends on our ability to provide alternative construction solutions and for those solutions to be accepted by the markets.

Because fiber cement products were relatively new to the Philippines, the launch of our fiber cement products in the Philippines in fiscal year 1999 was accompanied by strategies to address the particular needs of local customers and the building trade. For example, we established a carpenter training and accreditation program whereby Filipino carpenters who are unfamiliar with our products are taught installation techniques. We have also put greater emphasis on building our relationships with new home developers and builders in order to educate the market on the benefits of our products in this particular sector.

Fiber cement products manufactured in Australia, New Zealand and the Philippines are exported to a number of markets in Asia, the Pacific, and the Middle East by sea transport. A regional sales management team based in the Philippines is responsible for coordinating export sales into Asia and the Middle East. A regional sales coordinator based in New Zealand is responsible for export sales to the Pacific and Papua New Guinea.

Research and Development

We pioneered the successful development of cellulose reinforced fiber cement and, during the 1980s, progressively introduced products resulting from our proprietary product formulation and process technology. We have capitalized on our strong market positions to maintain leadership in product research and development and process technology enhancements. Our product differentiation strategy, and our quest to maintain our position as one of the low cost manufacturers of fiber cement, is supported by our significant investment in research and development activities. In fiscal year 2006, we spent $32.1 million, or approximately 2.2% of total net sales, in research and development activities. This amount included $3.4 million of amounts classified as selling, general and administrative expenses for U.S. GAAP purposes. In fiscal year 2005, we spent $27.1 million, or approximately 2.2% of total net sales, in research and development activities. This amount included $5.5 million of amounts classified as selling, general and administrative expenses for U.S. GAAP purposes. In fiscal year 2004, we spent $26.1 million, or approximately 2.7% of total net sales, in research and development activities. This amount included $3.5 million of amounts classified as selling, general and administrative expenses for U.S. GAAP purposes.

We have research and development centers in Sydney, Australia and Fontana, California, where as of August 31, 2006 we employed over 110 scientists, engineers and technicians in core research and in product and process development. As of August 31, 2006, over 50% of our scientists have advanced degrees, and 45% have worked for the Company for over five years.

Our operating strength allows us to continuously re-invest in products and processes. This type of investment increased 18% to $32.1 million in fiscal year 2006 as we looked for ways to:

- enhance our current products;
- develop new products for specific markets or applications; and
- create or improve manufacturing platforms and processes.

Over the last five years we have applied our research and development capabilities to multiple levels surrounding our products or processes. For more information on our products, see Products above.

Our skill in developing production processes also enables us to investigate new products and processes with relatively low-risk operations, as we did with our roofing product. In the case of roofing, which we closed in April 2006, it became clear that the costs of manufacture and potential market for the roofing product made it a less attractive investment for us than other fiber cement growth opportunities. See Recent Developments Closure of Roofing Pilot Plant above for more information.

By investing in production technology, we aim to keep reducing our capital and operating costs. Over the past ten years, advances in process technology have allowed us to reduce the incremental cost of additional capacity at existing sites.

In addition, our goals are to:

- continue to lower the capital cost of each unit of production at new plants by learning from past projects and through continuing innovation in engineering;
- reduce operating costs at each plant by improving manufacturing processes, raw materials yields and machine productivity; and
- use our proprietary product formulations and process technologies to create lightweight and durable products for all climates.

Dependence on Trade Secrets and Research and Development

Our current patent portfolio is based mainly on fiber cement compositions, associated manufacturing processes and the resulting products. Our non-patent technical intellectual property consists primarily of our operating and manufacturing know-how, which is maintained as trade secret information. We have increased our abilities to effectively create, manage and utilize our intellectual property and have implemented a strategy that increasingly uses patenting, licensing, trade secret protection and joint development to protect and increase our market share. However, we cannot assure you that our intellectual property and other proprietary information will be protected in all cases. In addition, if our research and development efforts fail to generate new, innovative products or processes, our overall profit margins may decrease and demand for our products may fall. We do not materially rely on intellectual property licensed from any outside third parties. See Item 3, Key Information Risk Factors.

Governmental Regulation

Environmental Regulation

Our operations and properties are subject to extensive federal, state and local and foreign environmental protection and health and safety laws, regulations and ordinances. These environmental laws, among other matters, govern activities and operations that may have adverse environmental effects, such as discharges to air, soil and water, and establish standards for the handling of hazardous and toxic substances and the handling and disposal of solid and hazardous wastes. In the United States, these environmental laws include, but are not limited to:

the Resource Conservation and Recovery Act;

the Comprehensive Environmental Response, Compensation and Liability Act;

the Clean Air Act;

the Occupational Safety and Health Act;

the Emergency Planning and Community Right to Know Act;

the Clean Water Act;

the Safe Drinking Water Act;

the Surface Mining Control and Reclamation Act;

the Toxic Substances Control Act;

the National Environmental Policy Act; and

the Endangered Species Act,

as well as analogous state statutes and regulations. Additionally, local government agencies may impose environmental restrictions and requirements relating to air and water quality with which we must comply. Other countries also have statutory schemes relating to the protection of the environment. Some environmental laws provide that a current or previous owner or operator of real property may be liable for the costs of removal or remediation of environmental contamination on, under, or in that property. In addition, persons who arrange, or are deemed to have arranged, for the disposal or treatment of hazardous substances may also be liable for the costs of removal or remediation of environmental contamination at the disposal or treatment site, regardless of whether the affected site is owned or operated by such person. Environmental laws often impose liability whether or not the owner, operator or arranger knew of, or was responsible for, the presence of such environmental contamination. Also, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances pursuant to applicable environmental laws as well as common law tort theories, including strict liability. Environmental compliance costs in the future will depend, in part, on regulatory developments and future requirements that cannot be predicted. See Item 3, Key Information Risk Factors. Also see Legal Proceedings below.

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Organizational Structure

JHI NV is incorporated in The Netherlands, with its corporate seat in Amsterdam.

The table below sets forth our significant subsidiaries, all of which are 100% owned by JHI NV, either directly or indirectly, as of June 30, 2006.

Name of Company	Jurisdiction of Establishment
James Hardie Aust Holdings Pty Ltd.	Australia
James Hardie Austgroup Pty Ltd.	Australia
James Hardie Australia Management Pty Ltd.	Australia
James Hardie Australia Pty Ltd.	Australia
James Hardie Building Products Inc.	United States
James Hardie Europe B.V	Netherlands
James Hardie Fibre Cement Pty Ltd.	Australia
James Hardie International Finance B.V	Netherlands
James Hardie International Finance Holdings Sub I B.V	Netherlands
James Hardie International Finance Holdings Sub II B.V	Netherlands
James Hardie International Holdings B.V	Netherlands
James Hardie N.V.	Netherlands
James Hardie New Zealand Limited	New Zealand
James Hardie Philippines Inc.	Philippines
James Hardie Research (Holdings) Pty Ltd.	Australia
James Hardie U.S. Investments Sierra Inc.	United States
N.V. Technology Holdings A Limited Partnership	Australia
RCI Pty Ltd.	Australia

Capital Expenditures and Divestitures

Capital Expenditures

The following table sets forth our capital expenditures, calculated on an accrual basis, for each year in the three-year period ended March 31, 2006.

	Fiscal Years Ended March 31,		
	2006	2005	2004
		(In millions)	
USA Fiber Cement	$ 154.5	$ 144.8	$ 56.2
Asia Pacific Fiber Cement	6.6	4.1	8.4
Chile, U.S. Pipes, U.S. Roofing and Europe(1)	1.7	4.1	9.5
Total Capital Expenditures	$ 162.8	$ 153.0	$ 74.1

(1) In July 2005, we sold our fiber cement business located in Chile. See Note 14 to our consolidated financial statements in Item 18. In April 2006, we closed our roofing pilot plant located in Fontana, California. For more information on these two discontinued operations in Chile and California, see Item 4, Information on the

Company Recent Developments.

The significant capital expenditure projects over the past three fiscal years in our USA Fiber Cement business include:

- the commencement of construction of a new fiber cement manufacturing plant in Pulaski, Virginia at a total estimated cost of $98.0 million. Construction of the plant began in March 2005. The plant will include two manufacturing lines, each with an annual design capacity of 300 million square feet. At the end of fiscal year 2006, we completed construction on the first manufacturing line and, in April 2006, we commenced commercial production on this line. The plant produces external siding and interior backerboard products for new residential construction, repair and remodel and manufactured housing markets. As of March 31, 2006, we have incurred $89.3 million related to the construction of our Pulaski, Virginia plant;

the continued implementation of our ColorPlus® strategy. This strategy includes constructing additional ColorPlus® coating capacity inside our existing plants. In fiscal year 2006, we completed construction of, and commenced production on, a new ColorPlus® line at our Blandon, Pennsylvania plant. In addition, we began construction on new ColorPlus® coating lines at our Reno, Nevada and Pulaski, Virginia plants. As of March 31, 2006, we have incurred $44.7 million related to our ColorPlus® strategy;

the addition of a new fiber cement plant in Reno, Nevada at a cost of $58.0 million, which occurred during fiscal years 2006, 2005 and 2004;

the addition of a new trim line at our Peru, Illinois plant. As of March 31, 2005, we were in pre-production and in fiscal year 2006 we commenced the ramp-up of this new trim line. As of March 31, 2006, we incurred a total cost of $58.5 million related to the construction of this new trim line. These expenditures occurred during fiscal years 2006, 2005 and 2004;

upgrades to our Blandon, Pennsylvania plant at a cost of approximately $17.1 million, which occurred during fiscal years 2005, 2004 and 2003; and

the addition of a panel production line at our Waxahachie, Texas plant at a cost of $26.5 million, which occurred during fiscal years 2004 and 2003.

In addition, in fiscal year 2006 we commenced our implementation of a new enterprise resource planning software system. As of March 31, 2006, we have incurred $4.3 million related to this project.

In our roofing operations, we spent $12.4 million in fiscal years 2006, 2004 and 2003 on our pilot plant in Fontana, California. This pilot plant was built to test our proprietary manufacturing technology and to provide product market testing in Southern California for a new generation of fiber cement roofing product. In April 2006, we ceased market development initiatives for our roofing product and announced the closure of our roofing plant resulting in an impairment charge of $13.4 million in fiscal year 2006 and closure costs of $1.1 million in the first quarter of fiscal year 2007.

In fiscal years 2006 and 2004, we spent $3.5 million and $2.2 million, respectively, to upgrade our fiber cement manufacturing plant at Rosehill in Sydney. In addition, in fiscal year 2004, $1.8 million was spent at our Brisbane plant to install a coating facility.

We currently expect to spend up to approximately $150 million for capital expenditures in fiscal year 2007. Amounts expended will include facility upgrades on capital to complete new facility construction and on capital to implement new fiber cement technologies. The expected amount of spending in fiscal year 2007 includes additional capital expenditures expected to be made on projects that were in progress during fiscal year 2006, including:

the second manufacturing line at our Pulaski, Virginia plant, discussed above, at an estimated cost of $12.0 million; and

the continued implementation of our ColorPlus® strategy, discussed above, at an estimated cost of $12.5 million.

In addition, the expected capital expenditure amount for fiscal year 2007 above includes approximately $9.8 million related to the implementation of the new enterprise resource planning software system discussed above.

All of the above planned capital expenditures are in our USA Fiber Cement segment.

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We currently expect the level of our capital expenditures to continue to be substantial. Competitive pressures and market developments could require further increases in capital expenditures. Our financing for these capital expenditures is expected to come from our cash from our future operations and from external debt to the extent that cash from operations does not cover our capital expenditures. However, if we are unable to extend our credit facilities, or are unable to renew our credit facilities on terms that are substantially similar to the ones we presently have, we may experience liquidity issues and may have to reduce our levels of planned capital expenditures to conserve cash for future cash flow requirements. See Item 3, Key Information Risk Factors.

Divestitures

Building Systems

On May 30, 2003, we sold our New Zealand Building Systems business to a third party. We recorded a gain of $1.9 million representing the excess of net proceeds from the sale of $6.7 million over the net book value of assets sold of $4.8 million. The proceeds from the sale comprised cash of $5.0 million and a note receivable in the amount of $1.7 million. As of March 2005, the $1.7 million note receivable had been collected in full.

Disposal of Chile Business

In June 2005, the Company approved a plan to dispose of its Chile Fiber Cement business to Volcan. The sale closed on July 8, 2005. The Company received net proceeds of $3.9 million and recorded a loss on disposal of $0.8 million. This loss on disposal is included in other operating expense in the Company s consolidated statements of operations. The net proceeds from the sale were comprised of cash of $3.1 million and a receivable of $0.8 million. The cash proceeds were offset by cash divested of $0.2 million. Short-term debt of $11.9 million was repaid in full out of the gross proceeds of $15.8 million.

As part of the terms of the sale of the Chile Fiber Cement business to Volcan, the Company entered into a two-year take or pay purchase contract for fiber cement product manufactured by Volcan. The first and second year of the contract amounts to a purchase commitment of approximately $2.8 million and $2.1 million, respectively. As this contract qualifies as continuing involvement, the results of operations and loss on disposal of the Chile Fiber Cement business are included in the Company s income from continuing operations.

ABN 60

Following the establishment of the ABN 60 Foundation and transfer of shares in ABN 60 to the ABN 60 Foundation, we no longer own any shares of ABN 60. ABN 60 Foundation is managed by independent directors and operates entirely independently of us. Since that date, we have not and currently we do not control the activities of ABN 60 or ABN 60 Foundation in any way. Other than as described in Note 12 to our consolidated financial statements in Item 18, we have no economic interest in ABN 60 or ABN 60 Foundation and we have no right to dividends or capital distributions made by the ABN 60 Foundation. Apart from the express indemnity for non-asbestos matters provided to ABN 60 and a possible arrangement to fund some or all future claimants for asbestos-related injuries caused by former James Hardie Group subsidiary companies and to the potential liabilities more fully described in Notes 12 and 20 to our consolidated financial statements in Item 18, we do not believe we will have any liability under current Australian law should future liabilities of ABN 60 or ABN 60 Foundation exceed the funds available to those entities. As a result of the change in ownership of ABN 60 on March 31, 2003, we recorded a loss on disposal of $0.4 million, representing the liabilities of ABN 60 (to the Foundation) of A$94.6 million ($57.2 million), the A$94.5 million ($57.1 million) in cash held on the balance sheet, and costs associated with the establishment and funding of the ABN 60 Foundation. Also see Legal Proceedings and Notes 12 and 14 to our consolidated financial statements included below in Item 18.

Under the terms of a Deed of Covenant, Indemnity and Access entered into by JHI NV and ABN 60 at or around this time, the ABN 60 Foundation was established, JHI NV agreed to indemnify ABN 60 for any non asbestos-related legal claims made on ABN 60 in relation to any acts or omissions of ABN 60 or its directors and officers, which occurred prior to the transfer of ABN 60 to the ABN 60 Foundation. The indemnity is uncapped and the term of the indemnity is in perpetuity. We believe that the likelihood of any material non asbestos-related claims occurring which would result in a call on this indemnity is remote. As such, we have not recorded a liability for the indemnity. We have not pledged any assets as collateral for such indemnity.

Also under the terms of that Deed of Covenant, Indemnity and Access, Amaca, Amaba and ABN 60 agreed to indemnify JHI NV and its related corporate entities for past and future asbestos-related liabilities incurred by them as a result of the acts or omissions of ABN 60 prior to establishing the ABN 60 Foundation. Amaca and Amaba provided similar indemnities under the Deed of Covenant and Indemnity entered into with ABN 60, which included indemnities in favor of JHI NV and its related entities. Amaca, Amaba and ABN 60 s obligation to indemnify JHI NV and its related entities includes asbestos-related claims that may arise associated with the manufacturing activities of those companies.

Our liability under or in connection with the indemnities described above may potentially be mitigated or otherwise affected by the releases from civil liability described below under the heading Releases from Civil Liability. However, we have taken the view to date that such legislation does not ameliorate our liability with respect to those indemnities.

Property, Plant and Equipment

Over the past several years, we have built significant production capacity in the United States in an effort to ensure that we will be able to meet expected increases in demand for our products and improve our operating efficiencies. As part of our facilities investment strategy, we have constructed a plant for flat sheet and trim products in Illinois and upgraded and expanded our existing plants in Illinois, Texas, California and Pennsylvania. In addition, we entered into a long-term lease arrangement in fiscal year 2001 for our Waxahachie, Texas plant and upgraded the existing first line, replaced the existing second line and completed construction on a new panel production line at this fiber cement plant in fiscal years 2001, 2002 and 2004, respectively. In fiscal year 2002, we also acquired the operating assets of Cemplank, Inc., which included a fiber cement plant at Blandon, Pennsylvania and a fiber cement plant at Summerville, South Carolina, and, in fiscal year 2003, we purchased the property on which these plants are located. In fiscal year 2004, we completed upgrades to our Blandon, Pennsylvania plant. In addition, we started construction on our new green-field plant in Reno, Nevada in fiscal year 2004 and our new trim line at our Peru, Illinois plant. In fiscal year 2005, we completed our ninth plant in Reno, Nevada and began pre-production at our new trim line in Peru, Illinois. In addition, in March 2005 we began building our tenth USA Fiber Cement manufacturing plant, located in Pulaski, Virginia. The Pulaski plant will feature two manufacturing lines, each with an annual design capacity of 300 million square feet. At the end of fiscal year 2006, we completed construction of one of the two planned production lines at the Pulaski plant, and in April 2006 this line commenced commercial production. At the end of fiscal year 2006, we also completed construction of, and commenced production on, a new ColorPlus® product line at our Blandon, Pennsylvania plant.

Our management estimates that our ten manufacturing plants are among the largest and lowest cost fiber cement manufacturing plants in the United States. Once our manufacturing plant in Pulaski, Virginia is completely constructed, it will be our largest fiber cement manufacturing plant in the world. Our management believes that the location of our plants in California, Texas, Florida, Illinois, Washington, Pennsylvania, South Carolina, Nevada and Virginia positions us near high growth markets in the United States while minimizing our transportation costs for product distribution and raw material sourcing.

In fiscal year 2002, we closed our fiber cement plant in Western Australia and have been meeting demand from our remaining facilities. The remaining plants in Australia have also been upgraded over recent years to improve output and productivity. In fiscal years 2006 and 2004, A$4.6 million ($3.5 million) and A$3.2 million ($2.2 million), respectively, was spent to upgrade the fiber cement manufacturing plant at Rosehill in Sydney. The purpose of the upgrade at our Rosehill plant in fiscal year 2006 was to improve production line efficiencies in order to increase productivity and cost savings. In addition, we spent

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A$2.6 ($1.8 million) in fiscal year 2004 at our Brisbane plant to install a coating facility. We believe that the facility has added value to our basic product range.

In New Zealand, our fiber cement production line was upgraded in fiscal year 2001 at a cost of NZ$1 million ($1 million). The upgrades have enabled this plant to produce new siding and internal lining fiber cement products.

Also during fiscal year 2006, we undertook an initiative to locally manufacture low density products (currently all of our manufacturing in this area is conducted in New Zealand) and, in doing so, we incurred costs of A$0.7 million ($0.5 million) during fiscal year 2006 and an additional A$0.7 million ($0.5 million) during the first quarter of fiscal year 2007. We undertook this project to reduce associated freighting costs and better service the local growing market for our products in Queensland. This project was completed in June 2006 and its first commercial run of product occurred in July 2006.

In March 2001, our fiber reinforced concrete pipe plant at Plant City, Florida commenced operations. Built at a total cost of $33.7 million, the plant produces drainage pipes and has an annual production capacity of 100,000 tons.

Our manufacturing plants use significant amounts of water which, after internal recycling and reuse, are eventually discharged to publicly owned treatment works (with the exception of our Blandon, Pennsylvania and Summerville, South Carolina facilities, which maintain a closed loop system). The discharge of process water is monitored by us, as well as by regulators. In addition, we are subject to regulations that govern the air quality and emissions from our plants. In the past, from time to time, we have received reports of discharges in excess of our water and air permit limits. In each case, we have addressed the concerns raised in those notices.

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Plants and Process

We manufacture fiber cement products in the United States, Australia, New Zealand and the Philippines. The location of each of our fiber cement plants and the annual design capacity for such plants are set forth below:

Location	Existing Annual Design Capacity(1)	Committed Additional Design Capacity(1)	Total Planned Design Capacity(1)
Fiber Cement Flat Sheet (in million square feet)			
United States			
Fontana, California	180		180
Plant City, Florida	300		300
Cleburne, Texas	500		500
Tacoma, Washington	200		200
Peru, Illinois	560		560
Waxahachie, Texas	360		360
Blandon, Pennsylvania	200		200
Summerville, South Carolina	190		190
Reno, Nevada	300		300
Pulaski, Virginia(2)	300	300	600
Total United States	3,090		3,390
Australia			
Sydney, New South Wales(3)	200		200
Brisbane, Queensland (Carole Park)(3)(4)	160		160
Total Australia	360		360
New Zealand			
Auckland(3)	75		75
The Philippines			
Manila	145		145
Total Fiber Cement Flat Sheet	3,670		3,970
Fiber Reinforced Concrete Pipes (in tons)(5)			
Plant City, Florida (pipes)	100,000		100,000
Brisbane, Queensland (Meeandah)(3)(4)	50,000		50,000
Total Fiber Reinforced Concrete Pipes	150,000		150,000

(1) Annual design capacity is based on management s historical experience with our production process and is calculated assuming continuous operation, 24 hours per day, seven days per week, producing 5/16 thickness siding at a target operating speed. Plants outside the United States produce a range of thicker products, which negatively affect their outputs. Actual production is affected by factors such as product mix, batch size, plant availability and production speeds and is usually less than annual design capacity.

(2)

Our plant in Pulaski, Virginia will feature two manufacturing lines with a total annual design capacity of 600 million square feet (300 million per line). Currently only one line is complete.

(3) Prior to March 2004, the land and buildings on which these facilities are located were leased on a long-term basis from Amaca Pty Limited. In March 2004, various subsidiaries of Multiplex Property Trust (which we collectively refer to as Multiplex) an unrelated third party, acquired the land and buildings related to these four fiber cement manufacturing facilities from Amaca. Prior to July 2005, the land and

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buildings on which these facilities are located was leased on a long-term basis from Multiplex. In July 2005, unrelated third parties, Penrose Land Trustee No. 1 Limited and Penrose Land Trustee No. 2 Limited (which we collectively refer to as the Penrose Land Trust) acquired from Multiplex the land and buildings related to our fiber cement manufacturing facilities in Auckland.

(4) There are two manufacturing plants in Brisbane. Carole Park produces only flat sheets and Meeandah produces only pipes and columns.

(5) Pipe and column capacity is measured in tons rather than million square feet.

While the same basic process is used to manufacture fiber cement products at each facility, plants are designed to produce the appropriate mix of products to meet each market s specific, projected needs. Many of our manufacturing facilities have been either newly constructed or substantially modernized and upgraded in the past five years. The facilities were constructed so production can be efficiently adjusted in response to increased consumer demand by increasing production capacity utilization, enhancing the economies of scale or adding additional lines to existing facilities, or making corresponding reductions in production capacity in response to weaker demand. Except for the Waxahachie, Texas plant, we own all of our fiber cement sites and plants located in the United States. The lease for the Waxahachie, Texas site and plant expires on March 31, 2020, at which time we have an option to purchase the plant. Pursuant to the lease, we make quarterly base rental payments of $850,000. In 1998, we entered into lease agreements with a former subsidiary, now owned by the Foundation, for all of our fiber cement sites located in Australia. In March 2004, Multiplex acquired the land and buildings related to the four fiber cement manufacturing facilities from the Foundation. Prior to that acquisition, we renegotiated the four leases with Multiplex. Upon completion of the acquisition and subsequent transfer of title to Multiplex, Multiplex assumed the responsibility of landlord under each of the amended leases. In addition, in March 2004, we entered into a lease agreement with Multiplex for our fiber cement site located in New Zealand. In July 2005, the Penrose Land Trust acquired the land and buildings related to the fiber cement manufacturing facilities in New Zealand from Multiplex and we now make lease payments related to this site to the Penrose Land Trust, as landlord under the lease. We own our pipe plant in the United States. In addition, we own 40% of the land on which our Philippines fiber cement plant is located, and 100% of the Philippines plant itself.

For fiscal year 2006, average capacity utilization for our fiber cement plants by country was approximately as follows:

Country	**Capacity Utilization(1)**
United States	84%
Australia	56%
New Zealand	75%
Philippines	82%

(1) Capacity utilization is based on design capacity. Design capacity is based on management s estimates, as described above. No accepted industry standard exists for the calculation of fiber cement manufacturing facility capacities.

The capital cost per unit of production for new plants has significantly declined since we opened our first U.S. plant in Fontana, California in 1989. This improvement is largely attributable to our utilization of proprietary technology. Management believes that our capital cost per unit of capacity is substantially lower than that of many of our competitors plants. In addition, we can now build and commission new manufacturing plants significantly faster than when we built our first production line in the United States. Management believes that the speed and cost at which we can construct new plants relative to our competitors enable us to respond rapidly to emerging regional demand for fiber cement products and to gain the advantage accorded to the first local producer in a market.

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Mines

We own a quartz mine in Fontana, California and lease a quartz mine in Tacoma, Washington. Our five-year lease for the mine in Tacoma, Washington expired on February 28, 2006, at which time we exercised our option to renew the lease for an additional four years. We pay production royalties to the owner based on silica tonnage removed from the mine. Because other cost effective sources of sand are not available at these locations, we operate these quartz mines and process the rock to obtain silica for our fiber cement products.

Legal Proceedings

Our operations, 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. Our 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 below, 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 business. Although it is impossible to predict the outcome of any pending legal proceeding, our management believes that such proceedings and actions should not, except as it relates to asbestos as described below, individually or in the aggregate, have a material adverse effect on either our consolidated financial position, results of operations or cash flows. See also Item 3, Key Information Risk Factors.

Commitment to Provide Funding on a Long-Term Basis in Respect of Asbestos-Related Liabilities of Former Subsidiaries

On December 1, 2005, the Company announced that it, the NSW Government and a wholly owned Australian subsidiary of the Company, James Hardie 117 Pty Ltd, which we refer to as the Performing Subsidiary, had entered into a conditional agreement, called the Final Funding Agreement, to provide long-term funding to a special purpose fund, or SPF, that will provide compensation for Australian asbestos-related personal injury claims against certain former James Hardie companies (being Amaca Pty Ltd (which we refer to as Amaca), Amaba Pty Ltd (which we refer to as Amaba), and ABN 60 000 009 263 Pty Ltd, (which we refer to as ABN 60), which we collectively refer to as the Former James Hardie Companies).

Key events occurring since 2001 that led to the signing of the Final Funding Agreement are summarized further below.

The Final Funding Agreement remains 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 Final Funding Agreement will be tax deductible and the SPF will be exempt from Australian federal income tax on its income (or that alternative arrangements will exist which are satisfactory to the Company s Board of Directors).

In summary, the Final Funding Agreement 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, or KPMG Actuaries, as of March 31, 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

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Hardie Companies of A$1.52 billion ($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 U.S. GAAP in force at the date of the Final Funding Agreement) 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 Final Funding Agreement, which we collectively refer to as the Related Agreements;

no cap on individual payments to asbestos claimants;

the Performing Subsidiary s payment obligations are guaranteed by JHI NV;

the SPF s claims to the funding payments required under the Final Funding Agreement 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 parties to the Final Funding Agreement are in discussions and negotiations as to how the remaining conditions precedent (and most notably, the condition precedent that the SPF must be tax exempt) may be satisfied, amended or otherwise dealt with in a manner satisfactory to those parties. As part of those discussions, it is likely that the agreed amount set out in the Final Funding Agreement 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 Final Funding Agreement.

In addition to entering into the Final Funding Agreement, one or more of the Company, the Performing Subsidiary, the SPF and the NSW Government have entered into a number of agreements ancillary to or connected with the Final Funding Agreement, which we collectively refer to as the 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 JHI NV 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.

The Company considers that the principal outstanding conditions to be fulfilled before the Final Funding Agreement becomes effective are those relating to the tax exempt status of the SPF and approval of the Final Funding Agreement by the Company s shareholders.

In relation to the approval of the Final Funding Agreement by the Company s shareholders, we have undertaken significant work towards preparing the necessary documentation to be sent to shareholders, but at present we are unable to specify a date for holding the relevant meeting. The Company considers that it can only properly put the proposal to shareholders once the tax issues described above have been resolved, since, as further described below, such issues materially affect the affordability of the proposal which shareholders will be asked to approve.

The Company s ability to obtain a tax deduction has been confirmed by the ATO in a form binding on the Commissioner for the term of the Final Funding Agreement. 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 Final Funding Agreement 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. However, the ruling in relation to deductibility of contributions does not affect the status of the second tax condition applicable under the Final Funding Agreement (namely that the SPF is tax exempt), which remains unfulfilled. The ATO has in fact issued a notice to the SPF of refusal to endorse the SPF as being tax exempt on the basis that it is a charity. The SPF and the Company have received strong legal advice, including from some of Australia s leading counsel, that the SPF satisfies the requirements applicable under income tax legislation such that the ATO should endorse the SPF as a charity. At present the SPF and the Company are in further discussions with the ATO seeking to resolve the unsatisfied tax exemption condition precedent. The Company is also in discussions and negotiations with the NSW Government in relation to this condition and the means by which it could be fulfilled, amended or otherwise dealt with in a manner satisfactory to the parties to the Final Funding Agreement. The result of those discussions may be that the tax exemption condition is confirmed, or that it is amended in a manner which is agreed by the parties to the Final Funding Agreement to achieve the objectives set out in the Heads of Agreement described below.

The recording of the asbestos provision is in accordance with U.S. accounting standards because it is probable that we will make payments to fund asbestos-related claims on a long-term basis. The amount of the asbestos provision of $742.8 million (A$1.0 billion) at June 30, 2006 is our best estimate of the probable outcome. This estimate is based on the terms of the Final Funding Agreement, which includes an actuarial estimate prepared by KPMG Actuaries as of March 31, 2006 of the projected future cash outflows, undiscounted and uninflated.

If the conditions precedent to the Final Funding Agreement, such as the tax exempt status for the SPF, are not met, we may seek to enter into an alternative arrangement under which we would make payments for the benefit of asbestos claimants. Under alternative arrangements, the estimate may change.

Even if conditions to our funding obligations under the Final Funding Agreement, including the achievement of tax exempt status of the SPF, are not fulfilled, we have determined that it is nevertheless likely that we will make payments in respect of certain claimants who were injured by asbestos products manufactured by certain former Australian subsidiary companies. Our 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 we proceed with an alternative settlement without the assurance of tax exempt status for the SPF, it is likely, as a function of economic reality, that we will have less funds to support payments in respect of asbestos claims. While we continue to hope that the conditions precedent to the Final Funding Agreement will be fulfilled, we have determined that our intention to continue to proceed responsibly in either event makes it appropriate for us to record the asbestos provision in the amounts set forth in the consolidated financial statements.

Key Events During and Since 2001 Leading to the Signing of the Final Funding Agreement

<u>Separation of Amaca Pty Ltd, Amaba Pty Ltd and ABN 60</u>

In February 2001, ABN 60, formerly known as James Hardie Industries Limited, or JHIL, established the Medical Research and Compensation Foundation, which we refer to as the Foundation, by gifting A$3.0 million ($1.7 million) in cash and transferring ownership of Amaca and Amaba to the Foundation. The Foundation is a special purpose charitable foundation established to fund medical and scientific research into asbestos-related diseases. Amaca and Amaba were Australian companies which had manufactured and marketed asbestos-related products up to 1987.

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The Foundation is managed by independent trustees and operates entirely independently of the Company and its current subsidiaries. The Company does not control (directly or indirectly) the activities of the Foundation in any way and, effective from February 16, 2001, has not owned or controlled (directly or indirectly) the activities of Amaca or Amaba. In particular, the trustees of the Foundation are responsible for the effective management of claims against Amaca and Amaba, and for the investment of Amaca s and Amaba s assets. Other than the offers to provide interim funding to the Foundation and the indemnity to the directors of ABN 60 as described below, the Company has no direct legally binding commitment to or interest in the Foundation, Amaca or Amaba, and it has no right to dividends or capital distributions made by the Foundation. None of the Foundation, Amaca, Amaba or ABN 60 are parties to the Final Funding Agreement described above, and none of those entities have obtained any directly enforceable rights under that agreement or the related agreements contemplated under that agreement.

On or about February 15, 2001, ABN 60, Amaca and Amaba entered into a Deed of Covenant and Indemnity which provided that, apart from ABN 60 s limited financial obligations to Amaba and Amaca under the deed, ABN 60 had no further obligations to Amaca or Amaba in connection with their asbestos-related liabilities, and that ABN 60 was indemnified by those entities in the event that ABN 60 incurred or suffered any such liabilities. At all times, including at the time of the establishment of the ABN 60 Foundation, ABN 60 had assets available or was provided with funds to invest so as to be able to meet those obligations.

On March 31, 2003, the Company transferred control of ABN 60 to a newly established company named ABN 60 Foundation Pty Ltd, which we refer to as the ABN 60 Foundation. ABN 60 Foundation was established to be the sole shareholder of ABN 60. Following the establishment of the ABN 60 Foundation and transfer of shares in ABN 60 to the ABN 60 Foundation, the Company no longer owned any shares in ABN 60. ABN 60 Foundation is managed by independent directors and operates entirely independently of the Company. Since that date, the Company has not and currently does not control the activities of ABN 60 or ABN 60 Foundation in any way, it has no economic interest in ABN 60 or ABN 60 Foundation, and it has no right to dividends or capital distributions made by the ABN 60 Foundation.

Under the Final Funding Agreement and under legislation associated with that agreement described below, it is contemplated that following the establishment of the SPF and as part of the satisfaction of the conditions precedent to the Final Funding Agreement, the Company will, subject to limited exceptions, be entitled to appoint a majority of directors on the board of directors of the SPF, which will in turn be empowered under that legislation to issue certain specified directions to the boards of directors of the Former James Hardie Companies. That legislation also imposes statutory obligations upon the Former James Hardie Companies to comply with such directions, and the NSW Government may require the directors of the trustees of the Foundation and of the ABN 60 Foundation to resign pursuant to powers granted under the *James Hardie Former Subsidiaries (Special Provisions) Act 2005.*

Potential for Claims Against the Former James Hardie Companies to be Made Against the Company

Up to the date of the establishment of the Foundation, Amaca and Amaba incurred costs of asbestos-related litigation and settlements. From time to time, ABN 60 was joined as a party to asbestos suits which were primarily directed at Amaca and Amaba. Because Amaca, Amaba and ABN 60 were not or have not been a part of the Company since the time of establishment of the Foundation and the ABN 60 Foundation, no provision for asbestos-related claims was established in the Company s consolidated condensed financial statements prior to March 31, 2006.

The Final Funding Agreement does not confer upon the Former James Hardie Companies any directly enforceable rights against the Company in respect of the funding obligations. Similarly, the Final Funding Agreement does not create any directly enforceable rights in favor of any persons who may have personal injury claims against the Former James Hardie Companies and that agreement does not seek to make the Company or any current member of the James Hardie Group directly liable for damages for personal injury or death in connection with the former manufacture or sale of asbestos products by Amaca, Amaba or ABN 60.

The funding obligations of the Performing Subsidiary and the Company to the SPF will be enforceable by the SPF and, in certain circumstances, directly by the NSW Government.

Apart from the funding obligations arising under the Final Funding Agreement, it is possible that the Company could become subject to suits for damages for personal injury or death in connection with the former manufacture or sale of asbestos products that have been or may be filed against Amaca, Amaba or ABN 60. However, as described further below, the ability of any claimants to initiate or pursue such suits is restricted by legislation enacted by the NSW Government pursuant to the Final Funding Agreement. Although it is difficult to predict the incidence or outcome of future litigation, and thus no assurances as to such incidence or outcome can be given, the Company believes that, in the absence of new legislation or a change in jurisprudence as adopted in prior case law before the NSW Supreme Court and Federal High Court, as more fully described below, the Company s liability with respect to such suits if such suits could be successfully asserted directly against the Company is not probable and estimable at this time. This belief is based on the following factors: following the transfers of Amaca and Amaba to the Foundation and of ABN 60 to the ABN 60 Foundation, none of those companies has been part of the Company and while those companies are proposed to become subsidiaries of the SPF as part of the steps to implement the Final Funding Agreement, neither the SPF nor the Company will thereby assume the liabilities of the Former James Hardie Companies under Australian law; the separateness of corporate entities under Australian law; the limited circumstances in which piercing the corporate veil might occur under Australian and Dutch law; the absence of an equivalent under Australian common law of the U.S. legal doctrine of successor liability; the effect of the *James Hardie (Civil Liability) Act 2005* and the *James Hardie (Civil Penalty Compensation Release) Act 2005* as described further below; and the belief that the principle applicable under Dutch law, to the effect that transferees of assets may be held liable for the transferor s liabilities when they acquire assets at a price that leaves the transferor with insufficient assets to meet claims, is not triggered by the transfers of Amaca, Amaba and ABN 60, the restructure of the Company in 2001, or previous group transactions. The courts in Australia have generally refused to hold parent entities responsible for the liabilities of their subsidiaries absent any finding of fraud, agency, direct operational responsibility or the like. However, if suits are made possible and/or successfully brought, they could have a material adverse effect on the Company s business, results of operations or financial condition.

In New Zealand, where RCI Holdings Pty Ltd owns a subsidiary that formerly manufactured asbestos-containing products, claims have been made against the statutory fund established under New Zealand s accident compensation regime (rather than against the subsidiary). The relevant legislation at present is the *Injury Prevention, Rehabilitation and Compensation Act 2001 (NZ).* Where there is cover under this legislation, claims for compensatory damages are barred. Although claims not barred by the legislation could still be brought in some circumstances, any such claims are not currently estimable.

During the period ended March 31, 2006, the Company has not been a party to any material asbestos litigation and has not made any settlement payments in relation to any such litigation.

Under U.S. laws, the doctrine of successor liability provides that an acquirer of the assets of a business can, in certain jurisdictions and under certain circumstances, be held responsible for liabilities arising from the conduct of that business prior to the acquisition, notwithstanding the absence of a contractual arrangement between the acquirer and the seller pursuant to which the acquirer agreed to assume such liabilities.

The general principle under Australian law is that, in the absence of a contractual agreement to transfer specified liabilities of a business, and where there is no fraudulent conduct, the liabilities remain with the corporation that previously carried on the business and are not passed on to the acquirer of assets. Prior to March 2004, the Company leased manufacturing sites from Amaca, a former subsidiary that is now owned and controlled by the Foundation. In addition, the Company purchased certain plant and equipment and inventory from Amaca at fair value in connection with the first phase of the Company s restructuring. Each of these transactions involved only Australian companies and, accordingly, the Company believes the transactions are governed by Australian laws and not the laws of any other jurisdiction. The Company does not believe these transactions should give rise to the assumption by the Company of any asbestos-related liabilities

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(tortious or otherwise) under Australian law that may have been incurred during the period prior to the transfer of the assets.

Under Dutch law, a Dutch transferee of assets may be held responsible for the liabilities of the transferor following a transfer of assets if the transfer results in the transferor having insufficient assets to meet the claims of its creditors or if the transfer otherwise jeopardizes the position of the creditors of the transferor. The Company believes the transfer by ABN 60 of all of the shares of James Hardie N.V., or JH NV, to JHI NV in the 2001 Restructuring will not result in the Company being held responsible as transferee under this rule because, upon the transfer and the implementation of the other aspects of the 2001 Restructuring, ABN 60 had the same financial resources to meet the claims of its creditors as it had prior to the transfer.

Special Commission of Inquiry

On October 29, 2003, the Foundation issued a press release stating that its most recent actuarial analysis estimates that the compensation bill for the organization could reach one billion Australian dollars in addition to those funds already paid out to claimants since the Foundation was formed and that existing funding could be exhausted within five years. In February 2004, the NSW Government established a Special Commission of Inquiry, or SCI, to investigate, among other matters described below, the circumstances in which the Foundation was established. The SCI was instructed to determine the current financial position of the Foundation and whether it would be likely to meet its future asbestos-related claims in the medium to long-term. It was also instructed to report on the circumstances in which the Foundation was separated from ABN 60 and whether this may have resulted in or contributed to a possible insufficiency of assets to meet future asbestos-related liabilities, and the circumstances in which any corporate restructure or asset transfers occurred within or in relation to the James Hardie Group prior to the funding of the Foundation to the extent that this may have affected the Foundation s ability to meet its current and future liabilities. The SCI was also instructed to report on the adequacy of current arrangements available to the Foundation under the Corporations Act of Australia to assist the Foundation in managing its liabilities and whether reform was desirable in order to assist the Foundation in managing its obligations to current and future claimants.

On July 14, 2004, following the receipt of a new actuarial estimate of asbestos liabilities of the Foundation by KPMG Actuaries, the Company lodged a submission with the SCI stating that the Company would recommend to its shareholders that they approve the provision of an unspecified amount of additional funding to enable an effective statute-based scheme to compensate all future claimants for asbestos-related injuries for which Amaca and Amaba may become liable. The Company proposed that the statutory scheme include the following elements:

speedy, fair and equitable compensation for all existing and future claimants, including objective criteria to reduce superimposed inflation. Superimposed inflation is inflation in claim awards above the underlying rate of inflation and is sometimes called judicial inflation;

contributions to be made in a manner which provide certainty to claimants as to their entitlement, the scheme administrator as to the amount available for distribution, and the proposed contributors (including the Company) as to the ultimate amount of their contributions;

significant reductions in legal costs through reduced and more abbreviated litigation; and

limitation of legal avenues outside of the scheme.

The submission stated that the proposal was made without any admission of liability or prejudice to the Company s rights or defenses.

The SCI issued its report on September 21, 2004. The following is a summary of the principal findings of the SCI relating to the Company based on the SCI s report and other information available to the Company. This summary does not contain all of the findings contained or observations made in the SCI report. It should be noted that the SCI is not a court and, therefore, its findings have no legal force.

Principal Findings in Favor of the Company

The principal findings in favor of the Company were that:

- the establishment of the Foundation was legally effective and causes of action which the Foundation, Amaba or Amaca might have against the James Hardie Group, its officers and advisers would be unlikely to result in any significant increase in the funds of Amaba, Amaca or the Foundation (putting this finding conversely, the Company is unlikely to face any significant liability to the Foundation, Amaba or Amaba as a result of the then current causes of action of such entities against the current members of the James Hardie Group);

- there was no finding that JHI NV had committed any material breach of any law as a result of the separation and reorganization transactions which took place in 2001;

- many of the allegations and causes of action put forward by lawyers for the Foundation, Amaba and Amaca were speculative; and

- the SCI rejected the suggestion that JHI NV had engaged in misleading or deceptive conduct or attempted to pervert the course of justice or obtained court orders by fraud in relation to the 2001 Reorganization due to the fact that neither the reorganization scheme documents prepared in 2001 nor the submissions or materials presented to the court for the 2001 Reorganization referred to the possibility of the partly-paid shares being cancelled (the shares were cancelled in 2003).

Other Principal Findings Relevant to the Company

The other principal findings relevant to the Company were that:

- as a practical (but not legal) matter, if the right amount (and not merely the minimum amount) of funding was not provided to the Foundation, the Company would face potential legislative, customer, union and public action to apply legislative and boycott measures and public pressure to ensure that the Company met any significant funding shortfall; and

- the directors of ABN 60 at the time of the cancellation of the partly-paid shares (Messrs. Morley and Salter) effectively followed the instructions of JHI NV in relation to the cancellation. As a result, it might be concluded that JHI NV was a shadow director of ABN 60 at that time. However, while expressing some reservations about what occurred, the SCI did not find that the ABN 60 directors (including JHI NV as a shadow director) breached their duties in undertaking the cancellation.

Principal Findings Against ABN 60 (formerly called JHIL)

A number of further findings (positive and adverse) were also made in relation to ABN 60, which is not a current member of the James Hardie Group. Such findings were not directed against the Company. For the reasons provided above in this section Legal Proceedings, the Company does not believe that it will have any liability under current Australian law if future liabilities of ABN 60 or ABN 60 Foundation exceed the funds available to those entities. This includes liabilities that may attach to ABN 60 or ABN 60 Foundation as a result of claims made, if successful, in connection with the transactions involved in the establishment of the ABN 60 Foundation and the separation of ABN 60 from the Company.

The SCI found that, given ABN 60 s limited financial resources, ABN 60 would need to be able to succeed in making a claim against JHI NV in respect of the cancellation of the partly-paid shares before claims by Amaba or Amaca against ABN 60 had any practical value. Although expressing reservations about what occurred, the SCI did not find that the directors of ABN 60 had breached their duty in canceling the partly-paid shares.

The SCI did not make any finding that any cause of action by ABN 60 with respect to the partly-paid shares was likely to succeed.

Principal Findings Against Mr. Macdonald and Mr. Shafron

The principal (but non-determinative) findings against Messrs. Macdonald and Shafron pertained to their conduct while officers of ABN 60 in relation to:

alleged false and misleading conduct associated with a February 16, 2001 press release, particularly regarding a statement that the Foundation was fully funded in contravention of New South Wales and Commonwealth legislation prohibiting false or misleading conduct;

allegedly breaching their duties as officers of ABN 60 by encouraging the board of directors of ABN 60 to act on the Trowbridge report, dated February 13, 2001 (which we refer to as the Trowbridge Report), in forming a view that the Foundation would be fully funded ; and

criticisms, falling short of findings of contraventions of law, based on their respective roles in the separation and reorganization transactions. These included criticisms relating to their development, control over, reliance on and use of the Trowbridge Report, despite (in the SCI s view) their knowledge of its limitations.

Other Relevant Findings

The Commissioner noted that he had not carried out an exhaustive investigation and concluded that it was a matter for Commonwealth authorities (notably the Australian Securities and Investments Commission, or ASIC) to determine whether any further action should be taken in relation to matters which the Commissioner considered, comprised or might be likely to have comprised, contraventions of Australian corporations law. The Commissioner acknowledged that in relation to various of his findings, there was an issue as to whether Amaba or Amaca suffered any loss or damage from the actions reviewed by him but in this regard he did not find it necessary to reach any definitive conclusion.

The SCI s findings are not binding and if the same issues were presented to a court, the court might come to different conclusions on one or more of the issues.

Findings Relating to Funding Shortfall

In relation to the question of the funding of the Foundation, the SCI found that there was a significant funding shortfall. In part, this was based on actuarial work commissioned by the Company indicating that the discounted value of the central estimate of the asbestos liabilities of Amaca and Amaba was approximately A$1.573 billion as of June 30, 2003. The central estimate was calculated in accordance with Australian Actuarial Standards, which differ from generally accepted accounting principles in the United States. As of June 30, 2003, the undiscounted value of the central estimate of the asbestos liabilities of Amaca and Amaba, as determined by KPMG Actuaries, was approximately A$3.403 billion ($2.272 billion). The SCI found that the net assets of the Foundation and the ABN 60 Foundation were not sufficient to meet these prospective liabilities and were likely to be exhausted in the first half of 2007.

In relation to the Company s statutory scheme proposal, the SCI reported that there were several issues that needed to be refined quite significantly but that it would be an appropriate starting point for devising a compensation scheme.

Events Following the SCI Findings

The NSW Government stated that it would not consider assisting the implementation of any proposal advanced by the Company unless it was the result of an agreement reached with the unions acting through the Australian Council of Trade Unions (which we refer to as the ACTU), UnionsNSW (formerly known as the Labour Council of New South Wales), and a representative of the asbestos claimants, which we collectively refer to as the Representatives. The statutory scheme that the Company proposed on July 14, 2004 was not accepted by the Representatives.

The Company continues to believe that, apart from the obligations it voluntarily assumed under the Final Funding Agreement described herein and as discussed below under the subheading Interim Funding and

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ABN 60 Indemnity, under current Australian law, it is not legally liable for any shortfall in the assets of Amaca, Amaba, the Foundation, the ABN 60 Foundation or ABN 60.

Following the release of the SCI report, the Representatives and others indicated that they would encourage or continue to encourage consumers and union members in Australia and elsewhere to ban or boycott the Company s products, to demonstrate or otherwise create negative publicity toward the Company in order to influence the Company s approach to the discussions with the NSW Government or to encourage governmental action if the discussions were unsuccessful. The Company s financial position, results of operations and cash flows were affected by such bans and boycotts, although the impact was not material. The Representatives and others also indicated that they might take actions in an effort to influence the Company s shareholders, a significant number of which are located in Australia, to approve any proposed arrangement. Pursuant to the Final Funding Agreement, the Representatives agreed to use their best endeavors to achieve forthwith the lifting of all bans or boycotts on any products manufactured, produced or sold by the Company, and the Company and the Representatives signed a deed of release in December 2005 under which the Company agreed to release the Representatives and the members of the ACTU and UnionsNSW from civil liability arising in relation to bans or boycotts instituted as a result of the events described above. Such releases did not extend to any new bans or boycotts, if applicable, implemented after the date of signing of the Final Funding Agreement, or to any bans or boycotts which persisted beyond January 1, 2006. The Company is aware of a number of bans or boycotts having been lifted, and is monitoring the progress towards the lifting of a number of remaining bans or boycotts. However, if the conditions precedent to the Final Funding Agreement are not satisfied or if for any other reason that agreement is not implemented, it remains the case that fresh bans or boycotts could be implemented against the Company s products. Any such measures, and the influences resulting from them, could have a material adverse impact on the Company s financial position, results of operations and cash flows.

On October 28, 2004, the NSW Premier announced that the NSW Government would seek the agreement of the Ministerial Council, comprising Ministers of the Commonwealth and the Australian States and Territories, to allow the NSW Government to pass legislation which he announced would wind back James Hardie s corporate restructure and rescind the cancellation of A$1.9 billion in partly-paid shares. The announcement said that the laws will effectively enforce the liability (for asbestos-related claims) against the Dutch parent company.

On November 5, 2004, the Australian Attorney-General and the Parliamentary Secretary to the Treasurer (the two relevant ministers of the Australian Federal Government) issued a news release stating that the Ministerial Council for Corporations (the relevant body of Federal, State and Territory Ministers), or MINCO, had unanimously agreed to support a negotiated settlement that will ensure that victims of asbestos-related diseases receive full and timely compensation from James Hardie and if the current negotiations between James Hardie, the ACTU and asbestos victims do not reach an acceptable conclusion, MINCO also agreed in principle to consider options for legislative reform. The news release of November 5, 2004 indicated that treaties to enforce Australian judgments in Dutch and U.S. courts are not required, but that the Australian Government has been involved in communications with Dutch and U.S. authorities regarding arrangements to ensure that Australian judgments are able to be enforced where necessary. If the conditions precedent to the full implementation of the Final Funding Agreement are not satisfied or if the otherwise the Final Funding Agreement is terminated by James Hardie, the Company is aware that legislative intervention may ensue, but has no detailed information as to the content of any such legislation.

Heads of Agreement

On December 21, 2004, the Company announced that it had entered into a non-binding Heads of Agreement with the NSW Government and the Representatives which was expected to form the basis of a proposed binding agreement under which a subsidiary of the Company would agree to provide, and the Company would guarantee, funding payments to a special purpose fund established to provide funding on a long-term basis to be applied towards meeting proven asbestos-related personal injury and death claims arising from exposure to asbestos occurring in Australia and made in proceedings in an Australian court or tribunal,

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which we refer to as the Claims, against the Former James Hardie Companies. The Heads of Agreement set out the key principles in a more detailed legally binding agreement.

Negotiations between the NSW Government and the Company as to the terms of such legally binding agreement continued throughout 2005 and resulted in the execution of the Final Funding Agreement as described herein.

Extension of Heads of Agreement to Cover Baryulgil Claims

On April 15, 2005, the Company announced that it had extended the coverage of the funding arrangements agreed under the Heads of Agreement to enable the SPF to settle or meet proven Claims by members of the Baryulgil community in Australia against Asbestos Mines Pty Ltd, which we refer to as Asbestos Mines, which conducted asbestos-related mining activities in Baryulgil, NSW. Asbestos Mines began mining in Baryulgil in 1944 as a joint venture between Wunderlich Ltd (now Seltsam Ltd, an entity of CSR Ltd) and a former James Hardie subsidiary (now Amaca Pty Ltd). From 1954 until 1976, Asbestos Mines was a wholly owned subsidiary of James Hardie Industries Limited (now ABN 60). Asbestos Mines, which has subsequently been renamed Marlew Mining Pty Ltd, has not been part of the James Hardie Group since 1976, when it was sold to Woodsreef Mines Ltd (subsequently renamed Mineral Commodities Ltd). The Company has no current right to access any Claims information in relation to Claims against Asbestos Mines, and has no current involvement in the management or settlement of such Claims.

Interim Funding and ABN 60 Indemnity

The Company has previously announced a number of measures in relation to the funding position of the Foundation prior to the Company s entry into the Final Funding Agreement. On December 3, 2004, and in part as a result of initiatives undertaken by the Company, the Foundation received a payment of A$88.5 million from ABN 60 for use in processing and meeting asbestos-related claims pursuant to the terms of a deed of covenant and indemnity which ABN 60, Amaca and Amaba had entered into in February 2001.

The Company facilitated the payment of such funds by granting an indemnity (under a separate deed of indemnity) to the directors of ABN 60, which it announced on November 16, 2004. Under the terms of that indemnity, the Company agreed to meet any liability incurred by the ABN 60 directors resulting from the release of the A$88.5 million by ABN 60 to the Foundation. The Company believes that the release of funding by ABN 60 is in accordance with law and effective contracts and therefore the Company should not incur liability under this indemnity. The Company has neither received any claim nor made any payments in relation to this indemnity.

Additionally, on November 16, 2004, the Company offered to provide funding to the Foundation on an interim basis for a period of up to six months from that date. Such funding would only be provided once existing Foundation funds (in particular, funding available to Amaca and Amaba) had been exhausted. On the basis of updated information provided to KPMG Actuaries by representatives of the Foundation as to the incidence of claims and the current net assets of the Amaca and Amaba, and assuming such incidence of claims continues, the Company considers that it is unlikely that the Foundation funds will be exhausted before the commencement of calendar year 2007.

On March 31, 2005, the Company announced that it would extend the timing of its commitment to assist the Foundation to obtain interim funding, if necessary, prior to the Final Funding Agreement being finalized in accordance with the updated timetable announced on that date.

Under the Final Funding Agreement entered into on December 1, 2005, the Company and James Hardie 117 Pty Limited (a subsidiary of the Company) agreed to assist in ensuring that funding is available to Amaca, Amaba and ABN 60, for the purposes of meeting their liabilities in respect of Australian personal injury and death claims arising from exposure to asbestos in Australia. Such funding was agreed to be provided subject to the existing sources of funding of Amaca, Amaba and ABN 60 being exhausted (which, to the Company s knowledge, has not yet occurred).

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This interim funding commitment was provided for the period from the date of the agreement until the earlier of the date of full implementation of that agreement, or the condition precedent date, being June 30, 2006 or such later date as the parties may agree in writing. On several occasions, the Company and the NSW Government have agreed to extend the condition precedent date. Currently the condition precedent date has been set to September 30, 2006 and discussions are currently taking place between the Company and the NSW Government regarding a further extension. The extent and manner of assistance to be provided and the terms and conditions thereof remain to be agreed between the Company and those entities.

The Company has not recorded a provision for either the indemnity or the potential payments under the interim funding proposal. The Company has not been required to make any payments pursuant to this commitment.

With regard to the ABN 60 indemnity, there is no maximum value or limit on the amount of payments that may be required. As such, the Company is unable to disclose a maximum amount that could be required to be paid. The Company believes, however, that the expected value of any potential future payments resulting from the ABN 60 indemnity is zero and that the likelihood of any payment being required under this indemnity is remote.

Releases From Civil Liability

The Final Funding Agreement was supplemented by legislation passed by the NSW Government to provide releases to the James Hardie Group and to current and former directors, officers, employees, agents and advisers of James Hardie group members from all civil liabilities in connection with (among other matters) the establishment and funding (or underfunding) of the Foundation as described above, the corporate reorganizations of the James Hardie Group in 2001 and other matters examined by the SCI.

The full form of the statutory releases is set out in legislation passed by the NSW Parliament and contained in the *James Hardie (Civil Liability) Act 2005* and the *James Hardie (Civil Penalty Compensation Release) Act 2005.* The term civil liabilities is not defined in that legislation and therefore bears its ordinary meaning under Australian law. When introducing that legislation into the NSW Parliament, the Attorney General of New South Wales stated that the legislation was intended to extinguish liabilities for civil penalties for which a compensation order may be imposed under the *Corporations Act 2001*(Cth), but it was not intended to release the released persons from any other kind of civil penalty orders that may be imposed (including any liabilities for fines, orders banning individuals from being directors, or court declaration that a contravention of a civil penalty provision has occurred). Australian courts may have regard to those statements in determining the scope of civil liabilities released under this legislation, where they consider that the natural and ordinary meaning of civil liabilities is ambiguous or obscure.

That legislation also released certain persons in relation to the entry by JHI NV and the Performing Subsidiary into the Heads of Agreement, the Final Funding Agreement and the Related Agreements and their implementation by the James Hardie Group, and the circumstances giving rise to the same. However, such releases did not affect the obligations of JHI NV and the Performing Subsidiary of their obligation set out in the Final Funding Agreement or Related Agreements.

The NSW Government has also undertaken to refrain from taking any action inconsistent with such releases and extinguishments. The releases and extinguishments contained in the legislation described above are permanent in relation to all released persons who are natural persons. In relation to companies and other non-natural persons who were released under that legislation, the releases and extinguishments may be suspended by the NSW Government if the Performing Subsidiary is and remains in breach of any obligation to make a funding payment under the Final Funding Agreement or of its obligations not to undertake certain prejudicial specified dealings, and the Performing Subsidiary or the Company has not remedied the breach within three months of the Company having received a notice under the Final Funding Agreement.

Actuarial Study; Claims Estimate

The Company commissioned an updated actuarial study of potential asbestos-related liabilities as of March 31, 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 ($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 ($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.

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 have relied on the data and information provided by the Foundation and Amaca Claim Services, Amaca Pty Ltd (under NSW External Administration), which we refer to as 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 ($0.7 billion) to A$2.5 billion ($1.8 billion) (undiscounted estimates of A$1.8 billion ($1.4 billion) to A$5.3 billion ($3.9 billion) as of March 31, 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 defense 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 Final Funding Agreement is approved by all of the necessary parties, including our Board of Directors, shareholders and lenders, the Company expects to be able to partially recover losses from various insurance carriers. As of March 31, 2006, KPMG Actuaries undiscounted central estimate of asbestos-related liabilities was A$3.1 billion ($2.2 billion). This undiscounted central estimate is net of expected insurance recoveries of A$504.8 million ($379.9 million) after making a general credit risk allowance for bad debt insurance carriers and an allowance for A$65.5 million ($49.3 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 Final Funding Agreement have not been satisfied. In addition, the Company has not yet incurred any settlement costs pursuant to its offer to provide the Foundation with interim funding, which is described above under the subheading Interim Funding and ABN 60 Indemnity because the Foundation continues to meet all claims of Amaca and Amaba.

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Claims Data

The following table, provided by KPMG Actuaries, shows the number of claims pending as of March 31, 2006 and 2005.

	Years Ended March 31,	
	2006	2005
Australia	556	712
New Zealand		
Unknown-Court Not Identified(1)	20	36
USA	1	1

(1) The Unknown Court Not Identified designation reflects that the information for such claims had not been, as of the date of publication, entered into the database which the Foundation maintains. Over time, as the details of unknown claims are provided to the Foundation, the Company believes the database is updated to reflect where such claims originate. Accordingly, the Company understands the number of unknown claims pending fluctuates due to the resolution of claims as well as the reclassification of such claims.

For the years ended March 31, 2006, 2005 and 2004, 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 Years Ended March 31,		
	2006	2005	2004
Number of claims filed	346	489	379
Number of claims dismissed	97	62	119
Number of claims settled or otherwise resolved	405	402	316
Average settlement amount per claim	A$ 151,883	A$ 157,594	A$ 167,450
Average settlement amount per claim	$ 114,322	$ 116,572	$ 116,127

	Unknown Court Not Identified Years Ended March 31,		
	2006	2005	2004
Number of claims filed	6	7	1
Number of claims dismissed	10	20	15
Number of claims settled or otherwise resolved	12	2	
Average settlement amount per claim	A$ 198,892	A$ 47,000	A$
Average settlement amount per claim	$ 149,706	$ 34,766	$

USA

	Years Ended March 31,		
	2006	2005	2004
Number of claims filed			
Number of claims dismissed		3	1
Number of claims settled or otherwise resolved		1	
Average settlement amount per claim	A$	A $228,293	A$
Average settlement amount per claim	$	$168,868	$

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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 March 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Number of open claims at beginning of year	749	743	814	671	569
Number of new claims	352	496	380	409	375
Number of closed claims	524	490	451	266	273
Number of open claims at year-end	577	749	743	814	671
Average settlement amount per settled claim	A $153,236	A $157,223	A $167,450	A $201,200	A $197,941
Average settlement amount per settled claim	$115,341	$116,298	$116,127	$112,974	$101,603
Average settlement amount per case closed	A $121,945	A $129,949	A $117,327	A $177,752	A $125,435
Average settlement amount per case closed	$ 91,788	$ 96,123	$ 81,366	$ 99,808	$ 64,386

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 Final Funding Agreement and associated New South Wales legislation contemplates that the SPF will have both the responsibility for and arrangement 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, as explained further above.

On October 26, 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 Final Funding Agreement, 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 (which we refer to as 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 Final Funding Agreement) 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.

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SCI and Other Related Expenses

The Company has incurred substantial costs associated with the Special Commission of Inquiry, or 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:

	Years Ended March 31,	
	2006	2005
	(In millions)	
SCI	$	$ 6.8
Internal investigation		4.9
ASIC investigation	0.8	1.2
Severance and consulting	0.1	6.0
Resolution advisory fees	9.8	6.4
Funding advice	2.9	0.6
Other	3.8	2.2
Total SCI and other related expenses	$ 17.4	$ 28.1

Internal investigation costs reflect costs incurred by the Company in connection with an internal investigation conducted by independent legal advisors to investigate allegations raised during the SCI and the preparation and filing of the Company s annual financial statements in the United States.

Australian Securities and Investments Commission Investigation

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 above. ASIC has also served notices requiring the Company and ABN 60 to produce certain computerized 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 meet 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 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

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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 2005*), parts of which came into force on December 2, 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.

The Company believes it is possible that future costs related to the Company s implementation of the Final Funding Agreement may be material. The Company does not expect any material additional costs to be incurred in connection with the Special Commission of Inquiry.

Tax Contingencies

Due to our size and the nature of our business, we are subject to ongoing reviews by the Internal Revenue Service, or IRS, the ATO and other taxing jurisdictions on various tax matters, including challenges to various positions we assert on our income tax returns. We accrue for tax contingencies based upon our best estimate of the taxes ultimately expected to be paid, which we update over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If we ultimately determine that payment of these amounts is unnecessary, we will reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

In fiscal year 2006, we settled certain tax audits and paid all additional amounts due for the applicable fiscal years and recorded a $20.7 million tax benefit to reduce amounts accrued in excess of all amounts paid.

In fiscal year 2005, we settled certain tax audits and filed amended income tax returns and paid additional tax for the applicable fiscal years. We recorded a $2.5 million tax benefit to reduce amounts accrued in excess of all amounts paid.

Relevant tax authorities from various jurisdictions in which we operate are in the process of auditing our respective jurisdictional income tax returns for various ranges of years. Of the audits currently being conducted, none have progressed sufficiently to predict their ultimate outcome. We have accrued income tax liabilities for these audits based upon knowledge of all relevant facts and circumstances, taking into account existing tax laws, our experience with previous audits and settlements, the status of current tax examinations, and how the tax authorities view certain issues.

Australian Taxation Office Assessment

In March 2006, RCI Pty Ltd, a wholly owned subsidiary of ours, which we refer to as RCI, received an amended assessment from the ATO in respect of RCI s income tax return for the year ended March 31, 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

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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 is now A$378.0 million, and comprised the following at March 31, 2006:

	$	A$
	(In millions)	
Primary tax after allowable credits	$ 129.5	A $172.0
Penalties(1)	32.4	43.0
General interest charges	122.7	163.0
Total amended assessment	$ 284.6	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, or 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 December 15, 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 June 23, 2006, following negotiation with the ATO regarding payment options for the amended assessment, we were advised by the ATO that, in accordance with the ATO Receivable Policy, the Company is able to make a payment of 50% of the A$378.0 million ($284.6 million), being A$189.0 million ($140.4 million converted using the assets and liabilities rate at June 30, 2006), and provide a guarantee from James Hardie Industries N.V. in favor of the ATO for the remaining 50% unpaid pending outcome of an appeal against amended assessment. Following enactment of Tax Laws Amendment (2006 Measures No. 3) 2006 of Australia, which we refer to as TLA No. 3, payment of this 50% became due and was paid on July 5, 2006.

On June 30, 2006, TLA No. 3 was enacted. TLA No. 3 retrospectively ensures that the relevant Part IVA changes only take effect from the 2006 and later tax years. The consequence of TLA No. 3 is that the amended assessment is not invalid.

We believe RCI s view of its tax position will ultimately prevail in this matter. Accordingly, it is expected that any amount paid on July 5, 2006 (or any later date) would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. It is our intention to treat this payment as a receivable.

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. We and RCI received legal and tax advice at the time of the transaction, during the ATO inquiries and following receipt of the amended assessment. We believe that the tax position reported in RCI s tax return for the 1999 fiscal year will be upheld on appeal. Accordingly, at this time, we are unable to determine with any certainty whether any amount will ultimately become payable by RCI. Therefore, we believe that the probable requirements under SFAS No. 5, Accounting for Contingencies, for recording a liability have not been met and therefore we have not recorded a liability as of June 30, 2006 for the remainder of the amended assessment.

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As a result of the amended assessment described above imposed on RCI, it is expected that the free cash flow of the Company and its subsidiaries for the year ended March 31, 2007 will be negative. As a result, no annual payment will be required under the Final Funding Agreement for the financial year ended March 31, 2007, even if the conditions to that agreement are satisfied in full or otherwise dealt with to the satisfaction of the parties thereto before that date. This result arises since each annual payment due under the Final Funding Agreement on July 1 each year is calculated by reference to the free cash flow of the previous full financial year, and is subject to there being positive free cash flow during that financial year and to the operation of a free cash flow cap. However, this cap does not affect the amount of the initial funding to be made under the Final Funding Agreement.

For further information on the amended ATO assessment, see Item 3, Key Information Risk Factors.

Item 4A. ***Unresolved Staff Comments***

None.

Item 5. ***Operating and Financial Review and Prospects***

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto, included under Item 18.

Overview

We intend this discussion to provide information that will assist in understanding our March 31, 2006 consolidated financial statements, the changes in significant items in those consolidated financial statements from year to year, and the primary reasons for those changes. This discussion includes information about our critical accounting policies and how these policies affect our 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 our financial condition and results of operations as a whole.

Our results for fiscal year 2006 were substantially affected by a provision of $715.6 million which we recorded, as of March 31, 2006, for estimated future asbestos-related compensation payments. We also incurred significant costs associated with the Special Commission of Inquiry, or SCI, and other related matters during fiscal years 2006 and 2005. Information regarding our asbestos-related matters and the SCI and other related matters can be found in this discussion, Item 3, Key Information Risk Factors, Item 4, Information on the Company Legal Proceedings and Notes 12 and 20 to our consolidated financial statements in Item 18.

As we disclosed in our results announcement for the quarter ended June 30, 2006, which we furnished to the SEC on a Form 6-K dated August 25, 2006, we had to increase our asbestos provision by $27.2 million to $742.8 million as of June 30, 2006 as a result of exchange rate movements between the Australian and the U.S. dollars, which significantly affected reported earnings due to the asbestos provision s denomination in Australian dollars and the fact that our financial results are reported in U.S. dollars. See also, Item 3, Key Information Risk Factors. Because the financial information in this Annual Report on Form 20-F is as of the year ended March 31, 2006, it does not reflect this subsequent event.

The Company and the Building Product Markets

Based on net sales, we believe we are the largest manufacturer of fiber cement products and systems for internal and external building construction applications in the United States, Australia, New Zealand and the Philippines. Our current primary geographic markets include the United States, Australia, New Zealand, the Philippines and Europe. Through significant research and development expenditure, we develop key product and production process technologies that we patent or hold as trade secrets. We believe that these technologies give us a competitive advantage.

We manufacture numerous types of fiber 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, drainage pipes and decorative columns. Our 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. We believe that in certain construction applications, our fiber cement products and systems provide a combination of distinctive performance, design and cost advantages over competing building products and systems.

Our 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, 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. These factors were generally favorable during fiscal year 2006, resulting in healthy levels of residential construction and home repair and renovation activity.

Fiscal Year 2006 Key Results

As of March 31, 2006, we recorded a provision of $715.6 million for estimated future asbestos-related compensation payments (asbestos provision).

Total net sales increased 23% to $1,488.5 million in fiscal year 2006. However, the asbestos provision resulted in an operating loss of $434.9 million compared to an operating profit of $196.2 million in fiscal year 2005. We reported a loss from continuing operations of $506.7 million because of the asbestos provision.

Our largest market is North America, where fiber cement is one of the fastest growing segments of the external siding market. During fiscal year 2006, USA Fiber Cement net sales contributed approximately 82% of total net sales, and its operating income was the primary contributor of total Company operating income (before the asbestos provision). Net sales increased due to increased sales volume and a higher average net sales price. Operating (loss) income increased from fiscal year 2005 primarily due to increased sales, which were partially offset by higher unit costs, freight costs and selling, general and administrative expense.

Asia Pacific net sales contributed approximately 16% of total net sales, and its operating income was the second largest contributor of total Company operating income (before the asbestos provision) in 2006. Net sales increased in fiscal year 2006 in our Australia and New Zealand business, but fell in our Philippines Fiber Cement business. The increase in net sales in our Australia and New Zealand businesses, which was due to favorable exchange rates and increased volume, was partially offset by a reduction in average net sales price. Sales in our Philippines business were adversely affected during fiscal year 2006 by weaker domestic demand and increased competition in export markets. Asia Pacific operating income decreased primarily due to increased costs in Australia.

Our emerging businesses of Europe Fiber Cement and USA Hardie Pipe continued to make good progress. Our USA Hardie Pipe business reduced its loss compared to last year even though sales volumes were lower. Our Europe Fiber Cement business increased its sales as demand increased. On April 18, 2006, we announced that we would close our Artisan® roofing business. Following a review of the carrying value of the assets related to this operation, an asset impairment charge of $13.4 million was recorded in fiscal year 2006.

For further information regarding our business and operations, please see Item 4, Information on the Company.

Critical Accounting Policies

The accounting policies affecting our financial condition and results of operations are more fully described in Note 2 to our consolidated financial statements included in Item 18. Certain of our 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. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

Accounting for Contingencies

We account for loss contingencies in accordance with SFAS No. 5, Accounting for Contingencies, under which we accrue amounts for losses arising from contingent obligations when the obligations are probable and the amounts are reasonably estimable. As facts concerning contingencies become known, we reassess our situation and make appropriate adjustments to the consolidated financial statements. For additional information regarding asbestos-related matters and the Australian Taxation Office, or ATO, assessment, see Item 3, Key Information Risk Factors, Item 4, Information on the Company Legal Proceedings and Notes 12 and 13 to our consolidated financial statements in Item 18.

Accounting for Asbestos-Related Payments

The amount of the asbestos provision is based on our best estimate of the probable outcome. This estimate, which reflects the terms of the Final Funding Agreement, 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 provision includes cash flows that are undiscounted and uninflated and also includes an allowance for the future operating costs of the special purpose fund, or SPF.

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 Foundation and Amaca Claim Services, Amaca Pty Ltd (under NSW External Administration), which we refer 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 March 31st each year. Any changes in the estimate will be reflected as a charge or credit to our consolidated statement of operations at that date. Material adverse changes to the actuarial estimate would have an adverse effect on our business, results of operations and financial condition.

For additional information regarding our asbestos provision, see Item 3, Key Information Risk Factors, Item 4, Information on the Company Legal Proceedings, Item 5, Operating Review and Prospect and Notes 12 and 20 to our consolidated financial statements in Item 18.

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Sales

We record 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

We evaluate the collectibility of accounts receivable on an ongoing basis based on historical bad debts, customer credit-worthiness, current economic trends and changes in our customer payment activity. An allowance for doubtful accounts is provided for known and estimated bad debts. Although credit losses have historically been within our expectations, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Because our 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 impact their ability to make payments and result in the need for additional allowances which would decrease our net sales. For additional information regarding our customer concentration, see Item 3, Key Information Risk Factors.

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 our estimate for the future demand for inventory is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory reserves, which would have a negative impact on our gross profit.

Accrued Warranty Reserve

We offer various warranties on our products, including a 50-year limited warranty on certain of our fiber cement siding products in the United States. Because our fiber 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 our expectations over an extended period of time. A typical warranty program requires that we replace defective products within a specified time period from the date of sale. We record 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, we adjust the amount of our warranty provisions as necessary. Although our warranty costs have historically been within calculated estimates, if our experience is significantly different from our estimates, it could result in the need for additional reserves. For additional information regarding warranties, see Item 3, Key Information Risk Factors.

Accounting for Income Tax

We account for income taxes according to SFAS No. 109, Accounting for Income Taxes, under which we compute our deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We must assess whether, and to what extent, we can recover our deferred tax assets. If full or partial recovery is unlikely, we must increase our income tax expense by recording a valuation allowance against the portion of deferred tax assets that we cannot recover. We believe that we will recover all of the deferred tax assets recorded (net of valuation allowance) on our consolidated balance sheet at March 31, 2006. However, if facts later indicate that we will be unable to recover all or a portion of our net deferred tax assets, our income tax expense would increase in the period in which we determine that recovery is unlikely.

Due to our size and the nature of our business, we are subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions we assert on our income tax returns. We accrue for tax contingencies based upon our best estimate of the taxes ultimately expected to be paid, which we update over time as more information becomes available and include knowledge of all relevant facts and circumstances, taking into account existing tax laws, our experience with previous audits and settlements, the status of current tax examinations and how the tax authorities view certain issues. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

For additional information, see Item 3, Key Information Risk Factors, Item 4, Information on the Company Recent Developments, and Notes 13 and 20 to our consolidated financial statements in Item 18.

Results of Operations

In fiscal years 2004 through 2006, there was a significant increase in net sales generated from our USA Fiber Cement operations primarily as a result of demand for our fiber cement products. To meet the increased demand, we have spent $355.5 million in capital investments during fiscal years 2004 to 2006 in this segment.

The following table shows our selected financial and operating data for continuing operations, expressed in millions of U.S. dollars and as a percentage of total net sales:

	Fiscal Years Ended March 31,					
	2006		**2005**		**2004**	
Net sales:						
USA Fiber Cement	$ 1,218.4	81.9%	$ 939.2	77.6%	$ 738.6	75.2%
Asia Pacific Fiber Cement	241.8	16.2	236.1	19.5	219.8	22.4
Other(1)	28.3	1.9	35.1	2.9	23.5	2.4
Total net sales	1,488.5	100.0	1,210.4	100.0	981.9	100.0
Cost of goods sold	(937.7)	(63.0)	(784.0)	(64.8)	(623.0)	(63.4)
Gross profit	550.8	37.0	426.4	35.2	358.9	36.6
Selling, general and administrative expenses	(209.8)	(14.1)	(174.5)	(14.4)	(162.0)	(16.5)
Research and development expenses	(28.7)	(1.9)	(21.6)	(1.8)	(22.6)	(2.3)
SCI and other related expenses	(17.4)	(1.2)	(28.1)	(2.3)		
Impairment of roofing plant	(13.4)	(0.9)				
Asbestos provision	(715.6)	(48.1)				
Other operating expense	(0.8)		(6.0)	(0.5)	(2.1)	(0.3)
Operating (loss) income	(434.9)	(29.2)	196.2	16.2	172.2	17.5
Interest expense	(7.2)	(0.5)	(7.3)	(0.6)	(11.2)	(1.1)
Interest income	7.0	0.5	2.2	0.2	1.2	0.1
Other (expense) income			(1.3)	(0.1)	3.5	0.4
(Loss) income from continuing operations before income taxes	(435.1)	(29.2)	189.8	15.7	165.7	16.9
Income tax expense	(71.6)	(4.8)	(61.9)	(5.1)	(40.4)	(4.1)

(Loss) income from continuing operations	$	(506.7)	(34.0)%	$	127.9	10.6%	$	125.3	12.8%

(1) Includes sales of fiber cement in Chile (fiscal year 2004 through July 2005 only), fiber reinforced concrete pipes in the United States, a roofing pilot plant in the United States and fiber cement operations

in Europe. Our Chilean business was sold in July 2005. Our roofing pilot plant ceased operations in April 2006. See Item 4, Information on the Company Capital Expenditures and Divestitures and Note 14 to our consolidated financial statements in Item 18.

The following table provides a breakdown of our operating (loss) income:

	Fiscal Years Ended March 31,		
	2006	2005	2004
		(In millions)	
USA Fiber Cement	$ 342.6	$ 241.5	$ 195.6
Asia Pacific Fiber Cement	41.7	46.8	37.6
Research and Development	(15.7)	(17.5)	(17.6)
Other(1)	(26.5)	(11.8)	(15.9)
Total segment operating income	342.1	259.0	199.7
General Corporate	(61.4)	(62.8)	(27.5)
Asbestos provision	(715.6)		
Total operating (loss) income	$ (434.9)	$ 196.2	$ 172.2

(1) Includes impairment charge of $13.4 million in fiscal year 2006 related to the closure of our roofing pilot plant. See Item 4, Information on the Company Recent Developments.

Year Ended March 31, 2006 Compared to Year Ended March 31, 2005

Total Net Sales. Total net sales increased 23% from $1,210.4 million in fiscal year 2005 to $1,488.5 million in fiscal year 2006. Net sales from USA Fiber Cement increased 30% from $939.2 million in fiscal year 2005 to $1,218.4 million in fiscal year 2006 due to continued growth in sales volume and a higher average net sales price. Net sales from Asia Pacific Fiber Cement increased 2% from $236.1 million in fiscal year 2005 to $241.8 million in fiscal year 2006 primarily due to increased higher sales volume in Australia and New Zealand. Other net sales decreased by 19% from $35.1 million in fiscal year 2005 to $28.3 million in fiscal year 2006, with this decline primarily due to the sale of our Chilean flat sheet business in July 2005.

USA Fiber Cement Net Sales. Net sales increased 30% from $939.2 million in fiscal year 2005 to $1,218.4 million in fiscal year 2006 due to increased sales volume and a higher average net sales price. Sales volume increased 18% from 1,855.1 million square feet in fiscal year 2005 to 2,182.8 million square feet in fiscal year 2006, due mainly to growth in primary demand and a resilient housing market. The average net sales price increased 10% from $506 per thousand square feet in fiscal year 2005 to $558 per thousand square feet in fiscal year 2006 due to price increases for some products that were implemented during fiscal year 2006 and proportionally stronger growth of differentiated, higher-priced products. Despite further modest interest rate increases, we did not experience the expected cooling of the new housing construction market during fiscal year 2006. New housing construction activity was very strong over the full year as it continued to be buoyed by relatively low interest rates and strong housing prices. Repair and remodeling activity also remained very strong during fiscal year 2006.

The strong growth in sales volume was across both our interior and exterior product categories and our emerging and established geographic markets, reflecting further market penetration and the healthy new housing and repair and remodeling activity.

Demand for exterior products continued to grow in all key regions across the United States, and further market share gains were achieved at the expense of alternative materials, mainly vinyl and wood-based siding. There was strong sales growth in differentiated, higher-priced products, as well as in our core products.

Implementation of our ColorPlus® product business model in the emerging markets continued during fiscal year 2006. The model is aimed at improving the positioning of the ColorPlus® product range of pre-painted products in markets dominated by vinyl siding and increasing revenue and contribution per unit. All

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phases of the implementation are underway and progressing well. Sales of the ColorPlus® product range as a percentage of exterior product sales in the business emerging markets almost doubled over fiscal year 2005. We intend to introduce ColorPlus® products to selected regions of our established markets in fiscal year 2007.

In the interior products market, sales of both Hardibacker 500® half-inch backerboard and quarter-inch backerboard grew very strongly. We continued to take market share in this category, particularly in the half-inch segment.

In our established markets, we continued to focus on growth strategies including an increased focus on the repair and remodel segment. Sales in the established markets were slightly affected by the impact of the September 2005 hurricanes that caused considerable damage along the Gulf Coast, particularly in the states of Louisiana and Mississippi. Sales in these states account for less than 5% of total sales of the USA Fiber Cement business.

At the end of fiscal year 2006, we completed construction of one of the two planned production lines at our new plant in Pulaski, Virginia, and in April 2006, this line commenced commercial production. At the end of fiscal year 2006, we also completed construction of, and commenced production on, a new ColorPlus® product line at our Blandon, Pennsylvania plant.

During fiscal year 2006, we commenced the ramp-up of our new trim line at Peru, Illinois and continued the ramp-up of our new West Coast manufacturing plant at Reno, Nevada. We also began construction of other additional pre-finishing capacity at plants in our emerging markets.

Asia Pacific Fiber Cement Net Sales. Net sales increased 2% from $236.1 million in fiscal year 2005 to $241.8 million in fiscal year 2006. Net sales in Australian dollars increased 1% due to a 3% increase in the average net sales price, partly offset by a 2% decline in sales volume from 376.9 million square feet in fiscal year 2005 to 368.3 million square feet in fiscal year 2006.

In our Australia and New Zealand Fiber Cement business, net sales increased 4% from $210.1 million in fiscal year 2005 to $218.1 million in fiscal year 2006, primarily due to favorable currency exchange rates and a 3% increase in sales volume. In Australian dollars, net sales increased 2%. The average net sales price in Australian dollars decreased 1% compared to fiscal year 2005. In Australia, both the residential housing construction and the renovation markets softened, particularly in New South Wales. The increase in sales volume in fiscal year 2006 was due to initiatives designed to grow primary demand for fiber cement and generate further market share in our targeted markets. In the commercial construction sector, activity remained at buoyant levels and, following the execution of the Final Funding Agreement for asbestos-related compensation in December 2005, we began to regain momentum lost through product bans and boycotts imposed during the prior year and a half, particularly in Victoria. We achieved strong sales of our Linea® weatherboards, which were launched in Queensland during the first half of fiscal year 2006, and continued to roll-out our Business Builder Program in all states to help generate primary demand for our products. In addition we launched Aquatec™ Wet Area Flooring in Victoria during the third quarter of the fiscal year 2006. In New Zealand, housing construction activity also softened. The growth momentum of Linea® weatherboards continued throughout the year and helped to generate increased primary demand for our products in a weakened market. Linea® weatherboards remain our top selling product in New Zealand.

In the Philippines, net sales decreased 9% from $26.0 million in fiscal year 2005 to $23.7 million in fiscal year 2006. In local currency, net sales decreased 11% due to a 19% decrease in sales volume partly offset by a 10% increase in the average net sales price. Demand was adversely affected during fiscal year 2006 by weaker domestic construction activity resulting from uncertainty associated with increased domestic political and economic instability, and increased competition in the business export markets.

Other Sales. Other sales include sales of our fiber cement products manufactured in Chile (through July 2005), sales of Hardie™ pipe in the United States, our roofing pilot plant in the United States which we closed in April 2006, and fiber cement operations in Europe.

In our pipes business, net sales fell short against fiscal year 2005. A decrease in sales volume was partly offset by a higher average sales price.

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In our Europe Fiber Cement business, net sales increased in fiscal year 2006 compared to fiscal year 2005 due to stronger demand resulting from increased awareness of the business products among builders, distributors and contractors; expansion into new geographic markets; and higher average net sales price.

Our roofing pilot plant consisted of a small-scale roofing manufacturing plant in Fontana, California opened in 2003. Since then, we undertook production and market trials of a new roofing product in Southern California to quantify the market potential of the new product. On April 18, 2006, we ceased market development initiatives for our roofing product and announced the closure of our roofing plant. Following a review of the carrying value of the assets related to this operation, an asset impairment charge of $13.4 million was recorded in fiscal year 2006. The decision not to proceed with our roofing product was made after we reviewed market testing results and concluded that greater shareholder value would be created by focusing on other market growth initiatives.

We sold our Chilean business in July 2005 due to its small scale and limited strategic fit.

Gross Profit. Gross profit increased 29% from $426.4 million in fiscal year 2005 to $550.8 million in fiscal year 2006 due mainly to a strong gross profit improvement in the USA Fiber Cement business. The gross profit margin increased 1.8 percentage points to 37.0% in fiscal year 2006.

USA Fiber Cement gross profit increased 37% compared to fiscal year 2005 as a result of increases in both sales volume and the average net sales price, partially offset by higher manufacturing costs and freight costs. The gross profit margin increased 2.1 percentage points in fiscal year 2006.

Asia Pacific Fiber Cement gross profit decreased 5% due to reduced profitability in the Asia Pacific businesses in Australia and the Philippines, which was partly offset by improvements in New Zealand and favorable currency movements. In Australian dollars, gross profit decreased 7% due primarily to increased costs in all the Asia Pacific businesses.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses increased 20% from $174.5 million in fiscal year 2005 to $209.8 million in fiscal year 2006, mainly due to an increase in the accrual for employees bonuses to reflect our improved profit performance (before the asbestos provision); increased spending on growth initiatives in the USA Fiber Cement business; and increased professional service fees. As a percentage of sales, SG&A expense decreased 0.3 of a percentage point to 14.1% in fiscal year 2006.

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 3% higher at $12.3 million in fiscal year 2006. Other research and development costs associated with commercialization projects in business units are included in the business unit segment results. In total, these costs increased 71% to $16.4 million for fiscal year 2006.

SCI and Other Related Expenses. In February 2004, the Government of New South Wales in Australia established the SCI to investigate, among other matters, the circumstances in which the Medical Research and Compensation Foundation was established. Shortly after release of the SCI report on September 21, 2004, we commenced negotiations with the NSW Government, the Australian Council of Trade Unions, or ACTU, UnionsNSW and a representative of asbestos claimants in relation to our offer to the SCI on July 14, 2004 to provide funds voluntarily for proven Australia-based asbestos-related injury and death claims against certain former James Hardie Australian subsidiary companies. On December 21, 2004, we entered into a Heads of Agreement with the above parties to establish and fund an SPF to provide funding for these claims on a long-term basis. We subsequently entered negotiations with the NSW Government on a binding agreement that we intend to put to shareholders for approval. On December 1, 2005, the Company and the NSW Government signed the Final Funding Agreement, or FFA. The Final Funding Agreement is subject to certain conditions precedent, including the tax exempt status of the SPF and its approval by our lenders and shareholders.

Costs incurred associated with the SCI and other related expenses totaled $17.4 million in fiscal year 2006 compared to $28.1 million in fiscal year 2005.

Further information on the SCI and other related matters can be found in Item 3, Key Information Risk Factors, Item 4, Information on the Company Legal Proceedings and Notes 12 and 20 to our consolidated financial statements in Item 18.

Asbestos Provision. The recording of the asbestos provision is in accordance with U.S. accounting standards because we have determined that it is probable that we will make payments to fund asbestos-related claims on a long-term basis. The amount of the asbestos provision of $715.6 million (A$1.0 billion) as of March 31, 2006 is our best estimate of the probable outcome as of that date. This estimate may change under alternative arrangements such as those discussed in the next paragraph. This estimate is based on the terms of the Final Funding Agreement, which includes an actuarial estimate prepared by KPMG Actuaries, at March 31, 2006 of the projected future cash outflows, undiscounted and uninflated.

Conditions Precedent Under Discussion with the ATO. On June 23, 2006, the ATO advised us that it has refused to endorse the SPF as a tax concession charity (which is required for it to be exempt from income tax and other federal taxes), arguing that, in its opinion, the scope of its activities under the Trust Deed and the Final Funding Agreement does not meet current legislative requirements for such an endorsement. The SPF and the Company have received strong legal advice, including from some of Australia s leading counsel, that the SPF satisfies the requirements applicable under income tax legislation such that the ATO should endorse the SPF as a charity. At the time of filing this report, the Company is in further discussions with the ATO and is in discussions and negotiations with the NSW Government, seeking to resolve this unsatisfied condition precedent to the Final Funding Agreement and the means by which it could be fulfilled, amended or otherwise dealt with in a manner satisfactory to the parties to the Final Funding Agreement.

On June 29, 2006, the ATO issued a ruling to us to the effect that our contributions to the SPF would be tax deductible over the anticipated life of the arrangements in accordance with the recent blackhole expenditure Federal Legislation which was enacted in April 2006. The ruling issued by the ATO provides deductibility over a five-year period from the date of contribution, whereas the condition precedent in the Final Funding Agreement 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.

Intention to Make Payments to Asbestos Claimants. Even if conditions to our funding obligations under the Final Funding Agreement are not fulfilled, we have determined that it is nevertheless likely that we will make payments in respect of certain claimants who were injured by asbestos products manufactured by certain former Australian subsidiary companies. Our 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 compensate the injured parties. Any such alternative settlement would require lender and shareholder approval. However, if we proceed with an alternative settlement without the current conditions precedent being met, it is likely, as a function of economic reality, that we will have less funds to support payments in respect of asbestos claims. While we continue to hope that the conditions precedent to the Final Funding Agreement will be fulfilled, we have determined that our intention to proceed responsibly in either event makes it appropriate for us to record the asbestos provision in the amounts set forth in the financial statements.

Further information on the asbestos provision, the SCI, and other related matters can be found in Item 3, Key Information Risk Factors, Item 4, Information on the Company Legal Proceedings and Notes 12 and 20 to our consolidated financial statements in Item 18.

Operating Income. Operating income decreased from $196.2 million profit in fiscal year 2005 to a loss of $434.9 million for fiscal year 2006. Operating income includes the asbestos provision of a $715.6 million, SCI and other related expenses of $17.4 million, and an asset impairment charge of $13.4 million relating to the closure of our roofing pilot plant.

USA Fiber Cement operating income increased 42% from $241.5 million in fiscal year 2005 to $342.6 million in fiscal year 2006. The increase was due to increased sales volume and higher average net sales