James Hardie Industries N.V. and Subsidiaries

Condensed Consolidated Financial Statements
For the Period Ended 31 December 2006

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

	Millions of US Dollars		Millions of Australian Dollars	
	31 December 2006	31 March 2006	**31 December 2006**	31 March 2006
Assets				
Current assets:				
Cash and cash equivalents	**$ 65.3**	$ 315.1	**A$ 82.6**	A$ 440.4
Restricted cash	**5.0**	-	**6.3**	-
Accounts and notes receivable, net of allowance for doubtful accounts of $1.3 million (A$1.6 million) and $1.3 million (A$1.8 million) as of 31 December 2006 and 31 March 2006, respectively	**123.3**	153.2	**155.9**	214.1
Inventories	**152.8**	124.0	**193.3**	173.3
Prepaid expenses and other current assets	**50.3**	33.8	**63.6**	47.2
Deferred income taxes	**24.2**	30.7	**30.6**	42.9
Total current assets	**420.9**	656.8	**532.3**	917.9
Property, plant and equipment, net	**825.5**	775.6	**1,044.1**	1,083.9
Deferred income taxes	**5.5**	4.8	**7.0**	6.7
Deposit with Australian Taxation Office	**151.7**	-	**191.9**	-
Other assets	**6.6**	8.2	**8.3**	11.5
Total assets	**$ 1,410.2**	$ 1,445.4	**A$ 1,783.6**	A$ 2,020.0
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	**$ 96.2**	$ 117.8	**A$ 121.7**	A$ 164.6
Current portion of long-term debt	**-**	121.7	**-**	170.1
Short-term debt	**88.0**	181.0	**111.3**	252.9
Dividends payable	**23.4**	-	**29.6**	-
Accrued payroll and employee benefits	**40.4**	46.3	**51.1**	64.7
Accrued product warranties	**8.2**	11.4	**10.4**	15.9
Income taxes payable	**22.2**	24.5	**28.1**	34.2
Other liabilities	**6.4**	3.3	**8.1**	4.6
Total current liabilities	**284.8**	506.0	**360.3**	707.0
Deferred income taxes	**93.9**	79.8	**118.8**	111.5
Accrued product warranties	**6.9**	4.1	**8.7**	5.7
Asbestos provision	**827.7**	715.6	**1,046.9**	1,000.0
Other liabilities	**58.1**	45.0	**73.5**	62.9
Total liabilities	**1,271.4**	1,350.5	**A$ 1,608.2**	A$ 1,887.1
Commitments and contingencies (Note 7)				
Shareholders' equity:				
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 466,633,529 shares issued and outstanding at 31 December 2006 and 463,306,511 shares issued and outstanding at 31 March 2006	**255.7**	253.2		
Additional paid-in capital	**176.2**	158.8		
Accumulated deficit	**(281.8)**	(288.3)		
Employee loans	**(0.3)**	(0.4)		
Accumulated other comprehensive loss	**(11.0)**	(28.4)		
Total shareholders' equity	**138.8**	94.9		
Total liabilities and shareholders' equity	**$ 1,410.2**	$ 1,445.4		

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

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

(Millions of US dollars, except per share data)	Three Months Ended 31 December 2006	Three Months Ended 31 December 2005	Nine Months Ended 31 December 2006	Nine Months Ended 31 December 2005
Net sales	**$ 355.1**	$ 362.7	**$ 1,182.0**	$ 1,098.7
Cost of goods sold	**(228.8)**	(234.0)	**(742.8)**	(687.4)
Gross profit	**126.3**	128.7	**439.2**	411.3
Selling, general and administrative expenses	**(53.4)**	(51.2)	**(162.3)**	(146.4)
Research and development expenses	**(6.2)**	(8.3)	**(20.3)**	(21.7)
SCI and other related expenses	**(2.6)**	(4.8)	**(8.2)**	(14.7)
Other operating expense	**-**	-	**-**	(0.8)
Adjustments to asbestos provision	**(44.8)**	-	**(119.2)**	-
Operating income	**19.3**	64.4	**129.2**	227.7
Interest expense	**(1.5)**	(1.1)	**(7.3)**	(5.1)
Interest income	**0.2**	1.9	**5.0**	4.2
Income before income taxes	**18.0**	65.2	**126.9**	226.8
Income tax expense	**(26.0)**	(24.5)	**(79.2)**	(82.6)
(Loss) income before cumulative effect of change in accounting principle	**(8.0)**	40.7	**47.7**	144.2
Cumulative effect of change in accounting principle for stock-based compensation (net of US$0.4 million of tax for the nine months ended 31 December 2006)	**-**	-	**0.9**	-
Net (loss) income	**$ (8.0)**	$ 40.7	**$ 48.6**	$ 144.2
Net (loss) income per share - basic	**$ (0.02)**	$ 0.09	**$ 0.10**	$ 0.31
Net (loss) income per share - diluted	**$ (0.02)**	$ 0.09	**$ 0.10**	$ 0.31
Weighted average common shares outstanding (Millions):				
Basic	**464.7**	462.1	**463.8**	461.4
Diluted	**464.7**	466.8	**464.6**	465.6

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

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

(Millions of Australian dollars, except per share data)	Three Months Ended 31 December 2006	Three Months Ended 31 December 2005	Nine Months Ended 31 December 2006	Nine Months Ended 31 December 2005
Net sales	**A$ 468.3**	A$ 478.9	**A$ 1,558.8**	A$ 1,450.8
Cost of goods sold	**(301.7)**	(309.0)	**(979.6)**	(907.7)
Gross profit	**166.6**	169.9	**579.2**	543.1
Selling, general and administrative expenses	**(70.4)**	(67.6)	**(214.0)**	(193.3)
Research and development expenses	**(8.2)**	(11.0)	**(26.8)**	(28.7)
SCI and other related expenses	**(3.4)**	(6.3)	**(10.8)**	(19.4)
Other operating expense	**-**	-	**-**	(1.1)
Adjustments to asbestos provision	**(59.2)**	-	**(157.2)**	-
Operating income	**25.4**	85.0	**170.4**	300.6
Interest expense	**(2.0)**	(1.5)	**(9.6)**	(6.7)
Interest income	**0.3**	2.5	**6.6**	5.5
Income before income taxes	**23.7**	86.0	**167.4**	299.4
Income tax expense	**(34.3)**	(32.4)	**(104.5)**	(109.1)
(Loss) income before cumulative effect of change in accounting principle	**(10.6)**	53.6	**62.9**	190.3
Cumulative effect of change in accounting principle for stock-based compensation (net of A$0.5 million of tax for the nine months ended 31 December 2006)	**-**	-	**1.2**	-
Net (loss) income	**A$ (10.6)**	A$ 53.6	**A$ 64.1**	A$ 190.3
Net (loss) income per share - basic	**A$ (0.02)**	**A$ 0.12**	**A$ 0.14**	**A$ 0.41**
Net (loss) income per share - diluted	**A$ (0.02)**	**A$ 0.11**	**A$ 0.14**	**A$ 0.41**
Weighted average common shares outstanding (Millions):				
Basic	**464.7**	462.1	**463.8**	461.4
Diluted	**464.7**	466.8	**464.6**	465.6

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

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

(Millions of US dollars)	Nine Months Ended 31 December **2006**	2005
Cash Flows From Operating Activities		
Net income	**$ 48.6**	$ 144.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of subsidiaries and businesses	**-**	0.8
Depreciation and amortisation	**37.0**	33.8
Deferred income taxes	**20.2**	8.3
Prepaid pension cost	**2.3**	1.3
Stock-based compensation	**2.9**	3.7
Adjustments to asbestos provision	**119.2**	-
Interim payment to the Special Purpose Fund	**(7.1)**	-
Cumulative effect of change in accounting principle	**(0.9)**	-
Deposit with Australian Taxation Office	**(151.7)**	-
Other	**0.3**	0.7
Changes in operating assets and liabilities:		
Restricted cash	**(5.0)**	-
Accounts and notes receivable	**35.6**	(2.2)
Inventories	**(25.4)**	(17.4)
Prepaid expenses and other current assets	**(17.2)**	(5.2)
Accounts payable and accrued liabilities	**(23.2)**	16.2
Other accrued liabilities and other liabilities	**9.1**	31.6
Net cash provided by operating activities	**44.7**	215.8
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(79.4)**	(123.8)
Proceeds from disposal of subsidiaries and businesses, net of cash divested	**-**	2.9
Net cash used in investing activities	**(79.4)**	(120.9)
Cash Flows From Financing Activities		
Repayments of long-term debt	**(121.7)**	(25.7)
Repayments of short-term debt	**(93.0)**	-
Proceeds from issuance of shares	**15.4**	9.8
Windfall income tax benefit from stock options exercised	**1.6**	1.3
Dividends paid	**(18.7)**	(45.8)
Collections on loans receivable	**0.1**	0.2
Net cash used in financing activities	**(216.3)**	(60.2)
Effects of exchange rate changes on cash	**1.2**	0.8
Net (decrease) increase in cash and cash equivalents	**(249.8)**	35.5
Cash and cash equivalents at beginning of period	**315.1**	113.5
Cash and cash equivalents at end of period	**$ 65.3**	$ 149.0
Components of Cash and Cash Equivalents		
Cash at bank and on hand	**$ 39.6**	$ 29.7
Short-term deposits	**25.7**	119.3
Cash and cash equivalents at end of period	**$ 65.3**	$ 149.0

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

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

(Millions of Australian dollars)	Nine Months Ended 31 December **2006**	2005
Cash Flows From Operating Activities		
Net income	**A$ 64.1**	A$ 190.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of subsidiaries and businesses	**-**	1.1
Depreciation and amortisation	**48.8**	44.6
Deferred income taxes	**26.6**	11.0
Prepaid pension cost	**3.0**	1.7
Stock-based compensation	**3.8**	4.9
Adjustments to asbestos provision	**157.2**	-
Interim payment to the Special Purpose Fund	**(9.4)**	-
Cumulative effect of change in accounting principle	**(1.2)**	-
Deposit with Australian Taxation Office	**(191.9)**	-
Other	**0.4**	0.9
Changes in operating assets and liabilities:		
Restricted cash	**(6.6)**	-
Accounts and notes receivable	**46.9**	(2.9)
Inventories	**(33.5)**	(23.0)
Prepaid expenses and other current assets	**(22.7)**	(6.9)
Accounts payable and accrued liabilities	**(30.6)**	21.4
Other accrued liabilities and other liabilities	**12.0**	41.7
Net cash provided by operating activities	**66.9**	284.8
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	**(104.7)**	(163.5)
Proceeds from disposal of subsidiaries and businesses, net of cash divested	**-**	3.8
Net cash used in investing activities	**(104.7)**	(159.7)
Cash Flows From Financing Activities		
Repayments of long-term debt	**(160.5)**	(33.9)
Repayments of short-term debt	**(122.6)**	-
Proceeds from issuance of shares	**20.3**	12.9
Windfall income tax benefit from stock options exercised	**2.1**	1.7
Dividends paid	**(24.7)**	(60.5)
Collections on loans receivable	**0.1**	0.3
Net cash used in financing activities	**(285.3)**	(79.5)
Effects of exchange rate changes on cash	**(34.7)**	10.6
Net (decrease) increase in cash and cash equivalents	**(357.8)**	56.2
Cash and cash equivalents at beginning of period	**440.4**	146.9
Cash and cash equivalents at end of period	**A$ 82.6**	A$ 203.1
Components of Cash and Cash Equivalents		
Cash at bank and on hand	**A$ 50.1**	A$ 40.5
Short-term deposits	**32.5**	162.6
Cash and cash equivalents at end of period	**A$ 82.6**	A$ 203.1

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

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

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Employee Loans	Accumulated Other Comprehensive (Loss) Income	Total
Balances as of 31 March 2006	$ 253.2	$ 158.8	$ (288.3)	$ (0.4)	$ (28.4)	$ 94.9
Comprehensive income:						
Net income	-	-	48.6	-	-	48.6
Other comprehensive income:						
Foreign currency translation	-	-	-	-	17.4	17.4
Total comprehensive income						66.0
Dividends paid	-	-	(18.7)	-	-	(18.7)
Dividends declared	-	-	(23.4)	-	-	(23.4)
Stock-based compensation	-	2.9	-	-	-	2.9
Tax benefit from stock options exercised	-	1.6	-	-	-	1.6
Employee loans repaid	-	-	-	0.1	-	0.1
Stock options exercised	2.5	12.9	-	-	-	15.4
Balances as of 31 December 2006	**$ 255.7**	**$ 176.2**	**$ (281.8)**	**$ (0.3)**	**$ (11.0)**	**$ 138.8**

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

1. Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

The consolidated financial statements included herein are unaudited; however, they contain all normal recurring adjustments which, in the opinion of the Company’s management, are necessary to state fairly the consolidated financial position of the Company at 31 December 2006, and the consolidated results of operations and the consolidated cash flows for the three and nine months ended 31 December 2006 and 2005. The results of operations for the three and nine months ended 31 December 2006 are not necessarily indicative of the results to be expected for the full year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

	31 March	31 December	
(US$1 = A$)	2006	**2006**	2005
Assets and liabilities	1.3975	**1.2648**	1.3633
Income statement	n/a	**1.3188**	1.3205
Cash flows - beginning cash	n/a	**1.3975**	1.2946
Cash flows - ending cash	n/a	**1.2648**	1.3633
Cash flows - current period movements	n/a	**1.3188**	1.3205

The adjustments to asbestos provision included in the A$ unaudited consolidated statements of operations and A$ unaudited consolidated statements of cash flows reflect the difference in the balance sheet rate at 31 December 2006 and 31 March 2006, respectively, translated using the assets and liabilities rate at 31 December 2006.

2. Summary of Significant Accounting Policies

Earnings Per Share

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

	Three Months Ended 31 December		Nine Months Ended 31 December	
(Millions of shares)	**2006**	2005	**2006**	2005
Basic common shares outstanding	**464.7**	462.1	**463.8**	461.4
Dilutive effect of stock options	**-**	4.7	**0.8**	4.2
Diluted common shares outstanding	**464.7**	466.8	**464.6**	465.6

US dollars	**2006**	2005	**2006**	2005
Net (loss) income per share - basic	**$ (0.02)**	$ 0.09	**$ 0.10**	$ 0.31
Net (loss) income per share - diluted	**$ (0.02)**	$ 0.09	**$ 0.10**	$ 0.31

Potential common shares of 8.1 million and 6.5 million for the three months ended 31 December 2006 and 2005, respectively, and 7.0 million and 6.5 million for the nine months ended 31 December 2006 and 2005 have been excluded from the calculations of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

Advertising
The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US$4.2 million and US$4.4 million for the three months ended 31 December 2006 and 2005, respectively, and US$13.1 million and US$13.7 million for the nine months ended 31 December 2006 and 2005, respectively.

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

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

The Company recognised stock-based compensation expense (included in selling, general and administrative expense) of US$1.4 million and US$1.8 million for the three months ended 31 December 2006 and 2005, respectively, and US$4.1 million and US$3.7 million for the nine months ended 31 December 2006 and 2005, respectively. This excludes the forfeiture adjustment of US$1.3 million (US$0.9 million net of tax) for the nine months ended 31 December 2006, which is separately disclosed as "Cumulative effect of change in accounting principle for stock-based compensation." The tax benefit related to the forfeiture adjustment was US$0.4 million for the nine months ended 31 December 2006.

The Company analysed forfeiture rates on all of the 2001 Stock Option Plan grants for which vesting was complete resulting in an estimated weighted average forfeiture rate of 30.7%. Based on this calculated rate, a cumulative adjustment to stock-based compensation expense of US$1.3 million was recorded for the nine months ended 31 December 2006, upon adoption of SFAS No. 123R. The adjustment is presented on the condensed consolidated statements of operations as a cumulative effect of change in accounting principle (net of income tax).

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

Recent Accounting Pronouncements

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

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

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

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

3. Inventories

Inventories consist of the following components:

(Millions of US dollars)	**31 December 2006**	31 March 2006
Finished goods	**$ 106.0**	$ 84.1
Work-in-process	**15.0**	9.2
Raw materials and supplies	**36.6**	33.0
Provision for obsolete finished goods and raw materials	**(4.8)**	(2.3)
Total inventories	**$ 152.8**	$ 124.0

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

4. Disposal of Chile Business

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

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

(Millions of US dollars)	Nine Months Ended 31 December 2005
Chile Fibre Cement	
Net sales	$ 5.1
Cost of goods sold	(3.5)
Gross profit	1.6
Selling, general and administrative expenses	(1.2)
Loss on disposal of business	(0.8)
Operating loss	(0.4)
Interest expense	(0.2)
Net loss	$ (0.6)

5. Operating Segment Information and Concentrations of Risk

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

The asbestos provision and adjustments thereto are treated as separate captions on the Company's condensed consolidated financial statements.

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

(Millions of US dollars)	Net Sales to Customers Three Months Ended 31 December 2006	2005	Net Sales to Customers Nine Months Ended 31 December 2006	2005
USA Fibre Cement	**$ 284.5**	$ 297.9	**$ 972.4**	$ 892.8
Asia Pacific Fibre Cement	**64.4**	59.4	**187.4**	184.6
Other	**6.2**	5.4	**22.2**	21.3
Worldwide total	**$ 355.1**	$ 362.7	**$ 1,182.0**	$ 1,098.7

(Millions of US dollars)	Income Before Income Taxes Three Months Ended 31 December 2006	2005	Income Before Income Taxes Nine Months Ended 31 December 2006	2005
USA Fibre Cement	**$ 76.7**	$ 79.7	**$ 277.8**	$ 259.9
Asia Pacific Fibre Cement	**8.8**	8.0	**30.6**	32.4
Research and Development	**(4.9)**	(4.6)	**(13.6)**	(11.8)
Other	**(2.4)**	(3.2)	**(6.6)**	(9.3)
Segments total	**78.2**	79.9	**288.2**	271.2
General Corporate	**(14.1)**	(15.5)	**(39.8)**	(43.5)
Adjustments to asbestos provision	**(44.8)**	-	**(119.2)**	-
Total operating income	**19.3**	64.4	**129.2**	227.7
Net interest (expense) income	**(1.3)**	0.8	**(2.3)**	(0.9)
Worldwide total	**$ 18.0**	$ 65.2	**$ 126.9**	$ 226.8

(Millions of US dollars)	Total Identifiable Assets 31 December 2006	31 March 2006
USA Fibre Cement	**$ 876.3**	$ 826.0
Asia Pacific Fibre Cement	**195.7**	170.4
Other	**54.0**	54.8
Segments total	**1,126.0**	1,051.2
General Corporate	**284.2**	394.2
Worldwide total	**$ 1,410.2**	$ 1,445.4

Geographic Areas (Millions of US dollars)	Net Sales to Customers Three Months Ended 31 December 2006	2005	Net Sales to Customers Nine Months Ended 31 December 2006	2005
USA	**$ 287.8**	$ 301.5	**$ 986.0**	$ 903.6
Australia	**42.4**	39.7	**126.7**	125.8
New Zealand	**14.4**	13.5	**40.3**	41.3
Other Countries	**10.5**	8.0	**29.0**	28.0
Worldwide total	**$ 355.1**	$ 362.7	**$ 1,182.0**	$ 1,098.7

(Millions of US dollars)	Total Identifiable Assets 31 December 2006	31 March 2006
USA	**$ 918.9**	$ 870.3
Australia	**124.1**	108.5
New Zealand	**24.1**	18.7
Other Countries	**58.9**	53.7
Segments total	**1,126.0**	1,051.2
General Corporate	**284.2**	394.2
Worldwide total	**$ 1,410.2**	$ 1,445.4

6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss as reported in the condensed consolidated balance sheets is comprised entirely of foreign currency translation adjustments of US$11.0 million and US$28.4 million at 31 December 2006 and 31 March 2006, respectively.

7. Commitments and Contingencies

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

On 21 November 2006, the Company signed an amended and restated Final Funding Agreement (the “Amended FFA”) with the New South Wales (“NSW”) Government to provide long-term funding to a special purpose fund (“SPF”) that will provide compensation for Australian asbestos-related personal injury claims against certain former James Hardie companies (being Amaca Pty Ltd (“Amaca”), Amaba Pty Ltd (“Amaba”) and ABN 60 000 009 263 Pty Ltd (“ABN 60”)) (the “Former

James Hardie Companies”). While the Amended FFA is consistent in all material respects with the terms of the Final Funding Agreement entered into on 1 December 2005 (the “Original FFA”) among the Company, the NSW Government and a wholly owned Australian subsidiary of the Company (James Hardie 117 Pty Ltd (formerly LGTDD Pty Ltd), described below as the “Performing Subsidiary”), the Amended FFA set forth certain changes to the original proposed arrangements as approved by the Company’s Managing and Supervisory Boards of Directors and by shareholders on 7 February 2007.

Key events occurring since 2001 that led to the signing of the Original FFA are summarised in the Company’s Annual Report on Form 20-F for the year ended 31 March 2006 and further updated below.

The Original FFA was subject to a number of conditions precedent, including confirmation satisfactory to the Company’s Boards of Directors, acting reasonably, that the contributions to be made by JHI NV and the Performing Subsidiary under the Original FFA would be tax deductible in full in the year in which such expenditure was incurred and confirmation that the trustee of the SPF would be exempt from tax in respect of its income.

On 15 December 2005, the Australian Taxation Office (“ATO”) ruled that such deductions would not be available. Furthermore, on 23 June 2006, the ATO refused the trustee’s application for exemption. As a result of the ATO's decisions, the parties to the Original FFA entered into the Amended FFA amending the tax conditions precedent. The Company believes that the amendments preserve the commercial intent of the original arrangements and will allow the trustee to make compensation payments to claimants.

On 8 November 2006, the ATO issued binding private rulings which satisfied all of the amended tax conditions precedent on the basis of drafts documents, and subsequently confirmed those rulings in relation to the executed Amended FFA and key related agreements on 6 December 2006.

In summary, the Amended FFA provides for the following key steps to occur if the remaining conditions precedent to that agreement were to be 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$184.3 million provided by the Performing Subsidiary to he SPF, calculated on the basis of an actuarial report prepared by KPMG Actuaries Pty Ltd (“KPMG Actuaries”) as of 30 September 2006. That report provided an estimate of the discounted net present value of all present and future Australian asbestos-related personal injury claims against the Former James Hardie Companies of A$1.52 billion (US$1.14 billion);

– subject to the cap described below, an annual contribution in advance to top up the funds in the SPF to equal the actuarially calculated estimate of expected Australian asbestos-related personal injury claims against the Former James Hardie Companies for the following three years, to be revised annually (so as to create a rolling cash “buffer” in the SPF);

– a cap on the annual payments made by the Performing Subsidiary to the SPF, initially set at 35% of the Company’s free cash flow (defined as cash from operations in accordance with US GAAP in force at the date of the Original FFA) for the immediately preceding financial year, with provisions for the percentage to decline over time depending upon the Company’s financial performance (and therefore the contributions already made to the SPF) and the claims outlook;

- an initial term to 31 March 2045, 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 Amended FFA (the "Related Agreements");
- no cap on individual payments to asbestos claimants;
- the Performing Subsidiary's payment obligations are guaranteed by James Hardie Industries N.V.;
- the SPF's claims to the funding payments required under the Amended FFA will be subordinated to the claims of the Company's lenders;
- 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; and
- James Hardie Industries N.V. will, for ten years, provide an annual sum of A$0.5 million for the purpose of medical research into the prevention, treatment and cure of asbestos disease and contribute an annual sum of A$0.075 million towards an education campaign for the benefit of the Australian public on the dangers of asbestos.

On 9 November 2006, James Hardie announced that it, the SPF and others had received private binding rulings relating to the expected tax consequences arising to the SPF and others in connection with the Amended FFA. In the Amended FFA, all parties to the Amended FFA agreed to these rulings resulting in the tax conditions precedent set out in that agreement.

As of 31 December 2006, all substantive conditions to the Amended FFA were satisfied, except the requirement for the approval of the Company's security holders (which approval was obtained at an Extraordinary General Meeting of security holders held on 7 February 2007) and payment of the initial funding of A$184.3 million to the SPF (which was made on 9 February 2007).

In the third quarter of fiscal 2007, the following conditions precedent were satisfied:

- 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 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 Amended FFA will be tax deductible; and
- confirmation as to the expected tax consequences arising to the SPF and others from implementing the arrangements.

The Company's ability to obtain a tax deduction for the initial funding and subsequent annual payments made under the Amended FFA has been confirmed by the ATO in a form binding on the Australian Federal Commissioner of Taxation ("Commissioner") for at least the initial term of the Amended FFA (to 31 March 2045). The private ruling issued by the ATO provides deductibility over a five year period (on a straight line basis) from the date of payment for each contribution by the Performing Subsidiary to the SPF.

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

The Performing Subsidiary also signed an Interim Funding Deed with Amaca to provide funding to Amaca of up to A$24.1 million in the event that Amaca's finances are otherwise exhausted before the Amended FFA is implemented in full. The commercial terms of such funding have been settled and the Performing Subsidiary has entered into interim funding documentation dated 16 November 2006.

In December 2006, the Company mailed an Explanatory Memorandum to its security holders. An Extraordinary Information Meeting was held on 1 February 2007 in Sydney and the implementation of the Amended FFA was approved at an Extraordinary General Meeting of security holders held on 7 February 2007 in Amsterdam.

The recording of the asbestos provision is in accordance with US accounting standards because it is probable that the Company will make payments to fund asbestos-related claims on a long-term basis. The amount of the asbestos provision of US$827.7 million (A$1.05 billion) at 31 December 2006 is the Company's best estimate of the probable outcome. This estimate is based on the terms of the Amended FFA, which includes an estimate prepared by KPMG Actuaries as of 30 September 2006 of the projected future cash outflows, undiscounted and uninflated.

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

As a result, the asbestos provision has been revised to reflect the most recent actuarial estimate prepared by KPMG Actuaries as of 30 September 2006 and to adjust for payments made to claimants during the half year then ended. In addition, an interim funding payment of A$9.0 million (US$7.1 million) was made to Amaca in December 2006. That sum was subsequently repaid by Amaca out of part of the proceeds of the initial funding on 12 February 2007.

Adjustments to the asbestos provision are shown in the table below:

	Three Months Ended 31 December	
	US$ millions	A$ millions
At 30 September 2006	$ 790.0	A$ 1,055.9
Effect of foreign exchange for the third quarter	44.8	-
Interim funding payment	(7.1)	(9.0)
At 31 December 2006	**$ 827.7**	**A$ 1,046.9**

	Nine Months Ended 31 December	
	US$ millions	A$ millions
At 31 March 2006	$ 715.6	A$ 1,000.0
Effect of foreign exchange for the year to date	77.4	-
Interim funding payment	(7.1)	(9.0)
Other adjustments to provision[1]	41.8	55.9
At 31 December 2006	**$ 827.7**	**A$ 1,046.9**

[1]Other adjustments to provision reflect an updated actuarial assessment converted at the A$/US$ foreign exchange spot rate at 30 September 2006.

In estimating the potential financial exposure, KPMG Actuaries made assumptions related to the total number of claims which were reasonably estimated to be asserted through 2071, the typical cost of settlement (which is sensitive to, among other factors, the industry in which a 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 relied on the data and information provided by the Medical Research and Compensation Foundation (“Foundation”) and Amaca Claims Services, Amaca Pty Ltd (under NSW External Administration) (“ACS”) and assumed that it is accurate and complete in all material respects. The actuaries have not verified the information independently nor established the accuracy or completeness of the data and information provided or used for the preparation of the report.

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

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

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

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

	31 December 2006	31 March 2006[1]
Australia	**471**	556
New Zealand	**-**	-
Unknown - Court Not Identified[1]	**16**	20
USA	**-**	1

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

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

Australia	**Nine Months Ended 31 December 2006**	Twelve Months Ended 31 March 2006[1]
Number of claims filed	**348**	346
Number of claims dismissed	**108**	97
Number of claims settled or otherwise resolved	**333**	405
Average settlement amount per settled claim	**A$ 154,064**	A$ 151,883
Average settlement amount per settled claim	**US$ 116,821**	US$ 114,322

Unknown - Court Not Identified		**Nine Months Ended 31 December 2006**		Twelve Months Ended 31 March 2006(1)
Number of claims filed		**-**		6
Number of claims dismissed		**2**		10
Number of claims settled or otherwise resolved		**3**		12
Average settlement amount per settled claim	**A$**	**11,071**	A$	198,892
Average settlement amount per settled claim	**US$**	**8,395**	US$	149,706

USA		**Nine Months Ended 31 December 2006**		Twelve Months Ended 31 March 2006(1)
Number of claims filed		**-**		-
Number of claims dismissed		**1**		-
Number of claims settled or otherwise resolved		**-**		-
Average settlement amount per settled claim	**A$**	**-**	A$	-
Average settlement amount per settled claim	**US$**	**-**	US$	-

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

		As of 31 December 2006	As of 31 March							
				2006(1)		2005		2004		2003
Number of open claims at beginning of period		**586**		749		743		814		671
Number of new claims		**348**		352		496		380		409
Number of closed claims		**447**		524		490		451		266
Number of open claims at period-end		**487**		577		749		743		814
Average settlement amount per settled claim	**A$**	**152,788**	A$	153,236	A$	157,223	A$	167,450	A$	201,200
Average settlement amount per case closed	**A$**	**114,847**	A$	121,945	A$	129,949	A$	117,327	A$	177,752
Average settlement amount per settled claim	**US$**	**115,854**	US$	115,341	US$	116,298	US$	116,127	US$	112,974
Average settlement amount per case closed	**US$**	**87,084**	US$	91,788	US$	96,123	US$	81,366	US$	99,808

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

The Company has not had any responsibility or involvement in the management of claims against ABN 60 since the time ABN 60 left the James Hardie Group in March 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 Amended FFA and associated New South Wales legislation provides 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.

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

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

(Millions of US dollars)	Three Months Ended 31 December **2006**	Three Months Ended 31 December 2005	Nine Months Ended 31 December **2006**	Nine Months Ended 31 December 2005
ASIC investigation	**$ 0.5**	$ 0.1	**$ 0.8**	$ 0.3
Severance and consulting	**-**	-	**-**	0.1
Resolution advisory fees	**2.0**	2.8	**4.9**	8.5
Funding advice and other	**0.1**	1.9	**2.5**	5.8
Total SCI and other related expenses	**$ 2.6**	$ 4.8	**$ 8.2**	$ 14.7

Australian Securities and Investments Commission ("ASIC") Proceedings and Investigation
Statutory notices previously issued by ASIC to the Company indicate that ASIC is conducting an investigation into suspected contraventions of certain provisions of Australian corporations and crimes legislation concerning the affairs of ABN 60, Amaca, Amaba and the Company during the period 1 July 1994 to 31 October 2004.

On 14 February 2007, ASIC commenced civil proceedings in the Supreme Court of New South Wales (the "Court") against the Company, ABN 60 and ten present or former officers and directors of the James Hardie Group. While the subject matter of the allegations varies between individual defendants, the allegations against the Company are confined to alleged contraventions of provisions of the Australian Corporations Act/Law relating to continuous disclosure, a director's duty of care and diligence, making false and misleading statement and engaging in misleading and deceptive conduct.

In the proceedings, ASIC seeks:

- declarations regarding the alleged contraventions;
- orders for pecuniary penalties in such amount as the Court thinks fit up to the limits specified in the Corporations Act;
- orders that Michael Brown, Michael Gillfillan, Meredith Hellicar, Martin Koffel, Peter Macdonald, Philip Morley, Geoffrey O'Brien, Peter Shafron, Gregory Terry and Peter Willcox be prohibited from managing an Australian corporation for such period as the Court thinks fit;
- an order that the Company execute a deed of indemnity in favour of ABN 60 Pty Limited in the amount of A$1.9 billion or such amount as ABN 60 or its directors consider is necessary to ensure that ABN 60 remains solvent; and

- its costs of the proceedings.

ASIC has advised the Company that it will not pursue the claim for indemnity if the conditions precedent to the FFA as announced on 1 December 2005 are satisfied. The Company has written to ASIC to indicate that on 9 February 2007 it satisfied the conditions precedent to the Amended and Restated FFA dated 21 November 2006 and to request that ASIC confirm that it will no longer seek to have JHI NV grant a deed of indemnity in favour of ABN 60.

ASIC has since indicated that its investigations continue and may result in further actions, both civil and criminal. However, it has not indicated the possible defendants to such actions.

The Company has entered into deeds of indemnity with certain of its directors and officers as is common practice for publicly listed companies. The Company's articles of association also contain an indemnity for directors and officers. In addition, the Company has granted indemnities to certain of its former related corporate bodies which may require the Company to indemnify those entities against indemnities they have granted their directors and officers. To date, claims for payments of expenses incurred have been received from certain current and former officers in relation to the ASIC investigation, and in relation to the examination of these officers by ASIC delegates, the amount of which is not significant. Now that proceedings have been brought against current and former directors, officers or employees of the James Hardie Group, the Company may incur liabilities under these indemnities. There remains considerable uncertainty surrounding the likely outcome of the ASIC proceedings in the longer term and there is a possibility that the related costs to the Company could be material. However, at this stage it is not possible to determine the amount of any such liability. Therefore, the Company believes that both the probable and estimable requirements under SFAS No. 5, *Accounting for Contingencies*, for recording a liability have not been met.

Financial Position of the Foundation
On the basis of the then current cash and financial position of the Foundation's subsidiaries (Amaca and Amaba) and following the Company's entry into the Heads of Agreement, the applications previously made to the Supreme Court of NSW by the Foundation for the appointment of a provisional liquidator to the Foundation's subsidiaries were dismissed with the Foundation's 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 general insolvency has been further reduced by legislation passed in NSW (the *James Hardie Former Subsidiaries (Winding Up and Administration) Act 200*5), parts of which came into force on 2 December 2005 (and the remainder of which came into force on 8 February 2007). That legislation has replaced the *James Hardie Former Subsidiaries (Special Provisions) Act 2005*, and provides for a statutory form of winding up of Amaca, Amaba and ABN 60 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. As of 8 February 2007 the shares in those entities have been transferred so that all of their shares are now wholly owned (directly or indirectly) by the SPF.

As noted above, in December 2006 Amaca drew down the sum of A$9.0 million (US$7.1 million) under the Interim Funding Deed with the Performing Subsidiary. That sum was subsequently repaid in February 2007 by Amaca out of part of the proceeds of the initial funding to the SPF.

The Company believes it is likely that future costs related to the Company's finalisation of the implementation of the Amended FFA may be material for the remainder of this financial year.

Environmental and Legal
The operations of the Company, like those of other companies engaged in similar businesses, are subject to a number of federal, state and local laws and regulations on air and water quality, waste

handling and disposal. The Company's policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known except as set forth above, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

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

8. Short and Long-Term Debt

Upon satisfaction of the conditions precedent to the full implementation of the Amended FFA, which occurred on 7 February 2007 with shareholder approval (lender approval provided in December 2006), the maturity date of the US$245.0 million term facilities was automatically extended to June 2010 from March 2007.

The Company's credit facilities currently consist of 364-day facilities in the amount of US$110.0 million, which mature in December 2007. The Company also has term facilities in the amount of US$245.0 million which mature in June 2010. For both facilities, interest is calculated at the commencement of each draw-down period based on the US$ London Interbank Offered Rate ("LIBOR") plus the margins of individual lenders, and is payable at the end of each draw-down period. During the three months ended 31 December 2006 and 2005, the Company paid in commitment fees in the amount of US$0.2 million and US$0.1 million, respectively, and US$0.6 million and US$0.4 million for the nine months ended 31 December 2006 and 2005, respectively. At 31 December 2006, there was US$88.0 million drawn under the combined facilities and US$267.0 million was available.

Additionally, in March 2006, RCI Pty Ltd ("RCI"), a wholly owned subsidiary of the Company, received an amended assessment from the ATO. RCI is appealing this amended assessment. The Company made a payment of A$189.0 million (US$141.4 million) being 50% of the amended assessment, pending the outcome of the appeal of the amended assessment. Even if the Company is ultimately successful in its appeal and the cash deposit is refunded, this procedural requirement to post a cash deposit was material and adversely affected the Company's financial position and liquidity. See Note 9 below for additional information.

At 31 December 2006, management believes that the Company was in compliance with all restrictive covenants contained in its credit facility agreements. Under the most restrictive of these covenants, the Company is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and has limits on how much it can spend on an annual basis in relation to asbestos payments to Amaca, Amaba or ABN 60.

Long-term debt at 31 March 2006 comprised US$ non-collateralised notes which formed part of a seven tranche private placement facility which provided for maximum borrowings of US$165.0 million. Principal repayments were due in seven installments that commenced on 5 November 2004 and was to end on 5 November 2013. The tranches had fixed interest rates of 6.86%, 6.92%, 6.99%, 7.05%, 7.12%, 7.24% and 7.42%. Interest was payable 5 May and 5 November each year.

As a result of recording the asbestos provision at 31 March 2006, and the Supervisory Board's approval on 12 May 2006 of the recording of this provision, the Company would not have been in compliance with certain of the restrictive covenants in respect of the US$ non-collateralised notes.

However, under the terms of the non-collateralised notes agreement, prepayment of these notes was permitted, and on 28 April 2006, the Company issued a notice to all noteholders to prepay in full all outstanding notes on 8 May 2006. On that date, the US$ non-collateralised notes were prepaid in full, incurring a make-whole payment of US$6.0 million. This make-whole payment is included in interest expense in the condensed consolidated statements of operations.

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

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

9. Amended ATO Assessment

As discussed above, in March 2006, RCI received an amended assessment from the ATO in respect of RCI's income tax return for the year ended 31 March 1999. The amended assessment relates to the amount of net capital gains arising as a result of an internal corporate restructure carried out in 1998 and has been issued pursuant to the discretion granted to the Commissioner of Taxation under Part IVA of the Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A$412.0 million. However, after two subsequent remissions of general interest charges by the ATO, the total was revised to A$368.0 million and is comprised of the following:

(Millions of dollars)	US$	A$
Primary tax after allowable credits	$ 128.7	A$ 172.0
Penalties [1]	32.2	43.0
General interest charges	114.4	153.0
Total amended assessment [2]	$ 275.3	A$ 368.0

[1] Represents 25% of primary tax
[2] US$ amounts calculated using the A$/US$ foreign exchange spot rate at 30 September 2006.

On 23 June 2006, following negotiation with the ATO regarding payment options for the amended assessment, the Company was advised by the ATO that, in accordance with the ATO Receivable policy, it was able to make a payment of 50% of the total amended assessment then due of A$378.0 million (US$282.8 million), being A$189.0 million (US$ 141.4 million), and provide a guarantee from James Hardie Industries N.V. in favour of the ATO for the remaining unpaid 50% of the amended assessment, pending outcome of the appeal of the amended assessment. Payment of 50% of the amended assessment became due and was paid on 5 July 2006. The Company also agreed to pay general interest charges ("GIC") accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. The first payment of accrued GIC was paid on 15 October 2006, in respect of the quarter ended 30 September 2006.

On 10 November 2006, the ATO granted a further remission of GIC reducing total GIC on the amended assessment from A$163.0 million to A$153.0 million and thereby reducing the total amount due under the amended assessment from A$378.0 million to A$368.0 million. The reduction in the total amount due under the amended assessment resulted in a reduction in the 50% payment required under the agreement with the ATO from A$189.0 million to A$184.0 million. This gave rise to an amount of A$5.0 million being available for offset against future GIC accruing on the unpaid balance of the amended assessment. Accordingly, no GIC will be required to be paid in respect of the quarter ended 31 December 2006.

RCI strongly disputes the amended assessment and is pursuing all avenues of objection and appeal to contest the ATO's position in this matter. The ATO has confirmed that RCI has a reasonably arguable position that the amount of net capital gains arising as a result of the corporate restructure carried out in 1998 has been reported correctly in the fiscal year 1999 tax return and that Part IVA does not apply. As a result, the ATO reduced the amount of penalty from an automatic 50% of primary tax that would otherwise apply in these circumstances, to 25% of primary tax. In Australia, a reasonably arguable position means that the tax position is about as likely to be correct as it is not correct. The Company and RCI received legal and tax advice at the time of the transaction, during the ATO enquiries and following receipt of the amended assessment. The Company believes that the tax position reported in RCI's tax return for the 1999 fiscal year will be upheld on appeal. Therefore, the Company believes that the probable requirements under SFAS No. 5*, Accounting for Contingencies*, for recording a liability have not been met and therefore it has not recorded any liability at 31 December 2006 for the remainder of the amended assessment.

The Company expects that amounts paid on 5 July 2006 and, any later time, would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. As a result, the Company has treated the payments on 5 July 2006 and 15 October 2006 as a deposit and it is the Company's intention to treat any payments to be made at a later date as a deposit.

The GIC are an allowable expense, and subsequent remissions of GIC are assessable income, for corporate tax in Australia. As such the Company will claim an allowable deduction for the GIC originally charged on its income tax return for the year ended 31 March 2006, and will include in assessable income the GIC subsequently remitted on its income tax return for the year ended 31 March 2007, to be filed with the ATO. However, a deferred tax asset in relation to the net GIC allowable deduction has not been recognised in the condensed consolidated financial statements at 31 December 2006 because the Company believes the GIC will be reversed once the appeal against the amended assessment has been settled in RCI's favour.

10. Stock-Based Compensation

At 31 December 2006, the Company had the following stock-based compensation plans: the Executive Share Purchase Plan; the Managing Board Transitional Stock Option Plan; the JHI NV 2001 Equity Incentive Plan; the JHI NV Stock Appreciation Rights Incentive Plan; the Supervisory Board Share Plan; the Supervisory Board Share Plan 2006 and the Long-Term Incentive Plan. As of 31 December 2006, the Company has no units outstanding under the following stock-based compensation plans: the Peter Donald Macdonald Share Option Plan, the Peter Donald Macdonald Share Option Plan 2001 and the Peter Donald Macdonald Share Option Plan 2002 (collectively the "Peter Donald Macdonald Share Option Plans").

Executive Share Purchase Plan
Prior to July 1998, James Hardie Industries Limited ("JHIL") issued stock under an Executive Share Purchase Plan (the "Plan"). Under the terms of the Plan, eligible executives purchased JHIL shares at their market price when issued. Executives funded purchases of JHIL shares with non-recourse, interest-free loans provided by JHIL and collateralised by the shares. In such cases, the amount of indebtedness is reduced by any amounts payable by JHIL in respect of such shares, including dividends and capital returns. These loans are generally repayable within two years after termination of an executive's employment. Variable plan accounting under the provisions of Accounting Principles Board ("APB") Opinion No. 25,*Accounting for Stock Issued to Employees,* has been applied to the Executive Share Purchase Plan shares granted prior to 1 April 1995 and fair value accounting, pursuant to the requirements of SFAS No. 123R, has been applied to shares granted after 31 March 1995. Accordingly, the Company recorded variable compensation expense of nil

during the three month periods ended 31 December 2006 and 2005, and nil and $0.1 million during the nine month periods ended 31 December 2006 and 2005, respectively. No shares were issued under this plan during the nine months ended 31 December 2006 and 2005.

Managing Board Transitional Stock Option Plan

The Managing Board Transitional Stock Option Plan provides an incentive to the members of the Managing Board. The maximum number of ordinary shares that may be issued and outstanding or subject to outstanding options under this plan shall not exceed 1,380,000 shares. At 31 December 2006, there were 1,320,000 options outstanding under this plan.

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

JHI NV 2001 Equity Incentive Plan

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

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

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

Under the 2001 Equity Incentive Plan, additional grants have been made at fair market value to management and other employees of the Company. Each option confers the right to subscribe for one ordinary share in the capital of JHI NV. The options may be exercised as follows: 25% after the first year; 25% after the second year; and 50% after the third year. All unexercised options expire 10 years from the date of issue or 90 days after the employee ceases to be employed by the Company.

The following table summarises the option grants:

Share Grant Date		Original Exercise Price	Number of Options Granted	Option Expiration Date
December 2001	A$	5.65	4,248,417	December 2011
December 2002	A$	6.66	4,037,000	December 2012
December 2003	A$	7.05	6,179,583	December 2013
December 2004	A$	5.99	5,391,100	December 2014
February 2005	A$	6.30	273,000	February 2015
December 2005	A$	8.90	5,224,100	December 2015
March 2006	A$	9.50	40,200	March 2016
November 2006	A$	8.40	3,499,490	November 2016

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

The Company is authorised to issue 45,077,100 shares under the 2001 Equity Incentive Plan.

JHI NV Stock Appreciation Rights Incentive Plan
On 14 December 2004, 527,000 stock appreciation rights were granted under the terms and conditions of the JHI NV Stock Appreciation Rights Incentive Plan ("Stock Appreciation Rights Plan") with an exercise price of A$5.99. All of these stock appreciation rights were outstanding as of 31 March 2005. In April 2005, 27,000 stock appreciation rights were cancelled. In December 2006, 250,000 of these stock appreciation rights vested and were exercised at A$8.99, the closing price of the Company's stock on the exercise day. These rights have been accounted for as stock appreciation rights under SFAS No. 123R and, accordingly, compensation expense of US$0.8 million and US$0.1 million was recognised in the three months ended 31 December 2006 and 2005, respectively, and compensation expense of US$0.6 million and US$0.5 million was recognised in the nine months ended 31 December 2006 and 2005, respectively.

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

Supervisory Board Share Plan 2006
At the 2006 Annual General Meeting, the Company's shareholders approved the replacement of its SBSP with a new plan called the Supervisory Board Share Plan 2006 ("SBSP 2006"). Participation by members of the Supervisory Board in the SBSP 2006 is not mandatory. The SBSP 2006 allows the Company to issue new shares or acquire shares on the market on behalf of the participant. The total remuneration of a Supervisory Board member will take into account any participation in the

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

Long-Term Incentive Plan
At the 2006 Annual General Meeting, the Company's shareholders approved the establishment of a Long-Term Incentive Plan ("LTIP") to provide incentives to members of the Company's Managing Board and to certain members of its management ("Executives"). The shareholders also approved, in accordance with certain LTIP rules, the issue of certain options or other rights over, or interest in, ordinary fully-paid shares in the Company ("Shares"), the issue and/or transfer of Shares under them, and the grant of cash awards to members of the Company's Managing Board and to Executives. At the same meeting, the shareholders approved participation in the LTIP and issue of options to the Managing Board to a maximum of 1,418,000 options. In November 2006, 1,132,000 options were granted under the LTIP to the Managing Board. At 31 December 2006, there were 1,132,000 options outstanding under this plan.

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

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

The Company estimates the fair value of each option grant on the date of grant using either the Black-Scholes option-pricing model or a lattice model that incorporates a Monte Carlo Simulation (the "Monte Carlo method"). Options granted under the 2001 Equity Incentive Plan were valued using the Black-Scholes option-pricing model since the vesting of these options is based solely on a requisite service condition. Options granted under the LTIP were valued using the Monte Carlo method since vesting of these options requires that certain target market conditions are achieved.

The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free rate and expected dividends. We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. We estimate the volatility of our common stock based on historical daily stock price volatility. We base the risk-free interest rate on U.S. Treasury notes with terms similar to the expected term of the options. We calculate dividend yield using the current management dividend policy at the time of option grant.

In the table below are the weighted average assumptions and weighted average fair values used for grants valued using the Black-Scholes option-pricing model during the nine month periods ended 31 December:

	2006	2005
Dividend yield	**1.55%**	0.92%
Expected volatility	**28.1%**	27.9%
Risk free interest rate	**4.6%**	4.5%
Expected life in years	**5.1**	5.6
Weighted average fair value at grant date	**A$ 2.39**	A$ 2.78
Number of stock options	**3,499,490**	6,544,100

In the table below are the weighted average assumptions and weighted average fair values used for grants valued using the Monte Carlo method during the nine month periods ended 31 December:

	2006	2005
Dividend yield	**1.55%**	N/A
Expected volatility	**28.1%**	N/A
Risk free interest rate	**4.6%**	N/A
Weighted average fair value at grant date	**A$ 3.30**	N/A
Number of stock options	**1,132,000**	N/A

Compensation expense arising from stock option grants as estimated using option-pricing models was US$1.4 million and US$1.8 million for the three months ended 31 December 2006 and 2005, respectively, and US$4.1 million and US$3.7 million for the nine months ended 31 December 2006 and 2005, respectively. As of 31 December 2006, the unrecorded deferred stock-based compensation balance related to stock options was US$11.7 million after estimated forfeitures and will be recognised over an estimated weighted average amortisation period of 1.6 years.

General Share-Based Award Information
The following table summarises all of the Company shares available for grant and the movement in all of the Company's outstanding options:

		Outstanding Options		
	Shares Available for Grant	Number	Weighted Average Exercise Price	
Balance at 1 April 2005	24,340,258	20,128,610	A$	5.75
Newly Authorised	1,380,000	-		
Granted	(6,584,300)	6,584,300	A$	8.83
Exercised	-	(3,925,378)	A$	4.79
Forfeited	3,274,275	(3,274,275)	A$	5.68
Expired	(2,574,000)	-		
Balance at 1 April 2006	19,836,233	19,513,257	A$	6.99
Newly Authorised	3,000,000	-		
Granted	(4,631,490)	4,631,490	A$	8.40
Exercised	-	(3,327,018)	A$	5.86
Forfeited	1,428,100	(1,428,100)	A$	7.70
Balance at 31 December 2006	**19,632,843**	**19,389,629**	**A$**	**7.47**

The total intrinsic value of stock options exercised for the three months ended 31 December 2006 and 2005 were A$7.9 million and A$0.3 million, respectively, and A$8.6 million and A$7.5 million for the nine months ended 31 December 2006 and 2005, respectively.

The weighted average grant-date fair value of stock options granted during the three and nine months ended 31 December 2006 and 2005 were A$2.61 and A$2.78, respectively.

Windfall tax benefits realised in the United States from exercised stock options and included in financing activities in the condensed consolidated statements of cash flows were US$1.6 million and US$1.3 million for the nine months ended 31 December 2006 and 2005, respectively.

The following table summarises outstanding and exercisable options as of 31 December 2006:

Range of Exercise Price	Options Outstanding: Number	Options Outstanding: Weighted Average Remaining Life (in Years)	Options Outstanding: Weighted Average Exercise Price	Options Outstanding: Aggregate Intrinsic Value	Options Exercisable: Number	Options Exercisable: Weighted Average Exercise Price	Options Exercisable: Aggregate Intrinsic Value
A$ 3.09	423,723	3.8	A$ 3.09	A$ 2,762,674	423,723	A$ 3.09	A$ 2,762,674
3.13	140,609	2.8	3.13	911,146	140,609	3.13	911,146
5.06	728,412	5.0	5.06	3,314,275	728,412	5.06	3,314,275
5.99	3,666,475	8.0	5.99	13,272,640	1,608,175	5.99	5,821,594
6.30	273,000	8.2	6.30	903,630	68,250	6.30	225,908
6.45	1,048,000	5.9	6.45	3,311,680	1,408,000	6.45	4,449,280
7.05	2,709,220	6.9	7.05	6,935,603	2,709,220	7.05	6,935,603
8.40	4,418,890	9.9	8.40	5,346,857	-	8.40	-
8.53	1,320,000	8.9	8.53	1,425,600	-	8.53	-
8.90	4,621,100	8.9	8.90	3,280,981	1,199,150	8.90	851,396
A$ 9.50	40,200	9.2	9.50	4,422	-	9.50	-
Total	19,389,629	8.2	A$ 7.47	A$ 41,469,508	8,285,539	A$ 6.56	A$ 25,271,876

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value based on stock options with an exercise price less than the Company's closing stock price of A$9.61 as of 31 December 2006, which would have been received by the option holders had those option holders exercised their options as of that date, although a significant portion had not vested.

James Hardie Industries N.V. and Subsidiaries

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

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

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

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

In addition, now that the conditions precedent to the Amended FFA have been met and we are required to make payments to the SPF in Australian dollars which, because the majority of our revenues are produced in US dollars, will expose the Company to risks associated with fluctuations in the US dollar/Australian dollar exchange rate.

For the nine months ended 31 December 2006, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	US$	A$	NZ$	Other [1]
Net sales	83.4%	10.7%	3.4%	2.5%
Cost of goods sold	83.8%	11.2%	3.0%	2.0%
Expenses[2]	41.1%	54.4%	1.3%	3.2%
Liabilities (excluding borrowings)[2]	22.6%	74.8%	1.8%	0.8%

[1] Comprises Philippine pesos and Euros.

[2] Includes A$1.5 billion of asbestos provision which is denominated in Australian dollars. Expenses include adjustments to the asbestos provision which was initially recorded in the fourth quarter of fiscal year 2006 for A$1.0 billion. See footnote 7 for additional details of the asbestos provision.

We purchase raw materials and fixed assets and sell some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 31 December 2006, there were no such material contracts outstanding.

Interest Rate Risk
We have market risk from changes in interest rates, primarily related to our borrowings. At 31 December 2006, all of the Company's borrowings were variable-rate. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. As of 31 December 2006, the Company had no interest rate swap contracts outstanding.

Commodity Price Risk
The Company is exposed to changes in prices of commodities used in its operations, primarily associated with energy, fuel and raw materials such as pulp and cement. Pulp has historically demonstrated more price volatility than other raw materials that we use in our manufacturing

process. In addition, energy, fuel, and cement prices rose in fiscal year 2006 and continued to rise in the first nine months of fiscal year 2007. Pulp prices are at their highest level for many years. We expect that pulp, energy, fuel and cement prices will continue to fluctuate in the near future. To minimize the additional working capital requirements caused by rising costs related to these input commodities, the Company may seek to enter into contracts with suppliers for the purchase of these commodities that could fix the Company's costs over the longer term. However, if such commodity input costs do not continue to rise, the Company's cost of sales may be negatively impacted due to the fixed pricing over the longer term.

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

Disclaimer

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

- expectations about the timing and amount of payments to the Asbestos Injuries Compensation Fund (AICF), a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;
- expectations with respect to the effect on the Company's financial statements of those payments;
- statements as to the possible consequences of proceedings brought against the Company and certain of its former directors and officers by the Australian Securities & Investments Commission;
- expectations that the Company's credit facilities will be extended or renewed;
- projections of the Company's operating results or financial condition;
- statements regarding the Company's plans, objectives or goals, including those relating to competition, acquisitions, dispositions and the Company's products;
- statements about the Company's future performance; and
- statements about product or environmental liabilities.

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

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