James Hardie

management's analysis of results

19 August 2005

James Hardie Industries N.V.
Results for the 1st Quarter Ended 30 June 2005

US GAAP - US$ Millions	Three Months Ended 30 June		
	FY 2006	FY 2005	% Change
Net Sales			
USA Fibre Cement	$ 287.5	$ 240.7	19
Asia Pacific Fibre Cement	61.7	57.3	8
Other Fibre Cement	10.2	8.1	26
Total Net Sales	359.4	306.1	17
Cost of goods sold	(214.1)	(194.8)	10
Gross profit	145.3	111.3	31
Selling, general and administrative expenses	(45.5)	(45.1)	1
Research and development expenses	(6.3)	(5.0)	26
Special Commission of Inquiry and other related expenses	(5.2)	(2.9)	79
Impairment loss on business held for sale	(1.4)	-	-
EBIT	86.9	58.3	49
Net interest expense	(0.7)	(2.5)	(72)
Operating profit from continuing operations before income taxes	86.2	55.8	54
Income tax expense	(30.3)	(18.7)	62
Operating Profit From Continuing Operations	$ 55.9	$ 37.1	51
Net Operating Profit Including Discontinued Operations	$ 55.9	$ 36.3	54
Tax rate	35.2%	33.5%	
Volume (mmsf)			
USA Fibre Cement	523.4	490.4	7
Asia Pacific Fibre Cement	92.0	94.2	(2)
Average net sales price per unit (per msf)			
USA Fibre Cement	US$ 549	US$ 491	12
Asia Pacific Fibre Cement	A$ 873	A$ 851	3

In this Management Analysis of Results, we present financial measures that we believe are customarily used by our Australian investors. In each case where we present one of these measures, the equivalent US GAAP financial measure is defined in the Definitions section on page 10. Specifically, these measures include "EBIT", "EBIT Margin", "Operating profit from continuing operations before income taxes", "Operating profit from continuing operations", and "Net operating profit including discontinued operations". The Definitions section also includes other terms that we use for measuring our sales volumes ("millions square feet (mmsf)" and "thousand square feet (msf)"); and the financial ratio "Net cash/debt". Unless otherwise stated, results are for continuing operations only and comparisons are of the 1st quarter of the current fiscal year versus the 1st quarter of the prior fiscal year.

Total Net Sales

Total net sales increased 17% compared to the same quarter of the previous year, from US$306.1 million to US$359.4 million.

Net sales from USA Fibre Cement increased 19% from US$240.7 million to US$287.5 million due to continued growth in sales volumes and a higher average net sales price.

Net sales from Asia Pacific Fibre Cement increased 8% from US$57.3 million to US$61.7 million due to favourable foreign currency movements and stronger net sales in New Zealand.

Net sales from Other Fibre Cement increased 26% from US$8.1 million to US$10.2 million as net sales in our Chilean flat sheet business and European Fibre Cement business continued to grow, partly offset by decline in net sales in our USA Hardie Pipe business.

USA Fibre Cement

Net sales increased 19% from US$240.7 million to US$287.5 million due to increased sales volumes and a higher average net sales price.

Sales volume increased 7% from 490.4 million square feet to 523.4 million square feet for the quarter, primarily due to growth in primary demand for fibre cement, market penetration and a favourable housing construction market.

New residential housing construction remained buoyant during the quarter and the US-based National Association of Home Builders (NAHB) reported that demand exceeded the supply of new homes in many markets. The NAHB noted that demand was again fuelled by low interest rates, strong household income and employment growth in most regions. Repair and remodelling activity also remained buoyant due to a combination of increased home sales, increased owner equity and low interest rates.

Following exceptionally strong sales volumes in the previous quarter, sales volumes in April and May were below management's expectations, but returned to more favourable levels in June. Despite this, demand for our exterior products grew in most regions of our emerging and established markets during the quarter and sales of our interior products continued to grow strongly.

In our emerging markets, we continued to roll-out our strategy of moving sales of our exterior products to pre-painted over the medium to longer-term. This strategy improves our product positioning in vinyl siding dominant markets and increases revenue and contribution per unit.

In our established markets, the business continued to focus on growth strategies, including an increased focus on the repair and remodel segment.

In our exterior products market, our higher priced, differentiated products in the ColorPlus™ Collection of pre-painted siding and Harditrim® XLD® Planks grew the strongest. In our interior products market, both our Hardibacker 500® half-inch backerboard and our quarter-inch backerboard products grew strongly during the quarter.

The average net sales price increased 12% from US$491 per thousand square feet to US$549 per thousand square feet. The increase was due to proportionally stronger growth of differentiated, higher-priced products and price increases for some products that were implemented during the past fiscal year.

During the quarter, we commenced the ramp-up of our new trim line at Peru, Illinois and continued the ramp-up of additional pre-finishing capacity at that plant. In addition, we continued the ramp-up of our new west coast manufacturing plant at Reno, Nevada. We expect to construct additional pre-finishing capacity at other plants in our emerging markets during the second half of this fiscal year.

Asia Pacific Fibre Cement

Net sales increased 8% from US$57.3 million to US$61.7 million. Net sales were flat in Australian dollars due to a 2% decrease in sales volume from 94.2 million square feet to 92.0 million square feet offset by a 3% increase in the average net sales price.

Australia and New Zealand Fibre Cement

Net sales increased 8% from US$51.8 million to US$56.1 million due to favourable foreign currency movements and a 1% increase in sales volumes. The average net sales price was flat compared to the same quarter last year. In Australian dollars, net sales increased 1%.

In Australia, further weakness in new residential housing activity was reflected in a 14% decline in housing commencements compared to the same period last year. The impact of the weaker market on demand was partly offset by the implementation of strategic initiatives to increase market share, particularly in NSW and Victoria.

During the quarter, we launched our Linea® weatherboards in Queensland. Linea® weatherboards have generated significant demand in New Zealand following its launch there in 2003 and is now one of our highest volume products in that country.

There has been a progressive lifting of product bans and boycotts following the signing of the Heads of Agreement in December 2004, but we do not believe all bans and boycotts will be lifted until our proposal for a voluntary long term asbestos compensation funding agreement is finalised and approved by shareholders.

Philippines Fibre Cement

Net sales increased 2% from US$5.5 million to US$5.6 million due to a 17% increase in average net sales price largely offset by a 14% decrease in sales volumes. In local currency, net sales were flat.

Demand was adversely affected due to weaker construction activity resulting from uncertainty associated with increased domestic political and economic instability.

Other Fibre Cement

USA Hardie Pipe

Non-residential construction activity in Florida remained buoyant. Despite this, net sales decreased compared to the same quarter last year as increased prices dampened demand.

Europe Fibre Cement

Net sales increased compared to the same quarter last year due to stronger demand and higher average net sales prices. Demand in Europe is continuing to grow as the business expands its distribution network and increases awareness of its products among builders, distributors and contractors.

Artisan™ Roofing

During the quarter, the business continued to work on proving out its longer-term business model.

Chile Fibre Cement

Our Chilean business was sold on 11 July 2005 due to its small scale and limited strategic fit.

Gross Profit

Gross profit increased 31% from US$111.3 million to US$145.3 million due mainly to a strong gross profit improvement in our USA Fibre Cement business. The gross profit margin increased 4.0 percentage points to 40.4%.

USA Fibre Cement gross profit increased 35% compared to the same quarter last year due to increased net sales, partly offset by higher unit cost of sales and unit freight costs. The higher unit cost of sales resulted primarily from higher raw material costs, increased sales of higher-priced, differentiated products, and ramp-up costs associated with planned growth initiatives. Higher freight costs were primarily related to an increase in length of haul and fuel surcharges.

Asia Pacific Fibre Cement gross profit increased 5% due to favourable foreign currency movements and a gross profit improvement in our Philippines Fibre Cement business. In local currency, gross profit decreased in our Australia and New Zealand business due to a lower average net sales price in Australia and higher manufacturing costs in New Zealand due to an increased proportion of lower margin products in the sales mix.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased slightly compared to the same quarter last year, from US$45.1 million to US$45.5 million. As a percentage of sales, SG&A expenses were 2.0 percentage points lower at 12.7%.

Research and Development Expenses

Research and development expenses include costs associated with “core” research projects that are designed to benefit all fibre cement business units. These costs are recorded in the Research and Development segment rather than being attributed to individual business units. These costs increased 7% for the quarter to US$3.1 million.

Other research and development costs associated with commercialisation projects in business units are included in the business related unit segment results. In total, these costs increased 52% to US$3.2 million.

SCI and Other Related Expenses

In February 2004, the Government of New South Wales in Australia, established a 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 21 September 2004, we commenced negotiations with the NSW Government, the Australian Council of Trade Unions, UnionsNSW and a representative of asbestos claimants in relation to the our offer to the SCI on 14 July 2004 to provide funds voluntarily for proven Australia-based asbestos-related injury and death claims against certain former group subsidiary companies. On 21 December 2004, we entered into a Heads of Agreement with the above parties to establish and fund a special purpose fund 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 upon completion.

Further information on the SCI and other related matters can be found in Note 8 of our Financial Report as of 30 June 2005.

Costs incurred during the quarter associated with the SCI and other related matters totalled US$5.2 million.

EBIT

EBIT increased 49% from US$58.3 million to US$86.9 million. The EBIT margin increased 4.9 percentage points to 24.1%. EBIT includes SCI and other related expenses of US$5.2 million.

USA Fibre Cement EBIT increased 49% from US$63.1 million to US$94.1 million. The increase was due to higher prices and to a lesser extent, increased sales volumes and lower SG&A, partly offset by higher unit cost of sales and unit freight costs. The EBIT margin increased 6.5 percentage points to 32.7%.

Asia Pacific Fibre Cement EBIT increased 3% from US$12.0 million to US$12.4 million. The EBIT margin decreased 0.8 of a percentage point to 20.1%.

Australia and New Zealand Fibre Cement EBIT was flat at US$11.1 million. In Australian dollars, EBIT decreased 7% due to lower net sales, mainly as a result of weaker market conditions and an increase in sales of lower margin product. The EBIT margin decreased 1.6 percentage points to 19.8%.

The Philippines Fibre Cement business recorded an increase in EBIT for the quarter due to higher prices.

Our USA Hardie Pipe business continued to reduce its EBIT loss due to higher prices and a decrease in SG&A costs during the quarter.

Our Europe Fibre Cement business incurred an EBIT loss for the quarter as expected.

Our Chilean Fibre Cement business incurred an EBIT loss during the quarter that includes a US$1.4 million impairment loss on business held for sale.

General corporate costs increased US$3.5 million from US$9.4 million to US$12.9 million. This increase was primarily due to a US$2.3 million increase in SCI and other related expenses, a US$1.0 million increase in employee share based compensation expense from stock appreciation rights that have resulted from an increase in our share price, and a net increase of US$0.2 million in other general corporate costs.

Net Interest Expense

Net interest expense decreased by US$1.8 million from US$2.5 million to US$0.7 million, primarily due to higher interest income due to higher average cash balances, lower interest expense due to lower average debt balances, and a higher amount of interest expense capitalised on construction projects in the quarter compared to the same quarter of the previous year.

Income Tax Expense

Income tax expense increased by US$11.6 million from US$18.7 million to US$30.3 million primarily due to an increase in profits and the geographic mix of earnings. Additionally, we derived little tax benefit from the SCI and other related expenses incurred during the quarter due to a portion of the costs being non-deductible.

Operating Profit from Continuing Operations

Operating profit from continuing operations increased 51%, from US$37.1 million to US$55.9 million, due mainly to improved performance from our USA Fibre Cement business. Operating profit from continuing operations for the quarter includes SCI and other related expenses of US$5.2 million, and a related tax benefit of US$0.2 million.

Discontinued Operations

We recorded an expense from discontinued operations of US$0.8 million in the prior year that includes additional costs associated with the sale of New Zealand land in March 2004.

Liquidity and Capital Resources

We have historically met our working capital needs and capital expenditure requirements through a combination of cash flow from operations, proceeds from the divestiture of businesses, credit facilities and other borrowings, proceeds from the sale of property, plant and equipment and proceeds from the redemption of investments. Seasonal fluctuations in working capital generally have not had a significant impact on our short-term or long-term liquidity. We believe that we can meet our present working capital requirements for at least the next 12 months based on our current capital resources.

We had cash and cash equivalents of US$161.6 million as of 30 June 2005. At that date we also had credit facilities totalling US$517.4 million of which US$160.1 million was outstanding. Our credit facilities are all uncollateralised and consist of the following:

Description	**Effective Interest Rate at 30 June 2005**	**Total Facility at 30 June 2005** (US$ millions)	**Principal Outstanding at 30 June 2005**
US$ notes, fixed interest, repayable annually in varying tranches from November 2005 through November 2013	7.12%	$ 147.4	$ 147.4
US$ 364-day Facility, can be drawn in US$, variable interest rates based on LIBOR plus margin, can be repaid and redrawn until maturity in June 2006	N/A	355.0	-
US$ line of credit, can be drawn down in Chilean Pesos, variable interest based on Chilean Tasa Activa Bancaria rate plus margin until maturity in March 2006 [1]	5.11%	15.0	12.7
Total		$ 517.4	$ 160.1

[1] Included in the liabilities of business held for sale in the consolidated balances sheets.

At 30 June we had net cash of US$1.5 million, compared with net debt of US$45.8 million at 31 March 2005. The US$47.3 million improvement in our cash position was the result of net operating cash flows more than covering capital expenditure outflows.

In June 2005, the Company entered into new uncollateralized debt facilities totalling US$355.0 million. These new debt facilities are revolving US dollar cash advance facilities involving bilateral agreements with six banks and replace the Company's previous revolving and stand-by credit facilities of approximately US$286.0 million. These new facilities are available for general corporate purposes.

Each of these new facilities is for an initial term of 364 days. The interest rate for each facility is the London Inter-Bank Offered Rate ("LIBOR") for US dollar deposits plus a margin. These facilities also require the Company to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and have limits on how much the Company can spend on an annual basis in relation to asbestos payments.

Upon completion and execution of the proposed Principal Agreement and it becoming effective within the 364 day initial term, US$245.0 million of these facilities will be extended by four years to a five year term. With the exception of margins and commitment fees, terms of these extended facilities would not change.

If the terms of the final Principal Agreement are materially different from those set forth in the Heads of Agreement, the banks may not agree to extend the facilities as described above, and, in such event, the Company would have to seek alternative financing. At 30 June 2005, there were no amounts outstanding under any of these facilities and management believes that the Company was in compliance with all facility restrictive covenants.

In the future, we may not be able to renew 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 renew our debt on terms which are not materially less favorable than the terms currently available to us, we may have to scale back our levels of planned capital expenditure and /or take other measures to conserve cash in order to meet our future cash flow requirements.

Proposed Voluntary Asbestos Compensation Funding Agreement

During the quarter, we continued to work towards completion of a Principal Agreement with the NSW Government to establish and fund a special purpose fund to provide compensation on a long-term basis for proven asbestos claims against Amaba, Amaca, ABN 60 and Asbestos Mines (former James Hardie Australian Subsidiaries). When we entered into the non-binding Heads of Agreement in December 2004, it specified that tax deductibility of payments to the special purpose fund was a condition precedent to proceeding to a binding agreement. This recognised that all parties to the Heads of Agreement (The Australian Council of Trade Unions, UnionsNSW, the NSW Government, a representative of the asbestos claimants and the Company) agreed that tax deductibility of the payments is a critical factor regarding affordability of the proposed voluntary funding arrangements. We are continuing to discuss tax deductibility of the payments with the Australian Taxation Office and the Commonwealth Treasury.

Readers are referred to Note 8 of the Financial Report for further information on the voluntary funding proposal, and for information on the SCI and related matters.

End.

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Management's Analysis of Results and accompanying release and management presentation, along with an audio webcast of the presentation, will be available from the Investor Relations website at www.jameshardie.com.

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

Definitions

Financial Measures – US GAAP equivalents

EBIT and EBIT Margin - EBIT is defined as operating income. EBIT margin is defined as EBIT as a percentage of our net sales. We believe EBIT and EBIT margin to be relevant and useful information as these are the primary measures used by our management to measure the operating profit or loss of our business. EBIT is one of several metrics used by our management to measure the earnings generated by our operations, excluding interest and income tax expenses. Additionally, EBIT is believed to be a primary measure and terminology used by our Australian investors. EBIT and EBIT margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. EBIT and EBIT margin, as we have defined them, may not be comparable to similarly titled measures reported by other companies.

EBIT and EBIT margin, as used in this document, are equivalent to the US GAAP measures of operating income and operating income margin.

Operating profit from continuing operations before income taxes - is equivalent to the US GAAP measure of income from continuing operations before income taxes.

Operating profit from continuing operations - is equivalent to the US GAAP measure of income from continuing operations.

Net operating profit including discontinued operations - is equivalent to the US GAAP measure of net income.

Sales Volumes

mmsf – million square feet

msf – thousand square feet

Financial Ratios

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

Disclaimer

This Management's Analysis of Results 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:

- *projections of our operating results 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;*
- *statements about product or environmental liabilities; and*
- *expectations about payments to a special purpose fund for the compensation of proven asbestos-related personal injury and death claims.*

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. We caution you 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, some of which are discussed under "Risk Factors" beginning on page 6 of our Form 20-F filed on 7 July 2005 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 Australian 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 our research and development efforts; our 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 transition of our new senior management. We caution you 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.