James Hardie

Management Discussion and Analysis

16 May 2002

James Hardie Industries N.V.
Results for Year Ended 31 March 2002

USGAAP - US$ Millions	Twelve Months Ended 31 March		
	FY 2002	FY 2001	% Change
Net Sales			
US Fibre Cement	$ 444.8	$ 373.0	19
Asia Pacific Fibre Cement	156.9	166.6	(6)
Other	5.2	1.3	300
Total Net Sales	606.9	540.9	12
Net Sales	$ 606.9	$ 540.9	12
Cost of goods sold	(401.6)	(360.8)	11
Gross profit	205.3	180.1	14
SG&A	(130.3)	(123.7)	5
EBIT before restructuring and other operating expenses	75.0	56.4	33
Restructuring and other operating expenses	(28.1)	(15.5)	81
EBIT	46.9	40.9	15
Net interest expense	(16.0)	(13.2)	21
Other (expense) income	(0.4)	1.6	(125)
Operating profit before tax	30.5	29.3	4
Income tax (expense) benefit	(3.9)	0.3	-
Net Operating Profit from continuing operations	$ 26.6	$ 29.6	(10)
Net Operating Profit including discontinued operations[1]	29.3	38.2	(23)
Volume (mmsf)			
US Fibre Cement	988.5	852.3	16
Asia Pacific Fibre Cement	320.7	318.9	1
Average sales price per unit (per msf)			
US Fibre Cement	US$ 450	US$ 438	3
Asia Pacific Fibre Cement	A$ 861	A$ 857	1

All results are for continuing operations unless otherwise stated.

[1] Discontinued operations include Windows and Gypsum.

Media/Analysts enquiries, please call:
Greg Baxter, Senior Vice President Corporate Affairs: Telephone - 61 2 8274 5377 Mobile - 0419 461 368
Email - greg.baxter@jameshardie.com.au
Steve Ashe, Vice President Investor Relations: Telephone - 61 2 8274 5246 Mobile - 0408 164 011
Email - steve.ashe@jameshardie.com.au
Facsimile - 61 2 8274 5218
www.jameshardie.com

Total Net Sales

Total net sales increased 12% from US$540.9 million to US$606.9 million.

Net sales from US Fibre Cement increased 19% from US$373.0 million to US$444.8 million due to continuing growth in demand for fibre cement and higher selling prices.

Net sales from Asia Pacific Fibre Cement fell 6% from US$166.6 million to US$156.9 million due to unfavourable exchange rate movements. In Australian dollars net sales increased 2%.

US Fibre Cement

Sales revenue increased 19% from US$373.0 million to US$444.8 million.

Sales volume increased 16% from 852.3 million square feet to 988.5 million square feet as a result of continued growth in demand for fibre cement despite weaker market conditions during the second and third quarters.

The average selling price increased 3% from US$438 per thousand square feet to US$450 per thousand square feet as a result of an increase in the sales of differentiated products and higher selling prices for standard products in certain markets, partly offset by a lower average selling price from the Cemplank business, acquired in December 2001.

Sales of differentiated products such as Harditrim™, vented soffits, and Heritage® panels continued to experience strong growth, as did Hardibacker 500™, the company's new ½ inch backerboard using the company's new proprietary G2 technology.

A number of new products were launched during the year and are generating increased demand. A new series of pre-finished plank products known as the ColorPlus™ collection was launched, as well as four new siding products, Heritage Plank™, EZ Line Plank™, HardiPlank Rusticated™ and Shingle Panel™.

Construction of the second production line in Waxahachie, Texas was completed during the year and continued to ramp up.

Further capacity was added during the year with the acquisition of the operating assets of Cemplank Inc, a US based producer of fibre cement building products. The acquisition included a two-line fibre cement manufacturing plant in Blandon, Pennsylvania and a single line plant in Summerville, South Carolina. The acquisition adds 310 million square feet of capacity in key growth regions and increases the company's installed or committed US fibre cement annual production capacity to approximately 2.150 billion square feet.

A smooth integration of Cemplank's operations into the James Hardie business has been achieved ahead of schedule. Customer retention rates were above planned levels and the conversion of the plants at Blandon, Pennsylvania and Summerville, South Carolina to James Hardie specifications has been proceeding well.

On 14 February 2002 the company announced that it had developed a new fibre cement production technology and that it will begin commercial production trials of a new generation of roofing products for the United States market. The company plans a two- stage entry into the large United States roofing products market. The first stage involves construction of a small-scale manufacturing plant to conduct commercial production and market trials. If the first stage is completed successfully, the company intends to develop a large-scale national roofing business in the United States.

Asia Pacific Fibre Cement

Sales revenue fell 6% from US$166.6 million to US$156.9 million. Sales volume increased 1% from 318.9 million square feet to 320.7 million square feet.

Australia

Sales revenue decreased 9% from US$111.0 million to US$100.7 million. In local currency, sales revenue decreased 2%.

Sales volume was almost unchanged at 219.5 million square feet from 219.4 million square feet. The flat comparison was affected by the downturn in the new residential housing market during the first quarter of the fiscal year, and the impact of the first four months of the previous fiscal year being abnormally buoyed by pre GST (Goods and Services Tax) activity.

Demand for FRC Pipes grew during the year resulting in a 15% increase in sales volumes compared to the previous fiscal year.

Lower interest rates and the Government's First Home Owners Scheme had a positive impact on the building industry during the second, third and fourth quarters of fiscal year 2002. However, new residential building activity was still below the level of the previous year.

The average net selling price fell 2% due to competitive pricing strategies including lower net selling prices for FRC pipes.

New Zealand

Sales revenue was unchanged at US$38.0 million for the year due to unfavourable exchange rate differences. In local currency, sales revenue increased 5% due to higher selling prices.

Fibre cement sales volume decreased 1% from 36.6 million square feet to 36.4 million square feet due to low demand in the new residential housing market, partially offset by increased sales volumes to the commercial building market and sales of Hardiglaze™ to the Australian market.

A new, innovative weatherboard cladding system called Linea® was launched nationally during the year. The product is a thicker, lightweight weatherboard that incorporates the company's proprietary low-density technology and offers a number of performance advantages over timber weatherboards, notably superior durability. There has been a positive customer response to Linea®, which is expected to lead to strong sales growth.

Average net fibre cement selling prices increased 3% as a result of a price increase that became effective on 1 August 2001.

Philippines

Sales revenue increased 3% from US$17.6 million to US$18.2 million. In local currency, sales revenue increased 15%. This was due to a 3% increase in sales volume from 62.9 million square feet to 64.8 million square feet resulting largely from increased export sales and an 11% increase in the average net selling price.

The increase in the average net selling price was a result of a change in the product mix resulting from a higher level of export sales and sales of the new HardiFlex® lite product, which was launched in the third quarter. HardiFlex® lite is a thinner, lighter sheet designed for ceiling applications in the repair and replacement segment of the market. Strong demand for this product is helping the business to take further market share from plywood.

Domestic demand was stronger in the second half of the fiscal year compared to the first half following an improvement in consumer confidence and general economic conditions.

Other Fibre Cement

Chile Fibre Cement

The Chilean operation began commercial production in March 2001. During its first year of operation the business successfully launched its EconoBoard™ and DuraBoard™ products. The business is still in start-up mode but has already successfully penetrated the Chilean market capturing around 20% of fibre cement flat sheet sales.

The business is encountering a strong competitive reaction to its market entry as expected and has employed pricing strategies to counter the competition and drive early market penetration.

Both EconoBoard™, targeted to builders of small-scale homes and additions and the DIY market, distributed through retail stores, and DuraBoard™, targeted to larger scale builders mainly in the social housing sector, experienced strong sales growth during the year.

The business secured access to important distribution channels and penetrated its targeted market segments at the desired rate.

US FRC Pipes

FRC Pipes commenced production at a new plant in Florida in March 2001. The pipes are being sold in the southeast region of the United States. They have been well received with sales volumes increasing each quarter.

The ramp up of manufacturing during the year resulted in larger diameter pipes being progressively added to the product range, enabling the business to compete for an increasing number of construction projects.

As the plant ramps up production, significant improvements are being incorporated into the manufacturing process.

The range of pipes being manufactured and sold in the southeast market now includes 12”, 15”, 18”, 24”, 30” and 36” drainage pipes.

During the year the business secured three national distributors, which are helping to generate increased demand for FRC Pipes in the southeast market and provide a platform for future sales growth across the US.

There continued to be underlying growth in civil construction during the year partly assisted by the TEA-21 and the Florida State Mobility Act, which involve significant increases in government spending on highway construction. Activity in the commercial development sector has also been strong during the year.

Gross Profit

Gross profit was up 14% from US$180.1 million to US$205.3 million due to an increase in gross profit for US Fibre Cement and Asia Pacific Fibre Cement, which was partially offset by gross losses from FRC Pipes and Chile Fibre Cement. The gross profit margin increased 0.5 of a percentage point to 33.8%.

US Fibre Cement gross profit increased 23% and the gross profit margin increased 1.0 percentage point as a result of higher sales volumes, higher average net selling prices and lower unit freight costs.

Asia Pacific Fibre Cement gross profit increased 1% and the gross profit margin increased 2.4 percentage points. The Australia gross profit margin increased 1.8 percentage points as a result of savings gained from the closure of the Western Australia plant. The gross profit margin for New Zealand and the Philippines increased 4.0 percentage points and 7.5 percentage points, respectively.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses increased 5% from US$123.7 million to US$130.3 million. SG&A expenses were higher for all businesses other than the Philippines, which reduced its SG&A by 50% compared to the previous fiscal year. As a percentage of sales, SG&A expenses decreased by 1.4 percentage points.

The higher SG&A expense was due to an increase in core R&D expenditure and the current year including a full year of SG&A for the FRC Pipes operation in Florida and the new fibre cement flat sheet operation in Chile.

Research and Development

SG&A expenses include research and development costs. Research and development includes costs associated with ‘core’ research projects, which are aimed at benefiting all fibre cement business units. These costs are expensed as ‘corporate costs’ rather than being attributed to individual units and increased US$3.5 million to US$10.0 million due to an increase in the number of ‘core’ research projects.

Costs associated with development projects by individual business units are included in the business unit segment results. In total, these costs decreased 30% to US$5.9 million reflecting the completion of a number of projects now being commercialised by the business units.

Restructuring and Other Operating Expenses

On 14 February 2002, a Washington State Court approved a Class Action Settlement Agreement for all product, warranty and property related liability claims associated with certain roofing products, which were previously manufactured and sold by the US Fibre Cement business. Although the Settlement Agreement applies nationally, the overwhelming majority of the roofing claims have related to products sold in the Pacific Northwest region. These products were removed from the marketplace in 1995.

The company has recorded a charge of US$12.6 million in the current period to cover the estimated cost of the settlement, and the estimated cost of any other pending claims or lawsuits remaining which are not covered by the settlement, as well as all related costs that may be paid under the Agreement.

Due to the implementation of a new US accounting standard on 1 April 2001, which required that the company's pulp hedge contract be marked to market each quarter, an US$8.1 million decrease in the fair value of the contract has been charged to other operating expenses in the current period. This charge is not related to the termination of the company's pulp hedge contract with Enron, which terminated as a result of that company going into bankruptcy in December 2001.

Also charged to restructuring and other operating expenses was US$7.4 million relating to the corporate restructuring. There was a charge of US$15.5 million for restructuring of the Asia Pacific fibre cement operation in the same period last year.

Operating Income (EBIT)

EBIT before restructuring and other operating expenses increased 33% from US$56.4 million to US$75.0 million. The EBIT margin before restructuring and other operating expenses increased 2.0 percentage points to 12.4%.

EBIT after restructuring and other operating expenses detailed above increased 15% from US$40.9 million to US$46.9 million. The EBIT margin increased 0.2 percentage points to 7.7%.

US Fibre Cement EBIT before restructuring and other operating expenses increased 34% from US$73.5 million to US$98.4 million due primarily to higher sales volumes, a higher average selling price and lower unit freight cost, partly offset by higher SG&A expenses. The EBIT margin before restructuring and other operating expenses increased 2.4 percentage points to 22.1%.

US Fibre Cement EBIT after restructuring and other operating expenses increased 17% from US$73.5 million to US$85.8 million. The current year includes an "other operating expense" of US$12.6 million to cover the estimated cost of the Class Action Settlement for roofing products referred to above.

Australia Fibre Cement EBIT before restructuring and other operating expenses decreased 14% from US$21.4 million to US$18.4 million. In local currency, EBIT before restructuring and other operating expenses decreased 7% due to lower net selling prices and increased SG&A costs. The EBIT margin before restructuring and other operating expenses fell 1.0 percentage point to 18.3%.

Australia Fibre Cement EBIT after restructuring and other operating expenses referred to above increased 212% from US$5.9 million to US$18.4 million.

New Zealand Fibre Cement EBIT increased 30% from US$4.0 million to US$5.2 million. In local currency, EBIT increased 35%. The increase was primarily due to improved margins in fibre cement and the building systems operation.

The Philippines EBIT loss of the previous year was reduced by US$4.3 million to US$1.2 million. The improvement was due mainly to higher margins from higher average prices and lower manufacturing and SG&A costs. The business was cashflow positive for the full year.

Both US FRC Pipes and Chile Fibre Cement incurred operating losses during the year mainly as a result of start up costs.

General corporate costs increased by US$13.8 million to US$43.1 million. Restructuring and other operating expenses increased by US$4.9 million, the fair value of the pulp hedge contract increased by US$8.1 million and there was an increase of US$6.6 million in the charge for employee share plans, calculated on the James Hardie share price, which increased significantly during the quarter. Excluding restructuring and other operating expenses and on-going costs such as the share plan and fair value of the pulp hedge contract, corporate costs fell 25%.

Interest Expense

Net interest expense increased by US$2.8 million to US$16.0 million. This was primarily due to higher net borrowings during the current period.

Income Tax Expense

Income tax expense increased by US$4.2 million to US$3.9 million, primarily due to a reduced effect of permanent differences.

Net Operating Profit

Income from continuing operations fell 10% from US$29.6 million to US$26.6 million.

Dividend and Capital Management

Following receipt of the proceeds from the sale of James Hardie Gypsum, the company will restructure its balance sheet by:

- Making a US 20 cents per share return of capital to all shareholders
- Declaring a dividend payment of US 5 cents per share
- Repaying debt to reduce average gearing to around 40%
- Retaining funds for growth projects.

The company is obliged to renegotiate its current debt arrangements now that James Hardie Gypsum has been sold.

The company has established a new dividend policy as part of a move towards more active capital management. Dividends are projected at around US 5 cents per share per annum supplemented, when appropriate, by capital returns or share buy backs.

Shareholders will be asked to approve changes in capitalisation at the AGM in July to enable the payment to be made.

Sale of James Hardie Gypsum

On March 13, 2002, the company signed agreements to sell its US-based Gypsum operation to BPB PLC. The transaction was completed on April 25, 2002 for US$345.0 million. Results from the Gypsum operation have been presented as part of discontinued operations.

Balance Sheet

Total current assets decreased by US$19.6 million to US$238.1 million at March 31, 2002, primarily due to a US$44.0 million decrease in cash balances, which was partially offset by a US$32.6 million increase in trade debtors. The increase in trade debtors reflects the increase in US Fibre Cement sales in the current year and many large customers making early payments in March 2001, which would have otherwise been received in the current period.

Total non-current assets increased by US$30.8 million to US$675.4 million at March 31, 2002, principally due to the US$59.4 million increase in property, plant and equipment, which was partially offset by the decrease in net non-current assets for discontinued operations of US$18.8 million. The increase in property, plant and equipment reflects US$30.9 million from the acquisition of Cemplank, Inc in December 2001 and capital additions of US$50.8 million, which was partially offset by depreciation expense of US$23.5 million. Capital expenditures during 2002 were primarily made for the second production lines in Waxahachie, Texas and Peru, Illinois.

Total current liabilities decreased by US$49.7 million to US$123.1 million at March 31, 2002 mainly due to a US$69.9 million decrease in short-term borrowings.

Total non-current liabilities decreased by US$28.4 million to US$420.0 million at March 31, 2002 predominately due to a US$32.3 million decrease in long-term borrowings.

Cash Flow

Net operating cash inflows decreased by US$18.0 million to US$76.6 million for the year ended March 31, 2002. The major reason for the decrease in cash flow was due to the fall in gypsum wallboard selling prices. Also contributing to the decrease in cash flow was many large customers making early payments in March 2001, which would have otherwise been received in the current period.

Cash outflows from investing activities decreased by US$85.7 million to US$77.2 million for the year ended March 31, 2002 due to lower capital expenditures. This decrease was partially offset by the payment in the current period to purchase the fibre cement assets of Cemplank, Inc in December 2001. Also a payment last year of US$31.2 million on the establishment of the Medical Research & Compensation Foundation was not repeated in the current year.

Net financing produced a cash outflow of US$40.8 million for the year ended March 31, 2002 compared to a cash inflow of US$1.3 million in the prior year. The difference was primarily due to repayments of borrowings only partially offset by the issuance of shares on August 1, 2001.

End.

This report contains forward-looking statements. 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, which are further discussed in our periodic reports submitted to the Securities and Exchange Commission on Forms 20-F and 6-K and in our other filings, include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical construction markets; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental or other legal proceedings; and risks of conducting business internationally. 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 contained in forward-looking statements. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments.