James Hardie

Management's Discussion and Analysis[1]

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James Hardie Industries N.V.
Results for the Full Year Ended 31 March 2004

USGAAP - US$ Millions	**Year Ended 31 March**		
	FY 2004	FY 2003	% Change
Net Sales			
USA Fibre Cement	$ 738.6	$ 599.7	23
Asia Pacific Fibre Cement	219.8	174.3	26
Other Fibre Cement	23.5	9.6	145
Total Net Sales	981.9	783.6	25
Net sales	$ 981.9	$ 783.6	25
Cost of goods sold	(623.0)	(492.8)	26
Gross profit	358.9	290.8	23
Selling general & administrative expenses	(162.0)	(144.9)	12
Research and development expenses	(22.6)	(18.1)	25
Other operating (expenses) income	(2.1)	1.0	-
EBIT [2]	172.2	128.8	34
Net interest expense	(10.0)	(19.9)	(50)
Other income, net	3.5	0.7	-
Operating profit from continuing operations before income taxes [3]	165.7	109.6	51
Income tax expense	(40.4)	(26.1)	55
Operating Profit From Continuing Operations [4]	$ 125.3	$ 83.5	50
Net Operating Profit Including Discontinued Operations [5]	$ 129.6	$ 170.5	(24)
Effective tax rate from continuing operations	24.4%	23.8%	
Volume (mmsf)			
USA Fibre Cement	1,519.9	1,273.6	19
Asia Pacific Fibre Cement	402.1	368.3	9
Average net sales price per unit (per msf)			
USA Fibre Cement	US$ 486	US$ 471	3
Asia Pacific Fibre Cement	A$ 788	A$ 843	(7)

Unless otherwise stated, results are for continuing operations only and comparisons are of the current fiscal year versus the prior fiscal year.

Total Net Sales

Total net sales increased 25% compared to the previous year, from US$783.6 million to US$981.9 million.

Net sales from USA Fibre Cement increased 23% from US$599.7 million to US$738.6 million due to continued strong growth in sales volumes and higher average net selling prices.

Net sales from Asia Pacific Fibre Cement increased 26% from US$174.3 million to US$219.8 million due to increased sales volumes and favourable currency exchange rate differences.

Net sales from Other Fibre Cement increased 145% from US$9.6 million to US$23.5 million as the Chilean flat sheet business, the USA-based Hardie® Pipe business and the European Fibre Cement business continued to grow strongly.

USA Fibre Cement

Net sales increased 23% from US$599.7 million to US$738.6 million.

Sales volume increased 19% from 1,273.6 million square feet to 1,519.9 million square feet due to strong growth in primary demand for fibre cement and a favourable housing construction market.

Residential housing activity remained healthy during the year buoyed by low mortgage rates, strong house prices, low inventory levels of new homes for sale and a recovering domestic economy.

Strong growth continued in both the interior and exterior product markets and in our emerging and established markets as our products continued to take share from alternative materials, mainly wood-based and vinyl siding.

The average net selling price increased 3% compared to the previous year from US$471 per thousand square feet to US$486 per thousand square feet. This was due to an increased proportion of sales of higher-priced, differentiated products and a price increase in some regions implemented in the first quarter of this fiscal year.

In the exterior products market, there was continued strong growth in sales of higher-priced, differentiated products such as vented soffits, Heritage® panels, the ColorPlus™ Collection of pre-painted siding and Harditrim® XLD™ planks.

In the interior products market, sales of our Hardibacker 500™ half-inch backerboard grew strongly as it further penetrated its target market, helping to lift our share of the interior cement board market.

During the fourth quarter, we commenced construction of our new 300 million square feet green-field fibre cement plant at Reno, Nevada. The plant will service the rapidly growing demand in the west-coast region of the United States, and construction is expected to be completed by the end of 2004.

During the year, we completed the upgrade and began ramping-up our Blandon, Pennsylvania plant acquired from Cemplank in December 2001. The upgrade increased design capacity of the plant from 120 mmsf to 200 mmsf. We also completed the upgrade and began ramping-up our 160 mmsf panel production line at our Waxahachie, Texas plant.

Also during the year, we commissioned and commenced ramping-up our new proprietary pre-finishing line at our Peru, Illinois plant. This is expected to significantly reduce painting costs for our ColorPlus™ Collection of exterior siding, and help accelerate our market penetration in the northern region. Also at our Peru, Illinois plant, we commenced construction of the new 160 million square feet trim line, which is expected to be completed in mid 2004.

Asia Pacific Fibre Cement

Net sales for this segment increased 26% from US$174.3 million to US$219.8 million. Net sales increased 3% in Australian dollars. Sales volume increased 9% from 368.3 million square feet to 402.1 million square feet.

Australia and New Zealand Fibre Cement

Net sales increased 25% from US$156.3 million to US$195.5 million, primarily due to favourable foreign exchange rate differences. In Australian dollars, net sales increased 1%.

The increase in net sales in local currency was due to a 1% increase in sales volume from 298.7 million square feet to 303.0 million square feet. The average net selling price was flat compared to the previous year.

In Australia, new residential housing activity slowed during the year, but was better than industry forecasts. The impact of this was partly offset by strong residential renovation and commercial activity.

FRC Pipes continued to penetrate its targeted market and increased sales volumes compared to the prior year. During the year, FRC Pipes was successful in tendering to supply storm drainage pipes for the Sydney Orbital road project. The project involves the supply of a significant volume of FRC pipes over the next year.

A new pipe standard was released by Standards Australia during the year. This will enable our fibre cement pipes to compete more effectively against steel reinforced concrete pipes.

During the year, we launched ExoTec™ Facade Panel, our new premium facade panel incorporating the next generation of fibre cement composites. The new product is designed for commercial applications.

In New Zealand, new residential housing activity remained at healthy levels and demand was strong for soffits and weatherboards, including our Linea® range of weatherboards, which uses proprietary low-density technology.

Philippines Fibre Cement

Net sales increased 34% from US$18.0 million to US$24.2 million. In local currency, net sales increased 41%. This was due to a 42% increase in sales volume compared to the prior year, from 69.7 million square feet to 99.1 million square feet, partly offset by a lower average net selling price.

The average selling price decreased 1% compared to the prior year due to a less favourable product mix between domestic and export sales.

Other Fibre Cement

Chile Fibre Cement

Our Chilean operation continued to increase its penetration of the local market in line with its targets.

Net sales increased 167% compared to the prior year due to a 103% increase in sales volume and a higher average selling price.

The level of construction activity in Chile improved during the period after being stagnant since the end of 2001.

The average selling price increased due to strong export sales and growth in sales of higher-priced, differentiated products.

Hardie® Pipe

Our USA Hardie® Pipe business continued to penetrate the south-east market of the United States and improve its manufacturing efficiency.

Net sales increased 95% compared to the prior year due to a 95% increase in sales volume. The average net selling price was flat compared to the previous year.

Market acceptance of our fibre cement pipes continued to grow strongly and we further increased our share of the market for our targeted diameter range of drainage pipes in Florida.

The manufacturing performance of the plant continued to improve during the period, reducing costs and increasing output, particularly of the larger diameter pipes. Despite this, manufacturing costs remain higher than our targets.

The competitive response to our entry into the south-east market remains intense.

Europe

Our European fibre cement business commenced operations during the year with the launch in the U.K. and France markets of our Hardibacker® range of interior products and our proprietary pre-painted siding products.

Awareness of our product range among distributors, builders and contractors is growing and sales of Hardibacker® and our pre-painted siding products are in line with our expectations.

In June 2003, we commissioned a new coating line near Southampton in England. The line is used to apply the finishing coat to siding products imported from our United States business.

Artisan Roofing

In June 2003, we commissioned our pilot roofing plant at Fontana, California. The pilot plant, which has a design capacity of 25 mmsf, was built to test our proprietary manufacturing technology and to provide product for market testing in Southern California.

Plant testing and manufacturing trials commenced during the year and the first on-site installations of the new roofing product were completed. The first commercial sales of our Artisan® roofing product were made in the second half of the current year and further sales are expected in the first quarter of fiscal year 2005. Interest in our roofing product within our targeted market is strong.

Gross Profit

Gross profit increased 23% from US$290.8 million to US$358.9 million due to improvements in all our major businesses. The gross profit margin decreased 0.5 of a percentage point to 36.6%.

USA Fibre Cement gross profit increased 24% due to higher sales volumes and a higher average net selling price, partly offset by an increase in unit cost of sales and higher freight costs. The higher unit cost of sales resulted primarily from higher pulp costs, increased sales of higher-priced differentiated products and the ramp-up of the new manufacturing lines at the Blandon, Pennsylvania; Waxahachie, Texas; and Peru, Illinois plants. The gross profit margin increased 0.2 of a percentage point.

Asia Pacific Fibre Cement gross profit increased 19% following improvements from Australia and New Zealand Fibre Cement, and Philippines Fibre Cement, which increased 16% and 70%, respectively. The improved result for Australia and New Zealand was due to a favourable foreign exchange difference. In the Philippines, increased sales and reduced manufacturing costs resulted in the stronger gross profit performance. The Asia Pacific Fibre Cement gross profit margin decreased 2.1 percentage points.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 12% compared to the prior year, from US$144.9 million to US$162.0 million. The increase in SG&A expenses was due mainly to sales and marketing expenses associated with growth initiatives in the USA. However, as a percentage of sales, SG&A expenses were 2.0 percentage points lower, at 16.5%.

Research and Development Expenses

Research and development includes costs associated with “core” research projects that are aimed at benefiting 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 36% for the period to US$14.1 million.

Other research and development costs associated with commercialisation projects in business units are included in the business unit segment results. In total, these costs increased 10% to US$8.5 million.

Other Operating (Expenses) / Income

Other operating expenses of US$2.1 million in the current fiscal year mainly reflect an increase in cost provisions for our Australia and New Zealand business. In the prior year, we realised a US$1.0 million gain from the settlement of a pulp hedge contract.

EBIT[2]

EBIT increased 34% from US$128.8 million to US$172.2 million. The EBIT margin increased 1.1 percentage points to 17.5%.

USA Fibre Cement EBIT increased 26% from US$155.1 million to US$195.6 million. The increase was due to strong growth in net sales, partly offset by an increase in unit cost of sales, freight and SG&A expenses. The EBIT margin increased 0.6 percentage points to 26.5%.

Asia Pacific Fibre Cement EBIT increased 38% from US$27.3 million to US$37.6 million. The EBIT margin increased 1.4 of a percentage point to 17.1%.

Australia and New Zealand Fibre Cement EBIT increased 30% from US$27.2 million to US$35.4 million primarily due to favourable foreign exchange rate differences. In Australian dollars, EBIT increased 5% mainly due to lower SG&A expenses, partly offset by a temporary decrease in manufacturing performance at the Rosehill, NSW plant during the year and increased freight costs. The EBIT margin was 0.7 of a percentage point higher, at 18.1%.

Our Philippines business recorded a US$2.2 million EBIT for the year compared to a US$0.1 million EBIT for the prior year.

The Chile Fibre Cement business recorded its first full year positive EBIT since commencing commercial production in 2001.

Despite continued strong volume growth and improved manufacturing performance, our USA Hardie® Pipe business incurred an operating loss for the year due to low prices and higher than targeted unit costs.

Our European fibre cement business became operational during the year and incurred an operating loss, as expected.

General corporate costs decreased by US$2.4 million from US$29.9 million to US$27.5 million. This decrease was primarily due to a reduction in employee bonus plan expense and a US$1.6 gain from the positive resolution of a vendor dispute, partly offset by changes in a number of other corporate expenses.

Net Interest Expense

Net interest expense decreased by US$9.9 million from US$19.9 million to US$10.0 million. In the prior year, we incurred a US$9.9 million make-whole payment from the early retirement of US$60 million of long-term debt. Interest expense decreased further by US$2.7 million due to lower average borrowings. These decreases in net interest expense were partially offset by a US$2.7 million decrease in interest income due to lower average cash balances compared to the previous year.

Other Income, net

The net gain in other income of US$3.5 million was achieved after accounting for income items including a US$4.5 million profit on sale of New Zealand property. These income items were partly offset by expense items including US$3.2 million primarily due to a capital duty fee paid in conjunction with our Dutch legal structure. We incurred this to extend the scope of our international finance subsidiary to lend to global operations.

Income Tax Expense

Income tax expense increased by US$14.3 million from US$26.1 million to US$40.4 million due to the increase in profit.

Operating Profit from Continuing Operations[4]

Income from continuing operations increased by 50% or US$41.8 million, from US$83.5 million for the prior year to US$125.3 million this year.

Discontinued Operations

We recorded income from discontinued operations of US$4.3 million in 2004 compared to US$87.0 million in the prior year. The current year amount primarily includes a favourable outcome from matters related to our former Gypsum business and a gain on the sale of our New Zealand Building Systems business, net of other wind-up costs of Gypsum and other discontinued businesses. The previous fiscal year primarily consisted of net profit related to the sale of our Gypsum operations and Las Vegas land related to our Gypsum operations.

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$72.3 million as of 31 March 2004. At that date we also had credit facilities totalling US$446.0 million of which US$175.8 million was outstanding. Our credit facilities are all uncollateralised and consist of the following:

Description	Effective Interest Rate at 31 March 2004	Total Facility at 31 March 2004 (US$ millions)	Principal Outstanding at 31 March 2004
US$ notes, fixed interest, repayable annually in varying tranches from November 2004 through November 2013	7.09%	$ 165.0	$ 165.0
A$ revolving loan, can be drawn down in either US$ or A$, variable interest based on US$ LIBOR or A$ bank bill rate plus margin, can be repaid and redrawn until maturity in November 2006	N/A	152.0	-
US$ stand-by loan, can be drawn down in either US$ or A$, variable interest based on US$ LIBOR or A$ bank bill rate plus margin until maturity in April 2005	N/A	117.5	-
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 October and December 2004	3.24%	11.5	10.8
Total		$ 446.0	$ 175.8

Cash Flow

Net operating cash inflows increased by US$97.8 million to US$162.6 million during the fiscal year compared to the prior fiscal year. Net income, after adjusting for the gain on disposal of subsidiaries and businesses and for a gain on sale of land and buildings, increased by US$35.6 million. Adjusting further for non-cash items included in net income, cash flows from operations increased additionally by US$36.7 million. Other working capital changes caused a net increase in cash of US$25.5 million.

Net investing activities produced a cash outflow of US$58.0 million during the year compared to a cash inflow of US$237.9 million for the prior year. The decrease was primarily due to proceeds from the sale of our Gypsum business and from the Las Vegas land sale, which was partially offset by a US$57.1 million payment related to the transfer of control of ABN 60 in fiscal 2003 that did not recur in fiscal 2004. In addition, we spent US$15.4 million less on capital expenditure during the year compared to the previous year.

The US$5.0 million from the sale of businesses resulted from the sale of our New Zealand Building Systems business in May 2003. The US$10.9 million from property sold resulted primarily from land and buildings of our Australia/New Zealand segment that we sold for cash in March 2004. The US$74.8 million capital expenditures in the current period resulted primarily from continued operating plant expansions and construction and new property purchases.

Net financing activities resulted in an outflow of US$87.9 million for the year compared to a US$279.4 million outflow in the prior year. The current year outflow resulted primarily from the return of capital of US$68.7 million and the dividends paid of US$22.9 million. In the prior year, the return of capital was higher by US$26.1 million. Additionally, in the prior year, we repaid US$160 million of bank debt, which did not recur in the current year. Net proceeds from borrowings decreased by US$5.0 million to US$0.5 million. The proceeds of US$3.2 million represent stock option exercises during the year.

End.

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The MD&As and accompanying release and management presentation, along with an audio webcast of the presentation, are available at the Investor Relations area of www.jameshardie.com

Notes

1. This Management's Discussion and Analysis document 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 a Media Release, a Management Presentation, a Financial Report and a Results at a Glance document.

2. 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 cash generated from our operations, excluding the operating cash requirement of our interest and income taxes. 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.

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

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

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

Disclaimer

This document 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 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, asbestos 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.