

Management's Discussion and Analysis¹

13 May 2004

Analyst and media enquiries, please contact Greg Baxter on Tel: 61 2 8274 5377 Mobile: 0419 461 368 or Steve Ashe on Tel: 61 2 8274 5246 Mobile: 0408 164 011

James Hardie Industries N.V.

Results for the 4th Quarter Ended 31 March 2004

USGAAP - US\$ Millions

	Three Months Ended 31 March		
	FY 2004	FY 2003	% Change
Net Sales			
USA Fibre Cement	\$ 185.1	\$ 146.2	27
Asia Pacific Fibre Cement	59.0	44.3	33
Other Fibre Cement	7.2	3.8	89
Total Net Sales	251.3	194.3	29
Net sales	\$ 251.3	\$ 194.3	29
Cost of goods sold	(161.6)	(117.2)	38
Gross profit	89.7	77.1	16
Selling general & administrative expenses	(46.3)	(43.7)	6
Research and development expenses	(6.5)	(5.5)	18
Other operating expenses	(2.1)	-	-
EBIT ²	34.8	27.9	25
Net interest expense	(2.5)	(2.1)	19
Other income, net	6.9	0.6	-
Operating profit from continuing operations before income taxes ³	39.2	26.4	48
Income tax expense	(7.9)	(3.3)	139
Operating Profit From Continuing Operations⁴	\$ 31.3	\$ 23.1	35
Net Operating Profit Including Discontinued Operations⁵	\$ 32.0	\$ 54.5	(41)
Effective tax rate from continuing operations	20.2%	12.5%	
Volume (mmsf)			
USA Fibre Cement	383.6	297.9	29
Asia Pacific Fibre Cement	101.1	92.0	10
Average net sales price per unit (per msf)			
USA Fibre Cement	US\$ 483	US\$ 491	(2)
Asia Pacific Fibre Cement	A\$ 761	A\$ 817	(7)

Unless otherwise stated, results are for continuing operations only and comparisons are of the 4th quarter of the current fiscal year versus the 4th quarter of the prior fiscal year.

Total Net Sales

Total net sales increased 29% compared to the same quarter of the previous year, from US\$194.3 million to US\$251.3 million.

Net sales from USA Fibre Cement increased 27% from US\$146.2 million to US\$185.1 million due to continued strong growth in sales volumes.

Net sales from Asia Pacific Fibre Cement increased 33% from US\$44.3 million to US\$59.0 million due to increased sales volumes and favourable currency exchange rate differences.

Net sales from Other Fibre Cement increased 89% from US\$3.8 million to US\$7.2 million as the Chilean flat sheet business, the USA-based Hardie® Pipe business and European Fibre Cement business continued to grow.

USA Fibre Cement

Net sales increased 27% from US\$146.2 million to US\$185.1 million due to increased sales volumes, partly offset by a lower average net selling price.

Sales volume increased 29% from 297.9 million square feet to 383.6 million square feet, due to strong growth in primary demand for fibre cement and a favourable housing construction market. This increase is primarily because of increased penetration into the North American markets but also includes the benefit of increased housing starts in the third quarter of this fiscal year compared to the same period in the prior year.

New residential construction and repair and remodel activity remained at healthy levels buoyed by low interest rates, strong house prices and a strengthening domestic economy.

There was strong sales growth in both our emerging and established geographic markets and in our exterior and interior product markets.

We continued to increase our penetration of the exterior products market taking share from alternative materials, primarily wood-based and vinyl siding. There was good 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 again grew strongly as it further penetrated its target market.

The average net selling price decreased 2% from US\$491 per thousand square feet to US\$483 per thousand square feet. The decrease was primarily due to strong growth in products priced below the average selling price, such as Hardibacker® backerboard and primed Hardiplank® siding, and a higher level of volume rebates. Growth in sales of differentiated, higher-priced products such as the ColorPlus™ Collection and Harditrim® is expected to increase average net selling prices over the medium to longer-term.

During the 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 is expected to be completed by the end of 2004.

Also during the quarter, we continued the ramp-up of the recently upgraded Blandon, Pennsylvania plant acquired from Cemplant in December 2001, the 160 million square feet panel production line at our Waxahachie, Texas plant, as well as the new proprietary pre-finishing line at our Peru, Illinois plant.

Asia Pacific Fibre Cement

Net sales for this segment increased 33% from US\$44.3 million to US\$59.0 million. Net sales increased 2% in Australian dollars. Sales volume increased 10% from 92.0 million square feet to 101.1 million square feet.

Australia and New Zealand Fibre Cement

Net sales increased 34% from US\$39.5 million to US\$53.1 million due mainly to favourable currency exchange rate differences. In Australian dollars, net sales increased 4% due to a small increase in sales volumes and the year-end true-up of volume rebates.

Sales volumes increased 1% from 72.6 million square feet to 73.4 million square feet due to growth in sales of Australia and New Zealand building boards and FRC Pipes, partly offset by a decline in export sales.

In Australia, new residential housing activity was softer for the quarter but the renovation and commercial segments remained strong.

In New Zealand, new residential housing activity continued to be healthy and there was strong demand for weatherboards, including our Linea® range.

The average net selling price increased 3% primarily due to the year-end true-up of volume rebates.

Philippines Fibre Cement

Net sales increased 23% from US\$4.8 million to US\$5.9 million. In local currency, net sales increased 29% due to a 43% increase in sales volume compared to the same quarter of the previous year, from 19.5 million square feet to 27.8 million square feet, partly offset by a lower average net selling price.

Improved market penetration in the Philippines and further development of export markets helped strengthen demand during the quarter.

The average selling price in local currency decreased 9% compared to the same quarter of the previous year due mainly to a change in sales mix between domestic and export sales.

Other Fibre Cement

Chile Fibre Cement

Net sales increased 74% compared to the same period last year as our Chilean business continued to penetrate the domestic flat sheet market. In local currency, net sales increased 44%.

Sales volume increased 62% compared to the same quarter last year due to a significant increase in domestic and export demand. In local currency, the average selling price decreased 11% primarily due to a change in sales mix between domestic and export sales.

Construction activity in Chile and neighbouring Latin American countries showed further signs of improvement during the quarter.

Hardie® Pipe

Our USA Hardie® Pipe business continued to penetrate the south-east market of the United States, improve its manufacturing efficiency and make progress on regulatory approvals in key markets.

Net sales increased 70% compared to the same period last year due to a 70% increase in sales volume. The product mix was broadened slightly during the quarter but the businesses main focus continued to be the 12" to 36" diameter range of drainage pipes.

Further progress was achieved during the quarter in improving manufacturing performance of the plant, but operating costs are still above our targets.

The average net selling price was flat compared to the same period last year and remains well below the national average net selling price. The lower prices reflect the competitive response to our entry into the south-east market.

Europe

Since commencing operations in the first quarter of this fiscal year our European business has continued to build awareness of our products among distributors, builders and contractors and grow demand for fibre cement.

Sales volume grew significantly during the quarter, albeit off a low base, as we added more distribution outlets in both the U.K. and French markets.

Market response to our interior and exterior range of products continues to be favourable.

Artisan Roofing

In June 2003, we began trialling and commissioning 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.

Production trials and commissioning work continued during the quarter and we expect further sales of our Artisan® roofing product to be made in the first quarter of fiscal year 2005.

Gross Profit

Gross profit increased 16% from US\$77.1 million to US\$89.7 million due to improvements in all our major businesses. The gross profit margin decreased 4.0 percentage points to 35.7%.

USA Fibre Cement gross profit increased 13% due to higher net sales, partly offset by an increase in unit cost of sales and increased freight costs. The higher unit cost of sales resulted primarily from increased sales of higher-priced, differentiated products, higher pulp costs and the ramp-up of the new manufacturing lines at the Blandon, Pennsylvania; Waxahachie, Texas; and Peru, Illinois plants. The gross profit margin decreased 4.7 percentage points.

Asia Pacific Fibre Cement gross profit increased 31% following significant improvements from Australia and New Zealand Fibre Cement and Philippines Fibre Cement. The improved result for Australia and New Zealand was due to manufacturing efficiency improvements in New Zealand and 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 0.5 of a percentage point.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 6% compared to the same quarter last year, from US\$43.7 million to US\$46.3 million. The increase in SG&A expenses was due mainly to sales and marketing expenses associated with growth initiatives in the USA, partly offset by significant reductions in SG&A in Asia Pacific Fibre Cement. However, as a percentage of sales, SG&A expenses were 4.1 percentage points lower, at 18.4%.

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 17% for the quarter to US\$4.2 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 were 21% higher at US\$2.3 million.

Other Operating Expenses

Other operating expenses of US\$2.1 million for the quarter mainly reflect an increase in cost provisions for our Australia and New Zealand business.

EBIT²

EBIT increased 25% from US\$27.9 million to US\$34.8 million. The EBIT margin decreased 0.6 of a percentage point to 13.8%.

USA Fibre Cement EBIT increased 14% from US\$37.8 million to US\$43.2 million. The increase was due to strong growth in net sales, partly offset by an increase in unit cost of sales and SG&A expenses. The increase in costs for the quarter includes the impact of an additional 267 employees since the same quarter last year and higher pulp prices. The EBIT margin decreased 2.6 percentage points to 23.3%.

Asia Pacific Fibre Cement EBIT increased 89% from US\$4.4 million to US\$8.3 million. The EBIT margin increased 4.2 percentage points to 14.1%.

Australia and New Zealand Fibre Cement EBIT increased 97% from US\$3.9 million to US\$7.7 million. In Australian dollars, EBIT increased 57%. The increase in EBIT in Australian dollars was due to increased net sales and lower SG&A costs compared to the same period last year. The EBIT margin increased 4.6 percentage points to 14.5%.

Our Philippines business recorded another small positive EBIT for the quarter due to increased net sales and manufacturing cost savings.

The Chile Fibre Cement business recorded a positive EBIT for the third consecutive quarter since achieving breakeven in the first quarter of this fiscal year.

Our USA Hardie® Pipe business incurred an operating loss for the quarter due to low average net selling prices and higher than targeted production costs.

Our European fibre cement business incurred an operating loss for the quarter, following its commencement earlier this fiscal year.

General corporate costs decreased by US\$0.7 million from US\$7.7 million to US\$7.0 million. This decrease was due to a US\$1.6 million gain resulting from the positive resolution of a vendor dispute and a decrease in employee bonus plan expense, partly offset by changes in a number of other corporate costs.

Net Interest Expense

Net interest expense increased by US\$0.4 million from US\$2.1 million to US\$2.5 million. Interest expense increased by US\$0.4 million primarily due to lower capitalisation of interest of \$0.3 million.

Other Income, net

The net gain in other income of US\$6.9 million is largely accounted for by a US\$4.5 million profit achieved on the sale of New Zealand property.

Income Tax Expense

Income tax expense increased by US\$4.6 million from US\$3.3 million to US\$7.9 million due to the increase in profit.

Operating Profit from Continuing Operations⁴

Income from continuing operations increased by 35% or US\$8.2 million, from US\$23.1 million to US\$31.3 million due to stronger performance from our major businesses.

Discontinued Operations

We recorded income from discontinued operations of US\$0.7 million in the current period compared to US\$31.4 million during the same period in the prior year. Income from discontinued operations in the current period includes favourable outcomes on matters related to our former Gypsum business, net of expenses of other discontinued businesses. Included in Discontinued Operations in the prior period is a US\$30.0 million profit for the sale of the Las Vegas Gypsum land.

End.

Media/Analysts call:

Greg Baxter
Executive Vice President
Telephone: 61 2 8274 5377
Mobile: 0419 461 368
Email: greg.baxter@jameshardie.com.au

Or

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

The MD&As and accompanying release and management presentation, along with an audio webcast of the presentation are available at 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.