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Item 1. Financial Statements

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Millions of US dollars)		(Millions of Australian dollars)	
	30 June 2004	31 March 2004	**30 June 2004**	31 March 2004
ASSETS	**(Unaudited)**		**(Unaudited)**	(Unaudited)
Current assets:				
Cash and cash equivalents	**$ 112.9**	$ 72.3	**A$ 163.8**	A$ 95.1
Accounts and notes receivable, net of allowance for doubtful accounts of $1.2 million (A$1.7 million) and $1.2 million (A$1.6 million) as of 30 June 2004 and 31 March 2004, respectively	**117.2**	118.4	**170.1**	155.8
Inventories	**91.3**	103.2	**132.5**	135.8
Refundable income taxes	**1.6**	37.8	**2.3**	49.7
Prepaid expenses and other current assets	**11.8**	8.8	**17.1**	11.6
Deferred tax assets	**27.6**	24.7	**40.0**	32.5
Total current assets	**362.4**	365.2	**525.8**	480.5
Long-term receivables and other assets	**7.3**	9.8	**10.6**	12.9
Property, plant and equipment, net	**584.8**	567.1	**848.5**	746.1
Intangible assets, net	**3.0**	3.0	**4.4**	3.9
Prepaid pension cost	**12.9**	14.1	**18.7**	18.5
Deferred tax assets	**11.3**	12.0	**16.4**	15.8
Total assets	**$ 981.7**	$ 971.2	**A$ 1,424.4**	A$ 1,277.7
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	**$ 86.5**	$ 78.5	**A$ 125.5**	A$ 103.3
Current portion of long-term debt	**17.6**	17.6	**25.5**	23.2
Short-term debt	**10.5**	10.8	**15.2**	14.2
Dividends payable	**13.7**	-	**19.9**	-
Accrued payroll and employee benefits	**29.6**	41.1	**42.9**	54.1
Accrued product warranties	**9.0**	9.7	**13.1**	12.8
Income taxes payable	**13.1**	9.8	**19.0**	12.9
Other liabilities	**1.7**	1.8	**2.5**	2.4
Total current liabilities	**181.7**	169.3	**263.6**	222.9
Long-term debt	**147.4**	147.4	**213.9**	193.9
Deferred income taxes	**68.0**	65.2	**98.7**	85.8
Accrued product warranties	**2.8**	2.3	**4.1**	3.0
Other liabilities	**64.6**	82.3	**93.7**	108.3
Total liabilities	**464.5**	466.5	**A$ 674.0**	A$ 613.9
Commitments and contingencies (Note 9)				
Shareholders' equity:				
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 458,706,017 shares issued and outstanding at 30 June 2004 and 458,558,436 shares issued and outstanding at 31 March 2004	**245.3**	245.2		
Additional paid-in capital	**135.0**	134.0		
Retained earnings	**173.7**	151.1		
Employee loans	**(1.1)**	(1.3)		
Accumulated other comprehensive loss	**(35.7)**	(24.3)		
Total shareholders' equity	**517.2**	504.7		
Total liabilities and shareholders' equity	**$ 981.7**	$ 971.2		

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

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Millions of US dollars, except per share data)	Three Months Ended 30 June **2004**	Three Months Ended 30 June 2003
Net sales	**$ 306.1**	$ 241.5
Cost of goods sold	**(194.8)**	(152.2)
Gross profit	**111.3**	89.3
Selling, general and administrative expenses	**(45.1)**	(36.2)
Research and development expenses	**(5.0)**	(4.8)
Other operating expense	**(2.9)**	-
Operating income	**58.3**	48.3
Interest expense	**(2.8)**	(2.5)
Interest income	**0.3**	0.2
Income from continuing operations before income taxes	**55.8**	46.0
Income tax expense	**(18.7)**	(13.1)
Income from continuing operations	**37.1**	32.9
Discontinued operations:		
Income from discontinued operations, net of income tax expense of $0.1 million for the three months ended 30 June 2003	**-**	0.2
(Loss) gain on disposal of discontinued operations, net of income tax benefit of $0.1 million for the three months ended 30 June 2003	**(0.8)**	1.6
(Loss) income from discontinued operations	**(0.8)**	1.8
Net income	**$ 36.3**	$ 34.7
Income per share - basic:		
Income from continuing operations	**$ 0.08**	$ 0.07
Income from discontinued operations	**-**	0.01
Net income per share - basic	**$ 0.08**	$ 0.08
Income per share - diluted:		
Income from continuing operations	**$ 0.08**	$ 0.07
Income from discontinued operations	**-**	0.01
Net income per share - diluted	**$ 0.08**	$ 0.08
Weighted average common shares outstanding (Millions):		
Basic	**458.6**	457.6
Diluted	**460.8**	460.4

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

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Millions of Australian dollars, except per share data)	Three Months Ended 30 June **2004**	2003
Net sales	**A$ 428.4**	A$ 376.9
Cost of goods sold	**(272.6)**	(237.6)
Gross profit	**155.8**	139.3
Selling, general and administrative expenses	**(63.1)**	(56.5)
Research and development expenses	**(7.0)**	(7.5)
Other operating expense	**(4.0)**	-
Operating income	**81.7**	75.3
Interest expense	**(3.9)**	(3.9)
Interest income	**0.4**	0.3
Income from continuing operations before income taxes	**78.2**	71.7
Income tax expense	**(26.2)**	(20.4)
Income from continuing operations	**52.0**	51.3
Discontinued operations:		
Income from discontinued operations, net of income tax expense of A$0.2 million for the three months ended 30 June 2003	**-**	0.3
(Loss) gain on disposal of discontinued operations, net of income tax benefit of A$0.2 million for three months ended 30 June 2003	**(1.1)**	2.5
(Loss) income from discontinued operations	**(1.1)**	2.8
Net income	**A$ 50.9**	A$ 54.1
Income per share - basic:		
Income from continuing operations	**A$ 0.11**	A$ 0.11
Income from discontinued operations	**-**	0.01
Net income per share - basic	**A$ 0.11**	A$ 0.12
Income per share - diluted:		
Income from continuing operations	**A$ 0.11**	A$ 0.11
Income from discontinued operations	**-**	0.01
Net income per share - diluted	**A$ 0.11**	A$ 0.12
Weighted average common shares outstanding (Millions):		
Basic	**458.6**	457.6
Diluted	**460.8**	460.4

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

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions of US dollars)	Three Months Ended 30 June 2004	2003
Cash flows from operating activities:		
Net income	**$ 36.3**	$ 34.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of subsidiaries and businesses	**-**	(1.8)
Depreciation and amortisation	**8.9**	7.4
Deferred income taxes	**(0.8)**	(6.1)
Prepaid pension cost	**0.7**	0.4
Stock compensation	**0.7**	0.6
Changes in operating assets and liabilities:		
Accounts receivable	**(2.3)**	(4.0)
Inventories	**9.7**	2.4
Prepaids and other current assets	**32.3**	0.6
Accounts payable	**9.3**	(4.3)
Accrued liabilities and other liabilities	**(23.8)**	1.1
Net cash provided by operating activities	**71.0**	31.0
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(30.3)**	(19.8)
Proceeds from disposal of subsidiaries and businesses, net of cash invested	**-**	5.0
Collections on loans receivable	**-**	0.2
Net cash used in investing activities	**(30.3)**	(14.6)
Cash flows from financing activities:		
Proceeds from borrowings	**-**	1.0
Proceeds from issuance of shares	**0.4**	0.7
Net cash provided by financing activities	**0.4**	1.7
Effects of exchange rate changes on cash	**(0.5)**	(2.1)
Net increase in cash and cash equivalents	**40.6**	16.0
Cash and cash equivalents at beginning of period	**72.3**	54.6
Cash and cash equivalents at end of period	**112.9**	70.6
Components of cash and cash equivalents:		
Cash at bank and on hand	**25.7**	52.8
Short-term deposits	**87.2**	17.8
Cash and cash equivalents at end of period	**$ 112.9**	$ 70.6

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

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions of Australian dollars)	Three Months Ended 30 June **2004**	2003
Cash flows from operating activities:		
Net income	**A$ 50.9**	A$ 54.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of subsidiaries and businesses	**-**	(2.8)
Depreciation and amortisation	**12.5**	11.5
Deferred income taxes	**(1.1)**	(9.5)
Prepaid pension cost	**1.0**	0.6
Stock compensation	**1.0**	0.9
Changes in operating assets and liabilities:		
Accounts receivable	**(3.2)**	(6.2)
Inventories	**13.6**	3.7
Prepaids and other current assets	**45.2**	1.0
Accounts payable	**13.0**	(6.7)
Accrued liabilities and other liabilities	**(33.3)**	1.7
Net cash provided by operating activities	**99.6**	48.3
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(42.4)**	(30.9)
Proceeds from disposal of subsidiaries and businesses, net of cash invested	**-**	7.8
Collections on loans receivable	**-**	0.3
Net cash used in investing activities	**(42.4)**	(22.8)
Cash flows from financing activities:		
Proceeds from borrowings	**-**	1.6
Proceeds from issuance of shares	**0.6**	1.1
Net cash provided by financing activities	**0.6**	2.7
Effects of exchange rate changes on cash	**10.9**	(12.8)
Net increase in cash and cash equivalents	**68.7**	15.4
Cash and cash equivalents at beginning of period	**95.1**	90.4
Cash and cash equivalents at end of period	**163.8**	105.8
Components of cash and cash equivalents:		
Cash at bank and on hand	**37.3**	79.1
Short-term deposits	**126.5**	26.7
Cash and cash equivalents at end of period	**A$ 163.8**	A$ 105.8

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

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Loans	Accumulated Other Comprehensive Income (Loss)	Total
Balances as of 31 March 2004	$ 245.2	$ 134.0	$ 151.1	$ (1.3)	$ (24.3)	$ 504.7
Comprehensive income:						
Net income	-	-	36.3	-	-	36.3
Other comprehensive income:						
Amortisation of unrealised transition loss on derivative instruments	-	-	-	-	0.3	0.3
Foreign currency translation gain	-	-	-	-	(11.7)	(11.7)
Other comprehensive income	-	-	-	-	(11.4)	(11.4)
Total comprehensive income						24.9
Dividends declared	-	-	(13.7)	-	-	(13.7)
Stock compensation	-	0.7	-	-	-	0.7
Employee loans movement	-	-	-	0.2	-	0.2
Stock options exercised	0.1	0.3	-	-	-	0.4
Balances as of 30 June 2004	**$ 245.3**	**$ 135.0**	**$ 173.7**	**$ (1.1)**	**$ (35.7)**	**$ 517.2**

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

1. Basis of Presentation

The consolidated financial statements represent the financial position and results of operations of James Hardie Industries N.V. ("JHI NV") and its wholly owned subsidiaries, collectively referred to as either the "Company" or "James Hardie," unless the context indicates otherwise.

In the opinion of management, the accompanying financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair statement of financial position as of 30 June and 31 March 2004 and the results of operations for the three months ended 30 June 2004 and 2003 and cash flows for the three months ended 30 June 2004 and 2003. These consolidated financial statements and notes are to be read in conjunction with the audited consolidated financial statements of James Hardie Industries N.V. and Subsidiaries for the three years ended 31 March 2004. The results of operations for the three months ended 30 June 2004 are not necessarily indicative of the results to be expected for the full fiscal year ending 31 March 2005.

These financial statements have not been reviewed or audited by our independent auditors, PricewaterhouseCoopers LLP

The assets, liabilities, income statement and cash flows of the Company have been presented with accompanying Australian dollar (A$) convenience translations. These A$ 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 (US$1 = A$):

	31 March	30 June	
	2004	**2004**	2003
Assets and liabilities	1.3156	**1.4510**	n/a
Income statement	n/a	**1.3994**	1.5608
Cash flows - beginning cash	n/a	**1.3156**	1.6559
Cash flows - ending cash	n/a	**1.4510**	1.4981
Cash flows - current period movements	n/a	**1.3994**	1.5608

2. Summary of Significant Accounting Policies

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

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 the dilutive potential common shares, such as options, had been issued. Accordingly, basic and dilutive common shares outstanding used in determining net income per share are as follows:

	Three Months Ended 30 June	
(Millions)	**2004**	2003
Basic common shares outstanding	**458.6**	457.6
Dilutive effect of stock options	**2.2**	2.8
Diluted common shares outstanding	**460.8**	460.4

Potential common shares of 9.3 million and 3.9 million for the three months ended 30 June 2004 and 2003, respectively, have been excluded from the calculation of diluted 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 $5.1 million and $2.3 million for the three months ended 30 June 2004 and 2003, respectively.

Stock-Based Compensation

The Company estimates the fair value of its stock option grants on the date of grant using the Black-Scholes option-pricing model and recognises this value as compensation expense over the periods in which the options vest. Accordingly, the Company recognised stock-based compensation expense (included in selling, general and administrative expenses) of $0.7 million and $0.6 million for the three months ended 30 June 2004 and 2003, respectively.

Recent Accounting Pronouncements

Employers' Disclosures about Pensions and Other Postretirement Benefits

In December 2003, the FASB issued SFAS No. 132 (revised 2003) ("SFAS No. 132R"), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statement 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," which it replaces. SFAS No. 132R requires additional disclosures about the assets, obligations, cash flows and net periodic benefit/cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132R is effective for foreign plans for the fiscal years ending after 15 June 2004 and for interim periods beginning after 15 December 2003. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

Consolidation of Variable Interest Entities

In December 2003, the FASB issued FASB Interpretation No. ("FIN") 46 (revised December 2003), “Consolidation of Variable Interest Entities” ("FIN 46R"), which addresses how a business should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaced FIN 46 which was issued in January 2003. FIN 46 or FIN 46R applies immediately to entities created after 31 January 2003 and no later than the end of the first reporting period that ended after 15 December 2003 to entities considered to be special-purpose entities ("SPEs"). FIN 46R is effective for all other entities no later than the end of the first interim or annual reporting period ending after 15 March 2004. The adoption of the provisions of FIN 46 or FIN 46R relative to SPEs and for entities created after 31 January 2003 did not have a material impact on the Company's consolidated financial statements. The adoption of the other provisions of FIN 46R did not have an impact on the Company's consolidated financial statements.

3. Inventories

Inventories consist of the following components:

(Millions of US dollars)	**30 June 2004**	31 March 2004
Finished goods	**$ 64.2**	$ 76.7
Work-in-process	**6.9**	6.4
Raw materials and supplies	**22.4**	22.3
Provision for obsolete finished goods and raw materials	**(2.2)**	(2.2)
Total inventories	**$ 91.3**	$ 103.2

4. Retirement Plans

The Company sponsors a defined benefit plan for its Australian employees. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to participants and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company made contributions of $0.8 million during the quarter ended 30 June 2004. The Company expects to make a contribution to the pension plan of approximately $2.3 million for the remainder of fiscal year 2005.

The following are the components of net periodic pension cost for the Australian defined benefit pension plan:

(Millions of US dollars)	Three Months Ended 30 June 2004	Three Months Ended 30 June 2003
Service cost	$ 0.8	$ 0.6
Interest cost	0.6	0.7
Expected return on plan assets	(0.8)	(0.8)
Amortisation of unrecognised transition asset	-	(0.2)
Recognised net actuarial loss	0.1	0.1
Net periodic pension cost	$ 0.7	$ 0.4

5. Discontinued Operations

Building Systems

On 30 May 2003, the Company sold its New Zealand Building Systems business to a third party. A gain of $1.9 million represented the excess of net proceeds from the sale of $6.7 million over the net book value of assets sold of $4.8 million. The proceeds from the sale were comprised of cash of $5.0 million and a note receivable in the amount of $1.7 million.

The following are the results of operations of discontinued businesses:

(Millions of US dollars)	Three Months Ended 30 June **2004**	Three Months Ended 30 June 2003
Building Systems		
Net sales	**$ -**	$ 2.9
Income before income taxes	**-**	0.3
Income tax expense	**-**	(0.1)
Net income	**-**	0.2
(Loss) Gain on disposal, net of income taxes	**(0.8)**	1.6
Income from discontinued operations	**$ (0.8)**	$ 1.8

6. 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 the Board of Directors. USA Fibre Cement manufactures and sells fibre cement flat sheet 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 costs incurred by the research and development centres. Other includes the manufacture and sale of fibre cement products in Chile, the manufacture and sale of fibre cement reinforced pipes in the United States, fibre cement operations in Europe and fibre cement roofing operations in the United States. The Company's reportable operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

Operating Segments

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

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 June **2004**	2003
USA Fibre Cement	**$ 240.7**	$ 186.8
Asia Pacific Fibre Cement	**57.3**	50.1
Other Fibre Cement	**8.1**	4.6
Worldwide total from continuing operations	**$ 306.1**	$ 241.5

(Millions of US dollars)	Income (Loss) from Continuing Operations Three Months Ended 30 June **2004**	2003
USA Fibre Cement	**$ 63.1**	$ 54.1
Asia Pacific Fibre Cement	**12.0**	8.6
Research and Development	**(4.1)**	(3.3)
Other Fibre Cement	**(3.3)**	(3.7)
Segments total	**67.7**	55.7
General Corporate	**(9.4)**	(7.4)
Total operating income	**58.3**	48.3
Net interest expense	**(2.5)**	(2.3)
Worldwide total from continuing operations	**$ 55.8**	$ 46.0

(Millions of US dollars)	Total Identifiable Assets **30 June 2004**	31 March 2004
USA Fibre Cement	**$ 576.4**	$ 554.9
Asia Pacific Fibre Cement	**166.8**	175.9
Other Fibre Cement	**75.5**	74.7
Segments total	**818.7**	805.5
General Corporate	**163.0**	165.7
Worldwide total	**$ 981.7**	$ 971.2

Geographic Areas

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 June **2004**	2003
USA	**$ 245.6**	$ 189.0
Australia	**40.8**	34.7
New Zealand	**11.0**	9.2
Other Countries	**8.7**	8.6
Worldwide total from continuing operations	**$ 306.1**	$ 241.5

(Millions of US dollars)	Total Identifiable Assets **30 June 2004**	31 March 2004
USA	**$ 632.0**	$ 609.8
Australia	**112.1**	119.1
New Zealand	**17.2**	19.7
Other Countries	**57.4**	56.9
Segments total	**818.7**	805.5
General Corporate	**163.0**	165.7
Worldwide total	**$ 981.7**	$ 971.2

7. Accumulated Other Comprehensive Loss

The following are the components of total accumulated other comprehensive loss, net of related taxes, which is displayed in the accompanying consolidated balance sheets:

(Millions of US dollars)	**30 June 2004**	31 March 2004
Unrealised transition loss on derivative instruments classified as cash flow hedges	**$ (4.9)**	$ (4.9)
Accumulated amortisation of unrealised transition loss on derivative instruments	**3.6**	3.3
Accumulated foreign currency losses on translation of foreign subsidiaries	**(34.4)**	(22.7)
Total accumulated other comprehensive loss	**$ (35.7)**	$ (24.3)

8. Commitments and Contingencies

Environmental

The operations of the Company, like those of other companies engaged in similar businesses, are subject to various 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, 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.

Legal

The Company is involved from time to time in various legal proceedings and administrative actions incident 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, individually or in the aggregate, have a material adverse effect on either its consolidated financial position, results of operations or cash flows.

Claims Against Former Subsidiaries

With the establishment and funding of the Medical Research and Compensation Foundation (the "Foundation") in February 2001, the Company no longer owned or controlled two Australian companies which manufactured and marketed asbestos-related products prior to 1987. Those companies were former subsidiaries of ABN 60 formerly known as James Hardie Industries Limited. On 31 March 2003, James Hardie transferred control of ABN 60 to a newly established company named ABN 60 Foundation Pty Ltd ("ABN 60 Foundation").

In prior years and up to the date of the establishment of the Foundation, these two former subsidiaries incurred costs of asbestos-related litigation and settlements. From time to time, ABN 60 was joined as a party to asbestos suits which were primarily directed at the two former subsidiaries which are now controlled by the Foundation. As all three former subsidiaries of the Company are no longer a part of James Hardie, and all relevant claims against ABN 60 had been successfully defended, no provision for asbestos-related claims was established in the Company's accounts at 30 June 2004 or 31 March 2004.

While it is difficult to predict the incidence or outcome of future litigation, the Company believes it is remote that any significant personal injury suits for damages in connection with the former manufacture or sale of asbestos containing products that are or may be filed against ABN 60 or its former subsidiaries would have a material adverse effect on the Company's business, results of operations or financial condition. This belief is based in part on the separateness of corporate entities under Australian law, the limited circumstances where "piercing the corporate veil" might occur under Australian law, and there being no equivalent under Australian law of the U.S. legal doctrine of "successor liability." The courts in Australia have confirmed the primacy of separate corporate entities and have generally refused to hold parent entities responsible for the liabilities of their subsidiaries absent any finding of fraud, agency, direct operational responsibility or the like. Accordingly, the Company does not believe that there are any valid legal claims that may be presented against the Company for potential asbestos liabilities of the former subsidiaries and any such claims would be defended vigorously.

The Company has not incurred any asbestos litigation and settlement payments during the quarter ended 30 June 2004.

The Foundation issued a press release on 29 October 2003 stating that its "most recent actuarial analysis estimates that the compensation bill for the organisation could reach one billion Australian dollars in addition to those funds already paid out to claimants since the Foundation was formed and that existing funding could be exhausted within five years". In February 2004, the government of New South Wales, Australia established the Special Commission of Inquiry (the "SCI") into the Foundation. The SCI was formed to determine the current financial position of the Foundation and whether it is likely to meet its future asbestos-related claims in the medium to long-term, the circumstances in which the former subsidiaries were separated from the Company and whether this may have resulted in or contributed to a possible insufficiency of assets to meet the Foundation's future asbestos related liabilities, the circumstances in which any corporate restructure or asset transfers occurred within or in relation to the Company prior to the funding of the Foundation to the extent that this may have affected the Foundation's ability to meet its current and future liabilities, and the adequacy of current arrangements available to the Foundation under the Corporations Act of Australia to assist the Foundation in managing its liabilities and whether reform is desirable in order to assist the Foundation in managing its obligations to current and future claimants.

The SCI has been hearing evidence since 5 April 2004 and final submissions are scheduled to commence on 4 August 2004. The SCI is expected to report by 21 September 2004. On 14 July 2004, the Company lodged a submission with the SCI stating that the Company would recommend that shareholders approve the provision of additional funding to enable an effective statutory scheme to compensate all future claimants for asbestos-related injuries caused by former James Hardie subsidiary companies. The Company proposed that the statutory scheme include the following elements:

* speedy, fair and equitable compensation for all existing and future claimants, including objective criteria to reduce superimposed (judicial) inflation;

* contributions to be made in a manner which provides certainty to claimants as to their entitlement, the scheme administrator as to the amount available for distribution, and the contributors as to the ultimate amount of the contribution to the scheme;

* significant reduction in legal costs via the removal of requirement for litigation; and

* limitation of legal avenues outside of the scheme.

The submission stated that the proposal was made without any admission of liability or prejudice to the Company's rights or defences.

While it is not possible to predict outcomes of the SCI, it is possible that the SCI will make adverse findings against the Company and ABN 60 which in turn could form the basis of legal claims against the Company. It is not possible to determine whether the SCI will adopt the Company's scheme recommendations, whether such a scheme would be accepted by the NSW government nor whether shareholders would resolve to contribute to the scheme. The Company has incurred substantial costs associated with the SCI and may incur material costs in the future related to the SCI or subsequent legal proceedings.

For the three months ended 30 June 2004, the Company has incurred costs of $2.9 million associated with the SCI. These costs have been reported as other operating expense on the Consolidated Statements of Income.

Item 2. Quantitative and Qualitative Disclosures About Market Risk

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. For our three months ended 30 June 2004, 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..	80.2%	13.3%	3.6%	2.9%
Cost of goods sold..............................….	82.0%	12.5%	2.9%	2.6%
Expenses..	67.8%	23.2%	3.0%	6.0%
Liabilities (excluding borrowings)......….....	85.2%	6.7%	4.5%	3.6%

(1) Comprised of Philippine Pesos, Euros and Chilean Pesos.

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 30 June 2004, outstanding foreign exchange contracts were not material.

Interest Rate Risk

We have market risk from changes in interest rates, primarily related to our borrowings. At 30 June 2004, 94% of our borrowings were fixed-rate and 6% variable-rate. The large percentage of fixed-rate debt reduces the earnings volatility that would result from changes in interest rates. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. During the three months ended 30 June 2004, no interest rate swap contracts were entered into and no contracts were outstanding.

The following table presents our long-term borrowings at 30 June 2004, the expected maturity date of future principal repayments and related weighted average interest rates. The fair value of our outstanding debt is what we likely would have to pay over the term of the loan if we were to enter into debt on substantially the same terms today. At 30 June 2004, all of our outstanding fixed-rate borrowings were denominated in U.S. dollars.

Future Principal Repayments by Expected Maturity Date
(in millions of US dollars, except percentages)

	For the Years Ended 31 March							
	2005	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total**	**Fair Value**
Fixed rate debt	$ 17.6	$ 25.7	$ 27.1	$ 8.1	$ 46.2	$ 40.3	$ 165.0	$ 186.8
Weighted-average interest rate	6.86%	6.92%	6.99%	7.05%	7.12%	7.35%	7.09%	
Variable rate debt	$ 10.5	—	—	—	—	—	$ 10.5	$ 10.5
Weighted-average interest rate	3.52%	—	—	—	—	—	3.52%	

Commodity Price Risk

Pulp is a raw material we use to produce fibre cement, and it has historically demonstrated more price sensitivity than other raw materials we use in our manufacturing process. Although we have entered into contracts to hedge pulp prices in the past, we do not anticipate entering in such transactions in the near future.

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 a Media Release, a Management Presentation, a Management's Analysis of Results, and a Results at a Glance document.

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 senior management; the success of our research and development efforts; 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; risks of conducting business internationally; changes in tax laws and treatments; and foreign exchange risks. 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.