

Management's Discussion and Analysis¹

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James Hardie Industries N.V. Results for 2nd Quarter Ended 30 September 2003

US GAAP - US\$ Millions

	Three Months Ended 30 September		
	FY 2004	FY 2003	% Change
Net Sales			
USA Fibre Cement	\$ 191.4	\$ 154.7	24
Asia Pacific Fibre Cement	54.8	44.9	22
Other Fibre Cement	5.4	2.5	116
Total Net Sales	251.6	202.1	24
Net Sales	\$ 251.6	\$ 202.1	24
Cost of goods sold	(159.2)	(128.5)	24
Gross profit	92.4	73.6	26
Selling General & Administrative expenses	(38.9)	(33.5)	16
Research and Development expenses	(5.6)	(4.5)	24
EBIT ²	47.9	35.6	35
Net interest expense	(2.4)	(2.5)	(4)
Other expense, net	(3.3)	(0.2)	-
Operating profit from continuing operations before income taxes ³	42.2	32.9	28
Income tax expense	(9.4)	(9.9)	(5)
Operating Profit From Continuing Operations⁴	\$ 32.8	\$ 23.0	43
Net Operating Profit Including Discontinued Operations⁵	\$ 32.8	\$ 24.6	33
Tax rate	22.3%	30.1%	
Volume (mmsf)			
USA Fibre Cement	390.5	337.7	16
Asia Pacific Fibre Cement	104.5	95.5	9
Average sales price per unit (per msf)			
USA Fibre Cement	US\$ 490	US\$ 458	7
Asia Pacific Fibre Cement	A\$ 795	A\$ 860	(8)

Unless otherwise stated, results are for continuing operations only and comparisons are of the 2nd quarter of the current fiscal year versus the 2nd quarter of the prior fiscal years.

Total Net Sales

Total net sales increased 24% compared to the same quarter of the previous year, from US\$202.1 million to US\$251.6 million.

Net sales from USA Fibre Cement increased 24% from US\$154.7 million to US\$191.4 million due to continued strong growth in sales volumes and higher selling prices.

Net sales from Asia Pacific Fibre Cement increased 22% from US\$44.9 million to US\$54.8 million due mainly to favourable exchange differences.

Net sales from Other Fibre Cement increased 116% from US\$2.5 million to US\$5.4 million as the Chilean flat sheet business and the USA-based Hardie® Pipe business continued to grow.

USA Fibre Cement

Net sales increased 24% from US\$154.7 million to US\$191.4 million.

Sales volume increased 16% from 337.7 million square feet to 390.5 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 quarter buoyed by low mortgage rates, strong house prices, low inventory levels of new homes for sale and improved consumer confidence.

Strong growth continued in both the interior and exterior product markets and in the northern and southern regions of the country as our products continued to take share from alternative materials.

The average net selling price increased 7% compared to the same quarter of the previous year from US\$458 per thousand square feet to US\$490 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™. Our share of the interior cement board market continued to increase.

During the quarter, we continued to ramp-up the recently upgraded Blandon, Pennsylvania plant acquired from Cemplant in December 2001, and the 160 mmsf panel production line at our Waxahachie, Texas plant. Also during the quarter, we commissioned 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.

Asia Pacific Fibre Cement

Net sales for this segment increased 22% from US\$44.9 million to US\$54.8 million. Sales volume increased 9% from 95.5 million square feet to 104.5 million square feet.

Australia and New Zealand Fibre Cement

Net sales increased 17% from US\$40.8 million to US\$47.8 million. In Australian dollars, net sales decreased 3%.

The decrease in local currency net sales was due to a 2% fall in sales volume from 79.6 million square feet to 78.2 million square feet, and a 1% decrease in the average net selling price due mainly to a change in product mix. The decrease in sales volume reflects lower than expected sales performance, and reduced fence sales compared to the same quarter last year, when we experienced higher sales due to the effect of sales to repair storm-damaged fences in Western Australia.

In Australia, new residential housing commencements were weaker compared to the same period last year. The impact of this was partly offset by continuing strong residential renovation and commercial construction activity.

FRC pipes continued to penetrate its targeted market, increasing sales volumes by 26% compared to the same period last year. A new pipe standard was released by Standards Australia during the quarter that will enable our fibre cement pipe to compete more effectively against steel reinforced concrete pipes.

In New Zealand, new residential housing starts continued at high levels although some regions were affected by poor weather. Non-residential construction activity was slightly weaker compared to the same period last year.

Philippines Fibre Cement

Net sales increased 64% from US\$4.2 million to US\$6.9 million. In local currency, net sales increased 74% due to a 64% increase in sales volume compared to the same quarter of the previous year, from 16.1 million square feet to 26.4 million square feet, and a higher average net selling price.

Domestic market conditions improved in the first half of the quarter compared to the first quarter of this fiscal year, but later softened following signs of political instability.

The average selling price increased 6% compared to the same quarter of the previous year due to a more favourable sales mix.

Other Fibre Cement

Chile Fibre Cement

Our Chilean business continued to penetrate the domestic flat sheet market and build awareness of its product range.

Net sales increased 157% compared to the same quarter last year due to a 97% increase in sales volume and a higher average selling price.

There were further signs of a recovery in Chile's construction activity during the quarter.

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 84% compared to the same period last year as market acceptance of our fibre cement pipes continued to grow strongly. Our share of the market for our targeted diameter range of drainage pipes in Florida is estimated to have increased to 20%.

Further manufacturing performance improvements were achieved during the quarter but manufacturing costs remain higher than our target.

The average net selling price decreased 3% compared to the same quarter last year due to competitors' use of aggressive pricing tactics in response to our market penetration.

Florida road building expenditures were soft as a result of reduced transportation spending by the state. Federal funding is also down due to recent shifts in focus of federal spending from public infrastructure to defence and national security projects. The actual level of spending depends in part on the amount of highway user revenues raised by the government and the continued renewal of the TEA-21, which is expected to be renewed for another six years. Despite lower levels of transportation spending, residential construction continues to be strong in Florida due mainly to low interest rates.

Europe

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

During the quarter the business continued to build awareness and sales among distributors, builders and contractors and penetrate its target markets. Market response to our products has been favourable and the rate of penetration at this early stage is in line with our expectations.

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 continued during the quarter and the first on-site installations of the new roofing product were completed. It is now expected that commercial sales will commence in the third quarter once inventory levels are sufficient to meet initial demand.

Gross Profit

Gross profit increased 26% from US\$73.6 million to US\$92.4 million due to improvements in all our major businesses. The gross profit margin increased 0.3 of a percentage point to 36.7%.

USA Fibre Cement gross profit increased 30% due to higher sales volumes and a higher average net selling price, partly offset by an increase in unit cost of sales. 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 and Waxahachie, Texas plants. Cost of sales was lower as a percentage of sales. The gross profit margin increased 2.0 percentage points.

Asia Pacific Fibre Cement gross profit increased 9% following improvements from Australia and New Zealand Fibre Cement and Philippines Fibre Cement. The improved result for Australia and New Zealand was due to a favourable foreign exchange difference. In Australian dollars, Australia and New Zealand fibre cement gross profit decreased 14% due primarily to a decrease in revenue, increased manufacturing costs mainly at our Rosehill, NSW plant and increased freight costs, partly offset by a decrease in SG&A costs. The manufacturing performance of the Rosehill plant returned to more acceptable levels by the end of the quarter. 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 3.9 percentage points mainly due to an increase in manufacturing costs and freight as a percentage of sales.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 16% compared to the same quarter last year, from US\$33.5 million to US\$38.9 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 1.1 percentage points lower, at 15.5%.

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 57% for the quarter to US\$3.6 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 decreased 9% to US\$2.0 million.

Total research and development costs for the quarter were flat as a percentage of sales, at 2.2%.

EBIT²

EBIT increased 35% from US\$35.6 million to US\$47.9 million. The EBIT margin increased 1.4 percentage points to 19.0%.

USA Fibre Cement EBIT increased 32% from US\$40.7 million to US\$53.7 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 EBIT margin increased 1.8 percentage points to 28.1%.

Asia Pacific Fibre Cement EBIT increased 16% from US\$8.1 million to US\$9.4 million. The EBIT margin decreased 0.8 of a percentage point to 17.2%.

Australia and New Zealand Fibre Cement EBIT increased 2% from US\$8.4 million to US\$8.6 million. In Australian dollars, EBIT decreased 14%. The decrease in EBIT in Australian dollars was primarily due to lower net sales compared to the same period last year, an increase in manufacturing costs, partly offset by lower SG&A costs. The EBIT margin was 2.6 percentage points lower, at 18.0%.

Our Philippines business recorded another small operating profit for the quarter due to increased sales.

The Chile Fibre Cement business recorded a small operating profit for the quarter. This follows the business achieving breakeven in the previous quarter of this fiscal year.

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

Our European fibre cement business became operational during the previous quarter of this fiscal year and incurred a small operating loss, as expected.

General corporate costs decreased by US\$1.1 million from US\$7.9 million to US\$6.8 million. This decrease was primarily due to a US\$1.5 million decrease in employee bonus plan expense and a net decrease in other costs, partially offset by an increase of US\$0.8 million in employee share based compensation expense from stock appreciation rights primarily caused by an increase in the company's share price.

Other Expense, net

Other expense, net, increased by US\$3.1 million primarily due to a capital duty fee paid in conjunction with our Dutch legal structure. We incurred this fee to extend the scope of our international finance subsidiary to lend to global operations and expect to recover this fee within six months through reduced taxation charges.

Net Interest Expense

Net interest expense decreased by US\$0.1 million from US\$2.5 million to US\$2.4 million. Interest expense decreased by US\$1.0 million due to lower average borrowings and an increase in the amount of interest expense capitalised during the quarter compared to the same period in the prior year. This decrease in net interest expense was partially offset by a US\$0.9 decrease in interest income due to lower average cash balances compared to the same quarter in the prior year.

Income Tax Expense

Income tax expense decreased by US\$0.5 million from US\$9.9 million to US\$9.4 million.

Operating Profit from Continuing Operations⁴

Income from continuing operations increased by 43% or US\$9.8 million, from US\$23.0 million for the second quarter of the previous year to US\$32.8 million this quarter.

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 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.

The use of EBIT and EBIT margins 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 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 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.