James Hardie

Management's Discussion and Analysis[1]

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James Hardie Industries N.V.
Results for the 3rd Quarter Ended 31 December 2003

USGAAP - US$ Millions	**Three Months Ended 31 December**		
	FY 2004	FY 2003	% Change
Net Sales			
USA Fibre Cement	$ 175.3	$ 146.3	20
Asia Pacific Fibre Cement	55.9	44.4	26
Other Fibre Cement	6.3	1.9	232
Total Net Sales	237.5	192.6	23
Net Sales	$ 237.5	$ 192.6	23
Cost of goods sold	(150.0)	(121.0)	24
Gross profit	87.5	71.6	22
Selling General & Administrative expenses	(40.6)	(37.6)	8
Research and Development expenses	(5.7)	(4.8)	19
Restructuring and other operating expenses	-	1.0	(100)
EBIT [2]	41.2	30.2	36
Net interest expense	(2.8)	(12.4)	(77)
Other expense, net	(0.1)	-	-
Operating profit from continuing operations before income taxes [3]	38.3	17.8	115
Income tax expense	(10.0)	(2.8)	257
Operating Profit From Continuing Operations [4]	$ 28.3	$ 15.0	89
Net Operating Profit Including Discontinued Operations [5]	$ 30.1	$ 15.5	94
Tax rate	26.1%	15.7%	
Volume (mmsf)			
USA Fibre Cement	358.3	298.2	20
Asia Pacific Fibre Cement	98.3	93.4	5
Average sales price per unit (per msf)			
USA Fibre Cement	US$ 489	US$ 491	-
Asia Pacific Fibre Cement	A$ 800	A$ 850	(6)

Unless otherwise stated, results are for continuing operations only and comparisons are of the 3rd quarter of the current fiscal year versus the 3rd quarter of the prior fiscal year.

Total Net Sales

Total net sales increased 23% compared to the same quarter of the previous year, from US$192.6 million to US$237.5 million.

Net sales from USA Fibre Cement increased 20% from US$146.3 million to US$175.3 million due to continued strong growth in sales volumes.

Net sales from Asia Pacific Fibre Cement increased 26% from US$44.4 million to US$55.9 million due mainly to favourable exchange differences.

Net sales from Other Fibre Cement increased 232% from US$1.9 million to US$6.3 million as the Chilean flat sheet business and the USA-based Hardie® Pipe business continued to grow.

USA Fibre Cement

Net sales increased 20% from US$146.3 million to US$175.3 million, but were actually 23% higher after taking into account a one-off gain in the same quarter of the prior year that did not recur this quarter. This gain in the prior period was US$3.8 and was realised because sales rebate costs were lower than had been estimated.

Sales volume increased 20% from 298.2 million square feet to 358.3 million square feet, due to strong growth in primary demand for fibre cement and a favourable housing construction market.

Residential housing activity remained solid during the quarter in response to continued strong demand, fuelled by historically low interest rates, a recovering domestic economy and strong house prices.

In both the interior and exterior product markets and in our emerging and established markets, our products continued to take market share from alternative materials, mainly wood-based and vinyl siding, helping to deliver strong growth for the quarter.

The average net selling price showed a marginal decrease for the quarter, but was actually 2% higher after taking into account the one-off gain in the same quarter last year. The increase in the average selling price 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 again grew strongly as it further penetrated its target market, helping to lift our share of the interior cement board market.

During the quarter, we continued to ramp-up the recently upgraded Blandon, Pennsylvania plant acquired from Cemplank 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. 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 2004.

The site for our new 300 million square feet green-field fibre cement plant, announced in the first quarter of this fiscal year, has been changed from Sacramento, California to Reno, Nevada. The decision to move the site was made following a reassessment of the attractiveness of the Sacramento site once certain cost advantages subsequently became available in Reno. The new site enables the servicing of rapidly growing demand in the west coast region of the United States, while enhancing the overall attractiveness of the project.

Asia Pacific Fibre Cement

Net sales for this segment increased 26% from US$44.4 million to US$55.9 million. Sales volume increased 5% from 93.4 million square feet to 98.3 million square feet.

Australia and New Zealand Fibre Cement

Net sales increased 26% from US$40.1 million to US$50.7 million. In Australian dollars, net sales decreased 1%.

The decrease in local currency net sales resulted from a 2% decrease in the average net selling price due to product mix changes in FRC Pipes, partly offset by a 1% increase in sales volume from 76.4 million square feet to 77.1 million square feet. The small increase in sales volume reflects stronger domestic demand in both Australia and New Zealand, partly offset by weaker export sales.

In Australia, both new residential housing and commercial activity were weaker compared to the same period last year. This was partly offset by the residential renovations segment which remained buoyant.

During the quarter, 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.

In New Zealand, new residential housing activity continued to be healthy and there was strong demand for soffits and weatherboards, including our Linea® range of weatherboards, which uses proprietary low density technology. Non-residential construction activity was stronger compared to the same period last year.

Philippines Fibre Cement

Net sales increased 21% from US$4.3 million to US$5.2 million. In local currency, net sales increased 27% due to a 26% increase in sales volume compared to the same quarter of the previous year, from 16.8 million square feet to 21.1 million square feet, and a slightly higher average net selling price.

The average selling price increased 1% compared to the same quarter of the previous year due to a minor change in the sales mix.

Other Fibre Cement

Chile Fibre Cement

Net sales increased 383% compared to the same period last year. In local currency, the increase was 282% as our Chilean business further penetrated the domestic flat sheet market.

Sales volume increased 168% compared to the same quarter last year. The average selling price was 42% higher due to increased exports sales and growth in sales of higher-priced, differentiated products.

Construction activity in Chile continued to strengthen during the quarter.

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 82% compared to the same period last year due to a 67% increase in sales volume and a 9% increase in the average net selling price. The product mix remained relatively unchanged with the focus remaining on the 12” to 36” diameter range of drainage pipes.

The business continued to improve its manufacturing performance during the quarter, reducing costs and increasing output, but manufacturing costs are still higher than our targets.

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

Europe

The business continued to build awareness and sales among distributors, builders and contractors and penetrate its target markets, following its commencement in the first quarter of this fiscal year.

During the quarter, further distribution outlets were added in both the U.K. and France, and the business expanded its sales and marketing force.

Market response to our interior and exterior range of products has been favourable and the rate of penetration continues to be in line with our expectations.

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.

The first commercial sales of Artisan® roofing were made during the quarter, and production trials and commissioning work are continuing. Interest in our roofing product within our targeted market is strong.

Gross Profit

Gross profit increased 22% from US$71.6 million to US$87.5 million due to improvements in all our major businesses. The gross profit margin decreased 0.4 of a percentage point to 36.8%.

USA Fibre Cement gross profit increased 20% due to higher net sales, partly offset by an increase in unit cost of sales. 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 0.1 of a percentage point.

Asia Pacific Fibre Cement gross profit increased 24% 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 the Philippines, increased sales and reduced manufacturing costs resulted in the stronger gross profit performance. The Asia Pacific Fibre Cement gross profit margin decreased 2.4 percentage points mainly due to an increase in manufacturing costs as a percentage of sales.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 8% compared to the same quarter last year, from US$37.6 million to US$40.6 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 2.4 percentage points lower, at 17.1%.

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 33% 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 related unit segment results. In total, these costs were flat at US$2.1 million.

EBIT[2]

EBIT increased 36% from US$30.2 million to US$41.2 million. The EBIT margin increased 1.6 percentage points to 17.3%.

USA Fibre Cement EBIT increased 18% from US$37.8 million to US$44.6 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 decreased 0.4 of a percentage point to 25.4%. Excluding the gain of US$3.8 million recorded in the same period of the previous year related to the company rebate program, EBIT increased 31% and the EBIT margin increased 2.2 percentage points.

Asia Pacific Fibre Cement EBIT increased 55% from US$7.3 million to US$11.3 million. The EBIT margin increased 3.8 percentage points to 20.2%.

Australia and New Zealand Fibre Cement EBIT increased 43% from US$7.5 million to US$10.7 million. In Australian dollars, EBIT increased 12%. The increase in EBIT in Australian dollars was primarily due to lower SG&A costs compared to the same period last year. The EBIT margin was 2.4 percentage points higher, at 21.1%.

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

The Chile Fibre Cement business recorded its second consecutive, albeit small operating profit following the business achieving breakeven in the first quarter of this fiscal year.

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

Our European fibre cement business incurred a small operating loss as expected, following its commencement earlier this fiscal year.

General corporate costs decreased by US$2.0 million from US$8.3 million to US$6.3 million. Employee bonus plan expense and share based compensation expense each saw decreases during the quarter, accompanied by other reductions, totalling a US$3.0 million decrease. These decreases were partially offset by a $1.0 million gain from the settlement of a pulp hedge contract in the prior year that did not recur this year.

Net Interest Expense

Net interest expense decreased by US$9.6 million from US$12.4 million to US$2.8 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$0.6 million due to lower average borrowings. These decreases in net interest expense were partially offset by a US$0.9 decrease in interest income due to lower average cash balances and lower interest rates compared to the same quarter in the prior year.

Income Tax Expense

Income tax expense increased by US$7.2 million from US$2.8 million to US$10.0 million, consistent with the increase in profit.

Operating Profit from Continuing Operations[4]

Income from continuing operations increased by 89% or US$13.3 million, from US$15.0 million for the third quarter of the previous year to US$28.3 million this quarter.

Discontinued Operations

Income from discontinued operations in the current period includes a favourable outcome from income tax issues related to our former Gypsum business, net of other wind-up costs of Gypsum and other discontinued businesses.

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 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.