Management's Discussion and Analysis[1]

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James Hardie Industries N.V.
Results for the 9 Months Ended 31 December 2003

USGAAP - US$ Millions	Nine Months Ended 31 December		
	FY 2004	FY 2003	% Change
Net Sales			
USA Fibre Cement	$ 553.5	$ 453.5	22
Asia Pacific Fibre Cement	160.8	130.0	24
Other Fibre Cement	16.3	5.8	181
Total Net Sales	730.6	589.3	24
Net Sales	$ 730.6	$ 589.3	24
Cost of goods sold	(461.4)	(375.6)	23
Gross profit	269.2	213.7	26
Selling General & Administrative expenses	(115.7)	(101.2)	14
Research and Development expenses	(16.1)	(12.6)	28
Restructuring and other operating expenses	-	1.0	(100)
EBIT [2]	137.4	100.9	36
Net interest expense	(7.5)	(17.8)	(58)
Other (expense) income, net	(3.4)	0.1	-
Operating profit from continuing operations before income taxes [3]	126.5	83.2	52
Income tax expense	(32.5)	(22.8)	43
Operating Profit From Continuing Operations [4]	$ 94.0	$ 60.4	56
Net Operating Profit Including Discontinued Operations [5]	$ 97.6	$ 116.0	(16)
Tax rate	25.7%	27.4%	
Volume (mmsf)			
USA Fibre Cement	1,136.3	975.7	16
Asia Pacific Fibre Cement	301.0	276.3	9
Average sales price per unit (per msf)			
USA Fibre Cement	US$ 487	US$ 465	5
Asia Pacific Fibre Cement	A$ 797	A$ 851	(6)

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

Total Net Sales

Total net sales increased 24% compared to the same period of the previous year, from US$589.3 million to US$730.6 million.

Net sales from USA Fibre Cement increased 22% from US$453.5 million to US$553.5 million due to continued strong growth in sales volumes and higher selling prices.

Net sales from Asia Pacific Fibre Cement increased 24% from US$130.0 million to US$160.8 million due to increased sales volumes and favourable exchange differences.

Net sales from Other Fibre Cement increased 181% from US$5.8 million to US$16.3 million as the Chilean flat sheet business and the USA-based Hardie® Pipe business continued to grow strongly.

USA Fibre Cement

Net sales increased 22% from US$453.5 million to US$553.5 million.

Sales volume increased 16% from 975.7 million square feet to 1,136.3 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 period 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 5% compared to the same period of the previous year from US$465 per thousand square feet to US$487 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 period, 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 period, 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.

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 24% from US$130.0 million to US$160.8 million. Sales volume increased 9% from 276.3 million square feet to 301.0 million square feet.

Australia and New Zealand Fibre Cement

Net sales increased 22% from US$116.8 million to US$142.4 million. In Australian dollars, net sales were flat.

The flat net sales in local currency was due to a 1% increase in sales volume from 226.1 million square feet to 229.6 million square feet, and a 1% decrease in the average net selling price due mainly to a change in product mix.

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

FRC Pipes continued to penetrate its targeted market and increased sales volumes compared to the same period last year. During the period, 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 period. This will enable our fibre cement pipes to compete more effectively against steel reinforced concrete pipes.

During the period, 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 39% from US$13.2 million to US$18.3 million. In local currency, net sales increased 46%. This was due to a 42% increase in sales volume compared to the same period of the previous year, from 50.2 million square feet to 71.3 million square feet and a higher average net selling price.

The average selling price increased 3% compared to the same period of the previous year due to a more favourable sales mix.

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 245% compared to the same period last year due to a 132% increase in sales volume and a higher average selling price.

The level of construction activity in Chile increased 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 108% compared to the same period last year due to a 107% increase in sales volume and a 1% increase in the average net selling price.

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 was further improved 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 period with the launch in the U.K. and French 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 we started making sales of Hardibacker® and the pre-painted siding products during the period.

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 were conducted during the period and the first on-site installations of the new roofing product were completed. The first commercial sales were made in the second half of the period. Interest in our roofing product within our targeted market is strong.

Gross Profit

Gross profit increased 26% from US$213.7 million to US$269.2 million due to improvements in all our major businesses. The gross profit margin increased 0.5 of a percentage point to 36.8%.

USA Fibre Cement gross profit increased 28% 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; Waxahachie, Texas; and Peru, Illinois plants. Cost of sales was lower as a percentage of sales due to increased revenue. The gross profit margin increased 1.8 percentage points.

Asia Pacific Fibre Cement gross profit increased 15% following improvements from Australia and New Zealand Fibre Cement and Philippines Fibre Cement, which increased 11% and 95%, 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 2.6 percentage points.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 14% compared to the same period last year, from US$101.2 million to US$115.7 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 1.4 percentage points lower, at 15.8%.

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 46% for the period to US$9.9 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 7% to US$6.2 million.

EBIT[2]

EBIT increased 36% from US$100.9 million to US$137.4 million. The EBIT margin increased 1.6 percentage points to 18.8%.

USA Fibre Cement EBIT increased 30% from US$117.3 million to US$152.4 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 1.6 percentage points to 27.5%.

Asia Pacific Fibre Cement EBIT increased 28% from US$22.9 million to US$29.3 million. The EBIT margin increased 0.6 of a percentage point to 18.2%.

Australia and New Zealand Fibre Cement EBIT increased 19% from US$23.3 million to US$27.7 million. In Australian dollars, EBIT decreased 2%. The decrease in EBIT in Australian dollars was due mainly to a temporary decrease in manufacturing performance at the Rosehill, NSW plant and increased freight costs. The EBIT margin was 0.5 of a percentage point lower, at 19.5%.

Our Philippines business recorded a small operating profit for the period due to increased sales.

The Chile Fibre Cement business recorded a small operating profit for the nine month period.

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

Our European fibre cement business became operational during the period and incurred a small operating loss, as expected.

General corporate costs decreased by US$1.7 million from US$22.2 million to US$20.5 million. Employee bonus plan expense saw a decrease during the quarter, accompanied by other reductions, totalling a US$3.6 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, and an increase of US$0.9 million in employee share-based compensation expense from stock appreciation rights primarily caused by an increase in the company's share price.

Net Interest Expense

Net interest expense decreased by US$10.3 million from US$17.8 million to US$7.5 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$3.1 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 and lower interest rates compared to the same period in the prior year.

Other Expense/(Income), net

Other expense/(income), net, increased by US$3.5 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 and expect to recover this fee within six months through reduced taxation charges.

Income Tax Expense

Income tax expense increased by US$9.7 million from US$22.8 million to US$32.5 million in line with the increase in profit.

Operating Profit from Continuing Operations[4]

Income from continuing operations increased by 56% or US$33.6 million, from US$60.4 million for the first nine months of the previous year to US$94.0 million this half year.

Discontinued Operations

We recorded income from discontinued operations of US$3.6 million and US$55.6 million during the first nine months of the current and previous fiscal years, respectively. The first nine months of this fiscal year primarily includes profit recorded from the sale of our New Zealand Building Systems business on 30 May 2003, and 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. The first nine months of the previous fiscal year primarily consisted of net profit related to the sale of Las Vegas land associated with our former Gypsum business.

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$38.5 million as of 31 December 2003. At that date we also had credit facilities totalling US$447.2 million of which US$176.3 million was outstanding. Our credit facilities are all uncollateralised and consist of the following:

Description	Effective Interest Rate at 31 December 2003	Total Facility at 31 December 2003	Principal Outstanding at 31 December 2003
		(In millions of US$)	
US$ 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 2005	N/A	150.2	-
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 October 2004	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	4.20%	14.5	11.3
Total		$ 447.2	$ 176.3.

Cash Flow

Net operating cash inflows increased by US$51.3 million to US$122.7 million for the nine months ended 31 December 2003 compared to the same period in the prior year. Net income after adjusting for the gain on disposal of subsidiaries and businesses increased by US$29.0 million. Adjusting further for non-cash items included in net income, cash flow from operations increased by a further US$21.2 million. Other working capital changes caused a net increase in cash of US$1.1 million.

Net investing activities produced a cash outflow of US$50.7 million for the nine months ended 31 December 2003 compared to a cash inflow of US$274.7 million for the same period in the prior year. Proceeds from the disposal of subsidiaries and businesses decreased by US$329.4 million, and capital expenditures decreased by US$3.7 million. Proceeds of US$5.0 million from the sale of subsidiaries and businesses in the current period resulted from the sale of our New Zealand Building Systems business in May 2003. The US$56.5 million capital expenditures in the current period resulted primarily from continued operating plant expansions and construction and new property purchases. We had other cash inflows from investing activities of US$0.8 million during the nine months period ended 31 December 2003.

Net financing activities resulted in an outflow of US$88.3 million for the nine months ended 31 December 2003 compared to a US$269.0 million outflow in the same period of the prior year. The current year outflow resulted primarily from the repayment of capital of US$68.7 million and dividends paid of US$22.9 million. In the prior year, our repayments of capital were higher by US$26.1 million. Additionally, in the prior year period, we repaid US$160 million of bank debt, which did not recur in the current period. Net proceeds from borrowings decreased by US$4.1 million to US$0.5 million. We had a US$1.2 million decrease in proceeds from the issuance of shares to US$2.8 million. The proceeds of US$2.8 million represent stock option exercises during the nine months ended 31 December 2003.

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.

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.