James Hardie

# Management's Discussion and Analysis[1]

13 November 2003

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

## James Hardie Industries N.V.
## Results for the 6 months Ended 30 September 2003

| US GAAP - US$ Millions | Six Months Ended 30 September | | |
|---|---|---|---|
| | FY 2004 | FY 2003 | % Change |
| **Net Sales** | | | |
| USA Fibre Cement | $ 378.2 | $ 307.2 | 23 |
| Asia Pacific Fibre Cement | 104.9 | 85.6 | 23 |
| Other Fibre Cement | 10.0 | 3.9 | 156 |
| **Total Net Sales** | 493.1 | 396.7 | 24 |
| | | | |
| Net Sales | $ 493.1 | $ 396.7 | 24 |
| Cost of goods sold | (311.4) | (254.6) | 22 |
| Gross profit | 181.7 | 142.1 | 28 |
| Selling General & Administrative expenses | (75.1) | (63.6) | 18 |
| Research and Development expenses | (10.4) | (7.8) | 33 |
| EBIT[2] | 96.2 | 70.7 | 36 |
| Net interest expense | (4.7) | (5.4) | (13) |
| Other (expense)/income, net | (3.3) | 0.1 | - |
| Operating profit from continuing operations before income taxes[3] | 88.2 | 65.4 | 35 |
| Income tax expense | (22.5) | (20.0) | 13 |
| **Operating Profit From Continuing Operations**[4] | $ 65.7 | $ 45.4 | 45 |
| | | | |
| **Net Operating Profit Including Discontinued Operations**[5] | $ 67.5 | $ 100.5 | (33) |
| Tax rate | 25.5% | 30.6% | |
| Volume (mmsf) | | | |
| USA Fibre Cement | 778.0 | 677.5 | 15 |
| Asia Pacific Fibre Cement | 202.7 | 182.9 | 11 |
| | | | |
| Average sales price per unit (per msf) | | | |
| USA Fibre Cement | US$ 486 | US$ 453 | 7 |
| Asia Pacific Fibre Cement | A$ 796 | A$ 852 | (7) |

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

## Total Net Sales

Total net sales increased 24% compared to the same period of the previous year, from US$396.7 million to US$493.1 million.

Net sales from USA Fibre Cement increased 23% from US$307.2 million to US$378.2 million due to continued strong growth in sales volumes and higher selling prices.

Net sales from Asia Pacific Fibre Cement increased 23% from US$85.6 million to US$104.9 million due to increased sales volumes and favourable exchange differences.

Net sales from Other Fibre Cement increased 156% from US$3.9 million to US$10.0 million as the Chilean flat sheet business and the USA-based Hardie® Pipe business continued to grow.

## USA Fibre Cement

Net sales increased 23% from US$307.2 million to US$378.2 million.

Sales volume increased 15% from 677.5 million square feet to 778.0 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 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 period of the previous year from US$453 per thousand square feet to US$486 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 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 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 23% from US$85.6 million to US$104.9 million. Sales volume increased 11% from 182.9 million square feet to 202.7 million square feet.

### Australia and New Zealand Fibre Cement

Net sales increased 20% from US$76.7 million to US$91.7 million. In Australian dollars, net sales increased 1%.

The increase in local currency net sales was due to a 2% increase in sales volume from 149.7 million square feet to 152.5 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 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 period that will enable our fibre cement pipe 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 starts remained at healthy levels but poor weather in some regions affected activity levels in the second quarter. Non-residential construction activity was weaker compared to the same period last year.

### Philippines Fibre Cement

Net sales increased 47% from US$8.9 million to US$13.1 million. In local currency, net sales increased 55%. This was due to a 50% increase in sales volume compared to the same period of the previous year, from 33.4 million square feet to 50.2 million square feet and a higher average net selling price.

Domestic market conditions were relatively weak in the first half of the period but improved in the second half. Demand softened at the end of the period due to signs of political instability.

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 the targets. The business has captured approximately a 25% share of the Chilean flat sheet market.

Net sales increased 186% compared to the same period last year due to a 113% increase in sales volume and a higher average selling price.

Construction activity in Chile began to show signs of recovery 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 124% compared to the same period last year due to a 135% increase in sales volume and a lower average selling price.

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%.

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 average net selling price decreased 5% compared to the same period 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 involves significant government spending on highway construction. It is expected that the TEA-21 will 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 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. Commercial sales are expected to begin in the third quarter once inventory levels are sufficient to meet initial demand.

## Gross Profit

Gross profit increased 28% from US$142.1 million to US$181.7 million due to improvements in all our major businesses. The gross profit margin increased 1.0 percentage point to 36.8%.

USA Fibre Cement gross profit increased 32% 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 2.8 percentage points.

Asia Pacific Fibre Cement gross profit increased 10% following improvements from Australia and New Zealand Fibre Cement and Philippines Fibre Cement, which increased 7% and 71%, respectively. 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 9% due primarily to a decrease in manufacturing performance at our Rosehill, NSW plant and increased freight costs. The manufacturing performance of the Rosehill plant returned to more acceptable levels by the end of the period. 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 3.6 percentage points.

## Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 18% compared to the same period last year, from US$63.6 million to US$75.1 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 0.8 of a percentage point lower, at 15.2%.

### 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 54% for the period to US$6.3 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 11% to US$4.1 million.

Total research and development costs for the period increased 0.1 of a percentage point to 2.1% of net sales.

### EBIT[2]

EBIT increased 36% from US$70.7 million to US$96.2 million. The EBIT margin increased 1.7 percentage points to 19.5%.

USA Fibre Cement EBIT increased 36% from US$79.5 million to US$107.8 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 2.6 percentage points to 28.5%.

Asia Pacific Fibre Cement EBIT increased 15% from US$15.6 million to US$18.0 million. The EBIT margin decreased 1.0 percentage point to 17.2%.

Australia and New Zealand Fibre Cement EBIT increased 8% from US$15.8 million to US$17.0 million. In Australian dollars, EBIT decreased 9%. The decrease in EBIT in Australian dollars was due mainly to a decrease in manufacturing performance at the Rosehill, NSW plant and increased freight costs. The EBIT margin was 2.1 percentage points lower, at 18.5%.

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

The Chile Fibre Cement business recorded an inaugural small operating profit for the period.

Despite continued strong volume growth, our USA Hardie® Pipe business incurred an operating loss for the period due to lower 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 increased by US$0.3 million from US$13.9 million to US$14.2 million. This increase was due to a US$2.0 million increase in employee share based compensation expense from stock appreciation rights primarily caused by an increase in the company's share price, partially offset by a US$1.5 million decrease in our employee bonus plan expense and a net decrease in other costs.

### Other Expense, net

Other expense, net, increased by US$3.2 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.

## Net Interest Expense

Net interest expense decreased by US$0.7 million from US$5.4 million to US$4.7 million. Interest expense decreased by US$2.5 million due to lower average borrowings and an increase in the amount of interest expense capitalised during the half year compared to the same period in the prior year. This decrease in net interest expense was partially offset by a US$1.8 million decrease in interest income due to lower average cash balances compared to the same period in the prior year.

## Income Tax Expense

Income tax expense increased by US$2.5 million from US$20.0 million to US$22.5 million.

## Operating Profit from Continuing Operations[4]

Income from continuing operations increased by 45% or US$20.3 million, from US$45.4 million for the first half of the previous year to US$65.7 million this half year.

## Discontinued Operations

We recorded income from discontinued operations of US$1.8 million and US$55.1 million during the first half of the current and previous fiscal years, respectively. The first half of the fiscal year primarily includes profit recorded from the sale of our New Zealand Building Systems business on 30 May 2003. The first half of the previous fiscal year primarily consisted of net profit related to the sale of our 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$98.8 million as of 30 September 2003. At that date we also had credit facilities totalling US$428.6 million of which US$174.4 million was outstanding. Our credit facilities are all uncollateralised and consist of the following:

| Description | Effective Interest Rate at 30 September 2003 | Total Facility at 30 September 2003 | Principal Outstanding at 30 September 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 | 136.6 | - |
| 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 November 2006 | 4.08% | 9.5 | 9.4 |
| Total | | $ 428.6 | $ 174.4. |

## Cash Flow

Net operating cash inflows increased by US$18.4 million to US$91.0 million for the six months ended 30 September 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$18.6 million. Additionally, we had a decrease in operating cash flows of US$0.2 million from the net change in working capital account balances and non-cash income and expenses.

Net investing activities produced a cash outflow of US$38.5 million for the six months ended 30 September 2003 compared to a cash inflow of US$310.6 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 increased by US$20.1 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$44.1 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$0.6 million during the six months period ended 30 September 2003.

Net financing activities resulted in an outflow of US$8.8 million for the six months ended 30 September 2003 compared to a US$93.4 million outflow in the same period of the prior year. In the prior year period, we repaid US$100 million of bank debt, which did not recur in the current period. Proceeds from borrowings decreased by US$3.8 million to US$0.6 million. We had a US$0.2 million decrease in proceeds from the issuance of shares to US$2.0 million and we paid dividends in the amount of US$11.4 million. The proceeds of US$2.0 million represent stock option exercises during the six months ended 30 September 2003.

## Interim Dividend

The Board has declared an interim dividend of US 2.5 cents a share payable to share/CUFS holders on 16 December 2003. The Record Date is 27 November 2003 to determine entitlements to this dividend (i.e., on the basis of proper instruments of transfer received by the Company's registrar, Computershare Investor Services Pty Ltd, Level 3, 60 Carrington Street, Sydney NSW 2000, Australia, by 5:00pm if securities are not CHESS approved, or security holding balances established by 5:00pm or such later time permitted by SCH Business Rules if securities are CHESS approved).

This interim dividend and future dividends will be unfranked for Australian taxation purposes.

This dividend is subject to Dutch withholding tax of 25%. Many Australian resident holders may reduce the withholding tax rate to 15% deduction if they are eligible and have completed and lodged a current special Form A before the dividend record date with the Company's registrar. Holders with 25% withholding tax may be eligible to reclaim a portion of the tax after payment date. For withholding tax information see: www.jameshardie.com (select Investor Relations, then Shareholder services, then Tax Information) or contact Computershare.

The Australian currency equivalent amount of the dividend to be paid to CUFS holders will be announced to the ASX on 28 November 2003.

No dividend reinvestment plans are available for this dividend.

End.

**Media/Analysts call:**

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

Or

Steve Ashe
Vice President Investor Relations
Telephone: 61 2 8274 5246
Mobile: 0408 164 011
Email: steve.ashe@jameshardie.com.au

Facsimile: 61 2 8274 5218

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

## *Notes*

*1. This Management's Discussion and Analysis document forms part of a package of information about the company's results. It should be read in conjunction with the other parts of this package, including a Media Release, a Management Presentation, a Financial Report and a Results at a Glance document.*

*2. EBIT is defined as operating income. EBIT margin is defined as EBIT as a percentage of our net sales. We believe EBIT and EBIT margin to be relevant and useful information as these are the primary measures used by our management to measure the operating profit or loss of our business. EBIT is one of several metrics used by our management to measure the cash generated from our operations, excluding the operating cash requirement of our interest and income taxes. Additionally, EBIT is believed to be a primary measure and terminology used by our Australian investors. EBIT and EBIT margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. EBIT and EBIT margin, as we have defined them, may not be comparable to similarly titled measures reported by other companies.*

*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.*