

Directors' Report *Year Ended 31 March 2003*

Your Directors present their report on the consolidated entity consisting of James Hardie Industries NV ("JHI NV") and the entities it controlled at the end of, or during, the year ended 31 March, 2003 ("James Hardie").

Directors

At the date of this report the members of the Supervisory Board are: Messrs AG McGregor and MR Brown, Ms M Hellicar, Messrs MJ Gillfillan, JRH Loudon and GJ Clark and the Management Board member is Mr PD Macdonald. The Joint Board consists of all of the members of the Supervisory Board plus Mr PD Macdonald.

Directors' qualifications, experience and special responsibilities are set out in the Directors' Profiles on page 44-45.

JHI NV Board changes between 1 April, 2002 to the date of this report were: Messrs JRH Loudon and GJ Clark were appointed to the Supervisory Board by shareholders on 19 July 2002, Mr MM Koffel retired from the Supervisory Board on 19 July 2002, and Mr DE Cameron resigned from the Managing Board on 11 March 2003.

Current JHI NV secretaries

Mr PJ Shafron and Ms SE Parabarsing

Corporate Governance

Details of JHI NV's corporate governance and Board Committees are set out on pages 51-55 and are commented upon in the Chairman's Report on pages 6 and 7.

Directors' attendance at JHI NV Board and Board committee meetings during the financial year:

Member	Boards of Directors				Committee Meetings				Nominating and Governance	
	Supervisory		Joint Board		Audit		Remuneration		Nominating and Governance	
	H	A	H	A	H	A	H	A	H	A
AG McGregor	5	5	8	8	7	7	3	3	3	3
MR Brown	5	5	8	8	7	7	–	–	3	3
M Hellicar	5	5	8	8	7	7	3	3	–	–
MJ Gillfillan	5	5	8	8	7	6	–	–	3	3
JRH Loudon	3	3	6	5	–	–	–	–	1	1
GJ Clark	3	3	6	5	–	–	1	1	–	–
MM Koffel	2	2	2	2	–	–	–	–	–	–
Management										
PD Macdonald	6	6	8	8	–	–	–	–	–	–
DE Cameron	4	4	–	–	–	–	–	–	–	–

H = Number of meetings held during the time the Director held office or was a member of the Committee during the financial year.

A = Number of meetings attended during the time the Director held office or was a member of the Committee during the financial year.

Directors' relevant interests in JHI NV securities:

	Shares/ CUFS				Options	
	Beneficial 6 May 02	Beneficial 27 Aug 02	Beneficial 13 May 03	Non beneficial 13 May 03	Total shares/CUFS 13 May 03	Total (all beneficial) 13 May 03
Supervisory Board Members	Reported in last year's report	SBSP Note (1)		Note (2)	Date of this report	Note (3)
AG McGregor	3,490,794	1,641	3,492,435	5,121,200	8,613,635	–
M Hellicar	2,761	2,948	5,709	–	5,709	–
MR Brown	10,000	1,641	11,641	–	11,641	–
MJ Gillfillan	50,000	1,641	51,641	–	51,641	–
JRH Loudon	–	1,641	1,641	–	1,641	–
GJ Clark	–	6,688	6,688	–	6,688	–
Managing Board Member		Market purchase				
PD Macdonald	81,000	180,000	261,000	–	261,000	3,774,000

Notes

- (1) Supervisory Board Share Plan ("SBSP") allotment was at A\$6.71 per JHI NV share/CUFS under the terms of the SBSP approved by JHI NV shareholders at the 2002 Annual General Meeting. Each participant's mandatory participation of 1,641 JHI NV shares/CUFS is subject to voluntary escrow period ending on 27 August 2004.
- (2) No change occurred to non beneficial holdings between the date of last year's Directors' Report being 6 May 2002 and the date of this report.
- (3) Note 18 to the Consolidated Financial Statements sets out details of options granted by JHI NV under the PD Macdonald 2002 Share Option Plan.

Options

Note 18 to the Consolidated Financial Statements sets out details of JHI NV options granted and options exercised.

Insurance and indemnification of Directors and officers

During the fiscal year, James Hardie paid premiums for insurance policies insuring any past, present or future director, secretary, executive officer or employee of James Hardie, including the JHI NV Directors named above, against certain liabilities. In accordance with common commercial practice, the insurance policies prohibit disclosure of the nature of the insurance cover and the amount of the premiums.

Under the JHI NV Articles of Association, every officer of JHI NV is indemnified (to the maximum extent permitted by law) out of property of JHI NV against:

- a liability to another person (other than JHI NV or a related body corporate) unless the liability arises out of conduct involving a lack of good faith;
- a liability for costs and expenses incurred by the person:
 - in defending proceedings, whether civil or criminal, in which judgment is given in favour of the person or in which the person is acquitted; or
 - in connection with an application in relation to such proceedings in which the court grants relief to the person under relevant legislation.

Principal activities

Principal activities of James Hardie during the financial year were the manufacture of fibre cement products in: the USA, Australia, New Zealand, Philippines and Chile.

Review of operations

A review of James Hardie's operations during the fiscal year and of the results of those operations is contained in the Financial and Operating Highlights on pages 2-5, in the Operational Performance Summary on pages 16 and 17 and in Management's Discussion and Analysis (MD&A) on pages 38-43.

Significant changes in state of affairs

During the fiscal year, James Hardie:

- settled on 25 April 2002 the US\$345 million sale of its Gypsum business,
- paid a capital return to shareholders of US 20 cents per share in November 2002,
- retired US\$60.0 million of long-term debt in December 2002,
- received US\$48.4 million net sale proceeds for the former Las Vegas Gypsum land in March 2003, and
- expanded USA fibre cement capacity at the Blandon, Pennsylvania USA plant, commenced construction of a dedicated panel plant at Waxahachie, Texas, USA and a pilot roofing plant at Fontana, California, USA.

The Directors are not aware of any other significant change in the state of affairs of James Hardie during the fiscal year which is not covered in this Annual Report.

Post financial year events

The Directors are not aware of any matter or circumstance not otherwise dealt with in this Annual Report that has significantly or may significantly affect the operations of James Hardie, other than contained in the Chief Executive Officer's Report on pages 8 and 9.

Financial position, outlook and future needs

The financial position, outlook and future needs are set out in the Chief Executive Officer's Report on pages 8 and 9 and the Financial Review on pages 34 and 35. In the Board's opinion, any further disclosure of information would prejudice James Hardie's interests.

Research and Development

Information on James Hardie's Research and Development opportunities are set out in the Chief Executive Officer's Report on pages 8 and 9 and in the section entitled Unique Technology Driving High Growth on pages 10 to 13.

Employees

Information on James Hardie employees is set out on pages 28 and 29.

Environmental regulations and performance

The manufacturing and other ancillary activities conducted by James Hardie are subject to licenses issued under environmental laws that apply in each respective location.

Under the applicable licenses and trade waste agreements, discharges to water, air and the sewerage system and noise emissions are to be maintained below specified limits. In addition, dust and odour emissions from the sites are regulated by local government authorities.

Solid wastes are removed to licensed landfills and a program is in place to reduce waste produced from the manufacturing process.

James Hardie has in place an integrated environmental, health and safety management system which includes regular monitoring, auditing and reporting within James Hardie. The system is designed to continually improve James Hardie's performance and systems with training, regular review, improvement plans and corrective action as priorities.

Further information on James Hardie's environmental aims is set out on pages 30 and 31.

Dividends

The JHI NV Board has declared a dividend of US2.5 cents per share. CUFS holders will be paid the dividend in Australian currency on 2 July 2003. ADR holders will receive payment in US currency.

JHI NV paid a dividend of US2.5 cents per share (A4.28 cents per CUFS) on 30 January 2003. ADR holders received payment in US currency.

JHI NV paid a dividend of US5 cents per share (A9.17 cents per CUFS) on 1 November 2002. ADR holders received payment in US currency.

Capital Return

The JHI NV Board will seek shareholder approval to make a capital return of 13.05 Euro cents (US15 cents) per share.

The record date and payment date will be advised at a later date. Payment is not expected to be made before November 2003.

JHI NV made a capital return of US20 cents per share (A38.04 cents per CUFS) on 15 October 2002. Payment was made to CUFS holders in Australian currency on 1 November 2002. ADR holders received payment in US currency.

Directors' and executives' emoluments

James Hardie aims to provide competitive total compensation by offering a package of fixed pay and benefits and performance variable pay, based on both long and short-term incentives.

James Hardie's executive compensation program is based on a pay for performance policy that differentiates compensation amounts based on an evaluation of performance results in three basic areas: corporate, business unit and individual. The program is administered by the Remuneration Committee. The Remuneration Committee reviews and approves all individual compensation recommendations for senior executives. The composition and responsibilities of the Committee are set out in the Corporate Governance section on pages 51-55 and further information is available on the company's website at www.jameshardie.com

The Chief Executive Officer makes recommendations to the Remuneration Committee on the compensation of James Hardie's key executives, based on assessments and advice from independent compensation consultants regarding the compensation practices of James Hardie and others specific to the countries in which James Hardie operates. However, the Remuneration Committee makes the final compensation decisions concerning these officers, the objectives being to:

- Provide fixed pay (base salaries) to attract and retain key executives who are critical to James Hardie's long-term success by providing a guaranteed level of income that recognises the market value of the position as well as internal equities between roles, and the individual's capability, experience and performance. Base pay for management typically approximates or is slightly above the median salary for positions of similar responsibility in peer groups.
- Provide annual variable compensation awards that reward increases in James Hardie's economic profit, as well as achievement of agreed business outcomes. Target incentive amounts are designed to be competitive by providing top quartile bonus payments for top quartile performance.
- Reinforce the executive officers' alignment with the financial interest of shareholders by providing equity-based incentives (ie, share options). Award levels are determined based on market standards and the individual's responsibility, performance and potential to enhance shareholder value. The Remuneration Committee uses the dilution-based methodology to determine the appropriate number of options to grant each year and benchmarks peers to allocate the shares appropriately to the executives.

Remuneration and other terms of employment for the Chief Executive Officer and certain other senior executives are determined by the Remuneration Committee and formalised in service agreements.

Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time. Shareholders at the 2002 JHI NV Annual General Meeting approved, in accordance with ASX Listing Rule 10.14, effective for a 3-year period, a Supervisory Board Share Plan (SBSP). Under the SBSP, members of the Supervisory Board are required to accept at least US\$10,000 of their annual fees in ordinary shares/CUFS in JHI NV which are subject to a two year restricted trading period. Under the SBSP, members of the Supervisory Board will also be entitled to receive a greater

proportion of their remuneration in JHI NV shares if they so elect. The issue price is the average of the market closing prices at which CUFS were quoted on the ASX during the five business days preceding the day of issue. Non-executive Directors Messrs AG McGregor and MR Brown and Ms M Hellicar also have accrued retirement benefits up to July 2002 in accordance with a discontinued shareholder-approved plan and receive Australian mandated 9% superannuation guarantee contributions on their fees. The Joint Board uses independent experts to benchmark Directors' remuneration against peer companies.

Details of the nature and amount of each element of the emoluments of each Director of JHI NV and each of the five current officers of JHI NV and James Hardie receiving the highest emoluments are set out in the following tables:

JHI NV Directors' emoluments

	Directors' Cash Fees US\$	Superannuation US\$	JHI NV Stock (1) US\$	Total US\$
Non-executive Directors				
AG McGregor	129,832	21,097	10,000	160,929
MR Brown	38,833	6,764	10,000	55,597
M Hellicar	28,833	5,461	20,000	54,294
MJ Gillfillan	38,833	–	10,000	48,833
JR Loudon	26,667	–	10,000	36,667
GJ Clark	–	–	50,000	50,000
Former Director: MM Koffel	11,225	–	–	11,225
Total emoluments for non-executive Directors	274,223	33,322	110,000	417,545

(1) The annual allocation to non-executive Directors of JHI NV stock to the value of US\$10,000 was approved by shareholders at the last Annual General Meeting held on 19 July 2002. The non-executive Directors can elect to take additional stock in lieu of fees.

	Base Pay US\$	Bonuses US\$	Total Cash Pay US\$	Superannuation and other Benefits US\$	Shadow Share & Options (1) US\$	Expatriate benefits US\$
Executive Directors						
PD Macdonald	775,000	1,409,200	2,184,200	25,182	467,399	0
Former Director: DE Cameron	218,325	87,110	305,435	20,406	1,630	154,482
Total emoluments for executive Directors	993,325	1,496,310	2,489,635	45,588	469,029	154,482

(1) Options are valued using the Black-Scholes option-pricing model and the fair value of options granted are included in emoluments during the period in which the options vest. Shadow share expense included in emoluments is calculated based on the movement in the JHI NV share price during the year and the increase in vesting of the shadow shares.

Directors' Report *Year Ended 31 March 2003 (Continued)*


Emoluments of five most highly remunerated current officers excluding JHI NV Directors

	Base Pay	Bonuses	Total Cash Pay	Superannuation and other Benefits (1)	Shadow Share & Options (2)	Relocation Allowances and other Non-recurring
	US\$	US\$	US\$	US\$	US\$	US\$
Louis Gries	390,846	763,270	1,154,116	82,843	155,942	–
Phillip Morley	313,740	395,605	709,345	162,569	290,446	109,483
Don Merkley	255,577	384,625	640,202	47,267	92,100	–
Peter Shafron	303,556	334,715	638,271	55,162	202,192	37,291
Dave Merkley	249,231	348,579	597,810	50,269	62,667	–

(1) Gross up of tax on the increase/decrease in the investment value of superannuation is included for expatriate executives.

(2) Options are valued using the Black-Scholes option-pricing model and the fair value of options granted are included in emoluments during the period in which the options vest. Shadow share expense included in emoluments is calculated based on the movement in the JHI NV share price during the year and the increase in vesting of the shadow shares.

This report is made in accordance with a resolution of the Directors of the Joint Board.



AG McGregor
Chairman Supervisory and Joint Boards



PD Macdonald
Chief Executive Officer and Chairman Managing Board

Signed at Amsterdam, The Netherlands 13 May 2003.