1. Background and Basis of Presentation

Nature of Operations

The Company manufactures and sells fibre cement building products for interior and exterior building construction applications primarily in the United States, Australia, New Zealand, the Philippines and Chile. Prior to 25 April 2002, the Company manufactured gypsum wallboard for interior construction applications in the United States.

Background

On 2 July 1998, ABN 60 Pty Ltd, formerly James Hardie Industries Limited ("JHIL"), then a public company organised under the laws of Australia and listed on the Australian Stock Exchange, announced a plan of reorganisation and capital restructuring (the "1998 Reorganisation"). James Hardie NV (JHNV) was incorporated in August 1998, as an intermediary holding company, with all of its common stock owned by indirect subsidiaries of JHIL. On 16 October 1998, JHIL's shareholders approved the 1998 Reorganisation. Effective as of 1 November 1998, JHIL contributed its fibre cement businesses, its USA gypsum wallboard business, its Australian and New Zealand building systems businesses and its Australian windows business (collectively, the "Transferred Businesses") to JHNV and its subsidiaries. In connection with the 1998 Reorganisation, JHIL and its non-transferring subsidiaries retained certain unrelated assets and liabilities.

On 24 July 2001, JHIL announced a further plan of reorganisation and capital restructuring (the "2001 Reorganisation"). Completion of the 2001 Reorganisation occurred on 19 October 2001. In connection with the 2001 Reorganisation, James Hardie Industries NV ("JHI NV"), formerly RCI Netherlands Holdings B.V., issued common shares represented by CHESS Units of Foreign Securities ("CUFS") on a one for one basis to existing JHIL shareholders in exchange for their shares in JHIL such that JHI NV became the new ultimate holding company for JHIL and JHNV.

Following the 2001 Reorganisation, JHI NV controlled the same assets and liabilities as JHIL controlled immediately prior to the 2001 Reorganisation.

Basis of Presentation

The consolidated financial statements represent the financial position, results of operations and cash flows of JHI NV and its wholly owned subsidiaries, collectively referred to as either the "Company" or "James Hardie", unless the context indicates otherwise. For the periods prior to 19 October 2001, the effective date of the 2001 Reorganisation, the consolidated financial statements represent the financial position, results of operations and cash flows of JHIL and its wholly owned subsidiaries.

In accordance with accounting principles generally accepted in the United States of America, the transfers to JHI NV have been accounted for on a historical cost basis using the "as-if" pooling method on the basis that the transfers are between companies under common control.

The assets, liabilities, income statement and cash flows of the Company have been presented with accompanying Australian dollar (A$) convenience translations. These A$ convenience translations are not prepared in accordance with accounting principles generally accepted in the United States of America. The exchange rates used to calculate the convenience translations are as follows:

	31 March		
(US$1 = A$)	**2003**	2002	2001
Assets and liabilities	**1.6559**	1.8808	2.0408
Income statement	**1.7809**	1.9483	1.7990
Cash flows - beginning cash	**1.8808**	2.0408	1.6466
Cash flows - ending cash	**1.6559**	1.8808	2.0408
Cash flows - current period movements	**1.7809**	1.9483	1.7990

2. Summary of Significant Accounting Policies

Accounting Principles

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The US dollar is used as the reporting currency. All subsidiaries are consolidated and all significant intercompany transactions and balances are eliminated.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Foreign Currency Translation

All assets and liabilities are translated into US dollars at current exchange rates while revenues and expenses are translated at average exchange rates in effect for the period. The effects of foreign currency translation adjustments are included directly in other comprehensive income in shareholders' equity. Gains and losses arising from foreign currency transactions are recognised in income currently.

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit in banks and cash invested temporarily in various highly liquid financial instruments with original maturities of three months or less when acquired.

Inventories

Inventories are valued at the lower of cost or market. Cost is generally determined under the first-in, first-out method, except that the cost of raw materials and supplies is determined using actual or average costs. Cost includes the costs of materials, labour and applied factory overhead.

Investments
Management determines the proper classifications of investments at the time of purchase and re-evaluates such designations at each balance sheet date. All marketable securities are designated as available-for-sale securities. Accordingly, these securities are stated at fair value based upon quoted market prices, with unrealised gains and losses charged to other comprehensive income in shareholders' equity, net of taxes. Realised gains and losses on sales of investments are recognised in income currently.

Other investments without readily available quoted market prices are recorded at the lower of cost or management's estimate of fair value.

Property, Plant and Equipment
Property, plant and equipment are stated at cost. Property, plant and equipment of businesses acquired are recorded at their acquired cost based on fair value at the date of acquisition. Depreciation of property, plant and equipment is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings	40
Building improvements	5 to 10
Machinery and equipment	5 to 27
Computer equipment	3 to 4
Office furniture and equipment	3 to 10

The cost of additions and improvements is capitalised, while maintenance and repair costs are expensed as incurred. Interest is capitalised in connection with the construction of major facilities. Capitalised interest is recorded as part of the asset to which it relates and is amortised over the asset's estimated useful life. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation amounts with any resulting gain or loss reflected in the consolidated statements of income.

Intangible Assets
Intangible assets consist primarily of goodwill, which represents cost in excess of the fair value of the identifiable net assets of businesses acquired. In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142, which changes the accounting for goodwill and indefinite-lived intangible assets from an amortisation method to an impairment-only approach, is effective for fiscal years beginning after 15 December 2001. The adoption of this standard, effective 1 April 2002, had no material impact on the Company's consolidated financial statements. The Company's selling, general and administrative expenses were reduced by approximately US$0.1 million for the year ended 31 March 2003 due to the discontinuance of goodwill amortisation as required by SFAS No. 142.

Impairment of Long-Lived Assets
The Company regularly reviews its long-lived assets for impairment. Potential impairment of assets held for use is determined by comparing the carrying amount of an asset to the future undiscounted cash flows expected to be generated by that asset. If assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", was issued and became effective April 2002. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", however, it retains the requirement that long-lived assets be tested for recoverability when events or changes in circumstances indicate carrying amounts may not be recoverable. The adoption of this standard had no material impact on the Company's consolidated financial statements.

Environmental
Environmental remediation expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Estimated liabilities are not discounted to present value. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action.

Mineral Acquisition Costs
The Company records acquired proven and probable silica mineral ore reserves at their fair value at the date of acquisition. Depletion expense is recorded based on the estimated rate per ton multiplied by the number of tons extracted during the period. The rate per ton may be periodically revised by management based on changes in the estimated tons available to be extracted which, in turn, is based on third party studies of proven and probable reserves. The estimated costs of reclamation associated with mining activities are accrued during production and are included in determining the cost of production.

Revenue Recognition and Change in Accounting Principle
Effective 1 April 2000, the Company changed its method of accounting for revenue recognition to comply with Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements". Previously, the Company had recognised revenue when products were shipped based on FOB shipping point terms. Under the new accounting method adopted retroactive to 1 April 2000, the Company now recognises revenue when the risks and obligations of ownership have been transferred to the customer, which generally occurs at the time of delivery to the customer. Assuming the change in accounting principle was made retroactively to all prior periods, the calculated pro forma amounts are immaterial and thus have been excluded from the consolidated statements of income.

As a result of the adoption of SAB No. 101, in the year ended 31 March 2001, the Company recognised US$4.9 million in revenue, of which US$3.8 million related to discontinued operations, that was previously recognised in 2000.

Construction contract revenues are recognised using the percentage-of-completion method based on the costs incurred relative to total estimated costs. Provisions for anticipated losses on construction contracts are recognised in income currently. Sales revenue is presented net of sales incentives, returns and allowances.

Advertising
The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US$10.5 million, US$10.3 million and US$12.7 million during the years ended 31 March 2003, 2002 and 2001, respectively.

Accrued Product Warranties
An accrual for estimated future warranty costs is recorded based on an analysis by the Company, including the historical relationship of warranty costs to sales.

Income Taxes
The Company accounts for income taxes under the liability method. Under this method, deferred income taxes are recognised by applying enacted statutory rates applicable to future years to differences between the tax bases and financial reporting amounts of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognised in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that all or some portion of deferred tax assets will not be realised.

Financial Instruments
To meet the reporting requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", the Company calculates the fair value of financial instruments and includes this additional information in the notes to the consolidated financial statements when the fair value is different than the carrying value of those financial instruments. When the fair value reasonably approximates the carrying value, no additional disclosure is made. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

On 1 April 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The cumulative effect on 1 April 2001 of adopting this statement was to reduce other comprehensive income, a component of shareholders' equity, by US$4.9 million.

Periodically, interest rate swaps, commodity swaps and forward exchange contracts are used to manage market risks and reduce exposure resulting from fluctuations in interest rates, commodity prices and foreign currency exchange rates. Where such contracts are designated as, and are effective as, a hedge, gains and losses arising on such contracts are accounted for in accordance with SFAS No. 133. Specifically, changes in the fair value of derivative instruments designated as cash flow hedges are deferred and recorded in other comprehensive income. These deferred gains or losses are recognised in income when the transactions being hedged are completed. The ineffective portion of these hedges is recognised in income currently. Changes in the fair value of derivative instruments designated as fair value hedges are recognised in income, as are changes in the fair value of the hedged item. Changes in the fair value of derivative instruments that are not designated as hedges for accounting purposes are recognised in income. The Company does not use derivatives for trading purposes.

Stock-Based Compensation
In fiscal year 2003, the Company adopted the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", which requires the Company to value stock options issued based upon an option pricing model and recognise this value as compensation expense over the periods in which the options vest. In accordance with the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123", the Company has elected to recognise stock-based compensation using the retroactive restatement method. Under this change in accounting method, the Company has restated its consolidated financial statements for all years presented herein to reflect stock-based compensation expense under a fair value based accounting method for all options granted, modified or settled in fiscal years beginning after 31 March 1995. See Note 18 for full disclosures required under SFAS No. 123 and 148. The table below sets forth the effect of the retroactive restatement of prior periods:

(Millions of US dollars, except per share amounts)	31 March 2002	31 March 2001
Net income:		
As previously reported	$ 29.3	$ 38.2
As restated	$ 30.8	$ 38.6
Net income per share - basic:		
As previously reported	$ 0.07	$ 0.09
As restated	$ 0.07	$ 0.09
Net income per share - diluted:		
As previously reported	$ 0.07	$ 0.09
As restated	$ 0.07	$ 0.09

Employee Benefit Plans
The Company sponsors both defined benefit and defined contribution retirement plans for its employees. The defined contribution plans cover all eligible employees and provide contributions of up to 6% of the eligible employees' salaries or wages. These contributions are recognised as periodic pension expense in the period that the employees' salaries or wages are earned. The defined benefit plan covers all eligible employees and takes into consideration the following components to calculate net periodic pension expense: (a) service cost; (b) interest cost; (c) expected return on plan assets; (d) amortisation of unrecognised prior service cost; (e) recognition of net actuarial gains or losses; and (f) amortisation of any unrecognised net transition asset. If the amount of the Company's total contribution to its pension plan for the period is not equal to the amount of net periodic pension cost, the Company recognises the difference either as a prepaid or accrued pension cost.

Dividends
Dividends are recorded as a liability on the date that the Board of Directors formally declares the dividend.

Earnings per Share
The Company is required to disclose basic and diluted earnings per share ("EPS"). Basic EPS is calculated using income divided by the weighted average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares calculated using the treasury method that would have been outstanding if the dilutive potential common shares, such as options, had been issued. Accordingly, basic and dilutive common shares outstanding used in determining net income per share are as follows:

(Millions except per share amounts)	Years Ended 31 March **2003**	2002	2001
Basic common shares outstanding	**456.7**	438.4	409.6
Dilutive effect of stock options	**2.7**	2.0	–
Diluted common shares outstanding	**459.4**	440.4	409.6
Net Income per share - basic	**US$0.37**	US$0.07	US$0.09
Net Income per share - diluted	**US$0.37**	US$0.07	US$0.09

Potential common shares of 1.3 million, 4.2 million and 1.2 million for the years ended 31 March 2003, 2002 and 2001, respectively, have been excluded from the calculation of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss) includes adjustments for additional minimum pension liabilities, foreign currency translation, unrealised gains and losses on available-for-sale securities and derivative instruments and is presented as a separate component of shareholders' equity.

Recent Accounting Pronouncements
Asset Retirement Obligations
In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The statement requires that the fair value of a liability for an asset retirement obligation be recognised in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the carrying amount of the long-lived asset. This statement is effective for financial statements issued for fiscal years beginning after 15 June 2002. The Company has determined that the adoption of this standard will not have a material impact on its consolidated financial statements.

Extinguishments of Debt
In May 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections". Among other things, SFAS No. 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", are met. SFAS No. 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after 15 May 2002. As permitted under SFAS No. 145, the Company has early adopted the provisions of this standard effective 1 April 2002. As a result of the early retirement of US$60.0 million of the Company's long-term debt, the Company incurred charges of US$9.9 million related to a make-whole payment paid to the noteholders on 23 December 2002. Accordingly, this amount has been included in interest expense in the current year rather than as an extraordinary item.

Costs Associated with Exit or Disposal Activities
In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". It requires companies to recognise costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after 31 December 2002. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Guarantor's Accounting and Disclosure Requirements for Guarantees
In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which elaborates on required disclosures by a guarantor in its financial statements about obligations under certain guarantees that it has issued and clarifies the need for a guarantor to recognise, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 applies to new or modified guarantees issued after 31 December 2002. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

Consolidation of Variable Interest Entities
In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities-an interpretation of ARB No. 51". FIN 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: 1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interests that will absorb some or all of the expected losses of the entity, and 2) the equity investors lack an essential characteristic of a controlling financial interest. FIN 46 applies to variable interest entities established after 31 December 2002. The adoption of FIN 46 did not have a material impact on the Company's consolidated financial statements.

Amendment of SFAS No.133, Accounting for Derivative Instruments and Hedging Activities
In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities". This statement clarifies the definition of a derivative and incorporates certain decisions made by the FASB as part of the Derivatives Implementation Group process. This statement is effective for contracts entered into or modified, and for hedging relationships designated, after 30 June 2003 and should be applied prospectively. The provisions of the Statement that relate to implementation issues addressed by the Derivatives Implementation Group that have been effective should continue to be applied in accordance with their respective effective dates. Adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Certain Financial Instruments with Characteristics of both Liabilities and Equity
In May 2003, the FASB issued SFAS No. 150, "Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement establishes standards for how a company clarifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that a company classify such instruments as liabilities, whereas they previously may have been classified as equity. The standard is effective for all financial instruments entered into or modified after 31 May 2003, and otherwise is effective 1 July 2003. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following components:

	31 March	
(Millions of US dollars)	**2003**	2002
Cash at bank and on hand	**$ 40.2**	$ 11.1
Short-term deposits	**14.9**	20.0
Total cash and cash equivalents	**$ 55.1**	$ 31.1

Short-term deposits are placed at floating interest rates varying between 1.18% to 1.75% and 1.65% to 1.80% as of 31 March 2003 and 2002, respectively.

4. Accounts and Notes Receivable

Accounts and notes receivable consist of the following components:

	31 March	
(Millions of US dollars)	**2003**	2002
Trade receivables	**$ 86.6**	$ 73.1
Other receivables and advances	**5.9**	7.9
Allowance for doubtful accounts	**(1.1)**	(0.7)
Total accounts and notes receivable	**$ 91.4**	$ 80.3

The collectibility of accounts receivable, consisting mainly of trade receivables, is reviewed on an ongoing basis and an allowance for doubtful accounts is provided for known and estimated bad debts. The following are changes in the allowance for doubtful accounts:

	31 March		
(Millions of US dollars)	**2003**	2002	2001
Balance at beginning of period	**$ 0.7**	$ 1.1	$ 1.2
Charged to expense	**0.4**	0.1	0.3
Costs and deductions	**(0.1)**	(0.6)	(0.2)
Foreign currency movements	**0.1**	0.1	(0.2)
Balance at end of period	**$ 1.1**	$ 0.7	$ 1.1

5. Inventories

Inventories consist of the following components:

	31 March	
(Millions of US dollars)	**2003**	2002
Finished goods	**$ 55.4**	$ 40.9
Work-in-process	**4.5**	4.1
Raw materials and supplies	**17.0**	22.4
Provision for obsolete finished goods and raw materials	**(1.7)**	(2.0)
Contracts-in-progress less advance billings	**–**	–
Total inventories	**$ 75.2**	$ 65.4

Work-in-process includes amounts related to construction contracts. The net amount of contracts-in-progress less advance billings was determined after deducting payments and progress billings of US$1.2 million and US$2.9 million as of 31 March 2003 and 2002, respectively. The billings in excess of incurred costs are recorded as current liabilities of US$0.2 million and US$0.3 million as of 31 March 2003 and 2002, respectively. Contract costs were US$1.4 million and US$3.2 million as of 31 March 2003 and 2002, respectively.

6. Investments

Investments consist of the following components:

(Millions of US dollars)	31 March 2003	31 March 2002
Available-for-sale securities:		
Marketable securities at cost	**$ 3.2**	$ 3.9
Unrealised gains	**1.1**	1.1
Marketable securities at fair value	**4.3**	5.0
Other investments at cost approximating fair value	**1.7**	1.7
Total investments	**$ 6.0**	$ 6.7

7. Property, Plant and Equipment

Property, plant and equipment consist of the following components:

(Millions of US dollars)	Land	Buildings	Machinery and Equipment	Construction in Progress	Total
Balance at 1 April 2002:					
Cost	$ 5.3	$ 92.0	$ 382.4	$ 96.8	$ 576.5
Accumulated depreciation	–	(16.3)	(109.2)	–	(125.5)
Net book value	5.3	75.7	273.2	96.8	451.0
Changes in net book value:					
Capital expenditures	3.3	25.5	51.2	10.2	90.2
Retirements and sales	–	–	(1.0)	–	(1.0)
Depreciation	–	(3.5)	(23.9)	–	(27.4)
Other movement	–	–	0.6	–	0.6
Foreign currency translation adjustments	–	1.2	6.7	–	7.9
Total changes	3.3	23.2	33.6	10.2	70.3
Balance at 31 March 2003:					
Cost	8.6	118.7	439.9	107.0	674.2
Accumulated depreciation	–	(19.8)	(133.1)	–	(152.9)
Net book value	$ 8.6	$ 98.9	$ 306.8	$ 107.0	$ 521.3

Construction in progress consists of plant expansions and upgrades.

Interest related to the construction of major facilities is capitalised and included in the cost of the asset to which it relates. Interest capitalised was US$1.7 million, US$6.5 million and US$4.6 million for the years ended 31 March 2003, 2002 and 2001, respectively. Depreciation expense for continuing operations was US$27.4 million, US$23.5 million and US$20.7 million for the years ended 31 March 2003, 2002 and 2001, respectively.

8. Intangible Assets

Intangible assets consist of the following components:

(Millions of US dollars)	Goodwilll	Trademarks, Patents and Other	Total
Balance at 1 April 2002:			
Cost	$ 2.1	$ 2.2	$ 4.3
Accumulated amortisation	(0.2)	(0.5)	(0.7)
Net book value	1.9	1.7	3.6
Changes in net book value:			
Amortisation	–	(0.2)	(0.2)
Additional minimum pension liability	–	0.1	0.1
Foreign currency translation adjustments	(0.1)	–	(0.1)
Total changes	(0.1)	(0.1)	(0.2)
Balance at 31 March 2003:			
Cost	2.0	2.3	4.3
Accumulated amortisation	(0.2)	(0.7)	(0.9)
Net book value	$ 1.8	$ 1.6	$ 3.4

Amortisation expense related to goodwill and other intangibles was US$0.2 million, US$0.2 million and US$0.1 million for the years ended 31 March 2003, 2002 and 2001, respectively.

9. Retirement Plans

The Company sponsors a defined contribution plan for employees in its US operations and defined benefit and defined contribution plans for its Australian and New Zealand employees. The defined contribution plan in the US covers all US employees meeting certain eligibility requirements and provides for contributions of up to 6% of their salary or wages. The Company's expense for the US defined contribution plan totalled US$2.8 million, US$2.5 million and US$2.3 million for the years ended 31 March 2003, 2002 and 2001, respectively.

The following are the components of net periodic pension cost (income) for the Australian and New Zealand defined benefit pension plan:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Service cost	**$ 2.7**	$ 2.9	$ 3.3
Interest cost	**2.9**	2.4	2.7
Expected return on plan assets	**(3.2)**	(3.7)	(4.8)
Amortisation of unrecognised transition asset	**(0.8)**	(0.8)	(0.9)
Recognised net actuarial loss (gain)	**0.7**	0.1	(0.5)
Net periodic pension cost (income)	**$ 2.3**	$ 0.9	$ (0.2)

A settlement loss of US$1.3 million was recognised during the year ended 31 March 2002 as a result of the sale of the Company's Windows business.

The following are the assumptions used in developing the projected benefit obligation as of 31 March for the Australian and New Zealand defined benefit pension plan:

	31 March		
	2003	2002	2001
Discount rate	**6.8%**	7.0%	5.5%
Rate of increase in compensation	**3.5%**	3.5%	4.0%
Expected return on plan assets	**6.8%**	7.0%	7.5%

Plan assets consist primarily of investments in marketable securities. Net unrecognised gains and losses are amortised over the average remaining service period of active employees. A market related value of assets is used to determine pension costs using a five year average of stocks held for investment purposes. The discount rate methodology is based on the yield on 10 year high quality investment securities adjusted to reflect the rates at which pension benefits could be effectively settled. The changes in the discount rate from 2002 to 2003 and from 2001 to 2002 are a direct result of the changes in yields of high quality investment securities over the same periods, adjusted to rates at which pension benefits could be effectively settled. The decrease in the expected return on plan assets from 2002 to 2003 and from 2001 to 2002 is a result of both the reduction in the expected underlying inflation rate and lower expected after-tax rates of return.

The following are the actuarial changes in the benefit obligation, changes in plan assets and the funded status of the Australian and New Zealand defined benefit pension plan:

(Millions of US dollars)	Years Ended 31 March 2003	2002
Changes in benefit obligation:		
Benefit obligation - beginning balance	**$ 38.7**	$ 41.9
Service cost	**2.7**	2.9
Interest cost	**2.9**	2.4
Plan participants' contributions	**0.3**	0.6
Actuarial (gain) loss	**(5.5)**	8.1
Divestitures	**–**	(8.5)
Benefits paid	**(5.5)**	(12.0)
Foreign currency translation	**4.9**	3.3
Benefit obligation - ending balance	**$ 38.5**	$ 38.7
Changes in plan assets:		
Fair value of plan assets - beginning balance	**$ 39.8**	$ 52.8
Actual (loss) return on plan assets	**(4.4)**	1.4
Divestitures	**–**	(8.5)
Employer contributions	**2.5**	1.6
Participant contributions	**0.3**	0.6
Benefits paid	**(5.5)**	(12.0)
Foreign currency translation	**5.0**	3.9
Fair value of plan assets - ending balance	**$ 37.7**	$ 39.8
Funded status	**$ (0.8)**	$ 1.1
Unamortised prior service cost	**0.1**	0.2
Unrecognised actuarial loss	**11.9**	9.1
Unrecognised net transition asset	**(0.8)**	(1.5)
Net asset	**$ 10.4**	$ 8.9
Pension assets (liabilities) recognised in the financial statements:		
Prepaid pension cost	**$ 10.4**	$ 8.9
Accrued pension liability	**(11.2)**	–
Accumulated other comprehensive loss	**11.1**	–
Intangible asset	**0.1**	–

The Company recorded an additional minimum pension liability of US$11.2 million at 31 March 2003 as required by SFAS No. 87, "Employers' Accounting for Pensions". The adjustment is reflected in other liabilities, accumulated other comprehensive income and intangible assets, as appropriate, and is prescribed when the accumulated benefit obligation of the plan exceeds the fair value of the underlying pension plan assets and accrued pension liabilities.

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following components:

	31 March	
(Millions of US dollars)	**2003**	2002
Trade creditors	**$ 50.4**	$ 34.4
Other creditors and accruals	**24.8**	25.3
Total accounts payable and accrued liabilities	**$ 75.2**	$ 59.7

11. Short and Long-Term Debt

Long-term debt consists of the following components:

	31 March	
(Millions of US dollars)	**2003**	2002
US$ noncollateralised notes, 7.09% average rate	**$ 165.0**	$ 225.0
US$ noncollateralised revolving loan facility	**–**	100.0
Total long-term debt	**$ 165.0**	$ 325.0

The US$ non-collateralised notes form part of a seven tranche private placement facility which provides for maximum borrowings of US$165.0 million. Principal repayments are due in seven installments that commence on 5 November 2004 and end on 5 November 2013. The tranches bear fixed interest rates of 6.86%, 6.92%, 6.99%, 7.05%, 7.12%, 7.24% and 7.42%. Interest is payable in May and November each year.

As a consequence of the completion of the sale of the Gypsum business on 25 April 2002, the Company was technically not in compliance as of that date with certain pre-approval covenants of its US$ non-collateralised note agreements totalling US$225.0 million. Effective 23 December 2002, the note purchase agreement was amended to, among other matters, modify these covenants to remove the technical non-compliance caused by the sale of the Gypsum business. In connection with such amendment, the Company prepaid US$60.0 million in principal amount of notes. As a result of the early retirement, the Company incurred a US$9.9 million make-whole payment charge. The make-whole payment has been charged to interest expense during the year ended 31 March 2003.

The US$ denominated non-collateralised revolving loan facility can be repaid and redrawn until maturity in November 2005 and provides for maximum borrowings of A$200.0 million (US$120.8 million). Interest is recalculated at the commencement of each draw-down period based on the US$ LIBOR or the average Australian bank bill rate plus the margins of individual lenders, and is payable at the end of each draw-down period. At 31 March 2003, there was US$120.8 million available under this revolving loan facility. The weighted average interest rate was 2.29% as of 31 March 2002.

The A$ loan from the Medical Research and Compensation Foundation was repaid in full during the year ended 31 March 2002.

At 31 March 2003, the following are the scheduled maturities of long-term debt for each of the next five years and in total thereafter:

(Millions of US dollars)	
Years Ending 31 March:	
2004	$ –
2005	17.6
2006	25.7
2007	27.1
2008	8.1
Thereafter	86.5
Total	$ 165.0

The Company has short-term non-collateralised stand-by loan facilities which provide for maximum borrowings of US$117.5 million. At 31 March 2003, the facilities had a maturity date of 30 April 2003 and the Company had not drawn down any of these facilities. During April 2003, the Company renegotiated the facilities to extend the maturity date to 30 October 2003. Interest is recalculated at the commencement of each draw-down period based on either the US$ LIBOR or the average A$ bank bill bid rate plus the margins of the individual lenders and is payable at the end of each draw-down period.

The Company has a short-term US$ line of credit which provides for maximum borrowings of US$9.5 million. At 31 March 2003, the Company had drawn down US$8.8 million on this line of credit. The line of credit can be repaid and redrawn until maturity on 31 December 2003. Interest is recalculated at the commencement of each draw-down period based on the 90-day Chilean Tasa Activa Bancaria ("TAB") rate plus a margin and is payable at the end of each draw-down period. At 31 March 2003 and 2002, the weighted average interest rate on outstanding borrowings under this facility was 4.80% and 7.80%, respectively.

At 31 March 2003, management believes it was in compliance with all restrictive covenants contained in the non-collateralised notes, revolving loan facility and the stand-by credit facility agreements. Under the most restrictive of these covenants, the Company is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes.

12. Other Liabilities

Other liabilities consist of the following components:

(Millions of US dollars)	31 March 2003	2002
Current other liabilities:		
Reorganisation	**$ 0.8**	$ 0.9
Surplus leased space	**1.5**	2.1
Medical Research and Compensation Foundation	**–**	2.9
Other	**2.6**	0.8
Total current other liabilities	**$ 4.9**	$ 6.7
Non-current other liabilities:		
Employee entitlements	**15.4**	4.4
Product liability	**1.2**	1.2
Derivative liability	**–**	6.2
Other	**1.7**	0.2
Total non-current other liabilities	**$ 18.3**	$ 12.0

13. Product Warranties

The Company offers various warranties on its products, including a 50-year limited warranty on certain of its fibre cement siding products in the United States. A typical warranty program requires that the Company replace defective products within a specified time period from the date of sale. The Company records an estimate for future warranty related costs based on an analysis of actual historical warranty costs as they relate to sales. Based on this analysis and other factors, the adequacy of the Company's warranty provisions are adjusted as necessary. While the Company's warranty costs have historically been within its calculated estimates, it is possible that future warranty costs could exceed those estimates. The following are the changes in the product warranty provision:

(Millions of US dollars)	31 March 2003	2002
Balance at beginning of period	**$ 17.7**	$ 6.8
Accruals for product warranties	**0.1**	12.6
Settlements made in cash or in kind	**(3.3)**	(1.8)
Foreign currency translation adjustments	**0.3**	0.1
Balance at end of period	**$ 14.8**	$ 17.7

14. Commitments and Contingencies

Environmental

The operations of the Company, like those of other companies engaged in similar businesses, are subject to various federal, state and local laws and regulations on air and water quality, waste handling and disposal. The Company's policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

Legal

The Company is involved from time to time in various legal proceedings and administrative actions incidental or related to the normal conduct of its business. Although it is impossible to predict the outcome of any pending legal proceeding, management believes that such proceedings and actions should not, individually or in the aggregate, have a material adverse effect on either its consolidated financial position, results of operations or cash flows.

Claims Against Former Subsidiaries

With the establishment and funding of the Medical Research and Compensation Foundation (the "Foundation") in February 2001 (see Note 17), the Company no longer owned or controlled two Australian companies which manufactured and marketed asbestos-related products prior to 1987. Those companies were former subsidiaries of ABN 60 Pty Limited ("ABN 60", formerly known as JHIL). On 31 March 2003, James Hardie transferred control of ABN 60 to a newly established company named ABN 60 Foundation Pty Ltd ("ABN 60 Foundation").

In prior years and up to the date of the establishment of the Foundation, these two former subsidiaries incurred costs of asbestos-related litigation and settlements. From time to time, ABN 60 was joined as a party to asbestos suits which were primarily directed at the two former subsidiaries which are now controlled by the Foundation. As all three former subsidiaries of the Company are no longer a part of James Hardie, and all relevant claims against ABN 60 had been successfully defended, no provision for asbestos-related claims was established in the Company's accounts at 31 March 2003 or 2002.

While it is difficult to predict the incidence or outcome of future litigation, the Company believes it is remote that any significant personal injury suits for damages in connection with the former manufacture or sale of asbestos containing products that are or may be filed against ABN 60 or its former subsidiaries would have a material adverse effect on its business, results of operations or financial condition. This belief is based in part on the separateness of corporate entities under Australian law, the limited circumstances where "piercing the corporate veil" might occur under Australian law, and there being no equivalent under Australian law of the US legal doctrine of "successor liability". The courts in Australia have confirmed the primacy of separate corporate entities and have generally refused to hold parent entities responsible for the liabilities of their subsidiaries absent any finding of fraud, agency, direct operational responsibility or the like.

Asbestos litigation and settlement payments were US$11.5 million for the year ended 31 March 2001.

Gypsum Business

Under the terms of the Company's agreement to sell its Gypsum business to BPB U.S. Holdings, Inc., the Company agreed to customary indemnification obligations related to its representations and warranties in the agreement. The Company's indemnification obligation generally extends for 2 years from the closing date, arises only if claims exceed US$5 million in the aggregate and is limited to US$100 million in the aggregate. In addition, the Company agreed to indemnify BPB U.S. Holdings, Inc. for any future liabilities arising from asbestos-related injuries to persons or property. Although the Company is not aware of any asbestos-related claims arising from the Gypsum business, nor circumstances that would give rise to such claims, under the sale agreement, the Company's obligation to indemnify the purchaser for liabilities arising from asbestos-related injuries arises only if such claims exceed US$5 million in the aggregate, is limited to US$250 million in the aggregate and will continue for 30 years after the closing date of the sale of the Gypsum business.

Pursuant to the terms of the Company's agreement to sell its Gypsum business, the Company also retained responsibility for any losses incurred by the purchaser resulting from environmental conditions at the Duwamish River in Washington state so long as notice of a claim is given within 10 years of closing. Such losses are subject to a US$34.5 million limitation. The Seattle gypsum facility had previously been included on the "Confirmed and Suspected Contaminate Sites Report" released in 1987 due to the presence of metals in the groundwater. As the Company believes the metals found emanated from an offsite source, the Company does not believe it is liable for, and has not been requested to conduct, any investigation or remediation relating to the metals in the groundwater.

Operating Leases

As the lessee, the Company principally enters into property, building and equipment leases. The following are future minimum lease payments for non-cancellable operating leases having a remaining term in excess of one year at 31 March 2003:

(Millions of US dollars)		
Years Ended 31 March:		
2004	$	10.2
2005		9.4
2006		8.8
2007		8.5
2008		7.5
Thereafter		43.8
Total	$	88.2

Rental expense amounted to US$9.0 million, US$8.0 million and US$7.8 million for the years ended 31 March 2003, 2002 and 2001, respectively.

Capital Commitments

Commitments for the acquisition of plant and equipment, primarily in the US, contracted for but not recognised as liabilities and generally payable within one year, were US$20.6 million at 31 March 2003.

15. Restructuring and Other Operating Income (Expense)

In March 2001, the Company announced the creation of a new division for its fibre cement business in the Asia Pacific region, commencing with the 2002 fiscal year. The new regional division comprises the fibre cement operations in Australia, New Zealand and the Philippines. As a result, the Company had decided to phase out manufacturing at its Perth, Western Australia facility during the course of calendar year 2001. Accordingly, restructuring costs of US$15.5 million were incurred in the Asia Pacific fibre cement segment for the year ended 31 March 2001. The Company incurred employee termination costs of US$5.4 million for 189 employees: 8 from sales, 23 from administration, 5 from marketing and 153 hourly paid workers in manufacturing and distribution. One employee had left by 31 March 2001. The 2 administrative employees remaining at 31 March 2002 have left in fiscal year 2003. Included in the March 2001 restructuring costs were US$7.5 million for the write down of fixed assets to their estimated fair value and US$2.6 million for lease cancellation charges.

Corporate reorganisation expenses represent the costs incurred in relation to the 2001 Reorganisation. Included in these expenses is US$2.3 million paid to our independent accountants, PricewaterhouseCoopers, for related professional services.

On 14 February 2002, the Company signed a Class Action Settlement Agreement (the “Settlement Agreement”) for all product, warranty and property related liability claims associated with its roofing products, which were previously manufactured and sold by the USA Fibre Cement business. These products were removed from the marketplace between 1995 and 1998 in areas where there had been any alleged problems. Consequently, the Company recorded a pre-tax charge of US$12.6 million in fiscal year 2002 to cover the estimated cost of the settlement, and the estimated cost of any other pending claims or lawsuits remaining which are not covered by the settlement, as well as all related costs that may be paid under the Settlement Agreement. The total liability included in the balance sheet relating to the Settlement Agreement as of 31 March 2003 and 2002 was approximately US$9.1 million and US$11.5 million, respectively, which is included in the product warranty liability (see Note 13).

Restructuring and other operating income (expense) consist of the following components:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Restructuring:			
Asia Pacific Fibre Cement employee termination costs	**$ –**	$ –	$ (5.4)
Asia Pacific Fibre Cement fixed asset impairment charge	**–**	–	(7.5)
Asia Pacific Fibre Cement lease cancellation charges	**–**	–	(2.6)
Other operating income (expenses):			
Settlement of terminated derivative contract	**1.0**	–	–
Decrease in fair value of derivative contracts	**–**	(8.1)	–
Corporate reorganisation expenses	**–**	(7.4)	–
Class action settlement and roofing warranties	**–**	(12.6)	–
Total restructuring and other operating income (expense)	**$ 1.0**	$ (28.1)	$ (15.5)

The following table displays the activity and balances of the restructuring accrual account, which is included in other liabilities (in millions of US dollars):

Type of Cost	1 April 2002 Balance	Additions	Deductions	**31 March 2003 Balance**
Employee terminations	$ 0.9	$ –	$ (0.1)	**$ 0.8**
Surplus lease space	2.1	0.2	(0.8)	**1.5**
Total	$ 3.0	$ 0.2	$ (0.9)	**$ 2.3**

Type of Cost	1 April 2001 Balance	Additions	Deductions	31 March 2002 Balance
Employee terminations	$ 4.7	$ 0.3	$ (4.1)	$ 0.9
Surplus lease space	4.4	0.3	(2.6)	2.1
Total	$ 9.1	$ 0.6	$ (6.7)	$ 3.0

Additions in 2003 reflect foreign currency movements and deductions reflect payments.

16. Income Taxes

The income tax (expense) benefit includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax basis of assets and liabilities. The income tax (expense) benefit for income from continuing operations consists of the following components:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Income from continuing operations before income tax (expense) benefit:			
Domestic[1]	**$ 38.6**	$ 10.1	$ 6.4
Foreign	**73.8**	21.8	23.3
Income from continuing operations before income tax (expense) benefit	**$ 112.4**	$ 31.9	$ 29.7
Income tax (expense) benefit:			
Current:			
Domestic[1]	**$ (7.0)**	$ (2.2)	$ (2.5)
Foreign	**6.4**	(2.6)	(10.5)
Current income tax expense	**(0.6)**	(4.8)	(13.0)
Deferred:			
Domestic[1]	**0.1**	0.2	–
Foreign	**(26.5)**	1.0	13.3
Deferred income tax (expense) benefit	**(26.4)**	1.2	13.3
Total income tax (expense) benefit for continuing operations	**$ (27.0)**	$ (3.6)	$ 0.3

Income tax (expense) benefit for discontinued operations consists of the following components:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Income tax (expense) benefit on discontinued operations:			
Current:			
Foreign	**$ (0.7)**	$ (1.3)	$ 3.6
Current income tax (expense) benefit on discontinued operations	**(0.7)**	(1.3)	3.6
Deferred:			
Foreign	**–**	0.9	(20.0)
Deferred income tax benefit (expense) benefit on discontinued operations	**–**	0.9	(20.0)
Income tax (expense) benefit on disposal of discontinued operations	**(45.3)**	1.3	0.6
Total income tax (expense) benefit for discontinued operations	**$ (46.0)**	$ 0.9	$ (15.8)

[1] Since JHI NV is the Dutch parent holding company, domestic represents The Netherlands.

The income tax (expense) benefit is reconciled to the tax at the statutory rates as follows:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Continuing operations			
Income tax expense computed at the statutory tax rates	**$ (38.1)**	$ (11.9)	$ (12.0)
US state income taxes, net of the federal benefit	**(1.2)**	0.9	2.5
Benefit from Dutch financial risk reserve regime	**11.9**	2.6	–
Expenses not deductible	**(4.7)**	(1.3)	(1.1)
Non-assessable items	**–**	9.3	12.4
Losses not available for carryforward	**(1.4)**	(3.9)	(1.9)
Taxes related to 2001 Reorganisation	**3.5**	(18.7)	–
Net operating losses brought back to account	**13.0**	18.7	–
Increase in reserves	**(10.0)**	–	–
Other items	**–**	0.7	0.4
Total income tax (expense) benefit	**$ (27.0)**	$ (3.6)	$ 0.3
Effective tax rate	**24.0%**	11.3%	(1.1)%
Discontinued operations			
Income tax (expense) benefit computed at the statutory tax rates	**$ (44.8)**	$ 0.8	$ (14.0)
US state income taxes, net of the federal benefit	**(8.0)**	–	(2.8)
Tax basis greater than book basis	**6.7**	–	–
Expenses not deductible	**–**	(0.1)	(0.2)
Non-taxable income	**–**	–	0.6
Other items	**0.1**	0.2	0.6
Total income tax (expense) benefit	**$ (46.0)**	$ 0.9	$ (15.8)

The income tax (expense) benefit computed at the statutory tax rates represents taxes on income applicable to all jurisdictions in which the Company conducts business, calculated as the statutory income tax rate in each jurisdiction multiplied by the pre-tax income attributable to that jurisdiction.

Prior years' Australian legislation reduced the country's income tax rate from 34% to 30% in the year ended 31 March 2002 and from 36% to 34% in the year ended 31 March 2001. Consequently, the Company adjusted its Australian deferred tax assets and liabilities using the appropriate tax rate for the period in which the related timing differences are expected to reverse.

Under newly enacted Australian legislation, the Company's Australian entities have elected to file their Australian income tax returns as a single consolidated group. The election allows the group to recognise value in certain deferred tax assets against which the Company had in prior years established a valuation allowance. Accordingly, the Company released US$13.0 million of valuation allowance during the year ended 31 March 2003.

Deferred tax balances consist of the following components:

(Millions of US dollars)	31 March 2003	2002
Deferred tax assets:		
Provisions and accruals	**$ 22.0**	$ 36.6
Net operating loss carryforwards	**35.6**	37.3
AMT credit carryforwards	**–**	7.0
Capital loss carryforwards	**6.0**	0.5
Foreign currency movements	**0.1**	0.6
Foreign tax credit carryforwards	**0.1**	1.4
Pension funding	**0.2**	–
Total deferred tax assets	**64.0**	83.4
Valuation allowance	**(20.7)**	(42.8)
Total deferred tax assets net of valuation allowance	**43.3**	40.6
Deferred tax liabilities:		
Property, plant and equipment	**(63.5)**	(32.1)
Prepaid pension cost	**–**	(2.7)
Prepayments	**(0.1)**	(0.4)
Other	**(0.7)**	–
Total deferred tax liabilities	**(64.3)**	(35.2)
Total deferred taxes, net	**$ (21.0)**	$ 5.4

Under SFAS No. 109, "Accounting for Income Taxes", the Company establishes a valuation allowance against a deferred tax asset if it is more likely than not that some portion or all of the deferred tax asset will not be realised. The Company has established a valuation allowance pertaining to a portion of its Australian net operating loss carryforwards and all of its Australian capital loss carryforwards.

The following are the changes in the valuation allowance:

(Millions of US dollars)	Years Ended 31 March 2003	2002	2001
Balance at beginning of period	**$ (42.8)**	$ (67.5)	$ (60.5)
Cumulative translation adjustment	**–**	7.8	(12.6)
Transfer of ABN 60	**16.8**	–	–
Net deferred tax assets brought back to account	**(4.0)**	–	–
Reduction (addition) to expense:			
Net operating losses brought back to account	**13.0**	8.8	3.1
Timing differences brought back to account	**–**	9.7	1.2
Tax rate change	**–**	(0.1)	4.9
Capital gains brought back to account	**–**	–	0.1
Reduction through sale of a business	**–**	3.3	–
Transfer from discontinued operations	**–**	–	(17.8)
Foreign currency movements	**(3.7)**	(4.8)	14.1
Balance at end of period	**$ (20.7)**	$ (42.8)	$ (67.5)

At 31 March 2003, the Company has foreign net operating loss carryforwards of approximately US$116.9 million that will never expire. The Company also has US state net operating loss carryforwards of approximately US$5.4 million with varying expiration dates.

At 31 March 2003, the undistributed earnings of non-Dutch subsidiaries approximated US$397.0 million. The Company intends to indefinitely reinvest these earnings, and accordingly, has not provided for taxes that would be payable upon remittance of those earnings. The amount of the potential deferred tax liability is impracticable to determine at this time.

The Company is currently undergoing several income tax audits. Although the results of these audits are not known at this time, the Company believes that the outcome of these audits will not have a material adverse impact on either its financial position, results of operations or cash flows.

17. Discontinued Operations

Gypsum

On 13 March 2002, the Company announced that it had signed an agreement to sell the Gypsum business to a third party. The transaction was completed on 25 April 2002. A pre-tax gain of US$81.4 million was recorded representing the excess of net proceeds from the sale of US$334.4 million over the net book value of assets sold of US$253.0 million. The sale resulted in income tax expense of US$26.1 million. The proceeds from the sale were comprised of cash of US$345.0 million less selling costs of US$10.6 million.

On 28 June 2001, the Company entered into an agreement to sell its gypsum mine property in Las Vegas, Nevada to a developer. The transaction was completed on 21 March 2003. A pre-tax gain of US$49.2 million represented the excess of net proceeds from the sale of US$48.4 million less the cost of assets sold of US$0.7 million and the assumption of US$1.5 million in liabilities by the buyer. The sale resulted in income tax expense of US$19.2 million. The proceeds from the sale were comprised of cash of US$50.6 million less selling costs of US$2.2 million.

Building Services

During the year ended 31 March 2003, the Company recorded a loss of US$1.3 million related to its Building Services business which was disposed of in November 1996. The loss consisted of expenses of US$0.8 million and a US$0.5 million write down of an outstanding receivable that was retained as part of the sale.

James Hardie & Coy Pty Ltd and Jsekarb Pty Ltd

On 16 February 2001, ABN 60 announced that it had established the Foundation to compensate individuals with claims against two former James Hardie subsidiaries and to fund medical research into asbestos-related diseases. ABN 60 gifted A$3.0 million (US$1.7 million) in cash and transferred ownership of Amaca Pty Ltd (formerly James Hardie & Coy Pty Ltd) ("JH & Coy") and Amaba Pty Ltd (formerly Jsekarb Pty Ltd) ("Jsekarb") to the Foundation, a special purpose charitable foundation established to fund medical and scientific research into asbestos-related diseases. JH & Coy and Jsekarb manufactured and marketed asbestos-related products prior to 1987, when all such activities ceased.

The Foundation is managed by independent trustees and operates entirely independently of James Hardie. James Hardie does not control the activities of the Foundation in any way and, effective from 16 February 2001, does not own or control the activities of JH & Coy or Jsekarb. In particular, the trustees are responsible for the effective management of claims against JH & Coy and Jsekarb, and for the investment of their assets. James Hardie has no economic interest in the Foundation, JH & Coy or Jsekarb; it has no right to dividends or capital distributions, nor will it benefit in the event that there is ultimately a surplus of funds in the Foundation, JH & Coy or Jsekarb following satisfaction of all asbestos-related liabilities. Equally, for the reasons set out here and in Note 14, the Company does not believe it will have any liability should future asbestos-related liabilities of JH & Coy and Jsekarb exceed the funds available to those entities or the Foundation.

As a result of the change in ownership of JH & Coy and Jsekarb on 16 February 2001, a gain on disposal of US$2.3 million has been recorded by James Hardie at 31 March 2001, representing the net liabilities of JH & Coy and Jsekarb which were disposed of for no consideration, the A$3.0 million (US$1.7 million) cash gift to the Foundation together with costs associated with the establishment and funding of the Foundation. ABN 60 had agreed to repay an existing loan of A$70.0 million (US$34.3 million) due to JH & Coy in four annual tranches of A$15.0 million (US$7.4 million) and a final tranche of A$10.0 million (US$4.9 million) with the first tranche payable on 15 August 2002. However, the loan was repaid in full by ABN 60 during fiscal year 2002.

As part of the establishment and funding of the Foundation, ABN 60 has entered into an agreement to pay to JH & Coy and Jsekarb 42 annual payments of A$5.6 million, totalling A$234.2 million (US$141.4 million). Under the agreement, ABN 60 had the option of making the first seven payments and then a final payment of A$73.0 million (US$44.1 million) when the eighth payment becomes due, making a total payment of A$112.0 million (US$67.6 million). In addition, in the event claims against the two former subsidiaries exceed certain amounts, the Foundation has the right to demand payment of any remaining unpaid balance, discounted for early payment. On 9 September 2001, ABN 60 made an early payment of A$1.0 million (US$0.5 million) to the Foundation. This payment was in addition to the annual required payment that is made each February. As a result, the required annual payments of A$5.6 million were reduced to A$5.5 million. On 31 March 2003, ABN 60 and consequently this agreement and related liability were transferred to the ABN 60 Foundation (see Note 14).

In 1998, the Company entered into lease agreements with JH & Coy whereby the Company leases, on a long-term basis, four fibre cement manufacturing facilities in Australia. Obligations under such leases amount to an aggregate of approximately US$2.7 million per year. All of the leases expire on 31 October 2008. The leases contain renewal options and provisions adjusting lease payments based on changes in various market factors as reflected in changes in the consumer price index.

ABN 60

On 31 March 2003, James Hardie transferred control of ABN 60 to a newly established company named ABN 60 Foundation Pty Ltd ("ABN 60 Foundation"). ABN 60 Foundation was established to be the sole shareholder of ABN 60 and to ensure ABN 60 meets its payment obligations to the Foundation. Following the establishment of the ABN 60 Foundation, JHI NV no longer owns any shares of ABN 60. ABN 60 Foundation is managed by independent directors and operates entirely independently of James Hardie. James Hardie does not control the activities of ABN 60 or ABN 60 Foundation in any way. James Hardie has no economic interest in ABN 60 or ABN 60 Foundation, has no right to dividend or capital distributions, nor will it benefit in the event that there is ultimately a surplus of funds in ABN 60 or ABN 60 Foundation. Equally, and subject to further note below, the Company does not believe it will have any liability should future liabilities of ABN 60 or ABN 60 Foundation exceed the funds available to those entities. As a result of the change in ownership of ABN 60 on 31 March 2003, a loss on disposal of US$0.4 million was recorded by James Hardie at 31 March 2003, representing the liabilities of ABN 60 (to the Foundation) of A$94.6 million (US$57.2 million), the A$94.5 million (US$57.1 million) in cash held on the balance sheet, and costs associated with the establishment and funding of ABN 60 Foundation.

JHI NV has agreed to indemnify ABN 60 Foundation for any non asbestos-related legal claims made on ABN 60. There is no maximum amount of the indemnity and the term of the indemnity is in perpetuity. James Hardie believes that the likelihood of any material non asbestos-related claims occurring is remote. As such, the Company has not recorded a liability for the indemnity. James Hardie has not pledged any assets as collateral for such indemnity.

JH & Coy, Jsekarb and ABN 60 have all agreed to indemnify JHI NV and its related corporate entities for past and future asbestos-related liabilities as part of the establishment of the respective foundations. Jsekarb and ABN 60's obligation to indemnify JHI NV and its related entities includes claims that may arise associated with the manufacturing activities of those companies.

Windows

On 15 August 2000, the Company approved a plan to dispose of its Windows business. For the year ended 31 March 2001, the Company recorded a loss on disposal of US$17.4 million, net of an income tax benefit of US$0.6 million. This loss on disposal consisted of US$17.2 million for a write down of assets to their expected net realisable value on disposal and transaction costs expected to be incurred on disposal. At 31 March 2001, operating losses from 15 August 2000 to the final disposal date were estimated at US$0.8 million and were included in fiscal year 2001's loss on disposal for the Windows segment.

On 30 November 2001, the Company sold its Windows business. The Company recorded a gain on disposal of discontinued operations of US$2.0 million representing the excess of cash proceeds of US$7.8 million over the net book value of the assets sold of US$5.8 million, a retirement plan settlement loss of US$1.3 million and an income tax benefit of US$1.3 million. The cash proceeds were offset by cash divested of US$0.5 million.

The following are the results of operations of discontinued businesses:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Windows			
Net sales	**$ –**	$ –	$ 24.0
Loss before income tax benefit	**–**	–	(0.9)
Income tax benefit	**–**	–	0.2
Net loss	**–**	–	(0.7)
James Hardie & Coy Pty Ltd and Jsekarb Pty Ltd			
Net sales	**–**	–	0.2
Income before income tax benefit	**–**	–	0.7
Income tax benefit	**–**	–	0.5
Net income	**–**	–	1.2
Gypsum			
Net sales	**18.7**	247.6	279.0
Income before income tax expense	**1.8**	0.9	40.6
Income tax expense	**(0.7)**	(0.4)	(17.1)
Net income	**1.1**	0.5	23.5
Total			
Net sales	**18.7**	247.6	303.2
Income before income tax expense	**1.8**	0.9	40.4
Income tax expense	**(0.7)**	(0.4)	(16.4)
Net income	**1.1**	0.5	24.0
Gain (loss) on disposal, net of income taxes	**84.0**	2.0	(15.1)
Income from discontinued operations	**$ 85.1**	$ 2.5	$ 8.9

18. Stock-Based Compensation

At 31 March 2003, the Company had the following stock-based compensation plans: Three Peter Donald Macdonald Share Option Plans; the Executive Share Purchase Plan; the 2001 Equity Incentive Plan; the KMEIP Option Plan; and two Shadow Stock Plans. Prior to fiscal year 2003, the Company elected to follow the accounting provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and to provide the pro forma disclosures required under SFAS No. 123.

In fiscal year 2003, the Company adopted the fair value provisions of SFAS No. 123, which requires the Company to value stock options issued based upon an option pricing model and recognise this value as compensation expense over the periods in which the options vest (see Note 2).

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. In the table below are the weighted average assumptions and weighted average fair values used for grants in 2003 and 2002:

	2003	2002
Dividend yield	**2.9%**	4.1%
Expected volatility	**27.0%**	22.3%
Risk free interest rate	**2.9%**	3.3%
Expected life in years	**4.6**	3.1
Weighted average fair value at grant date	**A$1.12**	A$0.77

Compensation expense arising from stock option grants as determined using the Black-Scholes model was US$1.9 million, US$1.6 million and US$0.1 million for the years ended 31 March 2003, 2002 and 2001, respectively. All prior periods presented have been restated to reflect the compensation costs that would have been recognised had the recognition provisions of SFAS No. 123 been applied to all options granted after 31 March 1995. As a result of this change in accounting method, a transition adjustment consisting of a US$1.1 million increase in retained earnings and a US$1.1 million decrease in additional paid-in capital has been reflected in the accompanying consolidated statements of shareholders' equity as of 1 April 2000, to reflect the effect on these accounts for periods from 1 April 1995 (the date of initial application of SFAS No. 123) through 31 March 2000.

Peter Donald Macdonald Share Option Plans

Peter Donald Macdonald Share Option Plan
On 17 November 1999, 1,200,000 options were granted by JHIL at fair market value to Mr Peter D Macdonald, Chief Executive Officer of JHIL at that time, under the Peter Donald Macdonald Share Option Plan. Each option conferred the right to subscribe for one ordinary share in the capital of JHIL at a price of A$3.87 payable by Mr Macdonald or his nominee at the time of exercise of the options. As part of the 2001 Reorganisation, JHIL terminated this option plan and JHI NV granted Mr Macdonald a replacement option plan to purchase 1,200,000 shares of JHI NV common stock at an exercise price of A$3.87 per share. As with the original JHIL option grant, this stock option plan vests and becomes exercisable in three equal installments of 400,000 shares after 17 November 2002, 2003 and 2004. The JHI NV plan contains the same terms as the JHIL plan. The exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions, as set out in the plan rules. Consequently, the exercise price was reduced by A$0.38 and A$0.10 for the November 2002 and December 2001 returns of capital, respectively.

Options which have not lapsed may be exercised on any date on or after there has been a change of control of JHI NV or Mr Macdonald's termination, resignation or death. Options not exercised will lapse on the first to occur of: (a) 10 years from the date of issue; or (b) expiration of six months after the date on which Mr Macdonald dies or six months after he ceases to be employed by JHI NV.

Peter Donald Macdonald Share Option Plan 2001
On 12 July 2001, 624,000 options were granted by JHIL at fair market value to Mr Peter D Macdonald, Chief Executive Officer of JHIL at that time, under the Peter Donald Macdonald Share Option Plan 2001. Each option conferred the right to subscribe for one ordinary share in the capital of JHIL at the price of A$5.45 per share payable by Mr Macdonald or his nominee at the time of exercise of the options. As part of the 2001 Reorganisation, JHIL terminated this option plan and JHI NV granted Mr Macdonald a replacement option plan to purchase 624,000 shares of JHI NV common stock at an exercise price of A$5.45 per share. The options may only be exercised if the Company meets certain performance hurdles. The first 468,000 options are exercisable after 12 July 2004 if JHI NV's total shareholder return ("TSR") is equal to or greater than the median TSR for the Company's peer group as set out in the plan. For every 1% that JHI NV's TSR is greater than the median peer group's TSR, an additional 6,240 options are exercisable, up to 156,000 options. As set out in the plan rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A$0.38 and A$0.10 for the November 2002 and December 2001 returns of capital, respectively.

Options which have not lapsed may be exercised on any date on or after there has been a change of control of JHI NV or Mr Macdonald's termination, resignation or death. Options not exercised will lapse on the first to occur of: (a) 10 years from the date of issue; or (b) expiration of six months after the date on which Mr Macdonald dies or six months after he ceases to be employed by JHI NV.

Peter Donald Macdonald Share Option Plan 2002
On 19 July 2002, 1,950,000 options were granted by JHI NV at fair market value to Mr Peter D Macdonald, Chief Executive Officer of JHI NV, under the Peter Donald Macdonald Share Option Plan 2002. Each option confers the right to subscribe for one ordinary share in the capital of JHI NV at the price of A$6.30 per share payable by Mr Macdonald or his nominee at the time of exercise of the options. The options may only be exercised if the Company meets certain performance hurdles. The first 1,462,500 options are exercisable after 19 July 2005 if JHI NV's TSR is equal to or greater than the median TSR for the Company's peer group as set out in the plan. For every 1% that JHI NV's TSR is greater than the median peer group's TSR, an additional 19,500 options are exercisable, up to 487,500 options. As set out in the plan rules, the exercise price and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A$0.38 for the November 2002 return of capital.

Options which have not lapsed may be exercised on any date on or after there has been a change of control of JHI NV or Mr Macdonald's termination, resignation or death. Options not exercised will lapse on the first to occur of: (a) 10 years from the date of issue; or (b) expiration of 18 months after the date on which Mr Macdonald dies or 18 months after he ceases to be employed by JHI NV.

2001 Equity Incentive Plan
On 3 December 2002 and 17 December 2001, 4,037,000 options at an exercise price of A$6.66 and 4,248,417 options at an exercise price of A$5.65, respectively, were granted by JHI NV at fair market value to management and other employees of the Company under the JHI NV 2001 Equity Incentive Plan. Each option confers the right to subscribe for one ordinary share in the capital of JHI NV. The options may be exercised as follows: 25% after the first year; 25% after the second year; and 50% after the third year. All unexercised options expire 10 years from the date of issue or 90 days after the employee ceases to be employed by the Company.

The Company is authorised to issue 45,077,100 shares under the 2001 Equity Incentive Plan. Also, as set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price on the 17 December 2001 option grant was reduced by A$0.38 for the November 2002 return of capital.

Executive Share Purchase Plan
Prior to July 1998, JHIL issued stock under an Executive Share Purchase Plan. Under the terms of the Plan, eligible executives had purchased JHIL shares at their market price when issued. Executives funded purchases of JHIL shares with non-recourse, interest-free loans provided by JHIL and collateralised by the shares. In such cases, the amount of indebtedness is reduced by any amounts payable by JHIL in respect of such shares, including dividends. These loans are generally payable within two years after termination of an executive's employment. As part of the 2001 Reorganisation, the identical terms of the agreement have been carried over to JHI NV. Variable plan accounting under the provisions of APB Opinion No. 25 has been applied to the Executive Share Purchase Plan shares granted prior to 1 April 1995 and fair value accounting, pursuant to the requirements of SFAS No. 123, has been applied to shares granted after 31 March 1995. Accordingly, the Company recorded variable compensation expense of US$0.2 million and US$0.1 million for the years ended 31 March 2002 and 2001, respectively. No shares were issued to executives during fiscal years 2003, 2002 and 2001.

KMEIP Option Plan
On 19 October 2001 (the grant date), JHI NV granted a total of 5,468,829 stock options to key US executives in exchange for their previously granted Key Management Equity Incentive Plan ("KMEIP") shadow shares that were originally granted in November 2000 and 1999 by JHIL. These options may be exercised in five equal tranches (20% each year) starting with the first anniversary of the original shadow share grant.

As set out in the plan rules, the exercise prices and the number of shares available on exercise may be adjusted on the occurrence of certain events, including new issues, share splits, rights issues and capital reconstructions. Consequently, the exercise price was reduced by A$0.38 and A$0.10 for the November 2002 and December 2001 returns of capital, respectively.

Original Shadow Share Grant Date	Original Exercise Price	October 2001 Number of Options Granted	Option Expiration Date
November 1999	A$3.82	1,968,544	November 2009
November 2000	A$3.78	3,500,285	November 2010

The following table shows the movement in the Company's outstanding options:

(In Australian dollars)	**2003**		2002		2001	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**10,969,562**	**A$4.54**	1,200,000	A$3.87	1,200,000	A$3.87
Granted	**5,987,000**	**6.42**	10,341,246	4.37	–	–
Exercised	**(2,059,879)**	**3.57**	(496,257)	3.75	–	–
Forfeited	**(1,486,659)**	**4.95**	(75,427)	5.65	–	–
Outstanding at end of year	**13,410,024**	**A$5.20**	10,969,562	A$4.54	1,200,000	A$3.87
Options exercisable at 31 March	**1,948,346**	**A$4.17**	1,122,022	A$3.70	–	A$ –

The following table summarises information about the Company's stock options outstanding at 31 March 2003:

(In Australian dollars)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 31 March 2003	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at 31 March 2003	Weighted Average Exercise Price
A$3.30	1,777,763	7.6	A$3.30	382,279	A$3.30
3.34	847,670	6.6	3.34	341,490	3.34
3.39	1,200,000	6.6	3.39	400,000	3.39
4.97	624,000	8.3	4.97	–	–
5.27	3,121,591	8.7	5.27	805,577	5.27
5.92	1,950,000	9.3	5.92	–	–
6.66	3,889,000	9.7	6.66	19,000	6.66
A$3.30 to A$6.66	13,410,024	8.6	A$5.20	1,948,346	A$4.17

Shadow Stock Plans

The US Shadow Stock Plan provides an incentive to certain key employees in the United States based on growth in the JHI NV share price over time as if such employees were the owners of that number of JHI NV's common stock as are equal to the number of shares of shadow stock issued to employees. The vesting period of these shadow stock plans is five years. The last grant date under the US Shadow Stock Plan was 17 December 2001. The total number of shadow stock shares outstanding under the plans at 31 March 2003, 2002 and 2001 were 687,300 shares, 1,727,000 shares and 7,754,000 shares, respectively.

In December 1998, a shadow stock plan for non-US based employees was instituted under similar terms to the US Shadow Stock Plan with a vesting period of three years. The last grant date under this plan was 15 August 2001.

The total number of shadow stock shares outstanding at 31 March 2003, 2002 and 2001 were 1,512,274 shares, 2,325,000 shares and 4,633,000 shares, respectively.

These plans have been accounted for as stock appreciation rights under SFAS No. 123 and, accordingly, compensation expense of US$1.9 million, US$5.1 million and US$0.8 million was recognised in fiscal years 2003, 2002 and 2001, respectively. The portion of this compensation expense (income) related to Gypsum employees was US$0.9 million and (US$0.2) million for the years ended 31 March 2002 and 2001, respectively.

19. Financial Instruments

Foreign Currency

As a multinational corporation, the Company maintains significant operations in foreign countries. As a result of these activities, the Company is exposed to changes in exchange rates which affect its results of operations and cash flows. At 31 March 2003 and 2002, the Company had not entered into contracts to hedge these exposures.

The Company purchases raw materials and fixed assets and sells some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, the Company may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 31 March 2003 and 2002, there were no such material contracts outstanding.

Derivatives

In August 2000, the Company entered into a contract with a third party to hedge the price of 5,000 metric tons per month of pulp, a major commodity used in the manufacture of fibre cement products. The original contract term was effective from 1 September 2000 to 31 August 2005, with settlement payments due each month. On 2 December 2001, the counter party filed for bankruptcy. This had the effect of terminating all outstanding swap transactions immediately prior to the bankruptcy filing. The estimated fair value at the date of termination of the pulp contract was a US$6.2 million liability and was recorded in other non-current liabilities at 31 March 2002. Also a current payable of US$0.6 million related to the contract was recorded at 31 March 2002. In November 2002, the Company settled its obligation under this contract for a cash payment of US$5.8 million. Accordingly, a gain on settlement of the contract in the amount of US$1.0 million has been recorded in other operating income during the year ended 31 March 2003.

Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash and cash equivalents, investments and trade accounts receivable.

The Company maintains cash and cash equivalents, investments and certain other financial instruments with various major financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and, where appropriate, places limits on the amount of credit exposure with any one institution.

For off-balance sheet financial instruments, including derivatives, credit risk also arises from the potential failure of counter parties to meet their obligations under the respective contracts at maturity. The Company controls risk through the use of credit ratings and reviews.

The Company is exposed to losses on forward exchange contracts in the event that counter parties fail to deliver the contracted amount. The credit exposure to the Company is calculated as the net fair value of all contracts outstanding with that counter party. At 31 March 2003 and 2002, total credit exposure arising from forward exchange contracts was zero.

Credit risk with respect to trade accounts receivable is concentrated due to the concentration of the distribution channels for the Company's fibre cement products. Credit is extended based on an evaluation of each customer's financial condition and, generally, collateral is not required. The Company has historically not incurred significant credit losses.

Interest Rates

At 31 March 2003, the Company had US$8.8 million outstanding under its short-term line of credit, which is subject to variable interest rates. No interest rate hedging contracts in respect to that debt have been entered into.

Fair Values

The carrying values of cash and cash equivalents, marketable securities, accounts receivable, short-term borrowings and accounts payable and accrued liabilities are a reasonable estimate of their fair value due to the short-term nature of these instruments. The following table summarises the estimated fair value of the Company's long-term debt:

	31 March			
(Millions of US dollars)	**2003**		2002	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt:				
Floating	**$ –**	**$ –**	$ 100.0	$ 100.0
Fixed	**165.0**	**200.7**	225.0	227.5
Total	**$ 165.0**	**$ 200.7**	$ 325.0	$ 327.5

Fair values of long-term debt were determined by reference to the 31 March 2003 and 2002 market values for comparably rated debt instruments.

20. Operating Segment Information and Concentrations of Risk

The Company has reported its operating segment information in the format that the operating segment information is available to and evaluated by the Board of Directors. USA Fibre Cement manufactures and sells fibre cement flat sheet products in the United States. Asia Pacific Fibre Cement manufactures and sells fibre cement products in Australia, New Zealand and the Philippines. Research and Development is the research and development centre in Sydney, Australia. Other includes the manufacture and sale of fibre cement products in Chile, the manufacture and sale of fibre cement reinforced pipes in the United States and fibre cement operations in Europe. The Company's reportable operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

Operating Segments

The following are the Company's operating segments and geographical information:

	Net Sales to Customers (1) Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
USA Fibre Cement	**$ 599.7**	$ 444.8	$ 373.0
Asia Pacific Fibre Cement	**194.4**	156.9	166.6
Other Fibre Cement	**9.6**	4.2	–
Segments total	**803.7**	605.9	539.6
General Corporate	**–**	1.0	1.3
Worldwide total from continuing operations	**$ 803.7**	$ 606.9	$ 540.9

	Income from Continuing Operations Before Income Taxes Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
USA Fibre Cement (2) (3)	**$ 155.1**	$ 85.8	$ 73.5
Asia Pacific Fibre Cement (2) (4)	**30.1**	22.4	4.4
Research and Development (2)	**(13.0)**	(10.0)	(6.5)
Other Fibre Cement	**(10.7)**	(8.9)	(3.7)
Eliminate intercompany transactions (5)	**–**	–	1.7
Segments total	**161.5**	89.3	69.4
General Corporate (6)	**(29.9)**	(41.0)	(28.1)
Total operating profit	**131.6**	48.3	41.3
Net interest expense (7)	**(19.9)**	(16.0)	(13.2)
Other income (expense), net	**0.7**	(0.4)	1.6
Worldwide total from continuing operations	**$ 112.4**	$ 31.9	$ 29.7

	Total Identifiable Assets 31 March	
(Millions of US dollars)	**2003**	2002
USA Fibre Cement	**$ 492.2**	$ 420.3
Asia Pacific Fibre Cement	**154.6**	147.6
Other Fibre Cement	**48.2**	45.5
Segments total	**695.0**	613.4
General Corporate (8)	**132.6**	84.6
Discontinued operations	**–**	269.8
Worldwide total	**$ 827.6**	$ 967.8

	Additions to Property, Plant and Equipment (9) Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
USA Fibre Cement	**$ 81.0**	$ 39.3	$ 75.4
Asia Pacific Fibre Cement	**6.6**	8.1	7.9
Other Fibre Cement	**2.5**	3.3	32.3
Segments total	**90.1**	50.7	115.6
General Corporate	**0.1**	0.1	–
Discontinued operations	**–**	1.6	6.7
Worldwide total	**$ 90.2**	$ 52.4	$ 122.3

(Millions of US dollars)		Depreciation and Amortisation Years Ended 31 March 2003		2002		2001
USA Fibre Cement	**$**	**18.2**	$	14.5	$	11.3
Asia Pacific Fibre Cement		**8.9**		8.8		9.1
Other Fibre Cement		**0.3**		0.2		–
Segments total		**27.4**		23.5		20.4
General Corporate		**0.2**		0.2		0.4
Discontinued operations		**1.1**		16.2		16.9
Worldwide total	**$**	**28.7**	$	39.9	$	37.7

Geographic Areas

(Millions of US dollars)		Net Sales to Customers (1) Years Ended 31 March 2003		2002		2001
USA	**$**	**605.0**	$	447.3	$	373.0
Australia		**124.7**		100.7		111.0
New Zealand		**51.7**		38.0		38.0
Other Countries		**22.3**		19.9		17.6
Segments total		**803.7**		605.9		539.6
General Corporate		**–**		1.0		1.3
Worldwide total from continuing operations	**$**	**803.7**	$	606.9	$	540.9

(Millions of US dollars)		Total Identifiable Assets 31 March 2003		2002
USA	**$**	**528.3**	$	456.0
Australia		**87.7**		80.6
New Zealand		**27.3**		24.7
Other Countries		**51.7**		52.1
Segments total		**695.0**		613.4
General Corporate (8)		**132.6**		84.6
Discontinued operations		**–**		269.8
Worldwide total	**$**	**827.6**	$	967.8

(1) Export sales and inter-segmental sales are not significant.

(2) Research and development costs of US$5.3 million, US$4.0 million and US$6.3 million in 2003, 2002 and 2001, respectively, were expensed in the USA Fibre Cement operating segment. Research and development costs of US$2.4 million, US$2.0 million and US$2.2 million in 2003, 2002 and 2001, respectively, were expensed in the Asia Pacific Fibre Cement segment. Research and development costs of US$10.4 million, US$8.1 million and US$5.3 million in 2003, 2002 and 2001, respectively, were expensed in the Research and Development segment. Research and development costs of US$0.7 million in 2001 were expensed in the General Corporate segment.

Research and development expenditures are expensed as incurred and in total amounted to US$18.1 million, US$14.1 million and US$14.5 million for the years ended 31 March 2003, 2002 and 2001, respectively.

(3) In 2002, the operating profit of USA Fibre Cement was reduced by a US$12.6 million charge for the settlement of all product, warranty and property related liability claims associated with roofing products which were previously manufactured and sold by the Company (see Note 15).

(4) The operating profit of Asia Pacific Fibre Cement was reduced by restructuring and other expenses of US$15.5 million for the year ended 31 March 2001 (see Note 15).

(5) Relates to property rent paid by the Asia Pacific Fibre Cement segment to former subsidiaries of the Company which are now controlled by the Foundation.

(6) The principal components of General Corporate are officer and employee compensation and related benefits, professional and legal fees, administrative costs and rental expense, net of rental income, on the Company's corporate offices.

Pension cost (income) related to the Australian and New Zealand defined benefit plan for the Asia Pacific Fibre Cement segment totalling US$2.3 million, US$0.9 million and (US$0.2) million in fiscal years 2003, 2002 and 2001, respectively, has been included in the General Corporate segment.

(7) The Company does not report net interest expense for each reportable segment as reportable segments are not held directly accountable for interest expense.

(8) The Company does not report deferred tax assets and liabilities for each reportable segment as reportable segments are not held directly accountable for deferred taxes. All deferred taxes are included in General Corporate.

(9) Additions to property, plant and equipment are calculated on an accrual basis, and therefore differ from property, plant and equipment in the consolidated statement of cash flows. In fiscal year 2001, US$31.1 million of property, plant and equipment additions reported in the Other Fibre Cement segment were related to fibre cement reinforced pipes in the United States.

Concentrations of Risk

The distribution channels for the Company's fibre cement products are concentrated. If the Company were to lose one or more of its major distributors, there can be no assurance that the Company will be able to find a replacement. Therefore, the loss of one or more distributors could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has two major distributors that individually account for over 10% of the Company's sales.

These two distributors represented 34% and 40% of the Company's trade accounts receivable at 31 March 2003 and 2002, respectively. The following are net sales generated by these two distributors which are from the USA Fibre Cement segment:

	Years Ended 31 March		
(Millions of US dollars)	**2003**	2002	2001
Distributor A	**$ 125.1**	$ 124.9	$ 94.8
Distributor B	**211.4**	168.8	155.3
Total	**$ 336.5**	$ 293.7	$ 250.1

Approximately 25% of the Company's 2003 revenues from continuing operations were derived from sales outside the United States. Consequently, changes in the value of foreign currencies could significantly affect the consolidated financial position, results of operations and cash flows of the Company's non-USA operations on translation into US dollars.

21. Other Comprehensive Loss

The following are the components of total accumulated other comprehensive income (loss), net of related tax, which is displayed in the consolidated balance sheet:

	31 March	
(Millions of US dollars)	**2003**	2002
Net unrealised gain on available-for-sale securities	**$ 0.1**	$ 0.1
Unrealised transition loss on derivative instruments classified as cash flow hedges	**(4.9)**	(4.9)
Accumulated amortisation of unrealised transition loss on derivative instruments	**2.2**	1.1
Minimum pension liability adjustment	**(7.7)**	–
Foreign currency translation adjustments	**(36.0)**	(57.9)
Total accumulated other comprehensive loss	**$ (46.3)**	$ (61.6)

22. Purchases of Assets of a Business

On 12 December 2001, the Company acquired the net assets of Cemplank, Inc., primarily fibre cement equipment, for US$40.8 million in cash. The acquisition was accounted for under the purchase method of accounting and, accordingly, the consolidated statements of income include the results of operations arising from these net assets beginning 12 December 2001. The pro forma effect on the results of operations for fiscal years 2002 and 2001 is not material to the Company's consolidated financial statements.

23. Shareholders' Equity

In the third quarter of fiscal year 2003, the Company converted its common stock par value from Euro 0.50 to Euro 0.85. This resulted in an increase in common stock and a decrease in additional paid-in capital of US$157.9 million. Simultaneously, the Company returned capital to shareholders in the amount of US$94.8 million. Effectively, the return of capital decreased the par value of common stock to Euro 0.64.

In fiscal year 2002, the Company completed the 2001 Reorganisation whereby the Company issued common shares represented by CUFS on a one for one basis to existing JHIL shareholders in exchange for their shares in JHIL. Also in fiscal year 2002, the Company returned capital to shareholders in the amount of US$22.5 million.

24. Remuneration of Directors

Income paid or payable, or otherwise made available by the Company and related parties to Directors of the Company in connection with the management of affairs of the Company totalled US$10.6 million and US$8.8 million for the years ended 31 March 2003 and 2002, respectively.

Remuneration for non-executive Directors comprises fees for attendance at meetings of the Board of Directors and its sub-committees. Remuneration for the executive Director is determined on the same basis as for other executives as described in Note 25 below.

25. Remuneration of Executives

Remuneration received or receivable from the Company by all executives (including Directors) whose remuneration was at least US$100,000 was US$10.4 million and US$8.1 million for the years ended 31 March 2003 and 2002, respectively. Remuneration for each executive includes salary, incentives, superannuation, stock options, retirement and termination payments, motor vehicles, fringe benefits, tax and other benefits.

The number of such executives within the specified bands are as follows:

(US dollars)	31 March	
Range starting at:	**2003**	2002
$ 130,000	**–**	1
$ 180,000	**–**	1
$ 270,000	**1**	–
$ 290,000	**–**	1
$ 330,000	**2**	–
$ 340,000	**1**	–
$ 350,000	**–**	1
$ 370,000	**1**	–
$ 460,000	**1**	–
$ 470,000	**–**	1
$ 480,000	**1**	–
$ 490,000	**–**	1
$ 620,000	**–**	1
$ 710,000	**1**	–
$ 750,000	**–**	1
$ 770,000	**1**	–
$ 930,000	**1**	–
$ 1,140,000	**–**	1
$ 1,160,000	**–**	1
$ 1,250,000	**–**	1
$ 1,270,000	**1**	–
$ 1,390,000	**1**	–
$ 2,120,000	**–**	1
$ 2,670,000	**1**	–
	13	12

An executive is defined as the Chief Executive Officer, members of the Group Management Team, General Managers of Business Units and the Company Secretaries of JHI NV.

Remuneration is determined on the basis of the cost of the remuneration to the Company, but excludes insurance premiums paid by the Company in respect of directors' and officers' liability insurance contracts as set out in the Directors' Report that starts on page 46.

Options and shares issued to executives under the Executive Share Purchase Plan are valued using the Black-Scholes model and the fair value of options granted is included in remuneration.

26. Remuneration of Auditors

Remuneration to PricewaterhouseCoopers for services provided for 2003 and 2002 was as follows:

Audit Fees
The aggregate fees for professional services rendered by PricewaterhouseCoopers during the years ended 31 March 2003 and 2002 were US$1.1 million and US$0.8 million, respectively. Professional services include the audit of the Company's annual financial statements and services that are normally provided in connection with statutory and regulatory filings.

Audit Related Fees
The aggregate fees billed for assurance and related services rendered by PricewaterhouseCoopers during the years ended 31 March 2003 and 2002 were US$0.6 million and US$2.5 million, respectively. Included in the 31 March 2002 audit related fees is a US$2.3 million charge for professional services performed in relation to the 2001 Reorganisation. All other audit related fees are for accounting consultations and audits in connection with disposals of businesses and employee benefit plan audits.

Tax Fees
The aggregate fees billed for tax compliance, tax advice and tax planning services rendered by PricewaterhouseCoopers during the years ended 31 March 2003 and 2002 were US$3.4 million and US$1.0 million, respectively.

All Other Fees
In addition to the fees described above, the Company incurred minor fees from PricewaterhouseCoopers related to the purchase and use of software.

27. Related Party Transactions

Directors

The names of persons who were Directors of JHI NV at any time during the financial year are set out in the Directors' Report that starts on page 46.

Remuneration and Retirement Benefits

Information on remuneration of Directors and Directors' retirement benefits is disclosed in the Directors' Report.

JHI NV Directors' Securities Transactions

The Company's Directors and their director-related entities held an aggregate of 8,951,955 ordinary shares and 8,824,755 ordinary shares at 31 March 2003 and 2002, respectively, and 3,774,000 options and 1,824,000 options at 31 March 2003 and 2002, respectively.

Supervisory Board members on 27 August 2002 participated in an allotment of shares at A$6.71 per share under the terms of the Supervisory Board Share Plan which was approved by JHI NV shareholders on 19 July 2002. Directors AG McGregor, MR Brown, MJ Gillfillan and JRH Loudon were allotted 1,641 shares each, M Hellicar was allotted 2,948 shares and GJ Clark was allotted 6,688 shares.

Managing Board Director PD Macdonald purchased on market a total of 180,000 JHI NV shares on 9 and 10 September 2002.

The capital return paid by JHI NV on 1 November 2002 and JHI NV dividends paid 1 November 2002 and 30 January 2003 to Directors and their related entities were on the same terms and conditions that applied to other holders.

On 19 July 2002, JHI NV shareholders approved the Peter Donald Macdonald 2002 Share Option Plan. PD Macdonald was granted 1,950,000 JHI NV options on 19 July 2002. Full details are set out in Note 18.

MM Koffel, who ceased to be a JHI NV Director on 19 July 2002, is Chairman and Chief Executive of URS Corporation, from which James Hardie purchases engineering services. All transactions were negotiated in accordance with usual commercial terms and conditions. It is not considered that this director had significant influence over these transactions.

Existing Loans to the Company's Directors and Directors of James Hardie Subsidiaries

At 31 March 2003 and 2002, loans receivable totalling US$197,130 and US$414,430 were outstanding from Directors of JHI NV and its subsidiaries under the terms and conditions of the Executive Share Purchase Plan (the "Plan"). Loans under the Plan are interest free and repayable from dividend income earned by or capital returns from securities acquired under the Plan. The loans are collateralised by CUFS under the Plan. No new loans to Directors or executive officers of JHI NV, under the plan or otherwise, and no modifications to existing loans, have been made since December 1997.

During fiscal years 2003 and 2002, repayments totalling US$95,239 and US$166,161, respectively, were received in respect of the Plan from DE Cameron, AT Kneeshaw, PD Macdonald, RH Markham, JL Moller, PG Morley, DAJ Salter and GA Stanmore. During fiscal year 2003 a Director of JHI NV subsidiaries was appointed with a loan of US$28,541. During fiscal years 2003 and 2002, Directors resigned with loans outstanding totalling US$201,840 and US$521,777, respectively, at the date of their resignation. These amounts are repayable within two years under the terms of the Plan.

Payments Made to Directors and Director Related Entities of the Company's Subsidiaries During the Year

Payments of US$11,350 and US$3,305 for the years ended 31 March 2003 and 2002, respectively, were made to Grech, Vella, Tortell & Hyzler Advocates. Dr JJ Vella was a director of a number of the Company's subsidiaries. The payments were in respect of professional services and were negotiated in accordance with usual commercial terms and conditions.

Payments of US$164,056 and US$78,184 for the years ended 31 March 2003 and 2002, respectively, were made to Pether and Associates Pty Ltd, technical contractors. JF Pether is a director of a subsidiary of the Company and a director of Pether and Associates Pty Ltd. The payments were in respect of technical services and were negotiated in accordance with usual commercial terms and conditions.

The information furnished in the selected quarterly financial data for the years ended 31 March 2003 and 2002 is unaudited but includes all adjustments which, in the opinion of management, are necessary for a fair statement of the financial results of the respective interim periods. Such adjustments are of a normal recurring nature. Interim financial statements are by necessity somewhat tentative; judgments are used to estimate interim amounts for items that are normally determinable only on an annual basis.

	Year Ended 31 March 2003 By Quarter				Year Ended 31 March 2002 By Quarter			
(Millions of US dollars)	**First**	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Net sales	**$ 200.2**	**$ 207.6**	**$ 197.4**	**$ 198.5**	$ 148.6	$ 155.5	$ 144.8	$ 158.0
Cost of goods sold	**(129.1)**	**(131.2)**	**(122.9)**	**(118.7)**	(102.8)	(99.7)	(95.6)	(103.5)
Gross profit	**71.1**	**76.4**	**74.5**	**79.8**	45.8	55.8	49.2	54.5
Operating profit (loss)	**35.9**	**36.4**	**30.9**	**28.4**	11.3	17.8	(2.9)	22.1
Interest expense	**(4.0)**	**(3.8)**	**(13.5)**	**(2.5)**	(5.9)	(4.9)	(4.1)	(3.5)
Interest income	**1.1**	**1.3**	**1.1**	**0.4**	0.6	0.8	0.8	0.2
Other income (expense), net	**0.3**	**(0.2)**	**–**	**0.6**	(1.2)	0.5	–	0.3
Income (loss) from continuing operations before income taxes	**33.3**	**33.7**	**18.5**	**26.9**	4.8	14.2	(6.2)	19.1
Income tax (expense) benefit	**(10.3)**	**(10.2)**	**(3.0)**	**(3.5)**	(1.2)	(3.7)	5.8	(4.5)
Income (loss) from continuing operations	**23.0**	**23.5**	**15.5**	**23.4**	3.6	10.5	(0.4)	14.6
Discontinued operations:								
Income (loss) from discontinued operations	**1.1**	**–**	**–**	**–**	(4.8)	0.2	2.9	2.2
Gain (loss) on disposal of discontinued operations	**51.8**	**1.1**	**–**	**31.1**	0.3	(0.3)	2.1	(0.1)
Income (loss) from discontinued operations	**52.9**	**1.1**	**–**	**31.1**	(4.5)	(0.1)	5.0	2.1
Net income (loss)	**$ 75.9**	**$ 24.6**	**$ 15.5**	**$ 54.5**	$ (0.9)	$ 10.4	$ 4.6	$ 16.7

Group Statistics *(not forming part of the Consolidated Financial Statements)*

(Millions of US dollars)	**2003**	2002	2001	2000	1999
Profit and Loss Account					
Net Sales					
USA Fibre Cement	**$ 599.7**	$ 444.8	$ 373.0	$ 310.5	$ 245.6
Asia Pacific Fibre Cement	**194.4**	156.9	166.6	203.3	181.4
Other Fibre Cement	**9.6**	4.2	–	–	–
Segment total	**803.7**	605.9	539.6	513.8	427.0
General Corporate	**–**	1.0	1.3	2.0	2.2
Worldwide total	**$ 803.7**	$ 606.9	$ 540.9	$ 515.8	$ 429.2
Operating Profit					
USA Fibre Cement	**$ 155.1**	$ 85.8	$ 73.5	$ 72.3	$ 48.9
Asia Pacific Fibre Cement	**30.1**	22.4	4.4	19.8	16.7
Research and Development	**(13.0)**	(10.0)	(6.5)	(11.3)	(10.6)
Other Fibre Cement	**(10.7)**	(8.9)	(3.7)	–	–
Eliminate intercompany transactions	**–**	–	1.7	2.3	–
Segments total	**161.5**	89.3	69.4	83.1	55.0
General Corporate	**(29.9)**	(41.0)	(28.1)	(22.6)	(37.0)
Total operating profit	**131.6**	48.3	41.3	60.5	18.0
Net interest expense	**(19.9)**	(16.0)	(13.2)	(20.5)	(15.5)
Other income (expense), net	**0.7**	(0.4)	1.6	(1.6)	5.4
Income from continuing operations before income taxes	**112.4**	31.9	29.7	38.4	7.9
Income tax (expense) benefit	**(27.0)**	(3.6)	0.3	(13.5)	(3.1)
Income from continuing operations	**$ 85.4**	$ 28.3	$ 30.0	$ 24.9	$ 4.8
Dividends paid	**$ 34.3**	$ 20.3	$ 43.0	$ 42.0	$ 38.0
Balance Sheet					
Net current assets	**$ 135.2**	$ 115.1	$ 84.9	$ 180.3	$ 95.1
Total assets	**827.6**	967.8	969.0	1,018.6	951.2
Long-term debt	**165.0**	325.0	357.3	346.5	366.4
Shareholders' equity	**$ 434.7**	$ 370.7	$ 281.1	$ 244.7	$ 161.8
Other Statistics					
Number of employees:					
USA Fibre Cement	**1,500**	1,177	1,140	858	826
Asia Pacific Fibre Cement	**996**	1,041	1,179	1,302	1,511
Research and Development	**107**	51	58	67	99
Other Fibre Cement	**283**	109	87	–	–
Corporate	**34**	34	57	80	97
Total from continuing operations	**2,920**	2,412	2,521	2,307	2,533
Number of shareholders	**21,688**	22,259	21,484	19,302	19,279
Weighted average number of common shares outstanding:					
Basic	**456.7**	438.4	409.6	407.0	407.0
Diluted	**459.4**	440.4	409.6	407.0	407.0
Capital expenditures[1]	**90.2**	50.8	115.6	45.4	63.3
Depreciation and amortisation[2]	**27.6**	23.7	20.8	21.3	16.6
Dividends paid per share[3]	**7.5¢**	4.6¢	10.4¢	10.3¢	9.3¢
Return of capital per share[4]	**20.0¢**	5.0¢	–	–	–
Basic earnings per share - continuing operations[5]	**18.7¢**	6.4¢	7.3¢	6.1¢	1.2¢
Diluted earnings per share - continuing operations[6]	**18.6¢**	6.4¢	7.3¢	6.1¢	1.2¢
Gearing ratio[7]	**21.4%**	44.7%	56.1%	48.8%	67.8%

Notes:

1 Capital investment on property, plant and equipment includes both cash and credit purchases, and is for continuing operations.
2 Information for depreciation and amortisation is for continuing operations only.
3 Dividends paid divided by the weighted average number of ordinary and employee shares on issue during the year.
4 On 1 November 2002, the Company paid a capital return of US$0.20 per share to shareholders for a total of US$94.8 million. On 20 December 2001, the Company paid a capital return of US$0.05 per share to shareholders for a total of US$22.5 million.
5 Net income divided by the weighted average number of ordinary and employee shares on issue during the year.
6 Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued.
7 Borrowings less cash (net debt) divided by net debt plus total shareholders' equity.