

# Directors' Report *Year Ended 31 March 2004*

Your Directors present their report on the consolidated entity consisting of James Hardie Industries NV (JHI NV) and the entities it controlled at the end of, or during, the year ended 31 March 2004 (collectively referred to as James Hardie).

## Directors

At the date of this report the members of the Supervisory Board are: Mr AG McGregor (Chairman), Ms M Hellicar, Messrs MR Brown, MJ Gillfillan, JRH Loudon, GJ Clark, PS Cameron, DG McGauchie and JD Barr and Management Board members are: Messrs PD Macdonald and FH Zwinkels. The Joint Board consists of all of the members of the Supervisory Board plus PD Macdonald.

JHI NV Board changes between 1 April 2003 to the date of this report were: Messrs PS Cameron and DG McGauchie

were appointed to the Supervisory and Joint Boards by shareholders on 15 August 2003, Mr FH Zwinkels was appointed to the Managing Board by shareholders on 15 August 2003 and Mr JD Barr joined the Supervisory and Joint Board on 18 September 2003.

Directors' qualifications, experience, special responsibilities and period in office are set out in the Directors' profiles on pages 32 – 33.

## Company Secretary

Mr W (Pim) Vlot.

## Corporate Governance

Details of JHI NV's corporate governance and Board Committees are set out on pages 60 – 67.

## Directors' attendance at JHI NV Board and Board committee meetings during the fiscal year 2004:

Member	Boards of Directors				Committee				Nominating and Governance	
	Joint Board		Supervisory Board		Audit		Remuneration		Nominating and Governance	
	H	A	H	A	H	A	H	A	H	A
AG McGregor	6	6	2	2	6	6	3	3	3	3
M Hellicar	6	6	2	2	–	–	3	3	2	2
MR Brown	6	6	2	2	6	6	–	–	–	–
MJ Gillfillan	6	5	2	2	6	6	–	–	2	2
JRH Loudon	6	6	2	2	6	5	–	–	–	–
GJ Clark	6	5	2	2	–	–	–	–	2	2
PS Cameron	4	4	1	1	–	–	–	–	3	3
DG McGauchie	4	4	1	1	–	–	–	–	2	2
JD Barr	3	3	1	1	–	–	2	2	–	–
PD Macdonald	6	6	–	–	–	–	–	–	–	–
<b>Management Board</b>										
PD Macdonald	4	4	–	–	–	–	–	–	–	–
FH Zwinkels	3	3	–	–	–	–	–	–	–	–

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

A = Number of meetings attended during the time the Director held office or was a member of the Committee during the fiscal year. Non-Committee members also attend Committee meetings from time to time – such attendances are not shown.

## Directors' relevant interests in JHI NV securities:

### Supervisory Board

Members	Shares/CUFS <sup>1</sup>	Members	Shares/CUFS <sup>1</sup>
AG McGregor <sup>2</sup>	8,614,895	GJ Clark	12,290
M Hellicar	7,934	PS Cameron	11,602
MR Brown	12,901	DJ McGauchie <sup>3</sup>	4,743
MJ Gillfillan	52,901	JD Barr	21,000
JRH Loudon	3,480		

### Managing Board

Members	Shares/CUFS	Options
PD Macdonald <sup>4</sup>	428,980	3,774,000
FH Zwinkels <sup>5</sup>	–	8,775

<sup>1</sup> Supervisory Board Share Plan (SBSB) allotment of 1,260 shares to AG McGregor, 2,225 shares to M Hellicar, 1,260 shares to MR Brown, 1,260 shares to MJ Gillfillan, 1,839 shares to JHR Loudon, 5,620 shares to GJ Clark, 5,602 shares to PS Cameron and 1,743 shares to DJ McGauchie was made on 22 August 2003 at A\$7.52 per JHI NV share/CUFS under the terms of the SBSB approved by JHI NV shareholders at the 2002 Annual General Meeting. Each participant's 22 August 2003 mandatory participation of 1,260 JHI NV shares/CUFS is subject to voluntary escrow period ending on 22 August 2005. In addition, AG McGregor, M Hellicar, MR Brown, MJ Gillfillan, JRH Loudon and GJ Clark each hold 1,641 shares/CUFS subject to a voluntary escrow period ending 27 August 2004.

<sup>2</sup> Madingley Nominees Pty Limited holds as custodian 5,121,200 shares/CUFS owned by Andrew Thyne Reid Charitable Trust of which Mr McGregor is one of the Trustees. Its voting power is qualified to the extent that it must act in accordance with the terms of the Trust. Mr McGregor has no beneficial interest or entitlement in these shares/CUFS. An additional 3,220,268 shares/CUFS are held by Raasay Pty Limited and 270,526 shares/CUFS are held by Gonville Pty Limited for discretionary family trusts. In some cases, Mr McGregor is included amongst possible beneficiaries and is a director of the trustee company.

<sup>3</sup> Mr McGauchie holds 3,000 shares/CUFS as Trustee of a superannuation fund.

<sup>4</sup> Mr Macdonald purchased on market 164,000 CUFS at an average price of A\$7.2383 in November 2003 and 3,600 CUFS beneficially and 380 CUFS non-beneficially in March 2004 at an average price of A\$6.80.

<sup>5</sup> In December 2003, Mr Zwinkels exercised 2,925 options at A\$6.45 per option and sold 2,925 shares/CUFS at A\$7.05 per share.

### Options

Details of JHI NV options granted and options exercised during the reporting period are set out in Note 18 to the Consolidated Financial Statements.

### Insurance and indemnification of Directors and officers

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

Under the JHI NV Articles of Association, every Director, officer, employee and agent of JHI NV and every person who, at the request of JHI NV, serves as a Director, officer or agent of another entity (in each case, an "Indemnified Person"), is indemnified out of property of JHI NV against:

- liabilities reasonably incurred by the Indemnified Person in connection with any action to which the Indemnified Person is a party by reason of being an Indemnified Person (other than an action brought by or in the name of JHI NV), provided that the Indemnified Person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of JHI NV and, with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful;

- expenses reasonably incurred by the Indemnified Person in connection with successfully defending any action described in a) above; and
- expenses reasonably incurred by the Indemnified Person in connection with successfully defending any action brought by or in the name of JHI NV to which the Indemnified Person is a party by reason of being an Indemnified Person, provided that the Indemnified Person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of JHI NV, and provided that there was no gross negligence or willful misconduct on the part of the Indemnified Person in the performance of his duty to JHI NV (unless a Court having jurisdiction determines otherwise).

During the year several Australian Directors of JHI NV have received revised deeds of indemnification in accordance with the Articles and Dutch law.

### Principal activities

Principal activities of James Hardie during the financial year were the manufacture and marketing of fibre cement products in: the USA, Australia, New Zealand, Philippines and Chile. James Hardie also sells fibre cement products in Asia, the United Kingdom and Northern Europe.

### **Review and results of operations**

A review of James Hardie's operations during the fiscal year and of the results of those operations is contained in the Performance Highlights on pages 3 – 7 and in Management's Discussion and Analysis (MD&A) on pages 46 – 54.

### **Other disclosures**

Readers are referred to the company's form 20-F document which is filed with the US Securities and Exchange Commission (SEC) prior to September 30 annually, and which contains additional disclosures prescribed by SEC rules. The form 20-F filing can be accessed through the Investor Relations area of the company's website at [www.jameshardie.com](http://www.jameshardie.com)

### **Significant changes in state of affairs**

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

### **Post financial year events**

Since the end of the financial year James Hardie:

- Continues to be the subject of an inquiry, established by the State Government of New South Wales, Australia, into how the Medical Research and Compensation Foundation was set up in February 2001 and funded to meet asbestos compensation claims in relation to two former James Hardie group companies, Amaca Pty Ltd and Amaba Pty Ltd. (Further details are provided in Note 14 to the Consolidated Financial Statements).
- Established a captive insurance company in Guernsey to facilitate management of excess provisions and gaps under James Hardie major insurance cover underwritten by external insurance providers.

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in this Annual Report that has significantly affected, or may significantly affect, the operations of James Hardie, other than as contained in the Chief Executive Officer's Report on pages 10 – 11.

### **Financial position, outlook and future needs**

The financial position, outlook and future needs of James Hardie are set out in the Chief Executive Officer's Report on pages 10 – 11 and in the Chief Financial Officer's Report on pages 12 – 13. In the Board's opinion, any further disclosure of information could prejudice James Hardie's interests.

### **Research and Development**

Information on James Hardie's Research and Development activities is contained in the Chief Executive Officer's Report on pages 10 – 11 and in the section entitled Our Investment in R&D on pages 28 – 29.

### **Employees**

Information on James Hardie employees is set out on pages 36 – 37.

### **Environmental regulations and performance**

The manufacturing and other ancillary activities conducted by James Hardie are subject to licenses, permits and

agreements issued under environmental laws that apply in each respective location.

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

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

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

Further information on James Hardie's environmental aims is set out on page 41.

### **Dividends**

The Joint Board has declared a dividend of 3 cents US currency per share. CUFS holders will be paid the dividend in Australian currency on 1 July 2004 if they are registered as at the close of business on 10 June 2004 (AEST). ADR holders will receive payment in US currency.

During the financial year JHI NV paid dividends of:

- US2.5 cents per share (A3.45 cents per CUFS) on 16 December 2003. ADR holders received payment in US currency.
- US2.5 cents per share (A3.76 cents per CUFS) on 2 July 2003. ADR holders received payment in US currency.

### **Capital Return**

JHI NV made a capital return of 13.05 Euro cents per share. Payment of A21.10 cents per CUFS was made to CUFS holders in Australian currency on 19 November 2003. ADR holders received payment in US currency at the rate of US14.99 cents per share.

### **Directors' and executives' emoluments**

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

James Hardie's executive compensation program is based on a pay for performance policy that differentiates compensation amounts based on an evaluation of performance results in two basic areas: the business and the individual. The program is administered by the Remuneration Committee. The Remuneration Committee reviews and approves all individual compensation recommendations for senior executives. The composition and responsibilities of the Committee are set out in the Corporate Governance section on pages 60 – 67 and further information is available on the company's website at [www.jameshardie.com](http://www.jameshardie.com).

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

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

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

Remuneration of non-executive Directors is determined by the Joint Board within the maximum amount approved by the shareholders from time to time. Shareholders at the 2002 JHI NV Annual General Meeting approved, in accordance with ASX Listing Rule 10.14, effective for a three-year period, a Supervisory Board Share Plan (SBSP). Under the SBSP, members of the Supervisory Board are required to accept at least US\$10,000 of their annual fees in ordinary shares/CUFS in JHI NV which are subject to a two-year restricted trading period. Under the SBSP, members of the Supervisory Board will also be entitled to receive a greater proportion of their remuneration in JHI NV shares if they so elect. The issue price is the average of the market closing prices at which CUFS were quoted on the ASX during the five business days preceding the day of issue.

Non-executive Directors Messrs AG McGregor and MR Brown and Ms M Hellicar also have accrued retirement benefits up to July 2002 in accordance with a discontinued shareholder-approved scheme and together with Messrs PS Cameron and DG McGauchie receive Australian mandated 9% superannuation guarantee contributions on their fees. The Joint Board uses independent experts in Australia and the USA to benchmark Directors' remuneration against peer companies.

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

## JHI NV Directors' emoluments

	Directors' Cash Fees US\$	JHI NV Stock <sup>1</sup> US\$	Total US\$
Non-Executive Directors			
AG McGregor	160,000	10,000	170,000
M Hellicar	43,333	20,000	63,333
MR Brown	53,333	10,000	63,333
MJ Gillfillan	53,333	10,000	63,333
JRH Loudon	47,333	16,000	63,333
GJ Clark	–	63,333	63,333
PS Cameron	–	63,333	63,333
DG McGauchie	31,667	15,000	46,667
JD Barr	33,519	–	33,519
<b>Total emoluments for non-executive directors</b>	<b>422,518</b>	<b>207,666</b>	<b>630,184</b>

<sup>1</sup> The annual allocation to non-executive directors of JHI NV stock to the value of US\$10,000 was approved by stockholders at the 2002 Annual General Meeting. The non-executive directors can elect to take additional stock in lieu of fees.

	Base Pay US\$	Bonuses US\$	Total Cash Pay US\$	Superannuation and other Benefits US\$	Shadow Share & Options <sup>1</sup> US\$
Managing Board Directors					
PD Macdonald	822,500	1,745,390	<b>2,567,890</b>	27,693	593,558
FH Zwinkels	121,756	27,921	<b>149,677</b>	24,241	3,345
<b>Total emoluments for executive directors</b>	<b>944,256</b>	<b>1,773,311</b>	<b>2,717,567</b>	<b>51,934</b>	<b>596,903</b>

<sup>1</sup> Options are valued using the Black-Scholes option-pricing model and the fair value of options granted are included in emoluments during the period in which the options vest. Shadow share expense included in emoluments is calculated based on the movement in the JHI NV share price during the year and the increase in vesting of the shadow shares. A\$/US\$ foreign exchange movements also affect the result. Actual benefit received depends on the JHI NV share price and foreign exchange rates at time of exercise.

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

	Base Pay US\$	Bonuses US\$	Total Cash Pay US\$	Superannuation and other Benefits US\$	Shadow Share & Options <sup>2</sup> US\$	Relocation Allowances and other Non-recurring US\$
Louis Gries	439,427	753,720	<b>1,193,147</b>	126,725	228,535	–
Phillip Morley	327,630	445,742	<b>773,372</b>	90,802 <sup>1</sup>	580,926	–
Don Merkley	315,577	437,401	<b>752,978</b>	80,503	173,176	–
Peter Shafron	307,500	375,951	<b>683,451</b>	46,625	360,222	16,356
Dave Merkley	285,577	394,064	<b>679,641</b>	80,481	135,437	–

<sup>1</sup> Gross up of tax on the increase/decrease in the investment value of superannuation is included for Mr P Morley.

<sup>2</sup> Options are valued using the Black-Scholes option-pricing model and the fair value of options granted are included in emoluments during the period in which the options vest. Shadow share expense included in emoluments is calculated based on the movement in the JHI NV share price during the year and the increase in vesting of the shadow shares; A\$/US\$ foreign exchange movements also affect the result. Actual benefit received will depend on the JHI NV share price and foreign exchange rates at time of exercise.

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



AG McGregor  
Chairman Supervisory  
and Joint Boards



PD Macdonald  
Chief Executive Officer and  
Chairman Managing Board

Signed at Amsterdam, The Netherlands, 11 May 2004.