James Hardie

Management's Discussion and Analysis

15 August 2002

James Hardie Industries N.V.
Results for 1st Quarter Ended 30 June 2002

USGAAP - US$ Millions	Three Months Ended 30 June		
	FY 2003	FY 2002	% Change
Net Sales			
USA Fibre Cement	$ 152.5	$ 111.2	37
Asia Pacific Fibre Cement	46.3	36.6	27
Other Fibre Cement	1.4	0.8	75
Total Net Sales	200.2	148.6	35
Net Sales	$ 200.2	$ 148.6	35
Cost of goods sold	(129.1)	(102.8)	26
Gross profit	71.1	45.8	55
SG&A	(35.2)	(32.5)	8
EBIT before restructuring and other operating expenses	35.9	13.3	170
Restructuring and other operating expenses	-	(2.0)	(100)
EBIT	35.9	11.3	218
Net interest expense	(2.9)	(5.3)	(45)
Other income/(expense), net	0.3	(1.2)	(125)
Operating profit before tax	33.3	4.8	594
Income tax expense	(10.3)	(1.2)	-
Net Operating Profit from continuing operations	$ 23.0	$ 3.6	539
Net Operating Profit/(Loss) including discontinued operations	$75.9	$(0.9)	-
Tax rate	30.9%	25.0%	
Volume (mmsf)			
USA Fibre Cement	339.8	244.0	39
Asia Pacific Fibre Cement	87.4	74.7	17
Average sales price per unit (per msf)			
USA Fibre Cement	US$ 449	US$ 456	(2)
Asia Pacific Fibre Cement	A$ 843	A$ 852	(1)

Unless otherwise stated, results are for continuing operations only and comparisons are of the 1st quarter of the current fiscal year versus the 1st quarter of the prior fiscal year.

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Total Net Sales

Total net sales increased 35% compared to the same quarter of the previous year from US$148.6 million to US$200.2 million.

Net sales from USA Fibre Cement increased 37% from US$111.2 million to US$152.5 million due to continuing growth in sales volumes.

Net sales from Asia Pacific Fibre Cement increased 27% from US$36.6 million to US$46.3 million due to higher sales volumes.

Net sales from Other Fibre Cement increased 75% from US$0.8 million to US$1.4 million as the Chilean flat sheet business and the US-based FRC Pipes business continued to ramp up, following their start-up early in the 2001 calendar year.

USA Fibre Cement

Sales revenue increased 37% from US$111.2 million to US$152.5 million.

Sales volume increased 39% from 244.0 million square feet to 339.8 million square feet.

The increase was due to the continued strong growth in demand for fibre cement as awareness of the product's attributes continues to increase among builders, distributors and homeowners, and the inclusion of sales from the Cemplank operations acquired in December 2001.

Market share increased in the siding, backer and trim segments and in both the southern and northern regions of the country.

A new marketing campaign, "Why Settle For Vinyl," has generated a strong, positive response from customers and sales of The Colorplus™ Collection, a new range of pre-painted products that compete directly with vinyl products, continued to help deliver growth in the northern region.

Trading conditions were also favourable with consumer confidence remaining at relatively high levels due mainly to further cuts to low mortgage rates.

There is generally a 3-6 month lag between the start of house construction and the sale of our products. New starts in the previous quarter were up 7% from the same period the year before and this helped drive the strong sales results in the first quarter of the current fiscal year.

Strong demand for Hardibacker 500™, our ½ inch backerboard using proprietary G2 technology, resulted in further market share growth in the interior cement board market. Sales of Hardibacker 500™ increased significantly compared to the same quarter of the previous year. Sales also increased markedly for Harditrim™, soffits and Heritage® panels.

The average selling price decreased 2% compared to the same quarter of the previous year from US$456 per thousand square feet to US$449 per thousand square feet. The decrease was due to the inclusion of sales from our Cemplank operations that historically have been at lower selling prices than those achieved by our company.

However, the average selling price increased US$7 compared to the fourth quarter of fiscal 2002 due to the implementation of a price increase for nearly all products in most markets and because of the increased proportion of sales of higher-priced differentiated products.

The newly acquired Cemplank facilities in Summerville, South Carolina and Blandon, Pennsylvania, as well as the new production line at the Waxahachie, Texas plant, continued to ramp up during the quarter. Today, we announced plans to expand the plant at Waxahachie to help meet growing demand.

Asia Pacific Fibre Cement

Sales revenue for this segment increased 27% from US$36.6 million to US$46.3 million. Sales volume increased 17% from 74.7 million square feet to 87.4 million square feet.

Australia Fibre Cement

Sales revenue increased 24% from US$23.2 million to US$28.7 million. In local currency, the increase was 15%.

The growth in sales revenue was due to a 17% increase in sales volume from 50.9 million square feet to 59.5 million square feet. This was partially offset by a 2% decrease in the average selling price of FRC Pipes.

Demand for new residential housing remained at high levels buoyed by a relatively strong economy, low interest rates and the continuation of the Government's First Home Buyers Scheme.

There is generally a 3-6 month lag between the start of house construction and the sale of our products. The strong sales results in the quarter were helped by a significant increase in new housing starts in the previous quarter, compared to the same periods of the previous year.

The robust trading conditions led to higher sales for most products in most market segments.

During the quarter, CMX™, a lightweight cladding material that emulates the look and finish of rendered masonry, was launched in NSW. CMX™ has been launched successfully in other states and customer response has continued to be very positive.

New Zealand Fibre Cement

Sales revenue increased 42% from US$9.1 million to US$12.9 million due to an increase in sales volume and higher selling prices. In local currency, sales revenue increased 27%.

Sales volume increased 22% from 8.7 million square feet to 10.6 million square feet due to an improvement in residential building activity, which led to stronger demand. Average selling prices increased 2% due to a price increase that became effective in August 2001.

Improved consumer confidence fuelled by low interest rates, high inflation in house selling prices and a stronger economy contributed to the higher level of residential building activity. Residential construction for the six months to May 2002 was up 22% compared to the same period last year.

There has been a positive response from consumers to Linea®, a new weatherboard cladding system that was launched in March 2002. Linea® is a thicker, lightweight weatherboard that uses our proprietary low-density technology and offers a number of performance advantages over timber weatherboards, notably superior durability. Customer feedback supports our forecasted growth targets for the product.

Philippines Fibre Cement

Sales revenue increased 12% from US$4.2 million to US$4.7 million. In local currency, sales revenue increased 10%. This was due to higher sales volumes as a result of stronger domestic demand.

Sales volume increased 15% compared to the same quarter of the previous year from 15.1 million square feet to 17.3 million square feet due to the introduction of new products and increased demand from a stronger domestic market supported by more stable economic and political conditions.

We continued to penetrate the domestic building boards market, taking further share from the main competing material, plywood. HardiFlex® lite, a thinner, lighter sheet designed for ceiling applications, continued to generate strong sales, as did Hardiflex® 4.5mm, used in ceiling and internal wall applications.

The average net selling price decreased 4% compared to the same quarter of the previous year due to the impact of competitor pricing strategies in export markets.

Other Fibre Cement

Chile Fibre Cement

Our Chilean operation began commercial production in March 2001 and has successfully captured around 20% of the market for sales of fibre cement flat sheet.

Highly competitive market conditions and aggressive pricing strategies continued during the quarter resulting in average selling prices falling compared to the same quarter of the previous year.

Sales volumes have steadily increased since the business commenced due to growing demand for EconoBoard™, which is targeted to builders of small scale homes and additions, and the DIY market, distributed through retail stores, and Duraboard™, which is targeted to larger scale builders working mainly in the social housing sector.

Demand for fibre cement in the Chilean market was relatively weak during the quarter due to reduced seasonal activity as the country moved into winter, and the negative economic impact of instability in neighbouring Latin American countries.

New proprietary technology was installed at our plant in Santiago during the quarter and we began manufacturing textured panels and planks for the Chilean market. Sales of these products will commence in the second quarter of the current year.

USA FRC Pipes

Our FRC Pipes business continued to penetrate the south-east market and operational efficiency in manufacturing improved further during the quarter.

Sales volumes have continued to build since the business began operating early in calendar year 2001, as awareness among construction contractors has increased and as the product range has been progressively expanded. During the quarter, 36" drainage pipes were launched enabling us to compete for an increased number of construction projects in the southeastern market.

The US civil construction market remains buoyant. In Florida, activity is increasing due to the start of projects funded by TEA-21 and the Florida State Mobility Act, both of which involve significant increases in government spending on highway construction.

The average net selling price decreased compared to the same quarter of the previous year due to competitive market conditions and our use of aggressive pricing strategies.

Progress on regulatory approvals continued. Approvals to use our product have now been received by counties that incorporate 80% of Florida's population.

Gross Profit

Gross profit increased 55% from US$45.8 million to US$71.1 million due to an increase in gross profit for all businesses compared to the same quarter last year, other than Chile, which was flat. The gross profit margin increased 4.7 percentage points to 35.5%.

USA Fibre Cement gross profit increased 50% due to higher sales volume and lower unit cost of sales. The gross profit margin increased 3.0 percentage points.

Asia Pacific Fibre Cement gross profit increased 63% following improvements from all businesses. Manufacturing efficiency gains, lower raw material costs and increased volumes were major factors in the improved result. The gross profit margin increased 8.5 percentage points.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased 8% compared to the same quarter last year from US$32.5 million to US$35.2 million. However, SG&A expenses were 4.3 percentage points lower as a percentage of sales at 17.6%.

Research and Development

SG&A expenses include research and development costs. Research and development includes costs associated with 'core' research projects that are aimed at benefiting all fibre cement business units.

These costs are expensed as 'corporate costs' in the Research and Development segment rather than being attributed to individual business units. These costs decreased 4% to US$2.5 million due to reductions in project material costs and intellectual property costs.

Costs associated with development projects by individual business units are included in the business unit segment results. In total, these costs decreased 6% to US$1.5 million reflecting the completion of a number of projects now being commercialised by the business units.

Restructuring and Other Operating Expenses

There were no charges for restructuring and other operating expenses in the quarter. Due to the introduction of a new accounting standard on 1 April 2001, which required our pulp hedge contract to be marked to market each quarter, a US$2.0 million decrease in the fair value of the contract was charged during the first quarter of the previous financial year.

Operating Income (EBIT)

EBIT before restructuring and other operating expenses increased 170% from US$13.3 million to US$35.9 million. The EBIT margin before restructuring and other operating expenses increased 9.0 percentage points to 17.9%, compared to the same period last year.

There were no charges for restructuring and other operating expenses in the quarter. In the same quarter of the previous year there was a charge of US$2.0 million. As a result, EBIT increased 218% from US$11.3 million to US$35.9 million after including restructuring and other operating expenses. The EBIT margin after restructuring and other operating expenses increased 10.3 percentage points.

USA Fibre Cement EBIT increased 60% from US$24.2 million to US$38.8 million due to strong sales volume growth attributed to growth in primary demand for fibre cement, increased housing construction in most key markets and a lower cost of sales resulting from improved manufacturing efficiencies and lower raw material prices. The EBIT margin increased 3.6 percentage points to 25.4%.

Australia Fibre Cement EBIT increased 100% from US$3.2 million to US$6.4 million. In local currency the increase was 87%. The stronger EBIT performance was due to higher sales volume, cost savings through supply chain improvements and lower pulp costs. The EBIT margin increased 8.5 percentage points to 22.3%.

New Zealand Fibre Cement EBIT increased 80% from US$1.0 million to US$1.8 million. In local currency, the increase was 60%. The increase was primarily due to higher sales revenue and lower fixed overhead and SG&A costs. The EBIT margin increased 3.0 percentage points to 14.0%.

Our Philippines business recorded a small EBIT profit for the quarter compared to a loss in the same quarter of the previous year. The increase was due to higher margins being achieved from changes to the sales mix and lower costs.

Both USA FRC Pipes and Chile Fibre Cement incurred operating losses during the quarter as these businesses continued to ramp up.

General corporate costs decreased by US$4.6 million to US$6.5 million. This decrease was primarily due to a decrease of US$2.5 million in the charge for employee share plans. In addition, a US$1.3 million charge related to the corporate restructuring and a US$2.0 million charge for a decrease in the fair value of the pulp hedge contract were incurred in the first quarter of 2002 and not repeated in the first quarter of 2003.

Interest Expense

Net interest expense decreased 45% to US$2.9 million. This was primarily due to a decrease in net borrowings following the receipt of proceeds from the sale of our Gypsum business in April 2002.

Income Tax Expense

Income tax expense increased by US$9.1 million to US$10.3 million, consistent with the increase in profits.

Net Operating Profit

Income from continuing operations increased by US$19.4 million from US$3.6 million in the first quarter of the previous year to US$23.0 million in this quarter.

Discontinued Operations

In fiscal year 2002, we successfully completed the transformation of our company into a purely fibre cement business when we sold our Windows business and signed a definitive agreement to sell our US-based Gypsum operations. We completed the sale of our Gypsum operations on 25 April 2002. We recorded a net loss from discontinued operations of US$4.5 million in the first quarter of the previous year and, primarily due to the sale of our Gypsum operations, a net profit from discontinued operations of US$52.9 million in the first quarter of fiscal year 2003.

Liquidity and Capital Resources

We have historically met our working capital needs and capital expenditure requirements through a combination of cash flow from operations, proceeds from the divestiture of businesses, credit facilities, proceeds from the sale of property, plant and equipment and proceeds from the redemption of investments. Seasonal fluctuations in working capital generally have not had a significant impact on our short-term or long-term liquidity. We believe that we can meet our present working capital requirements for at least the next 12 months based on our current capital resources.

We had cash and cash equivalents of US$307.3 million as of 30 June 2002. This amount will decrease after the following have been paid: the shareholder approved capital return; the dividend; and taxes on the gain on sale of our Gypsum operations. At 30 June 2002, we also had credit facilities totalling US$462.2 million of which US$230.3 million was outstanding.

Our credit facilities are all non-collateralised and comprised of the following:

Description	Effective Interest Rate at 30 June 2002	Total Facility at 30 June 2002	Principal Outstanding at 30 June 2002
		(in millions of US$)	
US$ notes, fixed interest, repayable annually in varying tranches from 2004 through 2013	7.09%	$ 225.0	$ 225.0
A$ revolving loan, can be drawn down in either US$ or A$, variable interest based on US$ LIBOR or A$ bank bill rate plus margin, can be repaid and redrawn until maturity in November 2004	N/A	112.7	-
US$ stand-by loan, can be drawn down in either US$ or A$, variable interest based on US$ LIBOR or A$ bank bill rate plus margin, until maturity in April 2003	N/A	117.5	-
US$ line of credit, can be drawn down in Chilean Pesos, variable interest based on Chilean Tasa Activa Bancaria rate plus margin, maturity December 2002	6.60%	7.0	5.3
Total		$ 462.2	$ 230.3

As a result of the completion of the sale of our Gypsum business on 25 April 2002, we were not technically in compliance as of that date with certain pre-approval covenants of our US$ non-collateralised note agreements. We are currently in discussions with the note holders with respect to either the waiver or the renegotiation of such covenants.

Cash Flow

Net operating activities produced a cash outflow of US$38.2 million for the three months ended 30 June 2001 compared to a cash inflow of US$35.1 million for the same period in the current year. The difference in the cash flows was due to the increase in operating profit in the current period, excluding the gain on disposal of our Gypsum business. Also contributing to the cash outflow in the three months ended June 2001 was a one-time extension of payments terms granted to a large customer whose payment was received in full in July 2001, after the close of the fiscal quarter ended 30 June 2001.

Net investing activities produced a cash outflow of US$21.6 million for the three months ended 30 June 2001 compared to a cash inflow of US$326.1 million in the current period. The three-month period ended 30 June 2002 reflects proceeds received from the sale of our Gypsum business and lower capital expenditures compared to the same period in the prior year.

Net financing produced cash outflows of US$3.8 million and US$86.6 million in the three months ended 30 June 2001 and 2002, respectively. The difference in the cash flows was mainly due to repayment of borrowings from proceeds received from the sale of our Gypsum business in April 2002.

End.

Note

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