

Results for Announcement to the Market James Hardie Industries N.V.

ARBN 097 829 895

Appendix 4D — Half Year Ended 30 September 2004				
Key Information	Half Year 30 September			
	2004 US\$M	2003 US\$M	Movement	
Net Sales From Ordinary Activities	607.0	493.1	up	23%
Operating Profit From Continuing Operations After Tax Attributable to Shareholders	61.8	65.7	down	6%
Operating Profit including Discontinued Operations Attributable to Shareholders	61.1	67.5	down	9%
Net Tangible Assets per Ordinary Share	US\$1.20	US\$1.10	up	9%

Dividend Information

The Board has decided to defer consideration of declaring an interim dividend until it is in a position to better assess the financial impact of the likely outcome of negotiations with the ACTU, Labor Council and representatives of asbestos diseases groups in relation to the future funding of legitimate asbestos diseases claims against former subsidiary companies. Dividends were paid 16 December 2003 of US2.5 cents per share/CUFS and 1 July 2004 of US3 cents per share/CUFS.

Movements in Controlled Entities

The following entities were merged into James Hardie Building Products, Inc. during the half year ended 30 September 2004: Wallace O'Connor, LLC (30 April 2004); James Hardie Trading Co. Inc. (19 April 2004); Wallace O'Connor Inc. (2 April 2004). James Hardie Building Products, Inc. is a wholly owned subsidiary of James Hardie Industries N.V. and is incorporated in the USA.

The following entities were liquidated during the half year ended 30 September 2004: RCI Malta Holdings Ltd. (14 August 2004); RCI Malta Investments Ltd. (14 August 2004).

Review

The Consolidated Financial Statements included within this Preliminary Final Report have been prepared using USGAAP and have been subject to an independent review by external auditors.

Results for the 2nd Quarter and Half Year ended 30 September 2004

Contents

1. Media Release
2. Results At A Glance
3. Management's Analysis of Results
4. Consolidated Financial Statements
5. Management Presentation

The information contained in the above documents comprise the information required by ASX Listing Rule 4.2A and should be read in conjunction with the James Hardie 2004 Annual Report. It should also be read in the context of the public announcements made by James Hardie Industries N.V. in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the ASX Listing Rules since the release of that Annual Report. The James Hardie 2004 Annual Report and links to the company's public announcements can be found on the company website at www.jameshardie.com. James Hardie Industries N.V. is incorporated in The Netherlands with corporate seat in Amsterdam. The liability of members is limited.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of James Hardie Industries N.V. and Subsidiaries

We have reviewed the accompanying consolidated balance sheet of James Hardie Industries N.V. and Subsidiaries as of 30 September 2004, and the related consolidated statements of income for each of the three-month and six-month periods ended 30 September 2004 and 2003 and the consolidated statements of cash flows for the six-month periods ended 30 September 2004 and 2003 and the consolidated statement of changes in shareholders' equity for the six-month period ended 30 September 2004, as stated in U.S. dollars. We have not reviewed any amounts stated in Australian dollars included in the accompanying financial statements. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of 31 March 2004, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended (not presented herein), and in our report dated 24 June 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of 30 September 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 8 to the consolidated financial statements, the Company is subject to certain significant contingencies, including claims against former subsidiaries; the Special Commission of Inquiry established by the Government of New South Wales, Australia; an investigation by the Australian Securities and Investments Commission; and an offer of an indemnity to ABN 60 together with a related offer to provide funding to the Medical Research and Compensation Foundation.

PricewaterhouseCoopers LLP

Los Angeles, California

19 November 2004

Item 1. Financial Statements

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Millions of US dollars)		(Millions of Australian dollars)	
	30 September 2004 (Unaudited)	31 March 2004	30 September 2004 (Unaudited)	31 March 2004 (Unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 114.8	\$ 72.3	A\$ 160.4	A\$ 95.1
Accounts and notes receivable, net of allowance for doubtful accounts of \$1.4 million (A\$2.0 million) and \$1.2 million (A\$1.6 million) as of 30 September 2004 and 31 March 2004, respectively	112.4	118.4	157.1	155.8
Inventories	89.5	103.2	125.1	135.8
Refundable income taxes	9.2	37.8	12.9	49.7
Prepaid expenses and other current assets	15.4	8.8	21.5	11.6
Deferred tax assets	26.4	24.7	36.9	32.5
Total current assets	367.7	365.2	513.9	480.5
Long-term receivables and other assets	4.6	9.8	6.4	12.9
Property, plant and equipment, net	629.5	567.1	879.7	746.1
Intangible assets, net	3.1	3.0	4.3	3.9
Prepaid pension cost	13.5	14.1	18.9	18.5
Deferred tax assets	10.8	12.0	15.1	15.8
Total assets	\$ 1,029.2	\$ 971.2	A\$ 1,438.3	A\$ 1,277.7
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 100.7	\$ 78.5	A\$ 140.7	A\$ 103.3
Current portion of long-term debt	17.6	17.6	24.6	23.2
Short-term debt	11.0	10.8	15.4	14.2
Accrued payroll and employee benefits	35.9	41.1	50.2	54.1
Accrued product warranties	9.5	9.7	13.3	12.8
Income taxes payable	14.3	9.8	20.0	12.9
Other liabilities	3.2	1.8	4.5	2.4
Total current liabilities	192.2	169.3	268.7	222.9
Long-term debt	147.4	147.4	206.0	193.9
Deferred income taxes	70.0	65.2	97.8	85.8
Accrued product warranties	2.7	2.3	3.8	3.0
Other liabilities	61.9	82.3	86.5	108.3
Total liabilities	474.2	466.5	A\$ 662.8	A\$ 613.9
Commitments and contingencies (Note 8)				
Shareholders' equity:				
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 458,773,612 shares issued and outstanding at 30 September 2004 and 458,558,436 shares issued and outstanding at 31 March 2004	245.4	245.2		
Additional paid-in capital	135.8	134.0		
Retained earnings	198.5	151.1		
Employee loans	(1.1)	(1.3)		
Accumulated other comprehensive loss	(23.6)	(24.3)		
Total shareholders' equity	555.0	504.7		
Total liabilities and shareholders' equity	\$ 1,029.2	\$ 971.2		

The accompanying notes are an integral part of these interim consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Millions of US dollars, except per share data)	Three Months Ended 30 September		Six Months Ended 30 September	
	2004	2003	2004	2003
Net sales	\$ 300.9	\$ 251.6	\$ 607.0	\$ 493.1
Cost of goods sold	(203.8)	(159.2)	(398.6)	(311.4)
Gross profit	97.1	92.4	208.4	181.7
Selling, general and administrative expenses	(45.5)	(38.9)	(90.6)	(75.1)
Research and development expenses	(5.3)	(5.6)	(10.3)	(10.4)
SCI related expenses	(5.6)	-	(8.5)	-
Other operating expense	(0.7)	-	(0.7)	-
Operating income	40.0	47.9	98.3	96.2
Interest expense	(1.9)	(2.8)	(4.7)	(5.3)
Interest income	0.6	0.4	0.9	0.6
Other expense	(1.9)	(3.3)	(1.9)	(3.3)
Income from continuing operations before income taxes	36.8	42.2	92.6	88.2
Income tax expense	(12.1)	(9.4)	(30.8)	(22.5)
Income from continuing operations	24.7	32.8	61.8	65.7
Discontinued operations:				
Income from discontinued operations, net of income tax expense of \$0.1 million for the six months ended 30 September 2003	-	-	-	0.2
Gain (loss) on disposal of discontinued operations, net of income tax benefit of \$0.1 million for the six months ended 30 September 2003	0.1	-	(0.7)	1.6
Income (loss) from discontinued operations	0.1	-	(0.7)	1.8
Net income	\$ 24.8	\$ 32.8	\$ 61.1	\$ 67.5
Income per share - basic:				
Income from continuing operations	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.15
Income from discontinued operations	-	-	-	-
Net income per share - basic	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.15
Income per share - diluted:				
Income from continuing operations	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.15
Income from discontinued operations	-	-	-	-
Net income per share - diluted	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.15
Weighted average common shares outstanding (Millions):				
Basic	458.7	458.0	458.7	457.8
Diluted	460.4	461.5	460.6	461.0

The accompanying notes are an integral part of these interim consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Millions of Australian dollars, except per share data)	Three Months Ended 30 September		Six Months Ended 30 September	
	2004	2003	2004	2003
Net sales	A\$ 420.3	A\$ 387.1	A\$ 847.9	A\$ 758.7
Cost of goods sold	(284.7)	(244.9)	(556.8)	(479.1)
Gross profit	<u>135.6</u>	142.2	<u>291.1</u>	279.6
Selling, general and administrative expenses	(63.6)	(59.9)	(126.6)	(115.5)
Research and development expenses	(7.4)	(8.6)	(14.4)	(16.0)
SCI related expenses	(7.8)	-	(11.9)	-
Other operating expense	(1.0)	-	(0.9)	-
Operating income	<u>55.8</u>	73.7	<u>137.3</u>	148.1
Interest expense	(2.7)	(4.3)	(6.6)	(8.2)
Interest income	0.8	0.6	1.3	0.9
Other expense	(2.7)	(5.1)	(2.7)	(5.1)
Income from continuing operations before income taxes	<u>51.2</u>	64.9	<u>129.3</u>	135.7
Income tax expense	(16.9)	(14.5)	(43.0)	(34.6)
Income from continuing operations	<u>34.3</u>	50.4	<u>86.3</u>	101.1
Discontinued operations:				
Income from discontinued operations, net of income tax expense of A\$0.2 million for the six months ended 30 September 2003	-	-	-	0.3
Gain (loss) on disposal of discontinued operations, net of income tax benefit of A\$0.2 million for six months ended 30 September 2003	<u>0.1</u>	-	<u>(1.0)</u>	2.5
Income (loss) from discontinued operations	<u>0.1</u>	-	<u>(1.0)</u>	2.8
Net income	<u>A\$ 34.4</u>	<u>A\$ 50.4</u>	<u>A\$ 85.3</u>	<u>A\$ 103.9</u>
Income per share - basic:				
Income from continuing operations	A\$ 0.07	A\$ 0.11	A\$ 0.19	A\$ 0.22
Income from discontinued operations	-	-	-	0.01
Net income per share - basic	<u>A\$ 0.07</u>	<u>A\$ 0.11</u>	<u>A\$ 0.19</u>	<u>A\$ 0.23</u>
Income per share - diluted:				
Income from continuing operations	A\$ 0.07	A\$ 0.11	A\$ 0.19	A\$ 0.22
Income from discontinued operations	-	-	-	0.01
Net income per share - diluted	<u>A\$ 0.07</u>	<u>A\$ 0.11</u>	<u>A\$ 0.19</u>	<u>A\$ 0.23</u>
Weighted average common shares outstanding (Millions):				
Basic	458.7	458.0	458.7	457.8
Diluted	460.4	461.5	460.6	461.0

The accompanying notes are an integral part of these interim consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions of US dollars)	Six Months Ended 30 September	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 61.1	\$ 67.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of subsidiaries and businesses	-	(1.8)
Depreciation and amortisation	17.9	16.2
Deferred income taxes	3.5	5.4
Prepaid pension cost	1.4	0.9
Tax benefit from stock options exercised	0.1	0.1
Stock compensation	1.2	1.2
Other	2.7	0.4
Changes in operating assets and liabilities:		
Accounts receivable	4.8	(12.1)
Inventories	12.7	0.4
Prepays and other current assets	20.4	15.1
Accounts payable	22.3	2.8
Accrued liabilities and other liabilities	(11.2)	(5.1)
Net cash provided by operating activities	<u>136.9</u>	<u>91.0</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(81.1)	(44.1)
Proceeds from sale of property, plant and equipment	-	0.1
Proceeds from disposal of subsidiaries and businesses, net of cash invested	-	5.0
Collections on loans receivable	0.1	0.5
Net cash used in investing activities	<u>(81.0)</u>	<u>(38.5)</u>
Cash flows from financing activities:		
Net proceeds from line of credit	-	0.6
Proceeds from issuance of shares	0.7	2.0
Dividends paid	(13.7)	(11.4)
Net cash used in financing activities	<u>(13.0)</u>	<u>(8.8)</u>
Effects of exchange rate changes on cash	(0.4)	0.5
Net increase in cash and cash equivalents	42.5	44.2
Cash and cash equivalents at beginning of period	72.3	54.6
Cash and cash equivalents at end of period	<u>114.8</u>	<u>98.8</u>
Components of cash and cash equivalents:		
Cash at bank and on hand	19.0	11.8
Short-term deposits	95.8	87.0
Cash and cash equivalents at end of period	<u>\$ 114.8</u>	<u>\$ 98.8</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions of Australian dollars)	Six Months Ended 30 September	
	2004	2003
Cash flows from operating activities:		
Net income	A\$ 85.3	A\$ 103.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of subsidiaries and businesses	-	(2.8)
Depreciation and amortisation	25.0	24.9
Deferred income taxes	4.9	8.3
Prepaid pension cost	2.0	1.4
Tax benefit from stock options exercised	0.1	0.2
Stock compensation	1.7	1.8
Other	3.8	0.6
Changes in operating assets and liabilities:		
Accounts receivable	6.7	(18.6)
Inventories	17.7	0.6
Prepays and other current assets	28.4	23.2
Accounts payable	31.2	4.3
Accrued liabilities and other liabilities	(15.6)	(7.9)
Net cash provided by operating activities	191.2	139.9
Cash flows from investing activities:		
Purchases of property, plant and equipment	(113.3)	(67.9)
Proceeds from sale of property, plant and equipment	-	0.2
Proceeds from disposal of subsidiaries and businesses, net of cash invested	-	7.7
Collections on loans receivable	0.1	0.8
Net cash used in investing activities	(113.2)	(59.2)
Cash flows from financing activities:		
Net proceeds from line of credit	-	0.9
Proceeds from issuance of shares	1.0	3.1
Dividends paid	(19.1)	(17.5)
Net cash used in financing activities	(18.1)	(13.5)
Effects of exchange rate changes on cash	5.4	(12.9)
Net increase in cash and cash equivalents	65.3	54.3
Cash and cash equivalents at beginning of period	95.1	90.4
Cash and cash equivalents at end of period	160.4	144.7
Components of cash and cash equivalents:		
Cash at bank and on hand	26.5	17.3
Short-term deposits	133.9	127.4
Cash and cash equivalents at end of period	A\$ 160.4	A\$ 144.7

The accompanying notes are an integral part of these interim consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Millions of US dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Loans	Accumulated Other Comprehensive Income (Loss)	Total
Balances as of 31 March 2004	\$ 245.2	\$ 134.0	\$ 151.1	\$ (1.3)	\$ (24.3)	\$ 504.7
Comprehensive income:						
Net income	-	-	61.1	-		61.1
Other comprehensive income:						
Amortisation of unrealised transition loss on derivative instruments	-	-	-	-	0.6	0.6
Foreign currency translation gain	-	-	-	-	0.1	0.1
Other comprehensive income	-	-	-	-	0.7	0.7
Total comprehensive income						61.8
Dividends paid	-	-	(13.7)	-	-	(13.7)
Stock compensation	-	1.2	-	-	-	1.2
Tax benefit from stock options exercised	-	0.1	-	-	-	0.1
Employee loans movement	-	-	-	0.2	-	0.2
Stock options exercised	0.2	0.5	-	-	-	0.7
Balances as of 30 September 2004	\$ 245.4	\$ 135.8	\$ 198.5	\$ (1.1)	\$ (23.6)	\$ 555.0

The accompanying notes are an integral part of these interim consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The consolidated financial statements represent the financial position and results of operations of James Hardie Industries N.V. ("JHI NV") and its wholly owned subsidiaries, collectively referred to as either the "Company" or "James Hardie," unless the context indicates otherwise.

In the opinion of management, the accompanying financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair statement of financial position as of 30 September and 31 March 2004 and the results of operations for the three and six months ended 30 September 2004 and 2003 and cash flows for the six months ended 30 September 2004 and 2003. These consolidated financial statements and notes are to be read in conjunction with the audited consolidated financial statements of James Hardie Industries N.V. and Subsidiaries for the three years ended 31 March 2004. The results of operations for the six months ended 30 September 2004 are not necessarily indicative of the results to be expected for the full fiscal year ending 31 March 2005.

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 (US\$1 = A\$):

	31 March 2004	30 September 2004	2003
Assets and liabilities	1.3156	1.3974	n/a
Income statement	n/a	1.3969	1.5386
Cash flows - beginning cash	n/a	1.3156	1.6559
Cash flows - ending cash	n/a	1.3974	1.4643
Cash flows - current period movements	n/a	1.3969	1.5386

2. Summary of Significant Accounting Policies

Reclassifications

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

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)	Three Months Ended 30 September		Six Months Ended 30 September	
	2004	2003	2004	2003
Basic common shares outstanding	458.7	458.0	458.7	457.8
Dilutive effect of stock options	1.7	3.5	1.9	3.2
Diluted common shares outstanding	460.4	461.5	460.6	461.0

Potential common shares of 10.4 million and 8.9 million for the three and six months ended 30 September 2004, respectively, have been excluded from the calculation of diluted shares outstanding because the effect of their inclusion would be anti-dilutive.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Advertising

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was \$4.0 million and \$4.8 million for the three months ended 30 September 2004 and 2003, respectively, and \$9.1 million and \$7.1 million for the six months ended 30 September 2004 and 2003, respectively.

Stock-Based Compensation

The Company estimates the fair value of its stock option grants on the date of grant using the Black-Scholes option-pricing model and recognises this value as compensation expense over the periods in which the options vest. Accordingly, the Company recognised stock-based compensation expense (included in selling, general and administrative expenses) of \$0.5 million and \$0.6 million for the three months ended 30 September 2004 and 2003, respectively, and \$1.2 million and \$1.2 million for the six months ended 30 September 2004 and 2003, respectively.

Recent Accounting Pronouncements

Employers' Disclosures about Pensions and Other Postretirement Benefits

In December 2003, the FASB issued SFAS No. 132 (revised 2003) ("SFAS No. 132R"), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statement 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," which it replaces. SFAS No. 132R requires additional disclosures about the assets, obligations, cash flows and net periodic benefit/cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132R is effective for foreign plans for the fiscal years ending after 15 September 2004 and for interim periods beginning after 15 December 2003. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

Consolidation of Variable Interest Entities

In December 2003, the FASB issued FASB Interpretation No. ("FIN") 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses how a business should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaced FIN 46 which was issued in January 2003. FIN 46 or FIN 46R applies immediately to entities created after 31 January 2003 and no later than the end of the first reporting period that ended after 15 December 2003 to entities considered to be special-purpose entities ("SPEs"). FIN 46R is effective for all other entities no later than the end of the first interim or annual reporting period ending after 15 March 2004. The adoption of the provisions of FIN 46 or FIN 46R relative to SPEs and for entities created after 31 January 2003 did not have a material impact on the Company's consolidated financial statements. The adoption of the other provisions of FIN 46R did not have a material impact on the Company's consolidated financial statements.

The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments

In March 2004, the Emerging Issues Task Force ("EITF") ratified the provisions of Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("Issue 03-01"), which clarifies the definition of other-than-temporary impairment for certain investments accounted for under the cost method. The recognition and measurement guidance in Issue 03-01 should be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. For all other investments within the scope of this issue, the disclosure requirements are effective for fiscal years ending after June 15, 2004. The adoption of this issue did not have an impact on the Company's consolidated financial statements.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

3. Inventories

Inventories consist of the following components:

(Millions of US dollars)	30 September 2004	31 March 2004
Finished goods	\$ 64.0	\$ 76.7
Work-in-process	5.7	6.4
Raw materials and supplies	21.9	22.3
Provision for obsolete finished goods and raw materials	(2.1)	(2.2)
Total inventories	<u>\$ 89.5</u>	<u>\$ 103.2</u>

4. Retirement Plans

The Company sponsors a defined benefit plan for its Australian employees. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to participants and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company made contributions of \$0.4 million and \$1.2 million for the three and six months ended 30 September 2004, respectively. The Company expects to make a contribution to the pension plan of approximately \$1.2 million for the remainder of fiscal year 2005.

The following are the components of net periodic pension cost for the Australian defined benefit pension plan:

(Millions of US dollars)	Three Months Ended 30 September		Six Months Ended 30 September	
	2004	2003	2004	2003
Service cost	\$ 0.7	\$ 0.8	\$ 1.5	\$ 1.4
Interest cost	0.6	0.7	1.2	1.4
Expected return on plan assets	(0.7)	(0.9)	(1.5)	(1.7)
Amortisation of unrecognised transition costs	-	(0.2)	-	(0.4)
Recognised net actuarial loss	0.1	0.1	0.2	0.2
Net periodic pension cost	<u>\$ 0.7</u>	<u>\$ 0.5</u>	<u>\$ 1.4</u>	<u>\$ 0.9</u>

5. Discontinued Operations

Building Systems

On 30 May 2003, the Company sold its New Zealand Building Systems business to a third party. A gain of \$1.9 million represented the excess of net proceeds from the sale of \$6.7 million over the net book value of assets sold of \$4.8 million. The proceeds from the sale were comprised of cash of \$5.0 million and a note receivable in the amount of \$1.7 million.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following are the results of operations of discontinued businesses:

(Millions of US dollars)	Three Months Ended 30 September		Six Months Ended 30 September	
	2004	2003	2004	2003
Building Systems				
Net sales	\$ -	\$ -	\$ -	\$ 2.9
Income before income taxes	-	-	-	0.3
Income tax expense	-	-	-	(0.1)
Net income	-	-	-	0.2
Gain (loss) on disposal, net of income taxes	0.1	-	(0.7)	1.6
Income from discontinued operations	<u>\$ 0.1</u>	<u>\$ -</u>	<u>\$ (0.7)</u>	<u>\$ 1.8</u>

6. 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 includes all fibre cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand and Asia. Research and Development represents the costs incurred by the research and development centres. 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, fibre cement operations in Europe and fibre cement roofing operations in the United States. 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:

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 September		Net Sales to Customers Six Months Ended 30 September	
	2004	2003	2004	2003
USA Fibre Cement	\$ 231.0	\$ 191.4	\$ 471.7	\$ 378.2
Asia Pacific Fibre Cement	62.5	54.8	119.8	104.9
Other Fibre Cement	7.4	5.4	15.5	10.0
Worldwide total from continuing operations	<u>\$ 300.9</u>	<u>\$ 251.6</u>	<u>\$ 607.0</u>	<u>\$ 493.1</u>

(Millions of US dollars)	Income (Loss) from Continuing Operations Three Months Ended 30 September		Income (Loss) from Continuing Operations Six Months Ended 30 September	
	2004	2003	2004	2003
USA Fibre Cement	\$ 49.0	\$ 53.7	\$ 112.1	\$ 107.8
Asia Pacific Fibre Cement	12.3	9.4	24.3	18.0
Research and Development	(3.4)	(4.1)	(7.5)	(7.4)
Other Fibre Cement	(4.2)	(4.3)	(7.5)	(8.0)
Segments total	53.7	54.7	121.4	110.4
General Corporate	(13.7)	(6.8)	(23.1)	(14.2)
Total operating income	40.0	47.9	98.3	96.2
Net interest expense	(1.3)	(2.4)	(3.8)	(4.7)
Other expense	(1.9)	(3.3)	(1.9)	(3.3)
Worldwide total from continuing operations	<u>\$ 36.8</u>	<u>\$ 42.2</u>	<u>\$ 92.6</u>	<u>\$ 88.2</u>

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(Millions of US dollars)	Total Identifiable Assets	
	30 September 2004	31 March 2004
USA Fibre Cement	\$ 597.0	\$ 554.9
Asia Pacific Fibre Cement	181.0	175.9
Other Fibre Cement	78.4	74.7
Segments total	<u>856.4</u>	805.5
General Corporate	172.8	165.7
Worldwide total	<u>\$ 1,029.2</u>	<u>\$ 971.2</u>

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 September		Net Sales to Customers Six Months Ended 30 September	
	2004	2003	2004	2003
USA	\$ 234.5	\$ 194.0	\$ 480.1	\$ 383.0
Australia	43.4	38.2	84.2	72.9
New Zealand	12.2	9.6	23.2	18.8
Other Countries	10.8	9.8	19.5	18.4
Worldwide total from continuing operations	<u>\$ 300.9</u>	<u>\$ 251.6</u>	<u>\$ 607.0</u>	<u>\$ 493.1</u>

(Millions of US dollars)	Total Identifiable Assets	
	30 September 2004	31 March 2004
USA	\$ 652.1	\$ 609.8
Australia	121.4	119.1
New Zealand	22.9	19.7
Other Countries	60.0	56.9
Segments total	<u>856.4</u>	805.5
General Corporate	172.8	165.7
Worldwide total	<u>\$ 1,029.2</u>	<u>\$ 971.2</u>

7. Accumulated Other Comprehensive Loss

The following are the components of total accumulated other comprehensive loss, net of related taxes, which is displayed in the accompanying consolidated balance sheets:

(Millions of US dollars)	30 September 2004	31 March 2004
Unrealised transition loss on derivative instruments classified as cash flow hedges	\$ (4.9)	\$ (4.9)
Accumulated amortisation of unrealised transition loss on derivative instruments	3.9	3.3
Accumulated foreign currency losses on translation of foreign subsidiaries	(22.6)	(22.7)
Total accumulated other comprehensive loss	<u>\$ (23.6)</u>	<u>\$ (24.3)</u>

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

8. 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 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 in the normal conduct of business 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

Amaca Pty Ltd, Amaba Pty Ltd and ABN 60

In February 2001, ABN 60, formerly known as James Hardie Industries Limited ("JHIL"), established the Medical Research and Compensation Foundation (the "Foundation") by gifting A\$3.0 million (\$1.7 million) in cash and transferring ownership of Amaca Pty Ltd (formerly James Hardie & Coy Pty Ltd) ("Amaca") and Amaba Pty Ltd (formerly Jsekarb Pty Ltd) ("Amaba") to the Foundation. The Foundation is a special purpose charitable foundation established to fund medical and scientific research into asbestos-related diseases. Amaca and Amaba were Australian companies which had manufactured and marketed asbestos-related products prior to 1987.

The Foundation is managed by independent trustees and operates entirely independently of the Company and its current subsidiaries ("James Hardie"). The Company does not control (directly or indirectly) the activities of the Foundation in any way and, effective from 16 February 2001, has not owned, or controlled (directly or indirectly) the activities of, Amaca or Amaba. In particular, the trustees are responsible for the effective management of claims against Amaca and Amaba, and for the investment of their assets. The Company has no economic interest in the Foundation, Amaca or Amaba and it has no right to dividends or capital distributions made by the Foundation.

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, James Hardie no longer owns any shares in 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, it has no economic interest in ABN 60 or ABN 60 Foundation and has no right to dividends or capital distributions made by the ABN 60 Foundation.

Up to the date of the establishment of the Foundation, Amaca and Amaba 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 Amaca and Amaba. As Amaca, Amaba and ABN 60 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 30 September 2004 and 31 March 2004.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

It is possible that JHI NV or any member of the James Hardie group could become subject to suits for damages for personal injury or death in connection with the former manufacture or sale of asbestos products that are or may be filed against Amaca, Amaba or ABN 60. Although it is difficult to predict the incidence or outcome of future litigation, the Company believes that in the absence of governmental action introducing legislation or a change in jurisprudence as previously adopted in prior case law before the New South Wales ("NSW") Supreme Court and Federal High Court, as more fully described below, the risk that such suits could be successfully asserted against the Company is low to remote. However, if suits are made possible and/or successfully brought, they could have a material adverse effect on the Company's business, results of operations or financial condition. This belief is based in part on the fact that following the transfers of Amaca and Amaba to the Foundation and of ABN 60 to the ABN 60 Foundation, none of those companies are part of James Hardie; the separateness of corporate entities under Australian law; the limited circumstances where "piercing the corporate veil" might occur under Australian and Dutch law; there being no equivalent under Australian law of the U.S. legal doctrine of "successor liability"; and because JHI NV has been advised that the principle applicable under Dutch law, to the effect that transferees of assets may be held liable for the transferor's liabilities when they acquire assets at a price that leaves the transferor with insufficient assets to meet claims, is not triggered by the restructuring or previous group transactions. The courts in Australia 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.

During the period ended 30 September 2004, James Hardie has not been a party to any asbestos litigation and has not made any settlement payments in relation to such litigation.

Special Commission of Inquiry

On 29 October 2003, the Foundation issued a press release stating that its "most recent actuarial analysis estimates that the compensation bill for the organization could reach one billion Australian dollars in addition to those funds already paid out to claimants since the Foundation was formed and that existing funding could be exhausted within five years." In February 2004, the Government of the State of New South Wales, Australia established a Special Commission of Inquiry ("SCI") to investigate, among other matters described below, the circumstances in which the Foundation was established. The SCI was instructed to determine the current financial position of the Foundation and whether it is likely to meet its future asbestos-related claims in the medium to long-term. It was also instructed to report on the circumstances in which the Foundation was separated from James Hardie and whether this may have resulted in or contributed to a possible insufficiency of assets to meet its future asbestos-related liabilities, and the circumstances in which any corporate restructure or asset transfers occurred within or in relation to the James Hardie group prior to the funding of the Foundation to the extent that this may have affected the Foundation's ability to meet its current and future liabilities. The SCI was also instructed to report on the adequacy of current arrangements available to the Foundation under the Corporations Act of Australia to assist the Foundation in managing its liabilities and whether reform is desirable in order to assist the Foundation in managing its obligations to current and future claimants.

On 14 July 2004, the Company lodged a submission with the SCI stating that the Company would recommend that shareholders approve the provision of an unspecified amount of additional funding to enable an effective statute-based scheme to compensate all future claimants for asbestos-related injuries for which Amaca and Amaba are liable. The Company proposed that the statutory scheme include the following elements: speedy, fair and equitable compensation for all existing and future claimants; objective criteria to reduce superimposed (judicial) inflation; contributions to be made in a manner which provide certainty to claimants as to their entitlement, the scheme administrator as to the amount available for distribution, and the proposed contributors (including James Hardie) as to the ultimate amount of their contributions; significant reductions in legal costs through reduced and more abbreviated litigation; and limitation of legal avenues outside of the scheme. The submission stated that the proposal was made without any admission of liability or prejudice to the Company's rights or defences.

The SCI finished taking evidence on 13 August 2004 and issued its report on 21 September 2004. The SCI indicated that the establishment of the Foundation and the establishment of the ABN 60 Foundation were legally effective and that, accordingly, although any liabilities in relation to the asbestos claims for claimants remained with Amaca, Amaba or ABN 60 (as the case may be), no significant liabilities for those claims could likely be assessed directly against JHI NV or any other James Hardie entities.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In relation to the assertions by the Foundation concerning the circumstances of its establishment, the SCI examined these in detail. Although the SCI made certain adverse findings against Mr. Macdonald (former CEO) and Mr. Shafron (former CFO), it did not find that their conduct caused any material loss to the Foundation or the asbestos claimants which would create a valuable cause of action against, and therefore a material liability of, any James Hardie entity or would lead to any of the restructuring arrangements being reversed. Indeed, the SCI specifically noted that there were significant hurdles, which might be insuperable, to establishing any liability in respect of these claims against the Company, ABN 60 or their respective directors and that, even if liability were established, there were further hurdles which might prove to be insuperable against any substantial recovery or remedy by such potential claimants in respect of them.

In relation to the question of the funding of the Foundation, the SCI found that there was a significant funding shortfall. In part, this was based on actuarial work indicating that the discounted value of the central estimate of the asbestos liabilities of Amaca and Amaba was approximately A\$1.570 billion, or an undiscounted amount of approximately A\$3.586 billion. The SCI found that the net assets of the Foundation and the ABN 60 Foundation were not sufficient to meet these prospective liabilities and were likely to be exhausted in the first half of 2007.

In relation to the Company's statutory scheme proposal, the SCI reported that there were several issues that needed to be refined quite significantly but that it would be an appropriate starting point for devising an appropriate compensation scheme.

The SCI's findings are not binding and a later court consideration of the issues could lead to one or more different conclusions.

The NSW Government has stated that it would not consider assisting the implementation of any proposal advanced by the Company unless it was the result of an agreement reached with the union movement acting through the Australian Council of Trade Unions ("ACTU") and the Labour Council of NSW as well as the representatives of the asbestos claimants (together, the "Representatives"). The statutory scheme that the Company recommended on 14 July 2004 was rejected by the Representatives. The Company is currently in discussions with the Representatives regarding potential arrangements that could be acceptable to both the Representatives and the Company and subsequently to the Company's shareholders and the NSW Government. Both the outcome of those discussions and the timing of any potential resolution are highly uncertain and, accordingly, the Company cannot yet determine whether it will achieve a satisfactory resolution or what any potential arrangement may involve.

The Company's view is that, except to the extent that it agrees otherwise as a result of these discussions, under current Australian law it is not liable for any shortfall in the assets of Amaca, Amaba, the Foundation, the ABN 60 Foundation or ABN 60. The Company cannot determine when or if a resolution may be reached between itself and the Representatives. The Company is attempting to negotiate a resolution as quickly as possible. Accordingly, the Company has not established a provision for asbestos-related liabilities as of 30 September 2004 because at this time it is not probable nor estimable.

In October 2004, the Company commissioned an updated actuarial study of potential asbestos-related liabilities.

Based on the results of the study, which was updated as at 30 June 2004, it is estimated that the discounted central estimate, after allowing for expected insurance recoveries, of asbestos-related liabilities of Amaca, Amaba and ABN 60 is A\$1.536 billion (discounted at 6.12% per annum) or an undiscounted central estimate of A\$3.586 billion.

In estimating the potential asbestos-related exposure, the actuaries have made a number of assumptions relating to wage inflation, superimposed inflation (being the excess of total claim cost inflation over wage inflation), discount rates, the total number of claims expected to be reported through to 2071, the pace of such notifications and their settlement, the average costs of an award (which is affected by the disease type, the age and occupation of the claimant and the jurisdiction in which the claim is brought and settled), the proportion of claims for which no award is paid by the above-named entities, and the associated average claimant and defendant legal fees to be incurred.

Further, the actuaries have relied on the data and information provided by the Medical Research and Compensation Foundation and Litigation Management Group Pty Limited and assumed that it is accurate and complete in all material respects. The actuaries have not verified that information independently nor established the reliability, accuracy or completeness of the data and information provided or used for the preparation of their report, and were not provided with the information required to carry out such a verification exercise.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Due to inherent uncertainties in the legal and medical environment; the number and timing of future claim notifications and settlements; the recoverability of claims against insurance contracts and in estimating the future trends in average claim awards as well as the extent to which the above-named entities will contribute to the overall settlements, the outcome could differ materially from that currently projected.

Sensitivity analysis has been performed, showing how the actuarial estimates would change if the outcome of certain assumptions (being the rate of superimposed inflation, the average costs of claims and legal fees, and the projected numbers of claims) were different to that included within the central estimates.

This shows that the discounted central estimates could fall in a range A\$1.1 billion to A\$2.3 billion (undiscounted estimates of A\$2.0 billion to A\$5.7 billion) based on the current information available and reflecting current trends. It should be noted that the actual cost of the liabilities could fall outside that range depending on the actual outcome of the assumptions made.

If a resolution is reached with the Representatives and approved by them, the NSW Government and the Company's Board, shareholders and lenders, the Company may be required to make a substantial provision in its accounts at a later date, and it is possible that the Company would need to seek additional borrowing facilities. Additionally, it is possible that any future resolution of this issue may result in the Company having negative shareholders' equity, which would be likely to restrict its ability to pay dividends to its shareholders. If the terms of a future resolution involve James Hardie making payments, either on an annual or other basis, pursuant to a statutory scheme or other form of arrangement, James Hardie's financial position, results of operations and cash flows could be materially adversely affected.

It is also possible that the Representatives and/or others may encourage or continue to encourage consumers and union members in Australia and elsewhere to boycott the Company's products, to demonstrate or otherwise create negative publicity toward the Company in order to influence the Company's approach to the discussions with the Representatives or to encourage governmental action if the discussions are unsuccessful. The Representatives and/or others might also take such actions in an effort to influence the Company's shareholders, a significant number of which are located in Australia, to approve any proposed arrangement. Any such measures, and the influences resulting from them, could have a material adverse impact on the Company's financial position, results of operations and cash flows.

On 28 October 2004, the NSW Premier announced that the NSW Government would seek the agreement of the Ministerial Council comprised of Ministers of the Commonwealth and the Australian States and Territories to allow the NSW Government to pass legislation which he announced would "wind back James Hardie's corporate restructure and rescind the cancellation of A\$1.9 billion in partly paid shares." The announcement said that "the laws will effectively enforce the liability [for asbestos-related claims] against the Dutch parent company." On 5 November 2004, the Australian Attorney-General and the Parliamentary Secretary to the Treasurer (the two relevant ministers of the Australian Federal Government) issued a news release stating that the Ministerial Council for Corporations (the relevant body of Federal, State and Territory Ministers, "MINCO") had unanimously agreed "to support a negotiated settlement that will ensure that victims of asbestos-related diseases receive full and timely compensation from James Hardie" and if "the current negotiations between James Hardie, the ACTU and asbestos victims do not reach an acceptable conclusion, MINCO also agreed in principle to consider options for legislative reform." The news release of 5 November 2004 indicated that treaties to enforce Australian judgments in Dutch and U.S. courts are not required but that the Australian Government has been involved in communications with Dutch and U.S. authorities regarding arrangements to ensure that Australian judgments are able to be enforced where necessary. Should negotiations not lead to an acceptable conclusion, James Hardie is aware of suggestions of legislative intervention but has no detailed information as to its likely content. Negotiations with the Representatives continue and no draft legislation has currently been published.

On 18 November 2004, the NSW Government announced its intention to conduct a review of current asbestos compensation arrangements in NSW. The intention of this review is primarily to determine ways to reduce legal and administrative costs, and to consider the current processes for handling and resolving dust diseases compensation claims. The review is expected to report to the NSW Government early in 2005. The Company is unable to predict the outcome of this review.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The Company has incurred substantial costs associated with the SCI and may incur material costs in the future related to the SCI or subsequent legal proceedings. The following are the components of SCI related expenses:

(Millions of US dollars)	Three Months Ended 30 September 2004	Six Months Ended 30 September 2004
SCI	\$ 3.4	\$ 6.3
Internal investigation	1.1	1.1
Resolution advisory fees	0.7	0.7
Other	0.4	0.4
Total SCI related expenses	<u>\$ 5.6</u>	<u>\$ 8.5</u>

Internal investigation costs relate to an internal investigation conducted by independent legal advisors to investigate allegations raised during the SCI and in order to assist in completion of the preparation and filing of the Company's accounts in the United States. It is currently the Company's policy to expense any legal costs as incurred.

Australian Securities and Investments Commission Investigation

On 22 September 2004, ASIC announced that it was conducting an investigation into potential contraventions of certain Australian laws arising from the transactions considered by the SCI. The persons whose conduct is being investigated have not been expressly identified by the ASIC. The investigation will include a review of the conduct of the directors of various James Hardie Group companies, including their conduct and statements made in relation to securities of JHI NV or JHIL and the circumstances in which various transactions occurred (including the cancellation of partly-paid shares in JHIL).

We have received a notice from ASIC under relevant legislation to produce certain categories of documents to be considered by it in its investigation. We are currently responding to this notice and will cooperate with the ASIC in relation to all aspects of its investigation.

The Company may incur costs of current or former officers of the James Hardie Group to the extent that those costs are covered by indemnity arrangements granted by the James Hardie Group to those persons. To date, no claims have been received by any current or former officers in relation to the ASIC investigation and, if claims do arise, the Company may be reimbursed under directors' and officers' insurance policies taken out by the Company.

Severance Agreements

On 20 October 2004, Mr. Peter Shafron resigned from his position as Chief Financial Officer and on 21 October 2004, Mr. Peter Macdonald resigned from his position on the Managing Board and as Chief Executive Officer. In connection with these resignations, the Company will incur costs of \$8.8 million in the quarter ending 31 December 2004. These costs will be comprised of \$5.9 million of additional expense and \$2.9 million of accruals existing at 30 September 2004.

JAMES HARDIE INDUSTRIES N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

ABN 60 Indemnity

In order to facilitate the release of funding by ABN 60 to the Foundation, and thereby inter alia to seek to ensure that asbestos-related claims processing is not interrupted during the negotiations and facilitate negotiations with the Representatives, the Company offered an indemnity to the directors of ABN 60, which it announced on 16 November 2004. This proposed indemnity would require the Company to pay for any liability incurred by the ABN 60 directors resulting from the release of funding by ABN 60 to the Foundation. The Company believes that the release of funding by ABN 60 is in accordance with law and contracts in place and therefore the Company should not incur liability under this indemnity, but the indemnity is being offered to relieve the concerns of those who may have hesitation about their legal and financial exposure. Additionally, the Company has offered to provide funding to the Foundation on an interim basis for a period of up to six months, commencing on 16 November 2004. The proposed interim funding by the Company would only be provided once existing Foundation funds have been exhausted. The Company believes, based on actuarial and legal advice that claims against the Foundation should not exceed the funds which are or which are expected to become available to the Foundation during the period of the interim funding proposal. By way of example, the Company expects the prospect of such funds being exhausted will be materially reduced in the event that ABN 60 releases funds to the Foundation in light of the indemnity described above. The proposal for interim funding was put forward to relieve concerns regarding the short-term funding and payment of legitimate asbestos-related claims, and so that the Foundation would continue claims processing during the negotiation process. The Company has not recorded a provision for either the proposed indemnity or the potential payments under the interim funding proposal.

Item 2. Quantitative and Qualitative Disclosures About Market Risk

In this report, James Hardie Industries N.V. and its subsidiaries are collectively referred to as “we,” “us,” or “our,” and the terms “US\$”, “A\$”, “NZ\$”, “PHP”, refer to United States dollars, Australian dollars, New Zealand dollars and Philippine pesos, respectively.

We have operations in foreign countries and, as a result, are exposed to foreign currency exchange rate risk inherent in purchases, sales, assets and liabilities denominated in currencies other than the U.S. dollar. We also are exposed to interest rate risk associated with our long-term debt and to changes in prices of commodities we use in production.

Our policy is to enter into derivative instruments solely to mitigate risks in our business and not for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

We have significant operations outside of the United States and, as a result, are exposed to changes in exchange rates which affect our financial position, results of operations and cash flows. For our half year ended 30 September 2004, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	<u>US\$</u>	<u>A\$</u>	<u>NZ\$</u>	<u>Other</u> <u>(1)</u>
Net sales.....	79.1%	13.9%	3.8%	3.2%
Cost of goods sold.....	81.7%	12.0%	3.2%	3.1%
Expenses.....	67.8%	23.8%	2.7%	5.7%
Liabilities (excluding borrowings).....	84.2%	6.9%	5.6%	3.3%

(1) Comprised of Philippine pesos, Euros and Chilean pesos.

We purchase raw materials and fixed assets and sell 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, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 30 September 2004, outstanding foreign exchange contracts were not material.

Interest Rate Risk

We have market risk from changes in interest rates, primarily related to our borrowings. At 30 September 2004, 94% of our borrowings were fixed-rate and 6% variable-rate. The large percentage of fixed-rate debt reduces the earnings volatility that would result from changes in interest rates. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. During the half year ended 30 September 2004, no interest rate swap contracts were entered into and no contracts were outstanding.

The following table presents our long-term borrowings at 30 September 2004, the expected maturity date of future principal repayments and related weighted average interest rates. The fair value of our outstanding debt is what we likely would have to pay over the term of the loan if we were to enter into debt on substantially the same terms today. At 30 September 2004, all of our outstanding fixed-rate borrowings were denominated in U.S. dollars.

Future Principal Repayments by Expected Maturity Date
(in millions of US dollars, except percentages)

For the Years Ended 31 March

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Fixed rate debt	\$ 17.6	\$ 25.7	\$ 27.1	\$ 8.1	\$ 46.2	\$ 40.3	\$ 165.0	\$ 191.7
Weighted-average interest rate	6.86%	6.92%	6.99%	7.05%	7.12%	7.35%	7.09%	
Variable rate debt	\$ 11.0	—	—	—	—	—	\$ 11.0	\$ 11.0
Weighted-average interest rate	3.52%	—	—	—	—	—	3.52%	

Commodity Price Risk

Pulp is a raw material we use to produce fibre cement, and it has historically demonstrated more price sensitivity than other raw materials we use in our manufacturing process. Although we have entered into contracts to hedge pulp prices in the past, we do not anticipate entering in such transactions in the near future.

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

Disclaimer

This financial report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports filed with the Securities and Exchange Commission on Forms 20-F and 6-K, in our annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of such forward-looking statements include:

- ***projections of our operating results or financial condition;***
- ***statements of our plans, objectives or goals, including those relating to competition, acquisitions, dispositions and our products;***
- ***statements about our future economic performance or that of the United States, Australia or other countries in which we operate; and***
- ***statements about product or environmental liabilities.***

Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to: all matters relating to or arising out of the prior manufacture of asbestos by ABN 60 and certain former subsidiaries; competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with and possible changes in environmental and health and safety laws; the successful transition of new senior management; the success of our research and development efforts; the supply and cost of raw materials; our reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; risks of conducting business internationally; compliance with and changes in tax laws and treatments; and foreign exchange risks. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements. Forward-looking statements speak only as of the date they are made