SOLID FOUNDATIONS
2013 Annual Review
## FY13 Results at a Glance

### Adjusted Net Operating Profit (US$m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>140.8m</td>
</tr>
<tr>
<td>12</td>
<td>144.3m</td>
</tr>
<tr>
<td>11</td>
<td>116.7m</td>
</tr>
<tr>
<td>10</td>
<td>133.0m</td>
</tr>
<tr>
<td>09</td>
<td>100.5m</td>
</tr>
</tbody>
</table>

### Net Sales (US$m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>1,321.3m</td>
</tr>
<tr>
<td>12</td>
<td>1,237.5m</td>
</tr>
<tr>
<td>11</td>
<td>1,167.0m</td>
</tr>
<tr>
<td>10</td>
<td>1,124.6m</td>
</tr>
<tr>
<td>09</td>
<td>1,202.6m</td>
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</tbody>
</table>

### Adjusted EBIT (US$m)

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>181.0m</td>
</tr>
<tr>
<td>12</td>
<td>194.9m</td>
</tr>
<tr>
<td>11</td>
<td>184.0m</td>
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<tr>
<td>10</td>
<td>208.7m</td>
</tr>
<tr>
<td>09</td>
<td>170.9m</td>
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</tbody>
</table>

### Adjusted EBIT Margin (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>13.7%</td>
</tr>
<tr>
<td>12</td>
<td>15.7%</td>
</tr>
<tr>
<td>11</td>
<td>15.8%</td>
</tr>
<tr>
<td>10</td>
<td>18.6%</td>
</tr>
<tr>
<td>09</td>
<td>14.2%</td>
</tr>
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</table>

### Return on Shareholders’ Funds (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Return</th>
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</thead>
<tbody>
<tr>
<td>13</td>
<td>10.4%</td>
</tr>
<tr>
<td>12</td>
<td>11.2%</td>
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<tr>
<td>11</td>
<td>10.0%</td>
</tr>
<tr>
<td>10</td>
<td>13.3%</td>
</tr>
<tr>
<td>09</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

### Adjusted Diluted Earnings Per Share (US cents)

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>32.0</td>
</tr>
<tr>
<td>12</td>
<td>32.9</td>
</tr>
<tr>
<td>11</td>
<td>26.7</td>
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<tr>
<td>10</td>
<td>30.5</td>
</tr>
<tr>
<td>09</td>
<td>23.1</td>
</tr>
</tbody>
</table>

### Dividends Paid Per Share (US cents)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>43.0</td>
</tr>
<tr>
<td>12</td>
<td>4.0</td>
</tr>
<tr>
<td>11</td>
<td>8.0</td>
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<tr>
<td>10</td>
<td></td>
</tr>
<tr>
<td>09</td>
<td></td>
</tr>
</tbody>
</table>

Please refer to the back cover for full footnote references.
Summary of Operations in FY13

USA and Europe Fibre Cement

RESULTS
- Net sales increased 10% to US$951.4 million
- Sales volume increased 12% to 1,488.5 million square feet
- Average net sales price decreased 1% to US$639 per thousand square feet
- Gross profit increased 7% and gross profit margin decreased by 1.0 percentage point
  - Gross profit margin was unfavourably impacted by lower average net sales price, an increase in fixed manufacturing costs, and an unfavourable shift in product mix, partially offset by lower input costs (primarily pulp and freight)
- EBIT (excluding asset impairments) decreased slightly from US$162.7 million in fiscal year 2012 to US$162.5 million, and EBIT margin (excluding asset impairment changes) was 1.8 percentage points lower at 17.1%

Asia Pacific Fibre Cement

RESULTS
- Net sales decreased 2% to US$369.9 million
- Sales volume increased slightly from 392.3 million square feet in fiscal year 2012 to 393.7 million square feet
- Average net sales price decreased by 1% to A$911 per thousand square feet
- Gross profit decreased 6%. Gross profit margin decreased by 1.5 percentage points, impacted by (among other factors) higher fixed manufacturing costs and an unfavourable shift in product mix
- EBIT (excluding New Zealand product liability expenses) decreased 13% to US$74.9 million and EBIT margin (excluding New Zealand product liability expenses) was 2.5 percentage points lower at 20.3%
With a steady recovery in the US housing market now entering its third year, and the gradual improvement of market conditions in the Asia Pacific market, our focus in fiscal year 2013 was on investing in our businesses to ensure they are well positioned to take advantage of future market opportunities.

OVERVIEW
With a steady recovery in the US housing market now entering its third year, and the gradual improvement of market conditions in the Asia Pacific market, our focus in fiscal year 2013 was on investing in our businesses to ensure they are well positioned to take advantage of future market opportunities.

Operating earnings for the group were stable relative to fiscal year 2012. In the US, we experienced improving demand for our products and are maintaining our category share and growing our market share against other cladding products. Similarly in Australia, despite the subdued operating environment, we continue to enjoy strong category share, with the Scyon® product range becoming a larger part of that business.

CAPITAL MANAGEMENT
Our continued solid operating performance and confidence in future market opportunities enabled the Board to declare a first half dividend of US5.0 cents and a second half ordinary dividend of US13.0 cents, as well as a special dividend of US24.0 cents per security in May 2013. The resulting full year dividend of US42.0 cents per security in respect of fiscal year 2013 (totalling approximately US$185.5 million) was equal to the prior full year dividend.

The ordinary dividend announced in May 2013 represents an early increase in the company’s dividend payout ratio, which was announced in November 2012, from between 20% and 30% to between 30% and 50% of net operating profit (excluding asbestos adjustments) beginning in fiscal year 2014 onwards. The special dividend represents amounts that were not utilised in the company’s share buyback program which expired in May 2013.
The company also announced a new share buyback program in May 2013 to acquire up to 5% of its issued capital. To the extent the company does not undertake share buybacks, the Board may consider further distributions to shareholders during fiscal year 2014, as part of its capital management strategy.

**BOARD RENEWAL**

Donald McGauchie has advised the Board that he will not be standing for a further term if he is re-elected at the 2013 Annual General Meeting (AGM). For more than ten years, Donald has made a significant contribution to the success of the company, particularly in his capacity as Deputy Chairman during the past six years. The Board and I have been very fortunate to benefit from his considerable financial and commercial expertise as well as his insight into Australian matters. We are pleased that Donald has agreed to serve a further term so that the Board can consider an appropriate director to take his place.

David Dilger has also advised the Board of his intention to retire at the conclusion of his current term, in August 2013. During the past four years David has served as a member of the Audit and Remuneration Committees as well as a director on some of the company’s Irish subsidiaries. The company has benefited from his substantial executive and board level experience and the Board and I thank him for his valuable contribution.

**REirement of Russell Chenu, Chief Financial Officer**

On 12 June we announced that Russell Chenu, the company’s Chief Financial Officer (CFO) has decided to retire from executive duties in 2013.

Russell joined James Hardie as Interim CFO in October 2004 and was appointed CFO in February 2005. During his tenure, Russell has been intimately involved in the resolution of several significant legacy issues facing James Hardie, including establishment of the Amended and Restated Final Funding Agreement covering asbestos compensation arrangements in Australia, the redomicile of James Hardie from the Netherlands to Ireland and the resolution of the 1999 Disputed Amended Assessment with the Australian Taxation Office. Russell also served on James Hardie’s Managing Board between August 2005 and June 2010.

Russell’s contribution to James Hardie has been immense. There is no doubt that the company is in a significantly stronger position than it was when he joined, both financially and through the resolution of the company’s legacy issues.

**ANNUAL GENERAL MEETING**

This year’s AGM will be held on Monday, 12 August 2013, in Dublin, Ireland.

Shareholders can participate in person in Dublin, online or via a teleconference. Details are contained in the notice for the 2013 AGM.

**CONCLUSION**

Under the leadership of CEO, Louis Gries, and the management team, the company has delivered a stable operating result and is strongly positioned to take advantage of the anticipated upswing in our key product segments and markets.

Michael Hammes
Operating conditions in fiscal year 2013, particularly in the US, improved when compared to the prior year. The US housing recovery is now well underway and we have seen an increase in volume and net sales as a result.

OVERVIEW
Operating conditions in fiscal year 2013, particularly in the US, improved when compared to the prior year. The US housing recovery is now well underway and we have seen an increase in volume and net sales as a result.

As is typical for the early stages of a housing recovery in the US, multi-family and starter homes have accounted for a greater proportion of housing starts than single detached dwellings, which have traditionally provided the highest returns to the company.

For fiscal year 2013, net sales increased 7% to US$1,321.3 million due to higher sales volume in the USA and Europe segment, partially offset by lower average net sales prices in both the USA and Europe segment and the Asia Pacific segment.

USA AND EUROPE FIBRE CEMENT
For fiscal year 2013, net sales in the USA and Europe Fibre Cement segment increased 10% to US$951.4 million compared to the prior year, due to higher sales volume, partially offset by a lower average net sales price.

During fiscal year 2013, we funded a number of initiatives in the US business to support market and organisational development, as well as planning for capacity expansion based on our belief that the housing recovery now underway is sustainable. This additional expenditure reduced the impact of strong top line performance on the overall profitability of the group.

EBIT (excluding asset impairments) decreased slightly from US$162.7 million in the prior corresponding period to US$162.5 million. The decrease in EBIT was primarily driven by increased organisational costs in anticipation of higher activity levels, a lower average net sales price, an increase in fixed manufacturing costs and an unfavourable shift in product mix, partially offset by lower input costs (primarily pulp and freight).

EBIT margin (excluding asset impairment charges) was 1.8 percentage points lower at 17.1%.

ASIA PACIFIC FIBRE CEMENT
When compared to the prior fiscal year, the Asia Pacific Fibre Cement segment contributed lower operating earnings, reflecting a relatively subdued and increasingly competitive operating environment in Australia and the Philippines. The New Zealand business delivered improved results when compared to the prior year.

Net sales in the Asia Pacific business decreased 2% to US$369.9 million and EBIT (excluding New Zealand product liability expenses) decreased 13% to US$74.9 million. The decrease in EBIT was due to higher fixed manufacturing costs and an unfavourable shift in product mix, plant performance and foreign currency exchange rates.

The EBIT margin, on the same basis, was 2.5 percentage points lower at 20.3%.

On 16 April, 2013, the New Zealand Ministry of Education (MoE) initiated a ‘representative action’ in the New Zealand High Court against several building materials manufacturers, including two of the company’s New Zealand subsidiaries in relation to weathertightness issues in several thousand New Zealand school buildings. Weathertightness has been an issue in New Zealand for longer than a decade and relates to moisture penetration of a building’s...
exterior due primarily to poor design and construction practices.

The company is not yet able to determine the amount or range of loss, if any, that the company's New Zealand subsidiaries may become liable for in future periods.

We stand by our products and remain confident that our products and the technical information and support we provide to our customers are industry leading and of the highest quality. The company's New Zealand subsidiaries intend to vigorously defend the MoE claim.

OUTLOOK
The US operating environment continues to reflect an increasing number of housing starts, improving house values and ongoing but low growth in the repair and remodel market.

In anticipation of further improving markets and gains in market share, we are investing in capacity expansion in both the US and Australia.

This includes refurbishing and bringing our Fontana, California plant back online in early 2014, and our recently announced plans to acquire the land upon which our Carole Park, Brisbane manufacturing facility is located (together with the buildings) and the construction of new manufacturing capacity on that site.

The decision to invest in additional Australian fibre cement manufacturing capacity is in response to a long term trend in the Australian residential and commercial construction industries towards greater use of composite building materials, of which James Hardie is a major beneficiary.

For fiscal year 2014, we believe the operating environment in Australia is likely to remain relatively subdued. In New Zealand the strong upward trends that were experienced in the construction market in fiscal year 2013 are expected to continue.

The Philippines operating environment is likely to remain robust and the business is expected to contribute improved operating earnings during fiscal year 2014.

CONCLUSION
We are confident that the improvements we are seeing in the US housing market are sustainable and we are investing in our marketing, manufacturing capacity and organisational capability to meet anticipated growing demand.

In Asia Pacific, while the core fundamentals for the housing market look positive, it would appear that we are in for another challenging year, with operating conditions expected to remain relatively subdued, at least for the remainder of calendar year 2013.

Louis Gries
As a product leader in the building and construction industry, James Hardie recognises its obligation to promote energy efficient design and sustainable communities.

James Hardie’s approach to sustainability extends beyond manufacturing practices. We focus on designing innovative products that have an extended lifespan, require little maintenance and can be used in energy efficient buildings.

SUSTAINABLE HOUSING
We support housing projects that deliver exceptional energy star ratings and regularly work with local builders to design and develop sustainable housing projects.

The durability and longevity of our products sets us apart from alternative materials allowing James Hardie products to be specified on sustainable building projects throughout the United States and Australia and other markets we service.

SUSTAINABLE PRODUCTS
James Hardie fibre cement is resistant to damage from fire, moisture, mould and pests. Today we are producing our 7th generation fibre cement product – the most advanced fibre cement available.

In the United States, we have developed products that are engineered for specific climates, referred to as the HardieZone® system. This system categorises the United States into specific zones based on climate, allowing us to provide tailored product solutions to our customers according to where they live.

SUSTAINABLE RAW MATERIALS
We use natural and sustainable raw materials such as cement, sand, wood fibre and water. We are committed to delivering quality products people have come to expect while minimising the impacts the use of these materials has on the environment.

SUSTAINABLE MANUFACTURING
In 2013, our Peru (Illinois), Reno (Nevada) and Pulaski (Virginia) factories were certified under ISO 14001, a voluntary certification issued by a third party certified auditor, attesting that we have established environmental management best practices as laid out in the ISO 14001 requirements framework. These best practices include a standardised approach to environmental training, internal auditing, record keeping and documentation, as well as continuous improvement processes from a resource conservation and energy reduction perspective.

SUSTAINABILITY PROGRAMS
James Hardie’s manufacturing operations maintain several sustainability programs with a focus on:

- **Waste minimisation/recycling:** We continually test new waste minimisation and solid waste recycle technologies as part of our Zero to Landfill program. On an annual basis, we convert approximately 11,000 tonnes of reject fibre cement sheet into cement and an additional 8,000 tonnes of fibre cement by-products (dust/fines) into road base
**Raw Materials:** We source about 90% of our raw materials from local or regional suppliers.

**Reduced fuel usage:** Our nationwide network of factories reduces overall shipping distance and fuel consumption.

**Balancing VOC emissions:** In the US, installers using James Hardie products with ColorPlus® Technology have less exposure to paint fumes.

**Water recycling:** We are developing technologies that enable us to recycle a larger percentage of our water used in the manufacturing process.

Our Australian plants are registered under the National Energy Efficient Opportunities Program. At all production sites energy usage is compared with production output to monitor and ultimately improve energy usage efficiency.

**Sustainable Design**

James Hardie’s investment in research and development, manufacturing know-how and product design has enabled us to bring to market a range of products that are valued for durability, low maintenance and energy efficiency.

In New Zealand, following the success of a similar Australian initiative, we recently launched The Smarter Small Home™ concept. The construction techniques and innovative architectural design mean the house can be situated on less than 350 square metres, making maximum use of available land, while also being ideal for further development of existing properties and multi-family, medium density developments.

In the United States, James Hardie products are also NAHB Green Approved and have contributed LEED points to green building projects across the country.

**Sustainable Communities**

James Hardie believes in giving back to our communities in all of our locations, including in and around the areas where we have a manufacturing presence.

We support and participate in community welfare programs such as Extreme Makeover: Home Edition, Habitat for Humanity and Rebuilding Together/Heros at Home by donating products and volunteering.
Workplace Safety

James Hardie is committed to sustaining a safe working environment and has committed to the following objectives:

- Achieve within our plants an incident rate of less than 2 (an “incident rate” is the number of recordable incidents that occur per 200,000 hours worked) and a severity rate of less than 20 (the “severity rate” is the number of days lost or requiring restricted duty from recordable incidents per 200,000 hours worked)
- Eliminate serious bodily harm
- Achieve zero fatalities

It should be noted that James Hardie’s severity rate relates to factory employees and does not include our sales force, corporate or administrative employees.

Recognising that the safety of employees is critical, James Hardie has made safety one of the scorecard measures for the Board to use to determine payments to senior executives under the company’s Long Term Incentive Plan.

USA AND EUROPE FIBRE CEMENT SAFETY PERFORMANCE IN FISCAL YEAR 2013

The USA and Europe Fibre Cement business recorded 31 incidents in fiscal year 2013. The incident rate was 2.1 and the severity rate was 41.0.

From a safety perspective, the company’s focus in fiscal year 2013 was on:

- Improving consistency in reporting across and within plants
- Standardising safety metric effectiveness between plants
- Further strengthening our safety culture among employees
- Enhanced site specific safety training and professional development for safety personnel

Looking forward to fiscal year 2014, we will be:

- Consolidating previous efforts and initiatives to cement safety as a core value at the factory floor level among employees by fostering a “brother’s keeper” approach to managing safety – building a culture of interdependency by increasing accountability for co-workers
- Enhancing supervisor development and leadership presence on the floor
- Driving improved accountability through pro-active coaching and positive recognition

ASIA PACIFIC FIBRE CEMENT SAFETY PERFORMANCE IN FISCAL YEAR 2013

For the third consecutive year, the Asia Pacific Fibre Cement business recorded incident and severity rates below its safety goals of “2 and 20” with an incident rate of 0.5 and a severity rate of 4.5.

These results are a great achievement for the region and are due to the ongoing efforts of every person in our business and their commitment to ensuring we continue to provide a safe environment for our employees, contractors and visitors.

In 2013, we continued with our “on the spot” risk assessment program which further embedded our hazard identification and control processes as part of our day to day operations.

Looking forward to fiscal year 2014, our focus will be to build upon our current safety momentum and lock in improvements in our safety performance by:

- Ensuring effective safety leadership, communication and consultation by developing our leaders so that they can drive safety performance through their teams
- Ensuring a structured approach is taken for the identification of hazards in our operations so that they can be assessed and eliminated or controlled
- Auditing our performance to ensure continuous improvement in safety risk management and to identify any areas for improvement

By continuing to promote a culture of safety and enhance our systems that identify, assess, eliminate and control hazards, the company has been able to sustain the gains achieved in workplace safety.
Asbestos Funding

In 2013, James Hardie contributed A$177.5 million to the AICF. Since the AICF was established in February 2007 through to March 2013, James Hardie has contributed A$599.2 million to the fund. James Hardie has also been contributing A$500,000 each year since 2007, towards medical research into the prevention, treatment and cure of asbestos diseases. Since 2012, we have directed the entirety of our contributions to the Asbestos Diseases Research Foundation (ADRF), which conducts research at the Concord Hospital campus located in Sydney, Australia.

In 2013, James Hardie contributed an additional A$75,000 to the ADRF, for clinical trials to develop a new treatment for mesothelioma. The company has also been contributing A$75,000 a year since 2007, for an education program to inform home renovators of the risks associated with asbestos.

ANNUAL ACTUARIAL ASSESSMENT
KPMG Actuarial conducts an annual actuarial assessment of the liabilities of the AICF to enable projections to be regularly updated in line with actual claims experience and the claims outlook. Subject to the Annual Cash Flow Cap, James Hardie makes contributions to the AICF based on these annual actuarial assessments.

James Hardie discloses summary information on claims numbers each quarter with its quarterly results releases. Additional information contained in the annual actuarial report is available in the Investor Relations area of the James Hardie website (www.jameshardie.com.au).

UPDATED ACTUARIAL ASSESSMENT
James Hardie received an updated actuarial report from KPMG Actuarial at 31 March 2013, which showed the discounted central estimate of the asbestos liability increasing from A$1.580 billion at 31 March 2012, to A$1.694 billion at 31 March 2013.

The increase in the discounted central estimate of A$114 million is primarily due to lower discount rates, and an increase in the projected future number of claims to be reported for a number of disease types (specifically mesothelioma), partially offset by a decrease in the average claim settlement amount, and a decrease in the expected rate of claim inflation in the near-term.
Wherever we operate, our goal is to be at the forefront of the building materials industry, capitalising on our global leadership in product innovation, market development and manufacturing efficiency.

It is James Hardie’s commitment to quality and industry leading products that differentiates us from other building materials companies.

For more information about James Hardie, please visit our website: www.jameshardie.com.au