

# **James Hardie Industries plc**

**Condensed Consolidated Financial Statements  
as of and for the Period Ended 30 June 2017**

# James Hardie Industries plc

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# James Hardie Industries plc

## Condensed Consolidated Balance Sheets

(Millions of US dollars)	(Unaudited) 30 June 2017	31 March 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 112.3	\$ 78.9
Restricted cash and cash equivalents	5.0	5.0
Restricted cash and cash equivalents - Asbestos	36.8	108.9
Accounts and other receivables, net of provision for doubtful trade debts of US\$1.0 million and US\$0.9 million as of 30 June 2017 and 31 March 2017	188.6	199.5
Inventories	214.7	202.9
Prepaid expenses and other current assets	27.2	28.3
Insurance receivable - Asbestos	5.7	5.7
Workers' compensation - Asbestos	2.9	2.9
Total current assets	593.2	632.1
Property, plant and equipment, net	901.9	879.0
Insurance receivable - Asbestos	57.9	58.1
Workers' compensation - Asbestos	40.7	40.4
Deferred income taxes	26.3	26.9
Deferred income taxes - Asbestos	355.5	356.6
Other assets	18.1	19.6
Total assets	\$ 1,993.6	\$ 2,012.7
<b>Liabilities and Shareholders' Deficit</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 177.6	\$ 173.5
Short-term debt - Asbestos	—	52.4
Dividends payable	125.8	—
Accrued payroll and employee benefits	46.1	60.5
Accrued product warranties	11.9	9.4
Income taxes payable	9.1	1.9
Asbestos liability	117.2	116.4
Workers' compensation - Asbestos	2.9	2.9
Other liabilities	12.4	11.8
Total current liabilities	503.0	428.8
Long-term debt	540.1	564.5
Deferred income taxes	98.1	94.8
Accrued product warranties	37.2	37.2
Asbestos liability	1,029.7	1,043.3
Workers' compensation - Asbestos	40.7	40.4
Other liabilities	17.2	15.9
Total liabilities	2,266.0	2,224.9
Commitments and contingencies (Note 9)		
Shareholders' deficit:		
Common stock, Euro 0.59 par value, 2.0 billion shares authorized; 440,896,295 shares issued and outstanding at 30 June 2017 and 440,843,275 shares issued and outstanding at 31 March 2017	229.1	229.1
Additional paid-in capital	176.9	173.8
Accumulated deficit	(678.9)	(612.9)
Accumulated other comprehensive income (loss)	0.5	(2.2)
Total shareholders' deficit	(272.4)	(212.2)
Total liabilities and shareholders' deficit	\$ 1,993.6	\$ 2,012.7

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

**James Hardie Industries plc**  
**Condensed Consolidated Statements of Operations and Comprehensive Income**  
(Unaudited)

(Millions of US dollars, except per share data)	Three Months Ended 30 June	
	2017	2016
Net sales	\$ 507.7	\$ 477.7
Cost of goods sold	(338.7)	(300.9)
Gross profit	169.0	176.8
Selling, general and administrative expenses	(73.5)	(72.0)
Research and development expenses	(7.6)	(7.6)
Asbestos adjustments	(3.9)	20.6
Operating income	84.0	117.8
Interest expense, net of capitalized interest	(6.7)	(6.3)
Interest income	0.2	0.2
Other expense	(0.4)	(0.7)
Income before income taxes	77.1	111.0
Income tax expense	(19.7)	(23.9)
Net income	\$ 57.4	\$ 87.1
Income per share:		
Basic	\$ 0.13	\$ 0.20
Diluted	\$ 0.13	\$ 0.19
Weighted average common shares outstanding (Millions):		
Basic	440.9	445.6
Diluted	441.6	447.3
Comprehensive income, net of tax:		
Net income	\$ 57.4	\$ 87.1
Currency translation adjustments	2.7	(5.4)
Comprehensive income	\$ 60.1	\$ 81.7

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

**James Hardie Industries plc**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

(Millions of US dollars)	Three Months Ended 30 June	
	2017	2016
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 57.4	\$ 87.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	21.8	19.5
Deferred income taxes	4.4	4.2
Stock-based compensation	2.9	2.6
Asbestos adjustments	3.9	(20.6)
Excess tax benefits from share-based awards	(0.1)	—
Other, net	1.0	1.8
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents - Asbestos	19.7	20.9
Accounts and other receivables	12.3	(0.8)
Inventories	(10.8)	6.3
Prepaid expenses and other assets	(2.0)	1.3
Insurance receivable - Asbestos	0.6	2.4
Accounts payable and accrued liabilities	8.5	23.5
Asbestos liability	(20.5)	(23.2)
Other accrued liabilities	3.8	(9.9)
<b>Net cash provided by operating activities</b>	<b>\$ 102.9</b>	<b>\$ 115.1</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of property, plant and equipment	\$ (48.1)	\$ (17.8)
Proceeds from sale of property, plant and equipment	7.9	—
Capitalized interest	(0.9)	(0.6)
<b>Net cash used in investing activities</b>	<b>\$ (41.1)</b>	<b>\$ (18.4)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from credit facilities	\$ 30.0	\$ 5.0
Repayments of credit facilities	(55.0)	(115.0)
Proceeds from issuance of shares	0.2	0.1
<b>Net cash used in financing activities</b>	<b>\$ (24.8)</b>	<b>\$ (109.9)</b>
Effects of exchange rate changes on cash	\$ (3.6)	\$ 0.9
Net increase (decrease) in cash and cash equivalents	33.4	(12.3)
Cash and cash equivalents at beginning of period	78.9	107.1
<b>Cash and cash equivalents at end of period</b>	<b>\$ 112.3</b>	<b>\$ 94.8</b>
<b>Components of Cash and Cash Equivalents</b>		
Cash at bank	\$ 107.5	\$ 80.4
Short-term deposits	4.8	14.4
Cash and cash equivalents at end of period	<b>\$ 112.3</b>	<b>\$ 94.8</b>

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

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements

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### 1. Background and Basis of Presentation

#### Nature of Operations

James Hardie Industries plc manufactures and sells fiber cement building products for interior and exterior building construction applications, primarily in the United States, Australia, Canada, New Zealand, the Philippines and Europe.

#### Basis of Presentation

The condensed consolidated financial statements represent the financial position, results of operations and cash flows of James Hardie Industries plc and its wholly-owned subsidiaries and a special purpose entity. Except as otherwise indicated, James Hardie Industries plc is referred to as “JHI plc.” JHI plc, together with its direct and indirect wholly-owned subsidiaries, are collectively referred to as “James Hardie” or the “Company.” These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in the Company’s Annual Report on Form 20-F for the fiscal year ended 31 March 2017, which was filed with the United States Securities and Exchange Commission (“SEC”) on 18 May 2017.

The condensed consolidated financial statements included herein are unaudited; however, they contain all adjustments (all of which are normal and recurring) which, in the opinion of the Company’s management, are necessary to state fairly the condensed consolidated balance sheet of the Company at 30 June 2017, the condensed consolidated results of operations and comprehensive income for the three months ended 30 June 2017 and 2016 and the condensed consolidated cash flows for the three months ended 30 June 2017 and 2016.

The Company has recorded on its balance sheet certain Australian assets and liabilities, including asbestos-related assets and liabilities under the terms of the Amended and Restated Final Funding Agreement (“AFFA”), that are denominated in Australian dollars and subject to translation (Australian entities) or remeasurement (Asbestos Injuries Compensation Fund (“AICF”) entity) into US dollars at each reporting date. Unless otherwise noted, the Company converts Australian dollar denominated assets and liabilities into US dollars at the current spot rate at the end of the reporting period; while revenues and expenses are converted using an average exchange rate for the period.

The results of operations for the three months ended 30 June 2017 are not necessarily indicative of the results to be expected for the full year. The balance sheet at 31 March 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“US GAAP”) for complete financial statements in this interim financial report.

### 2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, which provides guidance requiring companies to recognize revenue depicting the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting periods beginning after 15 December 2017, and interim periods within those years, with early adoption permitted for annual reporting periods beginning after 15 December 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU No. 2014-09. The Company will adopt ASU 2014-09 (and related clarifying guidance issued by the FASB) starting with the fiscal year beginning 1 April 2018. The Company has begun its process for implementing this guidance, including performing a preliminary review of all revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. The Company will continue to assess the method of adoption and the overall impact the adoption will have on the financial statements.

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

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In February 2016, the FASB issued ASU No. 2016-02, which provides guidance on the amount, timing, and uncertainty of cash flows arising from leases. The standard requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. Lessor accounting will remain largely unchanged from current guidance, however ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. The amendments in ASU No. 2016-02 are effective for fiscal years and interim periods within those years, beginning after 15 December 2018, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, which provides guidance to simplify several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in ASU No. 2016-09 were effective for fiscal years and interim periods within those years, beginning after 15 December 2016. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value shall be applied on a modified retrospective basis, wherein the beginning retained earnings in the period in which the guidance is adopted should include a cumulative-effect adjustment to reflect the effects of applying the new guidance. Amendments related to the presentation of employee taxes paid on the statements of cash flows shall be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the consolidated statements of operations and comprehensive income and the practical expedient for estimating term shall be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statements of cash flows using either a prospective transition method or a retrospective transition method. The Company adopted ASU No. 2016-19 starting with the fiscal year beginning 1 April 2017. Upon adoption, the Company began recognizing forfeitures as they occur and applied the change in classification of cash flows resulting from excess tax benefits or deficiencies on a prospective basis. The adoption of this standard did not have a material impact on its financial statements, and prior periods have not been adjusted as a result of this standard.

In October 2016, the FASB issued ASU No. 2016-16, which requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. The amendments in ASU No. 2016-16 are effective for fiscal years and interim periods within those years, beginning after 15 December 2017, with early adoption permitted. The amendments in ASU No. 2016-16 shall be applied on a modified retrospective basis, wherein the beginning retained earnings in the period in which the guidance is adopted should include a cumulative-effect adjustment to reflect the effects of applying the new guidance. The Company will adopt ASU 2016-16 starting with the fiscal year beginning 1 April 2018 and is currently evaluating the impact of the new guidance on its financial statements.

In November 2016, the FASB issued ASU No. 2016-18, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in ASU No. 2016-18 are effective for fiscal years and interim periods within those years, beginning after 15 December 2017, with early adoption permitted. The amendments in ASU No. 2016-18 shall be applied on a retrospective basis for each period presented. The Company will adopt ASU 2016-18 starting with the fiscal year beginning 1 April 2018 and is currently evaluating the impact of the new guidance on its financial statements.

In January 2017, the FASB issued ASU No. 2017-01, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of either assets or of businesses. The amendments in ASU No. 2017-01 are effective for fiscal years and interim periods within those years, beginning after 15 December 2017, on a prospective basis. Early application of the amendments in ASU No. 2017-01 is allowable for transactions in which the acquisition date, the date of the deconsolidation of a subsidiary or the date a group of assets is derecognized occurs before the report issuance date. The Company is currently evaluating the impact of the new guidance on its financial statements.

### 3. Earnings Per Share

The Company discloses basic and diluted earnings per share ("EPS"). Basic EPS is calculated using net 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

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

additional common shares calculated using the Treasury Stock Method that would have been outstanding if the dilutive stock options and restricted stock units ("RSUs"), had been issued.

Accordingly, basic and diluted common shares outstanding used in determining net income per share are as follows:

(Millions of shares)	Three Months Ended 30 June	
	2017	2016
Basic common shares outstanding	440.9	445.6
Dilutive effect of stock awards	0.7	1.7
Diluted common shares outstanding	441.6	447.3

  

(US dollars)	2017		2016	
	Net income per share - basic	\$	0.13	\$
Net income per share - diluted	\$	0.13	\$	0.19

Potential common shares of 1.9 million and 1.1 million for the three months ended 30 June 2017 and 2016, respectively, have been excluded from the calculation of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

Unless they are anti-dilutive, RSUs which vest solely based on continued employment are considered to be outstanding as of their issuance date for purposes of computing diluted EPS using the Treasury Stock Method. Once these RSUs vest, they are included in the basic EPS calculation on a weighted-average basis.

RSUs which vest based on performance or market conditions are considered contingent shares. At each reporting date prior to the end of the contingency period, the Company determines the number of contingently issuable shares to include in the diluted EPS, as the number of shares that would be issuable under the terms of the RSUs arrangement, if the end of the reporting period were the end of the contingency period. Once these RSUs vest, they are included in the basic EPS calculation on a weighted-average basis.

#### 4. Restricted Cash and Cash Equivalents

Included in restricted cash and cash equivalents is US\$5.0 million related to an insurance policy at 30 June 2017 and 31 March 2017, which restricts the cash from use for general corporate purposes.

#### 5. Inventories

Inventories consist of the following components:

(Millions of US dollars)	30 June		31 March	
	2017		2017	
Finished goods	\$	155.0	\$	146.7
Work-in-process		7.6		6.5
Raw materials and supplies		60.9		57.5
Provision for obsolete finished goods and raw materials		(8.8)		(7.8)
Total inventories	\$	214.7	\$	202.9

As of 30 June 2017 and 31 March 2017, US\$35.8 million and US\$29.8 million, respectively, of the Company's finished goods inventory was held at third-party locations.



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## Notes to Condensed Consolidated Financial Statements (continued)

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### 6. Long-Term Debt

At 30 June 2017, the Company held two forms of debt; an unsecured revolving credit facility and senior unsecured notes. The effective weighted average interest rate on the Company's total debt was 5.0% and 4.8% at 30 June 2017 and 31 March 2017, respectively. The weighted average term of all debt, including undrawn facilities, was 4.4 years and 4.7 years at 30 June 2017 and 31 March 2017, respectively.

#### Revolving Credit Facility

In December 2015, James Hardie International Finance Designated Activity Company ("JHIF") and James Hardie Building Products Inc., each a wholly-owned subsidiary of JHI plc, entered into a US\$500.0 million unsecured revolving credit facility (the "Revolving Credit Facility") with certain commercial banks and HSBC Bank USA, National Association, as administrative agent. The Revolving Credit Facility expires in December 2020 and the size of the facility may be increased by up to US\$250.0 million.

Debt issuance costs in connection with the Revolving Credit Facility are recorded as an offset to *Long-Term Debt* in the Company's condensed consolidated balance sheet and are being amortized as interest expense using the effective interest method over the stated term of 5 years. At 30 June 2017 and 31 March 2017, the Company's total debt issuance costs have an unamortized balance of US\$2.8 million and US\$3.1 million, respectively.

The amount drawn under the Revolving Credit Facility was US\$150.0 million and US\$175.0 million at 30 June 2017 and 31 March 2017, respectively.

The effective weighted average interest rate on the Company's total outstanding Revolving Credit Facility was 2.7% and 2.5% at 30 June 2017 and 31 March 2017, respectively.

Borrowings under the Revolving Credit Facility bear interest at per annum rates equal to, at borrower's option, either: (i) the London Interbank Offered Rate ("LIBOR") plus an applicable margin for LIBOR loans; or (ii) a base rate plus an applicable margin for base rate loans. The base rate is calculated as the highest of (x) the rate that the administrative agent announces from time to time as its prime lending rate, as in effect from time to time, (y) 1/2 of 1% in excess of the overnight Federal Funds Rate, and (z) LIBOR for an interest period of one month plus 1.00%. The applicable margin is calculated based on a pricing grid that in each case is linked to our consolidated net leverage ratio. For LIBOR loans, the applicable margin ranges from 1.25% to 2.00%, and for base rate loans it ranges from 0.25% to 1.00%. We also pay a commitment fee of between 0.20% and 0.35% on the actual daily amount of the unutilized revolving loans. The applicable commitment fee percentage is based on a pricing grid linked to our consolidated net leverage ratio.

The Revolving Credit Facility is guaranteed by each of James Hardie International Group Limited ("JHIGL") and James Hardie Technology Limited, each of which are wholly-owned subsidiaries of JHI plc.

The Revolving Credit Facility agreement contains certain covenants that, among other things, restrict JHIGL and its restricted subsidiaries' ability to incur indebtedness and grant liens other than certain types of permitted indebtedness and permitted liens, make certain restricted payments, and undertake certain types of mergers or consolidations actions. In addition, the Company: (i) must not exceed a maximum of net debt to earnings before interest, tax, depreciation and amortization, excluding all asbestos-related liabilities, assets, income, gains, losses and charges other than AICF payments, all AICF selling, general and administrative ("SG&A") expenses, all Australian Securities and Investment Commission ("ASIC")-related expenses, all recoveries and asset impairments, and all New Zealand product liability expenses and (ii) must meet or exceed a minimum ratio of earnings before interest, tax, depreciation and amortization to interest charges, excluding all income, expense and other profit and loss statement impacts of asbestos income, gains, losses and charges, all AICF SG&A expenses, all ASIC-related expenses, all recoveries and asset impairments, and all New Zealand product liability expenses. At 30 June 2017, the Company was in compliance with all covenants contained in the Revolving Credit Facility agreement.

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

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### Senior Unsecured Notes

In February 2015, JHIF completed the sale of US\$325.0 million aggregate principal amount of senior unsecured notes due 15 February 2023. Interest is payable semi-annually in arrears on 15 February and 15 August of each year, at a rate of 5.875%.

The senior notes were sold at an offering price of 99.213% of par value, an original issue discount of US\$2.6 million. Debt issuance costs in connection with the offering are recorded as an offset to *Long-Term Debt* on the Company's condensed consolidated balance sheet. Both the discount and the debt issuance costs are being amortized as interest expense using the effective interest method over the stated term of 8 years. The discount has an unamortized balance of US\$1.8 million and US\$1.9 million at 30 June 2017 and 31 March 2017, respectively. The debt issuance costs have an unamortized balance of US\$5.7 million and US\$6.0 million at 30 June 2017 and 31 March 2017, respectively.

In July 2016, JHIF completed the re-offering and sale of an additional US\$75.0 million aggregate principal amount of its 5.875% senior notes due 2023. The senior notes issued and sold pursuant to the re-offering constitute a further issuance of, and are consolidated with, the US\$325.0 million aggregate principal amount of 5.875% senior notes issued in February 2015 and form a single series with the outstanding notes. The re-offered senior notes have the same terms (other than issue date and issue price) as those of the outstanding notes and were sold at an offering price of 103.0% of par value, plus accrued and unpaid interest from 15 February 2016 (as if the senior notes had been issued on such date). Following the completion of this re-offering, the aggregate principal amount of senior notes due 2023 is US\$400.0 million.

The re-offering was sold at an offering price of 103.0% of par value, a premium of US\$2.3 million. Debt issuance costs in connection with the re-offering are recorded as an offset to *Long-Term Debt* on the Company's condensed consolidated balance sheet. Both the premium and the debt issuance costs are being amortized as interest expense using the effective interest method over 6.6 years, the term of the US\$75.0 million re-offering. The premium has an unamortized balance of US\$1.9 million and US\$2.0 million at 30 June 2017 and 31 March 2017, respectively. The debt issuance costs have an unamortized balance of US\$1.5 million at 30 June 2017 and 31 March 2017.

The senior notes are guaranteed by each of JHIGL, James Hardie Building Products Inc. and James Hardie Technology Limited, each of which are wholly-owned subsidiaries of JHI plc.

The indenture governing the senior notes contains covenants that, among other things, limit the ability of the guarantors and their restricted subsidiaries to incur liens on assets, make certain restricted payments, engage in certain sale and leaseback transactions and merge or consolidate with or into other companies. These covenants are subject to certain exceptions and qualifications as described in the indenture. At 30 June 2017, the Company was in compliance with all of its requirements under the indenture related to the senior notes.

The Company's senior unsecured notes have an estimated fair value of US\$419.0 million and US\$414.0 million at 30 June 2017 and 31 March 2017, respectively, based on the trading price observed in the market at or near the balance sheet date and are categorized as Level 1 within the fair value hierarchy.

### **7. Asbestos**

In February 2007, the Company's shareholders approved the AFFA, an agreement pursuant to which the Company provides long-term funding to the AICF.

### Asbestos Adjustments

Asbestos-related assets and liabilities are denominated in Australian dollars. The reported values of these asbestos-related assets and liabilities in the Company's condensed consolidated balance sheets in US dollars are subject to adjustment depending on the closing exchange rate between the two currencies at the balance sheet dates, the effect of which is included in *Asbestos adjustments* in the condensed consolidated statements of operations and comprehensive

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### Notes to Condensed Consolidated Financial Statements (continued)

income. The asbestos adjustments for the three months ended 30 June 2017 and 2016 were expense of US\$3.9 million and income US\$20.6 million, respectively.

#### Claims Data

The following table shows the activity related to the numbers of open claims, new claims and closed claims during each of the past five years and the average settlement per settled claim and case closed:

	Three Months Ended		For the Years Ended 31 March									
	30 June 2017		2017		2016		2015		2014		2013	
Number of open claims at beginning of period	352		426		494		466		462		592	
Number of new claims	146		557		577		665		608		542	
Number of closed claims	151		631		645		637		604		672	
Number of open claims at end of period	347		352		426		494		466		462	
Average settlement amount per settled claim	A\$	227,788	A\$	223,535	A\$	248,138	A\$	254,209	A\$	253,185	A\$	231,313
Average settlement amount per case closed	A\$	205,160	A\$	167,563	A\$	218,900	A\$	217,495	A\$	212,944	A\$	200,561
Average settlement amount per settled claim	US\$	170,974	US\$	168,300	US\$	182,763	US\$	222,619	US\$	236,268	US\$	238,615
Average settlement amount per case closed	US\$	153,989	US\$	126,158	US\$	161,229	US\$	190,468	US\$	198,716	US\$	206,892

Under the terms of the AFFA, the Company has rights of access to actuarial information produced for AICF by the actuary appointed by AICF, which is currently KPMG Actuarial Pty Ltd. The Company's disclosures with respect to claims statistics are subject to it obtaining such information, however, the AFFA does not provide the Company an express right to audit or otherwise require independent verification of such information or the methodologies to be adopted by the approved actuary. As such, the Company relies on the accuracy and completeness of the information provided by the AICF to the approved actuary and the resulting information and analysis of the approved actuary when making disclosures with respect to claims statistics.

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## Notes to Condensed Consolidated Financial Statements (continued)

### Asbestos-Related Assets and Liabilities

The Company has included on its condensed consolidated balance sheets the asbestos-related assets and liabilities of AICF under the terms of the AFFA. These amounts are detailed in the table below, and the net total of these asbestos-related assets and liabilities is referred to by the Company as the “Net AFFA Liability.”

(Millions of US dollars)	30 June 2017	31 March 2017
Asbestos liability – current	\$ (117.2)	\$ (116.4)
Asbestos liability – non-current	(1,029.7)	(1,043.3)
<b>Asbestos liability - Total</b>	<b>(1,146.9)</b>	<b>(1,159.7)</b>
Insurance receivable – current	5.7	5.7
Insurance receivable – non-current	57.9	58.1
<b>Insurance receivable – Total</b>	<b>63.6</b>	<b>63.8</b>
Workers' compensation asset – current	2.9	2.9
Workers' compensation asset – non-current	40.7	40.4
Workers' compensation liability – current	(2.9)	(2.9)
Workers' compensation liability – non-current	(40.7)	(40.4)
<b>Workers' compensation – Total</b>	<b>—</b>	<b>—</b>
Loan facility	—	(52.4)
Other net liabilities	(2.1)	(1.6)
Restricted cash and cash equivalents of the AICF	36.8	108.9
<b>Net Unfunded AFFA liability</b>	<b>\$ (1,048.6)</b>	<b>\$ (1,041.0)</b>
Deferred income taxes – non-current	355.5	356.6
Income tax payable	3.7	16.8
<b>Net Unfunded AFFA liability, net of tax</b>	<b>\$ (689.4)</b>	<b>\$ (667.6)</b>

The following is a detailed rollforward of the Net Unfunded AFFA liability, net of tax, for the quarter ended 30 June 2017:

(Millions of US dollars)	Asbestos Liability	Insurance Receivables	Deferred Tax Assets	Other Loan Facilities	Restricted Cash	Other Assets and Liabilities <sup>1</sup>	Net Unfunded AFFA Liability, net of tax
Opening Balance - 31 March 2017	\$ (1,159.7)	\$ 63.8	\$ 356.6	\$ (52.4)	\$ 108.9	\$ 15.2	\$ (667.6)
Asbestos claims paid <sup>2</sup>	20.3	—	—	—	(20.3)	—	—
AICF claims-handling costs incurred (paid)	0.3	—	—	—	(0.3)	—	—
AICF operating costs paid - non claims-handling	—	—	—	—	(0.4)	—	(0.4)
Insurance recoveries	—	(0.6)	—	—	0.6	—	—
Movement in income tax payable	—	—	(3.6)	—	—	(12.9)	(16.5)
Funds repaid to NSW under loan agreement	—	—	—	51.9	(51.9)	—	—
Other movements	—	—	0.1	—	0.7	(1.0)	(0.2)
Effect of foreign exchange <sup>3</sup>	(7.8)	0.4	2.4	0.5	(0.5)	0.3	(4.7)
<b>Closing Balance - 30 June 2017</b>	<b>\$ (1,146.9)</b>	<b>\$ 63.6</b>	<b>\$ 355.5</b>	<b>\$ —</b>	<b>\$ 36.8</b>	<b>\$ 1.6</b>	<b>\$ (689.4)</b>

1 Other assets and liabilities include an offset to income tax payable of US\$3.7 million and US\$16.8 million at 30 June 2017 and 31 March 2017, respectively. The remaining balance includes the other assets and liabilities of AICF, with a net liability of US\$2.1 million and US\$1.6 million at 30 June 2017 and 31 March 2017, respectively.

2 Claims paid of US\$20.3 million reflects A\$27.0 million converted at the average exchange rate for the period based on the assumption that these transactions occurred evenly throughout the period.

## James Hardie Industries plc

### Notes to Condensed Consolidated Financial Statements (continued)

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- 3 For the three months 30 June 2017, the Asbestos adjustments of US\$3.9 million on the Company's condensed consolidated statements of operations and comprehensive income include the effect of foreign exchange above of US\$4.7 million, which is partially offset by the gain on the foreign currency forward contract associated with the AICF payment.

#### AICF Funding

On 3 July 2017, the Company made a payment of A\$135.1 million (US\$102.2 million) to AICF, representing 35% of its free cash flow for fiscal year 2017. For the 3 July 2017 payment, free cash flow, as defined in the AFFA, was equivalent to the Company's fiscal year 2017 operating cash flows of US\$292.1 million. For the three months ended 30 June 2017, the Company did not provide financial or other support to AICF that it was not previously contractually required to provide.

#### AICF - NSW Government Secured Loan Facility

AICF may borrow, subject to certain conditions, up to an aggregate amount of A\$320.0 million (US\$246.3 million, based on the exchange rate at 30 June 2017) from the New South Wales ("NSW") Government. The AICF Loan Facility is available to be drawn for the payment of claims through 1 November 2030, at which point, all outstanding borrowings must be repaid. Borrowings made under the AICF Loan Facility are classified as current, as AICF intends to repay the debt within one year.

Interest accrues daily on amounts outstanding, is calculated based on a 365-day year and is payable monthly. AICF may, at its discretion, elect to accrue interest payable on amounts outstanding under the AICF Loan Facility on the date interest becomes due and payable.

At 30 June 2017 and 31 March 2017, AICF had an outstanding balance under the AICF Loan Facility of nil and US\$52.4 million, respectively.

## **8. Derivative Instruments**

The Company uses derivatives for risk management purposes and does not engage in speculative activity. A key risk management objective for the Company is to mitigate interest rate risk associated with the Company's external credit facilities and foreign currency risk primarily with respect to forecasted transactions denominated in foreign currencies. The determination of whether the Company enters into a derivative transaction to achieve these risk management objectives depends on a number of factors, including market related factors that impact the extent to which derivative instruments will achieve such risk management objectives of the Company.

The Company may from time to time enter into interest rate swap contracts to protect against upward movements in US Dollar LIBOR and the associated interest the Company pays on its external credit facilities. Interest rate swaps are recorded in the financial statements at fair value. Changes in fair value are recorded in the condensed consolidated statements of operations and comprehensive income in *Other expense*.

#### Interest Rate Swaps

The fair value of interest rate swap contracts is calculated based on the fixed rate, notional principal, settlement date and present value of the future cash inflows and outflows based on the terms of the agreement and the future floating interest rates as determined by a future interest rate yield curve. The model used to value the interest rate swap contracts is based upon well recognized financial principles, and interest rate yield curves can be validated through readily observable data by external sources. Although readily observable data is used in the valuations, different valuation methodologies could have an effect on the estimated fair value. Accordingly, the interest rate swap contracts are categorized as Level 2.

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

For interest rate swap contracts, the Company has agreed to pay fixed interest rates while receiving a floating interest rate. These contracts have a fair value of US\$1.2 million and US\$1.1 million at 30 June 2017 and 31 March 2017, respectively, which is included in *Accounts payable and accrued liabilities*.

At 30 June 2017, the weighted average fixed interest rate of these contracts is 2.1% and the weighted average remaining life is 2.2 years. For the three months ended 30 June 2017, the Company included in *Other expense* an unrealized loss of US\$0.2 million and a realized loss of US\$0.2 million on interest rate swap contracts. For the three months ended 30 June 2016, the Company included in *Other expense* an unrealized loss of US\$0.4 million and a realized loss of US\$0.3 million on interest rate swap contracts.

### Foreign Currency Forward Contracts

The Company's foreign currency forward contracts are valued using models that maximize the use of market observable inputs including interest rate curves and both forward and spot prices for currencies and are categorized as Level 2 within the fair value hierarchy. The forward contracts at 30 June 2017 were primarily related to the dividends announced in May 2017 and the AICF payment in July 2017.

Changes in the fair value of forward contracts that are not designated as hedges are recorded in earnings within *Other expense* at each measurement date. As discussed above, these derivatives are typically entered into as economic hedges of changes in currency exchange rates.

The forward contracts had an unrealized gain of US\$4.1 million in the three months ended 30 June 2017. This gain was offset by the US\$1.7 million loss on the revaluation of the liability associated with the AICF payment and the US\$2.4 million loss on the revaluation of the dividends payable balance, for a net impact of nil in *Other expense*.

The forward contracts had an unrealized loss of US\$1.9 million in the three months ended 30 June 2016. This loss was offset by the US\$1.4 million gain on the revaluation of the liability associated with the AICF payment and the US\$0.5 million gain on the revaluation of the dividends payable balance, for a net impact of nil in *Other expense*.

The notional amount of interest rate swap contracts and foreign currency forward contracts represents the basis upon which payments are calculated and are reported on a net basis when a legal and enforceable right of off-set exists.

The following table sets forth the total outstanding notional amount and the fair value of the Company's derivative instruments.

(Millions of US dollars)	Notional Amount		Fair Value as of			
			30 June 2017		31 March 2017	
	30 June 2017	31 March 2017	Assets	Liabilities	Assets	Liabilities
<b>Derivatives not accounted for as hedges</b>						
Interest rate swap contracts	\$ 100.0	\$ 100.0	\$ —	\$ 1.2	\$ —	\$ 1.1
Foreign currency forward contracts	223.3	—	4.1	—	—	—
<b>Total</b>	<b>\$ 323.3</b>	<b>\$ 100.0</b>	<b>\$ 4.1</b>	<b>\$ 1.2</b>	<b>\$ —</b>	<b>\$ 1.1</b>

### 9. Commitments and Contingencies

The Company is involved from time to time in various legal proceedings and administrative actions related to the normal conduct of its business, including general liability claims, putative class action lawsuits and litigation concerning its products.

Although it is impossible to predict the outcome of any pending legal proceeding, management believes that such proceedings and actions should not, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows, except as they relate to asbestos as described in these condensed consolidated financial statements.

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

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### Environmental and Legal

The operations of the Company, like those of other companies engaged in similar businesses, are subject to a number of 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.

### **10. Income Taxes**

*Income taxes payable* represents taxes currently payable which are computed at statutory income tax rates applicable to taxable income derived in each jurisdiction in which the Company conducts business. During the three months ended 30 June 2017, the Company paid tax net of any refunds received of US\$2.6 million in Ireland, the United States, Canada and New Zealand.

*Deferred income taxes* include European and Australian net operating loss carry-forwards. At 30 June 2017, the Company had European tax loss carry-forwards of approximately US\$6.9 million and Australian tax loss carry-forwards of approximately US\$17.6 million that are available to offset future taxable income in the respective jurisdiction.

The European tax loss carry-forwards relate to losses incurred in prior years during the establishment of the European business. At 30 June 2017, the Company had a valuation allowance against a portion of the European tax loss carry-forwards in respect of which realization is not more likely than not.

The Australian tax loss carry-forwards primarily result from current and prior year tax deductions for contributions to AICF. James Hardie 117 Pty Limited, the performing subsidiary under the AFFA, is able to claim a tax deduction for its contributions to AICF over a five-year period commencing in the year the contribution is incurred. At 30 June 2017, the Company recognized a tax deduction of US\$12.1 million (A\$16.1 million) for the current year relating to total contributions to AICF of US\$266.9 million (A\$321.7 million) incurred in fiscal years 2014 through 2017.

Due to the size and nature of its business, the Company is subject to ongoing reviews by taxing jurisdictions on various tax matters. The Company accrues for tax contingencies based upon its best estimate of the taxes ultimately expected to be paid, which it updates over time as more information becomes available. Such amounts are included in taxes payable or other non-current liabilities, as appropriate. If the Company ultimately determines that payment of these amounts is unnecessary, the Company reverses the liability and recognizes a tax benefit during the period in which the Company determines that the liability is no longer necessary. The Company records additional tax expense in the period in which it determines that the recorded tax liability is less than the ultimate assessment it expects.

The Company or its subsidiaries file income tax returns in various jurisdictions including Ireland, the United States, Australia, New Zealand, the Philippines and The Netherlands. The Company is no longer subject to US federal examinations by US Internal Revenue Service for fiscal years prior to fiscal year 2014 and Australian federal examinations by the Australian Taxation Office for fiscal years prior to fiscal year 2013.

Taxing authorities from various jurisdictions in which the Company operates are in the process of reviewing the Company's respective jurisdictional tax returns for various ranges of years. The Company accrues tax liabilities in connection with ongoing audits and reviews based on knowledge of all relevant facts and circumstances, taking into account existing tax laws, its experience with previous audits and settlements, the status of current tax examinations and how the tax authorities view certain issues.

### Unrecognized Tax Benefits

At 30 June 2017 and 31 March 2017, the total amount of unrecognized tax benefits and the total amount of interest and penalties accrued by the Company related to unrecognized tax benefits that, if recognized, would affect the tax expense is US\$0.7 million and nil, respectively.

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense. During the three months ended 30 June 2017, the total amount of interest and penalties recognized in tax expense was nil. The liabilities associated with uncertain tax benefits are included in *Other liabilities* on the Company's condensed consolidated balance sheets.

### 11. Stock-Based Compensation

Total stock-based compensation expense consists of the following:

(Millions of US dollars)	Three Months Ended 30 June	
	2017	2016
Liability Awards Expense	\$ (0.2)	\$ 1.7
Equity Awards Expense	2.9	2.6
<b>Total stock-based compensation expense</b>	<b>\$ 2.7</b>	<b>\$ 4.3</b>

As of 30 June 2017, the unrecorded future stock-based compensation expense related to outstanding equity awards was US\$13.1 million after estimated forfeitures and will be recognized over an estimated weighted average amortization period of 1.2 years.

### 12. Capital Management and Dividends

The following table summarizes the dividends declared or paid during the fiscal years 2018, 2017 and 2016:

(Millions of US dollars)	US Cents/Security	US\$ Millions Total Amount	Announcement Date	Record Date	Payment Date
FY 2017 second half dividend <sup>1</sup>	0.28	123.4	18 May 2017	8 June 2017	4 August 2017
FY 2017 first half dividend	0.10	46.6	17 November 2016	21 December 2016	24 February 2017
FY 2016 second half dividend	0.29	130.2	19 May 2016	9 June 2016	5 August 2016
FY 2016 first half dividend	0.09	39.7	19 November 2015	23 December 2015	26 February 2016
FY 2015 special dividend	0.22	92.8	21 May 2015	11 June 2015	7 August 2015
FY 2015 second half dividend	0.27	114.0	21 May 2015	11 June 2015	7 August 2015

<sup>1</sup> The FY2017 second half dividend total amount of US\$123.4 million represents the value of the dividend declared. Any difference between the amount declared and the amount payable per the Company's condensed consolidated balance sheets is due to unrealized foreign exchange gain or loss associated with the change in the dividend liability between the record date and the balance sheet date.

### 13. Operating Segment Information and Concentrations of Risk

The North America Fiber Cement segment manufactures fiber cement interior linings, exterior siding products and related accessories in the United States; these products are sold in the United States and Canada. The International Fiber Cement segment includes all fiber cement products manufactured in Australia, New Zealand and the Philippines, and sold in Australia, New Zealand, Asia, the Middle East (Israel, Kuwait, Qatar and United Arab Emirates) and various Pacific Islands. This segment also includes product manufactured in the United States that is sold in Europe. The Other Businesses segment includes certain non-fiber cement manufacturing and sales activities in North America, including fiberglass windows. The Research and Development segment represents the cost incurred by the research and development centers. General Corporate costs primarily consist of Asbestos adjustments, officer and employee compensation and related benefits, professional and legal fees, administrative costs and rental expense, net of rental income, on the Company's corporate offices.



# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

### Operating Segments

The following is the Company's operating segment information:

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 June	
	2017	2016
North America Fiber Cement	\$ 393.1	\$ 370.3
International Fiber Cement	110.8	102.9
Other Businesses	3.8	4.5
Worldwide total	\$ 507.7	\$ 477.7

(Millions of US dollars)	Income Before Income Taxes Three Months Ended 30 June	
	2017	2016
North America Fiber Cement <sup>1</sup>	\$ 79.8	\$ 94.6
International Fiber Cement <sup>1</sup>	26.2	23.9
Other Businesses	(1.8)	(1.4)
Research and Development <sup>1</sup>	(6.1)	(6.1)
Segments total	98.1	111.0
General Corporate <sup>2</sup>	(14.1)	6.8
Total operating income	84.0	117.8
Net interest expense <sup>3</sup>	(6.5)	(6.1)
Other expense	(0.4)	(0.7)
Worldwide total	\$ 77.1	\$ 111.0

(Millions of US dollars)	Total Identifiable Assets	
	30 June 2017	31 March 2017
North America Fiber Cement	\$ 931.2	\$ 917.4
International Fiber Cement	341.0	335.7
Other Businesses	29.1	28.4
Research and Development	7.6	12.3
Segments total	1,308.9	1,293.8
General Corporate <sup>4,5</sup>	684.7	718.9
Worldwide total	\$ 1,993.6	\$ 2,012.7

The following is the Company's geographical information:

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 June	
	2017	2016
North America	\$ 396.9	\$ 374.7
Australia	71.0	62.2
New Zealand	19.0	17.1
Other Countries	20.8	23.7
Worldwide total	\$ 507.7	\$ 477.7

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

(Millions of US dollars)	Total Identifiable Assets	
	30 June	31 March
	2017	2017
North America	\$ 963.0	\$ 953.1
Australia	238.0	237.0
New Zealand	34.3	31.8
Other Countries	73.6	71.9
Segments total	1,308.9	1,293.8
General Corporate <sup>4,5</sup>	684.7	718.9
Worldwide total	\$ 1,993.6	\$ 2,012.7

1 The following table summarizes research and development costs by segment:

(Millions of US dollars)	Three Months Ended 30 June	
	2017	2016
North America Fiber Cement	\$ 1.6	\$ 1.7
International Fiber Cement	0.4	0.3
Research and Development <sup>a</sup>	5.6	5.6
	\$ 7.6	\$ 7.6

a For the three months ended 30 June 2017 and 2016, the R&D segment also included SG&A expenses of US\$0.5 million.

2 Included in the General Corporate costs are the following:

(Millions of US dollars)	Three Months Ended 30 June	
	2017	2016
Asbestos adjustments	\$ (3.9)	\$ 20.6
AICF SG&A expenses	(0.4)	(0.4)

3 The Company does not report net interest expense for each operating segment as operating segments are not held directly accountable for interest expense. All net interest expense is included in General Corporate costs. Included in net interest expense is AICF net interest income of US\$0.1 million and AICF net interest expense of US\$0.7 million for the three months ended 30 June 2017 and 2016, respectively. See Note 7 for more information.

4 The Company does not report deferred tax assets and liabilities for each operating segment as operating segments are not held directly accountable for deferred income taxes. All deferred income taxes are included in General Corporate costs.

5 Asbestos-related assets at 30 June 2017 and 31 March 2017 are US\$500.6 million and US\$573.8 million, respectively, and are included in the General Corporate costs.

# James Hardie Industries plc

## Notes to Condensed Consolidated Financial Statements (continued)

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### 14. Accumulated Other Comprehensive Income (Loss)

During the three months ended 30 June 2017 there were no reclassifications out of Accumulated other comprehensive income (loss):

(Millions of US dollars)	Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
Balance at 31 March 2017	\$ 0.3	\$ (2.5)	\$ (2.2)
Other comprehensive income	—	2.7	2.7
<b>Balance at 30 June 2017</b>	<b>\$ 0.3</b>	<b>\$ 0.2</b>	<b>\$ 0.5</b>