The Financial Review provides an overview of the Group’s financial performance for the year ended 31 December 2018 and of the Group’s financial position at that date.

Overview of results

Group revenue increased by 19% to €4.4bn (2017: €3.7bn) and trading profit increased by 18% to €445.2m (2017: €377.5m) with a modest decrease of 10 basis points in the Group’s trading profit margin to 10.2% (2017: 10.3%).

Basic EPS for the year was 184.0 cent (2017: 159.0 cent), representing an increase of 16%.

The Group’s underlying sales and trading profit growth by division are set out in the following tables:

<table>
<thead>
<tr>
<th>Sales</th>
<th>Underlying</th>
<th>Currency</th>
<th>Acquisition</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insulated Panels</td>
<td>+6%</td>
<td>-3%</td>
<td>+18%</td>
<td>+21%</td>
</tr>
<tr>
<td>Insulation Boards</td>
<td>+2%</td>
<td>-2%</td>
<td>+12%</td>
<td>+12%</td>
</tr>
<tr>
<td>Light &amp; Air</td>
<td>+7%</td>
<td>-1%</td>
<td>+37%</td>
<td>+45%</td>
</tr>
<tr>
<td>Water &amp; Energy</td>
<td>+5%</td>
<td>-3%</td>
<td>+13%</td>
<td>+13%</td>
</tr>
<tr>
<td>Data &amp; Flooring</td>
<td>+2%</td>
<td>-3%</td>
<td>+4%</td>
<td>+5%</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>+5%</td>
<td>-3%</td>
<td>+17%</td>
<td>+19%</td>
</tr>
</tbody>
</table>

The Group’s trading profit measure is earnings before interest, tax, amortisation of intangibles and non trading items:

<table>
<thead>
<tr>
<th>Trading Profit</th>
<th>Underlying</th>
<th>Currency</th>
<th>Acquisition</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insulated Panels</td>
<td>+11%</td>
<td>-3%</td>
<td>+12%</td>
<td>+21%</td>
</tr>
<tr>
<td>Insulation Boards</td>
<td>+4%</td>
<td>-2%</td>
<td>+13%</td>
<td>+15%</td>
</tr>
<tr>
<td>Light &amp; Air</td>
<td>-7%</td>
<td>-</td>
<td>+52%</td>
<td>+45%</td>
</tr>
<tr>
<td>Water &amp; Energy</td>
<td>-14%</td>
<td>-5%</td>
<td>-5%</td>
<td>-12%</td>
</tr>
<tr>
<td>Data &amp; Flooring</td>
<td>+5%</td>
<td>-3%</td>
<td>+1%</td>
<td>+3%</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>+7%</td>
<td>-2%</td>
<td>+13%</td>
<td>+18%</td>
</tr>
</tbody>
</table>

The key drivers of sales and trading profit performance in each division are set out in the Business Review.

Finance costs (net)

Finance costs for the year increased by €2.2m to €18.1m (2017: €15.9m). A net non-cash credit of €0.6m (2017: credit of €0.6m) was recorded in respect of swaps on the Group’s USD private placement notes. The Group’s net interest expense on borrowings (bank and loan rates) was €18.0m (2017: €16.1m). This increase reflects higher average gross and net debt levels in 2018, due to acquisition spend. The interest expense is driven extensively by gross debt balances with cash yields, although improving, still low in the current environment.

Taxation

The tax charge for the year was €69.1m (2017: €60.6m) which represents an effective tax rate of 17.1% (2017: 17.5%). The decrease in the effective rate reflects, primarily, the change in the geographical mix of earnings year-on-year and reductions in certain territorial tax rates.

Divisional reporting

The Group renamed two pre-existing divisions during the year to more appropriately reflect the business activity in each case. The divisions are now named Water & Energy (formerly Environmental) and Data & Flooring Technology (formerly Access Floors).

Dividends

The Board has proposed a final dividend of 30.0 cent per ordinary share payable on 10 May 2019 to shareholders registered on the record date of 29 March 2019. When combined with the interim dividend of 12.0 cent per share, the total dividend for the year increased to 42.0 cent (2017: 37.0 cent), an increase of 13.5%.

Retirement benefits

The primary method of pension provision for current employees is by way of defined contribution arrangements. The Group has two legacy defined benefit schemes in the UK which are closed to new members and to future accrual. In addition, the Group assumed a number of smaller defined benefit pension liabilities in Mainland Europe through acquisitions completed in recent years. The net pension liability in respect of all defined benefit schemes was €13.1m (2017: €13.6m) as at 31 December 2018.

Intangible assets and goodwill

Intangible assets and goodwill increased during the year by €31.6m to €1,502.1m (2017: €1,470.5m). Intangible assets and goodwill of €16.0m were recorded in the year relating to acquisitions and additions completed by the Group, offset by annual amortisation of €22.2m (2017: €15.7m) and a small decrease due to year end exchange rates used to translate intangible assets and goodwill otherwise than those denominated in euro.

Key performance indicators - financial

The Group has a set of financial key performance indicators (KPIs) which are set out in the following table. These KPIs are used to measure the financial and operational performance of the Group and are used to track progress continually and also in achieving medium and long term targets.
The growth in
Net debt/EBITDA 1.4x 1.05x
Return on capital employed 16.8% 17.8%
Basic EPS growth 16% 11%
Light & Air 7.4% 7.2%
Insulated Panels 10.0% 10.0%
Sales growth 19% 18%
Trading Margin 2018 2017
Trading Margin trading margin was stable
underlying sales and a 3% decrease due to the effect of
currency translation. A key contributor to underlying sales
growth in the year was price growth generated by
raw material inflation recovery in the first half of the year. Furthermore,
sales volumes were positive in
most key end markets.
Trading Margin 2018 2017
Insulated Panels 10.0% 10.0%
Insulation Boards 12.2% 11.9%
Light & Air 7.4% 7.2%
Water & Energy 7.0% 9.0%
Data & Flooring Technology 11.9% 11.8%

Free cashflow is an important indicator and it reflects the
amount of internally generated capital available for re-investment
in the business or for distribution to shareholders.

Acquisitions and capital expenditure
During the period the Group made the following acquisitions for a total upfront cash
consideration of €469.2m with an additional deferred amount of
€30m payable in April 2019:
- On 7 March 2018, the purchase of 100% of the Synthesia Group for an initial cash amount of
€213.4m plus a deferred amount of €30m payable in April 2019.
- On 8 May 2018, the purchase of 100% of Vestfold Plastindustri AS, a Norwegian water treatment business for a total cash consideration of €12.3m.
- On 4 July 2018, the purchase of 100% of Boles Metal Sp. z o.o., a Polish based manufacturer of insuloved panels and insulation boards for a cash amount of €197.6m.
- On 7 July 2018, the purchase of 51% of Jinal Mectec Private Limited, an Indian manufacturer of insuloved panels for a cash amount of €22.8m.
- An investment of €8.2m in Invicara PTE Limited, a Building Information Modelling solution provider with global reach.
- Further capital outlay of €14.9m was made with respect to business within Light & Air and Water & Energy together with some residual payments arising from the finalisation of completion accounts for prior year acquisitions.

Pension contributions (0.8) (0.9)
Capital expenditure (131.3) (85.6)
Net interest paid (15.6) (16.8)
Income taxes paid (75.0) (61.6)
Free cashflow 308.4 198.5

Working capital at year end was
€543.9m (2017: €477.8m) and represents 11.5% (2017: 12.4%) of annualised turnover based on fourth quarter sales. This metric is closely managed and monitored throughout the year and is subject to a certain amount of seasonal variability associated with trading patterns and the timing of significant purchases of steel and chemicals. The decrease year-on-year reflects a 90 basis point reduction in underlying working capital levels due mainly to lower inventory days on hand.

Free cashflow 2018 2017
EBITDA* 521.2 441.7
Non-cash items 13.4 9.4
Movement in working capital 2.3 (85.3)
Pension contributions (0.8) (0.9)
Movement in provisions (1.8) (2.4)
Net capital expenditure (131.3) (85.6)
Net interest paid (15.6) (16.8)
Income taxes paid (75.0) (61.6)
Free cashflow 308.4 198.5

* Earnings before finance costs, income
taxes, depreciation, amortisation and
inventory days on hand.

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Net debt

Net debt increased by €264.4m during 2018 to €728.3m (2017: €463.9m). This is analysed in the table below:

<table>
<thead>
<tr>
<th>Movement in net debt</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free cashflow</td>
<td>308.4</td>
<td>198.5</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(472.5)</td>
<td>(568.2)</td>
</tr>
<tr>
<td>Share issues</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Repurchase of shares</td>
<td>-</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(68.5)</td>
<td>(61.7)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(0.1)</td>
<td>-</td>
</tr>
<tr>
<td>Cashflow movement</td>
<td>(232.2)</td>
<td>(32.7)</td>
</tr>
<tr>
<td>Exchange movements on translation</td>
<td>(2.2)</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>(30.0)</td>
<td>-</td>
</tr>
<tr>
<td>Increase in net debt</td>
<td>(264.4)</td>
<td>(36.0)</td>
</tr>
<tr>
<td>Net debt at start of year</td>
<td>(463.9)</td>
<td>(427.9)</td>
</tr>
<tr>
<td>Net debt at end of year</td>
<td>(728.3)</td>
<td>(463.9)</td>
</tr>
</tbody>
</table>

Key financial covenants
The majority of Group borrowings are subject to primary financial covenants calculated in accordance with lenders’ facility agreements:

→ A maximum net debt to EBITDA ratio of 3.5 times; and
→ A minimum EBITDA to net interest coverage of 4 times.

The performance against these covenants is set out below:

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt/EBITDA</td>
<td>Maximum</td>
</tr>
<tr>
<td></td>
<td>Minimum</td>
</tr>
<tr>
<td>EBITDA/Net interest</td>
<td>28.8</td>
</tr>
<tr>
<td>EBITDA/Net interest</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Share price and market capitalisation
The Company’s shares traded in the range of €32.60 to €43.60 during the year. The share price at 31 December 2018 was €37.38 (31 December 2017: €36.41) giving a market capitalisation at that date of €6.7bn (2017: €6.5bn). Total shareholder return for 2018 was 3.8%.

Impact of Brexit
At the time of writing the exact form of the UK’s exit from the European Union is not clear. Given our manufacturing base in both the UK and the Eurozone Kingspan is well positioned to deal with the outcome in whatever form it takes, albeit in a context of the wider macroeconomic conditions.

Financial risk management
The Group operates a centralised treasury function governed by a treasury policy approved by the Group Board. This policy primarily covers foreign exchange risk, credit risk, liquidity risk and interest rate risk. The principal objective of the policy is to minimise financial risk at reasonable cost. Adherence to the policy is monitored by the CFO and the Internal Audit function. The Group does not engage in speculative trading of derivatives or related financial instruments.

Geoff Doherty
Chief Financial Officer,
22 February 2019