Report of the Directors

The directors of Kingspan Group plc (“Kingspan”) have pleasure in presenting their report with the audited financial statements for the year ended 31 December 2018.

Principal Activities
Kingspan is the global leader in high performance insulation and building envelope solutions. Kingspan Group plc is a holding company for the Group’s subsidiaries and other entities. The Group’s principal activities comprise the manufacture and distribution of the following product suites as part of the complete “Building Envelope”:

- insulated panels;
- structural framing;
- architectural facades;
- rigid insulation boards;
- building services insulation;
- engineered timber systems;
- natural daylighting;
- ventilation and smoke management solutions;

- raised access floors;
- datacentre storage solutions;
- energy storage solutions;
- rainwater and wastewater solutions.

Kingspan is comprised of five key business divisions which are Insulated Panels, Insulation Boards, Light & Air, Water & Energy and Data & Flooring Technology. These divisions offer a suite of complementary building envelope solutions for both the new build and refurbishment markets.

Results and Dividends
Group turnover for the year ended 31 December 2018 was €4.4bn (2017: €3.7bn), trading profit was €445.2m (2017: €377.5m), and earnings per share were 184.0 cent (2017: 159.0 cent).

The Consolidated Income Statement is set out in page 95 and a detailed review of the Group’s performance from a financial and operational perspective is contained within the Business & Strategic Report on pages 8 to 33.

An interim dividend of 12.0 cent per share was paid to shareholders on 5 October 2018 (2017: 11.0 cent). The directors are recommending a final dividend of 30.0 cent per share for the year ended 31 December 2018 (2017: 26.0 cent), giving a total dividend for the year of 42.0 cent (2017: 37.0 cent). The final dividend if approved at the Annual General Meeting will be paid on 10 May 2019 to shareholders on the register at close of business on 29 March 2019.

Business Review
The Business & Strategic Report, including the Chief Executive’s Review and the Financial Review, sets out management’s review of the Group’s business during 2018 on pages 8 to 33. The key points include:

- Revenue up 19% to €4.4bn.
- Trading profit up 18% to €445.2m.
- Free cashflow up 55% to €308.4m.
- Group trading margin of 10.2%.
- Basic EPS up 16% to 184.0 cent.
- Year-end net debt of €728.3m (2017: €728.5m). Net debt to EBITDA of 1.4x (2017: 1.05x).
- ROCE of 16.8% (2017: 17.8%).
- Insulated Panels sales growth of 21%. Strong activity in the Americas, a positive performance in Continental Europe and a solid UK outturn against a difficult backdrop. Good contribution from acquisitions in Europe and Latin America.
- Insulation Board sales growth of 12% reflecting a positive outlook in the Iberian acquisition, ongoing advancement of Kooltherm® and solid underlying markets overall.
- Light & Air sales approaching €300m with improved margins in Europe offsetting softer US margin.
- Water & Energy (formerly Environmental) sales growth of 13% with a new frontier established in the Nordic region.
- Data & Flooring Technology (formerly Access Floors) sales growth of 5% with strong sales of data centre solutions offsetting more sluggish office activity.

The Business & Strategic Report on pages 10 and 11 sets out the “four pillars” of Kingspan’s strategy, which are:

- Innovation
- Differentiation from competitors driven by superior innovation.
- Penetration
- Increased penetration of Kingspan’s product suite underpinned by regulatory changes and environmental awareness.
- Globalisation
- The continued evolution of Kingspan’s geographic footprint as we build market leading positions globally.

Planet Passionate
A set of initiatives across our global business targeting the adoption of 100% renewable power.

Throughout 2018, Kingspan made significant progress in pursuit of this strategy with the result that Kingspan has continued to deliver year-on-year growth. This strategy will remain the focus of the execution of Kingspan’s strategic plan for the foreseeable future.
KPIs  

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The欧洲 Communities (Takeover Bids (Directive 2004/25/Ec)) Regulations 2006  
Structure of the Company’s share capital

At 31 December 2018, the Company had an authorised share capital comprised of 250,000,000 (2017: 250,000,000) ordinary shares of €0.13 each and the Company’s total issued share capital comprised 162,171,120 (2017: 181,342,315) Ordinary Shares of which the Company held 1,969,143 (2017: 2,019,750) Ordinary Shares in treasury.

Further information required by Regulation 21 of the above Regulations as at 31 December 2018 is set out in the Shareholder Information Section of this Annual Report.

Directors and Secretary

The directors and secretary of the Company at the date of this report are as shown in this Annual Report on pages 52 and 53. During the year we were pleased to announce the appointment of Dr Joost Massenberg as a non-executive director with effect from 22 February 2018.

Details of persons with a significant holding of securities in the company are disclosed below:

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**Principal risks and uncertainties**

The principal risks and uncertainties facing the Group, and the actions taken by Kingspan to mitigate them are detailed on pages 32 to 35 of the Risk & Risk Management Report. The principal risks are:

-> Volatility in the macro environment;
-> Failure to innovate;
-> Product failure;
-> Business interruption (including IT continuity);
-> Credit risk and credit control;
-> Employee development & retention;
-> Fraud and cybercrime;
-> Acquisition and integration of new businesses.

**Key performance indicators**

The directors are pleased to report on the very positive performance during 2018 against all of its key performance indicators. A detailed commentary incorporating key performance indicators is contained within the Financial Review on pages 26 to 30, and in the Sustainability Report on pages 36 to 47. A number of the key performance indicators have been included in more detail on page 140 ‘Alternative Performance Measures’. The key performance indicators for Kingspan upon which particular emphasis is placed upon are:

- **Innovation**
  - Kingspan places considerable emphasis on innovation and development of existing and new products and on the improvement of the production process, focused primarily on differentiation and extending competitive advantage.
  - In the year ended 31 December 2018, the Group’s research and development expenditure amounted to €30.5m (2017: €27.1m). Research and development expenditure is generally written off in the year in which it is incurred. During 2018 Kingspan’s continuing investment in research and development involved over 40 key projects. These key projects included:
    - QuadCore™ insulation board;
    - Next generation Kaaltherm® 200 range;
    - Fibre-free ‘A’ Core’ insulation;
    - Prismatic daylighting development;
    - translucent Polycarbonate;
    - Cleanroom systems product development;
    - Integrated solar PowerPanel;
    - New Access Floors datacenter Products;
    - Recycling of PET for Insulation material; and
    - Unisided Facade Solutions.

- **Corporate governance**
  - The directors are committed to achieving the highest standards of corporate governance. A statement describing how Kingspan has applied the principles of good governance set out in the UK Corporate Governance Code (April 2016) and the Irish Corporate Governance Annex is included in the Governance Section of this Annual Report on pages 62 to 67. The Corporate Governance Statement is treated as forming part of this Report.

- **Code of conduct**
  - Kingspan is committed to acting responsibly in its business and maintaining high standards of ethics and integrity in all of its dealings with its stakeholders, be they investors, customers, suppliers, its people or the community it operates in. Kingspan has a Code of Conduct which sets the standard by which all employees across the Group are expected to conduct themselves. The Code sets out the fundamental principles which all directors, officers and employees of Kingspan are required to adhere to in meeting those standards.

- **Sustainability**
  - Our goal is to be a global leader in sustainable business and establish a leading position in providing ethical, renewable and affordable best practice solutions for the construction sector. We know that the built economy has an important part to play in combating climate change, and we have pledged to lead by example. Our commitment to sustainability is instilled at every level of the Group and at every step in the manufacturing process. Our goal is that by 2020 all of Kingspan’s energy needs will be met by renewable energy.

Kingspan recognises the importance of conducting its business in a socially responsible manner. At Kingspan we are Product Passionate, Planet Passionate and People Passionate. The Sustainability Report on pages 36 to 47 of this Annual Report gives details of some of the projects that are on-going across the Group, with further details available on the Group’s website www.kingspan.com.

**Accounting records**

The directors are responsible for ensuring that accounting records, as outlined in Sections 281 to 285 of the Companies Act 2014, are kept and that the Annual Report and Accounts are on-going across the Group, with further details available on the Group’s website www.kingspan.com.

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Conflicts of interest

None of the directors have any direct or indirect interest in any contract or arrangement subsisting at the date hereof that is material in relation to the business of the Company or any of its subsidiaries nor in the share capital of the Company or any of its subsidiaries.

Financial instruments

In the normal course of business, the Group has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk, and credit risk. The Company’s financial risk objectives and policies are set out in Note 19 of the financial statements.

Political donations

Neither the Company nor any of its subsidiaries have made any political donations in the year which would be required to be disclosed under the Electoral Act 1997.

Subsidiary companies

The Group operates from 129 manufacturing sites, and has operations in over 70 countries worldwide.

The Company’s principal subsidiary undertakings at 31 December 2018, country of incorporation and nature of business are listed on pages 144 to 147 of this Annual Report.

The Company does not have any branches outside of Ireland.

Outlook

The Board fully endorses the outlook (“Looking Ahead”) expressed in the Chief Executive’s Review on page 25.

Going concern

The directors have reviewed budgets and projected cash flows for a period of not less than 12 months from the date of this Annual Report, and considered its net debt position and capital commitments, available committed banking facilities and other relevant information including the economic conditions currently affecting the building environment generally and the Group’s Strategic Plan. On the basis of this review the directors have concluded that there are no material uncertainties that would cast significant doubt over the Company’s and the Group’s ability to continue as a going concern. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Viability statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the directors are required to assess the prospects of the Company, explain the period over which we have done so and state whether we have a reasonable expectation that the Company will be able to continue in operation and meet all liabilities as they fall due over this period of assessment.

The directors have assessed the prospects of the Group over the three-year period to February 2022.

The directors concluded that three years was an appropriate period for the assessment, having had regard to:

- the Group’s rolling Strategic Plan which extends to 2022;
- the Group’s long-term funding commitments some of which fall to be repaid during the period;
- the inherent short-cycle nature of the construction market including the Group’s order book and project pipeline; and
- the potential impact of macro-economic events and political uncertainty in some regions such as the UK and Middle East.

It is recognised that such future assessments are subject to a level of uncertainty that increases with time, and therefore future outcomes cannot be guaranteed or predicted with certainty.

The Group Strategic Plan is approved by the Board, building upon the several divisional management plans as well as the Group’s strategic goals. It is based on a number of cautious assumptions concerning macro growth and stability in our key markets, and continued access to capital to support the Group’s ongoing investments. The strategic plan is subject to stress testing which involves flexing a number of the main assumptions underlying the forecast in severe but reasonable scenarios. Such assumptions are rigorously tested by management and the directors. It is reviewed and updated annually and was considered and approved by the Board at its meeting in October 2018.

In making this assessment, the directors have considered the resilience of the Group, taking account of its current position and the principal risks facing the business as outlined in the Risk & Risk Management Report on pages 32 and 33, and the Group’s ability to manage those risks. The risks have been identified using a top-down and bottom-up approach, and their potential impact was assessed having regard to the effectiveness of controls in place to manage each risk. In assessing the prospects of the Group such potential impacts have been considered as have the mitigating factors in place.

Based on this assessment the directors have a reasonable expectation that the Group will be able to continue in operation and meet all its liabilities as they fall due over the three-year period of their assessment.

Directors’ responsibility statement

Each of the directors whose names and functions are set out in the Board section of this Annual Report confirm their responsibility for preparing the Annual Report and the consolidated company financial statements in accordance with applicable Irish law and regulations.

Company law in Ireland requires the directors to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The directors have elected to prepare the company financial statements in accordance with IFRSs as adopted by the EU and as applied by the Companies Act 2014. The financial statements are required by law to give a true and fair view of the assets, liabilities and financial position of the Group and company and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company, and the Group as a whole, will continue in business.

The directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act 2014 and Article 4 of the IAS Regulation. They are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information on the Company’s website.

Legislation in the Republic of Ireland governing the preparation of financial statements may differ from legislation in other jurisdictions.

In accordance with Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Financial Regulator, the directors confirm that to the best of their knowledge:

- the Group financial statements and the Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company; and

They are also satisfied in compliance with provision C.11 of the UK Corporate Governance Code (April 2016):

- that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s position, business model and strategy.

Directors’ compliance statement

The directors acknowledge that they are responsible for securing the Company’s compliance with its relevant obligations in accordance with Section 225 (2) (a) of the Companies Act 2014 (the “Act”) (described below as the “Relevant Obligations”).