Report of the Audit Committee

As Chairman of the Audit Committee, I am pleased to present the report of the committee for the year ended 31 December 2018.

This report details how the Audit Committee has met its responsibilities under its Terms of Reference, the Irish Companies Act 2014 and under the 2014 UK Corporate Governance Code in the last twelve months.

The Audit Committee focused particularly on the appropriateness of the Group’s financial statements. The committee has satisfied itself, and has advised the Board accordingly, that the 2018 Annual Report and financial statements are fair, balanced and understandable, and that the Group’s financial statements. The Audit Committee note the principal risks facing the Group and how these issues were addressed in relation to the financial statements and the risk management and internal control system on an on-going basis. Further details in regard to these matters are also set out in this report on pages 32 to 33.

The committee also reviewed the effectiveness of both the external audit process and the internal audit function as part of the continuous improvement of financial reporting and risk management across the Group. Michael Cawley, Chairman, Audit Committee.

Role and responsibilities
The Board has established an Audit Committee to monitor the integrity of the Group’s financial statements and the effectiveness of the Group’s internal financial controls. The committee’s role and responsibilities are set out in the committee’s Terms of Reference which are available from the Company and are displayed on the Group’s website www.kingspan.com. The terms of reference are reviewed annually and amended where appropriate. During the year the committee worked with management, the external auditors, internal auditors, and other members of the senior management team in fulfilling these responsibilities.

The Audit Committee report deals with the key areas in which the Audit Committee plays an active role and has responsibility. These areas are as follows:
1. Financial reporting and related primary areas of judgement;
2. The external audit process;
3. The Group’s internal audit function;
4. Risk management and internal controls; and
5. Whistleblowing procedures.

Committee membership
As at 31 December 2018, the Audit Committee comprised of three independent non-executive directors who are Michael Cawley (Chairman), Linda Hickey and John Cronin. The biographies of each can be found on pages 52 to 53.

The Board considers that the committee as a whole has an appropriate and experienced blend of commercial, financial and industry expertise to enable it to fulfil its duties, and that the committee chairman, Michael Cawley & COMM., F.C.A., has appropriate recent and relevant financial experience.

Meetings
The committee met four times during the year ended 31 December 2018 and attendance at the meetings is noted below. Activities of the Audit Committee in each meeting is noted below.

<table>
<thead>
<tr>
<th>Committee Member</th>
<th>Attended</th>
<th>Eligible</th>
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Audit Committee activities

Financial reporting
- Review and approve preliminary & half-year results
- Consider key audit and accounting issues and judgements
- Approve going concern and viability statements
- Consider accounting policies and the impact of new accounting standards
- Review management letter from auditors
- Review any related party matters and intended disclosures
- Review Annual Report and confirm if fair, balanced and understandable

External auditors
- Plan for year-end audit & half year review
- Approval of audit engagement letter and audit fees
- Confirm auditor independence, materiality of fees, and non-audit services

Internal audit and risk management controls
- Review of internal audit reports and monitor progress on open actions
- Approve internal audit plan and resources, taking account of risk management
- Review of financial, IT and general controls
- Monitor Group whistleblowing procedures
- Assessment of the principal risks and effectiveness of internal control systems

Governance
- Accounting standards update
- Corporate governance update
- Evaluation of external and internal audit functions
- Directors’ Compliance Statement policy and procedures
- IT governance and risk management
- General Data Protection Regulation legislation

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Each committee meeting was attended by the Group Chief Financial Officer and the Head of Internal Audit. The external auditors also attended these meetings as required. The Company Secretary is the secretary of the Audit Committee. Other directors can attend the meetings as required.

The chairman of the Audit Committee also met with both the Head of Internal Audit and the external audit lead partner outside of committee meetings as required throughout the year.

Committee evaluation
As outlined on page 65 within the Corporate Governance Statement, the performance of the Board also includes a review of the committees. Any recommendations raised in relation to the Audit Committee are acted upon in a formal and structured manner. No issues were identified for the year ended 31 December 2018.

Financial reporting
The committee is responsible for monitoring the integrity of the Group’s financial statements and reviewing the financial reporting judgements contained therein. The financial statements are prepared by a finance team with the appropriate qualifications and expertise.

The committee confirmed to the Board that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group’s position and performance, business model and strategy.

In respect of the year to 31 December 2018, the committee reviewed:

→ the Group’s Interim Management Statements issued in April and November 2018;
→ the Group’s Interim Report for the six months to 30 June 2018; and
→ the Preliminary Announcement and Annual Report for the year ended 31 December 2018.

In carrying out these reviews, the committee:

→ considered key areas in which estimates and judgement had been applied in preparation of the financial statements including, but not limited to, a review of fair values on acquisition, the carrying amount of goodwill, intangible assets and property, plant and equipment, litigation and warranty provisions, recoverability of trade receivables, valuation of inventory, hedge accounting treatments, treasury matters and tax matters.

The primary areas of judgement considered by the committee in relation to the Group’s financial statements, and how they were addressed by the committee are set out in the following.

Each of these areas received particular focus from the external auditor, who provided detailed analysis and assessment of the matter in their report to the committee.

In addition, the Internal Audit team review the businesses covered in their annual Internal Audit Plan, as agreed by the committee, and report their findings to the Audit Committee throughout the year. These internal audit reviews are focused on areas of judgement such as warranty provisions, trade receivables and inventory and provide the committee information on the adequacy and appropriateness of provisions in these areas.

Primary areas of judgement
Consideration of impairment of goodwill
The committee considered the annual impairment assessment of goodwill prepared by management for each Cash Generating Unit (“CGU”) using a discounted cash flow analysis based on the strategic plans approved by the Board, including a sensitivity analysis on key assumptions. The primary judgement areas were the achievability of the long term business plans and the key macroeconomic and business specific assumptions. In considering the matter, the committee discussed with management the judgements made and the sensitivities performed. Further detail of the methodology is set out in Note 10 to the financial statements.

KPMG also provided the committee with their evaluation of the impairment review process.

Kingspan completed eight acquisitions during the financial year. The allocation of goodwill to CGUs is not yet complete for all acquisitions but the methodology of the assessments of such items of goodwill was presented to the committee and the results were deemed appropriate.

Adequacy of warranty provisions
The committee reviewed the judgements applied in management in assessing both specific and risk based warranty provisions at 31 December 2018. The committee reviewed and discussed with management the monthly reports presented to the Board which set out, for each of the Group’s divisions, warranty provisions and warranty costs and analyse these costs as a percentage of divisional sales. A retrospective review of warranty provisions at 31 December 2017 was also carried out in order to note any indication of management bias within the provisions and none was noted. The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.

Recoverability of trade receivables and adequacy of provision
The committee reviewed the judgements applied in management in determining the bad debts provision at 31 December 2018. The committee reviewed and discussed with management the monthly board report which sets out aged analysis of gross debtor balances and associated bad debt provisions and reviewed security (including credit insurance) that is in place. The committee also assessed the impact of IFRS 9 when completing the evaluation of the adequacy of the bad debt provisions. A retrospective review of bad debt provisions at 31 December 2017 was also carried out in order to note any indication of management bias within the provisions and none was noted. The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.

Valuation of inventory and adequacy of inventory provision
The committee reviewed the valuation and provisioning for inventory at 31 December 2018. The main area of judgement was the level of provisioning required for slow moving and obsolete inventory. The committee reviewed and discussed with management the monthly board report which sets out, for each of the Group’s divisions, gross inventory balances and associated obsolescence provision including an analysis by inventory, category and ageing. A retrospective review of inventory provisions at 31 December 2017 was also carried out in order to note any indication of management bias within the provisions and none was noted. The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.

Taxation
Provisioning for potential current tax liabilities and the level of deferred tax asset recognition in relation to accumulated tax losses are underpinned by a range of judgements. The committee addresses these issues through a range of reporting from senior management and a process of challenging the appropriateness of management’s views including the degree to which these are supported by professional advice from external legal and other advisory firms.

The Group’s accounting manual sets out detailed policies that prescribe the methodology to be used by management in calculating the above provisions. Each division formally confirms compliance with these policies on an annual basis.

The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.

Accounting for acquisitions
Total acquisition consideration in 2018 amounted to €472.3m. The committee discussed with management and the external auditors the accounting treatment for newly acquired businesses, and the related judgements made by management, and were satisfied that the treatment in the Group’s financial statements was appropriate.
The committee reviewed reports from the Head of Internal Audit at quarterly meetings. These reports enable the committee to monitor the progress of the internal audit plan, to discuss key findings and the plan to address them in addition to status updates of previous key findings.

The committee is responsible for reviewing the effectiveness of the internal audit function and does so based upon discussion with Group management, the Group’s external auditor and feedback provided by divisional management. The committee was satisfied that the internal audit function is working effectively, improves risk management throughout the Group and that the internal audit function team is sufficiently resourced in addition to having the adequate level of experience and expertise.

Risk management and internal controls

The Audit Committee has been delegated, from the Board, the responsibility for monitoring the effectiveness of the Group’s system of risk management and internal control.

The Audit Committee monitors the Group’s risk management and internal control processes through detailed discussions with management and executive directors, the review and approval of the internal audit reports, which focus on the areas of greatest risk to the Group, and the external audit reports, as part of both the year-end audit and the half-year review process, all of which highlight the key areas of control weakness in the Group. All weaknesses identified by either internal or external audit are discussed by the committee with Group management and an implementation plan for the targeted improvements to these systems is put in place. The implementation plan is being overseen by the Group Chief Financial Officer and the committee is satisfied that this plan is being properly executed.

As part of its standing schedule of business, the committee carried out an annual risk assessment of the business to formally identify the key risks facing the Group. Full details of this risk assessment and the key risks identified are set out in the Risks & Risk Management section of this Annual Report on pages 32 to 33.

These processes, which are used by the Audit Committee to monitor the effectiveness of the Group’s system of risk management and internal control, are in place throughout the accounting period set out in place up to the date of approval of this Annual Report.

The main features of the Group’s internal control and risk management systems that specifically relate to the Group’s financial reporting and accounts consolidation process are set out in the Corporate Governance Report on page 67.

Whistleblowing procedures

The Group has a Code of Conduct, full details of which are available on the Group’s website www.kingspan.com.

Based on the standards set out in the Code of Conduct, the Group employs a comprehensive, confidential and independent whistleblowing phone service to allow all employees to raise their concerns about their working environment and business practices. This service then allows management and employees to work together to address any instances of fraud, abuse and other misconduct in the workplace.

Any instances of fraud, abuse or misconduct reported on the whistleblowing phone service are reported to the Head of Internal Audit and the Company Secretary, who then evaluate each incident for onward communication to the committee. This onward communication consists of the full details of the incident, key control failures, any financial loss and actions for improvement.

During the year, the committee reviewed the Group’s whistleblowing process and were satisfied with the design and operating effectiveness of the process.