FINANCIAL REVIEW

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2016 and of the Group's financial position at that date.

UAE
Intercontinental
Dubai Marina
—
Insulation Boards:
PalDuct PIR system

OVERVIEW OF RESULTS

Group revenue increased by 12% to €3.11bn (2015: €2.77bn) and trading profit increased by 33% to €340.9m (2015: €255.9m) resulting in an improvement of 180 basis points in the Group's trading profit margin to 11.0% (2015: 9.2%). Basic EPS for the year was 143.8 cent (2015: 106.7 cent), representing an increase of 35%.

The Group's underlying sales and trading profit growth by division are set out below:

Sales	Underlying	Currency	Acquisition	Total
Insulated Panels	+5%	-3%	+15%	+17%
Insulation Boards	+7%	-5%	+2%	+4%
Environmental	-1%	-10%	+13%	+2%
Access Floors	+10%	-5%	-	+5%
Group	+5%	-4%	+11%	+12%

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

Trading Profit	Underlying	Currency	Acquisition	Total
Insulated Panels	+39%	-8%	+7%	+38%
Insulation Boards	+32%	-7%	+3%	+28%
Environmental	+14%	-14%	+40%	+40%
Access Floors	+14%	-6%	-	+8%
Group	+34%	-8%	+7%	+33%

The key drivers of sales and trading profit performance in each division are set out in the Chief Executive's Review.

FINANCE COSTS (NET)

Finance costs for the year decreased by €0.5m to €14.3m (2015: €14.8m). Finance costs included a non-cash charge of €0.1m (2015: €0.1m) in respect of the Group's legacy defined benefit pension schemes. A net non-cash charge of €0.1m (2015: €0.5m) 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 notes) was €14.1m (2015: €14.2m). This decrease reflects higher average net debt levels in 2016, due to acquisition spend, offset by favourable financing initiatives undertaken over the course of 2015 and 2016. The interest expense is driven extensively by gross debt balances with cash yields negligible in the current environment.

TAXATION

The tax charge for the year was €58.5m (2015: €41.4m) which represents an effective tax rate of 18.6% (2015: 17.8%). The increase in the effective rate reflects, primarily, the change in the geographical mix of earnings year on year.

DIVISIONAL REPORTING

The Group is establishing a new division, Kingspan Light & Air, encompassing the Group's daylighting and natural ventilation activities effective from January 2017. The extent of these activities increased significantly in the second half of 2016 with the acquisitions of Essmann in August 2016 and Bristolite in November 2016.

In 2016, this activity is reported within the Insulated Panels division with a plan in place to facilitate full systematic separation and divisional management with effect from the 2017 financial year.

DIVIDENDS

The Board has proposed a final dividend of 23.5 cent per ordinary share payable on 5 May 2017 to shareholders registered on the record date of 31 March 2017. When combined with the interim dividend of 10.0 cent per share, the total dividend for the year increased to 33.5 cent (2015: 25.0 cent), an increase of 34%.

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 these schemes and obligations was €14.1m (2015: €7.3m) as at 31 December 2016.

INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill increased during the year by €182.4m to €1,082.0m (2015: €899.6m).

Intangible assets and goodwill of €203.9m were recorded in the year relating to acquisitions completed by the Group, offset by annual amortisation of €12.6m and a decrease due to year-end exchange rates used to translate intangible assets and goodwill other 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 table overleaf. These KPIs are used to measure the financial and operational performance of the Group and are used to track progress in achieving medium and long term targets.

Key performance indicators	2016	2015
Basic EPS growth	35%	70%
Sales growth	12%	47%
Trading margin	11.0%	9.2%
Free cash flow (€m)	206.6	267.0
Return on capital employed	17.3%	15.2%
Net debt/EBITDA	1.06x	1.04x

(a) **Basic EPS growth**. The growth in EPS is accounted for by the 33% increase in trading profit, generating a 34% increase in profit after tax.

(b) **Sales growth** of 12% (2015: 47%) was driven by an 11% contribution from acquisitions, a 5% increase in underlying sales and a 4% decrease due to the effect of currency translation.

(c) **Trading margin** by division is set out below:

	2016	2015
Insulated Panels	11.0%	9.3%
Insulation Boards	11.4%	9.2%
Environmental	7.0%	5.1%
Access Floors	12.5%	12.1%

The Insulated Panels division trading margin reflects a continuing improvement in the higher margin architectural and industrial insulated panel mix as well as the impact of more subdued input prices in the earlier part of the year. The trading margin improvement in the Insulation Boards division reflects a positive Kooltherm® mix, a positive geographical mix and more favourable input prices. The increase in the Environmental trading margin reflects a tighter product set, a widening of the geographical base and growth in rainwater harvesting activity in Australia. The increase in trading margin in Access Floors reflects a positive market mix and ongoing development of higher margin floor finishes and new datacentre product lines.

(d) **Free cash flow** 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.

Free cash flow	2016	2015
	€m	€m
EBITDA*	404.1	316.4
Non-cash items	12.4	21.1
Movement in working capital	(53.1)	37.9
Pension contributions	(2.9)	(2.8)
Movement in provisions	13.7	7.1
Net capital expenditure	(103.1)	(69.5)
Net interest paid	(14.2)	(14.5)
Income taxes paid	(50.3)	(28.7)
Free cashflow	206.6	267.0

* Earnings before finance costs, income taxes, depreciation and amortisation

Working capital at year-end was €382.7m (2015: €301.8m) and represents 12.3% (2015: 10.9%) of annual turnover. 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 improvement reflects, primarily, untypically low inventory levels at the end of 2015 which have returned to more normal levels at the end of 2016.

(e) **Return on capital employed**, calculated as operating profit divided by total equity plus net debt, was 17.3% in 2016 (2015: 15.2%). The creation of shareholder value through the delivery of long term returns well in excess of the Group's cost of capital is a core principle of Kingspan's financial strategy. The increase in profitability and operating leverage has increased returns on capital during the year.

(f) **Net debt to EBITDA** measures the ratio of net debt to earnings and at 1.06x (2015: 1.04x) is comfortably less than the Group's banking covenant of 3.5x in both 2016 and 2015.

KEY PERFORMANCE INDICATORS – NON-FINANCIAL

The Group measures and monitors a number of non-financial key performance indicators to measure progress on critical aspects of the Group's strategy:

Net Zero Energy - The Group's Net Zero Energy agenda is a set of initiatives across the business globally targeting the adoption of renewable power.

Carbon Disclosure Project - The Group maintains an ongoing commitment to carbon reporting and reducing our impact on the environment. For the fifth consecutive year, the Group participated in the Carbon Disclosure Project (CDP) and were one of only 193 companies to make the global 'A List'.

New Product Development - The ongoing development of the Group's high performance insulation and building envelope proposition is the bedrock of the Group's continuing success. During 2016, the Insulated Panels division further extended its QuadCore® technology following an intensive R&D effort and the initial launch in 2015. The Insulation Boards division launched its next generation Kooltherm® 100 range and Access Floors launched an exposed concrete finish product range during 2015, which has progressed well in 2016, with ongoing development of highly efficient datacentre solutions.

ACQUISITIONS AND CAPITAL EXPENDITURE

Committed acquisition and capital expenditure amounted to €364m during 2016 comprising capital expenditure of €113m and an acquisition spend of €251m. Capital expenditure of €113m (2015: €79.3m) compares to a depreciation charge of €63.2m (2015: €60.5m). The acquisition spend of €251m was comprised as follows:

On 30 April the Group's subsidiary, Joris Ide, acquired Euro Clad in the UK and on 17 August acquired Eurobond, a former affiliate of Euro Clad. The aggregate consideration was €94m payable in cash on completion. Euro Clad and Eurobond will further develop the Group's presence in higher end architectural facades and building envelopes in the UK.

On 31 August, the Group acquired Essmann, a leading European daylighting business, for a cash consideration of €80m on completion. This acquisition will serve as the Group's daylighting platform in Europe.

In addition, the Group made four smaller acquisitions during the year for an aggregate cash consideration of €77m:

- Tankworks: an Australian rainwater harvesting business was acquired on 29 April;
- Bristolite: a US daylighting business was acquired on 2 November;
- Paroc: a Finnish insulated panels business was acquired on 14 December; and
- Isocab Isobar NV: a Belgian insulated panels business was acquired on 31 October.

CAPITAL STRUCTURE AND GROUP FINANCING

The Group funds itself through a combination of equity and debt. Debt is funded through syndicated and bilateral bank facilities and private placement loan notes. The primary bank debt facility is a €300m revolving credit facility, which was undrawn at year-end and which matures in March 2019. As at 31 December 2016, the Group's committed bilateral bank facilities were €160m, none of which was drawn. Private placement loan note funding, net of related derivatives, totals €642.6m. The weighted average maturity of the notes is 6.5 years, including a new private placement of €250m completed on 16 November 2016. Of this, €220m was funded on completion with an additional €30m tranche drawdown taking place in March 2017.

The Group had significant available undrawn facilities and cash balances which, in aggregate, were €682m at 31 December 2016 and provide appropriate headroom for ongoing operational requirements and development funding.

NET DEBT

Net debt increased by €99.9m during 2016 to €427.9m (2015: €328.0m). This is analysed in the table below:

Movement in net debt	2016	2015
	€m	€m
Free cashflow	206.6	267.0
Acquisitions	(254.4)	(438.7)
Share issues	3.2	9.3
Purchase of shares	(1.3)	-
Dividends paid	(48.4)	(31.8)
Cashflow movement	(94.3)	(194.2)
Exchange movements on translation	(5.6)	(8.3)
Increase in net debt	(99.9)	(202.5)
Net debt at start of year	(328.0)	(125.5)
Net debt at end of year	(427.9)	(328.0)

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 in the current and comparative year is set out below:

		2016	2015
	Covenant	Times	Times
Net debt/EBITDA	Maximum 3.5	1.06	1.04
EBITDA/Net interest	Minimum 4.0	28.3	21.4

INVESTOR RELATIONS

Kingspan is committed to interacting with the international financial community to ensure a full understanding of the Group's strategic plans and its performance against these plans. During the year, the executive management presented at 6 capital market conferences and conducted 401 institutional one-on-one and group meetings.

SHARE PRICE AND MARKET CAPITALISATION

The Company's shares traded in the range of €18.09 to €26.12 during the year. The share price at 31 December 2016 was €25.80 (31 December 2015: €24.31) giving a market capitalisation at that date of €4.6bn (2015: €4.3bn). Total shareholder return for 2016 was 7.4%.

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

17 February 2017

Germany
Office Building
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Light & Air:
Natural Light &
ventilation system