INDEPENDENT AUDITOR'S REPORT

to the members of Kingspan Group plc

OPINION AND CONCLUSIONS ARISING FROM OUR AUDIT

1 OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Kingspan Group plc for the year ended 31 December 2016 as set out on pages 83 to 127. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

In our opinion:

→ the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2016 and of its profit for the year then ended;

→ the Company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016;

→ the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

→ the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and

→ the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team.

Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Group financial statements, the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Acquisition accounting (total consideration of €262.4 million (2015: €498.3 million)

Refer to page 75 (Report of the Audit Committee), page 92 (accounting policy) and Note 22 to the financial statements.

The risk

The Group completed two significant acquisitions and four additional acquisitions during the year as set out in Note 22. The acquired businesses comprise a number of components in multiple jurisdictions and accounting for the completed transactions involves estimating the fair value at acquisition date of the assets and liabilities of each component, including the identification and valuation, where appropriate, of intangible assets. Significant judgement is involved in relation to the assumptions used in this valuation process. There is a risk that these assumptions are inappropriate.

Our response

Our audit procedures in this area included an inspection of the legal agreements underpinning each transaction. We examined the information contained in due diligence reports and business case submissions proposing the acquisitions to the board. We assessed the accounting entries used to record each acquisition, the acquisition date assets and liabilities of each of the acquired entities and the fair value adjustments made thereto.

We also challenged the Group's critical assumptions in relation to the identification and valuation of intangible assets by assessing whether all intangible assets had been appropriately identified; by considering the appropriateness of the methodology used to value the intangible assets; by comparing the key assumptions used to external data, where available; and by ensuring the arithmetic accuracy of calculations underpinning the values. We considered whether the resulting goodwill balances appeared reasonable. We also assessed whether the disclosures as set out in Note 22 were in compliance with IFRS 3.

Warranty provisions €100.9 million (2015: €83.6 million)

Refer to page 75 (Report of the Audit Committee), page 96 (accounting policy) and Note 20 to the financial statements.

The risk

The Group's business involves the sale of products under warranty which consistently use new technology and applications. Accordingly, the Group has recorded significant warranty provisions which are inherently judgemental in nature. These provisions are required in order for the Group to record an appropriate estimate of the ultimate costs of repairing and replacing product that proves to be faulty.

Our response

Our audit procedures included consideration of the nature and basis of the provisions, the range of potential outcomes, correspondence in relation to specific claims, and relevant settlement history of provisions and claims. We considered the rollout of new technology and products and challenged management's assumptions considering past settlements where necessary. We substantively tested material movements in the provision. We also considered the ageing, accounting for movements in the provision balances and the related disclosures to ensure compliance with IAS 37.

Goodwill €990.1 million (2015: €821.2 million)

Refer to page 75 (Report of the Audit Committee), page 93 (accounting policy) and Note 9 to the financial statements.

The risk

There is a risk in respect of the recoverability of the Group's goodwill if future cash flows are not sufficient to recover the Group's investment; this could occur if demand is weak or due to the nature of the cost base in certain markets. We focus on this area due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability.

Our response

Our audit procedures in this area included assessing the Group's impairment model or models (for each CGU) and evaluating the assumptions used by the Group in the model, specifically the cash flow projections, perpetuity rates and discount rates. We compared the Group's assumptions, where possible, to externally derived data and performed our own assessment in relation to key model inputs, such as projected economic growth, competition, cost inflation and discount rates. We examined the sensitivity analysis performed by Group management and performed our own sensitivity analysis in relation to the key assumptions. We compared the sum of the discounted cash flows to the Group's market capitalisation. We also assessed whether the disclosures in relation to the key assumptions and in respect of the sensitivity of the outcome of the impairment assessment to changes in those key assumptions were appropriate.

3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at €14.0 million *(2015: €10.5 million)*.

This has been calculated using a benchmark of Group profit before taxation (of which it represents 5% (2015: 5%)), which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements relevant to members of the Company in assessing financial performance.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit in excess of €300,000 *(2015: €250,000)*, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The structure of the Group's finance function is such that certain transactions and balances are accounted for by the central Group finance team, with the remainder accounted for in the Group's reporting components. We performed comprehensive audit procedures, including those in relation to the significant risks set out above, on those transactions and balances accounted for at Group and component level. At a component level, audits for Group reporting purposes were performed for key identified reporting components. Our audits covered 89% of total Group revenue, 97% of Group profit before taxation and 93% of Group total assets.

The audits undertaken for Group reporting purposes at the key reporting components were all performed to component materiality levels. These component materiality levels were set individually for each component and ranged from €500,000 to €4,500,000. Detailed audit instructions were sent to the auditors in all of these identified locations. These instructions covered the significant audit areas to be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported to the Group audit team.

Members of the Group audit team, including the lead engagement partner, attended (in person or by telephone conference) each divisional closing meeting at which the results of component audits within each division were discussed with divisional and Group management. Senior members of the Group audit team also visited certain component locations (including those acquired in the period) in order to assess the audit risk and strategy and work undertaken. Telephone conference meetings were also held with these component auditors and certain others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4 WE HAVE NOTHING TO REPORT ON THE DISCLOSURES OF PRINCIPAL RISKS

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

→ the directors' statement of Risk and Risk Management on pages 30 and 31, concerning the principal risks, their management, and, based on that statement, the directors' assessment and expectations of the Group's continuing in operation over the 3 years to February 2020; or

→ the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

5 WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

→ we have identified any inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider the Annual Report and financial statements as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's position and performance, business model and strategy; or

→ the Report of the Audit Committee does not appropriately disclose those matters that we communicated to the Audit Committee.

The Listing Rules of the Irish Stock Exchange require us to review:

→ the directors' statement, set out on page 52, in relation to going concern and longer term viability;

→ the part of the Corporate Governance Statement on page 54 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance annex specified for our review; and

→ certain elements of disclosures in the report to shareholders by the Board of directors' remuneration committee.

In addition, the Companies Act requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

6 OUR CONCLUSIONS ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACTS 2014 ARE SET OUT BELOW

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

Independent Auditor's Report (continued)

The Company Statement of Financial Position is in agreement with its accounting records and in our opinion adequate accounting records have been kept by the company.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

In addition we report, in relation to information given in the Corporate Governance Statement on page 60, that:

- based on knowledge and understanding of the Group and its environment obtained in the course of our audit, no material misstatements in the information identified above have come to our attention;
- based on the work undertaken in the course of our audit, in our opinion
  - the description of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/25/EC) Regulations 2006 and specified by the Companies Act 2014 for our consideration, are consistent with the financial statements and have been prepared in accordance with the Companies Act 2014, and
  - the Corporate Governance Statement contains the information required by the Companies Act 2014.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 52, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK and Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Meagher
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

17 February 2017