

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 2016.

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;
- › energy storage solutions;
- › rainwater and wastewater solutions;
- › renewable energy systems;
- › natural daylighting;
- › ventilation and smoke management solutions;
- › raised access floors; and
- › datacentre storage solutions.

Kingspan is comprised of four (2015: four) key business divisions which are Insulated Panels, Insulation Boards, Environmental and Access Floors.

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 the current year. This activity is reported within the Insulated Panels division with a plan in place to facilitate full systematic and operational separation effective from 1 January 2017 and therefore Light & Air will be disclosed as a new operating division from that point onwards.

This new division brings together Kingspan's existing daylighting products together with the complementary Essmann and Bristolite businesses which were acquired during the financial year, as detailed in Note 22 "Business Combinations".

RESULTS AND DIVIDENDS

Group turnover for the year ended 31 December 2016 was €3.11bn (2015: €2.77bn), trading profit was €340.9m (2015: €255.9m), profit after tax was €255.5m (2015: €190.6m), and earnings per share were 143.8 cent (2015: 106.7 cent). The Consolidated Income Statement is set out in page 83 and a detailed review of the Group's performance from a financial and operational perspective is contained within the Business & Strategic Report on pages 16 to 29.

An interim dividend of 10.0 cent per share was paid to shareholders on 23 September 2016 (2015: 8.0 cent). The directors are recommending a final dividend of 23.5 cent per share for the year ended 31 December 2016 (2015: 17.0 cent), giving a total dividend for the year of 33.5 cent (2015: 25 cent). The final dividend if approved at the Annual General Meeting will be paid on 5 May 2017 to shareholders on the register at close of business on 31 March 2017.

The Group's key financial performance indicators are set out in the Financial Review on pages 24 to 29, and the financial statements for the year ended 31 December 2016 are set out in detail on pages 83 to 127. Other non-financial performance indicators relating to the environment, waste management and employee health and safety are referred to in the Corporate Social Responsibility section on pages 32 to 41.

BUSINESS REVIEW

The Business and Strategic Report, including the Chief Executive's Review and the Financial Review, sets out management's review of the Group's business during 2016 on pages 16 to 29. The key points include:

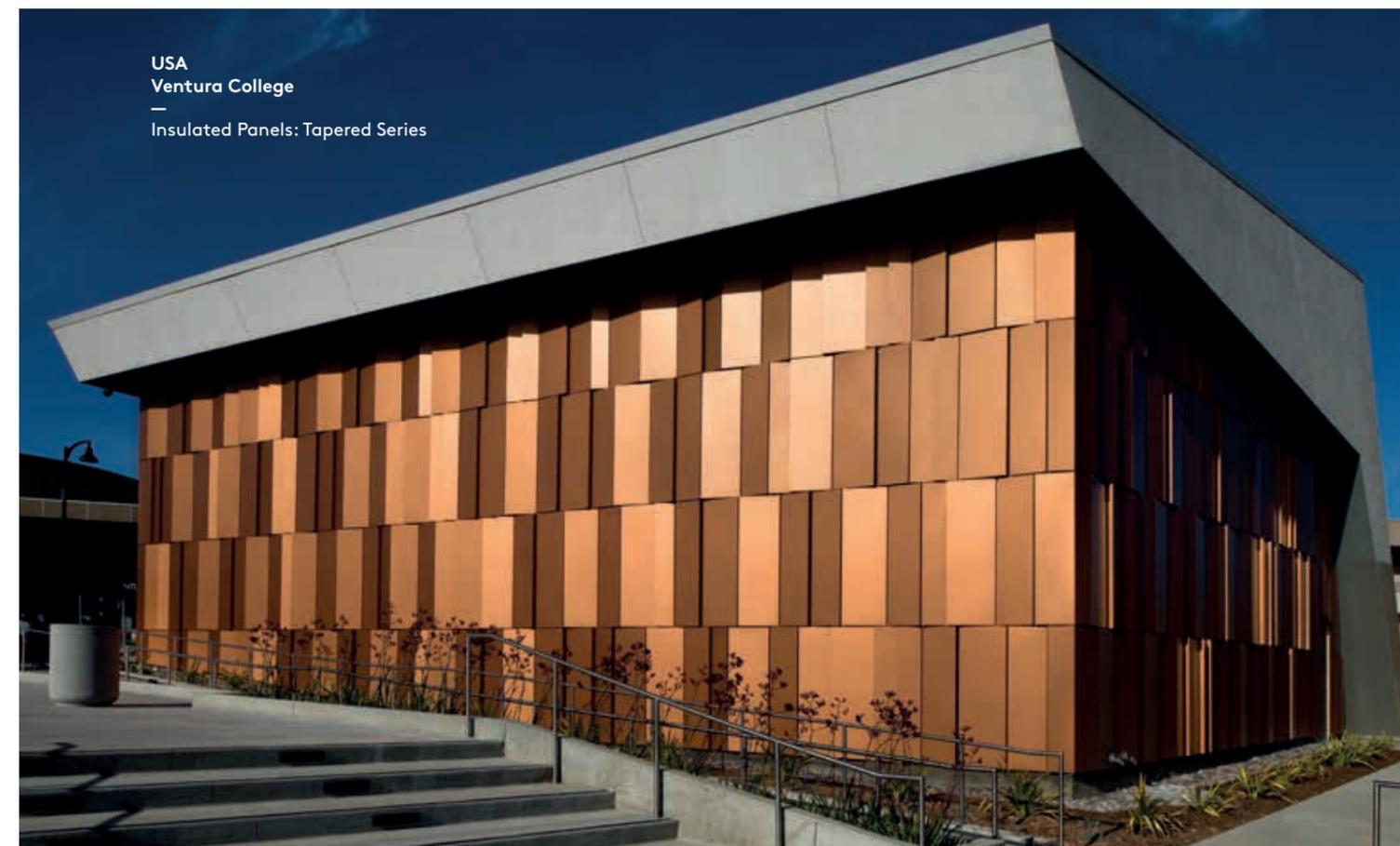
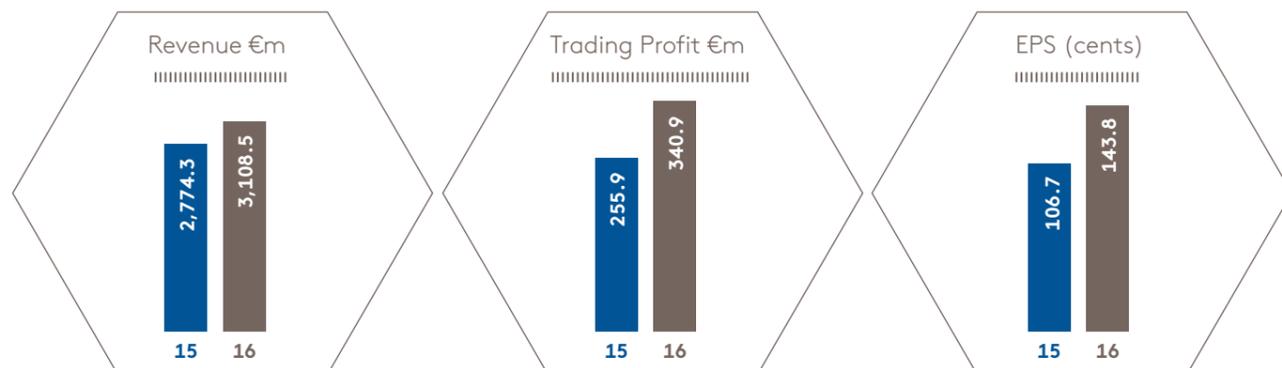
- › Revenue up 12% to €3.1bn.
- › Trading profit up 33% to €340.9m.
- › Acquisitions contributed 11% to sales growth and 7% to trading profit growth in the year.
- › Group trading margin of 11.0%, an increase of 180bps.
- › Basic EPS up 35% to 143.8 cent.

- › Year-end net debt of €427.9m (2015: €328.0m). Net debt to EBITDA of 1.06x (2015: 1.04x).
- › Increase in ROCE by 210bps to 17.3% (2015: 15.2%).
- › Strong performance in the UK, clear recovery evident in much of Western Europe with the US more subdued in the second half.
- › Insulated Panels in the UK had a strong year and the North American market cooled off somewhat towards year end. European sales were strong in the Netherlands and France, whilst more flat in Germany.
- › Insulation Boards had another strong year in the UK with the US and European businesses making good gains.
- › Environmental continued its recovery and posted strong margin expansion year on year.
- › Access Floors activity remains a challenge in North America. The UK was positive and is unlikely to dip until the second half of 2017. Datacentre solutions, continue to progress.

- › Total capital investment in the year was €364m, of which €113m was capex, plus an acquisition spend of €251m.

The 'four pillar strategy' of Kingspan is set out on pages 14 and 15 of the Business & Strategic Report and comprises:

- › **Innovation**
Differentiation from competitors driven by superior innovation;
- › **Penetration**
Regulatory changes and environmental awareness underpinning increasing penetration of Kingspan's product suite;
- › **Globalisation**
Kingspan continues to evolve into a truly global business;
- › **Net Zero Energy**
The set of initiatives across the business globally targeting the adoption of renewable power.



Australia
 Loreto College
 —
 Insulation Boards: Kooltherm
 K5 External Wall Board,
 Kooltherm K12 Framing Board



During 2016, Kingspan made significant progress in pursuit of this strategy with Kingspan continuing to deliver growth year on year. This strategy will remain the focus of the execution of Kingspan's strategic plan for the foreseeable future.

PRINCIPAL RISKS AND UNCERTAINTIES

Kingspan is required under Section 327(1)(b) of the Companies Act 2014 and Regulation 5(4)(c)(ii) of the Transparency Directive (2004/109/EC) Regulations 2007 to give a description of the principal risks and uncertainties facing the Group. These risks and the actions taken by Kingspan to mitigate them are detailed on pages 30 and 31 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 & cybercrime; and
- › Acquisition and integration of new businesses.

KEY PERFORMANCE INDICATORS

The directors are pleased to report on the very positive performance during 2016 against all of its key performance indicators. A detailed commentary incorporating key performance indicators is contained within the Financial Review on pages 24 to 29. A number of the key performance indicators have been included in more detail on page 128 "Alternative Performance Measures". The key performance indicators for Kingspan upon which particular emphasis is placed upon are:

Financial

- › Basic EPS growth;
- › Sales growth;
- › Trading margin;
- › Free cash flow;
- › Return on capital employed;
- › Net debt/EBITDA.

Non-financial

- › Net Zero Energy;
- › Carbon Disclosure Project;
- › New Product Development.

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 2016, the Group's research and development expenditure amounted to €24.2m (2015: €20.2m). Research and development expenditure is generally written off in the year in which it is incurred. During 2016 Kingspan's continuing investment in research and development involved over 40 key projects. These key projects included:

- › QuadCore;
- › Optim-R E;
- › Next generation Kooltherm® 100 range;
- › Prismatic daylighting development;
- › Cleanroom systems product development;
- › Integrated solar PowerPanel; and
- › New Access Floors datacentre products.

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 (September 2014) and the Irish Corporate Governance Annex is included in the Governance section of this Annual Report on pages 54 to 60. 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.

CORPORATE SOCIAL RESPONSIBILITY

Kingspan recognises the importance of conducting its business in a socially responsible manner. The Corporate Social Responsibility section in this Annual Report on pages 32 to 41 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).

SUSTAINABILITY

Our sustainability vision 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 combatting climate change, and we pledge to take the lead. Our commitment to sustainability is instilled at every level of the company 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.

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 by the Group. The directors have provided appropriate systems and resources, including the appointment of suitably qualified accounting personnel, to maintain adequate accounting records throughout the Group, in order to ensure that the requirements of Sections 281 to 285 are complied with. The accounting records of the Company are maintained at the principal executive offices located at Dublin Road, Kingscourt, Co. Cavan, A82 XY31, Ireland.

Shareholding analysis as at 31 December 2016

Shareholding range	Number of accounts	% of total	Number of shares held	% of total
1 - 1000	2,890	60.22	1,295,274	0.72
1,001 - 10,000	1,448	30.17	4,391,458	2.45
10,001 - 100,000	311	6.48	10,072,477	5.59
100,001 - 1,000,000	114	2.38	41,417,407	23.00
Over 1,000,000	36	0.75	122,874,918	68.24
	4,799	100	180,051,534	100

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

Notification date	Shareholder	Shares held	%
11/01/2017	Eugene Murtagh	30,018,000	16.85%
18/01/2017	Ameriprise Financial Inc	10,608,059	5.95%
08/11/2016	Allianz Global Investors Europe GmbH	10,598,750	5.95%
17/02/2017	Blackrock, Inc.	8,790,830	4.94%
11/05/2015	Generation Investment Management LLP	8,690,245	4.93%

THE EUROPEAN COMMUNITIES (TAKEOVER BIDS (DIRECTIVE 2004/25/EC)) REGULATIONS 2006

Structure of the Company's share capital

At 31 December 2016, the Company had an authorised share capital comprised of 220,000,000 (2015: 220,000,000) ordinary shares of €0.13 each and the Company's total issued share capital comprised 180,051,534 (2015: 178,957,056) Ordinary Shares, of which the Company held 1,969,826 (2015: 1,938,257) Ordinary Shares in treasury.

During the year the Company reissued 19,038 treasury shares at a price of €22.66 per share. The Company also funded the purchase by the employee benefit trust of 50,607 ordinary shares at €25.10 each, which are accounted for as treasury shares, and which will be held pending vesting of the executive directors deferred share awards.

Further information required by Regulation 21 of the above Regulations as at 31 December 2016 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 44 and 45. During 2016, there were no director appointments or resignations.

DIRECTORS' & SECRETARY'S INTERESTS IN SHARES

The beneficial interests of the directors and secretary and their spouses and minor children in the shares of the Company at the end of the financial year are as follows:

	31-Dec-16	31-Dec-15
Eugene Murtagh	30,018,000	30,018,000
Gene M. Murtagh	1,128,999	1,128,999
Geoff Doherty	254,979	254,543
Russell Shiels	300,000	368,307
Peter Wilson	366,876	355,712
Gilbert McCarthy	247,637	247,637
Helen Kirkpatrick	26,000	26,000
Linda Hickey	5,000	5,000
Michael Cawley	30,600	20,000
John Cronin	8,000	3,000
Bruce McLennan	10,000	10,000
Lorcan Dowd	4,617	4,178
	32,400,708	32,441,376

Details of the directors' and secretary's share options at the end of the financial year are set out in the report of the Remuneration Committee. As at the 17 February 2017, there had been no changes in the directors' and secretary's interests in shares since 31 December 2016.



CONFLICTS OF INTEREST

None of the directors have any direct or indirect interest in any contract or arrangement subsisting at the date hereof which is significant 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 101 manufacturing sites, and has operations in over 70 countries worldwide.

The Company's principal subsidiary undertakings at 31 December 2016, country of incorporation and nature of business are listed on pages 133 to 137 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 23.

SIGNIFICANT EVENTS SINCE YEAR END

There have been no significant events since the year end.

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, 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 2014 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 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 2020.

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 2020;
- › 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 such as the EU Referendum in the UK and political uncertainty in some regions.

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 2016.

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 30 and 31, 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 having 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 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 and company financial statements in accordance with applicable Irish law and regulations.

Company law in Ireland requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the consolidated 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 inappropriate 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 the Company 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 and dissemination 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

- › the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

They are also satisfied in compliance with provision C.1.1 of the UK Corporate Governance Code (September 2014):

- › 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").

In accordance with Section 225 (2)(b) of the Act, the directors confirm that they have:

- drawn up a Compliance Policy Statement setting out the Company's policies (that are, in the opinion of the directors, appropriate to the Company) in respect of the compliance by the Company with its Relevant Obligations;
- put in place appropriate arrangements or structures that, in the opinion of the directors, provide a reasonable assurance of compliance in all material respects with the Company's Relevant Obligations; and
- during the financial year to which this report relates, conducted a review of the arrangements or structures that the directors have put in place to ensure material compliance with the Company's Relevant Obligations.

AUDIT INFORMATION

Each of the directors has taken all the steps that they should or ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's statutory auditors are aware of that information. So far as the directors are aware, there is no relevant information of which the Group's statutory auditors are unaware.

AUDITOR

In accordance with Section 383(2) of the Companies Act 2014 the Company's auditors, KPMG, Chartered Accountants, will continue in office. A resolution authorising the directors to determine their remuneration will be proposed at the Annual General Meeting.

On Behalf Of The Board

Gene M. Murtagh,
Chief Executive Officer

Geoff Doherty,
Chief Financial Officer

17 February 2017

**UK
Next Doncaster
Distribution Centre**
—
Insulated Panels:
Rooftop Solar PV

