

COMPANY REGISTRATION NUMBER: 01882722

Kingspan Insulation Limited
Directors' Report & Financial Statements
31 December 2018



Kingspan Insulation Limited

Financial Statements

Year ended 31 December 2018

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Kingspan Insulation Limited

Officers and Professional Advisers

The board of directors

Peter Wilson
Alan Lawlor (*resigned 01/09/2018*)
Lwana Quarrell
Richard Hewitt Burnley (*resigned 01/01/2019*)
Christopher Guest (*resigned 30/06/2018*)
Andrew Carpenter
John Garbutt
Spencer Murtagh
Ralph Mannion (*appointed 01/01/2019*)

Company secretary

Kingspan Group Limited

Registered office

Pembridge
Leominster
Herefordshire
England
HR6 9LA

Auditor

KPMG
Chartered Accountants
& Statutory Auditor
1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

Bankers

National Westminster Bank Plc

Solicitors

Allen & Overy LLP,
One Bishops Square,
London,
E1 6AD,
England

Registered number

01882722

Kingspan Insulation Limited

Strategic Report

Year ended 31 December 2018

The directors present their report and the audited financial statements of the company for the year ended 31 December 2018.

For some time now, we have been pursuing the following strategy:

- Conversion from traditional insulation and building techniques to high performance solutions.
- Innovating within our space to consistently maintain a competitive edge.

The delivery of these objectives, within the scope of a conservatively managed balance sheet which has served the company and wider Kingspan Group well, will remain the focus of our execution for the foreseeable future.

Business review and principal activity

The company manufactures flexible faced insulation boards, insulated cavity closures and vacuum insulated panels.

Insulation Board sales in the UK performed well in 2018. The outcome was the result of targeted market share gains combined with robust growth in the penetration of the Kooltherm 100 Series as the second generation Kooltherm technology. Overall activity remained solid throughout the period.

Some of the company's key financial performance indicators are set out in the table below:

	2018	2017
Return on capital employed	19.35%	33.78%
Return on equity	18.38%	34.17%
Gross Margin	30.81%	30.10%
Trading Margin	10.05%	13.60%

Some other non-financial key performance indicators for the company are set out below:

	2018	2017
Employee numbers	549	540
Days lost due to accidents	35	28
Accident rate per 1,000 hours worked	2	2
Total waste in tonnes	2,522	2,464
Percentage of waste recycled/reused	96%	96%

Future developments

We remain focused on delivering our innovation and product development agenda, extending and consolidating our global footprint and improving returns on capital. The company is well placed for the year ahead.

Kingspan Insulation Limited

Strategic Report *(continued)*

Year ended 31 December 2018

Principal risks and uncertainties

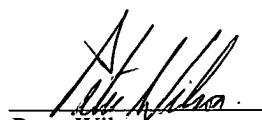
The directors confirm that the company's on-going process for identifying, evaluating and managing its significant risks is in accordance with best practice guidance. The process has been in place throughout the accounting period and up to the date of approval of the financial statements, and is regularly reviewed by the Board. In particular the principal risks include:

- Volatility in the macro environment;
- Failure to innovate;
- Product failure;
- Business interruption (including IT continuity);
- Credit risks and credit control;
- Employee development and retention; and
- Fraud and cybercrime.

As part of the annual risk assessment, the Board reviewed the company's internal assessment of the risks to the business under a wide range of headings that included: business strategy; financial including transactional and translation foreign exchange risks; compliance; human resources; operational; inventory; sales and purchasing; product development; R&D and quality control; fixed assets; IT; and others including macro-economic issues.

The Board identified and reported on the principal risks facing the business, and whilst recognising that these risks cannot be wholly eliminated, the Board is of the view that the risks are being appropriately addressed by the company's internal financial and management controls.

This report was approved by the board of directors on 22 August 2019 and signed on behalf of the board by:


Peter Wilson
Director

Kingspan Insulation Limited

Directors' Report

Year ended 31 December 2018

DIRECTORS' REPORT

The directors present their directors report and financial statements for the year ended 31 December 2018.

Directors and their interests

The directors who served the company during the year were as follows:

Peter Wilson	
Alan Lawlor	(Resigned 01 September 2018)
Lwana Quarrell	
Richard Hewitt Burnley	(Resigned 01 January 2019)
Christopher Guest	(Resigned 30 June 2018)
Andrew Carpenter	
John Garbutt	
Spencer Murtagh	

The interests of the group directors are disclosed in the financial statements of the parent company. None of the directors at the end of the period had any interest in the shares of the company or of other group companies in the United Kingdom. The directors are not required to notify the company of any interest in the shares of group companies registered outside the United Kingdom.

Directors' indemnity

The company is a wholly owned subsidiary of the ultimate parent company Kingspan Group Plc, being a company incorporated in the Republic of Ireland. The company, or the Group of which the company forms part, maintains Directors and Officers Liability Insurance and (where applicable) Trustee Liability Insurance as at the date hereof and throughout the financial year ended 31 December 2018, in respect of the above named directors.

Dividends

Particulars of recommended dividends are detailed in note 8 to the financial statements.

Important events since the year end

There have been no material events subsequent to 31 December 2018 which would require disclosure in these financial statements.

Branches

The company has no branches outside of the United Kingdom.

Employment of disabled persons

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Employee involvement

During the year, the policy of providing employees with information about the company has been continued through internal media methods in which employees have also been encouraged to present their suggestions and views on the company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the company's profit sharing schemes and are encouraged to invest in the company through participation in share option schemes.

Kingspan Insulation Limited

Directors' Report *(continued)*

Year ended 31 December 2018

Political donations

The company did not make any donations for political purposes or to any political organisation during the year.

Financial instruments

The company does not hold any financial instruments.

Research and development

Ensuring a continuous flow of new product developments has always been a core theme of the Company, and a key element of the Company's continued differentiation strategy in an increasingly commoditised environment. These projects are primarily focused on leading the field in low energy building envelope solutions. The Company will continue to invest in research & development through 2019.

Disclosure of information in the strategic report

The directors confirm that they have prepared a Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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 Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Kingspan Insulation Limited

Directors' Report *(continued)*

Year ended 31 December 2018

Disclosure of information to auditor

The directors who held office at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 2.

Auditor

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 22 August 2019 and signed on behalf of the board by:



Peter Wilson
Director



KPMG
Audit
1 Stokes Place
St. Stephen's Green
Dublin 2
D02 DE03
Ireland

Independent Auditor's Report to the Shareholders of Kingspan Insulation Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kingspan Insulation Limited ('the Company') for the year ended 31 December 2018 as outlined on pages 10 to 26, which comprise the Profit and Loss Account and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the summary of significant accounting policies set out in note 2. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 *Reduced Disclosure Framework*.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 101 *Reduced Disclosure Framework* and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic and directors' report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.



Independent Auditor's Report to the Members of Kingspan Insulation Limited (continued)

Report on the audit of the financial statements (continued)

Other information (continued)

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information:

- we have not identified material misstatements in the directors' report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities



Independent Auditor's Report to the Members of Kingspan Insulation Limited *(continued)*

Respective responsibilities and restrictions on use *(continued)*

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Conall O'Halloran (Senior Statutory Auditor)
for and behalf of KPMG, Statutory Auditor
1 Stokes Place
St Stephen's Green
Dublin 2
Ireland

22 August 2019

Kingspan Insulation Limited

Profit and Loss and Other Comprehensive Income

Year ended 31 December 2018

	Note	2018 £	2017 £
Revenue	3	205,286,670	218,726,308
Cost of sales		<u>(142,042,630)</u>	<u>(152,890,820)</u>
Gross profit		63,244,040	65,835,488
Distribution costs		<u>(8,723,603)</u>	<u>(8,673,894)</u>
Administrative expenses		<u>(33,895,221)</u>	<u>(27,441,101)</u>
Other operating income		<u>5,726</u>	<u>26,857</u>
Operating profit	4	20,630,942	29,747,350
Profit on ordinary activities before taxation		20,630,942	29,747,350
Income tax	6	<u>(2,756,943)</u>	<u>(2,968,190)</u>
Profit for the financial year and total comprehensive income		<u>17,873,999</u>	<u>26,779,160</u>

All the activities of the company are from continuing operations.

The notes on pages 13 to 26 form part of these financial statements.

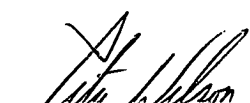
Kingspan Insulation Limited

Statement of Financial Position

as at 31 December 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	8	521,174	521,174
Property, plant and equipment	9	55,117,913	50,406,143
Investments	10	5,368,861	5,368,861
		<u>61,007,948</u>	<u>56,296,178</u>
Current assets			
Inventory	11	13,582,371	14,294,347
Trade and other receivables	12	84,165,781	46,024,159
Cash at bank and in hand		18,164	18,223,169
		<u>97,766,316</u>	<u>78,541,675</u>
Creditors: amounts falling due within one year	13	<u>52,154,983</u>	<u>46,768,440</u>
Net current assets		<u>45,611,333</u>	<u>31,773,235</u>
Total assets less current liabilities		<u>106,619,281</u>	<u>88,069,413</u>
Provisions			
Deferred taxation	14	2,122,534	2,309,000
Other provisions	14	7,247,164	7,390,352
		<u>9,369,698</u>	<u>9,699,352</u>
Net assets		<u>97,249,583</u>	<u>78,370,061</u>
Capital and reserves			
Called up share capital	18	5,033,000	5,033,000
Share premium account	19	24,067,000	24,067,000
Other reserves, including the fair value reserve	19	8,156,062	7,150,539
Profit and loss account	19	59,993,521	42,119,522
Total equity		<u>97,249,583</u>	<u>78,370,061</u>

These financial statements were approved by the board of directors and authorised for issue on 22 August 2019, and are signed on behalf of the board by:



Peter Wilson
Director

Company registration number: 01882722

The notes on pages 13 to 26 form part of these financial statements.

Kingspan Insulation Limited

Statement of Changes in Equity

Year ended 31 December 2018

	Note	Called up share capital £	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2017		<u>5,033,000</u>	<u>24,067,000</u>	<u>6,320,066</u>	<u>25,340,362</u>	<u>60,760,428</u>
Profit for the year		-	-	-	26,779,160	26,779,160
Total comprehensive income for the year		-	-	-	26,779,160	26,779,160
Dividends paid	7	-	-	-	(10,000,000)	(10,000,000)
Equity-settled share-based payments	17	-	-	830,473	-	830,473
Total investments by and distributions to owners		-	-	830,473	(10,000,000)	(9,169,527)
At 31 December 2017		<u>5,033,000</u>	<u>24,067,000</u>	<u>7,150,539</u>	<u>42,119,522</u>	<u>78,370,061</u>
Profit for the year		-	-	-	17,873,999	17,873,999
Total comprehensive income for the year		-	-	-	17,873,999	17,873,999
Equity-settled share-based payments	17	-	-	1,005,523	-	1,005,523
Total investments by and distributions to owners		-	-	1,005,523	-	1,005,523
At 31 December 2018		<u>5,033,000</u>	<u>24,067,000</u>	<u>8,156,062</u>	<u>59,993,521</u>	<u>97,249,583</u>

The notes on pages 13 to 26 form part of these financial statements.

Kingspan Insulation Limited

Notes to the Financial Statements

Year ended 31 December 2018

1. General information

Kingspan Insulation Limited is a company incorporated, registered and domiciled in the United Kingdom. These financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework*. The address of the registered office is Pembridge, Leominster, Herefordshire, England, HR6 9LA. Its registered number is 01882722.

2. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and on a going concern basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Changes in accounting policies and disclosures

New and amended standards and interpretations effective during 2018

Financial instruments

IFRS 9, Financial Instruments, replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company has adopted IFRS 9 from 1 January 2018. IFRS 9 largely retains the requirements of IAS 39 for the classification and measurement of financial liabilities but eliminates the previous IAS 39 categories for financial assets. The vast majority of the Company's financial assets are trade receivables and cash and as a result the classification and measurement changes do not have a material impact on the Company's financial statements. For trade receivables, the Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance. Given historic loss rates, normal receivable ageing and the significant portion of trade receivables that are within agreed terms, the change in impairment methodology as a result of implementing IFRS 9 did not have a material impact on the Company's financial results.

The cumulative effect method has been adopted upon transitioning to IFRS 9. The impact of adopting IFRS 9 in our financial statements was not material for the Company and there was no adjustment to retained earnings on application at 1 January 2018.

Revenue recognition

IFRS 15, Revenue from Contracts with Customers, replaces IAS 18, Revenue and IAS 11, Construction Contracts and related interpretations. IFRS 15 establishes a five-step model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 specifies how and when revenue should be recognised as well as requiring enhanced disclosures. The Company has adopted IFRS 15 from 1 January 2018, using the modified retrospective approach and has not restated comparatives for 2017.

The Company used the five-step model to develop an impact assessment framework to assess the impact of IFRS 15 on the Company's revenue transactions. The results of our IFRS 15 assessment framework and contract reviews indicated that the impact of applying IFRS 15 on our financial statements was not material for the Company and there was no adjustment to retained earnings or material impact on the timing of revenue recognition on application of the new rules at 1 January 2018. Revenue is recognised when control of goods is transferred to the customer, which generally is at a point in time when delivery has taken place in accordance with the terms of sale.

Kingspan Insulation Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2018

2. Accounting policies *(continued)*

Functional and presentation currency

The financial statements are presented in sterling, which is also the company's functional currency.

Disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 101. Its financial statements are consolidated into the financial statements of Kingspan Group Plc which are prepared under IFRS and can be obtained from www.kingspan.com. As such, advantage has been taken of the following disclosure exemptions available under paragraph 8 of FRS 101:

- No cash flow statement has been presented.
- No comparative period reconciliations for share capital, tangible fixed assets or intangible assets have been presented.
- The effects of new but not yet effective IFRSs have not been disclosed.
- No disclosure has been given for the aggregate remuneration of key management personnel.
- No disclosure in respect of transactions with wholly owned subsidiaries.

As the consolidated financial statements of the ultimate parent, Kingspan Group Plc, include the equivalent disclosures, the Company has also taken exemption under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments.
- IFRS 7 *Financial Instruments: Disclosures*.
- IFRS 13 *Fair Value Measurement*.
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets.

Consolidation

The company was, at the end of the year, a wholly-owned subsidiary of another company incorporated in the EEA and in accordance with Section 400 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts. The company is included in the consolidated accounts of the ultimate parent undertaking Kingspan Group Plc, a company incorporated in the Republic of Ireland.

Judgements and key sources of estimation uncertainty

The company directors have made a number of financial estimates and judgements in compiling these financial statements. These estimates and judgements are outlined below:

Estimated impairment of goodwill (Note 8)

The company performs annual tests to assess the potential for impairment of goodwill, as set out in the relevant accounting policy. The estimated recoverable amount is determined using the present value of budgeted cash flows. These calculations require the use of estimates to establish the required rate of return for the period, cash flows and the growth factor of the cash flows.

Guarantees & warranties (Note 14)

Certain products carry formal guarantees of satisfactory functional and aesthetic performance of varying periods following their purchase. Local management evaluate the constructive or legal obligation arising from customer feedback and assess the requirement to provide for any probable outflow of economic benefit arising from a settlement.

This is an area of estimation and judgement.

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

2. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Recoverability of trade receivables (Note 12)

The company provides credit to customers and as a result there is an associated risk that the customer may not be able to pay outstanding balances. Trade receivables are considered for impairment on a case by case basis, when they are past due at the reporting date or when objective evidence is received that a specific counterparty may default.

Under IFRS 9 the Company uses an allowance matrix to measure Expected Credit Loss (ECL) of trade receivables from customers. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive chains of non-payment to write-off. The rates are calculated at a business unit level which reflects the risks associated with geographic region, age mix of customer relationship and type of product purchased.

This is an area of estimation.

Valuation of inventory (Note 11)

Inventories are measured at the lower of cost and net realisable value. The company's policy is to hold inventories at original cost and create an inventory provision where evidence exist that indicates net realisable value is below cost for a particular item of inventory. Damaged, slow-moving or obsolete inventory are typical examples of such evidence.

This is an area of estimation.

Revenue recognition

For the year ended 31 December 2018 the company used the five-step model as prescribed under IFRS 15 on the company's revenue transactions. This included the identification of the contract, identification of the performance obligations under same, determination of the transaction price, allocation of the transaction price to performance obligations and recognition of revenue.

The point of recognition arises when the company satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur over time or at a point in time.

Prior to 1 January 2018 the policy was as follows:

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

The change in policy had no impact on the company.

Income tax

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Kingspan Insulation Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2018

2. Accounting policies *(continued)*

Deferred tax

Deferred tax is recognised on all temporary differences at the reporting date. Temporary differences are defined as the difference between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are not subject to discounting and are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences (i.e. differences that will result in taxable amounts in future periods when the carrying amount of the asset or liability is recovered or settled).

Deferred tax assets are recognised in respect of all deductible temporary differences (i.e. differences that give rise to amounts which are deductible in determining taxable profits in future periods when the carrying amount of the asset or liability is recovered or settled), carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which to offset these items. The carrying amounts of deferred tax assets are subject to review at each reporting date and reduced to the extent that future taxable profits are considered to be inadequate to allow all or part of any deferred tax asset to be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Operating leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Lease income is recognised in profit or loss on a straight line basis over the lease term. The aggregate cost of lease incentives are recognised as a reduction to income over the lease term on a straight-line basis. Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Any initial direct costs incurred in negotiating and arranging the operating lease are added to the carrying amount of the lease and recognised as an expense over the lease term on the same basis as the lease income.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment.

Investments

Investments in subsidiary undertakings are shown at valuation less provisions for impairment. Any impairment is charged to the Profit and Loss Account and Other Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents principally comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Kingspan Insulation Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2018

2: Accounting policies *(continued)*

Intangible assets (other than goodwill)

Intangible assets separately acquired are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value as at the date of acquisition.

Following initial recognition, intangible assets, which have finite useful lives, are carried at cost or initial fair value less any accumulated amortisation and accumulated impairment losses.

The amortisation of intangible assets is calculated to write off the book value of intangible assets over their useful lives on a straight-line basis on the assumption of zero residual value. Where amortisation is charged on these assets, the expense is recognised in the Income Statement.

In addition to any annual amortisation charge, the carrying amount of intangible assets is reviewed for indicators of impairment at each reporting date and is subject to impairment testing when events or changes of circumstances indicate that the carrying values may not be recoverable.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted as necessary.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

An item of property, plant and equipment is de-recognised upon disposal or when no longer in use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the year the item is derecognised.

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Land	-	No depreciation
Buildings	-	2% straight line
Production Plant	-	6.67% - 33.33% Straight line
Motor Vehicles	-	25% straight line

Equipment directly associated with the production line is depreciated over 15 years.

Financial Assets

Upon adoption of IFRS 9 on 1 January 2018 the accounting policy for financial assets is as follows:

On initial recognition, a financial asset is classified as measured at amortised cost or fair value with any movement being reflected through other comprehensive income or the income statement.

Prior to 1 January 2018, the policy was as follows:

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If payments received from customers exceed the income recognised, then the difference is presented as deferred income.

Kingspan Insulation Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2018

2. Accounting policies *(continued)*

Financial Liabilities

Upon adoption of IFRS 9 the accounting policy for the year ended 31 December 2018 is as follows:

IFRS 9 doesn't change the main accounting principles for financial liabilities set out under IAS 39. Two measurement categories continue to exist, fair value through the income statement and amortised cost. Financial liabilities held for trading are measured at fair value through the income statement, and all other financial liabilities are measured at amortised cost unless the fair value option is applied.

Prior to 1 January 2018, the policy was as follows:

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Inventory

Inventories are measured at the lower of cost and net realisable value on a first-in-first-out basis. In the case of raw materials, cost means purchase price including transport and handling costs, less trade discounts. For work in progress and finished goods, cost consists of direct materials, direct labour and directly attributable production overheads and other costs incurred in bringing them to their existing location and condition. An impairment allowance is made for obsolete, slow-moving and defective items as appropriate.

Net realisable value comprises the actual or estimated selling price in the ordinary course of business (less trade discounts), less all further costs to completion, and less all costs to be incurred in marketing, selling and distribution.

Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present constructive or legal obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation and the amount of the obligation can be estimated reliably.

A specific provision is created when a claim has actually been made against the Company or where there is a known issue at a known customer's site, both relating to a product or service supplied in the past. In addition, a risk-based provision is created where future claims are considered likely. The warranty provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Specific provisions will generally be aged as a current liability, reflecting the assessment that a current liability exists to replace or repair product sold on foot of an accepted valid warranty issue. Only where the liability is reasonably certain not to be settled within the next 12 months, will a specific provision be categorised as a long-term obligation. Risk-based provisions will generally be aged as a non-current liability, reflecting the fact that no warranty claim has yet been made by the customer.

Provisions which are not expected to give rise to a cash outflow within 12 months of the reporting date are, where material, determined by discounting the expected future cash flows. The unwinding of the discount is recognised as a finance cost.

Defined contribution retirement benefit scheme

The costs arising on the company's defined contribution schemes are recognised in the Income Statement in the period in which the related service is provided. The company has no legal or constructive obligations to pay further contributions in the event that the plan does not hold sufficient assets to provide retirement benefits.

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

2. Accounting policies (continued)

Share-based payments

Employees (including executive directors) of the company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The fair value of share entitlements granted is recognised as an employee expense in the Income Statement. The fair value at the grant date is determined using a combination of the Monte Carlo simulation technique and a Black Scholes model.

The Performance Share Plan ("PSP") contains both market and non-market based vesting conditions. Accordingly, the fair value assigned to the related equity instrument on initial application of IFRS 2 *Share-based Payment* is adjusted to reflect the anticipated likelihood at the grant date of achieving the market based vesting conditions. The cumulative non-market based charge to the Income Statement is only reversed where entitlements do not vest because non-market performance conditions have not been met or where an employee in receipt of share entitlements relinquishes service before the end of the vesting period.

The fair value of shares granted is measured at the grant date and is spread over the period during which the employees become unconditionally entitled to the shares and is recognised as an employee benefit cost with a corresponding increase in a capital contribution reserve.

The company does not operate any cash-settled share-based payment schemes or share-based payment transactions with cash alternatives as defined in IFRS 2.

3. Revenue

Revenue arises from:

	2018 £	2017 £
Sale of goods	<u>205,286,670</u>	<u>218,726,308</u>

Disaggregation of revenue 2018:

	2018 £
Point of Time	205,286,670
Over Time	-
	<u>205,286,670</u>

The Company has initially applied IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

The directors of the company are of the opinion that it would be seriously prejudicial to the interests of the company to disclose details of revenue either by class or market.

Kingspan Insulation Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2018

4. Operating profit

Operating profit or loss is stated after charging/(crediting):

	2018 £	2017 £
Depreciation of property, plant and equipment	4,057,208	4,807,529
Loss on disposal of property, plant and equipment	2,356	162,371
Impairment of trade debtors	(40,542)	229,154
Equity-settled share-based payments expense	1,005,523	830,473
Operating lease rentals	835,541	751,352
Foreign exchange differences	(121,604)	(3,581,798)
Fees payable for the audit of the financial statements	66,383	26,993

5. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

	2018 No.	2017 No.
Production staff	304	305
Distribution staff	158	149
Administrative staff	87	86
	<u>549</u>	<u>540</u>

The aggregate payroll costs incurred during the year, relating to the above, were:

	2018 £	2017 £
Wages and salaries	21,979,908	20,904,177
Social security costs	2,599,852	2,493,013
Retirement benefit costs	854,919	764,661
	<u>25,434,679</u>	<u>24,161,851</u>

The wages and salaries figure above includes employee share based payments of £1,005,523 (2017: £830,473). No wages and salaries or related costs were capitalised during 2018 (2017: Nil).

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

6. Income tax

Major components of tax expense

	2018 £	2017 £
Current tax:		
UK current tax expense	3,342,578	4,029,043
Adjustments in respect of prior periods	(399,169)	(1,225,853)
Total current tax	<u>2,943,409</u>	<u>2,803,190</u>
Deferred tax:		
Origination and reversal of timing differences	393,260	165,000
Adjustment in respect of prior years	(579,726)	
Total deferred tax	<u>(186,466)</u>	<u>165,000</u>
Income tax	<u>2,756,943</u>	<u>2,968,190</u>

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 19%).

	2018 £	2017 £
Profit on ordinary activities before taxation	<u>20,630,942</u>	<u>29,747,350</u>
Profit on ordinary activities by rate of tax	3,919,879	5,651,997
Adjustment to tax charge in respect of prior periods	(399,169)	(1,225,853)
Effect of expenses not deductible for tax purposes	573,842	549,096
Other adjustments	(1,337,609)	(2,007,050)
Income tax	<u>2,756,943</u>	<u>2,968,190</u>

7. Dividends

	2018 £	2017 £
Dividends paid during the year	<u>-</u>	<u>10,000,000</u>

A dividend of £10,000,000 (£1.9868 per share) was paid during the prior year to the parent company, Kingspan Holdings (Insulation) Limited.

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

8. Intangible assets

	Goodwill £	Development costs £	Total £
Cost			
At 1 Jan 2018 and 31 Dec 2018	<u>521,174</u>	<u>13,852,229</u>	<u>14,373,403</u>
Amortisation			
At 1 Jan 2018 and 31 Dec 2018	<u>–</u>	<u>13,852,229</u>	<u>13,852,229</u>
Carrying amount			
At 31 December 2018	<u>521,174</u>	<u>–</u>	<u>521,174</u>

9. Property, plant and equipment

	Land and buildings £	Plant and machinery £	Total £
Cost			
At 1 January 2018	40,356,289	66,617,120	106,973,409
Additions	–	8,771,334	8,771,334
Disposals	–	(135,365)	(135,365)
At 31 December 2018	<u>40,356,289</u>	<u>75,253,089</u>	<u>115,609,378</u>
Depreciation			
At 1 January 2018	13,209,164	43,358,102	56,567,266
Charge for the year	664,754	3,392,454	4,057,208
Disposals	–	(133,009)	(133,009)
At 31 December 2018	<u>13,873,918</u>	<u>46,617,547</u>	<u>60,491,465</u>
Carrying amount			
At 31 December 2018	<u>26,482,371</u>	<u>28,635,542</u>	<u>55,117,913</u>
At 31 December 2017	<u>27,147,125</u>	<u>23,259,018</u>	<u>50,406,143</u>

Capital commitments

	2018 £	2017 £
Contracted for but not provided for in the financial statements	<u>698,291</u>	<u>7,237,498</u>

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

10. Investments

	Other investments other than loans £
Cost	
At 1 Jan 2018 and 31 Dec 2018	<u>5,368,861</u>
Impairment	
At 1 Jan 2018 and 31 Dec 2018	<u>-</u>
Carrying amount	
At 31 December 2018	<u>5,368,861</u>

The company has the following significant investments in subsidiaries:

	Class of shares held	% Holding
Ecotherm Insulation (UK) Limited	Ordinary	100
Registered office: Harvey Road, Burnt Mills Estate, Basildon, SS13 1QJ, England		

11. Inventory

	2018 £	2017 £
Raw materials and consumables	7,310,443	6,353,421
Finished goods and goods for resale	6,271,928	7,940,926
	<u>13,582,371</u>	<u>14,294,347</u>

The above carrying value is shown net of an inventory provision of £1,906,786 (2017: £1,594,539).

A total of £118,194,400 (2017: £132,165,281) of inventories was included in the Income Statement as an expense.

12. Trade and other receivables

	2018 £	2017 £
Trade debtors	34,375,800	39,549,700
Amounts owed by group undertakings	46,110,411	5,543,587
Prepayments	3,679,570	930,872
	<u>84,165,781</u>	<u>46,024,159</u>

The amounts due from group undertakings are unsecured, interest free and are due on demand.

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

13. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	6,596,664	1,902,478
Amounts owed to group undertakings	11,155,351	21,989,970
Accruals	15,342,812	12,957,048
Corporation tax	10,783,469	7,840,060
Social security and other taxes	3,351,206	2,078,884
Bank loans and overdrafts	4,925,481	–
	<u>52,154,983</u>	<u>46,768,440</u>

Amounts owed to group undertakings are interest free, unsecured and fall due on demand.

14. Provisions

	Warranties £	Deferred tax (note 15) £	Total £
At 1 January 2018	7,390,352	2,309,000	9,699,352
Additions	235,763	–	235,763
Charge against provision	(80,442)	–	(80,442)
Unused amounts reversed	(298,509)	(186,466)	(484,975)
At 31 December 2018	<u>7,247,164</u>	<u>2,122,534</u>	<u>9,369,698</u>

The following was recorded during the year with respect to warranties and guarantees:

	2018 £	2017 £
Specific provisions	3,346,264	3,527,882
Risk based provisions	3,900,900	3,862,470
Total	<u>7,247,164</u>	<u>7,390,352</u>

The Company manufactures a wide range of insulation and related products for use primarily in the construction sector. Some products carry formal guarantees of satisfactory performance of varying periods following their purchase by customers and a provision is carried in respect of the expected costs of settling warranty and guarantee claims which arise. Both the number of claims and the cost of settling the claim are sensitive to change but not to such an extent as would cause a material change in the provision. Provisions are reviewed by management on a regular basis and adjusted to reflect the current best estimate of the economic outflow. If it is no longer probable that an outflow of economic benefits will be required, the related provision is reversed.

Kingspan Insulation Limited

Notes to the Financial Statements (continued)

Year ended 31 December 2018

15. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2018 £	2017 £
Included in provisions (note 14)	<u>2,122,534</u>	<u>2,309,000</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2018 £	2017 £
Accelerated capital allowances	<u>2,122,534</u>	<u>2,309,000</u>

16. Retirement benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £854,919 (2017: £764,661).

17. Share-based payments

The Company has claimed exemption from making full disclosures in relation to Share Based Payments under FRS101, and in line with those exemptions, the below shows the options exercised during the year, along with comparatives, and the number of options outstanding at 31 December 2018 and 31 December 2017.

	No.	2018 Weighted Average Exercise Price EUR	No.	2017 Weighted Average Exercise Price EUR
PSP Exercised during the year	<u>67,012</u>	<u>0.13</u>	<u>140,673</u>	0.13
Outstanding at the end of the year	<u>145,694</u>	<u>0.13</u>	<u>182,022</u>	<u>0.13</u>

18. Called up share capital

Authorised share capital

	2018 £	2017 £
10,000,000 Ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>

Issued, called up and fully paid

	No.	2018 £	No.	2017 £
Ordinary shares of £1 each	<u>5,033,000</u>	<u>5,033,000</u>	<u>5,033,000</u>	<u>5,033,000</u>

Kingspan Insulation Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2018

19. Reserves

Share premium account - records the amount above the nominal value received for shares sold, less transaction costs.

Other reserves - relates to the share option reserve.

Profit and loss account - records retained earnings and accumulated losses.

20. Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 £	2017 £
Not later than 1 year	616,335	575,573
Later than 1 year and not later than 5 years	602,495	642,694
	<u>1,218,830</u>	<u>1,218,267</u>

21. Contingencies

A contingent liability exists in respect of guarantees given for borrowings by fellow subsidiaries and parent. These borrowings amounted to EUR 1,122,881 at 31 December 2018 (2017: EUR112,752).

22. Controlling party

The ultimate parent company is Kingspan Group plc, a company incorporated in the Republic of Ireland.

The immediate parent company is Kingspan Holdings (Insulation) Limited, a company incorporated in the United Kingdom.

A copy of the consolidated accounts of Kingspan Group Plc can be obtained at www.kingspan.com.

23. Subsequent events

There have been no significant events subsequent to the year end which require disclosure in the financial statements.

24. Approval of financial statements

The financial statements were approved by the directors on 22 August 2019.