

Report of the Audit & Compliance Committee

Michael Cawley

As chairman of the Audit & Compliance Committee ('the committee') I am pleased to present the report of the committee for the year ended 31 December 2021 to stakeholders and wider society.

This report details how the Audit & Compliance Committee has met its responsibilities under its Terms of Reference, the Irish Companies Act 2014 and under the UK Corporate Governance Code (July 2018) in the last twelve months.

The Audit & Compliance Committee focused particularly on the appropriateness of the Group's financial statements. The committee has satisfied itself, and has advised the Board accordingly, that the 2021 Annual Report and financial statements are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The significant issues that the committee considered in relation to the financial statements and how these issues were addressed are set out in this report.

The Audit & Compliance Committee note the requirements under section 225 of the Companies Act 2014 and has ensured that the directors are aware of their responsibilities and comply fully with this provision.

One of the Audit & Compliance Committee's key responsibilities is to review the Group's risk management and internal controls systems, including in particular internal financial controls. During the year, the committee carried out a robust assessment of the principal risks facing the Company and monitored the risk management and internal control system on an ongoing basis. Further details regarding these matters are also set out in this report on page 48.

The Audit & Compliance Committee also reviewed the effectiveness of both the external audit process and the internal audit function as part of the continuous improvement of financial reporting and risk management across the Group.

The Audit & Compliance Committee recently assumed responsibility for reviewing the effectiveness of the controls and processes relating to product compliance and monitoring the culture of compliance across the Group.

Michael Cawley
Chairman, Audit & Compliance Committee

Role and Responsibilities

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

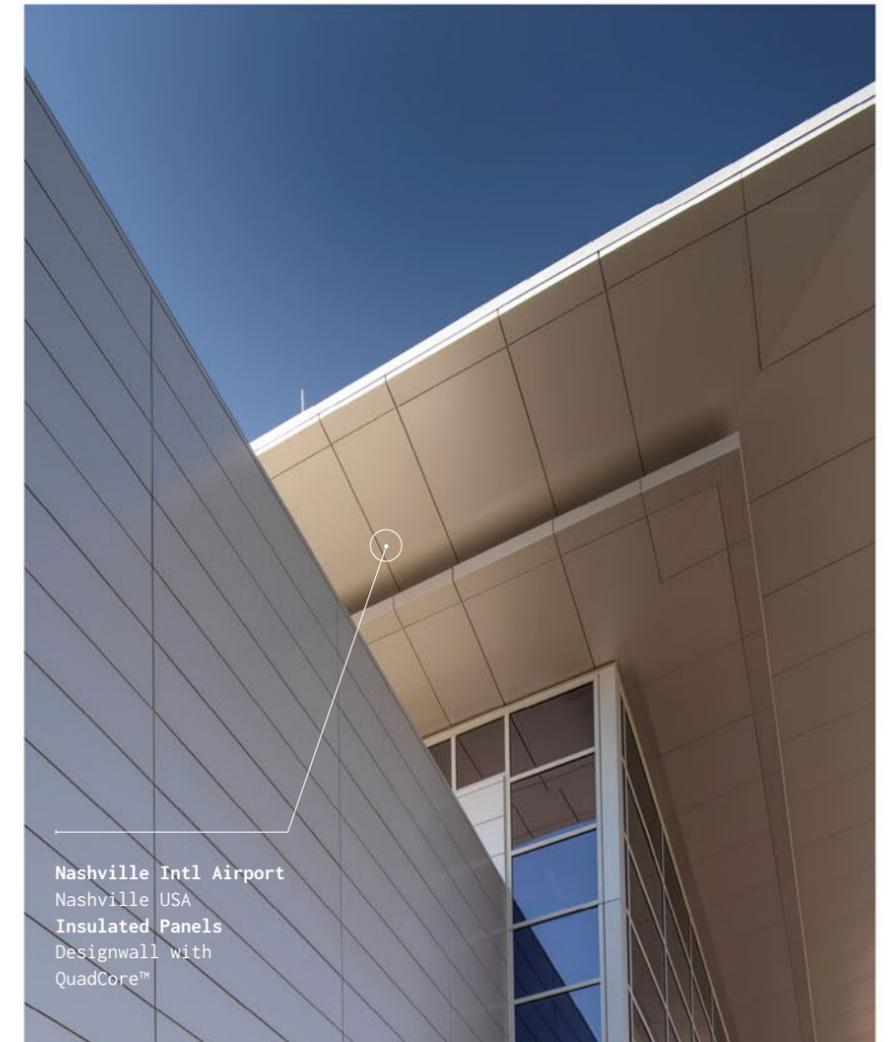
In December 2020, the Terms of Reference of the committee were updated to include oversight of product compliance.

The Audit & Compliance Committee report deals with the key areas in which the Audit & Compliance Committee plays an active role and has responsibility. These areas are as follows:

1. Financial reporting and related primary areas of judgement;
2. The external audit process;
3. The Group's internal audit function and risk management controls;
4. The Group's product compliance and certification function; and
5. Governance.

Committee membership

As at 31 December 2021, the Audit & Compliance Committee comprised of three independent non-executive directors who are Michael Cawley (chairman), Anne Heraty and Éimear Moloney. Éimear Moloney joined the committee in April 2021. The biographies of each can be found on pages 68 to 69.



Nashville Intl Airport
Nashville USA
Insulated Panels
Designwall with
QuadCore™

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

Meetings

The committee met four times during the year ended 31 December 2021 and attendance at the meetings is noted below. Activities of the Audit & Compliance Committee in each meeting is noted overleaf.

Committee Member	Attended	Eligible	Appointment Date
Michael Cawley	4	4	2014
Anne Heraty	4	4	2019
Éimear Moloney	3	3	2021

Audit & Compliance Committee Activities	FEB	JUN	AUG	NOV
Financial Reporting				
Review and approve preliminary & half-year results	•		•	
Consider key audit and accounting issues and judgements	•	•	•	•
Approve going concern and viability statements	•		•	
Consider accounting policies and the impact of new accounting standards	•	•	•	
Review management letter from auditors	•			
Review of any related party matters and intended disclosures	•		•	
Review Annual Report, and confirm if fair, balanced and understandable	•			
External Auditor				
Ongoing assessment of auditor performance	•	•	•	•
Approval of external audit plan				•
Review reports and correspondence from the auditor (EY) to the Audit & Compliance Committee	•		•	•
Confirm auditor independence and consider non-audit services and materiality of related fees	•			•
Approval of audit engagement letter and audit fees				•
Internal Audit and Risk Management Controls				
Review of internal audit reports and monitor progress on open actions	•	•	•	•
Approve internal audit plan and resources, taking account of risk management	•	•	•	•
Review of financial, IT and general controls	•	•	•	•
Review details of global fraud attempts and management response	•	•	•	•
Monitor Group whistleblowing procedures and reports	•	•	•	•
Assessment of compliance with Group Global Sanctions policy		•		
Review of impact of pandemic on financial control environment	•	•		
Review of Group liquidity position	•	•	•	
Assessment of the principal risks and effectiveness of internal control systems				•
Product Compliance & Certification				
Review and approve product compliance and certification internal audit plan and monitor progress on open actions	•	•	•	•
Review and consider the structure and expertise of the product compliance and certification team		•	•	•
Receive updates from Group Head of Compliance & Certification		•		•
Review and approve Marketing Integrity Manual				•
Governance				
Review accounting regulator correspondence		•	•	
Evaluation of external and internal audit functions	•	•	•	•

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

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

Committee Evaluation

As outlined on page 70 within the Corporate Governance Statement, the performance of the Board also includes a review of the committees. Any recommendations raised in relation to the Audit & Compliance Committee are acted upon in a formal and structured manner. No issues were identified for the year ended 31 December 2021.

Financial Reporting

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

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

In respect of the year to 31 December 2021, the committee reviewed:

- the Group's Trading Updates issued in June and November 2021;
- the Group's Interim Report for the six months to 30 June 2021; and
- the Preliminary Announcement and Annual Report to 31 December 2021.

In carrying out these reviews, the committee:

- reviewed the appropriateness of Group accounting policies and monitored changes to and compliance with accounting standards on an ongoing basis;
- discussed with management and the external auditor the critical accounting policies and judgements that had been applied;
- compared the results with management accounts and budgets, and reviewed reconciliations between these and the final results;
- discussed a report from the external auditor at that meeting identifying the significant accounting and judgemental issues that arose in the course of the audit;
- considered the management representation letter requested by the external auditor for any non-standard issues and monitored action taken by management as a result of any recommendations;
- discussed with management future accounting developments which are likely to affect the financial statements;

- reviewed the budgets and strategic plans of the Group to ensure that all forward looking statements made within the Annual Report reflect the actual position of the Group; and
- considered key areas in which estimates and judgement had been applied in preparation of the financial statements including, but not limited to, a review of fair values on acquisition, the carrying amount of goodwill, intangible assets and property, plant and equipment, litigation and warranty provisions, recoverability of trade receivables, valuation of inventory, hedge accounting treatments, treasury matters and tax matters.

The primary areas of judgement considered by the committee in relation to the Group's 2021 financial statements, and how they were addressed by the committee are set out overleaf.

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

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

Primary areas of judgement	Committee activity
Adequacy of warranty provisions	The committee reviewed the judgements applied by management in assessing both specific and risk based warranty provisions at 31 December 2021. The committee reviewed and discussed with management the monthly reports presented to the Board which set out, for each of the Group's divisions, warranty provisions and warranty costs and analyse these costs as a percentage of divisional sales. Warranty provisions are reviewed on an ongoing basis throughout the year in conjunction with the internal audit process. The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.
Recoverability of trade receivables and adequacy of provision	The committee reviewed the judgements applied by management in determining the provision for expected credit loss at 31 December 2021. The committee reviewed and discussed with management the monthly board report which sets out aged analysis of gross debtor balances and associated provisions for expected credit loss and reviewed security (including credit insurance) that is in place. Expected credit loss provisions are reviewed on an ongoing basis throughout the year in conjunction with the internal audit process. The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.
Accounting for acquisitions	Total acquisition consideration in 2021 amounted to €552.3m. The committee discussed with management and the external auditors the accounting treatment for newly acquired businesses, and the related judgements made by management, and were satisfied that the treatment in the Group's financial statements was appropriate.
Consideration of impairment of goodwill	<p>The committee considered the annual impairment assessment of goodwill prepared by management for each Cash Generating Unit ("CGU") using a discounted cash flow analysis based on the strategic plans approved by the Board, including a sensitivity analysis on key assumptions. The primary judgement areas were the achievability of the long term business plans and the key macroeconomic and business specific assumptions. In considering the matter, the committee discussed with management the judgements made and the sensitivities performed. Further detail of the methodology is set out in Note 9 to the financial statements.</p> <p>EY also provided the Committee with their evaluation of the impairment review process and of the impairment review process.</p> <p>Kingspan completed 17 acquisitions during the financial year. The measurement of goodwill is not yet finalised for all acquisitions but the methodology of the assessments of such items of goodwill was presented to the committee and the results were deemed appropriate.</p>
Valuation of inventory and adequacy of inventory provision	The committee reviewed the valuation and provisioning for inventory at 31 December 2021. The main area of judgement was the level of provisioning required for slow moving and obsolete inventory. The committee reviewed and discussed with management the monthly board report which sets out, for each of the Group's divisions, gross inventory balances and associated obsolescence provision including an analysis by inventory, category and ageing. Inventory provisions are reviewed on an ongoing basis throughout the year in conjunction with the internal audit process. The committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.
Taxation	<p>Provisioning for potential current tax liabilities and the level of deferred tax asset recognition in relation to accumulated tax losses are underpinned by a range of judgements. The committee addresses these issues through a range of reporting from senior management and a process of challenging the appropriateness of management's views including the degree to which these are supported by professional advice from external legal and other advisory firms. This assessment was conducted in line with the provisions of IFRIC 23.</p> <p>The Group's accounting manual sets out detailed policies that prescribe the methodology to be used by management in calculating the above provisions. Each division formally confirms compliance with these policies on an annual basis.</p> <p>The Committee was satisfied that such judgements were appropriate and the risk had been adequately addressed.</p>

External auditor

The Audit & Compliance Committee has responsibility for overseeing the Group's relationship with the external auditor including reviewing the quality and effectiveness of their performance, their external audit plan and process, their independence from the Group, their appointment and their audit fee proposals.

Performance and audit plan

Following the completion of the 2020 year end audit, the committee carried out a review of the effectiveness of the external auditor and the audit process. This review involved discussions with both Group management and internal audit and feedback provided by divisional management. The committee continues to monitor the performance and objectivity of the external auditors and takes this into consideration when making its recommendations to the Board on the remuneration, the terms of engagement and the re-appointment, or otherwise, of the external auditors.

Prior to commencement of the 2021 year end audit, the committee approved the external auditor's work plan and resources and agreed with the auditor's various key areas of focus, including accounting for acquisitions and warranty provisions.

During the year the committee met with the external auditor without management being present. This meeting provided the opportunity for direct dialogue and feedback between the committee and the auditor, where they discussed inter alia some of the key audit management letter points.

EU Audit Reform

The regulatory framework for the Group's statutory audit is governed by EU legislation under Directive 2014/56/EU and Regulation EU No. 537/2014. EU Audit reform legislation is applicable in the Member States of the European Union, including Ireland. Under this legislation, Kingspan Group plc is considered a Public Interest Entity ("PIE"). Key developments falling from the implementation of this legislation are:

- a requirement that the PIE changes its statutory auditor every ten years (following rotation, the statutory audit firm cannot be reappointed for four years);
- a requirement that certain procedures are followed for the selection of the new statutory auditor; and
- restrictions on the entitlement of the statutory auditing firm to provide certain non-audit services.

Kingspan Group plc has fully complied with such EU Audit Reform. With regards audit firm rotation, EY, was selected as the external auditor for the financial year commencing 1 January 2020.

Independence and objectivity

The committee is responsible for ensuring that the external auditor is objective and independent. EY was appointed as the Group's auditor on 1 May 2020, following a formal tender process in which a number of leading global firms submitted written tenders and presentations. The lead audit partner is rotated every five years and is currently Pat O'Neill.

The committee received confirmation from the external auditor that they are independent of the Group under the requirements of the IAASA Ethical

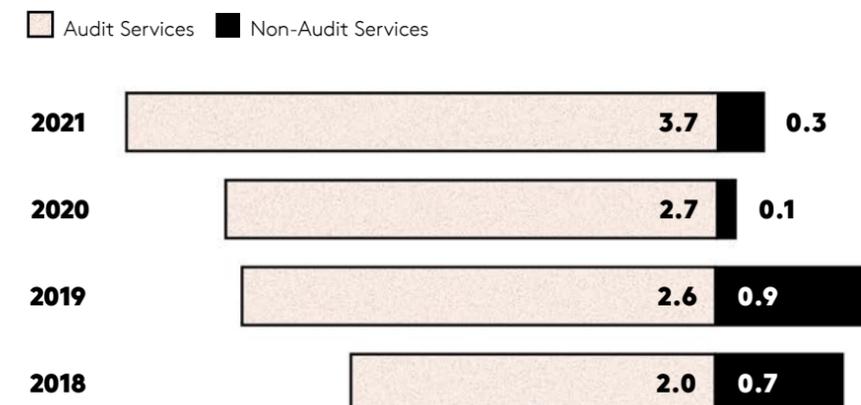
Standard for Auditors (Ireland) 2020. The external auditor also confirmed that they were not aware of any relationships between the Group and the firm or between the firm and any persons in financial reporting oversight roles in the Group that may affect its independence.

Non-audit services

To further ensure independence, the committee has a policy on the provision of non-audit services by the external auditor that seeks to ensure that the services provided by the external auditor are not, or are not perceived to be, in conflict with auditor independence. By obtaining an account of all relationships between the external auditor and the Group, and by reviewing the economic importance of the Group to the external auditor by monitoring the audit fees as a percentage of total income generated from the relationship with the Group, the committee ensured that the independence of the external audit was not compromised. The committee's policy on the provision of non-audit services by the Group's external auditor is fully compliant with EU audit reform legislation.

An analysis of fees paid to the external auditor, including the non-audit fees, is set out in Note 5 and below:

AUDIT V NON-AUDIT SERVICES (€m)



Internal audit & compliance

The committee reviewed and agreed the annual internal audit plan, which the committee believes is appropriate to the scope and nature of the Group. The internal audit plan is risk based, with all divisions audited every year, and all new businesses audited within 12 months of acquisition.

The committee reviewed reports from the Head of Internal Audit & Compliance at its quarterly meetings. These reports enable the committee to monitor the progress of the internal audit plan, to discuss key findings and the plan to address them in addition to status updates of previous key findings.

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

The terms of reference of the Audit & Compliance Committee were extended in December 2020 to include oversight of the processes around product certification. The Head of Internal Audit & Compliance also reports to the committee in this regard.

Risk Management and Internal controls

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

The Audit & Compliance Committee monitors the Group's risk management and internal control processes through detailed discussions with management and executive directors, the review

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

As part of its standing schedule of business, the committee carried out an annual risk assessment of the business to formally identify the key risks facing the Group. Full details of this risk assessment and the key risks identified are set out in the Risks & Risk Management section of this Annual Report on pages 48 to 53.

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

The main features of the Group's internal control and risk management systems that specifically relate to the Group's financial reporting and accounts consolidation process are set out in the Corporate Governance Report on page 75.

Product Compliance and Certification

With effect from December 2020, the Audit & Compliance Committee has responsibility for reviewing the effectiveness of the processes and controls associated with product compliance and monitoring the culture of compliance across the Group.

The Audit & Compliance Committee review reports from the Internal Audit function which assess the compliance of the Group's products with respect to:

- i. product specific laws and regulations;
- ii. testing;
- iii. certification and accreditation; and
- iv. accuracy and consistency of marketing materials.

The Group Product Compliance Team, led by the Group Head of Compliance & Certification, supports compliance governance across the Group in implementing policies, processes, and procedures to ensure continued improvement in management systems. The Audit & Compliance Committee meet with the Group Head of Compliance & Certification for updates on the Group's compliance and certification agenda. In particular, the committee receives updates on the implementation of the Group Compliance Management System which is certified to the ISO 37301 standardised global benchmark.

The Audit & Compliance Committee also meet regularly with the Group Head of Internal Audit & Compliance in relation to product compliance matters. The Group Internal Audit Plan includes specific audit procedures with respect to product compliance and certification. The Group Head of Internal Audit & Compliance updates the committee on the findings of all internal audit assignments, with a specific focus on product compliance and certification. Following the adoption of the Group Marketing Integrity Manual in September 2021, the Group Internal Audit Plan also includes specific procedures to validate compliance with the Marketing Integrity Manual across the Group.



The Audit & Compliance Committee noted the following highlights in 2021:

- Group Compliance Management System (CMS) launched with ISO 37301 certification.
- Kingspan Water & Energy's Williton site in the UK was one of the first manufacturing sites in the world to be awarded the ISO 37301 certification. 8 other Group manufacturing sites obtained the ISO 37301 certification in 2021.
- 90 Group compliance audits were completed in 2021.
- Recruitment of additional compliance experts for Group Internal Audit and Group Compliance & Certification teams.
- Rollout of additional internal and external compliance training globally.

→ Divisional Compliance Managers reporting to Group Compliance & Certification team on a monthly basis.

→ Product compliance registers in place across all divisions.

Whistleblowing procedures

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

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

Any instances of fraud, abuse or misconduct reported on the whistleblowing phone service are reported to the Head of Internal Audit & Compliance and the Company Secretary, who ensure each incident is appropriately investigated and then report to the committee details of the incident, key control failures, any financial loss and actions for improvement.

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