Case Study 2

2.1.2 Kingspan Treasury Policy

Unit:	Study Unit 3 – Strategic Treasury Solutions
Case:	Case 2 – Treasury evolution
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1 Policy overview

The purpose of this treasury policy document is to regulate how treasury activities and operations are to be conducted and how treasury risks are to be managed, and covers the following treasury areas:

- corporate and investment funding
- debt management
- interest rate risk management
- foreign currency risk management
- cash & liquidity management
- surplus cash investment
- bank relationships
- financial derivatives

The primary objective for treasury management is to manage treasury activities and risks in a manner that is supportive of corporate business and financial objectives. The structure and reporting lines for the Kingspan's treasury operations are set out in Schedule 4. Treasury management will operate in the following manner:

- Treasury management strategies will focus on protecting profit in a risk averse and cost effective manner.
- Treasury does not speculate on market movements and all transactions executed by treasury must have the effect of reducing risk exposure positions.
- The Board of Directors has ultimate responsibility to ensure that treasury management activities are properly managed.
- The Group Chief Financial Officer has functional responsibility for the management and performance of treasury activities and will report to the Board accordingly.
- The management of treasury activities will be centralised as far as possible.

2 Corporate and investment funding

Kingspan differentiates its borrowing needs between:

- long term core borrowings – funded by committed term bank debt and private placements
- core fluctuating borrowings – funded by committed revolving bank debt
- working capital cyclical borrowings – funded by uncommitted overdrafts
- standby credit facilities – funded by committed revolving bank debt

2.1 Funding objectives

Primary objectives

- A mixture of debt and equity to:
    - finance development and expansion
    - meet current and future liquidity needs as and when required

- Meet debt repayment and servicing obligations
- Diversification of funding sources
- Source necessary funding facilities at terms and conditions acceptable to the Group.
- To not hold only minimum cash surpluses.

Secondary objectives

- Develop investor, capital market and banking relationships = availability and competition.
- Minimise financing cost and optimise working capital = cash pooling
- Debt portfolio to reflect nature of the assets being financed, maturity, currency composition, long and short-term debt facilities and interest rate structure.

2.2 Funding policy provisions

The following policy provisions apply:

- Funding requirements and capital structure to be recommended annually to the Board.
- Funding policy allows use of both bank and capital market debt
- A rolling 3-year timeframe should be applied in managing corporate and investment funding.
- Maintain an appropriate level of committed facilities at least equal to core borrowing requirements.
- All facilities will be arranged centrally by Group.

3 Debt management

3.1 Debt management objective

The primary objectives:

- Strategically manage the debt portfolio based on the Group's long term business plan in an ongoing proactive and strategic manner.
- Achieve a low, stable cost of funds over time that is acceptable to the Group, subject to acceptable levels of risk. What is acceptable to the Group will be proposed by the Group Finance Director and approved by the Board.

Maintain a maturity profile of debt appropriate to the Group with a mixture of both short and long term financing.

3.2 Debt management policy provisions

- Subsidiary level funding will be in the local base currency.
- Reduce foreign currency translation exposure to foreign net assets by borrowings in the same currency as foreign assets, subject to:
    - Cash generation over the debt term is sufficient to service the debt.
    - This hedging (if necessary) is undertaken, where practical and cost effective.
- Use of both primary transactions and other permitted hedging instruments, such as currency swaps, to achieve the desired portfolio structure and cost of funds over time.
- Seek consistency and standardisation in finance documentation.

4 Interest rate risk management

Kingspan is primarily exposed to interest rate exposure on its borrowings. Gross debt is defined as debt draw down from committed facilities.

4.1 Interest rate management objectives

- To minimise the cost of funding, including & reflecting any derivative premiums.
- To correctly reflect the risk appetite of the executive management; this has been assumed to be a relatively low level.
- To create a policy which is capable of management.

4.2 Interest rate risk management policy provisions

- Effectively arrange between 40% and 100% of gross debt to be fixed for 3 to 5 years.
- For Private Placements hedge 40-100% for the period of the placement.

4.3 Monitoring and reporting

The following reports will be produced:

- Summary of hedged products, highlighting newly purchased products on a 6 month basis
- Reporting of the gain/loss position on each product on an annual basis
- Reporting fixed/floating ratio providing an overview of cover on an annual basis

5 Foreign exchange risk management

5.1 Foreign currency risk management objectives

- Protect Group earnings over a rolling 12 month time frame

5.2 Foreign currency risk management provisions

Transaction risk

- Transaction trading cash flows are netted within the Group wherever practical
- Cash repatriation to Group is incorporated into the netting process only when the timing and amount has been finalised
- The residual net exposure is evaluated by the executive team on a quarterly basis
- Material exposures will be hedged by way of approved hedging products
- At any review material FX exposures will be at a minimum 40% hedged and a maximum 75% of forecast hedged over a 12 month time frame
- Transaction FX risk associated with capital spend & investments will be separately hedged when the amount and timing of cash flows have been finalised

Translation risk

- Objective is to protect entity earnings from translation exposure of monetary assets and liabilities
- Each quarter Group Executive will review entity FX translation risks to evaluate materiality
- Translation risk of non-euro earnings will be reviewed at least once a year, and an average rate option priced to evaluate the cost/benefit

- Translation risk of non euro equity investments will generally be managed by borrowing in the same currency as the entity reports in, subject to:
    - Cash generation over the debt term is sufficient to service the debt.
    - This hedging is done, where practical and cost effective.

6 Cash and liquidity management policy

6.1 Cash and liquidity management objectives

- Ensure that strong cash controls are in place over all cash balances
- Have visibility of all cash balances at Group level
- Structure banking arrangements, facilities and accounts in an efficient way that meets operational requirements of Kingspan entities and that facilitate the movement of cash in a cost effective manner.
- Maintain the company's surplus cash as a liquid source of funds in order to reduce borrowings as far as possible and thereby minimising the level of cash held.
- Minimise bank charges and fees commensurate with efficient banking services.

6.2 Cash and liquidity management policy provisions

- Each entity is responsible for the collection and disbursement of its own cash
- Cash management will be centralised and cash concentration/pooling will be adopted as far as possible. Cash Pooling is an efficient Cash Management tool which provides for the central co-ordination of the groups overall liquidity and an optimisation of the interest result. Treasury is responsible for managing the aggregated balances in the 'pool' using a range of approved instruments. Treasury will agree an 'arms length' interest rate which will be applied to each business unit's balance on a monthly basis.
- All new bank accounts must be approved by Group Treasurer.
- Entities will submit cash flow forecasts to the Group periodically.

7 Surplus cash investment policy

7.1 Surplus cash investment objective

- The objective is to use cash generated in the business to reduce borrowings and to reduce the level of cash held as far as possible. Where surplus cash is available, the primary objective is to guarantee the security of capital by only dealing with counterparties of an acceptable credit quality and in instruments where the risk to capital is minimised.

7.2 Surplus cash investment policy provisions

- Surplus cash will be invested for periods up to 3 months.
- Investments will only be placed with counterparties of an acceptable credit quality, as approved by the Board and set out in **Schedule 1**.
- Investments will only be made using approved financial instruments and investment types as detailed in **Schedule 2.**
- Investment limits will apply to each approved counterparty. Any amendment to this limit must be approved by the Group Chief Financial Officer.

8 Bank relationship policy

8.1 Bank relationship objectives

- Develop and maintain superior bank relationships that serve as an important business resource to the company
- Maintain adequate facilities within the set of relationship banks to meet immediate funding needs and for currency and interest rate risk management transactions.

  Have in place efficient banking services, which provide the capacity and products to meet Kingspan's operational and functional needs.

8.2 Bank relationships policy provisions

- The Group Treasurer will select a group of banks for corporate banking relationships organised on a structured basis. These are set out in Schedule 1.
- The Group Treasurer will pro-actively develop relationships with these banks on a formal, open and mutual understanding basis and, subject to competitive pricing, will apportion the company's treasury business towards these banks accordingly.
- The long-term credit rating of Kingspan's corporate banks is required to be at least BBB+ or Baa1 (S&P and Moody's respectively).
- Mandates must be in place with all its banks and Kingspan will transact business only with banks with which approved mandates have been signed.
- The Group Treasurer will review the list of approved counterparties on an ongoing basis.

9 Financial derivatives

9.1 Derivatives objective

The objective in relation to use of derivatives in Kingspan is to effectively manage the structure and risk profile of the company's exposures in relation to debt, foreign currency and interest rate structure through the appropriate use of derivative instruments.

9.2 Derivatives policy provisions

- Derivative instruments can only be used to hedge naturally occurring exposures in Kingspan's business or to modify the treasury portfolios or positions.
- No speculative trading in derivative instruments is permitted.
- The approved product range which require authorisation from 2 Executive Directors is set out in **Schedule 3.**
- Approved products can be contracted for up to 5 years cover with the approval of 2 Executive Directors for funding and interest rate hedging and for up to 2 years for foreign currency hedging.
- Any cover period over 5 years for funding and interest rate hedging and over 2 years for currency hedging requires approval by the Main Board.
- All approvals require the signature of 2 Executive Directors.
- Any product not detailed in **Schedule 3** or for any periods outside of the limits above requires Main Board approval.

Schedule 1: Approved bank relationships and counterparties

The following institutions are approved for contracting:

- Members of the current loan syndicate / bilateral lenders: Banks 1 - 8

Bank Name	***Activity***	***Limits***
1	Funding Cash investments Banking Foreign Exchange	
2	Funding Cash Investments Banking Foreign Exchange	
3	Funding Foreign Exchange	
4	Funding Foreign Exchange	
5	Funding Foreign Exchange	
6	Funding	
7	Funding	
8	Funding	
9	Cash Investments	
10	Cash Investments	
11	Cash Investments	
12	Cash Investments	

Placing contracts outside the approved list requires approval by the Main Board.

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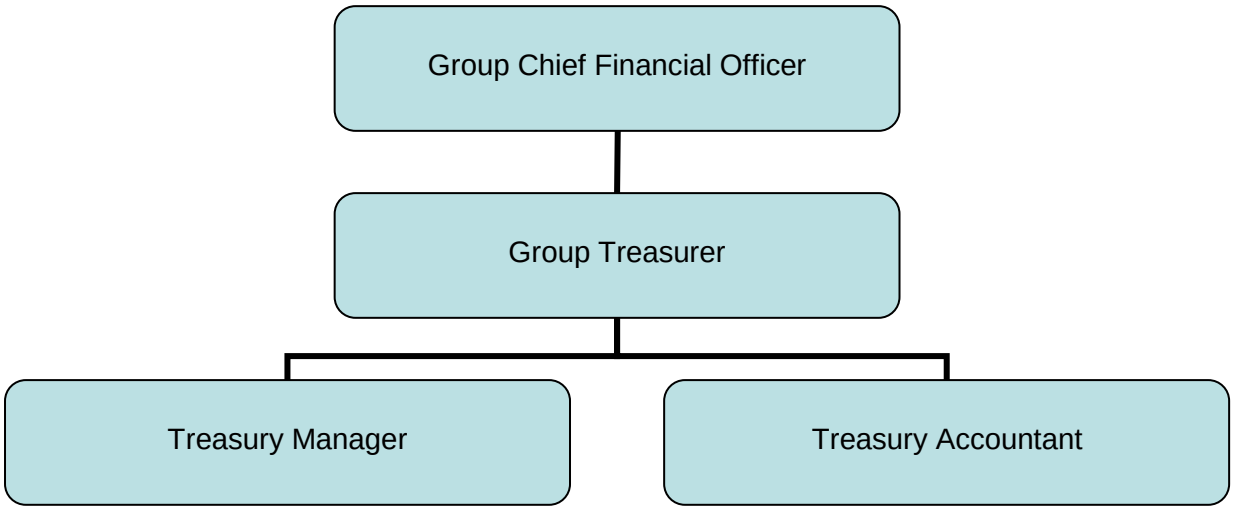
Schedule 2: Approved investment instruments

- Call deposits
- Money market deposits
- Money markets funds
- Repurchase agreements
- Bank commercial paper

Schedule 3: Approved financial derivatives

- Interest rate swaps
- FRAs
- Collars
- Caps
- Forward start option
- FX forward contract
- Cross currency swaps
- Purchased currency options, including average rate options

Schedule 4: Organisation chart



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