KENDRION

PRECISION. SAFETY. MOTION.

Annual Integrated Report 2020

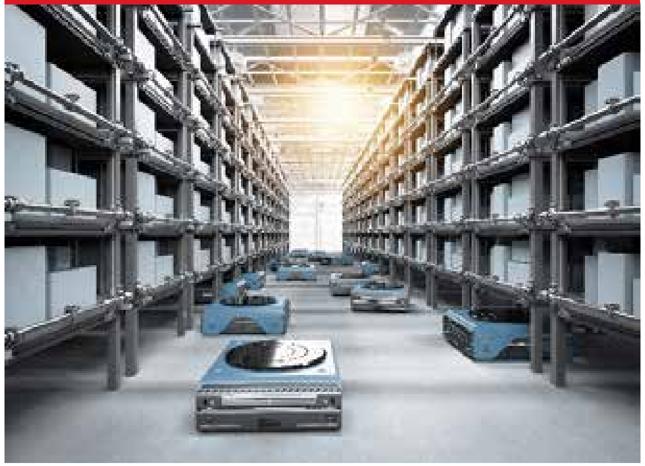
Progress during a tough year

Ensuring optimal use of wind energy
Brakes in the pitch control or azimuth drives of a wind turbine help control the nacelle ensuring the blades face the incoming wind and capture the most energy.

Keeping autonomous vehicles on the move 24/7
Our smart distribution system for sensor cleaning keeps optical sensors clean and autonomous vehicles on the move, in all weather conditions.

Helping save patients' lives
Our oxygen valves and pressure regulators are used in respirators around the world to enable artificial respiration on a patient (e.g. COVID-19).

Increasing safety of automated guided vehicles
Our electromagnetic brakes increase safety in trend-setting applications, such as automated guided vehicles (AGVs).



Driving passenger safety and comfort
Our products for suspension systems guarantee the highest level of passenger safety and comfort in tomorrow's vehicles, under different driving and road conditions.

Releasing oxygen masks
In aircraft, our locking unit make sure that oxygen masks are automatically released above the seats in the event of a pressure drop in the cabin.

Enabling high-energy lasers to operate safely
Our optical shutter systems with rotary solenoids contribute to the safety of laser-supported industrial processes, such as marking, cutting, and welding.

Keeping vehicles 'in check' when parked
Our electromagnetic actuators ensure safe and reliable locking of the vehicle transmission, preventing it from rolling away.

Handling heavy loads safely
The demands on the crane and hoist industry range from heavy to awkward loads. Our holding brake with a high-energy emergency stop fasten heavy loads during handling.

Securing the safety of pedestrians and cyclists
In electric and hybrid vehicles, our acoustic warning system warns pedestrians and cyclists when the vehicle is approaching or reversing.

Keeping medical devices locked in place
Our electromagnetic brakes keep medical devices locked in the right position to ensure patient safety during a check-up.

Managing continuous feeding in industrial processes
Our oscillating solenoids precisely manage the continuous bulk feeding of material in various automated processes.

PHOTOGRAPHY AND IMAGES
Wessel de Groot Fotografie
Kendrion N.V.
Shutterstock

A digital version of this Report is available on the websites www.kendrion.com and annualreport.kendrion.com along with other publications such as press releases.

Precision. Safety. Motion.

Engineering challenges of tomorrow

Kendrion has been engineering precision electromagnetic actuator systems and components for over a century.

Our products can be found in cars, buses, trucks, airplanes, medical equipment, elevators, wind turbines, robots, conveyor belts, locking systems and countless other applications. Our reliable electromagnetic actuators for active damping systems, for example, are all about safety: they ensure a comfortable and safe ride when driving a car. Our electromagnetic brakes precisely stop and hold drive systems in position while ensuring safety and at the same time preventing damage.

Kendrion is the trusted partner of some of the world's market leaders in the automotive and industrial segments when it comes to designing and producing complex components and customised systems. As a technology pioneer and innovator, we are always in motion and committed to creating solutions for the engineering challenges of tomorrow. Taking broad responsibility for how we source, manufacture and conduct business is integrated in our processes and embedded in our culture.

Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, our expertise extends across Europe to the Americas and Asia.

AUTOMOTIVE

AUTOMOTIVE

We develop innovative mobility solutions for passenger cars and commercial vehicles focused on drive systems, fluid control and smart actuation technologies.

INDUSTRIAL

INDUSTRIAL ACTUATORS AND CONTROLS

We focus on customised solutions for the industry based on electromagnetics, control technology and fluid technology.

INDUSTRIAL BRAKES

We are full-line provider of electromagnetic brakes and clutches for industrial drive technology.

Progress during a tough year

The year 2020 was a year like no other. As COVID-19 swept through the world, we faced a global health and economic crisis like never before. Our priorities were clear. Firstly, protecting the health and safety of our employees and their families. Secondly, preserving our cashflow and profitability. I am proud of the entire Kendrion team who, throughout the year, have shown unparalleled commitment, flexibility, and resilience. We have withstood the crisis and look to 2021 with confidence – with a strong and lean organization, a growing orderbook and a healthy balance sheet.

A tough year, with a strong finish

As the crisis started in China in the first quarter of the year and reached Europe and the US as early as March 2020, its impact on our physical well-being, profitability and cashflow was initially unclear. We took immediate and decisive measures to preserve all three.

Joep van Beurden
CEO

Our production facilities in Suzhou and Shanghai were hit first. And when Europe was affected, we implemented the Chinese best practice health and safety measures in our facilities around the world. This included temperature screening, mandatory face masks, professional deep cleaning in-between shifts, re-arranging of production lines to create at least 1.5 m distance and closure of all company cafeterias. Despite the measures, the Kendrion community has had to deal with COVID-19 in almost all locations. Unfortunately, one of our colleagues passed away from the disease.

Financially, we applied strict cost measures in all locations and functions. In both our direct and indirect workforce, we made use of so-called short time work arrangements as production volumes dropped. We deferred any investments unrelated to safety or revenue generation. Most of our senior management agreed to a temporary salary reduction of 15% to help preserve cashflow.

Despite our precautions, Q2 was a tough quarter. As automotive factories around the world shut down, our revenue dropped considerably. The second half saw a gradual return to more normal activity and order levels. This, combined with our strict cost measures, resulted in an EBITDA for H2 that was 25% above the second half of 2019.

Achieving our short- and long-term goals

On 10 September 2020, we introduced our medium to long-term goals during our Capital Markets Day. We aim to grow organically by 5% per year on average between 2020 and 2025, taking 2019 and including INTORQ, as the starting point. We expect to have an EBITDA of at least 15% and a ROIC of at least 25% by 2025.

As the pandemic raged, we focussed on the short-term, while not deviating from these long-term goals. We fully integrated INTORQ that we acquired in January 2020. We combined our former Industrial Control Systems and Industrial Magnetic Systems into one new business unit called Industrial Actuators and Controls. In Automotive we added a gratifying EUR 350 million to our orderbook, 70% more than our 2020 Automotive revenue. This means we expanded our orderbook for the third consecutive year. In China, our growth continued. We have decided to build a 28,000 m^2 plant in Suzhou to support our sizeable and expanding orderbook. We further improved our IT infrastructure, which helped us stay connected as more and more of our indirect workforce worked from home. We also launched our new website, our intranet, our digital newsletter and a digital personal development learning platform for all employees.

'The Kendrion Way' comes to life

We could not have come through 2020 the way we did, without our employees. Their compassion, trust in each other and commitment to our company is best exemplified in The Kendrion Way. We acted as One Kendrion, a global team supporting one another and holding each other accountable in a positive way. In the pressure cooker of 2020, The Kendrion Way, has become part of our Kendrion DNA and has truly come to life.

The COVID-19 pandemic is not over. It continues to impact how we live and work, but there is hope that during 2021 we may resume a more 'normal' working routine. We look to the future, and to achieving our goals, with confidence.

396.4 ↓ 3.9%
Revenue
(EUR million)
2019 **412.4**

18.9 ↓ 4%
EBITA[1]
(EUR million)
2019[2] **19.8**

11.7 ↓ 7%
Net profit[1]
(EUR million)
2019[2] **12.6**

11.3% ↑ 0.7%
EBITDA margin[1]
2019[2] **10.6%**

10.8% ↓ 0.9%
ROI[1,3]
(in %)
2019[2] **11.7%**

31.5 ↑ 23%
Free cash flow[1]
(EUR million)
2019 **25.5**

47.4% ↓ 9.3%
Solvency
2019[2] **56.7%**

2.3 ↑ 114%
Net debt / EBITDA[1]
2019[2] **1.1**

1 Normalised for one off costs and amortisation of acquisition related intangibles (only net profit).
2 2019 restated for retrospective correction of inventory. The effects of the restatement can be found on pages 107 and 108 of the financial statements.
3 Invested capital excluding intangibles arising on acquisitions.

2,456 ↑ 6.1%
Total number of employees (FTE)
(at 31 December)
2019 **2,316**

50%/50%
Total number of employees by gender
(in % M vs F)
2019 **49%/51%**

4.4 ↓ 0.4%
Illness rate
(in %)
2019 **4.8%**

5.3
Accidents
(per 1,000 FTE)
2019 **6.9**

384
Lost Time Injuries
(in days)
2019 **812**

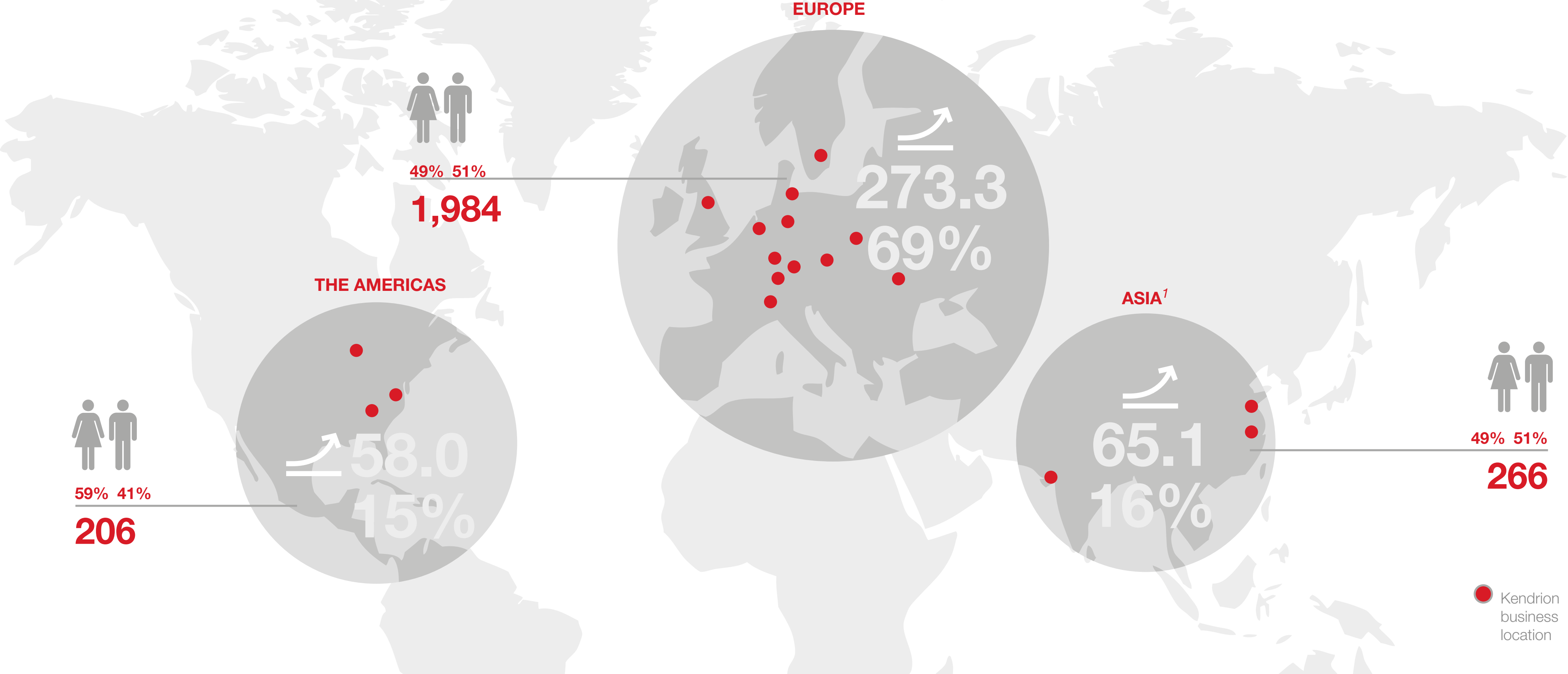
187.1 ↓ 1.3%
Relative energy consumption
(in tonnes kWh/million added value)
2019 **189.4**

34.4 ↓ 3.2%
Relative CO_2 emission
(in tonnes kWh/million added value)
2019 **35.5**

28
Number of CSR supplier audits
2019 **35**

Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

Revenue (in EUR million) segmented by customer location
FTE segmented by region



FINANCIAL RESULTS
EUR million

Revenue	EBITA[2]	Net profit[2]	EBITDA[2] %	ROI[3]	Total FTE
396.4	18.9	11.7	11.3%	10.8%	2,456

1 Including other countries with revenue of EUR 2.1 million.
2 Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.
3 Invested capital excluding intangibles arising on acquisitions.

Delivering profitable growth

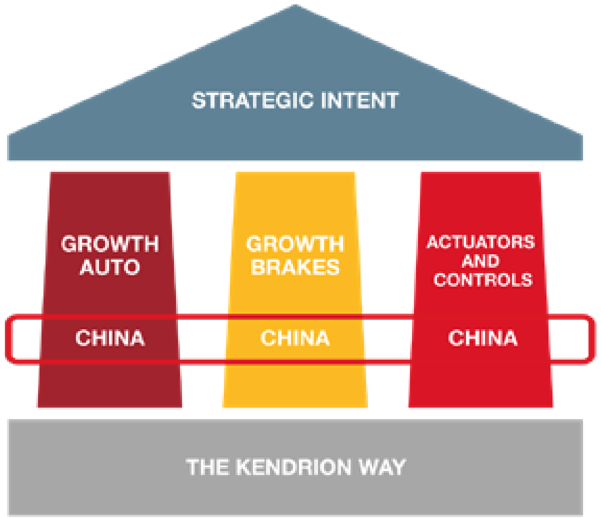
As complexity drives costs and slows down decision making, Kendrion continues to focus on sustaining a lean and agile organisation. Over the past years, Kendrion has significantly simplified its organisation and reduced its cost base, while continuing to invest in various growth opportunities, paving the way to sustainable profitable growth.

Our strategy

Kendrion will continue to focus its resources and capital on the areas that offer the greatest opportunity for sustainable profitable growth. In 2020, the designated areas for growth were:

- Automotive: specifically, in those actuators that help enable Autonomous, Connected, Electric and Shared mobility, also known as 'ACES';
- Industrial brakes: especially in the market for wind power, robotics & automation and logistics;
- China: where Kendrion has identified significant opportunities for its technology in a range of automotive and industrial applications.

We are confident that the strong pipeline development in these three growth areas will help deliver our financial target of 5% organic growth between 2019 and 2025.



Industrial Actuators and Controls

The former business units Industrial Magnetic Systems and Industrial Control Systems have been integrated into a new business unit Industrial Actuators and Controls (IAC). Within Kendrion's strategic house IAC is referred to as the cash engine. The priority of the newly created business unit is to realise profitability and cash flow and invest in selected growth opportunities in segments like inductive heating and industrial locks. Kendrion expects that IAC will generate sustainable, above average returns for the company.

Automotive

The automotive industry is going through a fundamental disruption driven by four mutually reinforcing trends: Autonomous driving, Connected vehicles, Electrification of the powertrain and Shared mobility, or ‘ACES’. Kendrion expects that, on aggregate, ACES will increase the actuator content per car and drive above-average growth. Kendrion believes that, after years of developing its smart actuation technology, it is well positioned to benefit from these trends.

Kendrion has created its so-called Lighthouse product platforms, specifically targeted to ACES. These platforms include systems and components for active suspension, AVAS systems for electric vehicles, sensor cleaning, battery cooling and clutches for hybrid vehicles. In addition, Kendrion’s valve and actuator technology helps creating cleaner combustion engines and a safer and more comfortable driving experience. In order to grow its long-term revenues, Kendrion endeavours to consistently add more lifetime revenue than its annual revenues to its commercial pipeline. In 2020, Kendrion added EUR 350 million in lifetime revenues, which is a book-to-bill ratio of 1.7. Over the past three years, Kendrion added around EUR 900 million in lifetime revenue to its automotive pipeline.

Industrial brakes

In Industrial Brakes, Kendrion is investing in brakes suitable for three important growth segments. Firstly, the ongoing automation of global industrial manufacturing processes creates fast growth in the uptake of industrial and collaborative robots across industries. Secondly, we anticipate continued fast-growing demand for brakes for wind turbines, as investments in green energy accelerates across the world. And finally, in the internal logistics world where, for example, automated guided vehicles proliferate in increasingly automated warehouses for e-commerce deliveries.

The acquisition of INTORQ that was completed on 8 January 2020, significantly enhanced Kendrion’s market position in industrial brakes. While Kendrion’s former business unit Industrial Drives Systems is the market leader in the area of permanent magnet brakes, INTORQ is one of the market leaders for spring-applied brake technology. The combination of INTORQ and Kendrion has created a leading industrial brake company with a full range of high-quality products in an expanding number of growth markets in Europe, China, the US and India.

China

Kendrion has significantly increased its revenue and operation in China over the past five years and believes that China represents a significant market opportunity for future growth.

Despite the impact of COVID-19 predominantly in the first quarter of 2020, our organic revenue in China grew with 5% fuelled by the substantial number of business wins in previous years. The former INTORQ activities in China increased with 64% capitalising on government incentives for wind-power investments and further strengthening Kendrion’s position in the country. Kendrion China continued to win significant new businesses, which are expected to drive the continuation of above average growth in the coming years.

In order to accommodate the expected growth, Kendrion has decided to build a new 28,000m^2 production facility in Suzhou, more than doubling the existing capacity. It is anticipated that Kendrion’s operations in Suzhou and Shanghai will be integrated in the new building in the first half of 2022.

Financial targets

Against the backdrop of the impact of the COVID-19 pandemic on end markets and economies in general, in 2020 revenue decreased 4% and 17% excluding the impact of INTORQ. Return on investment was 10.8% (2019: 11.7%). Kendrion was able to increase its EBITDA margin to 11.3% (2019: 10.6%) despite the impact of the pandemic.

In response to the difficult trading conditions, Kendrion implemented short-time work in many of its European facilities, introduced a voluntary temporary 15% salary reduction for senior management, significantly reduced discretionary spending and deferred investments unrelated to safety or revenue generation. The total effect of the measures has led to EUR 19.6 million lower organic costs compared to the previous year.

Against the backdrop of the impact of the COVID-19 pandemic on its end-markets and economies in general, Kendrion stated four ambitious medium to long-term financial objectives for 2025 during its Capital Markets Day on 10 September 2020:

- Average organic growth of 5% between 2019 and 2025
- Return on investment of at least 25% by 2025[1]
- EBITDA margin of at least 15% by 2025[2]
- Dividend pay-out: 35-50% of (normalised) net profit

During 2020, Kendrion has made good progress on its strategy and is confident that it is in an excellent position to deliver these ambitious targets in 2025.

Average organic growth

TARGET 2019-2025 5%
ACTUAL -17%

Return on investment[1]

TARGET 2025 25%
ACTUAL 10.8%

EBITDA margin[2]

TARGET 2025 15%
ACTUAL 11.3%

Dividend pay-out

TARGET 35-50%
ACTUAL 50%

1 Invested capital excluding intangibles arising on acquisitions.
2 Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.

Driving innovation

No business sector has been immune to the COVID pandemic, including our key markets within Automotive and Industrial. OEMs in both sectors felt the impact on operations and slowed down their activity level affecting some of their R&D efforts and market introductions. While this caused a considerable drop in our revenue, especially in Q2 of 2020, it did not compromise the progress we made towards our strategy and our medium- term financial targets.

We continued to invest in the ‘Lighthouse platforms’ that we identified in 2019: six cutting-edge products that help advance the implementation of Autonomous, Connected, Electrified and Shared vehicles (ACES) and the markets for Robotics and Automation. These markets offer significant growth potential for our business in the medium to long term.

And while the pandemic disrupted our R&D, sourcing, and production efforts, we did make substantial progress on some of our innovations, moving them from customer-specific prototypes to serial production. Here is an update on each platform.

Sharpening our differentiators in ‘ADAS Wash’

While the market expected investments in software-defined vehicles (SDVs) and autonomous driving solutions to drop in 2020, we did not experience this as such. and have made significant headway in defining our ‘ADAS Wash’ product in this promising market.

Kendrion’s innovative ‘ADAS Wash’ smart valve block platform for sensor cleaning is an industry-leading customer solution. It distributes cleaning fluid and air to all relevant systems, including optical sensors, LiDAR, and cameras. Integrated electronics enable smart features for position detection, smart selection of operation modes, and effective status reporting. Key markets for ‘ADAS Wash’ are level 4 (high driving) and level 5 (full driving) vehicles, and robo-taxis.

In 2020, our ‘ADAS Wash’ system generated interest from various OEMs. We tested our system in several vehicles and the results were positive. We also took the first steps towards building a partner ecosystem and product platform. This will enable us to develop market-ready-for-use ‘ADAS wash’ solutions and become a major player in the next generation of self-driving robo-taxis. We see great potential for us in this area, especially in China, where these vehicles are a practical reality today.

Kendrion’s smart valve block platform for sensor cleaning is the leading solution for SDVs today. We are confident that we can capture a substantial market share once demand for SDVs and autonomous driving solutions picks up again.

AVAS: winning a new global OEM customer

In 2020, the market for hybrid and battery-electric vehicles (BEV) continued to grow, and with it the need for Acoustic Vehicle Alerting Systems (AVAS). In the EU and the US, AVAS systems are a legal requirement for new models of BEVs. These vehicles are obliged to generate a specific sound level when travelling below 20 kilometres per hour, or when reversing.

Our AVAS sound solution based on our 'Phantone' Sound Platform is a clear winner in this growing market. In 2020, we attracted a major, global OEM who was not yet on our customer list, and we expect our AVAS business to grow substantially over the next couple of years.

With our 'Phantone' Sound Platform, we are the first on the market to offer a complete, ready-to-use and customizable AVAS solution which can be easily programmed and built into manufacturers' vehicle designs.

In the coming year, we aim to land at least one additional large OEM nomination, possibly in China. At the same time, we are developing a system that is suitable for BEV start-ups, as well as more established OEMs. To support our growth, we are setting up a new software environment that will allow us to standardize 'Phantone' while providing full software-based flexibility to a larger customer base.

By 2027, some 12.5 million AVAS sound systems are expected to be on the road worldwide. We see great potential for our integrated system solution, as the market continues to expand.

Off-highway hybrid clutch: a shifting market

Manufacturers of 'off-highway' vehicles such as wheel loaders and excavators are increasingly making the shift to hybrid technology because of its clear benefits: reduced operational costs, greater productivity, and a smaller ecological footprint. However, in 2020, the COVID pandemic stalled development, production, and sales of hybrid off-highway equipment, for the market in general and thus for Kendrion.

Kendrion's electromagnetic clutches contribute to increased fuel efficiency. When used on parallel hybrid applications, they support a reduction of fuel consumption by up to 20 percent, while electric energy generated from braking is recuperated for later use. Our clutches have proven their value in airport vehicles for over a decade and are suitable for vehicles ranging from mild hybrid (48-volt) to full battery-electric power.

Following outstanding test results with the first customer-designed hybrid clutch prototype in 2019, we planned to start serial production in 2020. Unfortunately, due to COVID-19, our key customers postponed their R&D efforts and production. When they resume activities in 2021, we expect to secure a number of nominations.

The off-highway vehicle market is potentially a large market for our hybrid technology. We expect demand to increase considerably over the next 10 years. As construction equipment technology has a longer lifetime potential than passenger cars, we are confident that our clutches will bring a good long-term return on our R&D investment.

Valves for active suspension systems: winning new business

Demand for active suspension systems in passenger cars, off-road SUVs, and autonomous vehicles is on the rise which is good news for us. In 2020, our air-spring valves began to be integrated in suspension systems for premium-range passenger cars. We won projects with existing and new customers and, with that, substantial business.

Active suspension systems help OEMs improve the comfort, safety and driving dynamics of their vehicles. But this technology is a new frontier to many car suspension manufacturers. Kendrion's air-spring valves provide them with a high-tech product that can be easily integrated into the suspension system quickly and without major investments in R&D.

This past year, we have seen great traction for our active damping valves. Our major Tier 1 suspension manufacturing customer has been successful selling to premium car OEMs, and other Tier 1 manufacturers secured business with various OEMs. From 2022 onwards, we expect orders from sub-premium car brands, which will boost our success in this segment further.

In 2021, we expect to work on developing a standard product platform that will enable us to produce high volumes and introduce multiple product variants quicker, and with less R&D effort. We will focus on three areas of opportunity: expanding our new standard valve platform globally, entering the Chinese market and growing our sales volume with existing customers.

Smart water valve: first premium electric car integration

As global auto sales dropped during the COVID-19 crisis, electric mobility remained remarkably resilient in Europe and China. For engineers developing battery electric vehicles (BEVs), heating and cooling of the battery is top of mind. In 2020, we successfully integrated our new smart water valve in a premium electric car model range of a leading OEM.

Kendrion's 3/3 smart water valve with ECU provides a single solution for thermal battery challenges. The valve distributes coolant flows, helping maintain the battery cell temperature within a few degrees across the entire pack. The ECU monitors the valve to detect any battery error and communicate back to the central control unit before the error becomes an expensive problem or worse, a safety hazard.

In 2021, we will focus on developing additional product specifications and improved manufacturing processes that will allow us to scale production. We received the first product nominations for our 3/3 smart valve and anticipate starting serial production in 2022. China in particular offers us a lot of potential.

Our 3/3 smart water valve with ECU takes us into a new league - of innovation, competitors and customers. We foresee smart water valves will become a major pillar of revenue for Kendrion.

Servo Slim Line brake: small brake, big opportunities

The global robotics market grew in 2020: a trend that is expected to continue in the coming years. In fact, new sectors are adopting robot technology every year. And while our Servo Slim Line brakes were specifically developed for collaborative robots or 'cobots', they have also attracted strong interest from robotics OEMs, for an increasing variety of applications.

Flatter and lighter than the market standard, our 'slim', single-disc Servo Slim Line brakes enable manufacturers to keep designs compact yet safe, for robots with lifting capacities between 3 and 20 kilograms. The unique large inner diameter design lets manufacturers integrate cables inside the brake, making them ideal for hollow-shaft applications.

Over the past two years, our Servo Slim Line brake and Servo Line brakes have become a great success for Kendrion, with over 20 design-in nominations - all with new customers. Some of these should scale up in the near future. For example, in May 2021, we start mass production of Slim Line brakes for a new warehousing customer in the US. We expect to ramp up exponentially with this customer over the next few years.

As mentioned, the appeal of the Servo Line and Servo Slim Line brakes goes further than just cobots. We were delighted by the interest from OEMs for service robots, medical applications, warehousing solutions, automated guided vehicles (AGVs), farming equipment, and more. Thanks to the growing scope of applications, and our design platform approach, we are confident the demand for our Servo Line and Slim Line brakes will grow substantially over the coming years.

Movements in the number of outstanding shares	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2020	14,753,533	180,451	14,933,984
Issued registered shares (share plan)	2,654	(2,654)	–
Delivered shares	10,294	(10,294)	–
At 31 December 2020	14,766,481	167,503	14,933,984

Other information

EUR, unless otherwise stated	2020	2019[2]	2018
Number of shares x 1,000 at 31 December	14,934	14,934	13,575
Market capitalisation at 31 December (EUR million)	247.9	312.9	283.7
Enterprise value (EV) (EUR million)	351.1	360.3	364.2
Highest share price in the financial year	21.35	23.60	44.35
Lowest share price in the financial year	8.63	15.62	20.30
Share price on 31 December	16.60	20.95	20.90
Average daily ordinary share volume	24,203	15,959	21,899
EBITDA multiple (EV / EBITDA)[1]	7.86	8.22	6.23
Result per share	0.29	0.61	1.03
Normalised result per share[1]	0.79	0.94	1.69
Share price earnings ratio[1]	21.01	22.29	12.39

Major shareholders as at 31 December 2020[3]	Interest in %	Date of report
Teslin Participaties Coöperatief U.A.	15.14	At 14 June 2019
NN Group N.V.	9.96	At 20 June 2019
Kempen Capital Management N.V.	10.07	At 26 May 2020
Cross Options Beheer B.V.	5.37	At 8 May 2017
T. Rowe Price Group, Inc.	4.97	At 5 May 2017
FIL Limited	5.00	At 1 October 2019
Invesco Limited	5.42	At 15 May 2020
Midlin N.V.	3.08	At 11 December 2020
Total	59.01%	

1 Excluding one-off costs and amortisation of intangibles arising from acquisitions. The bridge from reported to normalised figures can be found on page 31.

2 Restated for retrospective correction of inventory. The effects of the restatement can be found on pages 151-160 of the financial statements.

3 On the basis of the information in the register of the AFM and listed on the website at www.afm.nl.

Share capital

The authorised share capital of Kendrion N.V. as at 31 December 2020 amounts to EUR 80,000,000 and is divided into 40,000,000 ordinary shares with a nominal value of EUR 2.00 each. At year-end 2020, the total number of ordinary shares issued was 14,933,984. There is one class of ordinary shares and no depositary receipts for shares have been issued. Kendrion's ordinary shares are listed on NYSE Euronext Amsterdam Small Cap Index (AScX).

Movements in the share price

from 2 January 2020 to 31 December 2020

Treasury shares
As at 31 December 2020, Kendrion N.V. holds 167,503 ordinary shares in its own capital, representing 1.1% of the total issued share capital. The ordinary shares held by Kendrion N.V. in its own capital are non-voting, do not have any dividend entitlement, and are held in treasury for payment of future stock dividends and share-based incentive plans. This means that as per year-end 2020, 14,766,481 ordinary shares hold voting rights and dividend entitlement.

Dividend policy
Kendrion endeavours to realise an attractive return for shareholders supported by a suitable dividend policy. In view of safeguarding a healthy financial position, consideration is also given to the amount of profit to be retained to support the company's medium and long-term strategic plans and to maintaining a solvency ratio of at least 35%. Kendrion strives to distribute dividends representing between 35% and 50% of its net profit.

In principle, Kendrion offers shareholders an opportunity to opt for dividends in cash or in the form of ordinary shares in Kendrion N.V.'s capital.

Kendrion will propose a dividend of EUR 0.40 per share, representing a payment of dividend of 50% of normalised net profit for 2020 at the Annual General Meeting of Shareholders on 12 April 2021. The total amount of dividend is EUR 5.9 million. It will be proposed that payment of the dividend be made in cash, or at the option of shareholders, in the form of ordinary shares charged to the share premium reserve with any remaining fraction being settled in cash.

Major shareholders
Any person holding or acquiring an interest of 3% or more in a Dutch publicly listed company is bound, based on the Financial Supervision Act *(Wet op het Financieel Toezicht)*, to disclose such a holding to the Dutch Authority for the Financial Markets (AFM). The disclosure is recorded in the register of the AFM and listed on the website at https://www.afm.nl/en.

Participation
Kendrion maintains a share-based incentive plan for its senior management and certain key employees. Up to 2018, senior management and certain key employees were eligible to apply for the conversion of a maximum of half of the cash amount of their annual net cash bonus into Kendrion shares. Under this share-based incentive plan, Kendrion offered to double the number of shares after three years, provided the participant concerned is still employed by Kendrion and still holds the shares purchased. Pursuant to this share-based incentive plan, a total of 2,654 ordinary shares were allocated to employees from the balance of treasury shares in 2020.

Capital Markets Day 2020

On 10 September 2020, CEO Joep van Beurden, CFO Jeroen Hemmen and our Automotive and Industrial Brakes Business Units Managers presented a comprehensive strategic update and new medium-term financial targets to the financial market.

Effective as of 2019, members of the Management Team are eligible for a grant of conditional performance shares. In 2020, 28,380 conditional performance shares were granted to the Management Team under this long-term incentive plan. The conditional performance shares granted will vest upon achievement of performance measured over a three-year period. The actual number of shares that will be issued upon expiry of the three-year vesting period is subject to the realisation of predefined performance criteria.

In 2020, conditional performance shares have been granted to the members of the Executive Board pursuant to the Executive Board long-term incentive plan. More information about (conditional performance) shares granted to the members of the Executive Board is set out on page 150. A comprehensive description of the long-term incentive plan is included in the 'Remuneration Report' section on pages 85-99.

Regulations to prevent insider trading

Kendrion has regulations covering securities transactions by members of the Executive Board, members of the Supervisory Board, members of the Management Team and other designated employees. The Insider Trading Code is published on the corporate website at https://www.kendrion.com. The Insider Trading Code is intended to ensure the avoidance of insider trading or the appearance thereof, and any mixing of business and private interests.

Investor relations

Kendrion attaches great importance to appropriate communications with financial stakeholders such as investors, debt capital providers and analysts to provide them with good insight into the developments at Kendrion. Transparency is intended to lead to healthy pricing, and to support liquidity.

Analysts

The following stock exchange analysts actively monitor the Kendrion share:

Berenberg	Beatrice Allen
Degroof Petercam	Frank Claassen
ING Bank N.V.	Tijs Hollestelle
The Idea-Driven Equities Analyses Company	Maarten Verbeek

Financial calendar

Friday, 19 February 2021	Publication annual results 2020
Monday, 15 March 2021	Record date General Meeting of Shareholders
Monday, 12 April 2021	General Meeting of Shareholders
Wednesday, 14 April 2021	Ex-dividend date
Thursday, 15 April 2021	Dividend record date
Friday, 16 April – Monday, 3 May 2021, 3 pm	Dividend election period (stock and/or cash)
Tuesday, 4 May 2021	Determination stock dividend exchange ratio
Tuesday, 4 May 2021	Publication first quarter results 2021
Thursday, 6 May 2021	Cash dividend made payable and delivery stock dividend
Wednesday, 25 August 2021	Publication half-year results 2021
Tuesday, 2 November 2021	Publication third quarter results 2021

J. H. Hemmen

Position	Chief Financial Officer
Year of birth	1973
Nationality	Dutch
Joined Kendrion	1 June 2005
Appointment to position	1 July 2019 (EGM 7 June 2019)

J.A.J. van Beurden

Position	Chief Executive Officer
Year of birth	1960
Nationality	Dutch
Appointment to position	1 December 2015
Second term	1 December 2019 – 1 December 2023 (AGM 8 April 2019)
	Member of the Supervisory Board of Adyen
	Member of the Supervisory Board of the University of Twente
	Member of the Advisory Board of PlantLab

Innovative mobility solutions for passenger cars and commercial vehicles focused on drive systems, fluid control and smart actuation technologies.

WHERE OUR PRODUCTS ARE USED

- Active suspension systems
- Belt damping systems
- Engine brakes
- Engine management
- Fuel systems
- Hydraulics
- Acoustic vehicle alerting systems
- Thermal management
- Sensor cleaning systems
- Transmission

OUR CUSTOMERS INCLUDE

- Continental
- Daimler Group
- Danfoss
- Delphi
- FCA
- Ford
- Great Wall Motors
- Hyundai Kia
- KYB
- Stanadyne
- ThyssenKrupp Bilstein
- Volkswagen Group
- ZF Friedrichshafen

TOTAL AUTOMOTIVE REVENUE
(in EUR)

206.1 million
2019 258.8 million

Capitalising on the new trends

Profile

The Kendrion Automotive Group (KAG) develops, manufactures and markets innovative high-quality electromagnetic components and solutions as well as control units for customers in the automotive industry worldwide. Customers include major OEMs and Tier 1 suppliers in the global markets for passenger cars, light commercial vehicles, buses, heavy trucks, construction and agricultural vehicles.

Automotive focuses on advanced valve technology, smart actuation and electromagnetic clutch technology for a wide range of application areas. These include active suspension systems, thermal management systems, fuel systems, acoustic vehicle alerting systems, sensor cleaning systems, transmission systems and mobile hydraulics.

Kendrion is recognised as a high-quality and trusted development and engineering partner with in-depth technical knowledge and access to development, testing and production facilities. Kendrion has an international network and eight manufacturing facilities in Germany, Austria, Romania, Czech Republic, the US and China. Products are developed and designed in accordance with the customer's specific needs, placing great emphasis on performance, quality and reliability.

Market and market position

Kendrion is focusing on several important global trends towards improved efficiency of traditional combustion engines, electric or hybrid power trains, automation and the demand for safety and comfort. Kendrion is specifically investing its resources in developing products that help the transformation of the product portfolio towards the Autonomous, Connected, Electric and Shared mobility, known as 'ACES'. By 2025, 40% of cars sold are expected to by either fully electric or hybrid and 90% of cars are expected to be equipped with level 3 autonomous driving technology. Driven by these trends, the automobile is evolving from a mechanical defined to a software-defined product. With our technology platforms and focus on smart actuation, Kendrion is well positioned to capitalise on these trends, which will contribute, in our expectation, to an increased content per car for our products.

The Kendrion Automotive Group competes in a market with a number of, mainly German based, mid-sized competitors. Europe continues to be Kendrion's largest automotive market, with Germany being the predominant country within this market. Kendrion's position in China improved further, with the company adding several new project wins.

Developments in 2020

Revenue for the Kendrion Automotive Group amounted to EUR 206.1 million in 2020 (2019: EUR 258.8 million). Automotive revenue was impacted by the COVID-19 pandemic, initially affecting revenue in China but spreading out to Europe and the US in late March with many Automotive customers shutting down their operations during the months April and May. Revenue gradually recovered in the second half of 2020, albeit still below the pre-COVID level.

Automotive added EUR 350 million (2019: EUR 320 million) in lifetime revenue to its long-term order book, indicating a positive book-to-bill of 1.7 times 2020 serial revenue. Project wins were wide ranging and include valves and control units for active suspension systems and acoustic vehicle alerting systems for passenger cars and thermal management systems and positioning sensors for commercial vehicle end customers.

The transformation of the production portfolio towards the Autonomous, Connected, Electric and Shared mobility, the ‘ACES’, continued in 2020 with increasing customer interest and business wins for the five identified so called ‘Lighthouse’ platforms. These include the battery cooling valve, AVAS sound system for hybrid and electric vehicles, a system for sensor cleaning, valves for active suspension damping and clutches for hybrid off-highway vehicles.

Automotive continues to streamline operations. Based on an evaluation of its European manufacturing footprint, it has been decided to close the manufacturing facility in Eibiswald, Austria, per mid-2022. At year-end 2020 Eibiswald employed 87 FTE, of which around half working directly in production.
All production lines will be transferred to other Kendrion facilities over the next year and a half. The EUR 3 million annual structural cost savings in Automotive that were realised towards the end of 2019 have been fully effective in the financial year 2020.

The transformation towards the ‘ACES’ expected to increase Kendrion’s content per car.

INDUSTRIAL ACTUATORS AND CONTROLS

Customised solutions for the industry based on electromagnetics, control technology and fluid technology.

INDUSTRIAL BRAKES

Full-line provider of electromagnetic brakes and clutches for industrial drive systems.

WHERE OUR PRODUCTS ARE USED

- Access control systems
- Aircraft interiors
- Elevator systems
- Energy generation and distribution
- Food and beverage industry
- Industrial appliances
- Industrial automation
- Intralogistics
- Medical equipment
- Robotics
- Safety systems
- Textile machinery
- Wind power

OUR CUSTOMERS INCLUDE

- Bosch Rexroth
- Collins Aerospace
- Dräger
- Eaton Corporation
- Euchner
- Fresenius
- Lenze
- Oerlikon
- PerkinElmer
- Schindler
- Siemens
- ST Drives
- Stoll

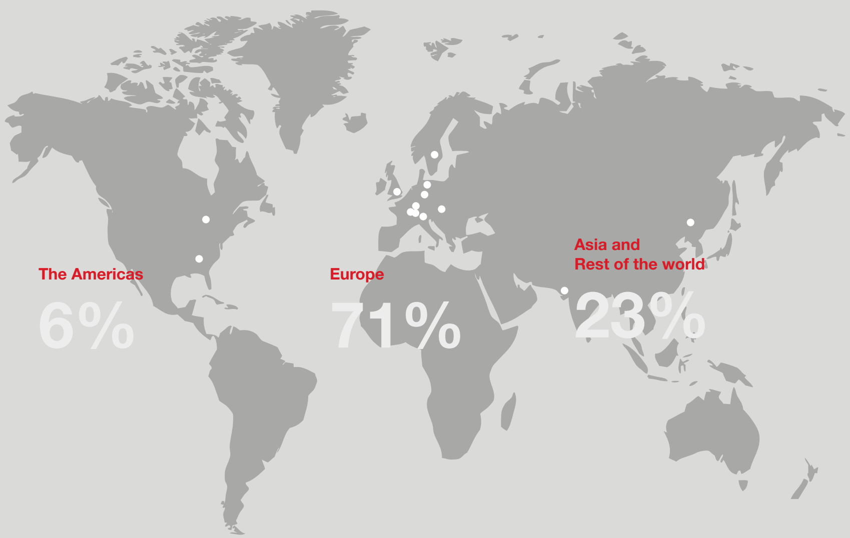
TOTAL INDUSTRIAL REVENUE

(in EUR)

190.3 million

2019 153.6 million

Kendrion locations with regional revenue breakdown



Combining businesses for further growth

Profile

The industrial activities focus on developing and manufacturing electromagnetic systems and components and control units for a wide range of industrial applications such as industrial automation, robotics, wind power, intralogistics, energy distribution, medical equipment, transportation and aerospace.

The industrial activities are carried out in two business units: Industrial Actuators and Controls and Industrial Brakes. Industrial Actuators and Controls focuses on the development and production of customised electromagnetic actuator technology, gas and fluid control valves and systems and control technology. Industrial Brakes specialises in the development and manufacture of electromagnetic brakes and clutches.

The main differentiators are application expertise and engineering skills to design high-performance products of unparalleled quality. Besides the customer-specific systems and components, the industrial portfolio comprises standard and application-specific components. The largest industrial production facilities are located in Germany, with further facilities in China, the US, India and Romania. Products are marketed via an own sales organisation in Germany, the UK, Austria, Sweden, China and the US. A worldwide sales distribution network is dedicated to standard and application-specific components.

Market and market position

Industrial Actuators and Controls (IAC) serves a large number of industrial end markets including aerospace, railway, energy distribution, medical equipment, industrial appliances, logistics, access control, food & beverage machinery and textile machinery. Although some niches, such as inductive heating and energy distribution, offer good growth potential, IAC prioritises above average profitability and cash flow.

Industrial Brakes serves a number of markets that are expected to offer above average opportunities for growth, including industrial automation and more specifically robotics, wind power and intralogistics.

Kendrion competes in a market with many small and mid-sized producers, which often have a regional focus. The main market for the industrial activities continues to be Germany, with its advanced and globally leading mechanical engineering and automation industries, followed by China. Other key markets are the US, Switzerland, Austria, Italy, France and Sweden. Customer concentration is relatively low.

Developments in 2020

Industrial activities realised revenue of EUR 190.3 million in 2020 (2019: EUR 153.6 million). 2020 revenue includes the acquisition of INTORQ, which closed on 8 January 2020 and has strengthened Kendrion's position in the industrial brakes market. INTORQ contributed EUR 54 million revenue in 2020. The Industrial activities were affected by the COVID-19 pandemic induced economic downturn, which started to negatively impact Industrial revenue in May. Revenue recovered in the latter part of 2020 with the industrial activities reporting year-on-year organic growth in the fourth quarter of 2020.

In 2020, Kendrion has merged its former business units Industrial Magnetic Systems and Industrial Controls Systems into a single business unit Industrial Actuators and Controls. The merger became effective as of 1 January 2020 and besides realizing cost synergies, the combination is expected to increase commercial effectiveness via a common market approach. In 2020, IAC realised new revenues with a number of customers with newly developed technologies for inductive heating, safety FIO and standard locks for professional appliances. Revenue in IAC was affected by lower activity levels in aerospace, machine safety and textile machinery, while other segments such as medical performed well in 2020. High demand in medical was partially driven by a COVID-19 related surge in demand for IAC valves used in ventilators.

On 8 January 2020, Kendrion closed the acquisition of INTORQ, a leading manufacturer of spring-applied brakes with production sites in Aerzen (Germany), Shanghai (China), Atlanta (the US) and Pune (India). In 2020, Kendrion has successfully integrated INTORQ with the former Kendrion business unit Industrial Drive Systems, creating a leading industrial brake company with a full range of high-quality brakes in an expanded number of growth markets in Europe, China, the US and India. The general economic downturn caused by the COVID-19 pandemic affected Industrial Brakes customers globally, but the business unit did benefit from high demand for its wind power applications in China on the back of government subsidies, has won sizeable new business in intralogistics and continued to receive high interest for its slim brake line for collaborative robots. The run rate synergies realised in Industrial Brakes was EUR 2.8 million and included the integration of Kendrion's and INTORQ's production sites in Aerzen in the fourth quarter of 2020, integrating the business unit and China management teams, as well as purchase savings realised.

> The acquisition of INTORQ has strengthened Kendrion's position in the industrial brakes market.

Normalisation impact

During 2020, Kendrion has incurred various costs and benefits that are considered non-recurring. In order to present a meaningful analysis of the underlying financial performance of the business, the financial results have been normalised for these non-recurring costs and benefits.

A total of EUR 4.4 million (2019: EUR 5.7 million) operating expenses have been normalised. This breaks down into EUR 0.6 million transaction costs related to the acquisition of INTORQ, EUR 0.8 million costs related to the integration of INTORQ and the realization of cost synergies, EUR 1.4 million net restructuring expenses and a EUR 1.6 million impairment charge related to previously capitalised development costs.

Net finance costs have been normalised for EUR 0.6 million additional interest related to the expected outcome of German tax audits covering the financial years 2010 – 2014 and the expected impact on the years thereafter. The total after-tax normalisation amounted to EUR 4.1 million (2019: EUR 2.7 million).

Normalisation impact

EUR million	2020	2019[1]
Reported result before net finance costs	10.1	11.9
Reported amortisation	4.4	2.2
Reported operating result before amortisation (EBITA)	**14.5**	**14.1**
One-off costs related to simplifying measures in raw materials	-	(0.1)
One-off costs related to simplifying measures in staff costs	1.5	2.9
One-off costs related to simplifying measures in other operating expenses	0.7	0.1
One-off costs related to acquisition costs in other operating expenses	0.6	1.2
One-off costs related to claim settlement in other operating expenses	-	1.6
One-off costs related to impairment capitalized R&D	1,6	-
Normalised EBITA	**18.9**	**19.8**
Reported amortisation	(4.4)	(2.2)
Reported net finance costs	(4.1)	(0.6)
One-off costs related to tax audits in finance expense	0.6	0.1
One-off costs related to acquisition costs in finance expense	0.0	-
One-off gains related to release of currency translation reserve	-	(2.0)
Reported share profit or loss of an associate	(0.3)	(0.3)
Normalised profit before income tax	**10.7**	**14.8**
Reported income tax expense	(1.4)	(2.7)
One-off costs related to tax audits in income tax expense	-	0.4
One-off costs related to simplifying measures in income tax expenses	0.2	-
Impact one-off costs on income tax expense	(1.1)	(1.5)
Amortisation after tax	3.3	1.6
Normalised net profit for the period before amortisation	**11.7**	**12.6**

Income Statement, normalised

EUR million	2020	2019[1]
Revenue	**396.4**	**412.4**
Changes in inventory and work in progress	2.2	4.4
Raw materials and subcontracted work	203.2	214.7
Added value	**191.0**	**193.3**
Staff costs	118.0	121.7
Other operating expenses	28.4	27.8
Operating expenses	**146.4**	**149.5**
EBITDA	**44.6**	**43.8**
Depreciation	25.7	24.0
EBITA	**18.9**	**19.8**
Added value margin	48.5%	47.4%
EBITDA margin	11.3%	10.6%
EBITA margin	4.8%	4.8%
EBITA return on investments (ROI)[2]	10.8%	11.7%

1 2019 restated for retrospective correction of inventory. The effects of the restatement can be found on pages 107 and 108 of the financial statements.

2 Invested capital excluding intangibles arising on acquisitions.

Revenue

At group level, organic revenue decreased 17% in 2020 as the surging COVID-19 pandemic affected economies and end markets around the globe. Starting with lower activity levels in China in the first months of 2020, the revenue impact of the pandemic quickly spread to Europe and the US toward the end of the first quarter with many Automotive customers shutting down their operations. The pandemic affected the Industrial activities as well, albeit with some delay and with a comparably lower impact than in Automotive. From the depth of the economic crisis in the second quarter, end markets showed resilience and gradually rebounded in the second half of the year with the Industrial activities and passenger car related segments in Automotive delivering year-on-year growth in the last months of the year. Group revenue decreased 4% to EUR 396.4 million (2019: EUR 412.4 million), including EUR 54.0 million revenue from INTORQ. Currency effects had a negative impact of 0.3% on revenue.

Revenue of the Industrial business units increased 24% (2019: 7% decrease) to EUR 190.3 million. Excluding the contribution from INTORQ, organic revenue decreased 11%. The Automotive Group revenue decreased 20% (2019: 9% decrease) to EUR 206.1 million. Organic revenue to customers in Europe and the Americas decreased respectively with 18% and 24%, while revenue to customers in Asia increased 3% as the ramp-up of new projects more than offset the impact of the COVID-19 pandemic.

Added value

The 2020 added value amounted to EUR 191.0 million (2019: EUR 193.3 million). The organic revenue decrease had a negative impact on added value, which was almost completely offset by the consolidation of INTORQ and a EUR 2.2 million lower reduction in finished goods and work in progress inventory. The added value margin increased 1.1 percentage points to 48,5% in 2020, which is mainly caused by the increased share of the Industrial business units in group revenue. The added value margin in the Automotive Group and the Industrial business units slightly improved in 2020.

Operating expenses

Normalised staff costs decreased 3% to EUR 118.0 million (2019: EUR 121.7 million) in 2020. Organic staff costs decreased 13% or EUR 15.8 million in 2020 with many of our manufacturing locations implementing short-time work, a voluntary 15% salary reduction by senior management and a reduction in flexible labour in response to the COVID-19 pandemic, as well as restructuring measures all contributing to the lower cost base. Staff costs for direct employees decreased 16% on an organic basis, while indirect staff costs decreased 23%. Total staff costs as a percentage of revenue was 29.8% (2019: 29.5%).

Normalised other operating expenses ended up at EUR 28.4 million (2019: 27.8 million). On an organic basis, the other operating expenses decreased EUR 3.8 million in 2020. Travel and representation costs decreased as a result of COVID-19 travel restrictions and strict cost control contributed to the lower other operating expenses. Depreciation of fixed assets was EUR 25.7 million (2019: EUR 24.0 million). Excluding the added depreciation charges from INTORQ, depreciation of fixed assets slightly decreased to EUR 23.8 million.

Costs for research & development, included in staff and other operating expenses were EUR 28.9 million (2019: EUR 27.1 million), of which EUR 0.7 million were capitalised on the balance sheet (2019: EUR 3.1 million). Net costs for research & development as a percentage of revenue was 7.1% (2019: 6.0%).

Normalised operating expenses

EUR million	2020	2019
Staff costs	118.0	121.7
Other operating expenses	28.4	27.8
Depreciation of fixed assets	25.7	24.0
Operating expenses	**172.1**	**173.5**

FTE (at 31 December)	2020	2019
Direct staff	1,214	1,205
Indirect staff	1,100	1,048
Temporary employees	142	63
Total number of FTE	**2,456**	**2,316**

EBITA

Normalised EBITA ended up at EUR 18.9 million (2019: EUR 19.8 million) and EBITA as a percentage of revenue was 4.8% (2019: 4.8%).

Amortisation related to acquisitions

Acquisition related intangible assets are capitalised on the balance sheet upon acquisition and reflect intangible assets such as customer relations, technology and trade names as allocated as part of the purchase price.
The intangibles are amortised over a period of 1 to 15 years.
The amortisation charge in 2020 increased to EUR 4.4 million (2019: EUR 2.2 million) as the purchase price allocation of the acquisition of INTORQ added to the amortisation charge.

Net financing costs

Normalised net financing costs in 2020 were EUR 3.5 million (2019: EUR 2.5 million). Net financing costs include net interest expense on Kendrion's debt position, the amortisation of transaction costs and realised and unrealised foreign currency results on monetary assets and liabilities. The increase in financing costs were attributable to higher average (gross) debt levels caused by the funding of the acquisition of INTORQ, a slightly higher average interest mark-up and EUR 0.3 million higher unfavourable currency results. Average (gross) debt levels, before deduction of cash and deposits, amounted to EUR 132 million including lease liabilities in 2020 (2019: EUR 90 million). The average interest charge on borrowings in 2020 was 1.4% (2019: 1.3%).

More information on available credit lines and conditions can be found on pages 144-145 of the financial statements.

Share profit or loss of an associate

In 2020, Kendrion realised a EUR 0.3 million loss (2019: EUR 0.3 million loss) on the 30% minority share in Newton CFV, Inc., a US-based company for flow control valves for the food and beverage industry.

Income tax

The normalised income tax expense amounted to EUR 2.3 million in 2020 (2019: EUR 3.8 million). The normalised effective income tax rate for 2020 was 22.0% (2019: 26.1%). Previously unrecognized carry forward tax losses and the higher valuation of the Dutch tax losses as a result of the higher CIT rate, contributed to the reduction in the normalised effective income tax rate.

The reported tax rate in 2020 was 24.6% compared to 25.0% in 2019.

More information on the effective tax rate can be found on page 168 of the financial statements.

Net income, earnings per share and dividend

Normalised net income is adjusted for the net of tax impact of normalised one-off cost items and acquisition related amortisation charges. Normalised income amounted to EUR 11.7 million in 2020 (2019: EUR 12.6 million). The after-tax normalised costs amounted to EUR 4.1 million (2019: EUR 2.7 million) and the after-tax amortisation charge was EUR 3.3 million (2019: EUR 1.6 million).

Normalised basic earnings per share was EUR 0.79, compared to EUR 0.94 in 2019. Basic reported earnings per share were EUR 0.29 (2019: EUR 0.61).

Kendrion proposes an optional dividend of 50% of the normalised net income, equivalent to EUR 0.40 per share entitled to dividend. The EUR 0.25 dividend per ordinary share announced over financial year 2019 was withdrawn in 2020 as a precautionary measure to protect Kendrion's financial position considering the COVID-19 pandemic and its potential financial impact.

Net income

EUR million	2020	2019[1]
Reported net income for holders of ordinary shares	4.3	8.3
Restructuring and other one-off costs	5.2	4.2
Tax effect on one-off costs	(1.1)	(1.5)
Amortisation after tax	3.3	1.6
Normalised net income for holders of ordinary shares	**11.7**	**12.6**
Normalised basic earnings per share (EPS) (EUR)	0.79	0.94

[1] 2019 restated for retrospective correction of inventory. The effects of the restatement can be found on pages 107 and 108 of the financial statements.

Invested capital

Invested capital at 31 December 2020 was EUR 319.5 million (2019: 265.9 million). Invested capital related to operating activities, excluding goodwill and other intangibles arising on acquisitions, amounted to EUR 170.1 million (2019: EUR 162.1 million). Property plant and equipment, goodwill and other intangible assets and net working capital are the main components of invested capital. The remaining part exists of other investments and capitalised contract costs. The acquisition of INTORQ added EUR 30.3 million to the invested capital related to operating activities at the acquisition date and EUR 52.0 million in goodwill and other acquisition related intangibles. Excluding payables and provisions related to one-off costs that have been normalised in the income statement, invested capital was EUR 323.7 million (2019: EUR 273.3 million).

Return on invested capital, as defined as normalised EBITA as a percentage of normalised invested capital excluding goodwill and other acquisition related intangibles, was 10.8% (2019: 11.7%).

Invested capital at 31 December

EUR million	2020	2019[1]
Property, plant and equipment	118.7	111.4
Intangible assets	158.1	115.5
Net working capital	39.1	35.6
Other fixed assets	3.6	3.4
Invested capital	**319.5**	**265.9**
Goodwill and other acquisition related intangibles	149.4	103.8
Operating invested capital	**170.1**	**162.1**

Non-current assets

As per 31 December 2020, non-current assets amounted to EUR 299.6 million (31 December 2019: EUR 244.8 million). Property plant and equipment was EUR 118.7 million (2019: EUR 111.4 million). The acquisition of INTORQ added EUR 15.9 million and organically property, plant and equipment decreased EUR 8.6 million as deprecation exceeded capital investments. Intangible assets increased EUR 42.6 million in 2020. EUR 52.5 million added intangibles caused by the acquisition of INTORQ was partially offset by EUR 4.4 million amortisation charges, EUR 3.0 million lower capitalised software and development costs in part caused by a EUR 2.0 million impairment charge. Deferred tax assets increased EUR 4.7 million and contract costs and other investments increased EUR 0.2 million during 2020.

Condensed consolidated statement of financial position

Assets

EUR million	2020	2019[1]
Property, plant and equipment	118.7	111.4
Intangible assets		
■ Goodwill	116.0	92.6
■ Acquisition related	33.4	11.2
■ Software	3.5	4.8
■ Development costs	5.2	6.9
Other	3.6	3.4
Deferred income tax	19.2	14.5
Non-current assets	**299.6**	**244.8**
Inventories	61.7	55.4
Income tax	1.4	2.7
Trade and other receivables	53.4	47.1
Cash	13.0	7.1
Current assets	**129.5**	**112.3**
Balance sheet total	**429.1**	**357.1**

Working capital

Net working capital at 31 December 2020 was EUR 39.1 million (2019: EUR 35.6 million). INTORQ added EUR 13.9 million working capital at the acquisition date. Working capital as a percentage of revenue increased to 9.9% (2019: 8.6%). The higher share in group revenue of the Industrial business units and lower provisions and liabilities related to restructuring activities increased working capital, which was partially offset by improved working capital management. On an organic basis, working capital as a percentage of revenue decreased to 7.3% in 2020 as we further increased our focus on working capital to protect our financial position and cash flow in light of the pandemic.

When excluding the effect of provisions and payables that relate to one-off costs items that have been normalised in the income statement, net working capital as a percentage of revenue amounted to 10.4% (2019: 10.4%).

The year-end provision for trade receivables amounted to EUR 0.7 million (2019: EUR 0.5 million). The customer with the largest receivable outstanding accounted for 4% of the trade and other receivables at 31 December 2020 (2019: 8%).

Net working capital at 31 December

EUR million	2020	2019[1]
Inventories	61.7	55.4
Trade and other receivables, tax receivable	54.8	49.8
Less: Trade and other payables, tax payables, current provisions	77.4	69.6
Net working capital	**39.1**	**35.6**
As % of revenue	9.9%	8.6%

[1] 2019 restated for retrospective correction of inventory. The effects of the restatement can be found on pages 107 and 108 of the financial statements.

Net debt

Net debt, including IFRS 16 lease liabilities, increased by EUR 55.8 million to EUR 103.2 million in 2020. The acquisition of INTORQ, which was completed on 8 January 2020, increased net debt with EUR 77.7 million. Normalised free cash flow before acquisitions reduced net debt with EUR 31.5 million, which is partially offset by EUR 6.2 million cash impact of items that have been normalised as one-off costs in the income statement and EUR 2.9 million payments for lease liabilities.

The leverage ratio (net debt divided by 12 months EBITDA) as defined in Kendrion's EUR 150 million facility agreement was 2.3 as per 31 December 2020 (2019: 1.1). The facility agreement contains a covenant with respect to the leverage ratio and, during 2020 Kendrion, the banking consortium have agreed on a temporary increased buffer in the financial covenant levels as a precautionary measure against increased uncertainties as a result of the COVID-19 pandemic. Based on the amended facility agreement, the financial covenant limits the maximum allowed leverage ratio to 4.7 on 31 December 2020 and 5.8 per 31 March 2021 before gradually decreasing to 3.25 as from 31 December 2021 onwards.

Further information on the facility agreement and other debt instruments is provided in note 11 to the financial statements.

Net interest-bearing debt at 31 December

EUR million	2020	2019[1]
Non-current borrowings	103.4	47.3
Non-current mortgage loan	0.8	1.6
Current borrowings and overdraft	12.0	5.6
Less: Cash and cash equivalents	13.0	7.1
Net bank debt at 31 December	**103.2**	**47.4**
EBITDA (normalised)	44.6	43.8
Debt cover	2.3	1.1

[1] 2019 restated for retrospective correction of inventory. The effects of the restatement can be found on pages 107 and 108 of the financial statements.

Solvency ratio

The year-end solvency ratio decreased to 47.4% (31 December 2019: 56.7%). The lower solvency ratio is fully caused by the increased balance sheet as a result of the acquisition of INTORQ.

Free cash flow

Normalised free cash flow before acquisitions amounted to EUR 31.5 million in 2020 (2019: EUR 25.5 million). Normalised free cash flow is free cash flow, adjusted for the cash impact of cost items that have been normalised as one-off costs in the income statement. Reported free cash flow before acquisitions amounted to EUR 25.3 million (2019: EUR 21.0 million). The cash conversion defined as normalised free cash flow divided by EBITA was 1.7 (2019: 1.3). The positive cash conversion was caused by lower working capital requirements and cash investments, which ended EUR 9.2 million below depreciation. Normalised EBITDA and impairment charges contributed EUR 45.0 million to the cash flow, normalised working capital requirements resulted in an inflow of EUR 7.4 million, capital investments resulted in an outflow of EUR 16.5 million and interest and tax payments amounted to EUR 4.4 million.

For more details on cash flow, see the 'consolidated statement of cash flows' in the financial statements on page 105 of this Annual Integrated Report.

Normalised free cash flow

EUR million	2020	2019
Reported free cash flow	(52.4)	21.0
Acquisitions of subsidiaries	77.7	-
Non-recurring restructuring costs net of tax paid	6.2	4.5
Normalised free cash flow	**31.5**	**25.5**

Developments per segment

Industrial

Industrial – which accounts for 48% of Kendrion's total revenue – reported revenue of EUR 190.3 million (2019: EUR 153.6 million). Normalised EBITA increased to EUR 20.7 million (2019: EUR 12.1 million) and EBITA as a percentage of revenue improved to 10.9% (2019: 7.9%).

The activity level in our main Industrial end markets in the first months of 2020 equalled the level experienced in the second half year of 2019. As the pandemic started to impact economic circumstances markedly in the second quarter, customer demand in the Industrial business units dropped in May 2020. Organic revenue in the second quarter decreased 18%

year-on-year and 8% compared to the first quarter of 2020. The lower revenue level continued in the third quarter, but industrial manufacturing activity showed resilience in the fourth quarter when the Industrial business units reported 5% year-on-year organic growth. The machine building industry and aerospace were significantly impacted by the downturn, while other segments such as medical equipment in Industrial Actuators and Controls and wind power in Industrial Brakes developed positively. Revenue in Industrial Actuators and Controls decreased 13% in 2020 (2019: 8% decrease) and organic revenue in Industrial Brakes decreased 8% (2019: 5% decrease).

Organic operating costs decreased EUR 7.7 million in 2020 as significant cost measures were taken to mitigate the financial impact of the pandemic related economic downturn. Cost measures included the implementation of short time work in many of the European manufacturing locations, a voluntary salary reduction of 15% by senior management and strict cost control with respect to other operating expenses. The EUR 2 million structural cost savings that were implemented towards the end of 2019 were fully effective in 2020. IAC realised annualized cost synergies of EUR 1.6 million from the internal merger between Industrial Control Systems and Industrial Magnetic Systems, of which EUR 1.2 million were effective in financial year 2020. Industrial Brakes realised EUR 2.8 million annualized cost synergies from the integration of INTORQ, of which EUR 0.9 million was effective in financial year 2020.

Industrial cash investments amounted to EUR 4.6 million (2019: EUR 4.8 million), which is below the depreciation level of EUR 8.5 million.

Automotive

The Kendrion Automotive Group, which accounts for 52% of group revenue reported a revenue decrease 20% to EUR 206.1 million (2019: 258.8 million). Normalised EBITA amounted to negative EUR 1.8 million (2019: EUR 7.7 million) and EBITA as a percentage of revenue ended at negative 0.8% (2019: 3.0%).

Automotive revenue in the first two months of 2020 were only modestly affected by the Chinese lockdown but decreased markedly as from the end of the first quarter when many of our customers in Europe and the US shut down their operations. The depth of the automotive downturn was reached in April and May 2020 before gradually rebounding as from June 2020. The Automotive Group saw its second quarter revenue decreasing 44% year-on-year and 36% compared to first quarter revenue. Revenue subsequently recovered in the third quarter with a 17% year-on-year decrease and in the fourth quarter with revenue ending 6% below the fourth quarter of 2019. The recovery was primarily driven by the passenger car segments where revenue reached pre-pandemic levels in the last months of the year. Market circumstances for coaches and heavy trucks remained challenging but showing some positive signs towards the end of 2020. Market analysts estimate that a total of 74.5 million cars were produced globally in 2020, around 16% lower than the 89 million cars produced in 2018.

Operating costs decreased EUR 11.9 million in 2020. Besides the substantial cost reductions to mitigate the financial impact of COVID-19, the EUR 3.0 million structural cost savings realised towards the end of 2019 were fully effective in 2020.

Automotive investments amounted to EUR 12.1 million (2019: EUR 16.3 million) compared to a depreciation level of EUR 17.2 million. EUR 1.4 million capital investments and EUR 4.3 million depreciation related to central services such as IT are presented as part of the Kendrion Automotive Group. During 2020 the Automotive group suspended non-essential capital expenditure and most investments in 2020 related to new business wins in the last years.

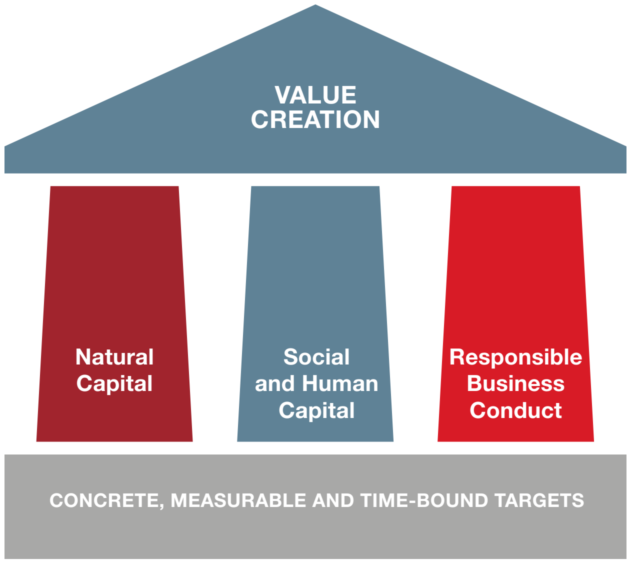
Management statement

In accordance with article 5:25c of the Financial Supervision Act (*Wet op het Financieel Toezicht*), the Executive Board confirms, to the best of its knowledge, that: (i) the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit and loss of Kendrion N.V. and its consolidated companies; (ii) the Annual Integrated Report gives a true and fair view of the position as at 31 December 2020 and the developments during the financial year of Kendrion N.V. and its group companies included in the consolidated financial statements; and (iii) the Annual Integrated Report describes the main risks Kendrion is facing.

The members of the Executive Board have signed the consolidated financial statements to comply with its statutory obligation pursuant to article 2:101, paragraph 2 of the Dutch Civil Code and article 5:25c of the Financial Supervision Act.

Action on sustainability

Creating long-term sustainable value is a principal strategic objective of Kendrion. Our global sustainability program forms an integral part of our strategic plan and is derived from ongoing interaction and dialogue with our stakeholders.



Our global sustainability program reflects Kendrion's mission and commitment to conduct business in a responsible and sustainable way and aspires to strike the right balance between long-term value creation and profitability and playing a meaningful role in addressing key societal and environmental issues. Our strategic decisions take account of a range of financial and non-financial considerations. Key principles and measurable targets underpin Kendrion's sustainability program and are structured along our three pillars of value creation: Natural Capital, Social and Human Capital and Responsible Business Conduct.

Long-term sustainable value

Although the automotive market was most affected by the COVID-19 pandemic in the short term, innovation accelerated in Autonomous, Connected, Electric and Shared driving (known as 'ACES'). We view the ACES as one of the key drivers of our long-term growth opportunities and therefore also the design and implementation of our global sustainability program. We continued to invest in the Lighthouse projects that were identified in 2019: six products that help advance the implementation of ACES vehicles and in addition the markets for Robotics and Automation. These markets offer significant growth potential for our business in the medium to long-term. Our Lighthouse projects are not only fundamental to our ambition to grow revenues and profitability, they also contribute to reducing the environmental impact of vehicles and systems in which our products are used. For example, our off-highway electromagnetic clutches contribute to increased fuel efficiency. When used in parallel hybrid applications these clutches support a reduction of fuel compensation of up to 20%. Our single-disc Servo Slim Line brakes enable the production of compact and safe collaborative robots with significant lifting capacities ranging between 3 to 20 kilos. Our Lighthouse projects are described in detail on pages 14-20 of this Annual Integrated Report.

Other areas that are key drivers of our long-term growth strategy are the market for Wind Power where we anticipate a continued fast-growing demand for brakes for wind turbines and China, where we have identified a significant opportunity for our technology in a range of automotive and industrial applications.

Stakeholder dialogue

Kendrion seeks to engage in open dialogue with stakeholders to deepen its insights into their needs and expectations with a view to creating long-term sustainable value. Regular stakeholder engagement helps Kendrion to progress its global sustainability program, not only in design but also in management and execution.

Our key stakeholder groups include: customers, suppliers, employees, shareholders, local communities and technical universities and institutes. For each group, Kendrion's stakeholder engagement varies and includes formal and informal channels that are applied with varying degrees of regularity. The key stakeholder groups are described on pages 54 and 55 of this Annual Integrated Report.

Although our stakeholder dialogue continues as part of regular engagement and communications with our customers, suppliers, shareholders and employees, Kendrion is committed to conducting a structured in-depth stakeholder engagement process every two years. Kendrion previously carried out an in-depth stakeholder engagement process in 2018 and in 2020 Kendrion repeated the performance of a stakeholder engagement process. Consistent with prior years, the stakeholder engagement process included a structured sustainability survey among internal and external stakeholders and specially convened sustainability sessions with certain key external stakeholders. The outcome of the 2020 stakeholder engagement process will be used as input for Kendrion's strategy development process.

Materiality analysis

For a focussed strategic approach, aimed at a healthy balance between stakeholder expectations and business aspirations, we identify and assess the material topics that are most relevant to Kendrion's activities. To this end, Kendrion uses a materiality analysis to gain insight into the relevance and importance of topics for both Kendrion and our stakeholder groups. Although material topics may remain the same over time, their relevance for internal and external stakeholders is subject to change.

The outcome of the 2018 materiality analysis has been used as input for Kendrion's sustainability program and the 2019-2023 target framework. In 2020 Kendrion commissioned the performance of a new materiality assessment. Together with a specialised consultancy firm, a tailored approach was developed to assess materiality and the results of the internal and external stakeholder consultation.

The 2020 materiality analysis involved a three-tiered approach:

- Selecting potentially material topics by carrying out a desk research based on internal documentation, international standards, the SDG industry matrix, sustainability reporting by peers*, sector trends and media analysis and by subsequently consolidating outcomes and defining a preliminary overview with material themes and definitions.
- Validating and determining relevance of preliminary selection of material themes by stakeholders through a sustainability survey and by reference to sustainability sessions with certain key external stakeholders and the subsequent consolidation of results. Consistent with the 2018 survey, the 2020 sustainability survey was categorised along the three pillars of value creation that form the basis of Kendrion's sustainability program: Natural Capital, Social and Human Capital and Responsible Business Conduct. The sustainability survey participants were asked to rate topics according to their importance and to assess Kendrion's perceived performance on these topics. Participants were also asked to state the relative importance of each of the three value creation pillars and an open question allowed participants to add any topics that had been issued.
- With due regard to the outcomes of the previous steps, concluding on materiality by management through internal validation session and subsequent finalisation of materiality matrix.

* Peers included: Boskalis, Fugro, Aalberts, TKH Group, Neways Electronic, Advanced Metallurgic, Continental, Schneider Electronic, Nedap.

Compared to the materiality assessment performed in 2018, the 2020 assessment did not reveal significant movements in the ranking of individual material themes. However, and by reference to the sustainability sessions with certain key stakeholders as well as the results of the sustainability survey, stakeholders expect Kendrion to focus on a set of material themes where Kendrion can have the greatest impact through meaningful contributions. Moreover, the updated materiality matrix shows an enhanced classification and organisation of material themes with a view to maintaining continued focus on those themes where we can have the most impact. The outcome of the 2020 materiality analysis forms an important input for the further development and execution of our sustainability program and the 2019-2023 target framework.

Materiality matrix

The resulting materiality matrix is, by definition, a snapshot and opinions among stakeholder groups may vary. Kendrion's materiality matrix shows the material topics along two axes: significance to stakeholders and significance to Kendrion. While this Annual Integrated Report generally covers topics in the above materiality matrix, Kendrion has not set measurable sustainability targets for each topic. Kendrion reports against the 2019-2023 target framework and related commitments and will use the updated materiality matrix resulting from the 2020 materiality analysis and its ongoing engagement with stakeholders to further development the Kendrion sustainability program and related sustainability target framework.

Kendrion reports only on the most relevant material topics. The most relevant material topics are: economic performance, anti-corruption, energy efficiency, emissions to air, occupational health and safety, training and education, non-discrimination and equal opportunities. Kendrion reports according to the GRI reference claims, which are described on page 197 in the section 'About the Sustainability Report'.

2019-2023 TARGET FRAMEWORK

Natural Capital

15%
Relative reduction of energy consumption

15%
Relative reduction of CO_2 emission

Implementation of the waste management hierarchy
in global waste management practices

Social and Human Capital

Recurring annual improvement of health & safety figures
number of accidents per 1,000 FTE, lost time injury rate per 1,000 FTE, group-wide illness rate

The establishment of a Global Diversity Committee,
responsible for advancing diversity

The implementation of a global company culture campaign

Rewarding 10 community investment initiatives per year
through Together@Kendrion

Responsible Business Conduct

Maintain a responsible product portfolio
Products that Keep you Safe, Products that Reduce Climate Impact and Products that Improve Health

Sustainable sourcing
Sourcing only from approved suppliers and conducting at least 25 implementation audits annually

Continuous improvement and strengthening of the Global Legal Compliance and Governance Framework
to secure responsible business conduct

Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

NATURAL CAPITAL

The Natural Capital pillar focuses on improving Kendrion's environmental performance and its ambition to reduce its environmental footprint. Material themes for the Natural Capital pillar include energy consumption, CO_2 emissions and waste management.

Energy consumption & CO_2 emission

Energy efficiency and reduction of CO_2 emission is part of our sustainability 2019-2023 target framework. We aim to achieve a 15% relative reduction of energy consumption and CO_2 emission by the end of 2023, by streamlining processes in our production plants and our offices.

Kendrion aims to reduce the amount of energy used during its production process and its CO_2 emission. Kendrion applies an environmental reporting system that tracks the CO_2 emissions and energy consumption of all the production plants. Year-on-year, Kendrion focuses on improving the production processes with the overall objective of reducing the environmental footprint of the production plants. The global certification ISO 50001 Energy Management System supports the production plants in their efforts to use energy more efficiently by developing and maintaining an energy management system. Kendrion's environmental management systems are in accordance with ISO 14001. ISO 14001 Environmental Management Systems specify requirements for an environmental management system in order to enhance environmental performance. Kendrion's largest production plants are ISO 50001 certified and all plants except for Mishawaka are ISO 14001 certified.

Kendrion's drive to use energy efficiently and to reduce CO_2 emission is reflected in a range of activities and investments. In 2020, Kendrion reviewed the effectiveness of measures implemented under the five-year roadmap that was designed in 2019 and which includes measures for the production plants aimed at the realisation of a 15% relative reduction of energy consumption and CO_2 emission by the end of 2023. This five-year roadmap was designed in 2019 after extensive review and recommendations made by various specialists at our plants. Relevant considerations for the design of the five-year energy and CO_2 reduction roadmap included the total energy consumption per production plant and the extent to which there is potential to realise meaningful reductions. Our five-year roadmap contains – among other things – the following measures designed to increase energy efficiency and productivity: sourcing green electricity and gas, upgrading air compressors, including heat recovery from air compressors, integration of cooling for washing machines, introduction of new moulding machines, installation of chillers for clean rooms,

2019-2023 TARGET FRAMEWORK

Relative reduction of energy consumption

TARGET 2023
15%

2020 ACTUAL
↓1.3%

Relative reduction of CO_2 emission

TARGET 2023
15%

2020 ACTUAL
↓3.2%

REALISED IN 2020

- Reviewed effectiveness of five-year energy reduction and CO_2 roadmap
- 2.6% decrease absolute energy consumption
- 4.5% decrease in absolute CO_2 emissions
- Local beGREEN initiative focussing on powerful portfolio of energy efficient products

Waste management

REALISED

- 10% reduction of waste
- Recycling rate increased from 80% to 82%
- Distribution hazardous waste (8%) and non-hazardous waste (92%)

Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

repairing compressed air leaks, extending energy-efficient LED technology across plants, including offices, further optimisation of heating systems and installation of solar panels. To monitor progress and to strengthen oversight relevant to the consistent execution of the five-year energy and CO_2 reduction roadmap, additional measures were taken, including the enhanced extension of roles and accountability among senior management. Despite outbreak of the COVID-19 pandemic, which necessitated the implementation of strict operating procedures to ensure a safe and responsible continuation of production, generally all plants are on track with the execution of the five-year energy and CO_2 reduction roadmap.

In addition to the centrally coordinated activities, we encourage our production plants to develop local initiatives directed at the reduction of our environmental footprint. Kendrion Markdorf's beGREEN initiative focussed on energy saving measures and the development of a powerful portfolio of energy efficient products. Through dedicated Energy Teams we foster a culture of awareness and invite our employees to contribute by sharing their ideas and by participating in activities. Providing employees with training and appointing energy scouts with responsibility for identifying potential for further enhancing the efficient energy use during the production process are also part of Kendrion's efforts to reduce its environmental footprint.

Moreover, Kendrion aims to further reduce its CO_2 footprint through energy-efficient offices. With its modern design, Kendrion's head office in Amsterdam is a good example of such an office. The solar panels installed at our plant in Austria provide electricity for the office work places and with its green roof area with flora to filter pollutants and fine dust from the air, our Austrian plant contributes to the preservation of the natural environment. The COVID-19 pandemic triggered the limitation of our travel and the increased use of alternative communication tools and applications allowing for the remote

Energy and Emissions[1]

Energy consumption		2020	2019	Δ % 2020 / 2019
Power	kWh	22,258,073	23,409,585	-4.9%
Fuel oil	kWh	454,650	468,560	-3.0%
Natural gas	kWh	12,075,873	11,829,214	2.1%
		34,788,596	**35,707,359**	-2.6%

Energy consumption per EUR million added value		2020	2019	Δ % 2020 / 2019
Power	kWh	119,693	124,200	-3.6%
Fuel oil	kWh	2,445	2,486	-1.7%
Natural gas	kWh	64,938	62,760	3.5%
		187,076	**189,446**	-1.3%

Energy consumption	2020	2019	Δ % 2020 / 2019
Absolute consumption, kWh	34,788,596	35,707,359	-2.6%
Relative consumption, kWh / million EUR added value	187,076	189,446	-1.3%

CO_2 emissions[2]	2020	2019	Δ % 2020 / 2019
Absolute emissions, tonnes	6,397	6,698	-4.5%
Relative emissions, tonnes / million EUR added value	34.4	35.5	-3.2%

1 Please note that all entities report energy consumption based on December previous year to current period -/- 1 month. Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

2 Scope 1 and 2 of the Greenhouse Gas Protocol.

Kendrion aims to further reduce its CO_2 through energy efficient offices. With its modern design, Kendrion's head office in Amsterdam is a good example of such an office.

Kendrion China's car free day inspried by the World Car Fee Day that has become a global phenomenon.

participation in meetings. With our global travel guidelines aimed at CO_2 neutrality and cost reduction that were reintroduced in 2019, we continue to limit travel as appropriate to reduce our CO_2 footprint and to use communication tools supporting remote meeting participation. Absent barring circumstances like COVID-19, commute by public transportation is encouraged across the Kendrion organisation. The head office in Amsterdam is within walking distance of the train and tube station, and employees are expected to make use of public transport or bicycles. Certain of our plants have installed solar powered bike rack systems for e-bikes encouraging bike commuting and charging stations for hybrid and full electric vehicles for those who must commute to work by car. Other initiatives include the annual car free day in China, which was inspired by the World Car Free Day that has become a global phenomenon. Kendrion China's car free day is organised every year in October. Our prior intent involved the further roll out of the car free day across multiple Kendrion locations. However, due to COVID-19 this initiative has been deferred.

In addition to the targeted actions to reduce energy consumption and CO_2 emission at the Kendrion production plants and energy efficient offices, we also actively support external initiatives and are committed to using available specialist expertise. For example, our Chief Commercial Officer Automotive is a member of the Senate of Economy *(Senat der Wirtschaft)*, an independent institute and consisting of representatives from the fields of economics, science and society. Members are ambassadors of the Senate, and through their membership they contribute to the implementation of the objectives of the Senate of Economy. The Senate's objectives include: ecological sustainability for conservation of the environment, social sustainability, promotion of non-profit projects, etc. Its activities include attending relevant summits and consulting with the German government and members of parliament, thereby contributing to the political decision-making process on issues concerning one or more of the Senate's objectives. Most recently, the Senate supported the 'Alliance for climate protection' *(Allianz für Klimaschutz)*, an initiative of the German federal government, which has a special focus on reducing global CO_2 emission.

Further to our ambition to use energy efficiently and reduce CO_2 emission, especially as part of the production process at our plants, we also seek to maintain a responsible product portfolio by positioning ourselves at the forefront of key megatrends that offer opportunities for creating long-term sustainable value. Our Lighthouse projects contribute to reducing the environmental impact of vehicles and systems in which our products are used. We will continue to improve our existing range of products, and research new application areas to increase product use in a sustainable way.

Waste management

Kendrion is committed to continuously improving its management of all waste throughout its lifecycle and to helping reduce waste in order to minimise its adverse impact on the environment. This involves the minimisation and responsible disposal of waste related to production.

Kendrion's environment management systems are set up in accordance with the global certification ISO 14001 (all production plants except for Mishawaka are ISO 14001 certified) and the certified plants maintain effective records of their production and processing of all waste and work with certified waste processing companies when this is required by local regulation. New waste reduction measures must be implemented each year as part of the ISO 14001 certification process.

Since 2019 the collection of waste data has been fully centralised, and the data collection process has been strengthened with the introduction of uniform waste data collection sheets and waste registers using consistent waste definitions. The centralisation of the collection process has been developed based on a pilot that was carried out in 2018. The standardisation of internal reporting and control processes have enabled comprehensive reviews of the different categories of waste generated by the Kendrion production plants as well as differences is local waste management practices that are driven by – for example – variances in production processes or regulatory requirements. Going forward, further improvements to our waste reporting processes will help us benchmark and track waste management performance.

The outcome of the most recent waste data analysis shows a 10% reduction of waste compared to the prior year and the overall recycling rate increased from 80% to 82%. The distribution of hazardous waste (8%) and non-hazardous waste (92%) remained unchanged. Likewise, the top-three of hazardous and non-hazardous materials remained unchanged, with cooling fluid, old oil and packaging of hazardous substances comprising the top-three of hazardous materials and iron and steel, commercial waste and cardboard dominating the top-three of non-hazardous materials.

With a view to develop and implement further harmonised waste management practices across the Kendrion organisation and ultimately introduce concrete and measurable waste targets, we institutionalised waste management by the establishment of a dedicated waste management task force which is headed by representatives of our three business units. A key responsibility of the waste task force includes the assessment of the feasibility and appropriateness of waste objectives and targets. Also based on the outcome of prior in-depth waste analyses, the following categories are subject to such a feasibility review: percentage of hazardous waste relative to the total amount of waste, improvement of overall recycling rate, utilisation of potential commercial waste through improved separation and upcycling possibilities, increase and improve engagement with certified disposal companies and maintenance of disposal evidence. In addition, efforts are undertaken to improve alignment of the waste reporting cycle to the reporting cycle of other non-financial information.

> Kendrion is committed to continuously improving its management of all waste throughout its lifecycle and to helping reduce waste in order to minimise its adverse impact on the environment.

SOCIAL AND HUMAN CAPITAL

The Social and Human Capital pillar concerns employees' competences, capabilities and motivations. Material themes for the Social and Human Capital pillar include community connection, health & safety, diversity and company culture as summarised in 'The Kendrion Way'.

Community connection

Local employer and a good neighbour
Kendrion maintains strong ties to the communities in which it operates by encouraging an open dialogue with local management and through Kendrion's long-standing commitment to being a local employer and a good neighbour.

Together@Kendrion
Kendrion values the social good that can be achieved by demonstrating initiative and taking a long-term perspective. Kendrion supports the economic and social well-being of the local communities in which it operates through Together@Kendrion and other efforts initiated by local management.

Volunteering
In addition to sponsoring and financially supporting various good causes, Kendrion's employees are encouraged to invest personal time in local communities by taking part in fundraising activities and volunteering for events.

Supporting the local community
In 2020, Kendrion continued its conscious effort to support the economic and social well-being of local communities through strong local community engagement and by supporting local community and social development projects, albeit at a reduced intensity level due to COVID-19. Because of COVID-19 certain scheduled initiatives supported through Together@Kendrion were postponed or cancelled. In China most scheduled projects continued, such as the 'Book Donation Week' where books were donated to children in need.

Recurring annual improvement of health & safety figures

- Health and Safety has the highest priority
- Enhanced HSE standards based on plant-specific needs, production lines and technologies

Accidents (per 1,000 FTE)

2020 TARGET
≤ 6.9

2020 ACTUAL
5.3

Lost Time Injuries (in days)

2020 TARGET
812

2020 ACTUAL
384

Illness rate

2020 TARGET
≤ 4.8%

2020 ACTUAL
4.4%

- Establishment Health Task Force
- COVID-19 hygiene measures reducing overall illness rate

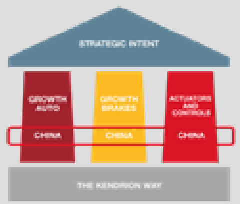
Diversity@Kendrion

REALISED IN 2020
40 nationalities, **11** countries, **50%** female workforce

- Healthy balance of nationalities and gender across the organisation

Promoting and maintaining a culture in line with the values of The Kendrion Way

REALISED IN 2020
- Establishment of dedicated value teams



Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

Health & Safety

Health and Safety is given the highest priority in every aspect of Kendrion's operations at all times. Kendrion is committed to providing a safe and healthy workplace for all employees by implementing the most stringent quality and safety standards to avoid any potential risks to people, communities and the environment. Kendrion's employees are periodically trained to implement the best sustainability practices. The health and safety of employees are essential to the successful conduct of Kendrion's business and are in the best interest of Kendrion's other stakeholders.

With the outbreak of the COVID-19 pandemic, the focus on health and safety of our employees, their families and other stakeholders increased further and became the company's absolute priority. Strict operating procedures and regulations were implemented to continue safe and responsible production in all plants and instant measures were taken to facilitate digital collaboration for the office staff. The communication with all Kendrion locations worldwide was increased to closely monitor COVID-19 developments and to keep everyone informed and connected. COVID-19 not only triggered an increased focus on physical health, it also activated awareness around mental health and wellbeing and the need to act in a spirit of solidarity. In addition to the protection of the health and safety of our employees and their families, the COVID-19 pandemic necessitated the consistent execution of a cost control program to preserve Kendrion's business continuity. As part of this cost control program, Kendrion made use of short-time work arrangements in our European plants. Evidently, the adverse effect for employees of these arrangements consist of a salary cut, but short-time work arrangements may also impact the mental vitality of employees. The latter not only for those employees who are subject to short-time work but also for the remaining employees who are faced with a changing range of responsibilities as they continue their work. Senior management timely recognised the impact of short-time work as well as other restrictive measures imposed due to COVID-19 – such as the strict separation of production shifts – on the mental vitality of employees and have done their utmost to support employees during this time of uncertainty.

The Kendrion Health Task Force monitors our global health and safety figures and coordinates the implementation of structural improvement measures in all our plants. The strict hygiene measures aimed at the containment of COVID-19 positively impacted our illness rates as we observed a steady decline of our illness rates in 2020.

Day-to-day responsibility for health and safety is concentrated within the business units in which health and safety are managed systematically and in a standardised manner with clear rules and procedures based on recognised industry standards and best practices that are laid down in Health, Safety & Environmental (HSE) policies. Each production plant further implements initiatives to enhance its HSE standards depending on plant-specific needs, production lines and technologies. HSE audits are performed to assess, implementation and compliance with HSE policies at regular intervals. Specific and measurable performance targets for Kendrion's business units and local management include health and safety metrics, which are determined by the number of accidents per 1,000 FTE, Lost Time Injury (LTI) rates and illness rates.

Certifications

Kendrion's production plants hold global certifications demonstrating the quality of Kendrion's production and management processes, including ISO 9001 Quality Management Systems, IATF 16949 Quality Management Systems for the automotive

industry, ISO 14001 Environmental Management Systems and ISO 50001 Energy Management System.

5S methodology

Due to the continued focus on the safety of the production processes, Kendrion achieved good safety results across its production plants. All the major production plants apply the 5S methodology, which aims for the continuous improvement of a safe working environment and working conditions.
The production plants that have implemented the 5S approach apply a systematic process to optimise their production lines and periodically perform 5S audits to verify compliance with the methodology.

Diversity

Kendrion believes in the strength of a diverse workforce. Kendrion is committed to attracting and retaining a diverse global workforce through its employment strategy. Kendrion's workforce in 2020 comprised 40 nationalities (2019: 37) employed in 11 countries (2019: 10). 50% (2019: 51%) of our workforce is female. Kendrion continues to undertake action to further improve diversity in technical and non-technical roles and at all levels of the organisation. For more information about diversity at Kendrion, reference is made to pages 60 and 61 of this Annual Integrated Report.

The Kendrion Way

Kendrion's strategy and values are symbolically captured in our strategic house that provides direction and uniformity within a clear structure. Creating long-term sustainable value with a lean and focussed organisation and providing a top-quality work environment to our employees are key to our strategy. Our strategic house is built on three pillars; each pillar represents a different component of Kendrion's strategic plan. Pillar one represents our growth opportunity in Automotive. Pillar two represents the growth aspiration in our Industrial Brakes business unit, and pillar three represents our Industrial Actuators and Controls 'cash engine'. China is a key part of all three pillars.

The foundation of our strategic house is our culture, 'The Kendrion Way'. This is based on the principle that no building is stable without a strong foundation, regardless of the strength of its building blocks. We define 'The Kendrion Way' in a single sentence: *'A global team of actuator specialists, with courage to act, curiosity to learn from successes and mistakes, confidence to share, and open to feedback'.* The objective of defining The Kendrion Way is to give our employees clear guidance as to what kind of culture we aspire to build within our company, regardless of location, level of responsibility or functional role. The Kendrion Way provides a consistent approach towards realising our ambitions, and – as such – is the foundation on which we build Kendrion's future.

Following the initial roll-out in 2019 of the global inter-company campaign of The Kendrion Way, additional initiatives have been developed and executed to further embed the behavioural values of The Kendrion Way into the organisation. Educating, training and providing concrete examples of expected behaviours, dilemmas and actions are key to this. Dedicated value teams have been set-up to increase awareness and to support employees in their value journey and to help understand what each value means to them and the organisation. A colourful mix of interactive trainings and learning platforms has been launched to help our employees live and breathe the values of The Kendrion Way.

RESPONSIBLE BUSINESS CONDUCT

The Responsible Business Conduct pillar focuses on business conduct and integrity, accountability and transparency. Material themes for the Responsible Business Conduct pillar include maintaining a responsible product portfolio, sustainable sourcing and ethical behaviour.

Responsible product portfolio

Maintaining a responsible product portfolio is part of our sustainability 2019-2023 target framework. Within our responsible product portfolio, we maintain the following categories: Products that keep you safe, Products that reduce climate impact and Products that improve health. We will continue to improve our existing range of products, and research new application areas. The overview below provides a selection of our responsible products. Reference is also made to the product overview on page 52 of this Annual Integrated Report which links a selection of our products to the Sustainable Development Goals (SDGs).

Products that keep you safe
For millions of people around the world, lifts are a commonplace way to reach the high points and low spots of an apartment, office building, hotel, shopping mall, hospital, public facilities and more. Behind the scenes, lifts are equally important for moving goods at construction sites, factories and other industrial facilities. For all these applications, safety brakes are an essential component in any lift. Our brakes help ensure that lifts remain a safe and comfortable means of transportation.

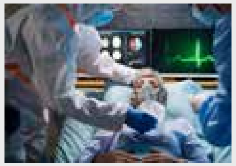
Products that reduce climate impact
Our Lighthouse projects support our commitment to conduct business in a responsible and sustainable way. In particular, our products contribute to reducing the environmental impact of vehicles and systems in which our products are used. Our so-called 'dog clutch' for mild hybrid trucks offers a huge contribution to CO_2 reduction. Electrification and fuel cell solutions are obvious options to drastically reduce CO_2 emissions, but mild hybrid is an attractive alternative. A mild hybrid uses the starter generator instead of the combustion engine. Kendrion's mild hybrid solution contributes to the reduction of CO_2 emission.

2019-2023 TARGET framework

Maintain a responsible product portfolio
Products that Keep you Safe, Products that Reduce Climate Impact and Products that Improve Health

REALISED IN 2020

- Alignment product portfolio to SDGs
- Improved focus on sustainable product use
- Continued research into new application areas



Sustainable sourcing
Sourcing only from approved suppliers and conducting at least 25 implementation audits annually

Kendrion selects suppliers based on various sustainability criteria and requires suppliers to sign and adhere to the Kendrion Supplier Code of Conduct

Suppliers implementation audits

TARGET 2020
25

2020 ACTUAL
28

Introduction of the new Code of Conduct that builds upon the values of The Kendrion Way

Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

Products that improve health

The pressure regulators and solenoid and proportional valves manufactured by our Business Unit Industrial Actuators and Controls ensure precise and reliable gas dosing in ventilation and anaesthesia devices. In 2020 we were urgently requested by the British government to deliver pressure regulators to the NHS in the UK for use in ventilators to battle COVID-19. Our pressure regulators are critical parts to the oxygen ventilators and help save patients' lives.

Sustainable sourcing

At Kendrion, sustainable sourcing represents our ambition to work with suppliers that act responsibly and with integrity. Kendrion selects suppliers based on various sustainability criteria and requires suppliers to sign and adhere to the Kendrion Supplier Code of Conduct.

Kendrion operates as part of a supply chain with a central focus on manufacturing and production processes. Kendrion and other parties forming part of the supply chain are collectively responsible for maintaining the quality and sustainability of the products in the supply chain. All parties forming part of the supply chain play a role in addressing major issues that affect the supply chain as a whole. Kendrion intends to play a meaningful role in the supply chain in which it is active. In many instances, Kendrion is a relatively minor link in the supply chain. In order to achieve meaningful results, it is of great importance that Kendrion continues to engage in dialogue with its suppliers and continues to consider performance with respect to sustainability in its supplier selection and assessment.

Kendrion does not use any conflict minerals from the Congo region in its products during its own production process.

Permanent magnets are used in some of Kendrion's products. The volumes of these magnets used by Kendrion are limited, but Kendrion cannot avoid the use of permanent magnets altogether, as the use of permanent magnets in products increases their functionality, such as the torque. A category of permanent magnets contains a number of rare earth metals. The mining and of refining of rare earth metals is energy intensive. Kendrion strives to use as little of these permanent magnets. The use of permanent magnets also makes the product lighter, which in turn reduces energy consumption and emissions.

Frequently used materials are steel, aluminium, copper and plastics. In many cases, semi-finished products are purchased based on specifications of Kendrion's customers. Kendrion used 1,428 tonnes of copper (best estimate) in the manufacture of its products in 2020 (2019: 1,543 and 2018: 1,924 tonnes).

Supplier Code of Conduct and audits

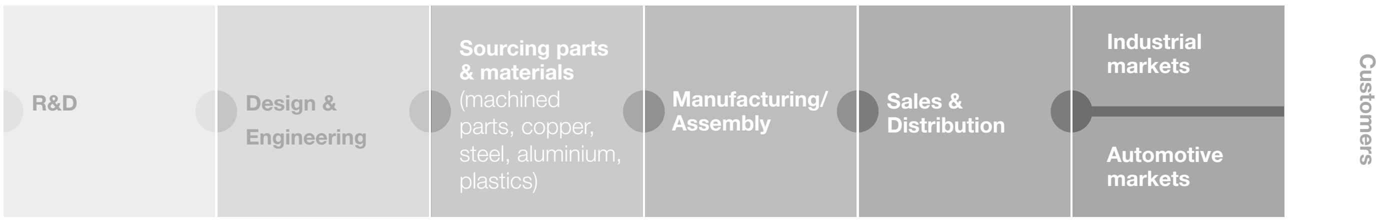
The Kendrion Supplier Code of Conduct requires suppliers to accept their responsibility for matters concerning the environment, human rights, working conditions and fair trade. Kendrion regularly conducts audits to review whether suppliers comply with the standards and principles of the Supplier Code of Conduct. The supplier audits are internal audits by Kendrion employees based on an internal procedure that prescribes the collection of CR documentation of the relevant supplier in the case the supplier is ISO certified and the use of standardized self-assessment questionnaires in the case the supplier is not ISO certified. Audits that reveal that a supplier does not meet the requirements of the Supplier Code of Conduct are followed by a meeting to prepare a remediation plan.

Failure to adequately follow up the remediation plan may result in the termination of the relationship with the relevant supplier. The results of the 28 (2019:35) supplier audits conducted in 2020 have been encouraging as there were no suppliers that did not fulfil the recommended requirements for compliance with the Supplier Code of Conduct.

Through the approach and initiatives set out above, Kendrion actively encourages its suppliers to take responsibility in addressing issues that affect the supply chain as a whole.

Ethical behaviour

Kendrion believes it is important that all activities are conducted with integrity and in a transparent manner. To this end, Kendrion fosters a culture in which shared norms, universal ethical values and behaviours are the standard. Shared norms, ethical values and expected behaviours are laid down in a set of internal



policies and procedures. In addition to setting norms, values and expected behaviours, Kendrion's policies and procedures are aimed at ensuring compliance with applicable laws and regulations.

Key internal policies and procedures include: Code of Conduct, Anti-Bribery and Anti-Corruption Policy, Speak-up procedure, Competition Compliance Manual, Insider Trading Code, Data Protection Governance Guidelines, Personal Data Breach Reporting Procedure, Supplier Code of Conduct and related internal policies and procedures.

In 2020 Kendrion introduced a new Code of Conduct that builds upon the values of The Kendrion Way, particularly the value integrity. The Code of Conduct is about bringing together nearly 2,500 people with 40 different nationalities from multiple Kendrion locations around the globe that operate under The Kendrion Way and together form the Kendrion brand. The Code of Conduct provides unity and sets guidance for business decisions and principles of ethical behaviour. It is about consciousness and taking the right decisions in our everyday business lives. We expect all our employees to do what is ethically right and legal, and to not only live by and respect the principles set forth in the Code of Conduct, but to also convey the message underlying the Code of Conduct. Going forward, educating, training and providing concrete examples of expected behaviours, dilemmas and actions are key to continued compliance with our values.

Kendrion does not tolerate bribery or any form of corruption. Bribery may involve the offering, promising or giving of payments or other benefits to any person (including government officials or public officials) to improperly influence a business outcome, but it also means accepting payment or benefits offered to improperly influence a business outcome. Integrity of financial reporting is also a key principle. The Kendrion Anti-Bribery and Anti-Corruption Policy specifically addresses these matters.

Kendrion considers it essential that every employee understands, complies with and conveys the shared norms and universal ethical values and behaviours as laid down in the internal policies and procedures. Our policies and procedures are fundamental to ensuring responsible business conduct. It is the responsibility of senior management to lead by example and to ensure that all Kendrion employees are aware of and behave in accordance with the spirit and the letter of Kendrion's policies and procedures.

In 2020 Kendrion introduced a new Code of Conduct that builds upon the values of The Kendrion Way.

Sustainable development goals

As part of its 2019-2023 sustainability target framework, Kendrion aims to contribute to the advancement of several selected SDGs.

Kendrion previously conducted a review on where it can best contribute to the advancement of SDGs. This involved careful consideration of all SDGs, while taking account of dialogues with stakeholders and findings of the sustainability survey performed in 2018. The outcome of the materiality assessment performed in 2020, which also included a sustainability survey, did require nor justify substantive amendments to Kendrion's prior determination that SDGs 3 (Good health and well-being), 12 (Responsible consumption and production) and 13 (Climate action) are the SDGs on which Kendrion can have the greatest positive impact.

Kendrion will continue developing best practices and standards – and where appropriate qualitative and quantitative targets – that support the advancement of the selected SDGs.

SDG 3 – Good health and well-being
Kendrion has strong HSE policies within its organisation and each production plant implements tailored initiatives to further enhance their HSE standards depending on plant-specific needs, production lines and technologies. Through Kendrion's Responsible Product Portfolio (which includes Products that Improve Health, Products that Reduce Climate Impact and Products that Keep you Safe), Kendrion contributes the advancement of healthier lives and improvement of well-being for all.

SDG 12 – Responsible consumption and production
For all its production processes, Kendrion is committed to minimising waste and disposing of waste in an environmentally responsible manner. Kendrion's environment management systems are in accordance with the global certification ISO 14001 (all production plants except for Mishawaka are ISO 14001 certified). As part of the ISO 14001 certification process, new waste reduction measures must be implemented each year.
Through the implementation of a waste management hierarchy in harmonised waste management practices, Kendrion is committed to contributing to the advancement of sustainable production patterns.

SDG 13 – Climate action
Kendrion has established plans for the reduction of CO_2 emission and energy consumption for all its operations. Concrete and measurable targets support the plans. Kendrion's largest production plants maintain energy management systems in accordance with ISO 50001. Through Kendrion's Responsible Product Portfolio (which includes Products that Improve Health, Products that Reduce Climate Impact and Products that Keep you Safe), Kendrion helps reduce the impact of climate change.

Sustainability sessions with certain of Kendrion's key external stakeholders held in 2020 revealed an expectation among stakeholders relevant to the continued reporting on sustainable product use and additional categorisation of Kendrion's products along the most applicable SDGs, irrespective Kendrion's determination to focus on the advancement of SDGs 3 (Good health and well-being), 12 (Responsible consumption and production) and 13 (Climate action). The overview below provides a selection of Kendrion's products categorised along the relevant SDGs.

Business segment	Product	SDG	SDG view
Automotive	Electromagnetic actuators for transmission, suspension, exhaust, sound and seating systems	3 (Good health and well-being)	Enhances automotive safety
Automotive	Battery cooling valves and control units	7 (Affordable and clean energy)	Increase efficiencies and attractiveness of electric vehicles
Automotive	Electromagnetic actuators for fuel and engine cooling systems that help reduce fuel consumptions	9 (Industry innovation and infrastructure)	Improve resource use efficiency
Industrial	Electromagnetic components and control units for the medical industry	3 (Good health and well-being)	Essential components for medical equipment
Industrial	Electromagnetic brakes and components for industrial safety	3 (Good health and well-being)	Enhances safety of industrial processes
Industrial	Electromagnetic brakes and components for fire protection, elevators, appliances and aircrafts	3 (Good health and well-being)	Enhances safety of people
Industrial	Control units and systems for (inductive) heating	9 (Industry innovation and infrastructure)	Improve resource use efficiency
Industrial	Microvalves for water cleaning	6 (Clean water and sanitation)	Prevent contamination of drinking water
Industrial	Electromagnetic brakes for wind turbines	7 (Affordable and clean energy)	Increase renewable energy

Reporting principles and external verification

Being transparent and accountable is fundamental to the way in which Kendrion operates. Our approach to reporting enhances discipline to our sustainability and responsible business practices. It ensures that we are aligning our activities with our strategic objectives and business values. Our sustainability reporting shows whether our activities and initiatives meet our 2019-2023 target framework. The scope of Kendrion's non-financial reporting is based on the information requirements of our key stakeholder groups. In order to ensure that Kendrion meets its information requirements towards its stakeholders, Kendrion performs materiality analyses at regular intervals. The most recent materiality analysis was carried out in 2020 as further described on pages 38 and 39 of this Annual Integrated Report.

Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework in order to safeguard the quality and accuracy of the non-financial data collected. Selected sustainability performance targets are subject to a limited assurance review by Deloitte Accountants B.V. Please refer to pages 192-194 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

The Dutch Ministry of Economic Affairs and Climate Policy carries out a bi-annual study (i.e. normally in each odd numbered year) known as the Transparency Benchmark. The Transparency Benchmark is held among the largest companies in the Netherlands and aims to measure transparency in reporting on corporate social responsibility. Since the launch of our sustainability program with the formalisation of our first energy efficiency targets in 2014, Kendrion has developed and improved its sustainability reporting and has participated in the Transparency Benchmark. In the most recent ranking – which dates back to 2019 – Kendrion was ranked number 24, this has been the highest ranking Kendrion ever received.

Kendrion's Executive Board expresses its continued support for the UN Global Compact and Kendrion's ongoing commitment to the initiative. This Annual Integrated Report provides a description of actions that Kendrion has taken and the measures Kendrion intends to take to implement the Ten Principles of the UN Global Compact in each of the four areas (human rights, labour, environment, anti-corruption).

> Being transparent and accountable is fundamental to the way in which Kendrion operates.

Stakeholders

Customers

A substantial part of Kendrion's customers are Tier 1 suppliers and OEMs in the automotive sector and large industrial companies.
Kendrion's customers are increasingly implementing sustainability requirements for their suppliers. Kendrion focuses on consistent compliance with these requirements.

Suppliers

Kendrion expects its suppliers to adhere to the standards of the Kendrion Supplier Code of Conduct and follows a consistent approach towards the performance of implementation audits to verify compliance. These efforts contribute to a continuous improvement in compliance with the Supplier Code of Conduct.

Employees

Our talented and highly skilled employees play a crucial role in the way in which Kendrion operates its business. Kendrion fosters a culture that empowers its employees to reach their full potential and to achieve the best results. As reflected in 'The Kendrion Way' we aspire to create an open and inclusive culture to recruit, motivate and retain a highly diverse workforce that reflects the communities in which it operates. An engaged and committed workforce contributes to the achievement of Kendrion's financial and non-financial targets.

Shareholders

The endorsement of sustainable development and addressing environmental, social and governance (ESG) related issues is becoming increasingly important for Kendrion's shareholders. Kendrion engages with its major shareholders and financiers, not only concerning Kendrion's global sustainability program and its material topics and objectives, but also with respect to the ESG policies and activities of its major shareholders and financiers. Kendrion strives to inform its shareholders and financiers as completely and transparently as possible regarding strategy and financial performance.

Local communities

Through its local community investment program 'Together@Kendrion', Kendrion is making a positive contribution to the reduction of social and economic gaps. Kendrion appreciates the importance of maintaining constructive and appropriate contacts with local authorities.

Technical universities, schools and institutes

Active engagement with students is key to understanding their views and observations on sustainability and forms a valuable platform for the exchange of knowledge and experiences. Dialogues with students are often inspirational and stimulate the formulation of innovative sustainability goals and ambitions. These dialogues also raise awareness among students about sustainability and its importance.

The table below describes the communication resources and channels per stakeholder and their relevance to Kendrion's global sustainability program.

Customers

Communication resources and channels
Customer and sales meetings, Kendrion websites, contract meetings, press releases
Engagement with customers takes place at regular intervals

Topics discussed
Quality of products and services, Kendrion's global sustainability program and objectives, customer satisfaction, waste, energy, water use, use of rare earth materials, conflict minerals, responsible business conduct, ISO and IATF certification

Relevance to Kendrion's global sustainability program
Obtain views and observations concerning sustainability from the customer's perspective, further insight into customer needs and expectations, sharing experiences and best practices, continuous improvement and development of sustainability contribution

Suppliers

Communication resources and channels
Supplier Code of Conduct, implementation audits, Kendrion websites, supplier and contract meetings
Engagement with suppliers takes place at regular intervals

Topics discussed
Quality of products and services, Kendrion's global sustainability program and objectives, supply chain management and joint pursuit of improvements in the supply chain, responsible business conduct, Supplier Code of Conduct, waste, energy, water use, use of rare earth materials, conflict minerals

Relevance to Kendrion's global sustainability program
Obtain views and observations concerning sustainability from the supplier's perspective, further insight into supplier needs and expectations, sharing experiences and best practices, continuous improvement and development of sustainability contributions

Employees

Communication resources and channels
Works Council meetings, meetings with employee representatives, employee satisfaction and culture surveys, workshops, training courses, intranet, internal personnel magazine, e-mail newsletters, feedback meetings, staff and townhall meetings
Engagement with employees takes place on a daily basis

Topics discussed
Kendrion's global sustainability program and objectives, particularly regarding health and safety, employability, training and development, employee satisfaction and company culture, responsible business conduct, compliance and ethical behaviour

Relevance to Kendrion's global sustainability program
Obtain views and observations concerning sustainability from the employee's perspective, further insight into employees' capabilities and motivations, strengthening business sustainability culture, enhancing employee commitment, participation and awareness

Shareholders

Communication resources and channels
General Meeting of Shareholders, analyst and investor meetings, conferences, Capital Markets Day, press releases, Kendrion's corporate website
Engagement with shareholders takes place at least on a quarterly basis

Topics discussed
Kendrion's global sustainability program and objectives

Relevance to Kendrion's global sustainability program
Obtain views and observations concerning sustainability from the investor's perspective, further insight into shareholders needs and expectations, sharing experiences and best practices, continuous improvement and development of sustainability contributions

Local communities

Communication resources and channels
Local meetings, Kendrion websites, open days
Engagement with local communities takes place at regular intervals

Topics discussed
Communities' participations and investments

Relevance to Kendrion's global sustainability program
Community connection, involvement and participation

Technical universities, schools and institutes

Communication resources and channels
Presence at fairs, organisation of student events, projects and internships engagement with universities, schools and institutes takes place at regular intervals

Topics discussed
Kendrion's global sustainability program and objectives, also with a view to creating awareness and stressing the importance and relevance of sustainability

Relevance to Kendrion's global sustainability program
Obtain views and observations concerning sustainability of new generation and raise awareness

Value creation model

INPUT

Financial capital[1]

Free cashflow	€	31.5 mln
Net working capital	€	41.4 mln
Invested capital	€	174.4 mln[2]

Natural capital

Power	22,258,073 kWh
Fuel oil	454,650 kWh
Natural gas	12,075,873 kWh
Copper	1,428 tons

Human capital

2,456
FTEs

Manufactured capital

> 10,000
Solutions and products

ADDED VALUE

ENTERPRISE RISK MANAGEMENT

GLOBAL LEGAL COMPLIANCE AND GOVERNANCE FRAMEWORK

OUTPUT

Business output[1]

Revenue	€	396.4 mln
EBITA	€	18.9 mln
Net profit	€	11.7 mln

Natural Capital

3.2% Relative decrease of CO_2 emissions compared to 2019

1.3% Relative decrease of energy consumption compared to 2019

Social and Human Capital

Accidents
5.3 accidents per 1,000 FTE
384 LTI (days)

Illness rate
4.4%

Responsible Business Conduct

28 Number of CSR supplier audits

OUTCOME

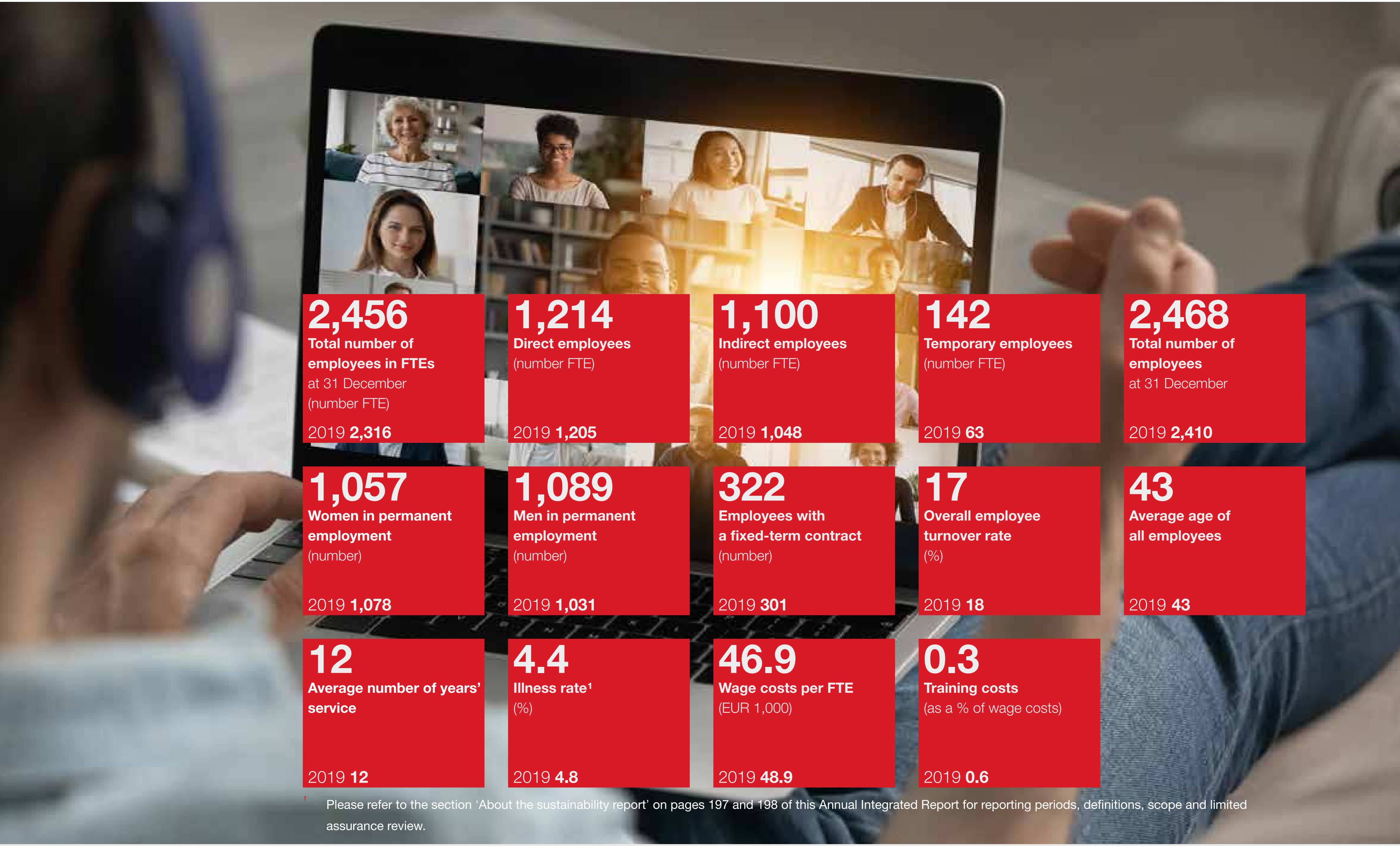
INCREASED SAFETY

INCREASED MOBILITY

INCREASED COMFORT

INCREASED HEALTH

1 Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.
2 Invested capital excluding intangibles arising on acquisitions.



2,456
Total number of employees in FTEs at 31 December (number FTE)
2019 **2,316**

1,214
Direct employees (number FTE)
2019 **1,205**

1,100
Indirect employees (number FTE)
2019 **1,048**

142
Temporary employees (number FTE)
2019 **63**

2,468
Total number of employees at 31 December
2019 **2,410**

1,057
Women in permanent employment (number)
2019 **1,078**

1,089
Men in permanent employment (number)
2019 **1,031**

322
Employees with a fixed-term contract (number)
2019 **301**

17
Overall employee turnover rate (%)
2019 **18**

43
Average age of all employees
2019 **43**

12
Average number of years' service
2019 **12**

4.4
Illness rate[1] (%)
2019 **4.8**

46.9
Wage costs per FTE (EUR 1,000)
2019 **48.9**

0.3
Training costs (as a % of wage costs)
2019 **0.6**

[1] Please refer to the section 'About the sustainability report' on pages 197 and 198 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

We do it 'The Kendrion Way'

Our people

The creation of a culture and environment that empowers everyone to reach their full potential and to achieve the best results is central to achieving our ambitions. We empower our people to put their ideas into practice and to increase their engagement and performance. We aspire to create a culture of sustainable high performance. At the same time, we foster an open and inclusive atmosphere and attract, motivate and retain a talented and highly diverse workforce that reflects the communities in which we operate. We are committed to giving our people ample opportunities for career development and personal growth in a safe and high-quality work environment. In this context, we focus on the following areas:

- Promoting and maintaining a culture consistent with the values underlying The Kendrion Way;
- Developing leadership talents and capabilities;
- Increasing diversity;
- Enhancing automation and harmonisation of systems and procedures;

The Kendrion Way

Kendrion's strategy and values are symbolically captured in our strategic house that provides direction and uniformity within a clear structure. Creating long-term sustainable value with a lean and focussed organisation and providing a top-quality work environment for our employees are key to our strategy. The foundation of our strategic house is our culture, The Kendrion Way, since no building is stable without a strong foundation, regardless of the strength of its building blocks. We define The Kendrion Way in a single sentence: *'A global team of actuator specialists, with courage to act, curiosity to learn from successes and mistakes, confidence to share, and open to feedback'.* The objective of defining The Kendrion Way is to give our employees clear guidance as to the kind of culture we aspire to build within our company, regardless of location, level of responsibility or functional role. The Kendrion Way provides a consistent approach towards realising our ambitions, and – as such – is the foundation on which we build Kendrion's future.

Following the initial roll-out in 2019 of the global inter-company campaign of The Kendrion Way, additional initiatives have been developed and executed to further embed the behavioural values of The Kendrion Way into the organisation. Educating, training and providing concrete examples of expected behaviours, dilemmas and actions are key to this. Dedicated value teams have been set-up to increase awareness and to support employees in their value journey and to help understand what each value means to them and the organisation. A colourful mix of interactive trainings and learning platforms has been launched to help our employees live and breathe the values of The Kendrion Way.

Talent management

Talented and skilled employees are key to the successful execution of our strategy. Our talent management strategy focuses on the following key areas: attracting, selecting, recruiting and retaining talent, engaging employees, enabling career development and providing competitive compensation and benefits schemes.

Attracting and retaining talent

We constantly do our utmost to attract, select, recruit and retain the right talent. We provide a wide range of learning and development opportunities and we foster a culture of trust and recognition as reflected in The Kendrion Way.

Maintaining a solid talent pipeline to ensure effective succession management is a priority in all areas in which we operate. We will continue to focus our resources and capital on the areas that offer the greatest opportunity for sustainable and profitable growth. One of our strategic focus areas is China, where we continue to invest substantially in our local workforce, production equipment lines and the local supply chain. Triggered by the COVID-19 restrictions, advanced virtual training programs have been developed for our Chinese R&D team with the support of our German engineers.

Our talent management and succession-planning tool identifies and facilitates the monitoring and review of our employees. More specifically, the tool enables a structured development of our employees, including our future leaders who have the talent and potential to take on senior positions. The tool also facilitates the consistent carrying out of performance reviews by providing clear and structured insight for employee development. Our tool includes a competency framework that defines how we expect our employees to fulfil the tasks and responsibilities in line with their job role. Together with the skills required for a certain job role, the competency framework forms the basis of our performance reviews and determines the requirements for future vacancies. The competency framework is updated as appropriate to increase effectiveness and improve the performance review process. It helps our managers and employees to better determine career paths and needed training and development. With our talent management and succession-planning tool we create an environment for our employees to grow, perform and succeed in their careers.

Our talent management and succession planning tool has a global reach and the number of employees monitored and reviewed through the tool has increased consistently since its introduction. To date approximately 250 employees are included in the tool and this number will continue to increase going forward.

New employees are recruited through various channels, including employee referrals, online platforms such as Linkedin and other specialised job boards and external recruitment agencies. If a vacancy arises, Kendrion will continue to identify and look for internal and external candidates from a variety of backgrounds, without compromising quality and relevant expertise and experience. If external recruitment consultants are engaged, Kendrion provides search instructions in line with the diversity principles it endorses.

Our annual employee turnover rate was 17% (2019: 18%). Our annual employee turnover rate is calculated by dividing the number of employees who left Kendrion during the year by the average number of employees during the year.

Engaging employees

An engaged and committed workforce is key to achieving our ambitions. We aspire to create an inspiring and top-quality work environment for our employees. This becomes ever more important in a market where it is challenging to attract certain specialists, such as in software and electronics.

Offering the opportunity to give and receive feedback is imperative for maintaining an engaged and committed workforce. This is also why we conduct a Kendrion-wide employee satisfaction and culture survey at regular intervals. The most recent employee satisfaction and culture survey was conducted in December 2018/January 2019. The survey revealed – amongst others – the strong connection employees feel towards Kendrion as employer. We initially intended to prepare for a Kendrion-wide employee satisfaction and culture survey at the end of 2020. However, the outbreak of the COVID-19 pandemic required our senior management to increase focus on and to give absolute priority to the physical health and safety as well as the mental vitality of our employees. We therefore decided to defer these preparations.

Enabling career development

To maximise the potential of our employees and to meet their development needs, we advocate the principle of internal mobility and aim to fill vacancies with internal candidates. Internal moves are considered beneficial to the development of our people by providing them with new and challenging opportunities, while at the same time retaining knowledge within the organisation. In 2020, the percentage of vacancies filled with internal candidates was 20% (2019: 24%). Moreover, our culture in which the sharing of ideas, knowledge and expertise and training on the job are encouraged, contributes positively to the development of our employees. Our 'Learn and Share' Kendrion Way team is responsible for a variety of learning and development programs targeted to advance skill sets and leadership capabilities. Based on a comprehensive review that was carried out in 2020, we contemplate launching a new dynamic learning and development platform in 2021.

We encourage the advancement of young talent to management roles in our business. The Kendrion High Potential program is our global learning and development program and provides our young talents with the potential for management roles access to various modules in the fields of finance, HR, negotiating, strategy, etc. The High Potential program offers development opportunities that match business and individual needs (such as strengthening personal competencies). In 2020 a new group of talented and ambitious employees has been selected to participate in the new edition of the High Potential program.

The role and responsibility of senior management is key to creating and maintaining an inspiring learning environment that stimulates innovation. Leadership and personal development will always be themes of importance. Developing personal leadership, building internal knowledge networks, encouraging innovation and agility are important values in our management programs and development initiatives.

Compensation and benefits

Kendrion strives to have compensation and benefits schemes that are in line with industry standards and local practice to attract, select, recruit, and retain talent. Our compensation and benefits schemes are designed to create transparency and fairness in the structure of both fixed and variable remuneration, while offering a competitive package with appropriate upside potential, linked to performance.

Diversity

We believe in the strength of a diverse workforce and the importance of our management teams reflecting the diversity of our employee base. Diverse and inclusive teams make our organisation more agile, creative and innovative. Enabling a more diverse workforce – in terms of gender, nationality and background (i.e. education, (work) experience), age, etc. – also gives us access to a larger talent pool. Having the right mix of people in the right jobs, with the right capabilities, encourages better decision-making and helps us to grow our business.

As part of the Social and Human Capital value creation pillar of our global sustainability program, it is a priority to further advance diversity across our organisation by training and developing senior management on various aspects of diversity and organising Kendrion-wide diversity initiatives. As part of our High Potential program, we initiated a diversity task force and participants of the High Potential program were requested to conduct a diversity review structured along the following themes:

- Analysis: company specific review into diversity at Kendrion
- Public perception and image: gaining insight into Kendrion's reputation to attract and retain a diverse group of employees
- Attractive employer: employer branding, including work environment and conditions
- Recruitment and retention: initiatives aimed at the recruitment and retention of a diverse group of employees

The outcome of the diversity review has been presented to the Executive Board and the Supervisory Board and will serve as a basis for the further development of a global diversity program with concrete measures aimed at the structural improvement of diversity within Kendrion, including the improvement of the ratio of women relative to men in senior management positions and enhancing the visibility of women in research and technology. The global diversity program is expected to launch in the course of 2021.

Kendrion's workforce comprised 40 nationalities (2019: 37) employed in 11 countries (2019: 10) in 2020. 50% of our workforce is female. We have a healthy balance of nationalities and gender across the organisation as a whole. With our new diversity program that will be introduced in 2021 we aim – amongst others – to increase the percentage of women in senior management positions.

Automation and harmonisation

Kendrion's HR procedures and processes can vary per region due to local circumstances, customs and government regulations as well as differences in the work performed per production location. We started to actively pursue the further automation and harmonisation of systems and procedures of the various locations. This will allow us to better monitor the development and progress of certain HR focus areas, including company culture and values underlying The Kendrion Way, development of leadership talents and capabilities and diversity. The automation and harmonisation process is ongoing.

Employee representation

Kendrion respects freedom of association and the right to collective bargaining. Works councils and employee representatives have been appointed at Kendrion's largest operating companies in Germany, Romania and Austria and are involved in a wide range of employment, health & safety and social issues, in accordance with local labour legislation. Approximately 62% (2019: 70%) of all Kendrion employees are represented by these works councils and employee representatives. Approximately 67% (2019: 81%) of the employment contracts in Germany and Austria are governed by or follow the collective bargaining agreements for the metal industry in the country concerned.

Diverse and inclusive teams make our organisation more agile, creative and innovative.

The Amsterdam team

Climbing out…

The economic outlook for 2021 remains uncertain as the COVID-19 pandemic continues to have a significant impact on global economic activity. Fortunately, the accelerated worldwide roll-out of vaccination programmes offers hope that in the course of 2021, we will gain control of the pandemic and can return to a more normal life.

The pandemic dominated our operations and business decisions throughout 2020. Looking back, the most difficult quarter was Q2, when most of our leading automotive manufacturers closed for several weeks. We responded forcefully and took a whole range of measures to protect our people, our profitability and our cashflow. Our financial measures included short-time work for both direct and indirect employees, a 15% voluntary salary reduction for senior management, capital investments reduced to revenue generating projects only, and laser focus on limiting discretionary spend. We also decided to not pay out a dividend over 2019; a painful, but in our view necessary decision. As economic activity levels improved during Q3 and Q4, we gradually relaxed these measures as our trading came back to healthier levels.

We made significant strategic progress despite the pandemic. We integrated INTORQ into our company in three months. We created the business unit Industrial Actuators and Controls (IAC) by combining former ICS and IMS Business Units. Our intense focus in Automotive on actuators for electrified and autonomous vehicles paid off: we added a gratifying EUR 350 million in lifetime revenue to our long-term orderbook, which is a book-to-bill of 1.7. In China, we grew 5% organically and more than doubled our revenue with INTORQ included. To accommodate strong anticipated growth, we have decided to build a 28,000 m^2 manufacturing facility in Suzhou's Industrial Park, a premier location for technology and advanced manufacturing companies. We also made significant progress upgrading our IT infrastructure and worked hard to further implement our culture of global, seamless cooperation that we call 'The Kendrion Way'.

As we enter 2021, the technologic disruption of the automotive industry continues. The proliferation of Autonomous, Connected, Electric, and Shared mobility (ACES), in combination with the ongoing push for greater safety and comfort, presents the automotive industry and Kendrion with substantial opportunities. Kendrion Automotive, with significant commercial and technical momentum, will continue to focus on products that benefit from these changes, such as its AVAS sound system for electric cars, a battery cooling system that enhances the longevity of car batteries, and valves for smart active damping systems. Having added around EUR 900 million in lifetime revenue to our automotive pipeline over the past three years, we are confident we can deliver significant organic growth going forward.

In Industrial Brakes, we will pursue growth in promising segments such as wind power, robotics & automation, and logistics. We have leading positions in all these segments and expect to benefit from strong and long-lasting underlying growth trends. In China, our new manufacturing facility will accommodate our large and growing project pipeline. IAC will continue to focus on strong cash generation in combination with investment in selected growth opportunities in segments like inductive heating and industrial locks.

We expect that the world will climb out of the pandemic over the course of 2021. We are confident that the improving economic circumstances, combined with our strong position in the growth markets of Automotive, Industrial Brakes and China will help deliver our medium-term financial targets of 5% organic growth between 2019 and 2025, an EBITDA of at least 15% in 2025 and a ROIC of at least 25% in 2025.

> We made significant strategic progress despite the pandemic.

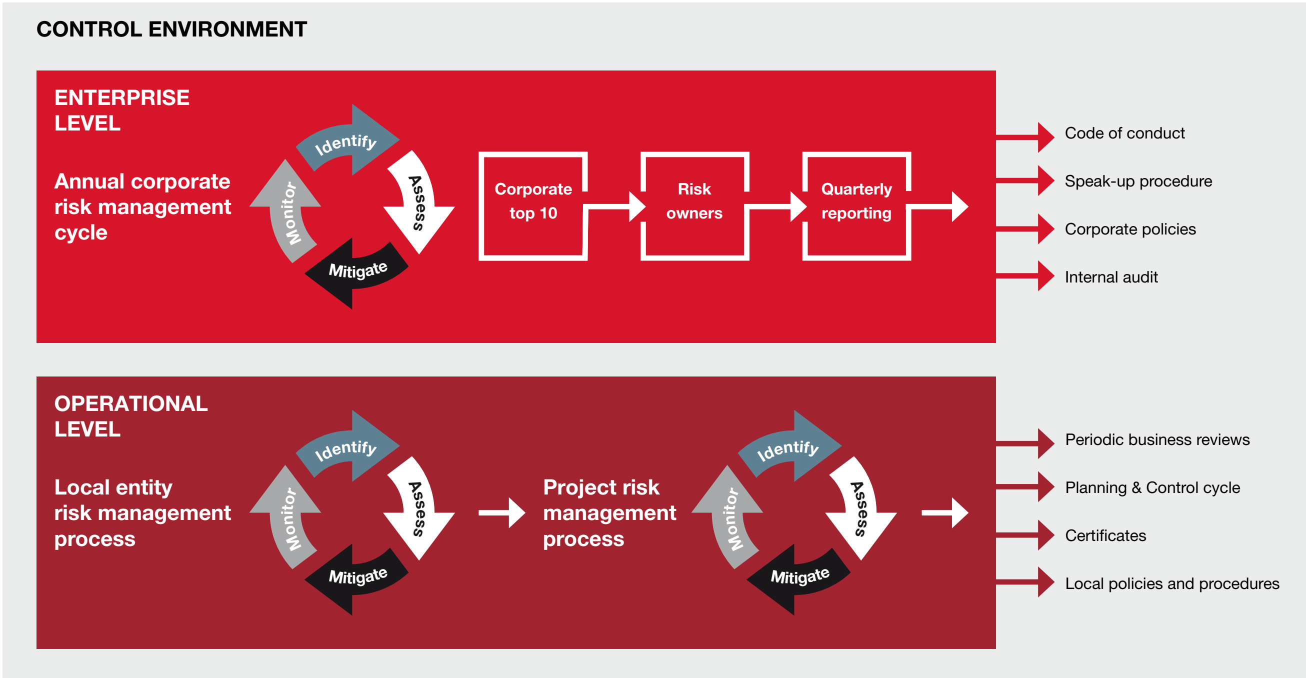
The Kendrion Way for risk management

The COURAGE to act while dealing with uncertainties
Effective risk management is key to executing Kendrion's strategy, achieving long-term value for Kendrion's stakeholders, protecting the company's reputation and ensuring good corporate governance. Kendrion promotes local entrepreneurship and empowers local management to exercise their associated discretionary powers. Kendrion's risk management is not intended to eliminate all risks since exposure to risk is unavoidable in doing business. Kendrion actively conveys the need to maintain a healthy balance between entrepreneurial spirit and risk awareness. Our objective is to adopt an approach to business risks that is consistent with our risk appetite and that minimises the probability of adverse events and the impact of such events, while remaining competitive in an ever-developing business environment. The Executive Board emphasises that risk management and control systems can neither offer an absolute guarantee that the company's objectives will be achieved nor entirely prevent material errors, loss, fraud, or violations of laws or regulations.

Risk Management Framework
Risk management is fully integrated in Kendrion's business practices and extends to all areas such as culture, policymaking, processes, duties, influencing conduct and all other aspects of doing business. Kendrion's approach to risk management is part of its control environment and consists of two main complementary elements: a top-down strategic view of risk at the enterprise level and a bottom-up view of risk at the operational level. The approach to risk management interacts with all relevant elements in the control environment, both on the enterprise as well as on the operational level. With this consistent approach, Kendrion's risk management and control framework fosters a culture of risk awareness across the organisation by identifying risks in a systematised manner and defining appropriate controls aimed at the mitigation and management of these risks in line with Kendrion's risk appetite.

The Executive Board is responsible for maintaining a comprehensive risk management and internal control system aligned with the risks associated with Kendrion's strategy and activities, and for regularly reviewing and supervising its effectiveness. In addition to maintaining a risk management and internal control system, the Executive Board is responsible for ensuring that such system is embedded in Kendrion's business practices.

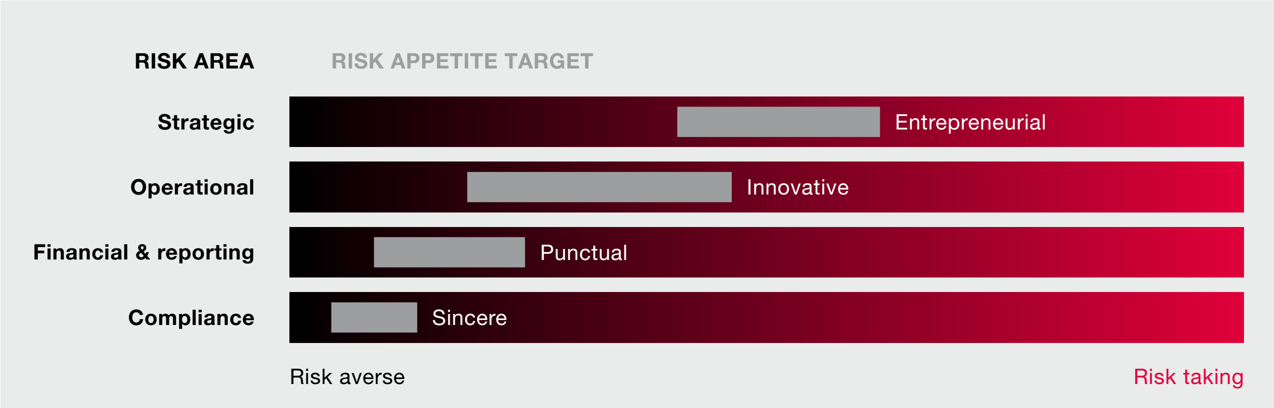
Kendrion's risk management function, headed by the Internal Audit and Risk Manager, provides guidance and support to the Executive Board. This includes driving risk awareness across the Kendrion organisation and leading reviews of operational processes and effectiveness of the risk management and control system. In 2020, the risk management function has



increased its contribution to the organisation significantly by playing a particularly important role in redesigning the approach to risk management and by proactively supporting the identification, evaluation and mitigation of risks.

The Executive Board conducts an annual risk survey and considers if adjustments to the risk management and internal control system are required, as conditions and market circumstances may change. The results of the annual risk survey are assessed and discussed within Kendrion's Management Team and also shared and discussed with the Supervisory Board. In order to strengthen risk management and oversight, risk owners are assigned to the top-10 risks identified, and each risk owner is responsible for preparing and updating mitigation plans. On a quarterly basis, risk owners report to the Executive Board on mitigation progress and risk development. This report is also shared and discussed with the Audit Committee.

At the operational level, Kendrion's plants hold internationally recognised certifications designed to assess and improve their processes. They have a responsibility to put internal controls and procedures in place and to verify their effectiveness by testing them at regular intervals. Local management is expected to be fully aware of the operational risks and the necessity of internal controls and procedures.



Risk appetite

Kendrion's risk management framework balances risk and opportunity and unambiguously describes the Executive Board's appetite for risk. The Executive Board and the Management Team periodically review and discuss Kendrion's approach to risk management, as Kendrion's risk appetite may change over time reflecting developments in society, geopolitics, the competitive and customer landscape as well as changes within Kendrion.

Kendrion's risk appetite provides an indicative bandwidth that guides the organisation during its decision-making process.

This bandwidth is defined for each of the following risk areas; Strategic, Operational, Financial & reporting, and Compliance. The width of the bandwidth and the position on the risk spectrum (from risk averse to risk taking) differs for each of the risk areas. The above visual shows that Kendrion is risk averse when it comes to compliance risk exposure, whereas the bandwidth for strategic risks is much broader and allows for a higher degree of risk-taking in pursuit of the strategic objectives.

Risk overview

Risk area	Risk name	Risk description
Strategic	Market disruption/decline (esp. automotive)	Continued long term recession in de automotive market, of one of the key markets of the industrial segment.
	Prolonged global pandemic	The current COVID-19 pandemic continues to impact our business environment (lockdowns, customer plant shutdowns, supply chain interruptions, economic implications) longer than currently anticipated.
	Unsuccessful expansion in China	Difficulties in the execution of the expansion activities in China resulting in unanticipated losses and delayed or missed opportunities.
	Insufficient new project nominations	Insufficient new project nominations to grow the business or replace sunset business.
Operational	Supply chain disruption	Disruption in the supply chain impact ability to manufacture or deliver products in a timely manner.
	Significant volume decline or project cancelation	Cancellation of current and upcoming projects, or significant reductions in order volumes.
	Order volatility	Increase in the volatility of customer orders, with larger deviations in quantities and shorter notification times.
	IT systems and security	Informations systems not being fit for purpose, becoming unavailable, or comprised, may lead to business interruptions, loss of confidential data and reputation damage.
Financial & reporting	Pressure from large customers	Increased pressure on price and/or payment terms from large customers impacting margins and cash flow.
	Purchase prices increases	Risk of significant increase of purchase prices could lead to additional costs.

In addition to the selected key risks described in the table above, Kendrion distinctively recognises risks in the compliance area. Consistent with Kendrion's risk averse approach when it comes to compliance risk exposure, as also shown in the figure on the previous page, Kendrion has put in place strict internal controls on all levels of the company to manage and mitigate risks in this area. Each of the risk areas will be addressed in more detail below.

Strategic risks

Market disruption/decline (especially automotive)
Kendrion operates in a competitive market that is exposed to economic changes, geopolitical developments, societal changes as well as market trends and industry disruptions. Market disruption, saturation (possible Peak Car in EU and USA) or decline, especially in the automotive sector, could pressure Kendrion's financial results and the company's ability to achieve its strategic goals. We will continue our research and development efforts with a view to increase potential revenue content per car and by focussing our resources on developing product platforms that will benefit from an increased application uptake, such as active suspension and AVAS and battery cooling systems. We maintain a lean and flexible organisation that can swiftly adjust to the economic tides and market trends. This flexibility not only relates to working with temporary staff and focusing on the reduction of variable operating expenses, but also includes the ability to communicate up-to-date financial information efficiently to decision-makers throughout the organisation, make justifiable insourcing and outsourcing decisions, adjust supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and use opportunities to reduce working hours in specific countries. The composition of the group with about 55% automotive activities and 45% industrial activities reduces Kendrion's exposure to a market disruption or decline in one of the markets.

Prolonged global pandemic
A longer than currently anticipated impact of the current COVID-19 pandemic on Kendrion's business environment (lockdowns, customer plant shutdowns, supply chain interruptions, economic implications) could impact Kendrion's operational performance and financial results. We develop and update scenario analyses at regular intervals to estimate potential (financial) impacts, and accordingly implement and – as needed – adjust strict operating procedures to ensure continuation of production in a safe and responsible manner, and focus on cost control and working capital management to protect our financial position and liquidity. In addition, a prolonged pandemic would also continue to limit possibilities to interact with customers, implement organisational changes or operational improvements, and facilitate internal and external staff development and knowledge sharing. Working from home is promoted where possible and facilitated with required IT equipment and digital connectivity. Online environments to connect with (future) customers, such as online fairs, are explored and have already proven to be valuable. Staff engagement is cultivated by increased communication, and online possibilities for personal and professional development will be rolled out in 2021. Kendrion will continue to comply with local regulations related to safety and hygiene to secure a safe working environment for all staff that need to be present at production facilities.

Unsuccessful expansion in China
Kendrion has significantly increased its revenue in China in recent years and continues to pursue its growth strategy and related expansion of activities by increasing local production, supply chain and development capabilities. Difficulties in the execution of these expansion activities could result in unanticipated delays and increased costs. Delays in the expansion activities may also result in delayed or missed opportunities and related revenues. Over the past years Kendrion China has recruited additional talented and ambitious employees in the areas of development, industrial engineering, quality, and supply chain. Going forward Kendrion continues to invest in the Chinese workforce to accommodate its growing revenue pipeline. Exchange programs between the Kendrion development centres in Germany and China to share knowledge have been replaced by online training platforms as COVID-19 continues to impose travel restrictions. The execution of the China growth strategy is closely monitored to limit risk of delayed detection of deviations from expected activities or outcomes. is In 2020, Kendrion has decided to build a new 28,000m^2 factory to enable future growth. The factory will be built in the Suzhou Industrial Park area, which is a prime location for technologically advanced businesses.

Insufficient new project nominations
A substantial part of Kendrion's revenue is generated with customer projects that run for multiple years and generally require one to two years of development and preparation before production starts and revenue is generated. This is particularly the case in Automotive. If Kendrion does not secure sufficient new project nominations to replace or exceed projects that will retire in the next few years, it will not be able to maintain the current level of revenue or succeed in its growth ambition. To increase its success rate in project nominations, Kendrion focusses on strengthening relationships with key customers and is in constant communication with its main customers to make sure their demands and expectations are included in innovation initiatives. As such Kendrion continuous to invest in developing actuators that help enable Autonomous, Connected, Electric and Shared mobility, also known as 'ACES' which are assumed to increase project nominations in the coming years. This is supported by maintaining or increasing relevant R&D capacity and capabilities, such as the establishment of an automotive software competence centre, and the development of sales capacity and competence. With a continuous focus on optimizing supply chains and production processes the competitiveness of Kendrion is monitored, while also guarding quality and dependability.

Operational risks

Supply chain disruption
Kendrion is dependent on a continuous supply of (raw) materials for its plants to operate and to be able to meet customer demands and expectations.. The supply chain of (raw) materials can be disrupted in many ways, from issues during transport, to a bankrupt supplier, to scarcity of certain materials. Kendrion actively endeavours to increase the number of alternative sources for its most important (raw) materials, while always making sure that (raw) materials are purchased from reputable suppliers. Quantities are generally secured via advance capacity confirmations and regular financial quick checks are performed to assess the solvency of suppliers. Suppliers that are critical to Kendrion's supply chain have been identified and are actively monitored in order to secure continuity of the supply chain. Kendrion predominantly uses local supply chains for local production and revenue, and when certain materials have a single supplier, contingency measures are discussed (e.g. insourcing when possible, active periodic monitoring of critical suppliers) to ensure the exposure is within Kendrion's risk appetite and swift action is possible when required. In case disruptions in the supply chain do occur, the customers affected by this disruption will be informed immediately and solutions will be discussed.

Significant volume decline or project cancellation
External events such as the current COVID-19 pandemic and related economic downturn or changes in regulations or preferences, can cause certain customers to experience a steep decline in the demand for their products. There is a risk that this will result in a similar decline in their order volumes or even the cancellation of projects altogether. Kendrion undertakes to negotiate contractual terms that ensure that sales prices per product will increase when volumes are reduced, and that investments (e.g. development, tools and equipment) are reimbursed if contracts are cancelled. However, this will not be sufficient to offset all the expenses incurred or compensate for loss of revenues. Demand levels are closely monitored to timely detect overcapacity and production capacity and purchase volumes are adjusted accordingly to mitigate the impact on profit and working capital.

Order volatility
Mainly driven by the recent economic conditions, customers require the reduction of working capital levels, incentivising the reduction of their stock. There is an increased risk that customer orders are adjusted to actual consumption levels, resulting in ad-hoc and unpredictable adjustments to order levels. This may result in significant and short-term fluctuations in demand, requiring short-term plant capacity adjustments. In turn, this may result in additional costs for underutilised plant capacity or in an increase in production backlog due to insufficient production capacity. Kendrion focusses on strengthening relationships with key customers and is in constant contact with customers to actively monitor developments and changes to order volumes and timing where possible. Kendrion continuously adapts its production and supply chain planning to movements in day-to-day orders and the roll-out of predictive planning tools have enabled an increased flexibility in production while maintaining a high level of efficiency.

IT systems and security
Kendrion recognises that more and more of its own activities and customer demands are becoming data-driven. This requires existing infrastructure and/or software to be updated, or new IT infrastructure and/or software to be implemented, in order to facilitate the required changes in the organisation. With this also comes an increased dependency on IT systems and an increased exposure to cyber-attacks. Kendrion has ensured redundancy in network and uninterrupted power supply and critical software runs on high availability infrastructure with disaster recovery in place. Kendrion is in the process of further streamlining its IT systems and support on a global level, increasing scalability, while also increasing the level of security by leveraging the capabilities of our IT services providers.
IT security is also strengthened by awareness campaigns on IT security topics such as password security and phishing, targeting all employees, quarterly security reviews and maintaining a security calendar with key security activities.
There is an ambitious IT strategy that will continue to be rolled out in the next year to both increase uniformity within the company and strengthen IT systems further, and explore how their value can be increased for both Kendrion and its customers.

Financial & reporting risks

As a globally operating publicly listed company, Kendrion must comply with financial reporting requirements. Material misstatements in reporting could affect Kendrion's reputation and/or stock market value. Kendrion reports to the market on a quarterly basis, and reports financial figures based on IFRS standards. With the risk appetite for this risk area being on the averse side of the spectrum, Kendrion has several controls in place that help to contain risk exposure within acceptable boundaries.

It is critical that all operating entities report to the same standards and deliver the same quality of reporting, in line with applicable accounting and reporting principles. There are local planning and control cycles that provide financial and non-financial information to the group based on standardised reporting formats on a weekly, monthly, or annual basis, based on a group reporting manual (last updated in 2020).
On a quarterly basis, all responsible officers provide a letter of representation confirming the correct and complete reporting of financial and non-financial information and the absence of material violations of applicable laws, rules, and regulations, along with internal policies such as the Kendrion Code of Conduct. This also includes continuous monitoring of upcoming changes in accounting and/or reporting standards, laws and regulations, and periodic discussions with responsible finance leaders and senior management within the business units.

Apart from the key financial & reporting risk mentioned above, Kendrion also recognises financial & reporting risks related to debt financing, credit exposure and interest and exchange rate fluctuations (refer to pages 151-160 and following of the financial statements for an outline of Kendrion's financial market risks and the policy for mitigating those risks or their impact). Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

Pressure from large customers
Customers in all segments of the company are experiencing the effects of the COVID-19 pandemic and its economic consequences, including the impact of restrictive measures imposed by governments. Key and other customers that represent a significant part of Kendrion's revenue may demand more favourable terms for their business. This may manifest itself in the form of re-negotiations on price or other adverse

changes to contractual conditions, such as shortening of payment terms. This may have an impact on margins and/or cash flow. Kendrion aims to maintain and protect its contractual position and reject unreasonable changes to existing terms, while valuing and preserving business relations. By consistently delivering qualitative products according to customer expectations against a competitive proposition, Kendrion aims to satisfy its customers while also remaining profitable.

Increases in purchasing prices
The gross margin of Kendrion could be impacted by fluctuations in the prices of raw materials. Kendrion aims to minimise the financial impact of price fluctuations for those materials that are most relevant. The most important (raw) materials for Kendrion are machined steel parts, raw steel, copper and permanent magnets. Where feasible, Kendrion concludes fixed-price arrangements with steel suppliers and suppliers of machined steel parts. Many key long-term customer contracts contain copper price clauses, that provide for a sales price adjustment when the actual average copper price over a certain timeframe deviates from a predetermined base price. In cases where the copper price risk is not passed on to the customer, Kendrion usually fixes the purchase price for some quarters in advance. In most cases, agreements for products that contain permanent magnets provide for automatic price adjustments based on movements in the price of these permanent magnets.

Compliance risks

Kendrion commits to conducting business in accordance with its Code of Conduct and the values underlying the Code of Conduct, laws and regulations, including employment laws, data protection laws and regulations, accounting standards, tax laws, health and safety regulations as well as governance and statutory filing requirements, applicable in the countries in which it operates. Senior management is responsible for raising awareness of, and applying, applicable laws and regulations. Global and local policies are developed and maintained to support compliance. Kendrion's global policies include a range of procedures and policies that always need to be applied when conducting business such as a Code of Conduct, Insider Trading Code, Speak-up procedure, etc.

The new Code of Conduct that was introduced in 2020 builds on the values of The Kendrion Way, an inspiring motto at the heart of the Kendrion organisation. The Code of Conduct provides a set of principles and expectations that guide the behaviour of all those who belong to Kendrion. Guidance and training are provided to Kendrion employees on recognizing compliance dilemmas and on raising actual or suspected misconduct or irregularities under Kendrion's Speak-up procedure.

For more information about The Kendrion Way see pages 47, 58-61 of this Annual Integrated Report.

Compliance with Kendrion's internal policies and procedures, and with local laws and regulations is also reviewed by Kendrion's internal audit function. The Global Internal Audit and Risk Manager is responsible for the design and execution of the annual audit plan in order to assess the adequacy of Kendrion's internal control systems. The Global Internal Audit and Risk Manager reports to the Executive Board with direct and independent access to the Audit Committee and external auditor. Audit results are reported to the Executive Board and the essence of the results are reported to, and discussed with, the Audit Committee and external auditors on a regular basis. The results of the audits conducted in 2020 were discussed with local management and any control deficiencies have been addressed. This conclusion is in line with the Management Letter, in which the external auditors reported a limited number of findings and no findings that qualified as significant.

In control statement

Based on the approach described above, the Executive Board is of the opinion that, to the best of its knowledge:

- the Report of the Executive Board provides sufficient insights into any failings in the effectiveness of the risk management and internal control systems;
- the risk management and internal control systems provide reasonable assurance that the financial reporting, including tax, does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- the Report of the Executive Board states those material risks and uncertainties that are relevant to the expectation of Kendrion's continuity for the period of twelve months after the date of the Report of the Executive Board.

Properly designed and implemented risk management and internal control systems significantly reduce, but cannot fully eliminate, the possibility of human errors, poor judgement, deliberate circumvention of controls, fraud or infringements of laws, rules or regulations, or the occurrence of unforeseeable circumstances. Another factor considered within risk management is that efforts related to risk management and internal control systems should be balanced against the costs of implementation and maintenance.

The governance framework of Kendrion is based on the statutory requirements applicable to public limited liability companies in the Netherlands, including the principles of the Dutch Corporate Governance Code (the 'Code')* and Kendrion's articles of association as lastly amended 25 June 2020. The core topics of the Code are addressed in the various sections of this Annual Integrated Report. For example, diversity in the Supervisory Board, the Executive Board and the Management Team is addressed in this Corporate Governance Report on pages 71 and 72. 'The Kendrion Way' is described in the section 'Sustainability' on page 47 and in the section 'People & Culture' on pages 58-61. The articles of association together with ancillary policies such as the Supervisory Board regulations and the Supervisory Board committee regulations provide a tailored framework for the affairs and governance of Kendrion, including a sound and transparent system of checks and balances. For the articles of association, the Supervisory Board regulations, the Supervisory Board committee regulations and additional information about Corporate Governance at Kendrion, please visit the corporate website at https://www.kendrion.com.

Kendrion N.V.

Kendrion N.V. is a public limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Amsterdam, the Netherlands. For details regarding Kendrion N.V.'s share capital, reference is made to section 'Share and shareholder information' on pages 21-23.

Kendrion N.V., as the ultimate parent company, holds all the shares of Kendrion Finance B.V., a private limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Zeist, the Netherlands. Kendrion Finance B.V., directly or indirectly, holds the shares in all of Kendrion's operating companies. All operating companies are, directly or indirectly, wholly owned subsidiaries. Kendrion N.V. is not subject to the large company structure regime and no works council having jurisdiction over Kendrion N.V. has been established nor is there a statutory requirement to establish such a works council. Reference is made to section People & Culture on pages 58-61 for information about works councils and employee representation established at certain of Kendrion's operating companies.

Two-tier governance structure

The Executive Board, consisting of the CEO and the CFO, is entrusted with the management of Kendrion, under supervision of the Supervisory Board. Members of the Executive Board and the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders. The General Meeting of Shareholders can amend the articles of association if and as proposed by the Executive Board, with the prior approval of the Supervisory Board. The decision to amend the articles of association requires an absolute majority of the votes cast at the General Meeting of Shareholders.

Executive Board

The Executive Board is responsible for the management and the continuity of Kendrion and Kendrion's long-term value creation strategy, objectives, results and policy, including the responsibility for defining and setting overall strategic Corporate Social Responsibility objectives.

The Executive Board is accountable to the Supervisory Board and the General Meeting of Shareholders. Important resolutions of the Executive Board require the approval of the Supervisory Board.

With due regard to the requirement under Kendrion's articles of association that the Executive Board must consist of at least two members, the Supervisory Board determines the number of members of the Executive Board.

The General Meeting of Shareholders appoints the members of the Executive Board upon nomination of the Supervisory Board. In compliance with provision 2.2.1 of the Code, all members of the Executive Board are appointed for a maximum term of four years and may be reappointed for a term of not more than four years at a time. The diversity objectives as described in Kendrion's diversity policy for the Executive Board will be considered when selecting persons for (re)appointment as member of the Executive Board. The diversity policy can be found on the corporate website at www.kendrion.com. Other than upon a proposal of the Supervisory Board, the members of the Executive Board are dismissed by the General Meeting of Shareholders by a resolution adopted by an absolute majority representing at least one-third of the issued share capital.

The members of the Executive Board satisfy the statutory requirements concerning the number of supervisory or non-executive functions that they can have with large enterprises.

The composition of the Executive Board and information about its members is provided on page 24.

* The Code can be found on the website of the Corporate Governance Code Monitoring Committee https://www.mccg.nl/.

In accordance with the Code, the severance payment for members of the Executive Board shall not exceed the annual base salary.

A member of the Executive Board does not participate in the deliberation and decision-making process concerning any subject in which a member of the Executive Board has a personal interest that conflicts with the interests of Kendrion. A member of the Executive Board shall immediately report a conflict of interest to the Chairman of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with a member of the Executive Board require the approval of the Supervisory Board. There were no transactions in which there was a conflict of interest with a member of the Executive Board in 2020. Kendrion does not grant loans or guarantees to Executive Board members.

Management Team

The Management Team consists of the CEO, the CFO and several executives with clear accountability to deliver on all components of the strategic plan. Key functional focus areas of the Management Team include Automotive Commercial, Automotive Operations, Automotive Finance, China, Information Technology, People, Sustainability and Compliance. In addition, the Business Unit Managers of the business units Industrial Brakes and Industrial Actuators and Controls are represented on the Management Team. The Executive Board decides the number of members of the Management Team in consultation with the Supervisory Board. The members of the Management Team who are not Executive Board members are appointed and dismissed by the Executive Board, subject to consultation with the Supervisory Board. The diversity objectives as described in Kendrion's diversity policy for the Management Team will be considered when selecting persons for (re) appointment as member of the Management Team.

The Management Team meets frequently and those members of the Management Team who are not also members of the Executive Board are regularly invited to attend Supervisory Board meetings. The Chairman of the Supervisory Board has annual meetings with each member of the Management Team.

The outbreak of the COVID-19 pandemic required the Management Team to convene numerous extraordinary meetings to address and manage the crisis and the related risks. In managing the crisis, the health and safety of employees and their families has been a constant priority. Likewise, safeguarding the continuity of Kendrion has been a key priority. Various scenario analyses to estimate the potential financial impact of COVID-19 were carried out and existing contingency plans were adjusted as and when needed. While managing the short-term by implementing strict operating procedures to ensure the continuation of production in a safe and responsible manner and focussing on cost control to protect Kendrion's financial position and liquidity, the Executive Board together with the Management Team did not lose sight of the long-term perspective and accordingly prioritised its capital investments,

The members of the Executive Board, together with the other members of the Management Team, conducted an online annual review of their individual performance and the performance of the Management Team as a collective, including the dynamics of and the relationship among the members of the Management Team and the Executive Board as well as the interaction with the Supervisory Board. Special consideration was given to the 2020 strategic and operational spearheads, including the integration of INTORQ's brake activities and the former IDS Business Unit into a single Industrial Brakes Business Unit, improvement of operational performance across the Automotive plants and the addition of at least EUR 350 million in total nominations to the Automotive long-term orderbook, development of commercial, R&D, purchasing and operational capabilities in China, the merger of the former IMS and ICS Business Units into the new Industrial Actuators and Controls Business Unit, improvement of the IT function and infrastructure with special focus on digitalisation and standardisation and continuous improvement of Kendrion's global sustainability program. In addition to reviewing past performance, the Management Team considered the 2021 strategic and operational spearheads. In its annual review meeting, the Management Team furthermore reflected on the updated Risk Management Framework, including fraud prevention and fraud risk management. Outside the presence of the other members of the Management Team, the Executive Board evaluates the functioning of the Management Team and its members, and discusses the conclusions that must be attached to the evaluation, also in view of succession planning and the composition of the Management Team taken as a whole. Having regard to the feedback and recommendations of the Executive Board, the Supervisory Board considers the functioning of the Management Team and its members.

Supervisory Board

The Supervisory Board supervises and advises the Executive Board on the performance of its tasks and duties and supervises the overall development and performance of Kendrion. In discharging its role, the Supervisory Board is guided by the interests of Kendrion and its stakeholders and focuses on – among other things – the effectiveness of Kendrion's risk management and internal control systems and the integrity and quality of the financial reporting.

The Supervisory Board is composed in such a way that its members can operate critically and independently of each other, the Executive Board, the Management Team, and any other particular interests. Each of the Supervisory Board members has the necessary expertise, experience and background to perform his or her tasks and duties and its composition is consistent with the 'Profile outline' for the Supervisory Board and the diversity objectives described in Kendrion's diversity policy for the Supervisory Board. Both the 'Profile outline' and the diversity policy for the Supervisory Board can be found on the corporate website at https://www.kendrion.com.

The Supervisory Board consists of four members. All members of the Supervisory Board are independent within the meaning of the Code. The members of the Supervisory Board satisfy the statutory requirements concerning the number of supervisory or non-executive functions that they can have with large enterprises.

The General Meeting of Shareholders appoints the members of the Supervisory Board on the recommendation of the Supervisory Board for a period of four years. The Supervisory Board elects a Chairman from amongst its members. The Chairman chairs the meetings of the Supervisory Board and ensures the proper functioning of the Supervisory Board and its committees. The Chairman of the Supervisory Board also ensures that the Supervisory Board has proper contact with the Executive Board, the Management Team and the General Meeting of Shareholders. Furthermore, the Chairman of the Supervisory Board maintains regular contact with the CEO concerning matters relating to the responsibilities of the Supervisory Board. Similarly, the Chair of the Audit Committee maintains regular contact with the CFO concerning matters relating to the responsibilities of the Audit Committee.

The members of the Supervisory Board step down by rotation pursuant to a schedule adopted by the Supervisory Board. Members of the Supervisory Board who step down can be reappointed. These reappointments take account of the manner in which the candidate performed his or her duties as a member of the Supervisory Board, the diversity objectives as described in Kendrion's diversity policy for the Supervisory Board and best practice provision 2.2.2 of the Code regarding appointment and reappointment periods. Each member of the Supervisory Board can be dismissed by the General Meeting of Shareholders.

New members of the Supervisory Board follow an introduction program to get sufficiently acquainted with Kendrion, its business activities as well as certain internal procedures and processes necessary for the discharge of their duties as members of the Supervisory Board.

Meetings of the Supervisory Board are usually attended by the Executive Board and at regular intervals by members of the Management Team. The Company Secretary supports the Supervisory Board. The Company Secretary ensures that correct procedures are followed and that the statutory obligations and obligations under the articles of association are complied with. Furthermore, the Company Secretary facilitates the provision of information between the Executive Board and the Supervisory Board, and supports the Chairman of the Supervisory Board in the organisation of the affairs of the Supervisory Board.

The Supervisory Board has established two committees: an Audit Committee and an HR Committee. The committees of the Supervisory Board are responsible for preparing the decision-making of the Supervisory Board. The tasks and procedures of the committees of the Supervisory Board are set out in their regulations, which can be found on the corporate website at https://www.kendrion.com. The composition of the Supervisory Board, its committees and information about the Supervisory Board members is provided on page 74 of this Annual Integrated Report.

The Supervisory Board annually evaluates its own functioning, the functioning of the Supervisory Board committees, and that of the individual Supervisory Board members. The outcome of the evaluation is discussed among the members of the Supervisory Board and the Chairman subsequently informs the Executive Board as appropriate. For further information regarding the annual evaluation of the Supervisory Board, reference is made to the Report of the Supervisory Board on pages 77-84 of this Annual Integrated Report.

The members of the Supervisory Board do not receive nor do they have any shares and rights to acquire shares in Kendrion as remuneration. Kendrion does not grant loans or guarantees to Supervisory Board members. Pursuant to the Supervisory Board regulations, a member of the Supervisory Board may not participate in the deliberation and decision-making process concerning any subject in which a member of the Supervisory Board has a personal interest that conflicts with the interests of Kendrion. There were no transactions in which there was a conflict of interest with a member of the Supervisory Board in 2020.

Diversity within the Executive Board, Management Team and Supervisory Board

Kendrion values a diverse workforce both across the Kendrion organisation as a whole and at the level of the Executive Board, the Management Team and the Supervisory Board. Under the value creation pillar 'Social and Human Capital' that forms part of Kendrion's Corporate Social Responsibility program, the further advancement of diversity across the organisation is a priority. A diverse range of competences and skills and a variety of backgrounds within the Executive Board, the Management Team and the Supervisory Board contribute to effective decision-making and consequently value creation. Kendrion considers diversity aspects of gender, nationality and background (education, (work) experience) most relevant for Kendrion and its business. On the basis of the various diversity aspects considered, Kendrion is committed to further progress its approach to diversity in the Executive Board, the Management Team and the Supervisory Board consistent with Kendrion's diversity policy for the Supervisory Board, Executive Board and Management Team and to develop new diversity objectives and initiatives. Kendrion's diversity policy can be found on the corporate website at https://www.kendrion.com.

If a vacancy arises, Kendrion will continue to identify and look for internal and external candidates for positions on the Executive Board, Management Team and the Supervisory Board from a variety of backgrounds, without compromising quality and relevant expertise and experience. If external recruitment consultants are engaged, Kendrion provides search instructions in line with the diversity principles it endorses.

When preparing for the appointment of Mr. Erwin Doll and the reappointment of Mrs. Marion Mestrom as members of the Supervisory Board, due consideration has been given to a variety of criteria and circumstances, explicitly including the diversity objectives described in the diversity policy as well as the requirements of the 'Profile outline' for the Supervisory Board. The composition of the Supervisory Board is diverse, experienced and knowledgeable and reflects a balanced participation of two men and two women.

The Executive Board consists of two men. The diversity objectives as described in Kendrion's diversity policy for the Executive Board as well as functional requirements, quality, expertise and experience will be considered when selecting persons for (re)appointment as member of the Executive Board.

The Management Team comprises a healthy mix of skills, nationalities, ages, backgrounds and other relevant factors.

General Meeting of Shareholders

At least once a year, Kendrion convenes a shareholder meeting. Meetings are convened by the Executive Board and/or Supervisory Board. Meetings can also be convened at the request of shareholders jointly representing at least 10% of Kendrion's issued share capital if authorised by the competent Dutch court. Shareholders who hold at least 3% of the issued share capital have the right to propose an item for inclusion on the agenda. Kendrion will in principle include the item on the agenda if it has received the substantiated proposal clearly stating the item to be discussed, or a draft resolution, in writing, at least 60 days prior to the meeting date. Each shareholder is entitled to attend shareholder meetings in person or be represented by written proxy and exercise voting rights in accordance with the provisions of the articles of association.

Each outstanding share entitles the holder to one vote. Resolutions are adopted by absolute majority of the votes cast, unless the articles of association or applicable law provide otherwise.

Shareholders representing 67.95% (2019: 64.57%) of the total number of shares entitled to vote were represented at the online General Meeting of Shareholders held on 24 June 2020.

For more information about the authority of the General Meeting of Shareholders and the articles of association, please visit the corporate website at https://www.kendrion.com.

Special provisions relating to shares

Unless indicated otherwise, there are no restrictions on the transfer of shares, the exercise of voting rights or the term for exercising those rights, and there are no special controlling rights attached to shares. On 24 June 2020, the General Meeting of Shareholders granted the Executive Board the authority to: (i) issue shares or grant rights to acquire shares and restrict or exclude pre-emptive rights in relation to the issue of shares or the granting of rights to acquire shares; and (ii) acquire shares in Kendrion N.V. within the limits prescribed by the articles of association and the applicable statutory provisions, in each case for a period of 18 months from the date of the General Meeting of Shareholders (i.e. until 24 December 2021) and subject to the prior approval of the Supervisory Board.

Auditor

Before being presented to the General Meeting of Shareholders for adoption, the annual financial statements as prepared by the Executive Board must be audited by an external certified public auditor. The General Meeting of Shareholders has the authority to appoint the auditor. On 9 April 2018, the General Meeting of Shareholders reappointed Deloitte Accountants B.V. for a second period of three years (i.e. for the 2018 to 2020 financial years). The General Meeting of Shareholders may put questions to the external auditor with respect to the external auditor's opinion on the financial statements. The external auditor shall therefore attend and be entitled to address the General Meeting of Shareholders.

Kendrion has an internal audit function that operates under the responsibility of the Executive Board, with reporting lines to the CFO and the Audit Committee of the Supervisory Board. The role of the internal audit function is to assess the design and the operation of the internal risk management and control systems. In line with the Code, the Executive Board and the Audit Committee of the Supervisory Board are involved in the preparation and approval of the internal audit plan. The annual internal audit plan will be submitted to the Executive Board and the Supervisory Board for approval. Internal audit reports are discussed with the Executive Board and with the Audit Committee, and the external auditor is informed accordingly.

For the management statement of the Executive Board which is required pursuant to article 5:25c of the Financial Supervision Act *(Wet op het Financieel Toezicht)*, reference is made to the 'Report of the Executive Board' on page 36.

Agreements in the meaning of the Decree for the implementation of article 10 of the Takeover Directive *(Besluit artikel 10 overnamerichtlijn)*

The credit facility of Kendrion N.V. includes a change of control provision. An early repayment obligation is triggered if a party acquires more than half of Kendrion's issued share capital or voting rights.

Corporate Governance statement

This Corporate Governance Report and the section 'Share and shareholder information' on pages 21-23 include the information referred to in the Decree for the implementation of article 10 of the Takeover Directive. In addition, this Corporate Governance Report in combination with the section 'Risk management' on pages 63-68 and Report of the Supervisory Board on pages 77-84 should be regarded as the Corporate Governance Statement required pursuant to the Decree on the contents of the management report *(Besluit inhoud bestuursverslag).*

Relevant documents on corporate website

- Articles of association;
- Supervisory Board regulations and committee regulations;
- Diversity policy for the Supervisory Board, Executive Board and Management Team;
- 'Profile outline' for the Supervisory Board;
- Insider Trading Code;
- Policy on bilateral contacts with shareholders;
- Code of conduct;
- Speak-up procedure.

Taxes

Kendrion's tax policy is based on the core values embedded in Kendrion's Code of Conduct and aligned with Kendrion's strategy and the rationale underlying the value creation pillar 'Responsible Business Conduct', which is part of Kendrion's global sustainability program.

Taxable profits are recognised in jurisdictions in which value is created, in accordance with the applicable tax regulations and standards, including the OECD Guidelines for Multinational Enterprises and local transfer-pricing and other applicable tax regulations. Tax is not limited to corporate income tax but also includes VAT, wage withholding tax, social security contributions, dividend withholding tax, real estate tax and any other taxes that are payable by Kendrion in the relevant jurisdictions. Kendrion does not seek to establish aggressive tax driven structures that are not compliant with applicable tax regulations. This means that Kendrion does not pursue any aggressive tax planning or has entities established in tax haven jurisdictions solely for tax optimisation purposes and without commercial substance.

Kendrion strives to be transparent towards tax authorities and builds and maintains a professional relationship with the tax authorities. If and when appropriate, tax authorities are consulted in advance on certain material transactions or business restructuring in order, for instance, to ascertain compliance with the applicable tax regulations. Kendrion makes tax-related disclosures in accordance with the applicable statutory regulations and applicable reporting requirements and standards, such as IFRS.

Key controls are in place to identify, monitor and address (potential) tax risks with a view to mitigating and avoiding these risks. Accredited tax advisors are consulted and involved in the review and preparation of material corporate income tax returns, if appropriate. Tax compliance is part of Kendrion's internal audit plan and material tax risks and topics, including Kendrion's tax policy, are reported to and discussed in the Audit Committee.

The effective tax rate of Kendrion or any of its affiliates is not a key performance indicator for Kendrion's finance and tax department nor do individual bonus schemes contain effective tax rate performance targets. The effective tax rate for 2020 of 24.6% underlines Kendrion's responsibility to society with regard to taxation. Information about the reconciliation of the effective tax rate can be found on page 168 of this Annual Integrated Report.




	H. ten Hove (Chairman)	**J.T.M. van der Meijs**	**M.J.G. Mestrom**	**E. Doll**
Year of birth	1952	1966	1961	1959
Nationality	Dutch	Dutch	Dutch	German
International expertise	Yes	Yes	Yes	Yes
Gender	Male	Female	Female	Male
Date of first appointment	19 August 2013	31 October 2016	11 April 2016	24 June 2020
Term of office	2017-2021 (2nd term)	2019-2023 (2nd term)	2020-2024 (2nd term)	2020-2024
Current number of SB positions	3 (2 Chair)	3	1	2
Shares in Kendrion	No	No	No	No
Professional experience	Manufacturing/industry	Finance	HR/organisational design	Automotive
Additional positions	Chairman of the Supervisory Board of Alfen N.V.; member of the Supervisory Boards of Unica Groep B.V.; Chairman of the Foundation BDR Thermea	EVP & CFO of Royal Schiphol Group; non-executive member of the Board of AdP (Aéroports de Paris); non-executive Director of the Board of Brisbane Airport, non-executive Director & Chair of People and Remuneration Committee of Koole Terminals	Chief Human Resources Officer at Brenntag AG	Non-executive member of the Board of Directors of Aeristech Ltd.; member of the Supervisory Board of WITTE Automotive
Former positions	CEO of Wavin N.V.	Vice-President Finance (Capital Projects) at Shell Global Solutions; Finance Director at Shell Australia; Financial Controller/Deputy Finance Director at the Brunei Shell Companies	Head of Global Human Resources at Siegwerk Druckfarben Group; Senior Global Human Resources positions within Royal Philips	Vice-Chairman of Röchling Group; CEO of Röchling Automotive; Vice-President and Managing Director at Plastic Omnium; General Manager at Johnson Controls; Business Manager at BASF

On-track despite COVID-19 challenges

CHAIRMAN OF THE SUPERVISORY BOARD
Henk ten Hove

2020 has brought many challenges. It has been a year of prioritizing the health and safety of our employees and keeping our operations afloat while continuing to work on our opportunities for future growth. Although revenue started to recover in the second half of the year and the roll out of vaccination programs has given cause for optimism, the effect of the pandemic on societies and economies will continue to be felt for the time to come. Amidst the turmoil, we have been able to stay on track towards achieving our long-term goals, while our balance sheet has remained strong.

A swift response to keep employees safe
The health and safety of our employees is always our priority, but when COVID-19 globally hit in March 2020, it took on new urgency. Management responded swiftly and decisively, enabling working from home for employees where possible and providing a safe working environment for our employees in the production facilities. Despite our efforts, we experienced a surge in COVID-19 cases in October and November 2020, and tragically lost one colleague.

On target to meet our goals
The automotive business was most affected by the pandemic with many of its customers shutting down operations in April and May 2020. Notwithstanding the COVID-19 crisis, the accelerating innovation evolution in Autonomous, Connected and Shared driving (the so-called ACES) is increasing demand for our e-mobility products, which has contributed to achieving a healthy number of nominations.

China recovered quickly from COVID-19. As our Chinese plants reverted to 'business as usual' from Q2 onwards, we expect growth to continue as originally anticipated. Expanding our China operations and increasing local resources and capabilities continue to be top priorities and although COVID-19 caused some delays, we expect to be back on track in 2021.

Throughout the year, and despite limited in-person meetings, we continued our integration plans. The former Industrial Magnetic Systems and Industrial Control Systems business units were merged into the new Industrial Actuators and Controls business unit. The Automotive Group further strengthened and increased its global capacity and agility. INTORQ's brake activities and our former Industrial Drive Systems business unit were integrated into a single Industrial Brakes business unit to enhance our strong position in the global market for brakes.

Financial results: ending on a positive note
Our solid Q1 figures showed we were off to a good start in 2020, but plans needed to be adjusted drastically when the pandemic started to spread throughout Europe and the US. It forced many of our customers to shut down their operations. In response, management carried out various scenario-analyses to estimate the potential financial impact of the COVID-19 crisis and based on which a range of measures have been implemented with a view to protecting Kendrion's financial position and cashflow. Measures have included short-time work

for our European facilities and a 15% voluntary salary reduction for senior management. We also limited discretionary spending and suspended uncommitted capital expenditures. Some of these measures have been relaxed during Q3 and Q4 when revenue gradually recovered, ending the year on a more positive note. The acquisition of INTORQ proved a good decision, giving us stronger-than-expected results and enhancing the balance between our Automotive and Industrial activities.

Keeping a close eye on costs and cashflow, we did not compromise on our long-term strategy. We continued to invest in China and the optimization of our European manufacturing footprint and focused our R&D resources on our key Lighthouse projects.

Clear communication

Clear and frequent communication has been critical in 2020. The Executive Board and senior management held numerous online meetings to closely monitor and discuss health and safety measures, COVID-19 developments, revenue, costs, cashflow management and contingency plans. In addition, weekly update calls with all Kendrion locations worldwide have kept everyone informed and connected during a time of uncertainty. In the first phase of the COVID-19 pandemic, also the Supervisory Board and the Executive Board maintained regular contacts to keep abreast of key developments. Kendrion's IT organization eased the switch to digital collaboration by accelerating the roll-out of new communication tools.

Transparency and communication also helped us to keep the full confidence of our shareholders. The Supervisory Board is confident that the ongoing commitment to Kendrion's long-term strategy, the healthy balance between our Automotive and Industrial activities and the growing number of nominations will help accelerate our business when the market returns to a 'new normal'.

Last but not least, we want to express our sincere gratitude to management and employees, who remained flexible, dedicated and optimistic during this unexpected and challenging period.

> Keeping a close eye on costs and cashflow, we did not compromise on our long-term strategy.

The Supervisory Board provides oversight, evaluates progress and performance, maintains a sound and transparent system of checks and balances and advises the Executive Board when appropriate. To this end, the Supervisory Board weighs long-term value creation and the interests of the company and its stakeholders.

This Report of the Supervisory Board sets out the way in which the Supervisory Board fulfilled its duties and responsibilities in 2020.

Performance in 2020

This year has been unlike any other where the world has been struck by COVID-19, impacting people's lives and the global economy massively. At all times, priority has been given to the health and safety of Kendrion's employees and their families. With the strict operating measures that have been implemented, production continued in a safe and responsible manner. Our office staff was instructed to work from home as much as possible and immediate measures were taken to facilitate remote working and participation in virtual meetings in a secure manner. The latter triggered the accelerated implementation of new communication tools by Kendrion's global IT function. In addition, contingency plans were updated as needed and based on the outcome of the scenario-analyses performed, a range of measures has been implemented to protect the company's business continuity and preserve its financial position and cashflow.

As the COVID-19 crisis has been unfolding across global markets, the automotive sector was faced with yet another challenge as it was already confronted with a general market slowdown in 2018 and 2019. Despite COVID-19, innovation accelerated in Autonomous, Connected, Electric and Shared driving (i.e. the ACES). The ACES offer long-term growth opportunities for the Automotive Group. Kendrion continued to invest in the Lighthouse projects that were identified in 2019 and that include products that help advance the implementation of ACES vehicles. The industrial sector made a good start to the year. However, the COVID-19 pandemic also started to impact revenue of the Industrial business units as of May 2020. Whereas the COVID-19 impact on certain industrial segments has been quite significant – such as the machine building industry and aerospace – other segments developed positively, like the medical equipment and wind power segment. Kendrion's pressure regulators and solenoid and proportional valves ensure precise and reliable gas dosing in ventilation and anaesthesia devices. In 2020 a request was received from the British government for the delivery of pressure regulators to the NHS in the UK for use in ventilators to battle COVID-19. We have also seen a fast-growing demand for brakes for wind turbines, as investments in green energy accelerates across the world.

In Q1 2020, our China operations in Suzhou and Shanghai suffered first from the COVID-19 pandemic. Management acted rapidly. Health and safety measures were implemented that for the most part could be taken over by our European and US facilities when COVID-19 reached Europe and US in March 2020. With China's recovery from COVID-19, management recommenced the pursuit of the ambitious China growth strategy in line with previous expectations.

In retrospect, 2020 has been a turbulent year, and despite the imposing COVID-19 challenges, the organisation has proven itself to be resilient, with inspiring and decisive leadership by the Executive Board and senior management. They gave clear direction with continued focus on the health and safety of our employees and their families, keeping them informed and connected as needed. In parallel they focussed on the continuity of the company by performing scenario analyses to assess the potential financial impact of COVID-19 and taking appropriate cost control measures without losing sight of the company's long-term ambitions.

Focus items 2020

In coordination with the Executive Board, the Supervisory Board previously determined certain focus items for the year 2020. The Supervisory Board placed special emphasis on the following predetermined subjects in 2020:

Integration of INTORQ and Industrial Drive Systems (IDS) business unit of Kendrion into one Industrial Brakes business unit
With the successful completion of the acquisition of INTORQ in January 2020, the Supervisory Board closely monitored the subsequent integration of INTORQ and Kendrion's prior business unit IDS into a single business unit called Industrial Brakes business.
In January 2020, the Executive Board appointed a new experienced business unit manager to lead the integration and the business unit Industrial Brakes. In addition, dedicated senior leadership was put in place to assess synergy targets and prepare key decision options.
In discussing the integration, the Supervisory Board devoted attention to various topics and aspects of the integration, including:

- Maintaining momentum in ongoing businesses and securing IDS and INTORQ customer relations;
- Retaining key leadership and talent, including the establishment of a new joint management team for Industrial Brakes;
- Managing cultural integration and change management;
- Designing future operating model;
- Realising cost synergy potential in line with expectation and integration objectives;
- Designing combined IT landscape and infrastructure for the integrated operations.

The new global organisational structure of Industrial Brakes became effective as of April 2020. Upon completion of other key integration areas in the course of 2020, the Executive Board reported the outcome of a comprehensive review that was carried out to assess the effectiveness of changes resulting from the integration based on certain key integration indicators. Key integration indicators for this review included: global footprint, product portfolio, market access, market share, skill set, cost synergies realised and capabilities. Relatedly, the Supervisory Board monitored the review of the operating model and capabilities of INTORQ's facility in India and the expected prospects going forward.

As also supported by the robust performance of Industrial Brakes in 2020, the Supervisory Board believes that by having brought together the capabilities of INTORQ and Kendrion's IDS into one new Industrial Brakes business unit, a leading global industrial brake company has been created. It enhanced global presence and broad industrial brake technology in a number of growth segments that are part of Kendrion's strategic intent: industrial and collaborative robots across industries, brakes for wind turbines and internal logistics (e.g. automated guided vehicles). Moreover, the addition of INTORQ enhanced the balance between Kendrion's Automotive activities and its Industrial activities as each represent approximately 50% of Kendrion's revenue base and growth potential. The enhanced balance equalises the dependency on either of these segments.

Combining Kendrion's business units Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) into one Industrial Actuators and Controls business unit
It was decided to combine Kendrion's business units Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) in one Industrial Actuators and Controls business unit. The Supervisory Board supervised the design and execution of the roadmap aimed at the establishment of Industrial Actuators and Controls by combining the activities of IMS and ICS, as well as the related integration risks.

As of Q1 2020, the prior organisations of IMS and ICS have been combined and the management team of Industrial Actuators and Controls has been established. The new management team includes a healthy mix of representatives of the former IMS and ICS. Specific attention has been given to the strengthening and streamlining of the commercial organisation, particularly the product and market strategy of the former IMS. In realising the business unit Industrial Actuators and Controls, management focussed increasingly and continuously on cultural alignment and change management. According to the Supervisory Board, the merging of the prior business units has been carefully prepared and consistently implemented with due attention for the prioritisation of synergy initiatives. Despite COVID-19, Industrial Actuators and Controls has been able to benefit from recovering markets which clearly contributed to its recovered performance in 2020.

Expanding the organisation in China
As COVID-19 impacted our Chinese operations predominantly in the first quarter of the year, COVID-19 also hampered the continuation of the scheduled training modules for the Chinese R&D team. Within the span of a year, advanced virtual training programs were developed making efficient use of tools that enable remote collaboration. This all with a view to secure continuous improvement of the capabilities and capacity of the local organisation.

When China recovered from COVID-19, at the end of the first quarter, our operations in Suzhou and Shanghai reverted to the continued pursuit of the ambitious China growth strategy. Imperative to the realisation of future revenue growth remains the continued investment in capability and capacity of the local organisation.

Consistent with prior years and to manage the project pipeline in a balanced manner, resource capacity planning and optimisation are continuously evaluated and advanced as needed.

Supportive to the China growth ambitions, the Executive Board proposed the development of a new 28,000m^2 production facility on Suzhou's renowned industrial park, the SIP. The famous Suzhou industrial park is centrally located, easily accessible and moreover is offering a professional infrastructure within the close vicinity of technically advanced multi-national corporations. Based on the detailed review carried out by management, addressing financial as well as non-financial considerations, such as attract and retain talent as well as enhance energy efficiency, the Supervisory Board approved the development plan proposed by the Executive Board. The approved development plan assumes that the new production facility will be ready for use in the first half of 2022.

Whilst the Supervisory Board has consistently supported the expansion and growth in China, it has also reiterated the importance of maintaining project performance and the delivery of high-quality products. Nevertheless, the Supervisory Board does believe that the steps taken to date have been conducive to the anticipated realisation of the ambitious growth strategy. Given the importance of the China growth strategy, the successful execution of the project pipelinewill remain on the list of focus items for 2021, including the development of the new production facility.

Advancing the Automotive Group project pipeline and redirection of R&D function

The Supervisory Board closely monitored the development of the Automotive project pipeline as key indicator for the realisation of sustainable growth. Through various strategic efforts an environment has been created that is supportive to the positive development of the project pipeline, including:

- Implementation of certain fundamental improvements to the sales and marketing strategy;
- Increased focus on the transformation and development of a sharp product portfolio (e.g. valves and actuators, clutches and smart products);
- Consistent focus on ACES;
- Focus on smart products, global reach, re-use and balanced lifecycle approach.

Improvements to the sales strategy concern the preservation of a tailored and targeted sales approach. Improvements to the marketing strategy address areas such as the redefinition of the user experience and the digital communication revolution with customers increasingly expecting digital communication. Creating focus and scale in growth markets is also an important aspect relevant to the transformation of the product portfolio. The Automotive Lighthouse projects that were identified in 2019 further drive this transformation. With the joining of a new R&D Director, the Supervisory Board is confident, that the R&D agenda will be refined, and the furtherance of the Automotive Lighthouse projects will be accelerated.

The Supervisory Board is pleased that over 2020 the Automotive Group added approximately EUR 350 million to its project pipeline. Nevertheless, the Supervisory Board expects the commercial organisation of the Automotive Group to further progress and evolve at the organisational level, in addition to the development and implementation of strategic initiatives that contribute to the sustainable advancement of the project pipeline.

Extraordinary year

Notwithstanding the previously determined focus items for 2020, the outbreak of the COVID-19 pandemic called for close monitoring of the situation by the Supervisory Board. Various in-depth discussions took place between the Executive Board and the Supervisory Board through online meetings during which the pandemic and the related risks were extensively discussed. During these meetings, the Executive Board provided adequate transparency by informing the Supervisory Board about key COVID-19 related developments.

In managing the crisis, the health and safety of employees and their families has been a constant priority. Safeguarding the continuity of Kendrion and its affiliated enterprise has also been a key priority. Various scenario analyses to estimate the potential financial impact of COVID-19 were carried out by the Executive Board and existing contingency plans were adjusted as and when needed. Based on different scenarios, alternative strategic funding options were assessed and extensively discussed among the Executive Board and the Supervisory Board. Following these extensive discussions, the Supervisory Board approved the commencement of talks with Kendrion's banking syndicate regarding a financial covenant relief without additional funding. The Supervisory Board is pleased that the Executive Board reached agreement with the banking syndicate to increase the leverage covenant for the quarters up to December 2021. With this agreement, Kendrion will continue to be able to invest in its longer-term growth opportunities, should additional unforeseen circumstances triggered by COVID-19 occur.

Moreover, the Executive Board together with senior management vigorously and decisively dealt with the short-term by implementing strict operating procedures to ensure the continuation of production in a safe and responsible manner and by focussing on cost control to protect Kendrion's financial position and liquidity. Cost control measures included the use of short-time work arrangements in several of Kendrion's European production facilities and a voluntary salary reduction of 15% by senior management, including the Supervisory Board. In addition, all uncommitted and non-urgent capital expenditure was suspended, however, without losing sight of the long-term perspective and any remaining capital investments were accordingly prioritised.

Focus items 2021

The Supervisory Board has defined the following attention points for 2021:

- Maintaining up-to-date contingency plans in addressing COVID-19 and securing the continuity of the company and its affiliated enterprise;
- Continued investment in China to support the realisation of the growth strategy, including the development of the new production facility in Suzhou;
- The contemplated closure of the production facility in Eibiswald, Austria, as part of the optimisation of the European manufacturing footprint of the Automotive Group;
- Advancing the IT strategy and execution thereof, as digitalisation in the manufacturing space will be crucial to long-term value creation.

Meetings and attendance

The Supervisory Board held 9 meetings in 2020, eight of which were regular scheduled meetings. As of February 2020, the subject matter 'COVID-19 and related developments' was added as a standing agenda item to the agenda of Supervisory Board meetings and discussed in detail among the Executive Board and the Supervisory Board. One extraordinary meeting was convened to discuss the final proposal regarding the strategic funding options. In addition to the regular and extraordinary scheduled meetings, the Supervisory Board and the Executive Board maintained regular contacts to keep abreast of relevant COVID-19 developments. Except for the February 2020 meeting, all Supervisory Board meetings in 2020 were held virtual and the Supervisory Board members and other meeting participants were able to participate in the meetings through video conference.

In 2020, participants of Kendrion's High Potential program, were requested to conduct a diversity review structured along the following themes:

- Analysis: company specific review into diversity at Kendrion;
- Public perception and image: gaining insight into Kendrion's reputation to attract and retain a diverse group of employees;
- Attractive employer: employer branding, including work environment and conditions;
- Recruitment and retention: initiatives aimed at the recruitment and retention of a diverse group of employees.

The outcome of the diversity review has also been presented to the Supervisory Board. The Supervisory Board is of the opinion that in an increasingly diverse and multicultural society, advancing diversity within organisations like Kendrion becomes ever more important. Although the Executive Board and senior management progress diversity across the organisation by providing training and by organising Kendrion-wide diversity initiatives, the Supervisory Board expects the Executive Board to increase and strengthen its diversity efforts – especially on management level – and to develop a renewed global diversity program with concrete measures aimed at the structural improvement of diversity within Kendrion. The renewed global diversity program should take account of the outcome of the review carried out by the participants of the High Potential program.

In 2020, again special consideration was given to Kendrion's IT strategic plan. Based on the outcome of the IT baseline review conducted in 2019, Kendrion developed an IT strategic framework 2020-2025. The IT strategic framework 2020-2025 comprise several pillars of which simplification, data insight and digitalisation are key to driving value add. Within the pillars simplification and data insight, the centralisation of IT systems and the centralisation of data are important objectives. The Audit Committee of the Supervisory Board closely monitored progress on the development and execution of the new IT strategic framework.

The Supervisory Board also monitored progress on Kendrion's global sustainability program against the 2019-2023 target framework. The Supervisory Board received updates about the actions taken under the 5-year roadmap aimed at the realisation of a 15% relative reduction of energy consumption and CO_2 emission by the end of 2023 and supports the continued review of the effectiveness of these measures. Progress has also been made in the area of waste management and the Supervisory Board encourages the further development of concrete waste objectives. The COVID-19 hygiene measures have had a positive effect on Kendrion's overall illness rate, as it showed a steady decline in 2020. The Supervisory Board endorses the continued development of a responsible product portfolio and the clear categorisation of products along the Sustainable Development Goals (SDGs). The Supervisory Board is confident that the materiality analysis carried out in 2020 will contribute to the continuous advancement of Kendrion's global sustainability program. Particularly the development of ambitious objectives that will drive Kendrion's performance.

All meetings of the Supervisory Board were attended by the Executive Board, and at times by members of the Management Team. In addition, meetings were held without the Executive Board and without the Management Team. The attendance percentage for regular scheduled Supervisory Board meetings in 2020 was 100% (2019: 98%).

In addition, the Chairman of the Supervisory Board and the Chair of the Audit Committee held monthly meetings with the CEO and CFO, respectively. The Supervisory Board also focused on direct interaction with the Management Team and other senior management. This included presentations in the areas of responsibility and one-on-one meetings between the Chairman of the Supervisory Board and members of the Management Team.

The agenda for the Supervisory Board meetings covered the 2020 focus items described on page 78-80 and other recurring topics that are annually addressed, such as: operational and financial performance, progress against the strategic plan and the principal risks associated with the operation, progress and the achievement of milestones of special projects, risk management and internal control system, governance and compliance and the online General Meeting of Shareholders. Another topic that was given attention during 2020 included the status of the ongoing German tax audits.

Due to COVID-19, this year's annual two-day strategy meeting could not take place at one of Kendrion's production facilities. Therefore, the two-day strategy sessions to discuss strategic options and the strategic plan 2021-2025 were held virtually.

The external auditor attended the meeting of the Supervisory Board in February 2020 during which the full-year figures for 2019 and the auditor's report were discussed.

Evaluation

The Supervisory Board continued to invest in its own training during the year and received updates on governance and compliance. Once a year the Supervisory Board carries out a self-assessment, including an assessment of the Supervisory Board committees and the individual Supervisory Board members. In 2018, the evaluation was carried out by an independent external consultant. In 2020 the assessment for the Supervisory Board was performed with a structured questionnaire that was filled in by the members of the Supervisory Board, the Executive Board and the General Counsel. The questionnaire addressed items such as: composition and expertise of the Supervisory Board, dynamics within and functioning of the Supervisory Board and its committees, functioning of individual members of the Supervisory Board, dynamics between the Supervisory Board and the Executive Board and tasks and responsibilities of the Supervisory Board. The assessment was discussed during a Supervisory Board-only meeting facilitated by the Chairman. The Supervisory Board intends to perform the annual self-assessment with the support of an external consultant once every three years.

The outcome of the evaluation confirmed a good and constructive relationship between the Supervisory Board and the Executive Board. The Supervisory Board members take appropriate responsibility and are valued for their dedication, expertise and ongoing commitment. The Supervisory Board members are aware of the different roles and responsibilities between the Supervisory Board and the Executive Board and are keen to secure them. A special attention point is the succession planning and the well-timed replacement of members of the Supervisory Board and training and development to keep abreast of relevant regulatory and other developments.

In Supervisory Board-only meeting(s), the members assess the functioning of the Executive Board and the individual members. With the CEO and CFO the Supervisory Board discussed performance and last year's KPIs, strategic and operational spearheads for 2021 and personal development.

Composition

The Supervisory Board consists of four members: Henk ten Hove (Chairman), Jabine van der Meijs (Chair of the Audit Committee), Marion Mestrom (Chair of the HR Committee) and Thomas Wünsche (until resignation in April 2020) and Erwin Doll (as of appointment in June 2020).

The Supervisory Board operates independently of the Executive Board, the Management Team, any other participating interests and each other. Each of the Supervisory Board members has the necessary expertise, experience and background to carry out his or her tasks and responsibilities. All members of the Supervisory Board are independent within the meaning of the Dutch Corporate Governance Code. The members of the Supervisory Board satisfy the statutory requirements concerning the number of supervisory or non-executive functions that they can have with large enterprises. The composition of the Supervisory Board is in line with the Supervisory Board profile as drawn up by the Supervisory Board and the diversity objectives described in the Diversity Policy for the Supervisory Board. Both the Supervisory Board profile and the Diversity Policy can be found on the corporate website at www.kendrion.com.

The composition of the Supervisory Board reflects a balanced participation of two men and two women.

Committees of the Supervisory Board

In order to perform in an efficient manner, the Supervisory Board has established two committees: the Audit Committee and the HR Committee. The primary task of the committees of the Supervisory Board is to advise and facilitate the Supervisory Board with respect to its responsibilities and to prepare decision-making by the Supervisory Board. The committees of the Supervisory Board have their own regulations, which include a detailed description of the committee's tasks and responsibilities.

Audit Committee

The Audit Committee uses its knowledge and expertise to advise on and prepare Supervisory Board's decision-making, particularly concerning matters relating to Kendrion's financing, financial statements, the integrity and quality of financial reporting, the effectiveness of risk management and internal controls and the approach and operation of the internal audit function and internal audit program.

The Audit Committee consists of Jabine van der Meijs (Chair) and Thomas Wünsche (until resignation in April 2020) and Erwin Doll (as of appointment in June 2020).

The Audit Committee held four meetings in 2020. Except for the February 2020 meeting, all Audit Committee meetings in 2020 were held virtual and the Audit Committee members and other meeting participants were able to participate in the meetings through video conference. Attendance during 2020 was 100% (2019: 100%). The CFO, the Internal Audit and Risk Manager and the Group Controller attended all meetings. The external auditor Deloitte Accountants B.V. attended the meetings of the Audit Committee during which the full-year financial statements for 2019, the half-year financial statements for 2020 and the management letter were discussed. The Audit Committee met with the external auditor without the CFO.

The COVID-19 pandemic also called for close monitoring by the Audit Committee and it deliberated extensively about the pandemic and the related risks. During these meetings, the CFO and Group Controller provided adequate transparency by informing the Audit Committee about key COVID-19 related developments. Special consideration was given to the safeguarding of the continuity of the company and its affiliated enterprise. Various scenario analyses to estimate the potential financial impact of COVID-19 were carried out and presented to and discussed with the Audit Committee, and existing contingency plans were adjusted as and when needed. Based on different scenarios, alternative strategic funding options were prepared and extensively discussed with the Audit Committee.

The Audit Committee monitored and reviewed regular topics such as: the quarterly financial results, the half-year and full-year financial statements, the auditor's report, maintenance and effectiveness of risk management framework and internal control system, the internal audit plan and key findings of internal audits performed, the external audit plan, transfer pricing, tax policy, treasury policy, the group insurance program, the speak-up procedure, legal and compliance, the annual evaluation of external auditor and the annual evaluation of the approach and operation of the internal audit function and the internal audit program. Driven by the COVID-19 restrictions, alternative ways to perform internal audits were discussed with the Audit Committee and subsequently implemented with a view to limit delays in the performance of the internal audit program as much as possible.

Regular updates were provided on the maintenance and effectiveness of the risk management framework and internal control system relating to strategic, financial, operational, tax control and compliance matters. Kendrion monitors its internal controls through a systematic approach, which is supported by a solid risk management framework and the internal audit program.

Following the earlier recommendations of the Audit Committee in May 2019, Kendrion has established an independent internal audit function within the meaning of the Dutch Corporate

Governance Code. Since October 2019, the internal audit function is headed by the Internal Audit and Risk Manager.

The Audit Committee also discussed tax and treasury matters, including Kendrion's policies relating to transfer pricing. With respect to tax, the Audit Committee also monitored and discussed the status of pending tax audits, including the status of the ongoing German tax audits.

In addition to the above, the Audit Committee discussed the development of the new IT strategic framework 2020-2025 and monitored progress on the execution of the new IT strategic framework.

Deloitte Accountants B.V. was reappointed as external auditor by the General Meeting of Shareholders on 9 April 2018 for a term of three years up to and including the financial year 2020. The Audit Committee monitored both the external auditor's performance and the effectiveness of the external audit process and its independence. The Audit Committee approved the 2020 external audit plan, including scope and materiality applied. Reviews and discussions were held on the findings of the external auditor in its management letter and the actions taken to address the recommendations and observations made by the external auditor. Also based on the outcome of the assessment of Deloitte's performance as well as the advice of the Executive Board, the Audit Committee advised the Supervisory Board regarding the reappointment of Deloitte as external auditor. The Supervisory Board followed the advice of the Audit Committee and will propose Deloitte's reappointment at the upcoming Annual General Meeting of Shareholders on 12 April 2021 for a period of four years after 2020 (i.e. for the financial years 2021 through 2024).

HR Committee

The HR Committee consists of Marion Mestrom (Chair) and Henk ten Hove. The HR Committee held two meetings, with an attendance rate of 100% (2019: 100%), one of which was held virtual and the HR Committee members and other meeting participants were able to participate in this meeting through video conference. The CEO attended both meetings.
In addition to the scheduled meetings, the HR Committee had a number of informal meetings with and without the members of the Executive Board being present.

Succession planning

Following the announcement of Thomas Wünsche that he would not be available for a second term as member of the Supervisory Board, the HR Committee advised the Supervisory Board about the selection and nomination of a new Supervisory Board member. Taking account of the Supervisory Board profile and the diversity objectives described in the Diversity Policy for the Supervisory Board, the HR Committee recommended the nomination of Erwin Doll and the Supervisory Board unanimously resolved to nominate Erwin Doll for appointment. On 24 June 2020, the General Meeting of Shareholders resolved to appoint Erwin Doll for a four-year term ending on the date of the Annual General Meeting of Shareholders to be held in 2024.

Marion Mestrom was first appointed to the Supervisory Board on 11 April 2016 for a four-year term ending in April 2020. The Chairman of the Supervisory Board acting in his capacity as member of the HR Committee advised the Supervisory Board regarding the reappointment of Marion Mestrom. On 24 June 2020, the General Meeting of Shareholders resolved to reappoint Marion Mestrom for a four-year term ending on the date of the annual General Meeting of Shareholders to be held in 2024.

In view of the upcoming expiry of the second term of Henk ten Hove in 2021, the Chair of the HR Committee timely commenced the search to find a new Chairman for the Supervisory Board. Taking account of the Supervisory Board profile and the diversity objectives described in the Diversity Policy for the Supervisory Board, the HR Committee recommended the nomination of Frits van Hout, who will step down in April 2021 from his board position at ASML, the innovative global leader in the semiconductor industry, where he serves as Executive Vice President since 2009, most recently as Chief Strategy Officer. The Supervisory Board unanimously resolved to nominate Frits van Hout for appointment as Chairman to Kendrion's Supervisory Board for a four-year term. The appointment will be submitted to the shareholders for approval at the upcoming Annual General Meeting of Shareholders on 12 April 2021.

Performance management

The HR Committee considered and prepared the performance reviews of the members of the Executive Board for discussion in the Supervisory Board. The outcome of the performance reviews process was discussed in a Supervisory Board-only meeting.

Variable remuneration

The HR Committee agreed the financial and non-financial performance criteria for the short-term and the long-term variable remuneration of the Executive Board and reviewed progress on these performance criteria.

The Executive Board provided the HR Committee with information on the main components of the remuneration structure that applies to members of the Management Team who are not members of the Executive Board. The variable remuneration of the Management Team is aligned to the structure of the Executive Board variable remuneration.

Financial statements and auditor's opinion

The 2020 financial statements included in this Annual Integrated Report have been audited and Deloitte Accountants B.V. has issued an unqualified opinion. They were discussed with the Supervisory Board, the Audit Committee in the presence of the external auditor, and the Executive Board. The Supervisory Board is of the opinion that the 2020 financial statements meet all requirements for transparency and correctness. Therefore, the Supervisory Board recommends that the General Meeting of Shareholders to be held on 12 April 2021 adopt the 2020 financial statements and the appropriation of net income.

This Annual Integrated Report furthermore contains a limited assurance report of Deloitte Accountants B.V. on selected sustainability performance targets.

Profit appropriation

Kendrion realised net profit of EUR 4.3 million in 2020. Normalised net profit before amortisation of intangibles arising from acquisitions amounted to EUR 11.7 million.

The Supervisory Board approved the proposal of the Executive Board to pay out 50% of normalised net profit as dividend.

The members of the Supervisory Board have signed the 2020 financial statements to comply with their statutory obligation pursuant to article 2:101, paragraph 2, of the Dutch Civil Code.

Concluding remarks

2020 has been and hopefully will remain an unprecedented year. Employees and management have shown a high level of flexibility and capability of fast adaptation. We are grateful for their contributions. The Supervisory Board is also pleased that the dialogue with our customers about new business continued and has been successful. Last but not least we want to thank our shareholders for their continuous trust and support.

Supervisory Board

Henk ten Hove, Chairman
Jabine van der Meijs
Marion Mestrom
Erwin Doll

18 February 2021

Introduction

This Remuneration Report describes the application of the Remuneration Policy for the Executive Board and the actual performance in 2020 against the predefined performance criteria. In addition, the Remuneration report provides an overview of the remuneration of the Supervisory Board in 2020.

Performance in 2020

Looking at the performance of the business units, the Automotive Group had a tough year. After a good start the automotive market dropped significantly in Q2 2020. In Q3 and Q4 2020, the global passenger car market has recovered, but is still around 16% lower than in 2019, which in itself was a weak year for the automotive industry. Despite COVID-19, innovation accelerated in Autonomous, Connected, Electric and Shared driving (i.e. the ACES). The ACES offer long-term growth opportunities for the Automotive Group and Kendrion continued to invest in the Lighthouse projects that were identified in 2019 and that include products that help advance the implementation and functionality of ACES vehicles. During 2020, the Automotive Group added approximately EUR 350 million to its project pipeline. The industrial sector made a good start to the year. However, the COVID-19 pandemic also started to impact revenue of the Industrial business units as of May 2020. Whereas the COVID-19 impact on certain industrial segments has been quite significant – such as the machine building industry and aerospace – other segments developed positively, like the medical equipment and wind power segment.

In Q1 2020, our China operations in Suzhou and Shanghai suffered first from the COVID-19 pandemic. When China recovered from COVID-19 at the end of the first quarter, Kendrion's operations in Suzhou and Shanghai recommenced the pursuit of the ambitious China growth strategy. Imperative to the realisation of future revenue growth remains the continued investment in capability and capacity of the local organisation, including continued investment in the expansion of product lines, further optimisation of production processes and certifying product quality and reliability of the supply chain. Supportive to the China growth ambitions, it has been decided to develop a new production facility on Suzhou's renowned industrial park, SIP. The famous Suzhou industrial park is centrally located, easily accessible and moreover is offering a professional infrastructure within the close vicinity of technically advanced multi-national corporations.

In managing the crisis, the health and safety of employees and their families has been a constant priority. Safeguarding the continuity of Kendrion and its affiliated enterprise has also been a key priority. Various scenario analyses to estimate the potential financial impact of COVID-19 were carried out and existing contingency plans were adjusted as and when needed. Based on different scenarios, alternative strategic funding options were calculated. In August 2020 Kendrion announced that it reached agreement with its banking syndicate to increase the leverage covenant up to 31 December 2021. With this agreement, Kendrion safeguards its ability to continue to invest in its longer-term growth opportunities.

The short-term impact of COVID-19 has been well managed and strict operating procedures have been implemented to secure the continuation of production in a safe and responsible manner. By focussing on cost control Kendrion protected its financial position and liquidity. Cost control measures included the use of short-time work arrangements in several of Kendrion's European production facilities and a voluntary salary reduction of 15% by senior management, including the Supervisory Board. In addition, all uncommitted and non-urgent capital expenditure was suspended, however, without losing sight of the long-term perspective and any remaining capital investments were accordingly prioritised.

Progress has also been made with Kendrion's global sustainability program. Kendrion's drive to use energy efficiently and to reduce CO_2 emission is reflected in a range of activities and investments. In 2020, Kendrion reviewed the effectiveness of measures implemented under the five-year roadmap that was designed in 2019 and which includes measures for the production plants aimed at the realisation of a 15% relative reduction of energy consumption and CO_2 emission by the end of 2023. The COVID-19 hygiene measures have had a positive side-effect on Kendrion's overall illness rate as it showed a consistent and significant decline in 2020 compared to previous years. Waste management practices have been advanced, and the outcome of the most recent waste data analysis has shown promising results. In response to the reasonable expectations of certain key stakeholders, Kendrion increased its focus and transparency about sustainable product use and additional categorisation of Kendrion's products along the most applicable SDGs.

In addition to the progress reported above, the successful integration of INTORQ, the merger of Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) into one business unit Industrial Actuators and Controls, the advancement of the IT strategic framework and the comprehensive plans for the optimisation of the European manufacturing footprint of the Automotive Group, collectively form a solid foundation for future growth. The Report of the Supervisory Board that can be found on pages 77-84 of this Annual Integrated Report describes the progress made and key points of attention relevant to the various areas described above.

Remuneration Policy Executive Board

The Remuneration Policy for the Executive Board has been developed by the Supervisory Board and adopted by the General Meeting of Shareholders in June 2020. Kendrion's previous Remuneration Policy was adopted by the General Meeting of Shareholders in April 2018. For this purpose, the HR Committee of the Supervisory Board informed itself and took notice of developments and market practices regarding executive remuneration. Based on this extensive review and prework performed by the HR Committee, the Supervisory Board submitted and presented a remuneration policy for adoption at the General Meeting of Shareholders in April 2018. In order to align the April 2018 Remuneration Policy to the Dutch Act implementing the EU Shareholders Rights Directive, an updated version of the April 2018 Remuneration Policy has been submitted and presented for adoption by the General Meeting of Shareholders in June 2020. The updated version of the Remuneration Policy does not comprise a value change to the remuneration packages of the members of the Executive Board and the General Meeting of Shareholders adopted this update version of the Remuneration Policy in June 2020.

The Remuneration Policy is evaluated at least once every four years by the Supervisory Board. The HR Committee will continue to keep the Supervisory Board informed about relevant market and legislative developments in order to support the periodic evaluation of the Remuneration Policy and related decision-making. For more information about Kendrion's Remuneration Policy, please visit the corporate website at https://kendrion.com.

Remuneration in line with median level relative to reference group

The Remuneration Policy serves to recruit and retain diverse, qualified and experienced executives in order to deliver Kendrion's long-term value creation strategy. In addition, the Remuneration Policy aims to further enhance the link between pay and performance and align the interests of the members of the Executive Board with the shareholders' interests – and other stakeholders' interests – and focus on the sustainable delivery of high performance over the long-term by stimulating share ownership whilst adhering to the applicable standards of good corporate governance.

Taking account of Kendrion's size (in terms of revenues, average market capitalisation, total assets, and number of FTE), its industrial market position, geographical scope and labour market competition, the companies included in the AScX Index on Euronext Amsterdam are defined as reference group. Financial services, real estate and movies and entertainment companies are excluded from the reference group. Within the defined reference group, Kendrion is positioned around the median in terms of the average of the abovementioned parameters revenues, average market capitalisation, total assets and number of FTE. The remuneration structure of the Executive Board is set at the median level relative to the reference group.

The Remuneration Policy does not contain variable incentives that may be detrimental to the responsibilities of the Executive Board in defining and achieving Kendrion's long-term value creation strategy.

Temporary deviations

In exceptional circumstances, the Supervisory Board can decide to temporarily deviate from the Remuneration Policy for members of the Executive Board. Exceptional circumstances mean circumstances in which a deviation is considered necessary to serve long-term interests and sustainability of Kendrion or to otherwise ensure its viability. Depending on the exceptional circumstances, the Supervisory Board can resolve to deviate from any or all of the four remuneration components included in the Remuneration Policy for the members of the Executive Board.

When considering a temporary deviation from the Remuneration Policy, the Supervisory Board shall take into account Kendrion's long-term value creation strategy, ongoing business and operational requirements as well as the financial situation of Kendrion. In addition, the deviation considered should be assessed in light of the principles of reasonableness and fairness.

Upon having resolved a temporary deviation from the Remuneration Policy, the Supervisory Board will (i) cancel and withdraw all deviations from the Remuneration Policy prior to the first annual General Meeting of Shareholders following the effective date of the deviation; or (ii) propose the necessary amendments to the Remuneration Policy for adoption during the first annual General Meeting of Shareholders following the effective date of the deviation.

Deviations from the Remuneration Policy will be reported in Kendrion's remuneration policy.

The Supervisory Board did not decide upon a temporary deviation from the Remuneration Policy for the members of the Executive Board in 2020.

Remuneration components

The Remuneration Policy for members of the Executive Board consists of four components: a fixed base salary, a short-term variable remuneration, a long-term variable remuneration and other benefits such as a pension scheme and a car allowance or lease budget.

The sum of the fixed base salary, the short-term variable remuneration and the long-term variable remuneration for members of the Executive Board are considered appropriate in relation to: (i) the identity, the purpose and values of Kendrion, (ii) the pay-ratios within Kendrion, (iii) the international context in which Kendrion operates and (iv) views of relevant stakeholder groups.

The variable remuneration components are subject to a maximum value determined in advance in accordance with the Remuneration Policy. The Supervisory Board will carry out scenario analyses to assess that the pay-out level of variable remuneration components appropriately reflect performance.

Base salary

Members of the Executive Board receive a base salary, the amount of which is set at the median level relative to the abovementioned reference group*. The fixed base salary levels can be adjusted to be decided upon by the Supervisory Board, based on general market movement and inflation figures.

In addition to the above, any increase of the annual fixed base salary up to the median level relative to the abovementioned reference group, can be decided upon by the Supervisory Board and will not be regarded as an amendment to the Remuneration Policy.

In 2020, the annual fixed base salary of CFO Jeroen Hemmen remained below the relevant market median. As part of the annual performance review in January 2021, the Supervisory Board will – by reference to the recommendations of the HR Committee – consider whether an increase to the CFO's 2021 annual fixed base salary up to the median level relative to the abovementioned reference group is appropriate and justified.

Triggered by the COVID-19 pandemic, Kendrion has taken a range of measures to reduce costs and to protect its financial position and liquidity. These measures included a temporary salary reduction for the Executive Board. During the months April through July 2020 inclusive, a salary reduction of 15% has been applied to the base salary levels of the members of the Executive Board. Also due to the recovering revenue levels and positive profitability as from the end of Q2 2020, the temporary salary reduction was lowered from 15% to 10% in August 2020, and as of September through the remainder of 2020, no salary reduction applied. In 2020, the following annual base salary levels applied to the Executive Board:

	2020 annual gross base salary	2020 actual gross base salary (incl. temp. salary reduction)
CEO (J.A.J. van Beurden)	EUR 550,000	EUR 517,916.67
CFO (J.H. Hemmen)	EUR 270,250	EUR 254,485.41

The table below provides an overview of the development of the annual gross base salary levels of the members of the Executive Board during previous financial years.

	2020 annual gross base salary	2019 annual gross base salary	2018 annual gross base salary	2017 annual gross base salary	2016 annual gross base salary
CEO (J.A.J. van Beurden)	EUR 550,000	EUR 504,645[1] EUR 550,000[2]	EUR 490,900	EUR 474,300	EUR 465,000
Actual	EUR 517,916.67 (actual)	EUR 508,424.58 (actual)[3]			
CFO (J.H. Hemmen)	EUR 270,250	EUR 235,000[4]			
Actual	EUR 254,485.41 (actual)	EUR 117,500 (actual)			

1 Effective until 1 December 2019.
2 Effective as of 1 December 2019 (i.e. the commencement date of the CEO's second term).
3 The sum of EUR 462,591.25 (i.e. 11/12th of EUR 504,645) and EUR 45,833.33 (i.e. 1/12th of EUR 550,000).
4 Effective as of 1 July 2019 (i.e. the effective date of appointment to the Executive Board).

* On April 2019, the General Meeting of Shareholders reappointed J.A.J. van Beurden as CEO and member of the Executive Board for a four-year period commencing on 1 December 2019 and ending on 1 December 2023. The fixed annual gross base salary that has become effective as of 1 December 2019 amounts to EUR 550,000, which amount is not subject to indexation during the second four-year term. The reappointment resolution does not also encompass a change to the Executive Board Remuneration Policy as adopted by the General Meeting of Shareholders most recently in June 2020.

Short-term variable remuneration

The short-term is payable in cash, the amount of which is based on the achievement of predetermined, specific and measurable financial and non-financial driven performance criteria.

The overview below describes the key elements of the short-term variable remuneration as recorded in the Remuneration Policy for the Executive Board.

CEO	The short-term variable remuneration ranges from 0% to 60% of the annual fixed gross base salary of the CEO, with 40% being the target amount
CFO	The short-term variable remuneration ranges from 0% to 52.5% of the annual fixed gross base salary of the CFO, with 35% being the target amount

Please note that as part of the reappointment of Joep van Beurden as CEO for a second four-year term, the General Meeting of Shareholders resolved on 8 April 2019 that the short-term variable remuneration of Joep van Beurden ranges from 0% to 90% of the annual fixed gross base salary of Joep van Beurden, with 60% being the target amount. The reappointment resolution does not also encompass a change to the Executive Board Remuneration Policy (including the information in the table above) as adopted by the General Meeting of Shareholders in June 2020.

Performance criteria

The performance criteria for the short-term variable remuneration are based on Kendrion's strategic intent to continuously grow revenue and profitability in a sustainable way. The performance criteria for the short-term variable remuneration include financial and non-financial criteria. The financial driven performance criteria determine 60% of the short-term variable remuneration and reflect the financial priorities of Kendrion. The remaining 40% of the short-term variable remuneration is determined by non-financially driven performance criteria and reflect sustainability ambitions and other priorities directly linked to Kendrion's strategic intent.

Financial performance criteria

- The financial driven performance criteria determine 60% of the short-term variable remuneration.
- Each year the Supervisory Board selects at least three financial driven performance criteria from the list below with a view to incentivise delivery of financial priorities that support Kendrion's strategic and operational spearheads.
- The Supervisory Board may allocate different weight percentages to the different financial performance criteria it selects for a particular year, provided a minimum weight of 10% shall apply to a financial performance criterion.
- Financial performance criteria*
  - Net profit
  - Return on sales (ROS)
  - Average return on capital employed (ROIC)
  - Organic growth
  - Free cash flow
  - Revenue
  - EBITA
  - EBITDA
- The performance incentive zone (threshold, target and maximum) for each financial performance criterion will be determined in advance by the Supervisory Board. No pay-out will be made for below threshold performance. In the case of performance equal to the threshold performance of the relevant performance criterion, the pay-out of the short-term incentive will be equal to 50% of the relevant target amount. A linear curve will be applied to calculate the pay-out between threshold performance and maximum performance.

Non-financial performance criteria

- The non-financial performance criteria determine 40% of the short-term variable remuneration.
- Each year the Supervisory Board selects a certain number of non-financial performance criteria derived from the strategic and operational spearheads for the respective performance year, which will in any event include performance criteria in the area of sustainability (i.e. environmental, social and/or governance criteria).
- Achievement of each individual non-financial performance criterion will be measured by applying a binary scoring model. The amount of the pay-out for the achievement of non-financial performance criteria depends on the number of non-financial performance criteria achieved.
- A predefined step curve will be applied to calculate the pay-out between the achievement of the minimum threshold number of selected non-financial performance criteria and achievement of all selected non-financial performance criteria. No pay-out will be made for below threshold performance.

* In each case excluding exceptional or one-off cost and revenue items and the amortisation of intangibles arising on acquisitions or similar corporate events.

Investment
Members of the Executive Board have to invest at least 20% of the net amount of the pay-out of the short-term remuneration earned until the required ownership level has been reached as prescribed under Kendrion's 'Share ownership guideline' of the Remuneration Policy.

2020 short-term variable remuneration
Within the framework of the Executive Board Remuneration Policy, the Supervisory Board takes an informed decision relevant to the variable remuneration of the members of the Executive Board. For the determination of the financial and non-financial performance criteria of the 2020 short-term incentive, the Supervisory Board considered – amongst others – the 2020 focus items as previously defined by the Supervisory Board upon expiry of the financial year 2019; the volatile economic climate and trading environment especially for the automotive industry which has been confronted with a general market slowdown in 2018 and 2019; and the importance of long-term value creation through continued investments in key growth areas that are identified in the strategic as approved by the Supervisory Board. The 2020 focus items of the Supervisory Board included the integration of INTORQ and Industrial Drive Systems (IDS), the merger of Kendrion's business units Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) into one business unit Industrial Actuators and Controls, expansion of the organisation in China and the advancement of the Automotive Group project pipeline. The Supervisory Board reported on the progress made and the key points of attention relevant to the 2020 focus items in the Report of the Supervisory Board that can be found on pages 77-84 of this Annual Integrated Report.

For the 2020 short-term variable remuneration, the Supervisory Board followed the recommendations of the HR Committee and selected four financial performance criteria, a non-financial performance criterion in the area of sustainability and other non-financial performance criteria that are linked to the Supervisory Board's 2020 focus items and Kendrion's strategic plan and operational spearheads, including the key growth areas identified therein. All performance criteria have been set well before the COVID-19 pandemic started and have subsequently not been adjusted or changed. Although no distinction is made between the CEO and the CFO for the financial performance criteria, within the non-financial performance criteria the Supervisory Board decided to distinguish between the CEO and CFO to ensure appropriate alignment with individual responsibilities, without compromising the collective responsibility of the Executive Board.

The recommendations of the HR Committee regarding the selection of financial performance criteria and non-financial performance criteria for the 2020 short-term incentive were made prior to the outbreak of the COVID-19 pandemic. The Supervisory Board could not have foreseen the COVID-19 crisis and the impact thereof on Kendrion and the global economy. The actual performance against the performance criteria for the 2020 short-term incentive has been negatively influenced by the extraordinary circumstances caused by COVID-19 requiring the Executive Board to shift priorities. Focus on the health and safety of employees and their families, strict cost control measures to preserve the financial position and liquidity of Kendrion, and continued investment in the company's long-term ambitions took centre stage. As substantiated on pages 90 and 91 of this Remuneration Report, certain adjustments reduced the total amount of the pay-out under the 2020 short-term financial performance criteria by 15%.

The temporary base salary reduction of 15% for the months April through July 2020 inclusive and 10% for the month of August 2020, has been excluded for purposes of the 2020 short-term variable remuneration and has therefore been disregarded for the calculation of the pay-out levels under the 2020 short-term variable remuneration.

In 2020, the following short-term incentive target amounts applied to the members of the Executive Board:

	2020 short-term incentive target amount
CEO (J.A.J. van Beurden)	EUR 330,000 (i.e. 60% of the annual gross base salary of EUR 550,000)
CFO (J.H. Hemmen)	EUR 94,588 (i.e. 35% of the annual gross base salary of EUR 270,250)

For the performance year 2020, the short-term incentive performance criteria are allocated as follows:

Short-term remuneration as percentage of annual gross base salary in 2020

Performance criterion	Weight	Minimum		At target	Maximum
Financial performance criteria (60%)					
ROIC	15%	0	CEO	9%	13.5%
			CFO	5.25%	7.88%
ROS	15%	0	CEO	9%	13.5%
			CFO	5.25%	7.88%
EBITDA	10%	0	CEO	6%	9%
			CFO	3.5%	5.25%
Free cash flow	20%	0	CEO	12%	18%
			CFO	7%	10.5%
Non-financial performance criteria (40%)					
		0	CEO	24%	36%
			CFO	14%	21%
TOTAL	**100%**	**0**	**CEO**	**60%**	**90%**
			CFO	**35%**	**52.5%**

2020 short-term financial performance criteria
In 2020, the actual performance against the financial performance criteria was as follows:

2020 short-term incentive performance on financial performance criteria

Financial performance criterion	Pay-out as % of short-term incentive target amount	Pay-out as % of annual gross base salary (excl. temp. salary reduction)		Pay-out in EUR	
		CEO (J.A.J. van Beurden)	CFO (J.H. Hemmen)	CEO (J.A.J. van Beurden)	CFO (J.H. Hemmen)
ROIC	102%	9.2%	5.4%	EUR 50,600	EUR 14,594
ROS	114%	10.3%	6.0%	EUR 56,650	EUR 16,215
EBITDA	62%	3.7%	2.2%	EUR 20,350	EUR 5,945
Free cash flow	150%	18%	10.5%	EUR 99,000	EUR 28,376
TOTAL		**41.2%**	**24.1%**	**EUR 226,600**	**EUR 65,130**

For the assessment of the actual performance against the financial performance criteria for the 2020 short-term incentive, certain adjustments have been made in consideration of the extraordinary circumstances in 2020. These adjustments reduced the total amount of the pay-out under the 2020 short-term financial performance criteria by 15%. An impairment of capitalised development costs that has been normalised in the financial results is fully reflected in the calculation of the actual EBIT(D)A and invested capital for purposes of determining the actual performance against the financial performance criteria. In addition, actual free cash flow and invested capital have been adjusted for the amount by which previously budgeted cash investments in fixed assets exceeded actual cash investments to take account of the low capital expenditures in 2020 as it was decided early in 2020 to suspend all uncommitted and non-urgent capital expenditure as part of the strict cost control program that was implemented to reduce costs and protect Kendrion's financial position and liquidity in response to the COVID-19 crisis.

2020 short-term non-financial performance criteria
The non-financial performance criteria for the 2020 short-term incentive recognise the collective responsibility of the Executive Board as they are closely aligned to the Supervisory Board's 2020 focus items and Kendrion's strategic and operational spearheads. Nevertheless, without prejudicing the collective responsibility, the non-financial performance criteria also distinguish individual responsibilities of the members of the Executive Board. The table below provides a summarised description of the non-financial performance criteria.

Summarised description 2020 non-financial performance criteria

Executive Board	Industrial Brakes	Complete integration of INTORQ and Industrial Drive Systems (IDS) and establish single business unit Industrial Brakes with minimal disruption in all global sites
CEO	Industrial Actuators and Controls	Complete merger of the business units Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) into one new business unit Industrial Actuators and Controls
CEO	China	Expanding China organisation, with special focus on the local R&D organisation and the further professionalisation of the local purchasing organisation
Executive Board	Sustainability	Review effectiveness of 5-year energy and CO_2 plan, advance diversity and progress waste management
CFO	IT	Development of new IT strategic framework/plan
CFO	Risk management	Advance Risk Management Framework and improve related processes

Consistent with the Remuneration Policy, achievement of an individual non-financial performance criterion will be measured by applying a binary scoring model where a non-financial performance criterion can either be achieved or not achieved. The amount of the pay-out for the non-performance criteria depends on the number of non-financial performance criteria achieved. The following step curve is applicable for the 2020 non-financial performance criteria.

Number of non-financial performance criteria achieved	Short-term incentive pay-out % of target amount
All 4 non-financial performance criteria achieved	150%
3 out of the 4 non-financial performance criteria achieved	100%
2 out of the 4 non-financial performance criteria achieved	50%
1 out of the 4 non-financial performance criteria achieved	0%
0 out of the 4 non-financial performance criteria achieved	0%

Throughout the year, the Supervisory Board reviewed progress against the non-financial performance criteria and received detailed updates about relevant developments and actions taken. During the December 2020 Supervisory Board meeting, the Executive Board provided a comprehensive overview of the progress made and achievements realised under the 2020 strategic and operational spearheads. During the annual performance reviews, specific attention was paid to the individual performance and development of the members of the Executive Board against the non-financial performance criteria as well as key competencies such as (change) leadership and organisational alignment and strategic business orientation. Based on this comprehensive review of the performance of the members of the Executive Board, the Supervisory Board resolved that the CEO and the CFO each realised three out of the four non-financial performance criteria.

Progress on the China expansion and Risk Management Framework related non-financial performance criteria has been adversely impacted by the COVID-19 measures, including circumstances such as the inability to travel and to convene face-to-face meetings. Without taking the position that no progress was made relevant to these two non-financial performance criteria, the Supervisory Board considers that the accomplishments that have been realised in 2020 despite the COVID-19 restrictions, do not justify ‘achievement’ within the binary scoring model where a non-financial criterion can either be achieved or not achieved (i.e. no linear scoring applies).

The score on the non-financial performance criteria results in a pay-out of 100% of the short-term target amount representing: 24% of the CEO’s annual gross base salary of EUR 550,000 and 14% of the CFO’s annual gross base salary of EUR 270,250. This resulted in a pay-out of EUR 132,000 for the CEO and EUR 37,835 for the CFO.

2020 pay-out short term incentive

Overall performance resulted in the following pay-out of the short-term incentive in 2020:

	Total pay-out 2020 short-term incentive	Pay-out as % of annual gross base salary
CEO (J.A.J. van Beurden)	EUR 358,600 (gross)	65.2% of the gross annual base salary of EUR 550,000
CFO (J.H. Hemmen)	EUR 102,965 (gross)	38% of the gross annual base salary of EUR 270,250

The table below provides an overview of the development of the pay-out under the applicable short-term incentive scheme of the members of the Executive Board during previous financial years.

Short-term incentive	2019	2018[1]	2017[1]	2016[1]
CEO (J.A.J. van Beurden)	EUR 191,282.90 (gross)	EUR 117,816 (gross)	EUR 170,748 (gross) based on 90% achievement of 2017 performance criteria, representing 36% of gross annual base salary (i.e. 36% of EUR 474,300), one-third paid in cash and two-thirds awarded conditionally in shares.	EUR 180,420 (gross) based on 97% achievement of 2016 performance criteria, representing 38.80% of the gross annual base salary (i.e. 38.80% of EUR 465,000), one-third paid in cash and two-thirds awarded conditionally in shares.
CFO (J.H. Hemmen)	EUR 37,012.50 (gross)	Not applicable – effective date of appointment to the Executive Board 1 July 2019.		

[1] The short-term incentive scheme for the years 2015, 2016 and 2017 is subject to the terms of the remuneration policy applicable immediately prior to the Executive Board Remuneration Policy that was adopted in April 2018. The 2018 short-term incentive is subject to the Executive Board Remuneration Policy adopted in April 2018.

Long-term variable remuneration

The long-term variable remuneration component incentivises members of the Executive Board to focus on long-term sustainable value for shareholders and other stakeholders; it thereby serves to align the interests of the members of the Executive Board with the long-term interests of shareholders and other stakeholder groups.

The members of the Executive Board annually receive conditional performance shares. The conditional performance shares will vest upon achievement of performance measured over a period of three years following the grant date and are restricted by a holding period for another two years after vesting.

The size of the award is defined as a percentage of the annual fixed gross base salary of the relevant Executive Board member as per the grant date, where the actual grant is determined by this percentage and the average share price of the last quarter of the year immediately preceding the year of the grant date.

The target value at grant date is as follows:

CEO	55% of the annual fixed gross base salary of the CEO as per the grant date
CFO	50% of the annual fixed gross base salary of the CFO as per the grant date

The maximum opportunity for the long-term variable remuneration shall not exceed 150% of the target value.

Please note that as part of the reappointment of Joep van Beurden as CEO for a second four-year term, the General Meeting of Shareholders resolved on 8 April 2019 that the long-term variable remuneration of Joep van Beurden ranges from 0% to 90% of the annual fixed gross base salary of Joep van Beurden, with 60% being the target amount. The reappointment resolution does not also encompass a change to the Executive Board Remuneration Policy (including the information in the table above) as adopted by the General Meeting of Shareholders in June 2020.

Performance measure

In order to support Kendrion's strategic intent, the vesting percentage of the performance shares is conditional upon the achievement of performance measured as:

Weight	Performance measure
40%	Relative total shareholder return (relative TSR)
40%	Basic earnings per share (EPS)
20%	Sustainability (i.e. environmental, social and/or governance)

Relative TSR

To determine achievement of this performance measure, the relative TSR is measured, which means share price movements, including dividends and assuming dividends are reinvested. The TSR performance of Kendrion is measured against the performance of twelve selected TSR peer companies included in the table below.

TSR Performance Peer Group

#	Company	Activity	HQ	Listed
1.	Schneider Electric SE	Energy management / automation	FR	Paris
2.	Eaton Corporation plc	Actuators, valves, brakes, hydraulics etc. for industrial and automotive	IR	New York
3.	Sensata Technologies Holding NV	Sensors and controls for automotive, commercial vehicles and industrial	US	New York
4.	Aalberts Industries NV	Industrial fragmented	NL	Amsterdam
5.	Emerson Electric Co	Industrial automation	US	New York
6.	Continental AG	Automotive	GE	Frankfurt
7.	Schaeffler AG	Automotive	GE	Frankfurt
8.	TKH Group NV	Industrial	NL	Amsterdam
9.	Wabco Holdings Inc	Commercial vehicles part supplier	BE	New York
10.	Borg Warner Inc	Automotive, commercial vehicles	US	New York
11.	SKF AB	Bearings, seals, mechanical transmission	SW	Stockholm
12.	Phoenix Mecano AG	Electronic components, actuators	CH	Zurich
13.*	Grammer AG	Seating automotive commercial vehicles	GE	Frankfurt
14.*	Regal Beloit	Electric motors	FR	Paris
15.*	IMI Plc	Fluid control	UK	London

* Companies 13, 14 and 15 will be used as replacement companies in the case of delisting or other corporate events in respect of any of the selected TSR peer companies during the relevant performance period.

The position of Kendrion in the TSR performance peer group, after three years, determines the score for this measure in accordance with the following performance incentive zone:

Ranking	13	12	11	10	9	8	7	6	5	4	3	2	1
Vesting	0%	0%	0%	0%	0%	50%	75%	100%	100%	125%	150%	150%	150%

The position of Kendrion in the ranking defines the vesting for this part of the conditional grant of shares.

EPS

EPS is disclosed in Kendrion's consolidated financial statements and is calculated by dividing the profit or loss attributable to shareholders of Kendrion by the weighted average number of shares outstanding during the relevant period, excluding ordinary shares purchased by Kendrion and held as treasury shares. Earnings are adjusted for changes in accounting principles during the performance period. The Supervisory Board sets the performance incentive zone (threshold, target and maximum) annually by reference to the mid-term plan as approved by the Supervisory Board in the year of the grant date. Given that these targets are considered commercially sensitive, EPS targets and the achieved performance are disclosed in the Annual Integrated Report after the relevant performance period.

The following performance incentive zone will be used to define the vesting for this part of the conditional grant of shares:

	< Threshold	Target	Maximum
EPS	0	100%	150%

The vesting is linear between threshold performance and on target performance and between on-target performance and maximum performance.

Sustainability

The Supervisory Board will annually set a sustainability target that is aligned with Kendrion's sustainability ambitions as reflected in the sustainability target framework.
The following performance incentive zone will be used to define the vesting for this part of the conditional grant of shares:

	< Threshold	Target	Maximum
Sustainability	0	100%	150%

The vesting is linear between threshold performance and on target performance and between on-target performance and maximum performance.

2020 long-term variable remuneration
Consistent with the applicable Remuneration Policy as adopted by the General Meeting Shareholders, the members of the Executive Board were granted conditional performance shares as described in the table below.

	2020 annual gross base salary	Target amount	Average share price Q4 2019	Conditional performance shares	Expiry vesting period	Expiry holding period
CEO (J.A.J. van Beurden)	EUR 550,000	EUR 330,000 (i.e. 60% of EUR 550,000)	EUR 19.96	16,533	Expiry performance period 2020-2022	End of 2024
CFO (J.H. Hemmen)	EUR 270,250	EUR 135,125 (i.e. 50% of EUR 270,250)	EUR 19.96	6,769	Expiry performance period 2020-2022	End of 2024

The temporary base salary reduction of 15% for the months April through July 2020 inclusive and 10% for the month of August 2020, has been excluded for purposes of the 2020 long-term variable remuneration and has therefore been disregarded for the calculation of the number of conditional performance shares awarded under the 2020 long-term variable remuneration.

In accordance with the applicable Remuneration Policy, the vesting percentage of the performance shares is conditional upon the achievement of performance measured as relative TSR, EPS and a non-financial measure in the area of sustainability. The sustainability performance criterion for the 2020 long-term incentive is related to the achievement of the energy efficiency and CO_2 reduction targets as per the 2019-2023 target framework and the implementation of the related measures.

2018 long-term variable remuneration
Pursuant to the 2018 long-term incentive scheme, 6,960 conditional performance shares have been granted to Joep van Beurden. The number of conditional performance shares has been calculated as follows:

	2018 annual gross base salary	Target amount	Average share price Q4 2017	Conditional performance shares
CEO (J.A.J. van Beurden)	EUR 490,900	EUR 196,360 (i.e. 40% of EUR 490,900)	EUR 38.79	6,960

Consistent with the applicable Remuneration Policy, the vesting percentage of the performance shares is conditional upon the achievement (during the performance period 2018-2020) of performance measured as:

Weight	Performance measure
40%	Relative total shareholder return (relative TSR)
40%	Basic earnings per share (EPS)
20%	Sustainability (i.e. environmental, social and/or governance)

A summary description of the performance measure in the area of sustainability for the performance period 2018-2020 has been included in the table below.

Summary description Sustainability performance measure – 2018-2020

Relative reduction energy consumption (10%)	■ On target performance (i.e. 100% vesting): 10% relative reduction of energy consumption compared to 2017 ■ Max. performance (i.e. 150% vesting): 12.5% relative reduction of energy consumption compared to 2017 ■ Min. threshold performance (i.e. 0% vesting): 7.5% relative reduction of energy consumption compared to 2017
Global company culture campaign focussed on the endorsement of a performance driven culture and an innovative culture (10%)	■ On target performance (i.e. 100% vesting) ■ Max. performance (i.e. 150% vesting) ■ Min. threshold performance (i.e. 0% vesting)

Vesting is linear between min. threshold performance and on-target performance and between on-target performance and max. performance.

When measuring the relative TSR (i.e. share price movements, including dividends assuming dividends are reinvested), the position of Kendrion in the predefined TSR performance peer group is twelve. The twelfth position results in below threshold performance. Based on the EPS performance incentive zones determined by the Supervisory Board by reference to the mid-term plan presented in 2018, the 2020 EPS falls below the threshold performance. Despite the investments contributing to energy efficiencies and the implementation of measures reducing energy consumption, the relative reduction of energy consumption compared to 2017 falls below threshold performance due to the reduced revenue levels.

With the successful roll-out of the global inter-company campaign of The Kendrion Way and the additional initiatives that have been developed and executed to further embed the behavioural values of The Kendrion Way into the organisation, the introduction of a Kendrion-wide employee satisfaction and culture survey global employee as well as the improvement of learning and development programs and tools, Kendrion achieved maximum performance on the performance measure 'global company culture campaign' performance measure. As a result, under the 2018 long-term incentive scheme a total number of 1,044 shares have vested, which shares remain subject to a holding period until the end of 2022. In accordance with the long-term incentive plan, Joep van Beurden will be entitled to accrued dividend for each of the 1,044 vested shares. Accrued dividend will – in accordance with the long-term incentive plan – be paid in cash.

Settlement prior employee bonus scheme

Upon the appointment of Jeroen Hemmen as CFO and member of the Executive Board effective as of 1 July 2019, his employment agreement with Kendrion N.V. was terminated pursuant to that certain settlement agreement. Pursuant to said settlement agreement, the termination of the employment agreement did not terminate or cancel any rights and obligations accrued to Jeroen Hemmen pursuant to the share-based incentive plans for employees as maintained by Kendrion N.V. With his 2017 annual bonus amount, Jeroen Hemmen purchased 135 shares. In accordance with the share-based incentive plan for employees, the prior purchase of 135 shares will be matched (a matching ratio of 1:1), provided Jeroen Hemmen is still employed by Kendrion as at 31 December 2020. Due to compliance with the condition of the share-based incentive plan for employees, Jeroen Hemmen will be awarded 135 (net) shares under the share-based incentive plan for employees. The shares awarded are subject to a holding period of two years.

Development long-term incentive

The table below provides an overview of the development of the conditional share awards under the long-term incentive scheme for the members of the Executive Board during previous financial years. The table also specifies the expiry of vesting periods and holding periods for conditional shares awarded.

Long-term incentive	2019 number of shares	Expiry vesting period	Expiry holding period	2018 number of shares	Expiry vesting period	Expiry holding period	2017 number of shares*	Expiry vesting period	Expiry holding period	2016 number of shares*	Expiry vesting period	Expiry holding period
CEO (J.A.J. van Beurden)	11,559	End of 2021	End of 2023	6,960	End of 2020	End of 2022	3,383	End of 2019	End of 2021	3,970	End of 2018	End of 2020
CFO (J.H. Hemmen)	2,409	End of 2021	End 2023	Not applicable – effective date of appointment to the Executive Board 1 July 2019								

* The long-term incentive scheme for the years 2016 and 2017 is subject to the terms of the remuneration policy applicable immediately prior to the Executive Board Remuneration Policy that was adopted in April 2018.

Agreed upon procedures Deloitte Accountants B.V.

Kendrion's external auditor Deloitte Accountants B.V. performed agreed-upon procedures regarding the calculation of the fixed base salary and the variable remuneration of the Executive Board for the financial year ending 31 December 2020. The procedures have been separately agreed upon between Kendrion and Deloitte Accountants B.V. and do not constitute an audit or review, or any other assurance engagement conducted in accordance with the Dutch Standards on Auditing or other Dutch Standards and, consequently, no assurance has been provided by Deloitte Accountants B.V. This means that Deloitte Accountants B.V. has not provided any assurance as to the fair presentation of the financial data and notes thereto as included in the fixed base salary and the variable remuneration of the Executive Board. The agreed upon procedures have been agreed with the intended users, being the Supervisory Board.

Pension arrangement and other benefits

Members of the Executive Board participate in the defined contribution pension scheme. Kendrion N.V. will pay: (i) the cost of contributions for participation in the defined contribution scheme; (ii) the risk premium for the surviving dependents' pension (nabestaandenpensioen) and (iii) the cost of contributions for participation in the occupational disability insurance (including WIA excedentverzekering) (collectively the "Pension and Disability Insurance Contribution"). In addition, members of the Executive Board are entitled to an annual gross allowance to compensate for the loss of accrual of pension benefits as a result of the Dutch Wage Tax Act, provided that the sum of the Pension and Disability Insurance Contribution and such annual allowance shall annually not exceed an amount of EUR 75,000. This amount may be adjusted based on market developments.

No schemes have been agreed for the voluntary early retirement of members of the Executive Board.

Kendrion maintains a car lease policy for members of the Executive Board. The lease budget (including fuel) is EUR 2,000 per month. Alternatively, members of the Executive Board are entitled to a monthly gross car allowance of EUR 2,000.

In addition, Kendrion pays a monthly expense allowance to members of the Executive Board of up to EUR 450, to cover costs that are not suitable for individual reimbursement.

The amount of the car allowance and the expense allowance are not included as a basis for calculation of the Pension and Disability Insurance Contribution, or any other (variable) remuneration or allowance, severance amount or benefit.

Kendrion has arranged for a directors' and officers' liability insurance. The costs for this insurance are for the account of Kendrion.

The Executive Board participates in the defined contribution plan of Kendrion. The pension contribution in 2020 was EUR 52,585.96 (2019: EUR 31,238) for the CEO and EUR 34,046.17 (2019: EUR 12,664) for the CFO. In 2020 Kendrion provided the CFO with a car allowance in the monthly gross amount of EUR 2,000.

Share ownership guideline

An objective of the Remuneration Policy is increase alignment with the interests of shareholders by encouraging share ownership. Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual fixed gross base salary for the CEO and 50% of the annual fixed gross base salary for the CFO. This shareholding has to be gradually built up with performance shares earned under the long-term incentive, although it is permitted to sell shares to finance taxes due at the date of vesting of the performance shares, and by purchasing shares with at least 20% of the net amount of the pay-out of the short-term incentive.

Policy in case of change of control

Unvested performance shares awarded shall be deemed vested as per the date of the change of control assuming on target performance, subject to: (i) pro rating to reflect the proportion of the normal performance period that has elapsed as per the date of the change of control, and (ii) the discretionary authority of the Supervisory Board to determine otherwise, should such deemed vesting of performance shares result in unreasonable or unequitable remuneration.

Adjustment and claw back

The Supervisory Board is authorised to adjust the amount of the short-term and long-term variable remuneration to an appropriate level should payment thereof result in unreasonable or unequitable remuneration. In addition, a so-called claw-back provision applies pursuant to which the Supervisory Board has the authority to recover in whole or in part short-term and long-term variable remuneration awarded to members of the Executive Board should it transpire that such variable remuneration was unjustifiably awarded on the basis of incorrect information.

Other key elements

Term and termination
Management agreements with members of the Executive Board are entered for a definite period of four years. The management agreement may be terminated with due observance of a notice period of six months. Kendrion is entitled to terminate the management agreement with immediate effect for cause (i.e. seriously culpable or negligent behaviour on the part of the Executive Board member).

Termination fee
In the event of termination of the management agreement on Kendrion's initiative, the termination fee for members of the Executive Board shall not exceed 100% of the annual fixed gross base salary (i.e. excluding short-term and long-term incentive and other elements such as pension contributions). The members of the Executive Board are not entitled to a termination fee if the contract is terminated for cause (i.e. seriously culpable or negligent behaviour on the part of the Executive Board member) or if the contract is terminated at the initiative of the Executive Board member.

Pay ratio

The Executive Board to employee pay ratio is approximately 18 (2019: 14). This pay ratio is based on the average of the 2020 Executive Board remuneration including pensions and other expenses and the average wage costs per FTE in 2020 as disclosed on page 57 of this Annual Integrated Report.

Advisory vote remuneration report 2019

The remuneration report 2019 has been discussed with the shareholders and put to the General Meeting of Shareholders for an advisory vote during the annual General Meeting of Shareholders held on 24 June 2020. The General Meeting of Shareholders accordingly resolved to approve the remuneration report 2019. The voting results of the General Meeting of Shareholders held on 24 June 2020 can be found on the corporate website at https://kendrion.com. This 2020 Remuneration Report will be discussed with shareholders and put to the General Meeting of Shareholders for an advisory vote during the upcoming annual General Meeting of Shareholders to be held on 12 April 2021.

Remuneration Policy Supervisory Board

Objectives
The remuneration policy of the Supervisory Board serves to recruit and retain diverse, qualified and experienced members to supervise the manner in which the Executive Board implements Kendrion's long-term value creation strategy. Considering the nature of the supervisory responsibilities of the Supervisory Board, the remuneration is not linked to Kendrion's performance, and therefore includes a fixed component only. In line with good corporate governance, Supervisory Board members will not receive a share-based incentive.

The remuneration of the Supervisory Board shall be as described in the table below. The base fee and committee fee levels in the table below are the same as determined by the General Meeting in April 2017.

Base fee		
Chairman Supervisory Board	EUR	45,000
Member Supervisory Board	EUR	35,000
Committee fee		
Chair Audit Committee	EUR	6,000
Member Audit Committee	EUR	5,000
Chair HR Committee	EUR	6,000
Member HR Committee	EUR	5,000

Expenses

All reasonable and documented expenses incurred by the Supervisory Board members in the course of performing their duties are reimbursed.

Benefits and loans

Members of the Supervisory Board are not eligible to participate in any benefits scheme offered by Kendrion to its employees, nor shall Kendrion provide loans.

Triggered by the COVID-19 pandemic, Kendrion has taken a range of measures to reduce costs and to protect its financial position and liquidity in 2020. These measures included a temporary salary reduction for the Supervisory Board. During the months April through July 2020 inclusive, a salary reduction of 15% has been applied to the base fee and committee levels of the members of the Supervisory Board. The temporary salary reduction was lowered from 15% to 10% in August 2020, and as of September through the remainder of 2020, no salary reduction applied.

The aggregate amount of the remuneration of the Supervisory Board members in 2020 EUR 170,470 (2019: EUR 172,000). The table below gives a breakdown of the remuneration in 2020 per Supervisory Board member.

Supervisory Board member		2020
H. ten Hove	EUR	47,087
M.J.G. Mestrom	EUR	38,608
J.T.M. van der Meijs	EUR	38,608
E.M. Doll (appointed June 2020)	EUR	27,666
T.J. Wünsche (stepped down April 2020)	EUR	18,500
Total	**EUR**	**170,470**

Executive Board remuneration comparative[1]

EUR Thousand	2020	2019	2018	2017	2016	2015	2014
J.A.J. van Beurden, CEO	984.2	853.5[2]	768.4[2]	737.8	645.4	38.8	
J.H. Hemmen, CFO	450.4	189.4					
Remuneration of former Executive Board members							
P. Veenema, CEO						734.6	668.7
F.J. Sonnemans, CFO			689.0	662.6	533.3	459.5	525.6
Pay ratio	18	14	12	13	13	14	13
Company performance							
Revenue (EUR million)	396.4	412.4	448.6	461.8	443.4	442.1	428.9
Normalised EBITA (EUR million)[3]	18.9	19.8	35.4	37.5	31.1	25.8	32.9
Normalised EBITA margin	4.8%	4.8%	7.9%	8.1%	7.0%	5.8%	7.7%

1 Based on settled short-term and long-term benefits, refer to note 29 of the financial statements for detailed disclosure.

2 Restated to include 2016 long-term incentive.

3 2019 restated for restrospective correction of inventory. The effect of the restatement can be found on pages 107 and 108 of the financial statements.

Supervisory Board remuneration comparative

	2020 (exl. fee reduction)	2019	2018	2017	2016	2015
Base fee						
Chairman Supervisory Board	EUR 45,000	EUR 45,000	EUR 45,000	EUR 40,000	EUR 40,000	EUR 40,000
Member Supervisory Board	EUR 35,000	EUR 35,000	EUR 35,000	EUR 30,000	EUR 30,000	EUR 30,000
Committee fee						
Chair Committee	EUR 6,000	EUR 6,000	EUR 6,000	EUR 5,000	EUR 5,000	EUR 5,000
Member Committee	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000
Total Supervisory Board remuneration	EUR 172,000	EUR 172,000	EUR 186,000	EUR 153,000	EUR 150,000	EUR 150,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Note	EUR million	2020	2019 [1]
	Assets		
	Non-current assets		
1	Property, plant and equipment	118.7	111.4
2	Intangible assets	158.1	115.5
3	Other investments, including derivatives	3.0	2.7
4	Deferred tax assets	19.2	14.5
5	Contract costs	0.6	0.7
	Total non-current assets	**299.6**	**244.8**
	Current assets		
6	Inventories	61.7	55.4
	Current tax assets	1.4	2.7
7	Trade and other receivables	53.4	47.1
8	Cash and cash equivalents	13.0	7.1
	Total current assets	**129.5**	**112.3**
	Total assets	**429.1**	**357.1**

Note	EUR million	2020	2019 [1]
	Equity and liabilities		
9, 10	**Equity**		
	Share capital	29.9	29.9
	Share premium	51.7	51.7
	Reserves	117.5	112.7
	Retained earnings	4.3	8.3
	Total equity	**203.4**	**202.6**
	Liabilities		
11	Loans and borrowings	104.2	48.9
12	Employee benefits	15.5	19.8
4	Deferred tax liabilities	15.9	10.6
14	Provisions	0.7	–
	Total non-current liabilities	**136.3**	**79.3**
8	Bank overdraft	4.5	2.5
11	Loans and borrowings	7.5	3.1
14	Provisions	1.5	1.4
	Current tax liabilities	5.2	2.6
15	Contract liabilities	5.5	6.6
16	Trade and other payables	65.2	59.0
	Total current liabilities	**89.4**	**75.2**
	Total liabilities	**225.7**	**154.5**
	Total equity and liabilities	**429.1**	**357.1**

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Note	EUR million	2020	2019[1]
21	Revenue	396.4	412.4
23	Other income	0.3	–
	Total revenue and other income	**396.7**	**412.4**
	Changes in inventories of finished goods and work in progress	2.5	4.4
	Raw materials and subcontracted work	203.2	214.6
24	Staff costs	119.5	124.6
	Depreciation and amortisation	30.1	26.2
25	Other operating expenses	31.3	30.7
	Result before net finance costs	**10.1**	**11.9**
26	Finance income	0.0	2.2
26	Finance expense	(4.1)	(2.8)
	Share profit or loss of an associate	(0.3)	(0.3)
	Profit before income tax	**5.7**	**11.0**
27, 28	Income tax expense	(1.4)	(2.7)
	Profit for the period	**4.3**	**8.3**

Note	EUR million	2020	2019[1]
	Other comprehensive income		
	Remeasurements of defined benefit plans[2]	1.6	(1.3)
	Foreign currency translation differences for foreign operations[3]	(5.5)	(0.8)
	Net change in fair value of cash flow hedges, net of income tax[3]	0.2	0.3
	Other comprehensive income for the period, net of income tax	**(3.7)**	**(1.8)**
	Total comprehensive income for the period[4]	**0.6**	**6.5**
10	Basic earnings per share (EUR), based on weighted average	0.29	0.61
10	Basic earnings per share (EUR), based on weighted average (diluted)	0.29	0.61

1 Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.
2 This item will never be reclassified to profit or loss.
3 These items may be reclassified to profit or loss.
4 All profits are attributable to owners of the company as non-controlling interest are not applicable.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2019	**27.1**	**39.8**	**6.1**	**(0.4)**	**(6.6)**	**102.3**	**13.8**	**182.1**
	Restatement prior period[1]	–	–	–	–	–	(1.3)	–	(1.3)
	Restated balance at 1 January 2019	**27.1**	**39.8**	**6.1**	**(0.4)**	**(6.6)**	**101.0**	**13.8**	**180.8**
	Total comprehensive income for the period								
	Profit or loss	–	–	–	–	–	–	8.3	8.3
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	(1.3)	–	(1.3)
	Foreign currency translation differences for foreign operations	–	–	(0.8)	–	–	–	–	(0.8)
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.3	–	–	–	0.3
	Other comprehensive income for the period, net of income tax	–	–	(0.8)	0.3	–	(1.3)	–	(1.8)
	Total comprehensive income for the period	**–**	**–**	**(0.8)**	**0.3**	**–**	**(1.3)**	**8.3**	**6.5**
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	2.7	23.6	–	–	4.2	–	–	30.5
	Own shares sold	–	–	–	–	5.9	(2.3)	–	3.6
	Own shares repurchased	–	–	–	–	(7.2)	–	–	(7.2)
	Share-based payment transactions	0.1	0.0	–	–	–	0.0	–	0.1
9	Dividends to equity holders	–	(11.7)	–	–	–	–	–	(11.7)
9	Appropriation of retained earnings	–	–	–	–	–	13.8	(13.8)	–
	Balance at 31 December 2019	**29.9**	**51.7**	**5.3**	**(0.1)**	**(3.7)**	**111.2**	**8.3**	**202.6**

[1] 2019 figures restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2020	**29.9**	**51.7**	**5.3**	**(0.1)**	**(3.7)**	**111.2**	**8.3**	**202.6**
	Total comprehensive income for the period								
	Profit or loss	–	–	–	–	–	–	4.3	4.3
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	1.6	–	1.6
	Foreign currency translation differences for foreign operations	–	–	(5.5)	–	–	–	–	(5.5)
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.2	–	–	–	0.2
	Other comprehensive income for the period, net of income tax	–	–	(5.5)	0.2	–	1.6	–	(3.7)
	Total comprehensive income for the period	**–**	**–**	**(5.5)**	**0.2**	**–**	**1.6**	**4.3**	**0.6**
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	–	–	–	–	–	–	–	–
	Own shares sold	–	–	–	–	–	–	–	–
	Own shares repurchased	–	–	–	–	–	–	–	–
	Share-based payment transactions	–	–	–	–	0.3	(0.1)	–	0.2
9	Dividends to equity holders	–	–	–	–	–	–	–	–
9	Appropriation of retained earnings	–	–	–	–	–	8.3	(8.3)	–
	Balance at 31 December 2020	**29.9**	**51.7**	**(0.2)**	**0.1**	**(3.4)**	**121.0**	**4.3**	**203.4**

Note	EUR million	2020	2019
	Cash flows from operating activities		
	Profit for the period	4.3	7.9
	Adjustments for:		
26	Net finance costs	4.1	0.6
	Share profit or loss of an associate	0.3	0.3
	Income tax expense	1.4	2.7
1,2	Depreciation of property, plant and equipment and software	25.7	24.0
2	Amortisation of other intangible assets	4.4	2.2
1,2	Impairment of fixed assets	2.4	0.0
	Share-based payments	0.0	0.0
		42.6	37.7
	Change in trade and other receivables	(0.2)	7.4
	Change in inventories	6.9	7.3
	Change in trade and other payables	(0.2)	(0.1)
	Change in provisions	(2.0)	(1.6)
	Change in contract liabilities	(1.1)	(1.6)
		46.0	49.1
	Interest paid	(2.9)	(2.2)
	Interest received	0.0	0.1
	Tax paid	(1.3)	(6.1)
	Net cash flows from operating activities	**41.8**	**40.9**

Note	EUR million	2020	2019
	Cash flows from investing activities		
3	Acquisition of subsidiaries	(77.7)	–
1	Investments in property, plant and equipment	(12.9)	(15.5)
1	Disinvestments of property, plant and equipment	0.4	0.4
2	Investments in intangible fixed assets	(3.1)	(4.5)
2	Disinvestments of intangible fixed assets	0.0	0.1
	(Dis)investments of other investments	(0.9)	(0.4)
	Net cash from investing activities	**(94.2)**	**(19.9)**
	Free cash flow	**(52.4)**	**21.0**
	Cash flows from financing activities		
11	Payment of lease liabilities	(2.9)	(2.5)
11	Proceeds from borrowings (non current)	59.4	–
11	Repayment of borrowings (non current)	–	(30.2)
11	Proceeds from borrowings (current)	0.2	0.2
9	Proceeds from the issue of share capital	–	30.5
9	Own shares bought	–	(7.2)
	Dividends paid	–	(8.1)
	Net cash from financing activities	**56.7**	**(17.3)**
	Change in cash and cash equivalents	4.3	3.7
	Cash and cash equivalents at 1 January	4.6	0.9
	Effect of exchange rate fluctuations on cash held	(0.4)	0.0
8	Cash and cash equivalents at 31 December	**8.5**	**4.6**

Reporting entity

Kendrion N.V. (the 'Company') is domiciled in the Netherlands. The Company's registered office is at Herikerbergweg 213, 1101 CN Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2020 comprise the Company and its subsidiaries (together also referred to as the 'Group'). The Group is involved in the design, manufacture and sale of high-quality electromagnetic systems and components.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements as of 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards published by the International Accounting Standards Board (IASB) as adopted by the European Union (hereinafter referred to as EU-IFRS). The Company financial statements are integrated part of the 2020 financial statements of Kendrion N.V.

The financial statements were authorised for issue by the Executive Board on 18 February 2021.

(b) Basis of measurement

The financial statements are presented in millions of euros, the euro also being the Group's functional currency.

The financial statements have been prepared on a historical cost basis except that:

- derivative financial instruments are stated at fair value;
- liabilities arising from cash-settled share-based payments arrangements are stated at fair value;
- the defined benefit liability is recognised as net total of plan assets and present value of the defined benefit obligations;
- the contingent consideration is stated at fair value.

The methods used to measure the fair values are disclosed in note q.

In preparing these consolidated financial statements, the Executive Board has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Executive Board made critical judgements in the process of applying Group's accounting policies and have the most significant effect on the amounts recognised in the consolidated financial statements, see notes:

- note 2 – goodwill impairment testing;
- note 12 – measurement of defined benefit obligations.

Executive Board made estimations concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- note 2 – management forecast and growth rate of each cash-generating unit to determine whether goodwill is impaired;
- note 4 – utilisation of tax losses;
- note 4 – outcome of tax audits;
- note 6 – valuation of inventories;
- note 12 – salary and pension growth of defined benefit obligations;
- note 14 – provisions;
- Note 18 – leases.

Reference is made to those notes for steps taken by the Executive Board to make judgements, estimates and assumptions.

Correction of misstatements

IFRS 10 B86 required entities to eliminate full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group. Profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets are to be eliminated in full. ‘During 2020, the Group discovered that the profit on inventory transactions between group companies had not been properly eliminated. As such the Inventory (Consolidated Statement of Financial Position) was overstated, as were the Changes in Inventories (Consolidated Statement of Comprehensive Income). As a result, the Profit for the period was understated. The Group voluntary opted to restate the 2019 figures retrospectively. This has been corrected by restating each of the affected financial statement lines items for prior periods. The following table summarise the impacts on the Group’s consolidated financial statements:

	31-12-2019	31-12-2019	01-01-2019	01-01-2019
	Restated		Restated	
Consolidated Statement of Financial Position at 31 December				
Inventory	55.4	56.3	62.2	63.5
Total assets	**357.1**	**358.0**	**374.0**	**375.3**
Reserves	112.7	114.0	100.1	101.4
Retained earnings	8.3	7.9	13.8	13.8
Total equity and liabilities	**357.1**	**358.0**	**374.0**	**375.3**

	31-12-2019 Restated	31-12-2019
Consolidated Statement of Profit and Loss and Other Comprehensive Income		
Change in inventories of finished goods and work in progress	4.4	4.8
Income tax expense	(2.7)	(2.7)
Profit for the period	**8.3**	**7.9**
Total comprehensive income for the period	6.5	6.1
Basic earnings per share (EUR), based on weighted average	0.61	0.59
Basic earnings per share (EUR), based on weighted average (diluted)	0.61	0.59

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by the entities within the Group.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group. Control refers to the authority to govern the financial and operating policies of an entity to obtain benefits from its activities. When assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is realised in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

If the excess is negative, a bargain purchase gain is recognised immediately in comprehensive income (hereafter also referred to as 'profit or loss'). The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.
Transactions costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquirees employees (acquirees awards) and relate to past services, then all or part of the amount of the acquirer's replacement awards is included when measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards as compared to the market-based value of the acquirees awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences, until the date that control ceases. The shares of third parties in shareholders' equity and results are stated separately. The accounting policies of subsidiaries are changed, where necessary, to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Intragroup balances and transactions, as well as any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated when preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions expressed in non-euro zone currencies are translated into euros at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in non-euro zone currencies at the reporting date are translated into euros at the exchange rate at that date.
Non-monetary assets and liabilities denominated in non-euro zone currencies that are measured at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in non-euro zone currencies that are measured at fair value are translated in euros at the exchange rates when the fair value was determined. Currency differences on foreign currency transactions are recognised in profit or loss, except loans considered to be part of the net investment, or qualifying cash flow hedges to the extent the hedges are effective.

(ii) Translation of foreign currency financial statements

Translation of foreign currency financial statements depends on the functional currency of the company concerned. The closing rate method is applied if the functional currency of the company is other than the euro. With this method, assets and liabilities of non-euro zone operations, including goodwill and fair value adjustments arising at the time of acquisition, are translated into euros at exchange rates at the reporting date.
The income and expenses of non-euro zone operations are translated into euros at rates approximating the exchange rates at the date of the transaction. Foreign currency translation differences are recognised in other comprehensive income and accumulated in the translation reserve, which is a component of equity.

On the partial or complete sale of a foreign operation, the related amount is transferred from the translation reserve to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a non-euro zone operation, of which the settlement is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a non-euro zone operation and are recognised directly in equity, in the translation reserve.

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost or assumed cost less accumulated depreciation and accumulated impairment losses (see accounting policy g). The cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and reinstating the site on which they are located, a reasonable proportion of production overheads, and capitalised borrowing costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Lease

The Group has applied IFRS 16 using the modified retrospective approach in the financial statements 2018. Therefore, the below policies are applicable from 1 January 2018, except when stated differently.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified assets for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into on or after 1 January 2018.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone process. However, the Group elects not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease component as a single lease component for only the following class of underlying asset: plant and equipment and other fixed assets.

If individual leases have similar characteristics (e.g. vehicles leased in one location from one lessor) the Group may apply the portfolio application as a practical expedient.

The Group shall combine two or more contracts entered into at or near the same time with the same counterparty, and account for the contracts as a single contract if one or more of the following criteria are met:

- The contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together; or
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- The rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprise the initial amount of the lease liability adjusted for any lease payments made at or before the commencement data, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same bases as those of owned assets. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease liability might include:

- Fixed lease payments;
- Amounts expected to be payable under a residual value guarantee;
- Exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or in the Group's assessment of exercising a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

When there is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease, this is a lease modification and can result in a separate lease or a change in an existing lease.

If a lease modification qualifies as a change in the accounting for the existing lease then the Group shall remeasure the lease liability based on the present value of the revised lease payments using the interest rate implicit in the lease, if that rate cannot be readily determined, the Group uses the incremental borrowing rate at the effective date of the modification. When lease modifications fully or partially decrease the scope of the lease, the Group decreases the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference is recognised in profit or loss at the effective date of the modification.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be reliably measured. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised as an incurred charge in profit or loss.

(iv) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Land is not depreciated.

Leased assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life or the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed annually.

(v) Recognition of transaction results

Gains and losses on the disposal of property, plant and equipment are accounted for in other operating income/other expenses in the statement of comprehensive income.

(d) Intangible assets

(i) Goodwill

Goodwill that arises upon acquisition of a subsidiary is included in intangible assets. For the measurement of goodwill at initial recognition, see note b.

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment (see note g).

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Research and development

Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. In addition, the expenses are reduced by the amount relating to the application of research results in the development of new or substantially improved products if the related activity meets the recognition criteria for internally generated intangible assets as laid down in IAS 38.

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are stated at cost less accumulated amortisation (see next page) and accumulated impairment losses (see note g). Based on the purchase price allocation of acquisitions, intangible assets that are part of the other intangible assets and relate to, for example, valued customer relations, trade names and technologies are also recognised.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Goodwill and other intangible assets with an indefinite useful life are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Financial instruments and other investments

Financial instruments

Non-derivative financial instruments

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts, it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously and the financial assets and financial liabilities are with the same party.

Other investments

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. The associate Newton CFV is an equity-accounted investee.

Trade and other receivables

Trade and other receivables represent the Group's right to an amount of consideration that is unconditional. Trade and other receivables are carried at amortised cost, less impairment losses (see note g).

Recognised interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are carried at amortised cost with any difference between the initial carrying amount and the redemption amount, based on the effective interest method, taken to profit or loss over the respective terms of the loans.

Trade and other payables
Trade and other payables are carried at amortised cost.

Cash and cash equivalents
Cash and cash equivalents comprise cash and bank balances and other call deposits payable on demand. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents in the statement of cash flows. They are measured at fair value.

Other non-derivative financial instruments
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments, including hedge accounting
The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. At 31 December 2020, no embedded derivatives existed.

Derivatives are initially measured at fair value, with attributable transaction costs recognised in the statement of comprehensive income when they are incurred. Subsequent to initial recognition, derivatives are carried at fair value. Any changes are taken to profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve.
The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging.
When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to sell. The cost of inventories of the Group is based on the weighted average cost, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their current location and condition. The cost of inventories includes an appropriate share of overheads based on normal operating capacity.

(g) Impairment

(i) Financial assets

The Group recognises impairments for financial assets based on the 'expected credit loss' model. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.
The Group measures loss allowances at an amount equal to the lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance to the contract and the cash flows that the Group expects to receive.
The Group makes use of the simplified method for trade receivables and contracts assets as set out in IFRS 9.
The expected credit losses for significant financial assets are determined on an individual basis. The remaining financial assets are assessed collectively in groups of assets that have similar credit risk characteristics.

All impairment losses are recognised in the consolidated statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.
For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). For the purpose of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(iii) Reversal of impairment losses

An impairment in respect of a receivable carried at amortised cost is reversed, if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. Impairment losses in respect of goodwill are not reversed. Impairment losses in respect of other assets are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are recognised in profit or loss.

(iv) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed on initial recognition of these financial assets). Receivables with a short remaining term are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use.

In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(h) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect.

(ii) Repurchase, disposal and reissue of share capital (treasury shares)

When own shares recognised as equity are repurchased, the amount of the consideration paid, including directly attributable costs and net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. If treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred respectively to or from other reserves.

(iii) Dividends

The holders of ordinary shares are entitled to receive dividends as determined from time to time by the General Meeting of Shareholders.
The Executive Board has the authority to decide, with the approval of the Supervisory Board, what portion of the profit will be allocated to the reserves.
If applicable, the declared but unpaid dividends are recognised as a liability.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments will occur.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset). The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income, and all other expenses related to defined benefit plans as employee benefit expenses in profit or loss. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit relating to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

(iii) Other long-term service benefits

The Group's net obligation in respect of long-term service benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and net of the fair value of any related assets. The discount rate is the yield at the financial position date on AA-credit rated bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) Share-based payment transactions

As only equity settled share-based payments are applicable only the accounting policy for these transactions has been included.
The fair value on the grant date of share-based payment awards made to employees and the Executive Board is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, so that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the fair value on the grant date of the share-based payment is measured to reflect such conditions, with no true-up for differences between expected and actual outcomes.

(v) Short-term employee benefits

A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Short-term employee benefits are expensed as the related service is provided.

(vi) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognised costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(j) Provisions

A provision is recognised in the statement of financial position if the Group has a present legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that settlement of the obligation will involve an outflow of funds. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Restructuring provisions

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(k) Revenue

(i) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration (net of discounts, rebates, returns and excluding VAT) to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Sale of goods and services

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 15 up to 90 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration (e.g. early payment discount, volume rebates), the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and or volume rebates and or early payment discount. These conditions might give rise to variable consideration.

Certain contracts provide a customer the right to apply an early payment discount when the consideration to which the Group is entitled is transferred to the Group before the contractual agreed credit terms. Those rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future early payment rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount

of variable consideration is primarily driven by the payment behaviour in the past and or any agreement with the customer when the consideration will be transferred.
Revenue from services is recognised over time based on the cost-to-cost method. Revenue from services mainly relates to repairs for customers. The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities.

Contract assets
The Group recognises incremental costs of obtaining a contract and certain costs to fulfil a contract as an asset if the Group expects to recover those costs. Any capitalised contract costs assets will be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(l) Expenses

(i) Lease expenses – short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease terms of 12 months or less and lease of low-value assets. Individual lease assets with a new value of EUR 5,000 or less (or any other foreign exchange equivalent) are considered to be low value assets. The Group recognises the lease payments associated with these leases as an expense on straight-line basis over the lease term.

(ii) Net finance costs
Finance income comprises interest income on funds invested, and financial assets held to maturity. Interest income is recognised in profit or loss as it accrues, using the effective interest method.
Finance expense comprises interest expense on borrowings, commitment fees, accrued interest on provisions, interest on pension liabilities, impairment losses recognised on financial assets and losses on interest rate hedge instruments to the extent they are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Realised and unrealised foreign currency gains and losses on monetary assets and liabilities, including changes in fair value of currency hedge instruments that are not qualified as cash flow hedges, are reported on a net basis.

(m) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss unless it relates to items recognised directly in equity, in which case it is recognised in equity. The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.
Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future;
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity; or on different tax entities, but the intention is to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be applied. Deferred tax assets are reduced if it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of a dividend are recognised at the same time as the liability to pay the related dividend is recognised.

Uncertain tax items for which a provision is made relate principally to the interpretation of tax legislation regarding arrangements entered into by the Group. Due to the uncertainty associated with such tax items, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly.

(n) Earnings per share

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

(o) Segment reporting

The Group defines and presents operating segments based on the information that is provided internally to the Executive Board, the Group's chief operating decision-maker. This is in conformity with IFRS 8 – Operating segments.

On the basis of the criteria of IFRS 8, Kendrion's business units are the Group's operating segments. An operating segment is a part of the Group engaging in business activities that may result in revenue and expenses, including the revenue and expenses relating to transactions with any of the Group's other segments. The Executive Board conducts regular reviews of the operating segment's results to reach decisions on the resources to be allocated to the segment and to assess its performance, whereby separate financial information for each operating segment is available.

However, and on the basis of the aggregation criteria of IFRS 8.12, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. In accordance with IFRS 8, the Company also discloses general and entity-wide information, including information about geographical areas and major customers of the Group as a whole. More information on the reportable segments is provided in note 20.

(p) New standards and interpretations

A number of amendments to standards are effective, and have been endorsed by the European Union, for annual periods beginning on or after 1 January 2020 and therefore apply to the year ended 31 December 2020:

- Interest Rate Benchmark Reform, amendments to IFRS 9, IAS 39 and IFRS 7
- Several amendments to other IAS / IFRS standards

The amendments to IFRS 9, IAS 39 and IFRS 7 have effect on required disclosures in 2020. Further description is included in note 17. The other amendments do not have a significant impact on the Group's consolidated financial statements.

The following standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are not effective at 31 December 2020 and are not expected to have a significant impact on the Group's consolidated financial statements:

- Classification of liabilities as current or non-current (amendments to IAS 1) (expected 2023)
- IFRS 17 Insurance Contracts (expected 2022)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (expected year unknown)
- IFRS 14 Regulatory Deferral Accounts (expected year unknown)

(q) Fair values

(i) Measurement of fair value

Several of the Group's accounting policies, as well as the information supplied by the Group, require the fair value of both financial and non-financial assets and liabilities to be determined. For valuation and information supplied, the fair value is measured using the methods below. Where applicable, more detailed information on the basis of the fair value measurement is disclosed in the specific notes on the asset or liability in question. The principal methods and assumptions used in estimating the fair value of financial instruments included in the summary are given below.

(ii) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market value in use. The market value of property is the estimated amount for which the property in question could be exchanged on the valuation date between a buyer and seller in an arm's length transaction, in which both parties have acted knowledgeably, prudently and without compulsion. The market value of other items of property, plant and equipment is based on the quoted market prices of comparable assets and goods.

(iii) Intangible assets

The fair value of patents and trademarks acquired as part of a business combination is measured on the basis of the discounted estimated royalties that have been avoided through ownership of the patent or trademark. The fair value of customer relationships acquired in a business combination is based on the excess earnings method over multiple periods, valuing the asset in question by deducting a real return on all other assets which in total create the related cash flows. The fair value of other intangible assets is based on the expected discounted value of the cash flows from the use and ultimate sale of these assets.

(iv) Lease liabilities

The fair value is estimated on the basis of the present value of future cash flows, discounted at the interest rate for lease contracts of a similar nature. The estimated fair value reflects movements in interest rates.

(v) Inventories

The fair value of inventories acquired as part of a business combination is determined on the basis of the estimated selling price as part of normal business operations, less the estimated costs of completion and the selling costs, plus a reasonable profit margin that reflects the completion and sales effort.

(vi) Trade and other receivables/trade and other payables

The face value of receivables and liabilities falling due within one year is regarded as a reflection of their fair value. The fair value of all other receivables and liabilities is measured on the basis of present value. The discount factor is based on the risk-free interest rate of the same duration as the receivable and/or payable, plus a credit mark-up reflecting the credit worthiness of the Group.

(vii) Interest-bearing loans

The fair value is calculated on the basis of the present value of future repayments of principal and interest at the prevailing market rate of interest, supplemented by a credit mark-up reflecting the credit worthiness of the Group.

(viii) Derivatives

The fair value of forward exchange contracts is based on the present value of the contractual cash flows for the remaining term based on a risk-free interest rate.

(ix) Non-derivative financial liabilities

The fair value of non-derivative financial liabilities is determined from information supplied and is based on the present value of future repayments of principal and interest, discounted at a risk-free rate, and a margin based on the credit worthiness of the Group on the reporting date.

(x) Contingent consideration

The fair value of contingent considerations arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. If appropriate, it is discounted to present value.

(r) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This section provides general information about the Group's exposure to each of the above risks in the course of its normal business operations, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included in the financial instrument section in these consolidated financial statements.

The Executive Board bears the ultimate responsibility for the organisation and control of the Group's risk management framework. The Group's risk policy is designed to identify and analyse the risks confronting the Group, implement appropriate risk limits and control measures, and monitor the risks and compliance with the limits. The risk management policy and systems are evaluated at regular intervals and, if necessary, adapted to accommodate changes in market conditions and the Group's operations.

The Company's Supervisory Board supervises compliance with the Group's risk management policy and procedures.

For a more detailed description of risk management and the position of financial risk management in the Group's framework, see the Report of the Executive Board.

(i) Credit risk

Credit risk is the risk of financial loss to the Group in the event that a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risks arise primarily from accounts receivable, derivative transactions concluded with banks, and cash positions and deposits held with banks. The Group continually monitors the credit risk within the Group. The Group does not normally require collateral for trade and other receivables or financial assets.

The credit policy includes an assessment of the creditworthiness of every new major customer before offering payment and delivery terms. This assessment includes external credit ratings or reports if they are available. The creditworthiness of major customers is actively monitored on an ongoing basis.

The Group recognises impairment provisions of an amount equal to the estimated losses on trade and other receivables and other investments. The main component of this provision comprises specific provisions for losses on individual accounts of material significance.

(ii) Credit risk concentration

The customer with the largest receivable outstanding accounted for 4% of the trade and other receivables at 31 December 2020. In 2019, the largest customer outstanding at 31 December 2019 accounted for 8% of total trade and other receivables. Other customers individually accounted for 4% or less of the trade and other receivables at 31 December 2020 (2019: 4%). The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players, this reduces the Group's dependency on the German market.

(iii) Investments and financial instruments

The Group currently does not invest in debt securities. Cash positions and exposure to the financial instruments of financial counterparties are monitored actively. The Group's main financial counterparties are well-established banks with good creditworthiness. The cash in bank accounts at other than the core-relationship banks is maintained at the minimum level required for the operations of the Group's companies.

(iv) Liquidity risk

The liquidity risk is the risk that the Group is unable to meet its financial obligations at the required time. Liquidity risk management is based on the maintenance of sufficient liquidity in the form of unused (committed) credit facilities or cash to meet present and future financial obligations in normal and adverse circumstances.

A summary of the credit lines available to the Group is disclosed in note 11 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of HSBC, Deutsche Bank and ING Bank on an equal basis. The Group had approximately EUR 65 million available within its existing revolving credit facility on the financial position date.

(v) Market risk

The market risk is the risk of the deterioration of the Group's income due to movements in market prices, such as those relating to exchange rates and interest rates. The management of market risk exposure is intended to keep the market risk position within acceptable limits.

Derivatives are used to manage specific market risks. These transactions are carried out within the treasury framework adopted by the Executive Board. If necessary, the Group uses hedge accounting to manage volatility in the statement of comprehensive income.

(vi) Interest rate risk

Pursuant to the Group's policy more than 50% of the exposure to changes in interest rates on borrowings is maintained on a fixed rate basis, taking into account any assets with exposure to changes in interest rates and expected short-term free cash flows. The policy is implemented by making use of derivative financial instruments such as interest rate swaps and interest rate options.

The Group has currently outstanding interest swap contracts with a total underlying notional value of EUR 75 million in order to reduce interest rate risk exposure to increasing market rates. EUR 15 million matures in 2021, EUR 20 million in 2022 and EUR 40 million matures in 2023.

(vii) Currency risk

The Group is exposed to exchange rate risks on sales, purchases, equity positions and loans expressed in currencies other than the euro. The Group companies are primarily financed in their own currency. The majority of the revenues and costs of the Group companies are realised in the euro zone. Sales outside the euro zone are partly generated locally and partly through exports from the euro zone. Most of these exports are realised in euros.

The Group's activities in the Czech Republic have the most significant currency exposure, since the majority of revenue is generated in euros and part of the costs are in Czech korunas. Pursuant to the Group's policy this currency exposure is hedged to a level of at least 70% for the next four quarters and at least 35% for the next four quarters thereafter. Exchange rate risks are hedged with derivatives.
Other currencies are actively monitored and where needed exposure is hedged, however less structural exposure is identified.

The Group also actively hedges intercompany loans in foreign currencies with currency forwards, swaps or back-to-back loans in the same foreign currency.

Pursuant to the Group's policy for other monetary assets and liabilities denominated in a foreign currency, net exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates as required to correct short-term imbalances.

The Group's policy stipulates that, in principle, equity investments and other translation exposures are not hedged.

(viii) Other price risks

Steel, copper and rare earth metals used in permanent magnets are the most important commodities for the Group.

Copper constitutes the Group's main direct exposure to raw material price risks, since copper wire is an important component of electromagnets. Pursuant to the Group's policy, the sensitivity to copper prices is actively reduced both by concluding fixed-price purchase contracts in the normal course of business with copper wire suppliers and by including raw material clauses in sales contracts. As the need arises the Group can also conclude derivative financial instrument contracts with financial counterparties to hedge the copper risk. No financial derivative contracts for raw materials were outstanding at the balance sheet date.

The Group is also exposed to risks associated with rare earth metals such as neodymium, a component of permanent magnets, which are used in some of the Group's products. Prices of these commodities have shown significant volatility in the past. The Group closely monitors developments in this market and has increased stock levels and the number of supply sources for these permanent magnets.

Furthermore, agreements have been made with customers representing the majority of the sales volume in this context, to link sales prices to movements in permanent magnet prices.

The Group is mainly indirectly exposed to raw material price risks relating to oil and steel, primarily as part of the purchase prices of machined components. This exposure is monitored and, if feasible, reduced by means of raw material clauses with customers and by concluding fixed-price agreements with suppliers for periods of between six and twelve months. The Kendrion steel contracts also partly govern the purchasing from component suppliers. Raw materials are purchased separately by each business unit, but in accordance with the group policy reviewed periodically with the objective of further increasing and sharing knowledge on commodities and commodity markets between business units, reducing risks and/or prices.

(ix) Capital management

The Executive Board's policy is designed to maintain a strong capital gearing to retain the confidence of investors, creditors and the markets, and to safeguard the future development of the business activities. The Executive Board monitors the return on equity, which the Group defines as the net operating result divided by shareholders' equity, excluding minority interests. The Executive Board also monitors the level of dividend distributed to ordinary shareholders.

The Executive Board seeks to strike a balance between a higher return that would be achievable with a higher level of borrowed capital and the benefits and security of sound capital gearing.

Kendrion intends to distribute an annual dividend of between 35% and 50% of the net profit, taking into consideration the amount of net profit to be retained to support the medium and long-term strategic plans of the company and to maintain a minimum solvency of 35%.

Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements beyond those stipulated by law.

(s) Government Grants

Grants that compensate the Group for expenses incurred are recognised in profit or loss as deduction on the related expense on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

1 Property, plant and equipment

EUR million	2020	2019
Property, plant and equipment owned	104.4	97.6
Property, plant and equipment right-of-use assets	14.3	13.8
Total	**118.7**	**111.4**

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2019	56.0	134.7	54.1	16.3	261.1
Acquired, other	1.2	13.3	4.1	6.4	25.0
Disposals	(0.2)	(2.4)	(1.8)	(10.3)	(14.7)
Currency translation differences	0.1	(0.0)	0.0	0.0	0.1
Balance as at 31 December 2019	57.1	145.6	56.4	12.4	271.5
Balance as at 1 January 2020	57.1	145.6	56.4	12.4	271.5
Acquired through business combinations	8.4	3.3	1.8	1.6	15.1
Acquired, other	2.1	10.9	4.1	7.5	24.6
Disposals	(0.2)	(1.7)	(1.7)	(11.7)	(15.3)
Currency translation differences	(0.2)	(0.6)	(0.0)	(0.3)	(1.1)
Balance as at 31 December 2020	67.2	157.5	60.6	9.5	294.8
Depreciation and impairment losses					
Balance as at 1 January 2019	26.9	92.8	40.8	0.1	160.6
Depreciation for the year	2.3	11.0	4.8	–	18.1
Impairment	–	0.0	0.0	–	0.0
Disposals	(0.0)	(3.0)	(1.8)	–	(4.8)
Balance as at 31 December 2019	29.2	100.8	43.8	0.1	173.9
Balance as at 1 January 2020	29.2	100.8	43.8	0.1	173.9
Depreciation for the year	2.8	11.8	4.7	0.0	19.3
Impairment	–	(0.0)	0.0	0.4	0.4
Disposals	(0.2)	(1.8)	(1.2)	–	(3.2)
Balance as at 31 December 2020	31.8	110.8	47.3	0.5	190.4

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Carrying amounts					
As at 1 January 2019	29.1	41.9	13.3	16.2	100.5
As at 31 December 2019	27.9	44.8	12.6	12.3	97.6
As at 1 January 2020	27.9	44.8	12.6	12.3	97.6
As at 31 December 2020	35.4	46.7	13.3	9.0	104.4

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2019	15.3	0.1	2.2	–	17.6
Acquired, other	2.2	0.1	0.8	–	3.1
Disposals	0.0	–	(0.0)	–	(0.0)
Currency translation differences	0.0	0.0	(0.0)	–	0.0
Balance as at 31 December 2019	17.5	0.2	3.0	–	20.7
Balance as at 1 January 2020	17.5	0.2	3.0	–	20.7
Acquired through business combinations	0.8	–	0.0	–	0.8
Acquired, other	2.3	–	0.5	–	2.8
Disposals	(0.4)	(0.0)	(0.0)	–	(0.4)
Currency translation differences	(0.2)	(0.0)	(0.0)	–	(0.2)
Balance as at 31 December 2020	20.0	0.2	3.5	–	23.7
Depreciation and impairment losses					
Balance as at 1 January 2019	3.1	0.1	1.3	–	4.5
Depreciation for the year	1.7	0.0	0.7	–	2.4
Balance as at 31 December 2019	4.8	0.1	2.0	–	6.9

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Balance as at 1 January 2020	4.8	0.1	2.0	–	6.9
Depreciation for the year	1.9	0.0	0.6	–	2.5
Balance as at 31 December 2020	6.7	0.1	2.6	–	9.4
Carrying amounts					
As at 1 January 2019	12.2	0.0	0.9	–	13.1
As at 31 December 2019	12.7	0.1	1.0	–	13.8
As at 1 January 2020	12.7	0.1	1.0	–	13.8
As at 31 December 2020	13.3	0.1	0.9	–	14.3

Translation differences are calculated on the carrying amount and reflected in the related item in the cost.

The estimated useful lives of the property, plant and equipment are as follows:

Buildings	10 – 30 years
Plant and equipment	5 – 10 years
Other fixed assets	3 – 7 years

The Executive Board reviews at each reporting period the estimated useful lives of each asset with a definite useful life. During the current year, the Executive Board determined that the useful lives do not require to be revised.

2 Intangible assets

EUR million	Goodwill	Development costs	Software	Other	Total
Cost					
Balance as at 1 January 2019	92.1	4.9	23.4	40.4	160.8
Acquired, other	–	3.1	1.4	–	4.5
Disposals	–	(0.1)	–	–	(0.1)
Currency translation differences	0.5	0.0	(0.0)	0.2	0.7
Balance as at 31 December 2019	92.6	7.9	24.8	40.6	165.9

EUR million	Goodwill	Development costs	Software	Other	Total
Balance as at 1 January 2020	92.6	7.9	24.8	40.6	165.9
Acquired through business combinations	25.7	–	0.5	26.3	52.5
Acquired, other	–	0.9	1.5	0.7	3.1
Disposals	–	–	0.0	–	0.0
Currency translation differences	(2.3)	(0.0)	(0.0)	(0.4)	(2.7)
Balance as at 31 December 2020	116.0	8.8	26.8	67.2	218.8
Amortisation and impairment losses					
Balance as at 1 January 2019	–	0.7	16.8	27.2	44.7
Amortisation for the year	–	0.3	3.2	2.2	5.7
Impairment	–	–	–	–	–
Disposals	–	–	–	–	–
Balance as at 31 December 2019	–	1.0	20.0	29.4	50.4
Balance as at 1 January 2020	–	1.0	20.0	29.4	50.4
Amortisation for the year	–	0.7	3.2	4.4	8.3
Impairment	–	1.9	0.1	–	2.0
Disposals	–	–	–	–	–
Balance as at 31 December 2020	–	3.6	23.3	33.8	60.7
Carrying amounts					
At 1 January 2019	92.1	4.2	6.6	13.2	116.1
At 31 December 2019	92.6	6.9	4.8	11.2	115.5
At 1 January 2020	92.6	6.9	4.8	11.2	115.5
At 31 December 2020	116.0	5.2	3.5	33.4	158.1

Goodwill has an indefinite estimated useful life. The investments in software during 2020 of EUR 1.5 million (2019: EUR 1.4 million) mainly relates to various software upgrades. The other intangible assets mainly comprise the carrying amount of customer relationships (EUR 31.4 million). These customer relationships were acquired through business combinations.

Depreciation and amortisation

Depreciation and amortisation are recognised in the following items in the consolidated statement of comprehensive income:

EUR million	2020	2019
Depreciation and amortisation	30.1	26.2

The estimated useful life of software is between three and eight years. The estimated useful life of other intangible assets is approximately between eight and nineteen years. The Executive Board reviews at each reporting period the estimated useful lives of each intangible asset with a definite useful life.

Impairment testing for cash-generating units containing goodwill

During 2020 Kendrion reduced the number of business units from four to three. The business units Industrial Magnetic Systems and Industrial Control Systems were combined into a new business unit Industrial Actuators and Controls as per 1 January 2020. The reason for this merger are the similarities regarding customers, products and production processes. In addition, the business unit Industrial Drive Systems was merged with the acquired INTORQ group into the business unit Industrial Brakes as per 1 April 2020. Reason to combine INTORQ and Industrial Drive Systems is again that both show similarities regarding customers, products and production processes. These newly formed business units have been identified as the smallest identifiable group of assets that generates cashflows that are largely independent of the cash inflows from other assets and thus a change was made to the CGU's. As a result, the goodwill of the former business units is accumulated within the new business units.
For the purposes of impairment testing, goodwill has been allocated to the Group´s CGUs as follows.

Goodwill EUR million	2020	2019
Business Unit - Industrial Actuators and Controls	23.9	24.5
Business Unit - Industrial Brakes	32.8	7.1
Business Unit - Automotive Group	59.3	61.0
	116.0	92.6

Key assumptions and method of quantification

Pursuant to IAS 36, the Group has performed an impairment test with reference to the goodwill allocated to each individual cash-generating unit. This test was carried out by discounting future cash flows ('value in use') to be generated from the continuing use of the cash-generating unit to which the goodwill applies and on the assumption of an indefinite life. The Group did not recognise any impairment of goodwill in this reporting period.

The cash flows for the first five years were based on budgets and mid-term plans drawn up by the local management and approved by the Executive Board. For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a terminal growth rate of 1,5% taken into account. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model was also pre-tax. Expansion investments were excluded from the calculations in the residual value. The expected growth in cash flows as a result of these expansion investments was also excluded. Key assumptions used in the calculation of recoverable amounts concern discount rates, terminal value growth rates, EBITDA margin growth and revenue growth. Key assumptions are based on past experience, management assessment of revenue and external sources.

Key assumptions	Pre-tax discount rate		Terminal value growth rate	
	2020	2019	2020	2019
Business Unit - Industrial Actuators and Controls	10.1%	8.6%	1,5%	1.5%
Business Unit - Industrial Brakes	10.1%	8.5%	1,5%	1.5%
Business Unit - Automotive Group	9.9%	8.5%	1,5%	1.5%

Discount rate

In determining the pre-tax discount rate, first the post-tax average costs of capital were calculated for all cash generating units containing goodwill. The post-tax rate is based on debt leveraging compared to the market value of equity of 20%. All the post-tax weighted average cost of capital rates of cash generating units amount to approximated 8.0%, and these rates were used for calculating the post-tax cash flows.

Terminal value growth rate

All cash generating units with goodwill have five years of cash flows included in their discounted cash flow models. A long-term growth rate in perpetuity has been assumed on the basis of a growth rate of 1.5%.

Revenue and EBITDA margin

The revenue and EBITDA margin development of the cash generating units are based on the financial budgets for 2021 and the strategic business plans for the 4 years thereafter. The growth rates are based on the expectation of market developments and management's assessment of the project pipeline of the cash generating units. The average annual growth rates in the first 5 years range between 7% and 11% and the development of the EBITDA margin is in line with the long term group target of at least 15% by 2025. For the period after 2025 a growth rate equal to the expected long term inflation is taken into account for revenue and EBITDA.

Sensitivity to changes in assumptions

The recoverable amounts of all cash-generating units with goodwill exceed their carrying amounts. Management has carried out an analysis of sensitivity to changes in the key assumptions. Sensitivity analyses are performed based on a change in an assumption while holding other assumptions constant. The following changes in assumptions are assessed:

- Increase of the discount rate (post-tax) by 2.0%;
- Decrease of terminal value growth rate by 1.0%;
- Decrease of average revenues growth by 3.0%;
- Decrease of average EBITDA growth by 10.0%.

Based on the sensitivity analyses performed it is concluded that any reasonable changes in the key assumptions would not require an impairment.

3 Other investments, including derivatives

EUR million	2020	2019
Equity-accounted investee	2.2	2.3
Other	0.8	0.4
	3.0	2.7

Equity-accounted investee relates to Kendrion Holding USA Inc.'s share in Newton CFV, Inc. On 3 August 2018 Kendrion Holding USA Inc. acquired 30% of all issued shares in Newton CFV, Inc. for an amount of EUR 2.6 million. The proportion voting rights held by Kendrion Holding USA Inc. is 30%. During 2020 an additional investment of EUR 0.3 million was effectuated.

Other investments in 2020 include financial derivatives and recognised upfront and legal fees related to the facility agreement (see note 11). Kendrion amortises these costs over the remaining maturity of the facility. As these costs relate to the facility agreement as a whole and not to individual loans, these costs are not part of the effective interest rate of outstanding loans.

4 Deferred tax assets and liabilities

The Group has recognised deferred tax assets for tax loss carry-forwards in the following jurisdictions:

Germany

Tax assessments have been submitted for the German companies up to and including 2018. In 2020 tax audits started with regard to the assessment periods 2015-2018 with reference to our Northern Germany operating companies (tax assessment up to and 2014 are final) and assessment periods 2015-2018 with respect to our Southern Germany operating companies (tax assessments up to and 2014 are final).

At 31 December 2020, the tax loss carry forwards amounted to EUR 3.8 million (2019: EUR 8.9 million) (Trade Tax) and EUR 0 million (2019: 11.4 million) (Corporate Income Tax). These are recognised in full, resulting in deferred tax assets of EUR 0.5 million (2019: EUR 2.7 million).

United States of America

Tax assessments have been submitted up to and including 2019. The years 2017 up to 2020 are open for tax audits. At 31 December 2020, the tax loss carry forwards amounted to EUR 7.9 million (2019: EUR 3.8 million) (Corporate Income Tax) and EUR 4.2 million (2019: EUR 1.8 million) (State Tax). These are recognised in full, resulting in deferred tax assets of EUR 1.7 million (2019: EUR 0.8 million).

The Netherlands

Tax assessments have been submitted up to and including 2018. The years 2014 up to 2020 are still open for potential tax audits. At 31 December 2019, the tax loss carry-forwards amounted to EUR 2.5 million (2019: EUR 2.0 million). These are recognised in full, resulting in deferred tax assets of 0.6 million (2019: EUR 0.4 million). These tax loss carry-forwards originated in 2012 and 2019. The Dutch corporate income tax rate will not change in the near future despite earlier communication that it would decrease from 25% in 2019 and 2020 to 21,7% in 2021. This means that deferred tax positions as per 31 December 2020 are revalued and had a positive impact of EUR 0.4 million on net deferred taxes as per 31 December 2020.

Uncertainty over income tax treatments

In 2016 a tax audit started for the years 2010-2014 for a German fiscal unity. For the outcome of this tax audit a liability was accounted for, amounting to EUR 4.9 million (2019: 2.4 milion), which includes the estimated impact on subsequent years. This is compensated by assets totaling to EUR 2.4 million for Mutual Agreement Procedures in the Netherlands, UK and Czech Republic, effectively leading to a net position of EUR 2.5 million.

Deferred tax assets and liabilities included in the financial position

The deferred tax assets and liabilities can be specified as follows:

EUR million	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
Property, plant and equipment	1.3	2.0	4.1	5.5	(2.8)	(3.5)
Intangible assets	6.6	2.8	11.2	4.7	(4.6)	(1.9)
Inventories	0.1	0.3	0.3	0.3	(0.2)	0.0
Employee benefits	1.8	1.8	–	–	1.8	1.8
Provisions	–	0.5	–	0.1	–	0.4
Other items	2.6	2.9	0.3	0.0	2.3	2.9
Tax value of recognised loss carry-forwards	6.8	4.2	–	–	6.8	4.2
Deferred tax assets/liabilities	19.2	14.5	15.9	10.6	3.3	3.9

The deferred tax liabilities relate almost entirely to temporary differences between the carrying amount and tax base of property, plant and equipment and intangible assets. These are of a relatively long-term nature, mostly longer than five years.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be set off. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed if the probability of future taxable profits improves. Tax loss carry forward limitation rules apply in certain jurisdictions in which Kendrion has carry forward tax losses. These rules might under certain circumstances lead to a (proportional) forfeiture of recognised and unrecognised carry forward tax losses in case of a direct or indirect change in ownership.

The tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position are reviewed each reporting date. These tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position amount to EUR 0.1 million (expires in period 2024-2029) (2019: EUR 4.0 million).

Movement in temporary differences during the financial year

Net, EUR million	2020			
	At 1 January	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(3.5)	0.7	–	(2.8)
Intangible assets	(1.9)	(2.7)	–	(4.6)
Inventories	0.0	(0.2)	–	(0.2)
Employee benefits	1.8	0.6	(0.6)	1.8
Provisions	0.4	(0.4)	–	–
Other items	2.9	(0.6)	–	2.3
Tax value of loss carry-forwards used	4.2	2.6	–	6.8
	3.9	(0.0)	(0.6)	3.3

Net, EUR million	2019			
	At 1 January	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(3.2)	(0.3)	–	(3.5)
Intangible assets	(1.7)	(0.2)	–	(1.9)
Inventories	0.1	(0.1)	–	0.0
Employee benefits	1.6	(0.2)	0.4	1.8
Provisions	0.2	0.2	–	0.4
Other items	2.0	0.9	–	2.9
Tax value of loss carry-forwards used	4.0	0.2	–	4.2
	3.0	0.5	0.4	3.9

5 Contract costs

EUR million	2020	2019
Balance at 1 January	0.7	0.4
Costs to obtain a contract with customers	–	0.4
Amortisation	(0.1)	(0.1)
Other changes	–	–
Balance at 31 December	0.6	0.7

From time to time, the Group acquires contracts with customers, for which costs are made to acquire these contracts. Those costs are recognised as contracts costs. Contract costs are amortised on a systematic basis that is consistent with the Group's transfer of the related goods to the customer.

6 Inventories

EUR million	2020	2019[1]
Raw materials, consumables, technical materials and packing materials	38.8	33.2
Work in progress	10.9	11.4
Finished goods	10.0	8,6
Goods for resale	2.0	2.2
	61.7	55.4

The inventories are presented after accounting for a provision of EUR 9.0 million (2019: EUR 9.2 million) for obsolescence. In 2020, the amount of the write-down to net realisable value of the inventories was EUR 1.7 million (2019: EUR 1.5 million). The write-down and reversals are included in cost of sales.

7 Trade and other receivables

EUR million	2020	2019
Trade receivables	47.2	42.9
Other taxes and social security	2.4	1.7
Other receivables	1.9	1.1
Derivatives used for hedging	0.6	0.3
Prepayments	1.3	1.1
	53.4	47.1

The credit and currency risks associated with trade and other receivables are disclosed in note 17, and in the financial risk management paragraph of note r. The provision for doubtful debts amounts to EUR 0.7 million (2019: EUR 0.5 million).

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

8 Cash and cash equivalents

EUR million	2020	2019
Bank balances	13.0	7.1
Bank overdrafts	(4.5)	(2.5)
Cash and cash equivalents in the statement of cash flows	8.5	4.6

The bank balances include EUR 0.7 million (2019: EUR 0.8 million) of cash that is held in countries where the Group faces cross-border foreign exchange controls and/or other legal restrictions that inhibit the Groups ability to make these balances available for general use by the Group. The other bank balances are freely available. The interest rate risk for the Group and a sensitivity analysis for financial assets and liabilities are disclosed in notes 17 and r.

9 Capital and reserves

Capital and share premium

	Shares entitled to dividend		Shares owned by Kendrion		Total number of issued shares	
	2020	2019	2020	2019	2020	2019
At 1 January	14,753,533	13,396,013	180,451	178,852	14,933,984	13,574,865
Issued shares	–	1,593,078	–	(235,592)	–	1,357,486
Issued shares (share dividend)	–	159,923	–	(159,923)	–	–
Issued registered shares (share plan)	2,654	1,633	(2,654)	–	–	1,633
Delivered shares	10,294	162	(10,294)	(162)	–	–
Repurchased shares	–	(397,276)	–	397,276	–	–
At 31 December	14,766,481	14,753,533	167,503	180,451	14,933,984	14,933,984

Issuance of ordinary shares

In 2020, in total 2,654 new shares were issued (2019: 1,754,634). During 2020, the Company delivered 12,848 shares to the Executive Board and senior management as part of its share plan and remuneration packages (2019: 1,795). The Company purchased 0 of its own shares in 2020 (2019: 397,276).

Ordinary shares

The authorised share capital consists of:

EUR million	2020	2019
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2020: 14,933,984 ordinary shares (2019: 13,547,865)	29.9	27.1
Balance at 31 December 2020: 14,933,984 ordinary shares (2019: 14,933,984)	29.9	29.9

Share premium

EUR million	2020	2019
Balance as at 1 January	51.7	39.8
Dividend payment	–	(11.7)
Share premium on issued shares	–	23.6
Balance as at 31 December	51.7	51.7

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates in the non-euro zone. Gains and losses relating to the translation risk are recognised in equity. The build-up of the cumulative figure commenced on 1 January 2004.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net movement in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, net of tax.

The hedge reserve increased by EUR 0.2 million due to the realisation of hedged transactions (2019: EUR 0.3 million increase). The hedge reserve increased by EUR 0.0 million due to valuation effects (2019: EUR 0.0 million decrease). There was no hedge ineffectiveness in 2020 (2019: no hedge ineffectiveness).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for issuance of share dividend and the remuneration packages for the Executive Board. At 31 December 2020, the Company held 167.503 of its own shares (2019: 180,451).

Other reserves

Other reserves are all the reserves other than those shown separately and primarily represent the accumulated, undistributed profits from previous financial years.

Retained earnings

In 2020, the result for 2019 was fully transferred to other reserves. Retained earnings in the 2020 financial statements consequently consist solely of the result for 2020.

Dividends

The board of directors proposed dividends of 0.25 cents (2019: 0.87 cents) per qualifying ordinary share to be paid on 30 April 2020. However, due to the COVID-19 coronavirus pandemic, the board of directors decided on 7 April 2020 to cancel those proposed 2020 dividends, totalling EUR 3.7 million on qualifying ordinary shares, and not to declare any discretionary dividend payments during 2020. The board of directors believes that the headroom generated by this decision was prudent given the uncertainties arising from the COVID-19 pandemic.
After the reporting date, the following dividends were proposed by the board of directors. The dividends have not been recognised as liabilities and there are no tax consequences.

EUR million	2020	2019
0.40 cents per qualifying ordinary share (2019: 0.25 cents)	5.9	–

10 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2020 is based on the profit for the period of EUR 4.3 million (2019: EUR 8.3 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2020: 14.764.000 (2019: 13,466,000).

EUR million	2020	2019[1]
Net profit attributable to ordinary shareholders	4.3	8.3

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Weighted average number of ordinary shares

In thousands of shares	2020	2019[1]
Issued ordinary shares at 1 January	14,934	13,575
Effect of shares issued	–	1,357
Effect of shares issued as share dividend	–	–
Effect of shares issued as share plan	–	2
Effect of own shares delivered and repurchased	–	–
Ordinary shares outstanding at 31 December	14,934	14,934
Weighted average number of ordinary shares entitled to dividend	14,764	13,466
Basic earnings per share (EUR), based on ordinary shares outstanding at 31 December	0.29	0.55
Basic earnings per share (EUR), based on weighted average	0.29	0.61

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2020 is based on the profit of EUR 4.3 million (2019: EUR 8.3 million) attributable to the holders of ordinary shares and the weighted average numbers of shares during the year after adjustment for the effects of all dilutive potential ordinary shares of 14,765,000 (2019: 13,484,000).

EUR million	2020	2019[1]
Net profit attributable to ordinary shareholders	4.3	8.3
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	4.3	8.3

Weighted average number of ordinary shares (diluted)

In thousands of shares	2020	2019[1]
Weighted average number of ordinary shares entitled to dividend	14,764	13,466
Weighted average numbers of ordinary shares (diluted)	14,765	13,484
Basic earnings per share (EUR), based on weighted average (diluted)	0.29	0.61

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

11 Loans and borrowings

These notes contain information on the contractual provisions of the Group's interest-bearing loans and borrowings, which are carried at amortised cost price. For further information on the interest rates, and the currency and liquidity risks borne by the Group, see note 17 and accounting policy r.

EUR million	2020	2019
Non-current liabilities		
Bank syndicate loans	85.0	35.0
Lease liabilities	12.9	12.3
Mortgage loans	0.8	1.6
Other loans	5.5	–
	104.2	48.9

EUR million	2020	2019
Current liabilities		
Current portion lease liabilities	2.5	2.4
Current portion loans	5.0	0.7
	7.5	3.1

At 31 December 2020, the Group had the following credit lines available:

- EUR 150 million revolving Credit Facility with a syndicate of three banks consisting of HSBC, Deutsche Bank and ING Bank. The Credit Facility is committed until 27 July 2023 and includes an option (accordion option) to increase the facility by a maximum of EUR 75.0 million and the possibility to attract additional alternative sources of debt funding;
- EUR 9.7 million other loans acquired through business combinations in 2020, with maturities in 2021 – 2026;
- EUR 15.4 million in leases for buildings, various equipment and vehicles;
- EUR 1.6 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 5.7 million in other overdraft facilities.

At 31 December 2020, the total unutilised amount of the facilities was approximately EUR 65 million.

Banking syndicate credit facility

Pursuant to the terms of the credit facility and the agreed covenant relief with the banking syndicate, the Group has agreed to a financial covenant relating to the leverage ratio (interest bearing debt / EBITDA). In accordance with this covenant, the leverage ratio should remain below 4.70 at year-end 2020, below 5.80 per the end of Q1 2021, below 4.75 per the end of Q2 2021, below 3.90 per the end of Q3 2021 and below 3.25 at year-end 2021 and thereafter. After the covenant relief period the leverage ratio can be temporarily increased to a maximum of 3.75 under certain circumstances. This covenant is tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 2.3 (2019: 1.1). In addition, the Group has agreed to a EUR 25 million minimum liquidity covenant during the period in which an increased leverage covenant is applicable. Other restrictions include a limit on capital expenditure in excess of the companies' FY 2021 budget. Provided that the leverage ratio remains below 3.25, the company has the right to request a termination of the waiver before 31 December 2021. Upon termination of the waiver period the additional restrictions will be lifted and conditions of the original credit agreement will apply.

Security provided

The Group has provided a mortgage on its premises in Malente, Germany for a EUR 1.6 million loan. A positive pledge is relevant in relation to the EUR 150 million revolving Credit Facility.

Interest-rate sensitivity

Interest on the EUR 1.6 million mortgage loan is based on fixed-term interest rates. Interest amounts payable on the EUR 150 million revolving Credit Facility are based on short-term interest rate (mainly three months). The other loans of EUR 9.7 million and leases of EUR 15.4 million both have fixed interest rates.
See note 17 and accounting policy r for further details.

Lease liabilities

The lease liabilities are payable as follows:

EUR million	2020	2019
< 1 year	2.5	2.4
1 - 5 years	10.9	9.5
> 5 years	2.0	2.8
	15.4	14.7

The lease liabilities mostly relate to leases for various buildings & vehicles.

Buildings

The Group leases properties for its offices and manufacturing facilities. Some lease arrangements contain conditions to revise the rentals based on changes of indices. The leases run for a period between 3 and 15 years. Majority of the leases include an option to renew the lease for an additional period after the contract term. Key assumption as applied by the Group is that all renewal options, which can be exercised within the mid-term plan period of five years and very likely to be exercised, are taken into consideration on top of the non-cancellable period of the lease.

Vehicles and equipment

The Group leases equipment with terms of two to five years. Based on experience the likelihood that these lease arrangements are extended for a substantial period (> three months) is remote. Due to this no periods after the non-cancellable period of the lease are taken into consideration.

12 Employee benefits

EUR million	2020	2019
Present value of unfunded obligations	12.5	15.7
Present value of funded obligations	1.3	1.4
Fair value of plan assets	(0.9)	(0.9)
Recognised net liability for defined benefit obligations	12.9	16.2
Liability for long-service leave and anniversaries	2.6	3.6
Total employee benefits	15.5	19.8

The table shows a reconciliation from the opening to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
EUR million	2020	2019	2020	2019	2020	2019
Balance at 1 January	17.1	15.9	0.9	0.9	16,2	15.0
Included in statement of comprehensive income						
Current service cost	0.1	0.1	–	–	0.1	0.1
Past service cost	–	–	–	–	–	–
Interest cost (income)	0.1	0.2	0.0	0.0	0.1	0.2
	0.2	0.3	0.0	0.0	0.2	0.3
Included in OCI						
Remeasurement loss (gain):						
- Actuarial loss (gain) arising from:						
- Demographic assumptions	0.0	0.1	0.0	0.0	0.0	0.1
- Financial assumptions	0.2	1.7	–	–	0.2	1.7
- Experience adjustment	(2.5)	0.1	–	–	(2.5)	0.1
- Return on plan assets excluding interest income	–	–	–	–	–	–
Effect of movements in exchange rates	–	–	–	–	–	–
	(2.3)	1.9	0.0	0.0	(2.3)	1.9

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
EUR million	2020	2019	2020	2019	2020	2019
Other						
Contributions paid by the employer	–	–	–	–	–	–
Benefits paid	(1.2)	(1.0)	(0.0)	(0.0)	(1.2)	(1.0)
	(1.2)	(1.0)	(0.0)	(0.0)	(1.2)	(1.0)
Balance at 31 December	13.8	17.1	0.9	0.9	12.9	16.2

The decrease of the defined benefit obligation, specifically the experience adjustment of EUR 2.5 million negative, mainly relates to the passing of a former board member of one of the operating companies.

Actuarial calculations of employee benefits have not been materially influenced by amendments based on historical experience or by variable assumptions. The change compared to last year mainly relates to the passing of a former board member that made up a large portion of the DBO in one of the Group companies.

The Group contributes to the following post-employment defined benefits plans in several countries, mainly in Germany. Below the characteristics of the major plans are included.

- A direct commitment in the form of capital has been agreed upon with the employees, who directly receive this commitment as an one-off payment upon retirement. An alternative version is a plan where the employees receive monthly payments instead of an one-off payment. The plans are reviewed on periodic basis.
- The DB plan entitles a retired employee to receive a monthly pension payment. The amount of these payments is based on individual contracts with the respective employee. The person has to be employed for a certain time. Each further year of employment the employee receives an amount in addition to the contractual fixed amount.

The defined benefit plans are administered by multiple pension funds which are legally separated from the Group. The board of the pension fund is required to act in the best interest of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk.

The expenses relating to the defined benefit pension arrangements are included in the following line items of the statement of comprehensive income:

Expense recognised in the consolidated statement of comprehensive income regarding defined benefit arrangements

EUR million	2020	2019
Staff costs	0.1	0.1
Net finance costs	0.1	0.2
	0.2	0.3

Principal actuarial assumptions (expressed as weighted averages)

	2020	2019
Discount rate at 31 December	0.4%	0.4%
Future salary increases	1.9%	0.1%
Future pension increases	1.6%	1.6%

Composition plan assets

EUR million	2020	2019
Bonds	0.8	0.8
Equity	0.0	0.0
Real estate	0.0	0.0
Government loans	0.1	0.1
Other	0.0	0.0
Total	0.9	0.9

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Sensitivity analysis

	Defined benefit obligation	
EUR million	Increase	Decrease
Discount rate (0.5 percent)	(0.6)	0.7
Future salary growth (1.0 percent)	0.5	(0.5)
Future pension (1.0 percent)	1.1	(1.0)
Future mortality (1.0 percent)	(0.1)	0.1

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown. The method for preparing the sensitivity analyses did not changed from prior year.

Assumptions regarding future longevity have been based on published statistics and mortality tables.

At 31 December 2020, the weighted-average duration of the defined benefit obligation was 9.5 years (2019: 10.6 years). The expected payment for 2021 amounts to EUR 1.2 million (2019: EUR 1.3 million).

Liabilities arising from employee benefits

The pension plans included defined contribution plans as well as defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Calculations are made by qualified actuaries. The pension liability shown in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate methodology for accounting long-term employee benefits in accordance with IAS 19 is determined by the Executive Board. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The discount rate used to calculate the defined benefit obligation is based on the yield on AA-rated high-quality corporate bonds issued in Euros.
Since the pension arrangements involve long-term obligations and uncertainties, it is necessary to make assumptions in order to estimate the amount that the Group needs to invest to fund its pension obligations. External actuaries calculate the obligation for defined benefit plans partly on the basis of information provided by the Executive Board, such as future pay rises, the return on plan assets, mortality tables and the probable extent to which pension scheme members will leave the scheme because they have reached retirement age, become incapacitated or left the Group.

The greater part of the defined benefit obligation at year-end 2020 relates to post employment arrangements in Germany, with a small part in Austria. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group companies is reinsured. All pension arrangements accounted for as defined benefit obligations are not open for new participants (< 15% active participants).

Liabilities arising from employee benefits also include liabilities relating to long-service, early retirement and service anniversaries of EUR 2.6 million (2019: EUR 3.6 million) in Germany and Austria.

13 Share-based payments

At 31 December 2020, the Group had the following share-based payment arrangements.

Share plan for the Executive Board (equity settled)

Details of the remuneration of the Executive Board are provided in note 29.

Share plan for the Management Team (equity settled)

In 2020, 28,380 conditional performance shares were granted to the Management Team (2019: 14,177). The conditional performance shares granted will vest upon achievement of performance measured over a three-year period (2020-2022). The number of conditional shares granted is calculated on the basis of the average share price during Q4 2019, which amounts to EUR 19.96.

Loyalty bonus (equity settled)

Until 2018, the Company maintained a share incentive scheme, which entitled eligible employees to purchase shares in the Company for an amount up to 50% of their respective net cash bonuses. Employees who retain the shares purchases for a period of three years, and remain employed by the Company during this three year period, will be granted a number of shares equal to the number of shares purchased with their net cash bonus. Pursuant to this incentive scheme, 2,654 shares were allocated in 2020 (2019: 1,817). This number equals the number of shares purchased by eligible employees with their 2016 cash bonuses, and which were subsequently credited to their securities account after the general meeting of shareholders in 2017 (i.e. three-year vesting period 2017-2019). Expenses recognised in profit or loss for the shares amount to EUR 0.1 million (2019: EUR 0.1 million).

Terms & conditions of the share programme (loyalty bonus)

	Number of instruments	Vesting period
Shares purchased by eligible employees in 2020 with 2016 cash bonus and credited to their securities account after AGM in 2017 (share price on grant date EUR 30.30)	2,654	2017-2019
Shares to be purchased in 2021 by eligible employees with 2017 cash bonus and credited to their securities account after AGM in 2018 (share price on grant date EUR 33.65)	3,913	2018-2020
Total shares	6,567	

14 Provisions

EUR million	2020	2019
Balance at 1 January	1.4	2.2
Provisions made during the period	2.2	1.0
Provisions transferred/used during the period	(1.4)	(1.7)
Provisions released during the period	(0.0)	(0.1)
Balance at 31 December	2.2	1.4
Non-current portion	0.7	–

The provisions consist of a restructuring provision of EUR 0.5 million (2019: EUR 1.0) and a provision for the interest portion of the tax audits of EUR 0.8 million (2019: EUR 0.4). The remainder of the restructuring provision is expected to be used in the course of 2021, however the exact timing is not known yet. The amounts and timing of the outflows related to the tax audits are still uncertain.

15 Contract liabilities

EUR million	2020	2019
Balance at 1 January	6.6	8.2
Consideration received	–	–
Recognised as revenue in the period	(1.1)	(1.6)
Other changes	–	–
Balance at 31 December	5.5	6.6

The contract liabilities relate to long-term advance consideration received from customers for investments made in equipment in order to fulfil the obligations according to the contract. Considerations are received and based on a mark-up on top of contractual agreed piece price during a certain period of time. Recognition is consistent with the Group's transfer of the related goods to the customer and released to profit or loss on a systematic basis that is consistent with depreciation and amortisation of related equipment.

16 Trade and other payables

EUR million	2020	2019
Trade payables	44.0	41.3
Other taxes and social security contributions	2.8	1.2
Derivatives used for hedging	0.2	0.2
Non-trade payables	5.6	4.9
Accrued expenses	12.6	11.4
	65.2	59.0

17 Financial instruments

Credit risk

The carrying amount of the financial assets represents the maximum credit risk. The maximum credit risk on the reporting date was as follows:

EUR million	2020	2019
Cash and cash equivalents	13.0	7.1
Other long-term investments	3.0	2.7
Current income tax	1.4	2.7
Trade and other receivables	53.4	47.1
Total	70.8	59.6

Impairment losses

Aging analysis of the trade and other receivables

EUR million	2020		2019	
	Gross	Provision	Gross	Provision
Within the term of payment	41.5	–	37.2	–
0 – 30 days due	8.0	–	7.1	–
31 – 60 days due	1.8	–	1.1	–
> 60 days due	2.8	(0.7)	2.2	(0.5)
Total trade and other receivables	54.1	(0.7)	47.6	(0.5)

The provision for trade receivables is used to absorb impairment losses, unless the Group is certain that collection of the amount owed is impossible, in which case the amount is treated as a bad debt and written off against the financial asset in question.

At 31 December 2020 the provision for impairment losses on trade and other receivables relates to several customer invoices that the Group believes to be non-collectible, in whole or in part. Based on historic payment behaviour and financial information currently known all receivables that are not impaired at 31 December 2020 are collectible. This system gives the same outcome as the cash shortfall model as described in IFRS 9. EUR 4.6 million of trade receivables are more as 30 days overdue, of which EUR 0.7 million is provided for. The Group has written off EUR 0.3 million receivables in 2020 (2019: EUR 0.3 million), which are recognised under other operating expenses in the statement of comprehensive income.

The customer with the largest trade receivables outstanding accounted for 4% of the trade and other receivables at 31 December 2020 (2019: 8%). The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

Credit risk rating grades

The credit quality of the Group's financial assets, contract assets and financial guarantee contracts, as well as the Group's maximum exposure to credit risk by credit risk rating grades on the reporting date was as follows:

31 December 2020							2020
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk – Doubtful	Lifetime ECL	47.9	(0.7)	47.2
Contract costs	5	N/A	Low risk	Lifetime ECL	0.6	–	0.6
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	2.3	–	2.3
Other investments	3	N/A	Low risk	Lifetime ECL	0.8	–	0.8
					51.6	(0.7)	50.9

31 December 2019							2019
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk – Doubtful	Lifetime ECL	43.4	(0.5)	42.9
Contract costs	5	N/A	Low risk	Lifetime ECL	0.7	–	0.7
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	2.3	–	2.3
Other investments	3	N/A	Low risk	Lifetime ECL	0.4	–	0.4
					46.8	(0.5)	46.3

Liquidity risk

The liquidity risk is the risk that the Group is unable to meet its financial obligations at the required time. Liquidity risk management is based on the maintenance of sufficient liquidity in the form of unused (committed) credit facilities or cash to meet present and future financial obligations in normal and adverse circumstances.

In response to the COVID-19 pandemic and its (potential) impact on global economies and supply chains, Kendrion has taken several steps to protect its liquidity position. Besides taking several measures to reduce costs, working capital and capital expenditure, Kendrion has reached an agreement with its banking syndicate on temporarily increased leverage covenants. The amended banking agreement allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from 31 December 2021 onwards. Although Kendrion currently operates well within its existing leverage covenants, the agreed covenant relief is designed to assure that Kendrion will continue to be able to invest in its longer-term growth opportunities, also in case of additional unforeseen circumstances as a result of COVID-19.

The contractual terms of the financial obligations, including the estimated interest payments and repayment obligations, are set out below.

31 December 2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Non-derivative financial liabilities							
Bank syndicate loans	85.0	(88.5)	(0.7)	(0.7)	(1.4)	(85.7)	–
Lease liabilities	15.4	(17.3)	(1.4)	(1.4)	(2.8)	(8.2)	(3.5)
Bank overdrafts	4.5	(4.5)	(4.5)	–	–	–	–
Other loans and borrowings	11.3	(11.6)	(3.8)	(1.3)	(2.5)	(3.4)	(0.6)
Trade and other payables	70.7	(70.7)	(70.7)	–	–	–	–
Tax liabilities	5.2	(5.2)	(5.2)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.2	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	192.3	(198.1)	(86.4)	(3.5)	(6.8)	(97.3)	(4.1)

31 December 2019 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Non-derivative financial liabilities							
Bank syndicate loans	35.0	(36.2)	(0.2)	(0.2)	(0.3)	(35.5)	–
Lease liabilities	14.7	(16.2)	(1.3)	(1.3)	(2.7)	(7.1)	(3.8)
Bank overdrafts	2.5	(2.5)	(2.5)	–	–	–	–
Other loans and borrowings	2.3	(2.4)	(0.4)	(0.4)	(0.8)	(0.8)	–
Trade and other payables	65.6	(65.6)	(65.6)	–	–	–	–
Tax liabilities	2.6	(2.6)	(0.3)	(2.3)	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.2	(0.3)	(0.1)	(0.1)	(0.1)	–	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	122.9	(125.8)	(70.4)	(4.3)	(3.9)	(43.4)	(3.8)

It is not expected that the cash flows included in the maturity analysis should occur significantly earlier, or at significantly different amounts. Within the scope of the Group's risk management the Group has hedged the currency and interest risks with derivatives, whereby the hedges have been designated as cash flow hedges.

Cash flow hedges (in statement of cash flows)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.3	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	–	–	–	–
Total	0.2	0.1	0.2	–	(0.1)	(0.0)	–

2019 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	–	–
Forward exchange contracts							
Assets	0.3	0.3	0.2	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	(0.0)	–	–	–
Total	0.1	(0.0)	0.1	(0.0)	(0.1)	–	–

Cash flow hedges (in statement of comprehensive income)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact the result.

2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.3	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	–	–	–	–
Total	0.2	0.1	0.2	–	(0.1)	(0.0)	–

2019 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	–	–
Forward exchange contracts							
Assets	0.3	0.3	0.2	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	(0.0)	–	–	–
Total	0.1	(0.0)	0.1	(0.0)	(0.1)	–	–

Interest-rate risk

Part of the Group's loans is governed by a floating interest rate (usually 3-month EURIBOR). In view of the Treasury Policy, the Group hedges at least 50% of the floating interest rate exposure. To this extent the Group has outstanding interest rate swaps with a notional amount of in total EUR 75 million (2019: EUR 55 million). The aggregate fair value of the outstanding interest rate swaps at 31 December 2020 was EUR 0.2 million negative (2019: EUR 0.2 million negative).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. The majority of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalises the nominal interest rate. The EUR 1.6 million mortgage loan was acquired through business combinations in 2013 and initially recorded at fair value. The effective interest rate of the loan is 3.7%. Other loans are not provided at an upcount or discount and no incremental transaction costs were incurred when the loans were drawn. The other loans were acquired through business combinations in 2020 and initially recorded at fair value.

				2020		2019	
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	IBOR + 1.7%	2023	85.0	85.0	35.0	35.0
Mortgage loan	EUR	6.4%	2022	1.6	1.6	2.4	2.3
Other loans	EUR	1.2-2.0%	2021-2026	9.7	9.7	–	–
Bank overdrafts China	CNY	PBOC +1.0%	2021	2.1	2.1	2.5	2.5
Bank overdrafts - other	Various	IBOR + 0.8%	2021	2.3	2.4	–	–
Lease liabilities	Various	2.0% - 7.8%	Various	15.5	15.4	14.7	14.7
Total interest-bearing debt				116.2	116.2	54.6	54.5

Sensitivity analysis interest

Financial assets and liabilities with a fixed interest rate are not recognised at fair value by processing the value changes in profit or loss. For this reason, a movement in interest rates across the yield curve at 1 January 2020 would not have had a material effect on the 2020 profit for the period.

The Group has hedged a considerable part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps and the loans with a fixed rate, in total EUR 86.6 million of the EUR 100.8 million long-term and short-term loans, excluding lease liabilities, at financial year-end have an interest rate which is fixed for one year or longer. Based on the interest-bearing debt levels at year-end and expected cash flow development, a 1%-point increase in the interest rate across the yield curve as from 1 January 2021, will have an increasing effect on interest expenses in 2021 of maximum EUR 0.1 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was EUR 0.4 million positive at 31 December 2020 (2019: positive EUR 0.3 million).

A 10%-point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2020 and the result for 2020 by the amounts shown in the following table. A 10%-point depreciation of the listed currencies against the euro would have had the opposite effect. The same test was done for the profit or loss, where the sensitivities for a 10% appreciation or depreciation on 31 December would have had an impact as is shown below.

31 December 2020	Equity	Result
US dollar	4.3	0.3
Czech koruna	0.9	(0.2)
Chinese yuan	2.9	0.7
Romanian lei	1.5	0.1
Indian rupee	0.4	0.1

31 December 2019	Equity	Result
US dollar	5.2	0.1
Czech koruna	0.7	(0.2)
Chinese yuan	1.3	0.2
Romanian lei	1.4	0.2

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2020	At 31 December 2019	Average over 2020
Pound sterling	0.8990	0.8508	0.8855
Czech koruna	26.2419	25.4078	26.3852
Chinese yuan	8.0225	7.8205	7.8887
US dollar	1.2271	1.1234	1.1433
Romanian lei	4.8683	4.7830	4.8375
Swedish krona	10.0343	10.4468	10.4654

Fair values of financial instruments

The following table shows the fair values and carrying amounts of the financial instruments:

EUR million	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Receivables (including current tax assets)	54.8	54.8	49.8	49.8
Cash and cash equivalents	13.0	13.0	7.1	7.1
Held to maturity investments	3.0	3.0	2.7	2.7
	70.8	70.8	59.6	59.6
Liabilities carried at amortised costs				
Banking syndicate loans	(85.0)	(85.0)	(35,0)	(35.0)
Mortgage loan	(1.6)	(1.6)	(2.3)	(2.4)
Other loans	(9.7)	(9.7)	–	–
Lease liabilities	(15.4)	(15.4)	(14.7)	(14.7)
Bank overdraft	(4.5)	(4.5)	(2.5)	(2.5)
Trade and other payables (including current tax liabilities)	(75.9)	(75.9)	(68.2)	(68.2)
	(192.1)	(192.1)	(122.7)	(122.8)
Liabilities carried at fair value				
Interest derivatives	(0.2)	(0.2)	(0.2)	(0.2)
Forward exchange contracts	–	–	–	–
	(0.2)	(0.2)	(0.2)	(0.2)

The Group has no available for sale financial assets and all liabilities at fair value were designated as such upon initial recognition.
The loans and receivables consist of the trade and other receivables, including the current tax assets in the statement of financial position.
The forward exchange contracts and interest derivatives are included in the trade and other payables in the statement of financial position.

Interest rate used in measuring fair value

The interest rate used for discounting estimated cash flows, where applicable, is based on the swap curve at 31 December, augmented by the prevailing credit mark-up, and is as follows:

	2020	2019
Derivatives	0.0%	0.0%
Leases	1.7%	0.9%
Banking syndicate loans	1.7%	0.9%
Mortgage loans	1.2%	0.7%
Other loans	1.2%	0.7%

Fair value hierarchy

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The fair value calculation method of all assets and liabilities carried at amortised costs is categorised in level 2 of the fair value hierarchy. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

level 1 quoted prices (unadjusted in active markets for identical assets or liabilities);

level 2 inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2020				
Derivative contracts used for hedging	–	0.2	–	0.2
Total	–	0.2	–	0.2
31 December 2019				
Derivative contracts used for hedging	–	0.1	–	0.1
Total	–	0.1	–	0.1

Master netting

The Company has no master netting agreement in place. All derivative instruments are presented individually as either an asset or liability.

18 Leases

The group leases buildings, cars, office equipment and forklifts. The lease term varies between 3 to 15 years. For buildings an option to renew the lease after the lease period is customary. Information about leases for which the Group is a lessee is presented on several places throughout the financial statement:

- total cash outflow for leases is included in the consolidated statement of cash flows for repayments of lease liabilities (EUR 2.9 million (2019: EUR 2.5 million)) and in note 26 for interest (EUR 0.6 million (2019: EUR 0.6 million));
- the carrying amount of right-of-use assets at the end of the reporting period by class of underlying assets, addition to these assets and the depreciation charge for these assets are included in note 1;
- interest expense on lease liabilities are included in note 25;
- expenses relating to short-term leases or low-value assets amount to EUR 0.2 million (2019: 0.2 million).

19 Capital commitments

As at 31 December 2020 the Group had capital commitments totalling to EUR 5.4 million (2019: EUR 4.3 million).

20 Contingent assets and liabilities

Contingent liabilties

The Group had guarantees in particular with regard to rentals, financing facilities and post employee benefits totalling to EUR 1.6 million (2019: EUR 1.5 million).

The Group has divested itself of a number of companies in the past. The customary representations and warranties for transactions of this nature are included in the relevant share or asset purchase agreements. The Group, as is customary for transactions of this nature, also issued representations and warranties for potential (tax) claims relating to periods prior to the various divestment dates.

21 Operating segments

The Group, in accordance with IFRS 8, has included general and entity-wide disclosures in these consolidated financial statements.

Geographical segments based on physical location of the Group operating companies

The revenue and non-current assets per geographic area are specified below.

EUR million	Germany		Other European countries		Asia[1]	
	2020	2019	2020	2019	2020	2019
Revenue from transactions with third parties	219.4	223.1	90.3	109.7	46.8	27.4
Other non-current assets	209.9	162.9	33.9	35.2	16.4	10.7
Deferred tax assets	9.3	8.4	4.7	3.1	2.1	0.0
Net liability for defined benefit obligations	12.2	15.3	0.7	0.9	–	–

EUR million	The Americas		Consolidated	
	2020	2019	2020	2019
Revenue from transactions with third parties	39.9	52.2	396.4	412.4
Other non-current assets	20.2	21.5	280.4	230.3
Deferred tax assets	3.1	3.0	19.2	14.5
Net liability for defined benefit obligations	–	–	12.9	16.2

Revenue segmented by customer location

EUR million	2020	2019
Germany	155.7	182.2
Other European countries	117.6	115.5
Asia	63.0	41.3
The Americas	58.0	71.6
Other countries	2.1	1.8
Total	396.4	412.4

[1] Mainly relates to China.

Information about reportable segments

Kendrion has split all activities over two segments: Automotive and Industrial. Based on the structure of the Group and the criteria of IFRS 8 – Operating segments, Kendrion has concluded that within this structure the Kendrion business units are the operating segments within the Group. Based on the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. The automotive activities focus on developing and manufacturing innovative high-quality electromagnetic components, solutions and applications for customers in the automotive industry. The industrial activities of the business units Industrial Brakes and Industrial Actuators and Controls focus on developing and manufacturing electromagnetic systems and components for industrial applications. These business units also have similar economic characteristics and display a number of similarities with respect to their technology, production processes, equipment and customers.

EUR million	Industrial		Automotive		Consolidated	
	2020	2019[2]	2020	2019[2]	2020	2019[2]
Revenue from transactions with third parties	190.3	153.6	206.1	258,8	396.4	412.4
Inter-segment revenue	0.0	0.0	0.1	0.1	0.1	0.1
EBITDA	26.3	17.1	13.9	21.0	40.2	38.1
EBITDA as a % of revenue	13.8%	11.1%	6.7%	8.1%	10.1%	9.2%
EBITA	17.8	10.4	(3.3)	3.7	14.5	14.1
EBITA as a % of revenue	9.3%	6.8%	(1.6)%	1.4%	3.7%	3.4%
EBITDA[1]	29.1	18.8	15.5	25.0	44.6	43.8
EBITDA as a % of revenue[1]	15.3%	12.2%	7.5%	9.7%	11.3%	10.6%
EBITA[1]	20.7	12.1	(1.8)	7.7	18.9	19.8
EBITA as a % of revenue[1]	10.9%	7.9%	(0.8)%	3.0%	4.8%	4.8%
Reportable segment assets	219.6	127.3	209.5	229.8	429.1	375.1
Reportable segment employees (FTE)	1,058	892	1,398	1,424	2,456	2,316

1 Normalised for non-recurring costs of EUR 4.4 million for FY 2020 and of EUR 5.7 million for FY 2019.
2 Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Major customers

Three customers (Volkswagen and ThyssenKrupp Bilstein in Automotive and Siemens in Industrial) individually account for more than 5% of the company's total revenue.

22 Business combinations and acquisitions of non-controlling interests

2020

Business combinations

On 5 November 2019 Kendrion announced that it entered into a definitive agreement to acquire 100% of the shares of the company INTORQ GmbH & Co. KG (hereinafter: INTORQ). This transaction was successfully completed on 8 January 2020, which also marks the date that Kendrion obtained control over INTORQ. From that date onwards the financial statements of INTORQ and its subsidiaries are consolidated by Kendrion and reporting in the Industrial segment. And as from 1 April onwards, INTORQ and IDS were included in a newly formed business unit Industrial Brakes (IB).

INTORQ manufactures spring-applied brakes and electromagnetic brakes and clutches for electrical drive technologies. INTORQ products are used in a diverse range of applications, including geared and servomotors, electric forklifts, wind turbines, cranes, hoists, elevators and escalators. INTORQ has production sites in Aerzen (Germany), Shanghai (China), Atlanta (the U.S.) and Pune (India) and produces approximately 1 million brakes and clutches per year. In 2019, INTORQ had annual revenues of around EUR 55 million and nearly 300 employees.
With its strong position in and deep knowledge of the spring-applied brake technology, proven product portfolio and successful and sizeable presence in Shanghai and Aerzen, INTORQ complements Kendrion's business unit Industrial Drive Systems (IDS) that has a strong position and broad product portfolio in permanent magnet brake technology. Both INTORQ and Kendrion are well-positioned to profit from growing end markets. The combination with INTORQ, creates a leading industrial brake company with a full range of high-quality industrial brakes in an expanded number of growth markets i n Europe, China, the U.S. and India. Specific shared end-markets include electric motors, wind power and elevators. Complimentary markets include geared motors, forklifts, cranes and hoists.

From 8 January 2020, INTORQ contributed revenue of EUR 54 million to the Group's results. Its contribution to net profit during this period amounted to EUR 3.2 million after deduction of the charges relating to the purchase price allocation. Management considers the revenue and contribution to net profit in the period 1 January 2020 until 8 January 2020 neglectable.

Consideration transferred

The total consideration transferred amounted to EUR 64.8 million. This includes an amount of EUR 0.4 million which is payable as per 31 December 2021.

Identifiable assets acquired and liabilities assumed

The table on the next page shows the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amount	Fair value adjustments	Recognised value
Intangible fixed assets	0.5	26.3	26.8
Property, plant and equipment	15.9	–	15.9
Deferred tax assets	0.3	4.5	4.8
Inventories	14.4	–	14.4
Trade and other receivables	7.3	–	7.3
Cash and cash equivalents	4.3	–	4.3
Deferred tax liabilities	(0.6)	(7.4)	(8.0)
Provisions	(0.1)	–	(0.1)
Loans and borrowings	(18.5)	–	(18.5)
Trade and other payables	(7.8)	–	(7.8)
Total identifiable net assets	15.6	23.5	39.1

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	64.8
Fair value of identifiable net assets	(39.1)
Goodwill	25.7

The goodwill is mainly attributable to the assembled workforce, synergies expected to be achieved from tangible and well-identified cost savings including the integration of selected manufacturing sites in Europe, China and the U.S. and the value attributable to customers.

Acquisition related costs

The group incurred acquisition-related costs of EUR 1.8 million related to advisory fees, legal fees and due diligence costs. Of these costs, EUR 1.2 million were recognised in 2019 and EUR 0.6 million in 2020. The costs have been included in other operating expenses in the statement of comprehensive income.

Post acquisition

On 4 September 2020, Kendrion (Aerzen) GmbH merged with INTORQ GmbH & Co. KG (now Kendrion INTORQ GmbH) via a legal merger. Kendrion (Aerzen) GmbH was part of the business unit Industrial Brakes and was situated in Aerzen, Germaby. The merger was part of the INTORQ integration plan. As a result of the merger Kendrion (Aerzen) GmbH seized to exist.

2019

On 5 November 2019 Kendrion announced that it has entered into a definitive agreement to acquire INTORQ GmbH & Co. KG. The transaction is valued at an enterprise value of EUR 80 million (on a cash and debt free basis), representing a multiple of 10.4 times FY 2018/19 EBITDA, and 8.0 times FY 2018/19 EBITDA including expected run-rate cost synergies. INTORQ is headquartered in Aerzen (Germany). INTORQ has annual revenues of around EUR 57 million and nearly 300 employees. The closing of this transaction took place on 8 January 2020.

23 Other income

EUR million	2020	2019
Net gain on disposal of property, plant and equipment	0.0	–
Other	0.3	–
	0.3	–

24 Staff costs

EUR million	2020	2019
Wages and salaries	96.4	100.2
Social security charges	17.7	18.0
Temporary personnel	2.2	2.7
Contributions to defined contribution plans	0.5	0.3
Expenses related to defined benefit plans	0.1	0.1
Increase in liability for long-service leave	0.1	0.1
Other costs of personnel	2.5	3.2
	119.5	124.6
Total number of employees and temporary workers at 31 December (FTE)	2,456	2,316

The number of employees and temporary workers at 31 December 2020 (FTE) working in the Netherlands is 15 (2019: 11). The staff costs 2020 include EUR 1.5 million one-off costs related to the restructuring measures (2019: EUR 2.9 million) and EUR 1.1 million short-time work compensation for social security charges, from Governments in multiple countries.

25 Other operating expenses

EUR million	2020	2019
Increase in provision for doubtful debts	0.3	0.3
Premises costs	5.6	5.8
Maintenance expenses	6.1	6.1
Transport expenses	2.0	1.6
Consultancy expenses	6.9	7.2
Sales and promotion expenses	0.9	1.7
Car, travel and representation costs	1.4	2.8
Insurance	2.3	1.7
Impairment of fixed assets	2.4	0.0
Other	3.4	3.5
	31.3	30.7

Research & Development expenses (including staff and other operating expenses) for 2020 totalled EUR 28.9 million (2019: EUR 27.1 million) of which EUR 0.7 million is capitalised (2019: EUR 3.1 million).

The other operating expenses 2020 include EUR 2.9 million related to one-off costs (2019: EUR 2.9 million).

26 Net finance costs

EUR million	2020	2019
Interest income	0.0	0.1
Net exchange gain	–	2.1
Finance income	0.0	2.2
Interest expenses	(2.8)	(1.7)
Interest expenses related to lease liabilities	(0.6)	(0.6)
Interest expenses related to employee benefits	(0.1)	(0.2)
Net exchange loss	(0.6)	(0.3)
Finance expense	(4.1)	(2.8)
Net financing costs	(4.1)	(0.6)

The net exchange gain 2020 include EUR 0.0 million related to release currency translation reserve (2019: EUR 2.0 million).
The interest expenses 2020 include EUR 0.6 million one-off costs related to the impact of tax audits (2019: EUR 0.1 million).

27 Income tax

EUR million	2020	2019
Current tax charge on year under review	(1.4)	(2.7)
Total corporation tax expenses in the income statement	(1.4)	(2.7)

The income tax 2020 included EUR 0.2 million one-off costs related to the write-off tax receivable (2019: EUR 0.4 million impact tax audits).

28 Reconciliation of effective tax rate

	Reconciliation effective tax rate		Reconciliation in EUR million	
	2020	2019	2020	2019
Profit before income tax			5.7	11.0
Income tax expense at local corporation tax rate	25.0%	25.0%	1.4	2.7
Non-deductible expenses	16.0%	5.2%	0.9	0.6
Effect of tax rates in foreign jurisdictions	(3.9)%	0.2%	(0.2)	0.0
Tax exempt income	(0.3)%	(11.3)%	(0.0)	(1.2)
Changes in estimates related to prior years	(18.4)%	0.1%	(1.0)	0.0
Current-year losses for which no deferred tax asset is recognised	–	3.6%	–	0.4
Additional deductible items	1.4%	1.7%	0.1	0.2
Other movements	4.8%	0.4%	0.2	0.0
	24.6%	25.0%	1.4	2.7

The tax-exempt income mainly relates to the release of the translation reserve of a subsidiary.
The changes in estimates related to prior years mainly relate to the provision for the impact of tax audits.

29 Related parties

Identity of related parties

A related-party relationship exists between the Company and its subsidiaries, their managers and executives. The Company has a number of agreements with its subsidiaries relating to the charging of central costs to and from the business units, including management, development, information technology and marketing costs, as well as agreements in respect of Group financing and use of intellectual property. Internal supplies are also obtained within the business units. Intercompany transactions are effectuated at arm's length market prices. As all subsidiaries are fully consolidated and reflected in these financial statements, the amounts of these transactions are not further specified. For a list of the principal subsidiaries, see page 196.

Compensations of key management personnel

The remuneration of the Executive Board and Supervisory Board is as follows:

EUR thousand	2020	2019
Short-term benefits	1,453.7	1,049.9
Post-employment benefits	133.8	102.6
Other long-term benefits	–	–
Share-based payments	120.7	75.4
Termination benefits	–	–
	1,708.2	1,227.9

The total remuneration is included in staff costs (see note 23). For a description of the remuneration policy of the members of the Executive Board, see pages 85-99.

The CEO will, based on this performance, receive a variable remuneration of 65.2% of his gross fixed remuneration. The CEO's gross variable remuneration amounts to EUR 358,600 (2019: EUR 191,283) which will be paid in cash.

The CFO will, based on this performance, receive a variable remuneration of 38.1% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 102,965 (2019: EUR 37,013) which will be paid in cash.

Members of the Executive Board have to invest at least 20% of the net amount of the pay-out of the short-term incentive earned until the required ownership level has been reached as prescribed under Kendrion's 'Share ownership guideline'.

The amount charged to the profit or loss regarding the long-term variable remuneration policy was EUR 120,780 (2019: EUR 75,373).

The vesting and holding periods for shares awarded to the CEO are specified as follows:

CEO (J.A.J. van Beurden)	Number of shares	Expiry vesting period	Expiry holding period
2020	16,533	Expiry performance period 2020-2022	End of 2024
2019	11,559	Expiry performance period 2019-2021	End of 2023
2018	6,960	Expiry performance period 2018-2020	End of 2022
2017*	3,383	End of 2019	End of 2021
2016*	3,970	End of 2018	End of 2020

* The long-term incentive scheme for the years 2016 and 2017 is subject to the terms of the remuneration policy applicable immediately prior to the Executive Board Remuneration Policy that was adopted in April 2018.

CFO (J.H. Hemmen)	Number of shares	Expiry vesting period	Expiry holding period
2020	6,769	Expiry performance period 2020-2022	End of 2024
2019	2,409	Expiry performance period 2019-2021	End of 2023
2018			
2017	Not applicable – effective date of appointment to the Executive Board 1 July 2019		
2016			

Pensions

The Executive Board participates in the defined contribution plan of the Company. For 2020, the contribution was EUR 31,949 (2019: EUR 31,238) for the CEO and EUR 25,905 (2019: EUR 12,664) for the CFO.

Transactions with shareholders

There were no transactions with shareholders.

Other related party transactions

As part of the INTORQ acquisition Kendrion also acquired a Related Party loan. The loan originally amounted to EUR 0.4 million, runs until June 2027 and has an interest percentage of 2%. As per 31 December 2020 the remaining outstanding amount is EUR 0.2 million. The loan is not secured.

30 Other notes

The subsidiary Kendrion Holding Germany GmbH, Villingen-Schwenningen, Germany included in these consolidated financial statements makes use of § 264(3) HGB (German Commercial Code). In accordance with that rule, the consolidated financial statements of Kendrion Holding Germany GmbH as of 31 December 2019 were not published. A complete list of all subsidiaries is available from the Amtsgericht in Freiburg im Breisgau (number HRB 704749) and from the Company offices. The following German legal entities are consolidated in these consolidated financial statements: Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH, Kendrion (Markdorf) GmbH, Kendrion (Aerzen) GmbH, Kendrion Kuhnke GmbH,

Kendrion Kuhnke Automation GmbH, Kendrion Kuhnke Automotive GmbH, Kendrion FAS Controls Holding GmbH, Kendrion INTORQ GmbH and Ochrea Grundstücksverwaltungsgesellschaft mbh & Co Vermietungs KG.
The subsidiary Kendrion (UK) Ltd. (registration number 1124810), Bradford, United Kingdom included in these consolidated financial statements is exempt from the requirements of section 479A (audit of accounts) of the Companies Act 2006.

31 Post-balance sheet events

There were no post/balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2020.

COMPANY BALANCE SHEET AT 31 DECEMBER

(before profit appropriation)

Note	EUR million	2020	2019 [1]
	Fixed assets		
	Property, plant and equipment	0.8	0.9
	Intangible assets	0.0	0.0
	Other investments, including derivatives	0.7	0.3
1.3	Financial fixed assets	234.9	232.4
	Total non-current assets	**236.4**	**233.6**
	Current assets		
1.4	Receivables	1.0	0.5
	Cash and cash equivalents	0.0	0.0
	Total current assets	**1.0**	**0.5**
	Total assets	**237.4**	**234.1**
1.5	**Equity**		
	Share capital	29.9	29.9
	Share premium	51.7	51.7
	Legal reserves	5.1	12.1
	Other reserves	112.4	100.6
	Retained earnings	4.3	8.3
	Total equity	**203.4**	**202.6**
1.6	**Current liabilities**		
	Loans and borrowings	32.0	29.8
	Payables	2.0	1.7
	Total current liabilities	**34.0**	**31.5**
	Total equity and liabilities	**237.4**	**234.1**

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

COMPANY INCOME STATEMENT

Note	EUR million	2020	2019 [1]
	Revenue	–	–
1.8	Other income	3.8	3.4
	Total revenue and other income	**3.8**	**3.4**
1.9	Staff costs	3.4	3.1
	Depreciation and amortisation	0.1	0.2
	Other operating expenses	1.2	1.9
	Result before net finance costs	**(0.9)**	**(1.8)**
	Finance income	0.1	0.1
	Finance expense	(1.0)	(1.3)
	Profit before income tax	**(1.8)**	**(3.0)**
	Income tax expense	1.6	0.1
	Profit for the period	**(0.2)**	**(2.9)**
	Share in results of Group companies after tax	4.5	11.2
1.10	**Net profit**	**4.3**	**8.3**

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

1 Notes to the company financial statements

1.1 General

The Company financial statements are part of the 2020 financial statements of Kendrion N.V. (the ‘Company’). The Company is registered at the Chamber of Commerce in The Netherlands under number: 30113646.

1.2 Principles of valuation of assets and liabilities and determination of results

In selecting the principles employed in the company financial statements for the valuation of assets and liabilities and determination of results, Kendrion N.V. has made use of the option provided by Section 362, subsection 8, of Book 2 of the Netherlands Civil Code. Consequently, the principles employed in the Company financial statements of Kendrion N.V. for the valuation of assets and liabilities and determination of results (the ‘accounting policies’) are identical to those employed in the consolidated EU-IFRS financial statements. Interests in entities in which Kendrion N.V. has significant influence are measured using the equity method. The consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board as endorsed for use in the European Union (hereinafter referred to as ‘EU-IFRS’). These policies are discussed in notes a – r.

1.3 Financial fixed assets

EUR million	Interest in Group companies	Loans to Group companies	Deferred tax	Total 2020	Total 2019 [1]
Carrying amount at 1 January	231.9	–	0.5	232.4	224.1
Results of Group companies	4.5	–	–	4.5	11.2
Movements in loans and borrowings	–	–	–	–	–
Movements in deferred tax assets	–	–	1.6	1.6	0.1
Other movements	(3.6)	–	–	(3.6)	(3,0)
Carrying amount at 31 December	232.8	–	2.1	234.9	232.4

1.4 Receivables

EUR million	2020	2019
Receivables from Group companies	0.4	0.3
Prepayments and accrued income	0.6	0.2
	1.0	0.5

All receivables are due within one year.

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

1.5 Equity

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for participations	Reserve for own shares	Other reserves [1]	Retained earnings	Total 2020	Total 2019 [1]
Restated balance at 1 January	29.9	51.7	5.3	(0.1)	6.9	(3.7)	104.3	8.3	202.6	182.1
Appropriation of retained earnings	–	–	–	–	–	–	8.3	(8.3)	–	–
Foreign currency translation differences for foreign operations	–	–	(5.5)	–	–	–	–	–	(5.5)	(0.8)
Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.2	–	–	–	–	0.2	0.3
Issue of ordinary shares	–	–	–	–	–	–	–	–	–	30.5
Own shares sold	–	–	–	–	–	–	–	–	–	3.6
Own shares repurchased	–	–	–	–	–	–	–	–	–	(7.2)
Share-based payment transactions	–	–	–	–	–	0.3	(0.1)	–	0.2	0.1
Dividend payment	–	–	–	–	–	–	–	–	–	(11.7)
Other	–	–	–	–	(1.7)	–	3.3	–	1.6	(2.6)
Total recognised income and expenses	–	–	–	–	–	–	–	4.3	4.3	8.3
Balance at 31 December	29.9	51.7	(0.2)	0.1	5.2	(3.4)	115.8	4.3	203.4	202.6

1.5.1 Share capital

The authorised capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 14,933,984 ordinary shares have been issued.

1.5.2 Share premium

The share premium represents revenue from shares issued at more than their nominal value (issued above par). The issued and paid share capital, including share premium, is fiscally recognised capital.

1.5.3 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates outside the euro zone. Gains and losses relating to the translation risk are recognised in equity. The build-up of the cumulative figure commenced on 1 January 2004.

1.5.4 Hedge reserve

The hedge reserve comprises the effective share of the cumulative net movement in the fair value of cash-flow hedging instruments relating to hedged transactions that have not yet been executed.

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

1.5.5 Statutory reserve for participations

This reserve pertains to participating interests that are accounted for according to the equity accounting method. The reserve represents the difference between the participating interests' retained profit and direct changes in equity, as determined on the basis of the Company's accounting policies, and the share thereof that the Company may distribute. It is shown as the share in the undistributed results of the subsidiaries since they were first valued using the equity method. The amount of any dividend – from these subsidiaries – to which there is an entitlement on adoption of the financial statements is deducted from this reserve.

1.5.6 Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company shares that are held by the Company for the remuneration package for the Executive Board. At 31 December 2020, the Company held 167,503 of its own shares (2019: 180,451).

1.5.7 Other reserves

Other reserves are all the reserves other than those shown separately and comprise primarily the cumulative, undistributed profits from previous financial years.

1.5.8 Retained earnings

In 2020, the full result for 2019 was included in other reserves. Retained earnings consequently consist solely of the result for 2020.

1.6 Current liabilities

EUR million	2020	2019
Debts to Group companies	31.3	29.1
Lease liability	0.7	0.7
Trade payables	0.3	0.3
Other payables and accrued expenses	1.7	1.4
	34.0	31.5

1.7 Financial instruments

See note 17 to the consolidated financial statements for details on financial instruments.

1.8 Other income

EUR million	2020	2019
Management fee	3.8	3.4
Other	–	–
	3.8	3.4

1.9 Staff costs

EUR million	2020	2019
Wages and salaries	2.8	2.5
Social security charge	0.1	0.1
Pension costs	0.4	0.3
Other costs of personnel	0.1	0.2
	3.4	3.1
Total number of employees and temporary workers at 31 December (FTE)	15	11

The Company has only defined contribution plans for its employees.

1.10 Profit appropriation

Appropriation of net profit

EUR million	2020	2019 [1]
Net profit	4.3	8.3

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 4.3 million will be added to the other reserves.

1.11 Commitments not appearing on the balance sheet

1.11.1 Joint and several liability and guarantees

The Company and its Group companies have issued guarantees mainly in the context of the financing by financial institutions.
The Company has issued declarations of joint and several liability, as referred to in Section 403 of Book 2 of the Netherlands Civil Code, for:

- Combattant Holding B.V., Zeist;
- Kendrion Finance B.V., Zeist.

Kendrion NV has a guarantee which relates to the rent of the office in Amsterdam totalling to EUR 0.0 million.

1.11.2 Fiscal unity

The Company and its Dutch subsidiaries excluding Landfort II B.V. and Kendrion Marketing B.V. form a tax group for corporation tax purposes.
According to the standard terms, each of the companies is jointly and severally liable for corporation tax payable by all the members of the fiscal unity.

[1] Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

1.12 Post-balance sheet events

There were no post-balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2020.

1.13 Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by Deloitte Accountants B.V. and its member firms and affiliates in 2020 and 2019 to the Company, its subsidiaries and other consolidated entities:

EUR thousand	2020			2019		
	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte
Audit of financial statements	256.8	347.3	604.1	192.0	252.0	444.0
Other assurance services	30.1	–	30.1	29.6	–	29.6
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	–	–	–
Total	286.9	347.3	634.2	221.6	252.0	473.6

1.14 Remuneration of and share ownership by the Executive Board and Supervisory Board

Remuneration of the Executive Board

The remuneration of current Executive Board members charged to the Company and Group companies, including pension expenses as referred to in Section 383, subsection 1, of Book 2 of the Netherlands Civil Code, amounted to EUR 1,538,300 (2019: EUR 1,055,900). This remuneration is as follows:

EUR thousand	2020			2019		
	J.A.J. van Beurden	J. H. Hemmen	Total	J.A.J. van Beurden	J. H. Hemmen[1]	Total
Fixed remuneration	517.9	254.5	772.4	508.4	117.5	625.9
Short-term variable remuneration	358.7	102.8	461.5	191.3	37.0	228.3
Long-term variable remuneration	86.7	34.0	120.7	63.6	11.8	75.4
Total remuneration	963.3	391.3	1,354.6	763.3	166.3	929.6
Pension and other expenses	90.3	93.1	183.7	91.4	34.9	126.3
	1,053.9	484.4	1,538.3	854.7	201.2	1,055.9

1 Appointed as of 1 July 2019.

The 2020 short-term variable remuneration will be paid in cash after income tax.

For more information on the long-term variable remuneration see pages 169-170.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2020 amounts to EUR 170,000 (2019: EUR 172,000). This remuneration is as follows:

EUR thousand	2020	2019
H. ten Hove	47	50
M.J.G. Mestrom	38	41
J.T.M. van der Meijs	38	41
E.M. Doll (appointed as of 24 June 2020)	28	–
T.J. Wünsche (stepped down as from 30 April 2020)	19	40
	170	172

No loans, advances or related guarantees have been given to the Executive Board or Supervisory Board members.

Share ownership by the Executive Board and the Supervisory Board

		31 December 2020	31 December 2019
Executive Board	J.A.J. van Beurden	32.941	30,000
	J.H. Hemmen	2.241	872
Supervisory Board		–	–

Amsterdam, 18 February 2021

Executive Board	**Supervisory Board**
J.A.J. van Beurden	H. ten Hove
J.H. Hemmen	M.J.G. Mestrom
	J.T.M. van der Meijs
	E.M. Doll

Provisions in the Articles of Association governing the appropriation of profit

Under article 35.1 and 35.2 of the Articles of Association of the Company, the Executive Board shall, with the approval of the Supervisory Board, determine which part of the profits is added to the reserves. The profit remaining after transfer to the reserves is available to the General Meeting of Shareholders. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by the Executive Board at the date of each dividend payment.

To the shareholders and the Supervisory Board of Kendrion N.V.

Independent auditor's report

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the accompanying financial statements 2020 of Kendrion N.V., registered in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2020.
2. The following statements for 2020: the consolidated statement of financial position, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2020.
2. The company profit and loss account for 2020.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Kendrion N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 1,200,000 (2019: EUR 1,200,000). Last year we used profit before tax in determining our materiality. Due to the effect of COVID-19 on the company's Profit Before Tax we deem this to be a less appropriate benchmark for this year's audit. We therefore utilized net assets and revenue in determining this year's materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Component audits are performed using materiality levels determined by the judgement of the group audit team, considering materiality for the consolidated financial statements as a whole and the reporting structure of the group. Component materiality did not exceed EUR 540,000.

We agreed with the Supervisory Board that misstatements in excess of EUR 60,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Kendrion N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Kendrion N.V.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by the auditors of the components. We directed and supervised the work of our component auditors as part of the group audit. Our group audit mainly focused on significant group entities in terms of size and financial interest, significant risks or complex activities are present, leading to full scope audits performed for 15 components.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Due to COVID-19 and related travel restrictions we were unable to visits the components during our 2020 audit. To overcome this limitation, we intensified the contact with our component teams throughout the year

We have performed the following audit procedures:

- We performed audit procedures at group level in areas such as consolidation, reporting, accounting for the INTORQ acquisition, goodwill impairment testing and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.
- At group level, we have performed audit procedures regarding the corporate entities and we also performed full scope audit procedures on Kendrion (Shelby) Inc.
- For all other relevant foreign components, the group audit team provided detailed written instructions, which – in addition to communicating the requirements of component audit teams – detailed significant audit areas and information obtained centrally relevant to the audit of individual

components including awareness of risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included conference calls with component during all stages of the audit whereby fraud specialists accompanied the group engagement team at several preselected components, performing remote file reviews, attending closing meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed.

- We have performed review procedures or specific audit procedures at other group entities.

Audit coverage	
Audit coverage of consolidated revenues	96%
Audit coverage of consolidated assets	94%

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Scope of fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error. Non-compliance with law and regulation may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Consideration of fraud

In identifying potential risks of material misstatement due to fraud, we obtained an understanding of the group and its environment, including the entity's internal controls. We evaluated the Company's fraud risk assessment including the possible impact of this on the audit and made inquiries with management, those charged with governance and with others within the Company/Group, including but not limited to, e.g. General Counsel, Global Internal Audit & Risk Manager, Compliance Officer and Controllers. We evaluated several fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud. We involved our forensic specialists in our risk assessment, our communication with a number of component auditors and meeting with the entity's Global Internal Audit & Risk Manager. The level of involvement of our forensic specialists in the communication with our components auditors was determined based upon size and risk.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls, including evaluating whether there was evidence of bias by the Executive Board, the executive leadership team and other members of management, which may represent a risk of material misstatement due to fraud.

As part of our audit procedures to respond to these fraud risks, we evaluated the design and implementation of the internal controls relevant to mitigate these risks. We performed substantive audit procedures, including detailed testing of journal entries and evaluating the accounting estimates for bias (including retrospective reviews of prior year's estimates). We also incorporated elements of unpredictability in our audit. The procedures described are in line with the applicable auditing standards and are not primarily designed to detect fraud. Our procedures to address fraud risks did not result in a key audit matter.

Consideration of compliance with laws and regulations

We assessed the laws and regulations relevant to the Company through discussion with relevant employees (like Chief Financial Officer, General and Legal Counsel and Global Internal Audit & Risk Manager), discussion with component teams and reading minutes of relevant meetings and reports of internal audit.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered law or regulation, adherence to (corporate) tax law and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements. In addition, we considered major laws and regulations applicable to listed companies.

Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to the Company's ability to continue its business, or to avoid material penalties (e.g. compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to (i) inquiry of management, the Supervisory Board, the Executive Board and others within the Company as to whether the Company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Because of the characteristics of fraud, particularly when it involves sophisticated and carefully organized schemes to conceal it, such as forgery, intentional omissions, misrepresentation and collusion, an unavoidable risk remains that we may not detect all fraud during our audit.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior year, we included the valuation of goodwill and the general IT controls as separate key audit matters. These are also included in our 2020 report. For our 2020 report there are two new key audit matters, being bank covenants and the purchase price accounting for the INTORQ acquisition.

1. General IT controls

Description

Kendrion has operations in different countries that use one groupwide IT platform (excl. the newly acquired INTORQ entities), which is located and maintained in Villingen, Germany. In the last couple of years, management has been in the process of establishing a formal IT control framework and further enhancing the internal controls surrounding the overall IT environment. We consider Kendrion's IT landscape and general IT controls over financial reporting as our basis for designing audit procedures that are appropriate for our audit. We have included general IT controls as a key audit matter because the importance of these controls on the group's control environment.

How the key audit matter was addressed in the audit

We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes.

IT audit specialists have been deployed to assist us with testing the group's general IT controls.

Observation

We have shared our observations and recommendations in relation to general IT controls with management. In 2020, consistent with 2019, we were not able to rely on the general IT controls for our audit approach. Alternatively, we gained the required level of assurance from additional substantive audit procedures.

2. Goodwill impairment – Cash Generation Unit Automotive

Description

Goodwill represents 27% of the balance sheet and 57% of total equity. The goodwill related to the Cash Generation Unit ("CGU") Automotive is 51% of the total goodwill.

The audit procedures carried out on the valuation of goodwill are regarded as a key audit matter due to the relative significance of the account as well as the deteriorated financial performance of the Automotive CGU over the last years and the impact that COVID-19 had on the automotive segment in 2020. As a result of deteriorated financial performance over the last years, the headroom (difference between the expected value of the future cash flows and the carrying amount) decreased. Reason for us to mark the valuation of the goodwill within Automotive as a key audit matter in our audit. Within the other CGU's sufficient headroom exists.

In addition, the valuation of goodwill is susceptible to management judgment and estimates and is based on assumptions that are affected by future market and economic conditions.

The assumptions in relation to the expected future cash flows are predominantly based on the approved budget for 2021. For the period thereafter (2022-2025) the company prepared a midterm business plan. The results of the impairment analysis are most sensitive to:

- Revenue growth;
- EBITDA margin development; and
- WACC

How the key audit matter was addressed in the audit

Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the impairment analysis in relation to the valuation of the goodwill of the Automotive CGU. We have mainly adopted a substantive audit approach and did not rely on internal controls.
Our audit procedures have mainly focused on:

- Testing design and implementation of management's process and control around the impairment analysis;
- Evaluate the impairment model used by the Company and verified the mathematical accuracy of this model;
- Obtaining and evaluating independent market research reports and comparing the general growth data to Kendrion's expectations;
- Obtaining and evaluating the budget of 2021 and the midterm plan that are approved by the Supervisory Board;
- Assessment of the key assumptions in the impairment model and discuss the results thereof with the division management, Executive Board and the Supervisory Board;
- Assessment of the management estimate in relation to the budget of prior years based on the actual financial results (back-testing);
- Assessment of the methodologies, calculated WACC and the long-term growth percentage, using internal valuation experts;
- Reconciling the already contracted revenue to underlying source documents (like signed contracts) and challenge management on their expectation on the pipeline (i.e chance to win, production volumes of OEM's and future sales price development);
- Assessment of the anticipated improvement in EBITDA in comparison to the realized EBITDA in 2020 and the expected improvement in the operations;
- The accuracy and completeness of the related disclosures in the annual report;
- Performing sensitivity analysis based upon different scenarios with respect to the revenue growth, EBITDA and WACC.

Observation

No impairment has been recognized in the annual report. Based on our procedures performed, we are of the opinion that the anticipated revenue growth in combination with an improvement in the EBITDA is ambitious, but in alignment with the strategic goals of Kendrion. We expect the Executive Board to be continuously alert on the actual realization of the assumptions included in the budget and projections. The WACC used by Kendrion is below the WACC as determined by our internal valuation specialists. Using a higher WACC and/or not realizing the target impacts the sensitivity significantly as further analyzed and disclosed by Kendrion as part of disclosure note 2 in the annual report.
Based on the procedures performed, we are of the opinion that the assumptions used by Kendrion in the calculations are acceptable and deem the related disclosures in the annual report sufficiently.

3. Purchase Price Allocation INTORQ acquisition

Description
On 8 January 2020, Kendrion completed the acquisition of INTORQ.

The total Purchase Price of INTORQ was EUR 80 million of which EUR 25.7 million was allocated as Goodwill. Due to its significance we have reported this as a key audit matter.

The acquisition has a number of implications for our audit. Firstly, auditing the determination of the purchase price, and the necessary “Purchase Price Allocation”. In addition to auditing the transaction itself, we have to plan the nature, timing and extent of the audit of the INTORQ activities and entities in accordance with the audit standard (the so-called ISA 600-group audit).

How the key audit matter was addressed in the audit
Based on the requirements of IFRS 3, we audited the recognition of the acquisition for which we used a substantive approach. We inspected the Share Purchase Agreement and validated that the purchase price is paid to the seller. An important element in the “Purchase Price Allocation” is the identification and valuation of the acquired (intangible) assets and liabilities. We audited the identification of (intangible) assets and liabilities based on our knowledge of the operational activities of INTORQ and the reasons for the acquisition and used internal valuation experts to validate the valuation based on general accepted valuation models. We recalculated the amount of goodwill to be recognized and assessed the allocation to cash-generating units.
We also validated the sufficiency of the disclosures in the annual accounts in relation to the acquisition.

We further gained insights in the activities and business processes of INTORQ to enable detailed risk analyses. The audit procedures in relation to those risks are mainly performed on a substantive basis by component auditors in Germany and China. The component auditors tested the relevant internal controls within INTORQ. Relevant findings have been included in

a management letter. On group level, we additionally tested the design and implementation of internal control measures in relation to INTORQ focused on the consolidation and financial reporting.

Observation
Based on our materiality and procedures performed, we are of the opinion that the recognition of the acquisition of INTORQ is in line with the requirements of IFRS 3 and that the acquisition is adequately disclosed in the 2020 annual accounts in order to meet the information needs of the users.

4. Bank covenants

Description
In August 2020, Kendrion has reached an agreement on key terms with its banking syndicate to increase the leverage covenant for the quarters up to and including the fourth quarter of 2021. The agreement in principle allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from 31 December 2021 onwards. Although Kendrion currently operates well within its existing leverage covenants, we deem this to be key audit matter as there are relevant accounting and disclosure requirements related to this.

At the end of 2020, the leverage ratio (based on definitions in the existing loan documentation) was 2.3 against a permitted financial covenant level of 4.70.

How the key audit matter was addressed in the audit
Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the revised bank agreements. We have mainly adopted a substantive audit approach and did not rely on internal controls.

Our audit procedures have mainly focused on:
- Obtaining and evaluating the revised loan agreements;
- Evaluate the accounting treatment of the additional amendment fee paid to the lenders;
- Recalculated management calculation for the net debt to equity ratio and verified that the ratio is below the maximum agreed ration per 31 December 2020;
- Verified that management operates in compliance with the revised agreement;
- Assess that the disclosure in footnote 11 is accurate and complete and in accordance with the revised loan agreement.

Observation
Based on the procedures performed, we are of the opinion that the accounting followed by Kendrion is in accordance with IFRS and deem the related disclosures in the annual report sufficiently insightful to point the users of the annual report to the existing covenants.

Report on the other information included in the Annual Report
In addition to the financial statements and our auditor's report thereon, the annual report contain other information that consists of:
- Report of the Executive Board.
- Report of the Supervisory Board.
- Remuneration Report.
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.
- Other Information as included in the annual report.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Executive Board, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Kendrion N.V. on April 13, 2015, as of the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding the Financial Statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Executive Board and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, February 18, 2021

Deloitte Accountants B.V. Initial for identification purposes:

B. Beemer

To the Shareholders and Supervisory Board of Kendrion N.V.

Assurance report of the independent auditor with respect to the 2020 Sustainability Information of Kendrion N.V.

Our conclusion

We have reviewed the Sustainability Information in the 2020 Annual Report of Kendrion N.V. based in Amsterdam. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed nothing has come to our attention that causes us to believe that the sustainability information does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year 2020 as included in the section ‘reporting criteria’ as disclosed in the chapter ‘About the sustainability report’ of the 2020 Annual Report.

The sustainability information consists of performance information regarding Energy consumption and CO_2-emission, Accidents and Lost Time Injuries, Illness rate and Number of Supplier audits in the sections ‘Facts and Figures’ on page 9 and ‘Action on Sustainability’ on pages 37 – 56 of the 2020 Annual Report (hereafter: “the KPIs”).

Basis for our conclusion

We have performed our review on the sustainability information in accordance with Dutch law, including Dutch Standard 3000A ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’. This assurance engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the section ‘Our responsibilities for the review of the sustainability information’ of our report.

We are independent of Kendrion N.V. in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten’ (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA, Dutch Code of Ethics).

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

Reporting criteria
The sustainability information needs to be read and understood together with the reporting criteria. Kendrion NV is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are disclosed in the chapter 'About the sustainability report' of the 2020 Annual Report.

Responsibilities of the Executive Board and the Supervisory Board for the sustainability information
The Executive Board is responsible for the preparation of the sustainability information in accordance with reporting criteria as included in the section 'reporting criteria' and in the chapter 'About the sustainability report' in the 2020 Annual Report, including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the sustainability information and the reporting policy are summarised in the chapter 'About the sustainability report' of the 2020 Annual Report.

The Executive Board is also responsible for such internal controls as the Executive Board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the reporting process of Kendrion N.V.

Our responsibilities for the review of the sustainability information
Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in assurance engagements with a limited level of assurance is therefore substantially less than the assurance obtained in an audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' (Regulations for professional accountants practices on assurance engagements) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our review engagement included:

- Reviewing the processes and systems for data gathering, including the aggregation of the five KPIs as included in the Integrated Report 2020;
- Performing analytical review procedures on the five selected KPIs;
- Inquiry with Corporate staff

We communicate with the Supervisory Board regarding, among other matters, the planned scope, timing and outcome of the review.

Eindhoven, 18 February 2021

Deloitte Accountants B.V.

B. Beemer

EUR million, unless otherwise stated	2020	2019[6]	2018	2017[7]	2016
Statement of normalised comprehensive income					
Revenue	396.4	412.4	448.6	461.8	443.4
Organic growth	(3.9%)	(8.1)%	(2.9%)	4.2%	0.3%
Operating result before amortisation (EBITA)[1]	18.9	19.8	35.4	37.5	31.1
Depreciation of property, plant, equipment and software	25.7	24.0	23.1	22.5	20.3
Operating result before depreciation and amortisation (EBITDA)[1]	44.6	43.8	58.5	60.0	51.4
Net profit for the period before amortisation[1]	11.7	12.6	24.3	25.7	22.3
Statement of financial position at 31 December conform financial statements					
Total assets	429.1	357.1	375.3	360.2	347.1
Total equity	203.4	202.6	182.1	179.6	178.1
Net interest-bearing debt	103.2	47.4	80.5	70.6	54.0
Working capital[2]	41.4	42.9	51.4	45.1	41.3
Invested capital[2, 3]	174.4	169.6	179.6	163.7	138.3
Statement of normalised cash flows[4]					
Net cash from operating activities	47.9	45.4	41.9	44.7	45.3
Net cash from investing activities	16.4	19.8	31.3	28.3	23.0
Free cash flow	31.5	25.5	10.5	16.4	22.3
Ratios					
Return on Sales (ROS)[1]	4.8%	4.8%	7.9%	8.1%	7.0%
Solvency	47.4%	56.7%	48.5%	49.8%	51.3%
Net interest-bearing debt / EBITDA[1] (debt cover)	2.3	1.1	1.4	1.2	1.1
Net interest-bearing debt / equity (gearing)	0.5	0.2	0.4	0.4	0.3
EBITDA[1] / net finance costs (interest cover)[5]	17.0	29.9	36.6	35.6	24.5
Return on Investment (ROI)[1, 2, 3]	10.8%	11.7%	19.7%	22.9%	22.5%
Working capital[2] in % of revenue	10.4%	10.4%	11.5%	9.8%	9.3%
Dividend payout ratio of net profit	50%	0%	52%	50%	53%
Market capitalisation as at 31 December	247.9	312.9	283.7	542.9	358.3
Net interest-bearing debt as at 31 December	103.2	47.4	80.5	70.6	54.0
Theoretic value of the organisation (Enterprise value)	351.1	360.3	364.2	613.5	412.3
Number of employees at 31 December (FTE)	2,456	2,316	2,465	2,645	2,578

1 2016 excluding one-off costs relating to simplifying measures of EUR 5.7 million (after tax EUR 4.7 million), 2017 excluding one-off costs relating to simplifying measures of EUR 5.1 million (after tax EUR 3.8 million), 2018 excluding one-off costs relating to simplifying measures of EUR 8.8 million (after tax EUR 6.5 million), EUR 0.3 million finance expenses and EUR 2.0 million tax expenses for tax audit, 2019 excluding one-off costs relating to simplifying measures of EUR 2.9 million (after tax EUR 2.1 million), EUR 1,6 million claim settlement (after tax EUR 1.2 million), EUR 1.2 million acquisition costs (after tax 0.9 million), EUR 2.0 million positive release from currency translation reserve, EUR 0.1 million finance expenses and EUR 0.4 million tax expenses for tax audit and 2020 excluding excluding one-off costs relating to simplifying measures of EUR 3.8 million (after tax EUR 2.9 million), EUR 0.6 million acquisition costs (after tax 0.4 million), EUR 0.6 finance expenses for tax audit and EUR 0.2 million tax expenses relating to simplifying measures.

2 Excluding accruals and provisions related to one-off costs.

3 Invested capital is property, plant and equipment, intangible assets, other investments and net working capital less goodwill and other intangibles related to acquisitions.

4 Excluding cash flows relating to acquisitions and disposals and excluding payments and receipts relating to one-off costs.

5 The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities, the amortisation of upfront and legal fees and the interest on lease liabilities.

6 Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies as per 1 January 2020.

7 Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

PRINCIPAL SUBSIDIARIES

At 31 December 2020

Industrial

Industrial Actuators and Controls (Robert Lewin)	Managing Director
Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany	Robert Lewin
Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany	Alfons Mattes
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania	Mihai Petculescu
Kendrion (Linz) GmbH, Linz, Austria	Christian Edelmaier
Kendrion Kuhnke Automation GmbH, Malente, Germany	Robert Lewin
Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden	Ronnie Jennerheim

Industrial Brakes (Andreas Laschet)	Managing Director
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion (UK) Ltd., Bradford, United Kingdom	Peter McShane
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion INTORQ GmbH, Aerzen, Germany	Lars Knoke
INTORQ (Shanghai) Co. Ltd, Shanghai, China	Telly Kuo
INTORQ US Inc., Atlanta, US	Olaf Detlef
INTORQ India Private Limited, Pune, India	Aniket Gujrathi

Automotive (Ralf Wieland / Manfred Schlett)

	Managing Director
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion Kuhnke Automotive GmbH, Malente, Germany	Ronny Splettstößer
Kendrion (Markdorf) GmbH, Markdorf, Germany	Manfred Schlett
Kendrion (Eibiswald) GmbH, Eibiswald, Austria	Klaus Pichler
Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania	Andra Boboc
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Tomas Soldan
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Rhett Cathcart
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo

A complete list of all subsidiaries is available from the Chamber of Commerce in Utrecht (number 30113646) and from the Company offices. Kendrion N.V. has, directly or indirectly, a 100% interest in all subsidiaries, except for Newton CFV, Inc., as disclosed in note 3 of the Financial Statements.

The scope of Kendrion's CSR reporting is based on the information requirements of our key stakeholder groups. In order to ensure that Kendrion meets its information requirements towards its stakeholders, a materiality analysis was carried out in 2018, the outcome of which has been used as input for Kendrion's sustainability program and the 2019-2023 target framework. In 2020, Kendrion commissioned the performance of a new materiality analysis. Kendrion selected relevant material themes and topics derived from Kendrion's strategic plan, its activities and applicable laws and regulations. For a description of our materiality analysis, please refer to pages 38-39 of this Annual Integrated Report.

Kendrion makes use of the Global Reporting Initiative (GRI) reference claims for most of the general information and material topics, including: economic performance, anti-corruption, energy efficiency, emissions to air, occupational safety and health and non-discrimination and equal opportunities. This Annual Integrated Report references Disclosure 201-1 (a) from GRI 201: Economic performance 2016, Disclosure 205-3 from GRI 205: Anti-corruption 2016, Disclosure 302-1 (a, c, e-g) from GRI 302: Energy 2016, Disclosure 305-1 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 305-2 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 403-9 (a, d-g) from GRI 403: Occupational Health and Safety 2018, Disclosure 405-1 (a-i, b-i) from GRI 405: Diversity and Equal Opportunities 2016. For the material themes 'responsible procurement practices' and 'training and education', Kendrion has developed its own indicators,

Kendrion's non-financial reporting includes only data from entities that are – directly or indirectly – wholly owned by Kendrion N.V., unless explicitly stated otherwise. Acquisitions are reported as from the effective date ownership is acquired.

During 2020, the internal management information system and internal controls for non-financial reporting were further improved.
Being transparent and accountable is fundamental to the way in which Kendrion operates. Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework in order to safeguard the quality and accuracy of data collected. With a view to maintain the quality and consistency of the data reported, the reporting process and applicable definitions relevant to all non-financial data collected and subsequently consolidated, are recorded in an internal reporting manual. Internal control procedures safeguarding the quality and accuracy of non-financial data collected are part of Kendrion's Risk Management Framework. Compliance with the internal reporting manual and the internal control procedures are reviewed by the Global Internal Audit and Risk Manager.

The sustainability figures and data presented in this Annual Integrated Report are not always fully comparable with those of other companies. This may be caused by differences in targets and definitions applied and the nature and spread of Kendrion's activities making comparison with other industrial companies difficult. Information used was collected from the existing management and reporting systems. Any estimates or forecasts included are explicitly referred to as such.
No significant changes with regard to our own operation locations and/or suppliers have taken place in 2020.

The non-financial information reported faithfully represents the outcome of systematic data collection and review.

The reported numbers for energy consumption, absolute and relative & CO_2 emissions, accidents, lost time injury, illness, supply chain management as described in the section 'Sustainability' on pages 41-49, have been subjected to a review by the external auditor Deloitte Accountants B.V. The auditor's report with limited assurance on selected targets is included on pages 192-194.
For the reported numbers associated with relative energy consumption, relative CO_2 emission, accidents per 1,000 FTE, Lost Time Injuries (LTI), illness rate and audits performed at direct suppliers, Kendrion used the GRI Standards Specific Disclosures 302-1, 305-1, 305-2 and 403-2 respectively as described in the GRI referenced claim mentioned above. We report on the same indicators as in previous years and there are no material restatements on the information accordingly presented in previous years.

Definitions, reporting period and scope

Energy consumption and CO_2 emission

The information on energy consumption is based on the consumption of Kendrion's production facilities (electricity, natural gas, fuel oil) in Germany, the Czech Republic, Austria, the USA, China, India and Romania. For greenhouse gas emissions, Kendrion applies the same reporting scope as for energy consumption, only operational control. In our calculations we only included CO_2 emissions, other emissions like CH4, N2O, HFCs, PFCs, SF6 and NF3 are not material for us and therefore not included. Internal and external transport under Kendrion's control is limited, therefore transport emissions are excluded.

The relative energy consumption and CO_2 emissions are based on the added value of the relevant production facilities. The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus raw materials and subcontracted work.

The absolute and relative energy consumption and CO_2 emissions are reported for a 12-month period. Where information is timely available, the absolute and relative energy consumption and CO_2 emissions are reported for the period 1 January 2020 up to and including 31 December 2020. When reporting information takes longer to obtain, the absolute and relative energy consumption and CO_2 emissions are reported for the period from 1 December 2019
up to and including 30 November 2020. Comparative figures for previous years are calculated based on identical timeframes.

Calculation of the CO_2 emissions is based on the following conversion factors:
Electricity generated from renewable sources: 0
Electricity generated from non-renewable sources (average): 0.433 kg/kWh (2019: 0.443 kg/kWh
Renewable gas for plants with carbon neutral contracts: 0
Natural gas for other plants (average): 0.145 kg/kWh (2019: 0.200 kg/kWh)
Fuel oil (average): 0.267 kg/kWh (2019: 0.200 kg/kWh)

Accidents and LTI

Kendrion reports the total number of work-related accidents during working time or on the way to or from work for its own employees and independent contractors under supervision of Kendrion. Only the accidents that the group entity had to report to an external institution are reported. As of 2017, Kendrion reports accidents from all group entities that caused an absence of more than three calendar days, not including the day of the accident. This definition is based on regulations applicable in Germany. In addition, Kendrion reports the absence resulting from work-related accidents. The Lost Time Injury (LTI) is time ('scheduled working days') that could not be worked (and is thus 'lost') as a consequence of an employee being unable to perform the usual work due to an occupational accident ('at work accident' as well as 'way-to-work accident') or disease. In several locations, LTI is not recoded where there is no longer a wage continuation obligation for the employer pursuant to local regulation. Kendrion intends to align the LTI reporting across all locations so future reporting makes no difference in whether the salaries or wages were paid by Kendrion or by an external institution during that time.

A return to limited duty or alternative work for the same organisation does not count as 'lost days'. Counting of 'lost days' begins with the first scheduled working day of full absence (e.g. the day after the accident). A lost day counts as one full day regardless of whether the employee has a part-time or a full-time contract. Kendrion does not specify LTI data per region, worker type or gender as Kendrion considers this information not relevant to its current operations.

Illness rate

The reported illness rate is based on the total illness hours. The locations in Shelby and Atlanta reported 0% illness on a yearly basis since no registration of illness takes place. The total illness hours with and without wage continuation, cumulative divided by the total timetable hours, cumulative.

Supplier audits

As mentioned above, for reporting on the number of supplier audits (i.e. 'responsible procurement practices') Kendrion makes use of its own indicator. The supplier audits are internal audits by Kendrion employees based on an internal procedure that prescribes the collection of CR documentation of the relevant supplier in the case the supplier is ISO certified and the use of standardized self-assessment questionnaires in the case the supplier is not ISO certified.

Kendrion has not selected underlying performance indicators or GRI indicators for the following topics: 'non-discrimination and equal opportunities', 'market presence', 'responsible material consumption', 'environmental & energy management', 'human rights', 'effluents and waste management', 'customer privacy and data security', 'anti-competitive behaviour', 'biodiversity', 'responsible local citizenship', 'innovation', 'customer relationship and satisfaction', 'remuneration policy' and 'business ethics'. Following further engagement with Kendrion's stakeholders in the course of 2020, Kendrion will consider to what extent these material themes continue to be relevant to stakeholders and whether indicators on these topics should be developed.