



Annual Integrated Report 2019

## Staying focused



**Keep optical sensors always clean**

In autonomous driving, our smart valve block distributes cleaning fluid in a self-controlled and reliable manner to all optical sensors for a safe ride.



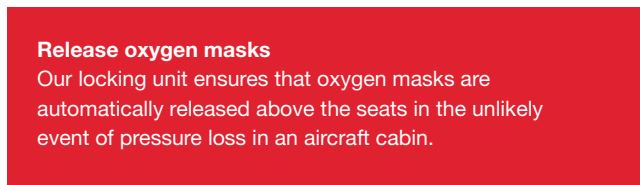
**Enable high-energy laser to operate safely**

Our optical shutter systems with rotary solenoids provide safety in laser-supported industrial processes, such as marking, cutting and welding.



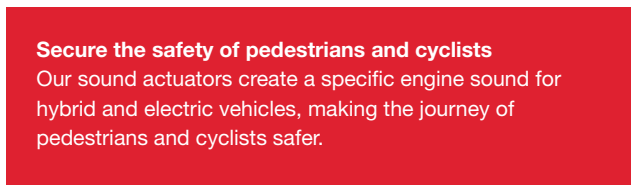
**Make automated guided vehicles safe**

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



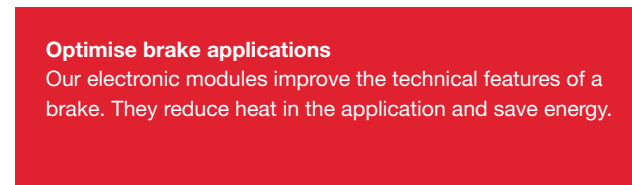
**Release oxygen masks**

Our locking unit ensures that oxygen masks are automatically released above the seats in the unlikely event of pressure loss in an aircraft cabin.



**Secure the safety of pedestrians and cyclists**

Our sound actuators create a specific engine sound for hybrid and electric vehicles, making the journey of pedestrians and cyclists safer.



**Optimise brake applications**

Our electronic modules improve the technical features of a brake. They reduce heat in the application and save energy.





**Help to preserve a healthy smile**

Our electromagnetic valves control air and water in dental treatment units.



**Hold the vehicle still when parked**

Our electromagnetic actuators ensure safe and reliable locking of the vehicle transmission to prevent it from rolling away.



**Keep doors closed**

Our door locks in industrial washing machines are needed to ensure they cannot be opened during the washing process, even in the case of improper operation or vandalism.

**Give a gentle push into life**

Our magnetic valves automate oxygen supply in critical care devices such as incubators for premature babies.



**Manage continuous feeding in industrial processes**

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



**Keep medical devices in the right position**

Our electromagnetic brakes keep medical devices in the right position to ensure your safety during a check-up.



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#### PHOTOGRAPHY AND IMAGES

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# Precision. Safety. Motion.



## Engineering challenges of tomorrow

Kendrion has been engineering precision electromagnetic actuator systems and components for passenger cars, commercial vehicles and industrial applications 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

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

## INDUSTRIAL

### INDUSTRIAL CONTROL SYSTEMS

Industrial automation, locking units and fluid control systems.

### INDUSTRIAL DRIVE SYSTEMS

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

### INDUSTRIAL MAGNETIC SYSTEMS

Customised solutions for switching, locking, holding and positioning based on electromagnetic technology.

# ‘Staying focused’

The global economic climate in 2019 was challenging, especially for the automotive sector, which struggled throughout the year. IHS Markit Ltd estimates the total number of cars sold in 2019 at 89 million, around 6% lower than the 94 million sold in 2018. Activity levels in the industrial sector at the start of the year were similar to those of 2018 but declined in the second half, especially in Germany, the main market for Kendrion's industrial business. In fact, the German manufacturing PMI index stood at 41.7 in September 2019, a 10-year low, with a mild recovery in November 2019. Not surprisingly, the difficult market conditions negatively influenced both our top and bottom line.

## CEO

Joep van Beurden



In direct response to this, we have focused relentlessly on managing our discretionary spending and investment levels. As part of our simplification drive over the years 2016, 2017 and 2018, we reduced our overhead by around EUR 20 million. Towards the end of 2019, we added another EUR 5 million in indirect cost savings, bringing the total since the start of 2016 to some EUR 25 million.

At the same time – and this, in my view, is one of the most important messages to all our stakeholders – we continued to invest substantially in our three growth areas: in Automotive, especially in those actuators that help enable Autonomous, Connected, Electric, and Shared mobility: the ‘ACES’; in industrial brakes for robotics and other fast-growing applications; and in China. In other words, we stayed focused on our organic growth opportunities.

## Strategy

With these continued investments, and despite the difficult economy, we have made significant progress on the strategic front. In Automotive, we are working on five ‘Lighthouse’ platforms. These platforms are our ‘beacons of innovation’ to help enable the ‘ACES’. You will find more on them on pages 14-20. Just as we did in 2018, we added significantly to our automotive project pipeline. We won substantially more business nominations than the size of our current business, which is an excellent leading indicator of future growth.

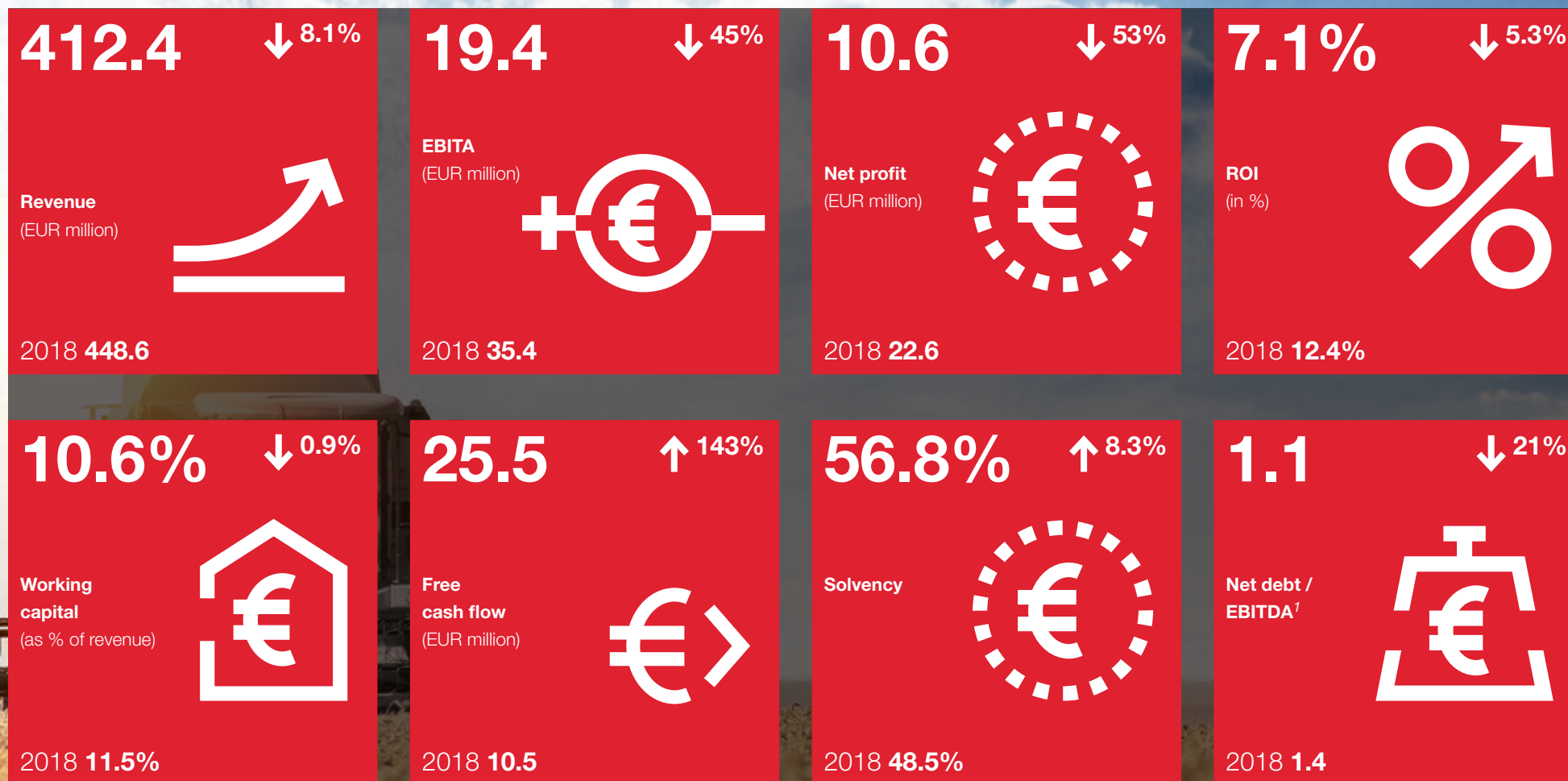
In China, our performance was strong; despite considerable downward pressure in the overall Chinese economy, our revenue grew by around 30% year-on-year. With many more nominations in the pipeline, I am optimistic that this trend will continue in the coming years.

In our brakes business, I was pleased to be able to announce our acquisition of INTORQ on 5 November 2019. Combining INTORQ's competencies in spring-applied brakes with our own permanent magnet brake technology cements our position as a global leader in industrial brakes – a fast-growing market. We can now offer customers a comprehensive, high-quality product portfolio for applications in robotics, wind power, elevators, geared and servo motors.

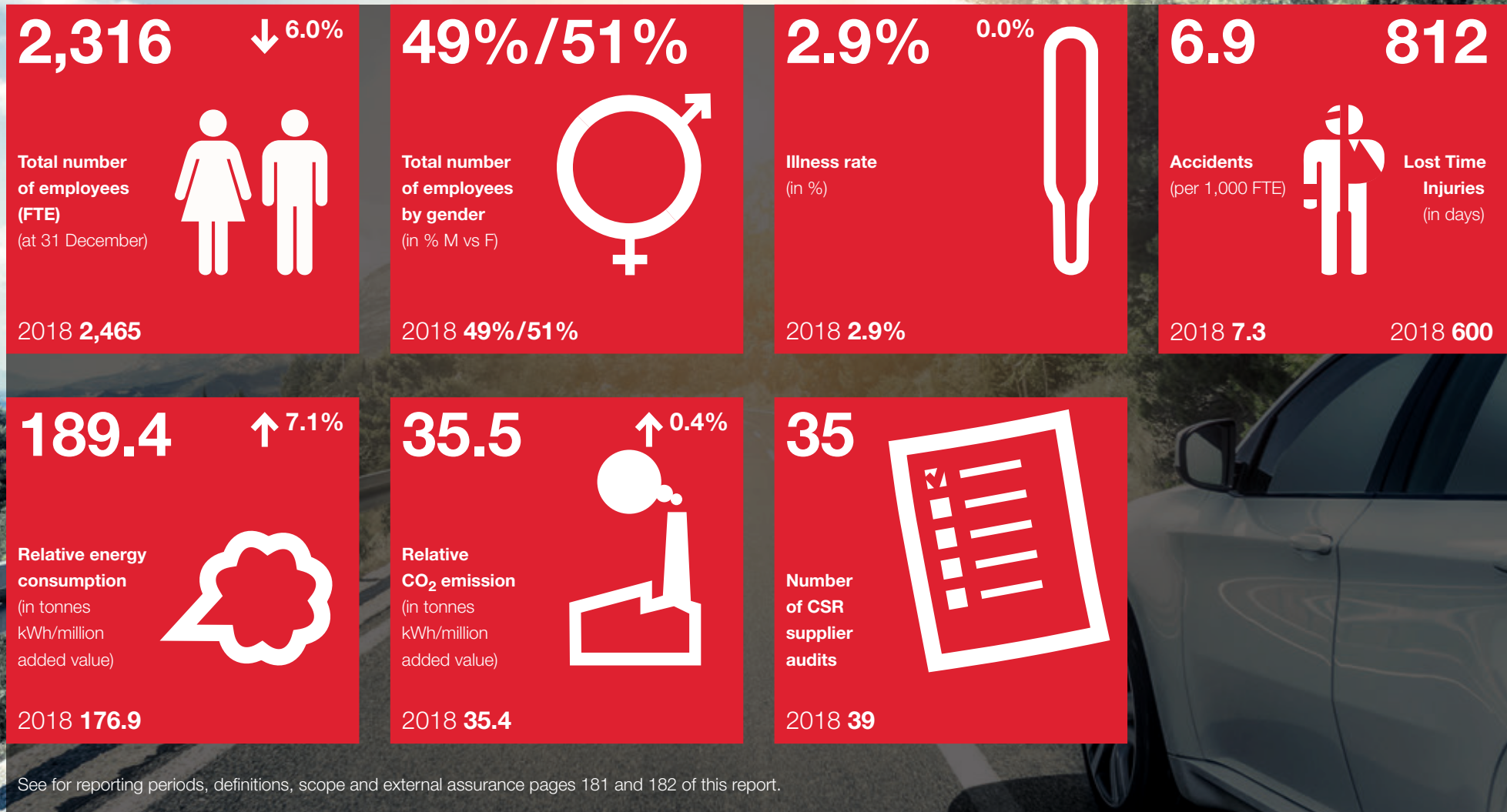
Importantly, the acquisition has improved the balance between Kendrion's Automotive and Industrial businesses. The Automotive Group and Industrial Brakes – both areas of growth – now account for around 55% and 25% of our revenue, respectively. The remaining 20% comes from Industrial Actuators and Controls where the emphasis is more on cash generation.

## Outlook

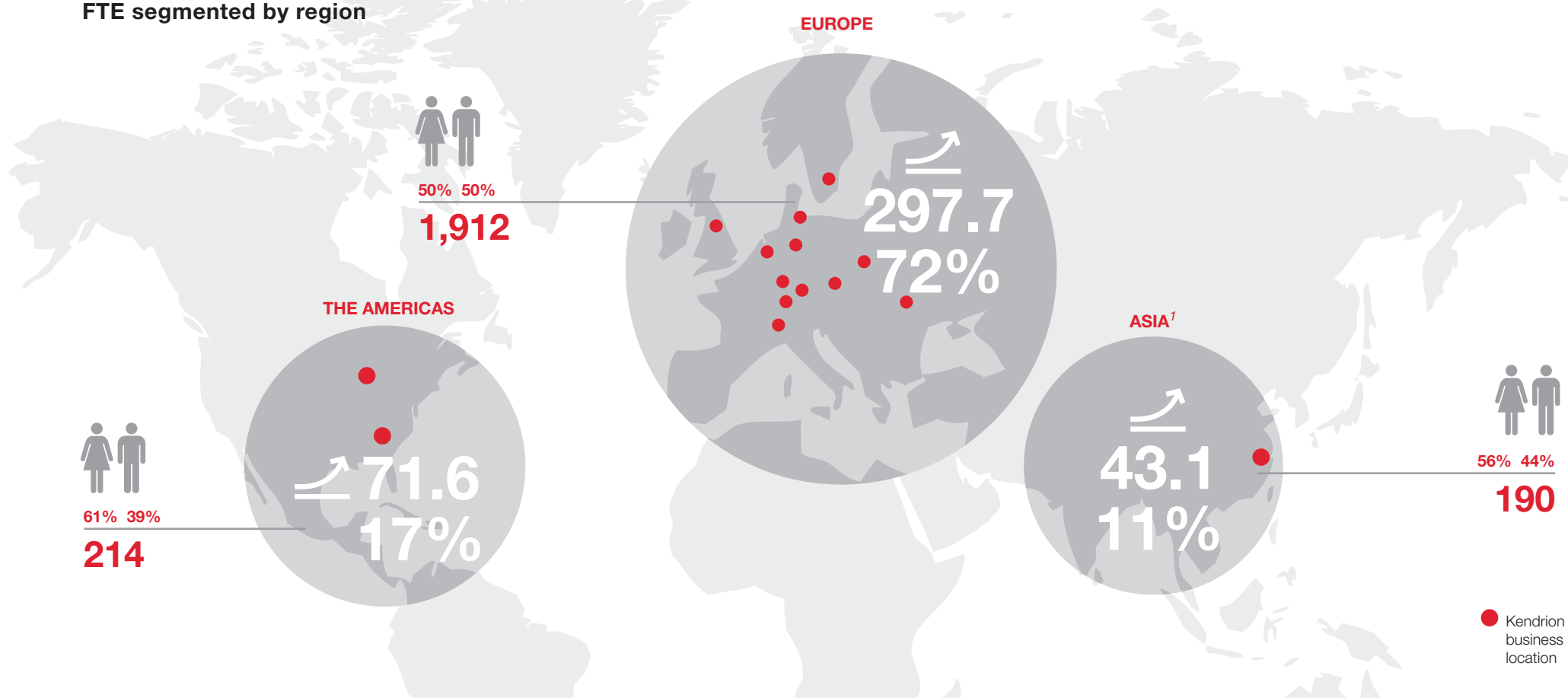
For 2020, we anticipate another challenging year from a macroeconomic perspective. This means we will continue to scrutinise our discretionary spending and overhead. At the same time, I am keen to continue to invest in our growth areas and add to our already healthy pipeline of nominated customer business. I am confident that Kendrion will come out of this downturn substantially stronger than before.



<sup>1</sup> Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.



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



**FINANCIAL RESULTS**  
EUR million

Revenue	<b>412.4</b>	EBITA <sup>2</sup>	<b>19.4</b>	Net profit <sup>2</sup>	<b>10.6</b>	EBITA % <sup>2</sup>	<b>4.7%</b>	ROI <sup>2</sup>	<b>7.1%</b>	Total FTE	<b>2,316</b>
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<sup>1</sup> Including other countries with revenue of EUR 1.8 million.

<sup>2</sup> Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.

# Creating opportunities for profitable growth

## SIMPLIFY



Kendrion continues to focus on ensuring that our organisation is as lean and simple as possible. The reason for this is straightforward: complexity drives costs and slows down decision making. In the years 2016, 2017 and 2018, Kendrion reduced management and organisational layers combined with targeted streamlining of the manufacturing footprint. This resulted in a more effective and efficient organisation and around EUR 20 million cost reductions. In 2019 we identified another EUR 5 million in cost savings through simplification measures in our activities.

## FOCUS



Kendrion will focus its resources and capital on the areas that offer the greatest opportunity for profitable growth. The designated areas in 2019 were:

### Automotive

Specifically in those actuators that help enable Autonomous, Connected, Electric and Shared mobility, also known by the acronym 'ACES'

**Automotive lifetime revenue business wins/serial revenue**  
320 mln/254 mln



2018 340 mln/278 mln

### Industrial brakes

Especially in the market for industrial automation and robotics

### INTORQ



### China

Where Kendrion has identified a significant opportunity for its technology in a range of automotive and industrial applications

**China revenue growth**



**+ 29%**

## GROW



In the long term, Kendrion expects that the pipeline currently being developed in the three growth areas will help accelerate growth in revenue in a manner that will provide the opportunity to grow faster than the historical average.



## Automotive

The automotive industry is being fundamentally disrupted by four mutually reinforcing developments: Autonomous driving, Connected vehicles, Electrification of the powertrain and Shared mobility. Combined, these developments are also known by the acronym 'ACES'.

This transformation provides significant growth opportunities to companies that offer car manufacturers solutions related to the ACES. Kendrion believes that, with its smart actuation technology, it is well positioned to benefit from these trends. Kendrion also expects that, on aggregate, the ACES will increase the actuator content per car and drive above-average growth. Kendrion has created five 'Lighthouse' product platforms, specifically targeted to enable future mobility. The Lighthouse platforms include systems and components for active damping, AVAS sound system for electric vehicles, sensor cleaning, battery cooling and clutches for hybrid off-highway vehicles.

Besides the Lighthouse platforms, Kendrion's valve and actuator technology helps create cleaner and more efficient internal 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 automotive pipeline. In 2019, Kendrion added EUR 320 million (2018: EUR 340 million) in lifetime revenues to its commercial pipeline, which is a book-to-bill ratio of 1.25 (2018: 1.20).



## Industrial brakes

The ongoing automation of global industrial manufacturing processes and the further uptake of industrial robots across industries, together with the proliferation of, for example, collaborative robots and medical robots, provide Kendrion with a significant opportunity to increase its revenue in industrial brakes. Kendrion invests human and capital resources to optimise production, increase capacity and further enhance its product portfolio. A newly introduced slim brake line has been developed specifically for collaborative robots, and has generated widespread interest from established and new robotics companies.

Kendrion has also invested in localising the production of industrial brakes in its Chinese facility in Suzhou, which directly serves the Chinese market.

The acquisition of INTORQ, as announced on 5 November 2019 and completed on 8 January 2020, significantly enhances Kendrion's market position in the market for industrial brakes. While Kendrion 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 creates a leading industrial brake company with a full range of high-quality industrial brakes in an expanding number of growth markets in Europe, China, the US and India.



## China

Kendrion has significantly increased its Chinese operations over the past four years and believes China represents a significant market opportunity for further growth. Kendrion invests human and capital resources to enhance local capabilities, production capacity and engineering support from Germany.

In 2019, Kendrion successfully localised the production of industrial brakes for the Chinese market. It has also ramped up the first fully automated, high-volume automotive production line for a parking brake solution for a Chinese OEM. Kendrion targets the Chinese market with a number of technologies that specifically address growth areas in the fields of electrification, cleaner internal combustion engines, robotics and industrial automation. The combination of German technology and Chinese production efficiency and commercial agility contributed to the realisation of 29% growth in China in 2019 compared to 2018.

Also, in 2019, Kendrion China acquired a significant number of new customer projects that are expected to drive above-average growth in the coming years.

Kendrion stated ambitious medium-term financial objectives for 2023 on 15 August 2018, during its strategic update.

- Return on investment of at least 20% by 2023
- EBITDA margin of more than 15% by 2023
- Dividend pay-out: 35-50%

Against the backdrop of a difficult economy, in Automotive for the entire year and in Industrial mostly in the second half of 2019, we went backwards with respect to these targets: ROIC for 2019 was 7.1% compared with 12.4% in 2018. The EBITDA margin was 10.5% compared with 13.0% in 2018.

In response to the difficult trading conditions, we have continued to reduce our discretionary spending and investment levels. As part of our simplification drive over the years 2016, 2017 and 2018, we had reduced our cost by around EUR 20 million. In 2019, we added another EUR 5 million in indirect cost savings, bringing the total since the start of 2016 to some EUR 25 million.

## Strategy

We made significant progress on the strategic front. In Automotive, we made good progress with our five 'Lighthouse' platforms. These platforms include highly innovative new automotive actuators, designed to help enable Autonomous, Connected, Electric and Shared mobility (known as 'ACES'). You will find more about these platforms on pages 14-20.

On the back of these innovations and other products, we added EUR 320 million in nominations to our Automotive orderbook, an excellent leading indicator of future growth.

In China, our performance was strong. Our revenue grew by around 30% year-on-year, despite headwinds in the Chinese economy.

## Targeted add-on acquisition: INTORQ

Kendrion has a strong financial position and a healthy balance sheet. As mentioned over the past years, we endeavour to acquire companies that enhance the company's leading position in its Automotive and Industrial markets with an emphasis on its three focus areas.

On 5 November 2019, we announced the acquisition of INTORQ. With this acquisition, we significantly enhanced our strong position in industrial brakes – one of our focus areas. By combining INTORQ's competencies in spring-applied brakes with Kendrion's we offer customers a comprehensive, high-quality product portfolio for applications in robotics, wind power, elevators, geared and servo motors.

The acquisition, which closed on 8 January 2020, improved the balance between Kendrion's Automotive and Industrial businesses. We now generate around 55% of our revenue in the Automotive Group and 25% in Industrial Brakes, which are both areas of growth, and 20% in Industrial Actuators and Controls, where the emphasis is more on cash generation.

In view of the financial impact of the acquisition of INTORQ, Kendrion will review its medium-term financial targets in 2020, without compromising the underlying ambition.

### Strategic financial targets





# Driving innovation

Kendrion's capacity for innovation is helping to enable the revolution in Autonomous, Connected, Electric and Shared mobility, the 'ACES', and in robotics. We highlight six cutting-edge products that contribute to the development of safe and user-friendly collaborative robots and self-driving and electric vehicles, and that show long-term growth potential for our business.

All Lighthouse products have been designed by Research & Development departments across Kendrion, in close collaboration with key customers. In 2020, we will continue to invest in these product platforms to move these customer-specific designs to serial production – increasing our resource efficiency and return on investment.



## ‘Always clean’ sensors and cameras for drive assist systems and autonomous vehicles

**Autonomous vehicles and drive assist systems make crucial driving decisions faster than the blink of an eye. They do so using input from sensors, processors and actuators. If the sensors embedded in the vehicle are not perfectly clean in all weather conditions, the vehicle will have to stop using the system that depends on that sensor. As vehicles become ‘smarter’ all the time, clean sensors will be ‘mission critical’. A dirty sensor means the vehicle cannot continue its journey.**

Kendrion's new and innovative smart valve block platform 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. This opens the door to truly smart and autonomous operation. The new system has been designed to rigorously fulfil the safety requirements of the automotive industry. It was developed on a truly global basis. Development was a joint effort by Kendrion's actuator and electronic teams in Villingen and Malente, Germany. Critical input came from Kendrion's international sales force, including China, a growth focus area for Kendrion.

We have multiple projects with customers worldwide to evaluate this solution. Our focus for 2020 will be on making full use of its potential.

## AVAS sound system

# Integrated sound system helps electric vehicle OEMs comply with mandatory AVAS legislation

**To ensure safety on the road, as of 1 July 2019, all new types of electric and hybrid vehicles in the European Union (EU) must be equipped with an 'Acoustic Vehicle Alerting System' or AVAS. Specifically, these vehicles must emit a sound to alert other road users when travelling below 20 kilometres per hour or when they reverse.**

Kendrion has developed a complete, ready-to-use AVAS solution, the 'Phantone platform', which can be easily built into electric vehicle designs. The one-box solution is a 'first' in the market, and includes everything from interface to sound output: an Electro Magnetic Compatibility or EMC-certified electronic control unit (ECU), actuator for

internal sound, loudspeaker, direct CAN bus connection, and sound design software that enables the manufacturer to choose a unique sound.

The solution comes with a Sound Designer tool to customise sound implementation. With its leading radiation angle, the solution offers unique industry features ready to be integrated in electric vehicles.

We see great potential for this integrated system solution. The market for hybrid and electric vehicles will grow strongly over the coming 10 to 15 years and AVAS requirements will soon extend to the US and China, key target markets for Kendrion.





## Hybrid clutch helps reduce fuel consumption by up to 20%

**For most people, when talking about 'hybrid' vehicles, a 536-horsepower wheel loader may not be top-of-mind. But increasingly, hybrid technology is being adopted in 'off-highway' vehicles, offering new efficiencies and cost reductions for sectors that use heavy work trucks.**

Off-highway hybrid vehicles have a combustion engine and an electric motor. Our clutch connects and separates these systems, so that these vehicles can be driven purely electrically or only with the combustion engine. When peak torques are required, the drive systems are combined.

This approach combines zero emission targets while enabling the full horsepower of traditional diesel engines for special needs. With a successful track record in building electromagnetic clutches for airport and special transportation hybrid vehicles, we are now able to extend this technology for use in modern hybrid drivetrain systems.

Our first customer-designed hybrid clutch will go into prototype design early in 2020. Kendrion's clutch solutions offer the highest robustness levels combined with low maintenance costs, perfectly suited for the off-highway market which is characterised by special environmental conditions and long lifetime requirements.

## Active damping valves

# Offering car suspension manufacturers driving dynamics for the vehicles of tomorrow

**Self-driving cars demand high comfort levels and have very high safety requirements. Flexible and adjustable dynamic damping systems offer suspension that guarantees the highest safety and comfort level for the driver in different driving and road conditions. Not only in autonomous cars but increasingly also in standard passenger cars and SUVs.**

These 'active suspension' systems – with active damping valves at their core – control the vertical movement of the wheels relative to the chassis. This virtually eliminates body roll and pitch variation while cornering, accelerating and braking, for improved traction, handling and cabin comfort.

Kendrion's family of active damping valves adjust damping force continuously during driving, stabilising the chassis and increasing road grip and comfort. Using our modular and highly adjustable designs, car suspension manufacturers can shorten design turnaround times and reduce total cost of ownership substantially.

Active damping valves are already a major revenue source for Kendrion, accounting for approximately 10% of our business, with substantial additional growth potential. For example, in early 2020, we expect to have a first SUV-specific sample ready for medium-volume car manufacturers: an area where we see significant growth potential.





## Battery cooling valve and ECU optimise battery performance and safety in hybrid and electric cars

**For hybrid and electric cars, temperature has a significant impact on the performance and lifespan of the car's battery pack. Overheating through a process called 'thermal runaway' can even put passengers' safety at risk. So, ensuring batteries always operate at their optimal temperature – especially when multiple batteries are combined – is top-of-mind for development teams.**

Kendrion's new smart water valve integrates a fluid control valve and an electronic control unit (ECU), creating a highly optimised, single solution that lets hybrid and electric vehicle manufacturers keep the temperature of car battery pack systems in check. There is a special focus on meeting the highest possible quality and reliability standards for security-related features.

The fully-integrated electronic control unit is designed in-house and continually monitors the batteries performance. Kendrion's smart water valve enables a centralised ECU architecture of the car. Our light, compact and robust valve distributes coolant flows, helping to maintain battery cell temperature within a few degrees across the entire battery pack.

Our first smart water valve will be integrated in a customer's premium electric car range in early 2020.

## Safety brake for collaborative robots

# Big potential in small robotics: compact electromagnetic brake with large inner diameter

**The market for robotics is growing significantly, for industrial robots and also for smaller collaborative robots, also called 'cobots'. This translates into big potential for safety brakes, an essential component of all robots. Safety brakes ensure that loads are held securely or brought to a fast standstill during a power failure or emergency stop.**

Kendrion's safety brakes with a torque range between 0.1 and 320 Nm are used worldwide in industrial, medical and electrification applications. Within the growing market for smaller robots, our Servo Slim Line brakes enable manufacturers to keep designs compact yet safe, for robots with lifting capacities between 3 and 20 kilograms.

The 'slim' single-disc brakes are flatter and lighter than the market standard, but the large inner diameter lets manufacturers integrate the cables inside the brake – an ideal fit for all hollow-shaft applications.

The first Slim Line brakes have been integrated in customers' robots in Europe and China, with more diameter ranges on the way.



	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
<b>Movements in the number of outstanding shares</b>			
At 1 January 2019	13,396,013	178,852	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)	1,633	–	1,633
Delivered shares	162	(162)	–
Repurchased shares	(397,276)	397,276	–
At 31 December 2019	14,753,533	180,451	14,933,984

**Other information**

EUR, unless otherwise stated	2019	2018	2017 <sup>2</sup>
Number of shares x 1,000 at 31 December	14,934	13,575	13,518
Market capitalisation at 31 December (EUR million)	312.9	283.7	542.9
Enterprise value (EV) (EUR million)	360.3	364.2	613.5
Highest share price in the financial year	23.60	44.35	40.95
Lowest share price in the financial year	15.62	20.30	26.30
Share price on 31 December	20.95	20.90	40.16
Average daily ordinary share volume	15,959	21,899	18,048
EBITDA multiple (EV / EBITDA) <sup>1</sup>	8.29	6.23	10.22
Result per share	0.59	1.03	1.45
Normalised result per share <sup>1</sup>	0.79	1.69	1.73
Share price earnings ratio <sup>1</sup>	26.59	12.39	23.16

**Major shareholders as at 31 December 2019<sup>3</sup>**

	Interest in %	Date of report
Teslin Participaties Coöperatief U.A.	15.14	At 14 June 2019
NN Group N.V.	10.30	At 20 June 2019
Kempen Capital Management N.V.	5.98	At 23 November 2015
Cross Options Beheer B.V.	5.37	At 8 May 2017
Monolith N.V.	5.00	At 17 July 2019
T. Rowe Price Group, Inc.	4.97	At 5 May 2017
FIL Limited	5.00	At 1 October 2019
Invesco Limited	3.76	At 11 March 2019
Total	55.60	

<sup>1</sup> Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.

<sup>2</sup> Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

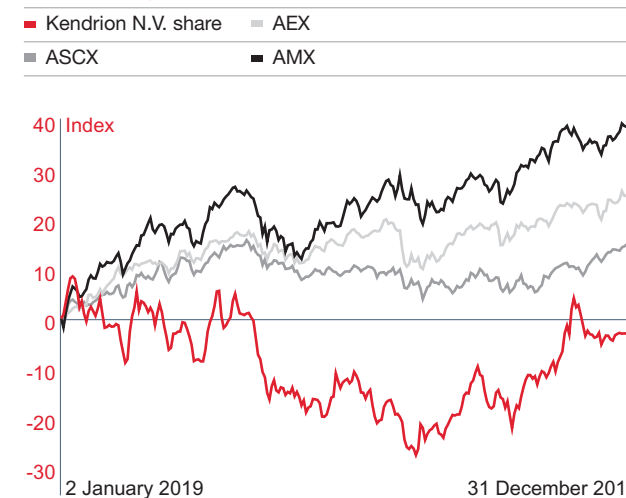
<sup>3</sup> On the basis of the information in the register of the AFM and listed on the website at [www.afm.nl](http://www.afm.nl).

**Share capital**

The authorised share capital of Kendrion N.V. as at 31 December 2019 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 2019, 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 2019 to 31 December 2019



### Treasury shares

As at 31 December 2019, Kendrion N.V. holds 180,451 ordinary shares in its own capital, representing 1.2% 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 2019, 14,753,533 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 0.25 per share, representing a payment of dividend of 35% of normalised net profit for 2019 at the Annual General Meeting of Shareholders on 6 April 2020. The total amount of dividend is EUR 3.7 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>.

### Share buybacks

On 13 May 2019, a share buyback program was launched to neutralise the dilutive effect of the 2018 final stock dividend and share-based incentive plans. These shares will be held as treasury shares and will be used to pay future stock dividends and share-based incentive plans. The program commenced on 15 May 2019 and was completed on 17 July 2019. Under the program, Kendrion N.V. purchased 161,684 ordinary shares for a total amount of EUR 2,973,698.

On 13 August 2019, Kendrion announced the launch of a new share buyback program to purchase up to an amount of EUR 10 million or 625,000 ordinary shares. The share buyback program would end on 31 December 2019 with the subsequent cancellation of the repurchased shares. On 5 November 2019, Kendrion announced the cancellation of this share buyback program following the announcement of the intended acquisition of INTORQ. As from the commencement date of the program up to 4 November 2019, Kendrion N.V. purchased 235,592 ordinary shares for a total amount of EUR 4,214,652. The 235,592 ordinary shares repurchased were subsequently placed – together with 1,357,486 newly issued ordinary shares – in the accelerated bookbuild offering of ordinary shares as announced on 21 November 2019. Through the accelerated bookbuild offering, Kendrion N.V. successfully raised EUR 31.1 million, intended to help finance the acquisition of INTORQ.

### Participation

Kendrion maintains a share-based incentive plan for its senior management and certain key employees. Up to 2017, 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 1,817 ordinary shares were issued in 2019.

Effective as of 2019, members of the Management Team are eligible for a grant of conditional performance shares. In 2019, 14,177 conditional performance shares were granted to the Management Team under the newly introduced 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 2019, 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 pages 154-155. A comprehensive description of the long-term incentive plan is included in the 'Remuneration Report' section on pages 77-87.

**Analysts**

The following stock exchange analysts actively monitor the Kendrion share:

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

**Financial calendar**

Tuesday, 18 February 2020	Publication annual results 2019
Monday, 9 March 2020	Record date General Meeting of Shareholders
Monday, 6 April 2020	General Meeting of Shareholders
Wednesday, 8 April 2020	Ex-dividend date
Thursday, 9 April 2020	Dividend record date
Friday, 10 April – Monday, 27 April 2020, 3 pm	Dividend election period (stock and/or cash)
Tuesday, 28 April 2020	Determination stock dividend exchange ratio
Thursday, 30 April 2020	Cash dividend made payable and delivery stock dividend
Tuesday, 5 May 2020	Publication first quarter results 2020
Tuesday, 18 August 2020	Publication half-year results 2020
Tuesday, 3 November 2020	Publication third quarter results 2020

**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 [www.kendrion.com](http://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.

**Liquidity provider**

In 2019, NIBC Bank N.V. acted as a liquidity provider for Kendrion N.V. As such, NIBC Bank acts as the counterparty for buy or sell orders for which the bid and ask prices are set within a range around the last executed price. The contract with NIBC ends per 1 March 2020.

**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

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
- Sound systems
- Thermal management
- Transmission

**OUR CUSTOMERS INCLUDE**

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



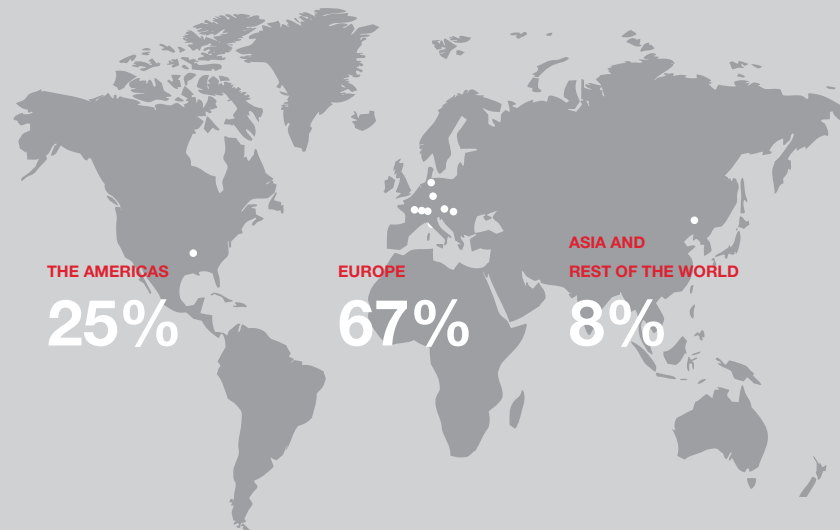
**TOTAL AUTOMOTIVE REVENUE**

(IN EUR)

**258.8 million**

2018 283.9 million

• KENDRION LOCATIONS WITH REGIONAL REVENUE BREAKDOWN





# Capitalising on the new trends

## Profile

Kendrion's Automotive business 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 and engines.

Automotive focuses on advanced valve technology, smart actuation and electromagnetic clutch technology for a wide range of application areas. These include fuel systems, active damping systems, thermal management systems, sound 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, the 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 a number of important global trends towards improved performance and 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'. Kendrion is well positioned to capitalise on these trends.

Kendrion Automotive 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 2019

Revenue for the automotive activities amounted to EUR 258.8 million in 2019 (2018: EUR 283.9 million). The deteriorating market conditions that started in the second half of 2018 continued throughout 2019, affecting Kendrion automotive revenues.

The newly implemented organisational structure in which the former Commercial Vehicles and Passenger Cars business units were merged into one functional Automotive Group has been in full effect since January 2019 and has begun to deliver the targeted enhanced commercial agility and improved efficiency. The commercial organisation, headed by the Chief Commercial Officer, delivered project wins adding EUR 320 million in lifetime revenues to the commercial pipeline, indicating a book-to-bill of 1.25 times 2019 serial revenues. Project wins were wide ranging and include valves for active damping, a battery-cooling valve and control unit, an electromagnetic brake for commercial vehicles, a solenoid for mobile hydraulics.

The transformation of the production portfolio towards the Autonomous, Connected, Electric and Shared mobility, the 'ACES' continued in 2019, with the identification of five 'Lighthouse' platforms, which include the aforementioned battery cooling valve, AVAS sound system for hybrid and electric vehicles, a system for sensor cleaning, valves for active damping and clutches for hybrid off-highway vehicles.

Although the performance of the manufacturing locations was affected by the market circumstances, the operations, headed by the Chief Operating Officer, were able to enhance efficiency in multiple locations and realised a further EUR 3 million in structural cost savings effective as from the financial year 2020.

The transformation of the production portfolio towards the 'ACES' continued in 2019.

**INDUSTRIAL CONTROL SYSTEMS**

Industrial automation, locking units and fluid control systems.

**INDUSTRIAL DRIVE SYSTEMS**

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

**INDUSTRIAL MAGNETIC SYSTEMS**

Customised solutions for switching, locking, holding and positioning based on electromagnetic technology.

**WHERE OUR PRODUCTS ARE USED**

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

**OUR CUSTOMERS INCLUDE**

- Bosch Rexroth
- Collins Aerospace
- Dräger
- Eaton Corporation
- Euchner
- Fresenius
- KUKA
- Oerlikon
- PerkinElmer
- Schindler
- Siemens
- Stoll



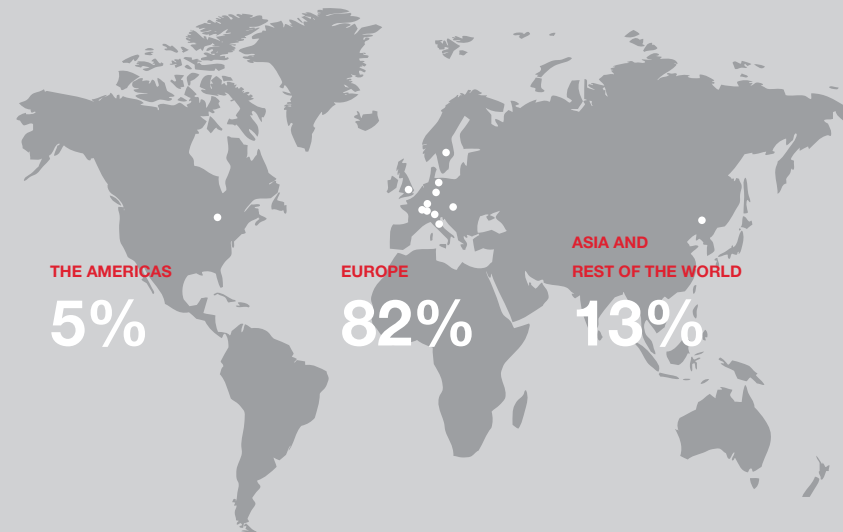
**TOTAL INDUSTRIAL REVENUE**

(IN EUR)

**153.6 million**

2018 164.7 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, energy generation and distribution, medical and analytical equipment, transportation and aerospace.

The industrial activities are carried out in three business units: Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems. Industrial Magnetic Systems and Industrial Control Systems focus on the development and production of customised electromagnetic actuator technology, gas and fluid control valves and systems and control technology. Industrial Drive Systems 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 and Romania. Products are marketed via an own sales organisation in Germany, the UK, Austria, Italy, France, Sweden, China and the US. A worldwide sales distribution network is dedicated to standard and application-specific components.

## Market and market position

Industrial Magnetic Systems and Industrial Control Systems serve a large number of industrial end markets. The focus areas are industrial automation, energy generation and distribution, medical and analytical equipment, industrial appliances, logistics, locking and safety and aerospace. These end markets have sufficient size and offer attractive opportunities in which Kendrion is able to deliver superior value and achieve above-average returns. The focus areas for Industrial Drive Systems are industrial brakes for servo motors, elevators and robots among other segments.

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. Other key markets are China, the US, Switzerland, Austria, Italy, France and Sweden. Customer concentration is relatively low.



## Developments in 2019

Industrial activities realised revenue of EUR 153.6 million in 2019 (2018: EUR 164.7 million). The Industrial activities were affected by a contracting manufacturing sector in Kendrion's industrial home market Germany, impacting the machine-building industry and many other segments. De-stocking by industrial customers, especially in the last months of the year, affected revenue in all three industrial business units.

Industrial Magnetic Systems continued to develop its production plant in Romania for more efficient production and achieved the first revenues from its 30% minority share in Newton CFV, a US-based company for flow control valves for the food and beverage industry, acquired in 2018. Industrial Control Systems successfully insourced production of certain flow control valves used in, for example, the medical industry. The insourcing project reduces supplier dependency and increases the added value of Industrial Control Systems.

In the fourth quarter of 2019, Kendrion merged the business units Industrial Magnetic Systems and Industrial Control Systems into a single business unit, Industrial Actuators and Controls (IAC). IAC will prioritise the realisation of above-average financial returns and cash conversion above an aggressive growth profile. The merger is effective as of 1 January 2020 and is expected to lead to economies of scale, increased commercial effectiveness and higher returns.

Despite the industrial slowdown, Industrial Drive Systems continued investing in its product portfolio and sales activities as it targeted long-term growth markets industrial automation and robotics. Our Chinese-based factory successfully started production of permanent magnet brakes for local customers, driving growth in the Chinese market. A wide range of robotics customers expressed interest in the newly developed brake line for collaborative robots. Although order sizes are still relatively modest, the sheer number of interested customers provides a good base for future growth.

On 5 November 2019, Kendrion announced 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). The acquisition closed on 8 January 2020 and the combination of INTORQ and Industrial Drive Systems will create a leading industrial brake company with a full range of high-quality industrial brakes in an expanded number of growth markets in Europe, China, the US and India.

The acquisition of INTORQ will strengthen Kendrion's position in the industrial brakes market.

## Normalisation impact

During 2019 Kendrion incurred costs that are considered as one-off. The results have been normalised for these one-off costs in order to present a meaningful analysis of the underlying financial performance of the business.

In total EUR 5.7 million operating expenses have been normalised. This breaks down into EUR 1.2 million transaction costs related to the acquisition of INTORQ, EUR 1.6 million costs related to the out of court settlement of a legal claim from a supplier and EUR 2.9 million restructuring costs.

Net finance costs have been normalised for EUR 2.0 million positive currency translation results. The income effect relates to the closure of the Swiss and Chinese operations in Nanjing and is one-off by nature. The total after-tax normalisation

## Normalisation impact

EUR million	2019	2018
Reported result before net finance costs	11.5	24.3
Reported amortisation	2.2	2.3
<b>Reported operating result before amortisation (EBITA)</b>	<b>13.7</b>	<b>26.6</b>
One-off income related to simplifying measures in other income	–	(0.1)
One-off costs related to simplifying measures in raw materials	(0.1)	0.8
One-off costs related to simplifying measures in staff costs	2.9	6.4
One-off costs related to simplifying measures in other operating expenses	0.1	1.7
One-off costs related to acquisition costs in other operating expenses	1.2	–
One-off costs related to claim settlement in other operating expenses	1.6	–
<b>Normalised EBITA</b>	<b>19.4</b>	<b>35.4</b>
Reported amortisation	(2.2)	(2.3)
Reported net finance costs	(0.6)	(3.1)
One-off costs related to tax audits in finance expense	0.1	0.3
One-off gains related to release of currency translation reserve	(2.0)	–
Reported share profit or loss of an associate	(0.3)	(0.1)
<b>Normalised profit before income tax</b>	<b>14.4</b>	<b>30.2</b>
Reported income tax expense	(2.7)	(7.3)
One-off costs related to tax audits in income tax expense	0.4	2.0
Impact one-off costs on income tax expense	(1.5)	(2.3)
<b>Normalised profit for the period</b>	<b>10.6</b>	<b>22.6</b>

## Income Statement, normalised

EUR million	2019	2018
<b>Revenue</b>	<b>412.4</b>	<b>448.6</b>
Changes in inventory and work in progress	4.8	(0.2)
Raw materials and subcontracted work	214.7	236.2
<b>Added value</b>	<b>192.9</b>	<b>212.6</b>
Staff costs	121.7	127.9
Other operating expenses	27.8	26.2
<b>Operating expenses</b>	<b>149.5</b>	<b>154.1</b>
<b>EBITDA</b>	<b>43.4</b>	<b>58.5</b>
Depreciation	24.0	23.1
<b>EBITA</b>	<b>19.4</b>	<b>35.4</b>
Added value margin	47.3%	47.4%
EBITDA margin	10.5%	13.0%
EBITA margin	4.7%	7.9%
EBITA return on investments (ROI)	7.1%	12.4%

amounted to EUR 2.7 million, which includes EUR 0.5 million interest and income tax expense for the expected outcome of the German tax audits covering the audit years 2010-2014 and the expected impact on the years thereafter.

## Revenue

Group revenue in 2019 was affected by a shrinking global automotive market. The downturn started in the second half of 2018 and continued in 2019. Group revenue was also negatively affected by a reduction in industrial manufacturing activity that intensified in the second half of 2019 and especially in Germany, the main market for Kendrion's Industrial activities. Group revenue decreased 8% to EUR 412.4 million (2018: 448.6 million). Currency effects had a positive effect of 0.6% on revenue. Revenues of the Industrial activities decreased 7% (2018: 1% increase) to EUR 153.6 million and our Automotive revenue decreased 9% (2018: 5% decrease) to EUR 258.8 million. With respect to the geographical areas, Europe and the US revenue decreased respectively with 10% and 12%, while revenue in China increased 29%, as a result of the ramp-up of a number of new projects.

## Added value

The 2019 added value amounted to EUR 192.9 million (2018: 212.6 million). Added value was impacted by the decline in revenue and a EUR 4.8 million reduction in finished goods and work in progress inventory (2018: EUR 0.2 million increase). The added value margin remained stable and ended up at 47.3% compared to 47.4% in 2018. Pre-agreed annual discounts, which are customary for automotive projects, are usually compensated for by a reduction in the cost of raw materials and by new projects that are ramping up at higher prices.

## Operating expenses

Normalised staff costs decreased 5% to EUR 121.7 million (2018: 127.9 million) in 2019. Currency translation effects increased staff costs by EUR 0.7 million. Staff costs related to direct employees decreased 7.0%, while indirect staff costs decreased 3.5%. Lower staff costs were the result of adjusting capacity to actual production levels and the impact of cost saving measures initiated in 2018. This more than offset the yearly increases in annual salaries and the aforementioned currency translation effect. Total staff costs as a percentage of revenue was 29.5% (2018: 28.5%).

Normalised other operating expenses ended up at EUR 27.8 million (2018: 26.2 million). Currency translation effects increased the cost base by EUR 0.3 million. Costs for legal and professional fees were higher due to an increase in outsourced services and a consulting project to modernise and optimise Kendrion's IT organisation. Depreciation of fixed assets was EUR 24.0 million (2018: EUR 23.1 million).

Costs for research & development, included in staff and other operating expenses, as a percentage of revenue was 6.6% (2018: 6.2%). EUR 3.1 million cost for research & development were capitalised in 2019 (2018: EUR 1.8 million).

### Normalised operating expenses

EUR million	2019	2018
Staff costs	121.7	127.9
Other operating expenses	27.8	26.2
<b>Operating expenses</b>	<b>149.5</b>	<b>154.1</b>

FTE (at 31 December)	2019	2018
Direct staff	1,205	1,300
Indirect staff	1,048	1,100
Temporary employees	63	65
<b>Total number of FTE</b>	<b>2,316</b>	<b>2,465</b>

## EBITA

Normalised EBITA ended up at EUR 19.4 million (2018: EUR 35.4 million) and EBITA margin was 4.7% (2018: 7.9%). Currency translation effects had no material impact on EBITA.

## 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 one to 15 years. The amortisation charge in 2019 was EUR 2.2 million, slightly below the EUR 2.3 million charge in 2018 as amortisation of some capitalised intangibles ended.

## Net financing costs

Normalised net financing costs in 2019 were EUR 2.5 million (2018: EUR 2.8 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 reduction in financing costs were attributable to lower average credit margins on loans drawn under Kendrion's revolving credit

facility. Average (gross) debt levels, before deduction of cash and deposits, amounted to EUR 90 million including lease liabilities in 2019 (2018: EUR 89 million). The average interest charge on borrowings in 2019 was 1.3% (2018: 1.4%).

More information on available credit lines and conditions can be found on pages 132-133 of the financial statements.

## Share profit or loss of an associate

In 2019 Kendrion realised a EUR 0.3 million loss (2018: EUR 0.1 million loss) on the 30% minority share in Newton CFC, 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 3.8 million in 2019 (2018: EUR 7.6 million). The normalised effective income tax rate for 2019 was 26.2% (2018: 25.0%).

The reported tax rate in 2019 was 25.0% compared to 34.6% in 2018. The reported effective tax rates in 2018 was affected by the estimated impact of the tax audits in Germany. In 2019 an amount of EUR 0.5 million has been added to the existing EUR 2.3 million tax liability and provision for interest costs, which had been recognised in 2018 for the expected outcome of the tax audits with respect to the audit years 2010 to 2014 and the anticipated impact on the years thereafter. The increase includes EUR 0.1 million interest expense (2018 EUR 0.3 million).

More information on the effective tax rate can be found on page 154 of the financial statements.

## Net income, earnings per share and dividend

Normalised net income is adjusted for the net of tax one-off cost items and amounted to EUR 10.6 million in 2019 (2018: EUR 22.6 million). The after tax normalised costs amounted to EUR 2.7 million (2018: EUR 8.8 million).

Normalised basic earnings per share was EUR 0.79, compared to EUR 1.69 in 2018. Basic reported earnings per share were EUR 0.59 (2018: EUR 1.03).

Kendrion proposes an optional dividend of 35% of the normalised net income, equivalent to EUR 0.25 per share (2018: EUR 0.87) entitled to dividend.

### Net income

EUR million	2019	2018
Reported net income for holders of ordinary shares	7.9	13.8
Restructuring and other one-off costs	4.2	11.1
Tax effect on amortisation and one-off costs	(1.5)	(2.3)
<b>Normalised net income for holders of ordinary shares</b>	<b>10.6</b>	<b>22.6</b>
Normalised basic earnings per share (EPS) (EUR)	0.79	1.69

## Invested capital

Invested capital at 31 December 2019 was EUR 266.8 million (2018: 278.8 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. Excluding payables and provisions related to one-off costs that have been normalised in the income statement, invested capital was EUR 274.2 million (2018: EUR 285.3 million).

Return on invested capital, as defined as normalised EBITA as a percentage of normalised invested capital, was 7.1% (2018: 12.4%).

### Invested capital at 31 December

EUR million	2019	2018
Property, plant and equipment	111.4	113.6
Intangible assets	115.5	116.1
Net working capital	36.5	45.6
Other fixed assets	3.4	3.5
<b>Invested capital</b>	<b>266.8</b>	<b>278.8</b>

## Non-current assets

As per 31 December, non-current assets decreased with EUR 1.6 million to EUR 244.8 million. Property plant and equipment decreased EUR 2.2 million as depreciation exceeded capital investments. Intangible assets decreased EUR 0.6 million with EUR 5.7 million amortisation of intangibles, partially offset by an EUR 4.4 million increase in capitalised software and development costs and EUR 0.7 million currency translation effects. Deferred tax assets increased EUR 1.3 million and contract costs increased EUR 0.3 million during 2019.

## Condensed consolidated statement of financial position

### Assets

EUR million	2019	2018
Property, plant and equipment	111.4	113.6
Intangible assets		
■ Goodwill	92.6	92.1
■ Acquisition related	11.2	13.2
■ Software	4.8	6.6
■ Development costs	6.9	4.2
Other	3.4	3.5
Deferred income tax	14.5	13.2
<b>Non-current assets</b>	<b>244.8</b>	<b>246.4</b>
Inventories	56.3	63.5
Income tax	2.7	1.0
Trade and other receivables	47.1	54.2
Cash	7.1	10.2
<b>Current assets</b>	<b>113.2</b>	<b>128.9</b>
<b>Balance sheet total</b>	<b>358.0</b>	<b>375.3</b>

## Working capital

Net working capital at 31 December 2019 was EUR 36.5 million (2018: EUR 45.6 million). Working capital as a percentage of revenue was 8.9% (2018: 10.2%). During 2019 we increased our focus on working capital and free cash flow. This has led to a significant reduction in inventory and trade receivables, both in absolute terms as a percentage of revenue. The EUR 12.6 million reduction in inventory and receivables compared to the end of 2018 were only partially offset by lower payables and contract costs.

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 10.6% (2018: 11.5%). All three working capital components contributed to the improved working capital as a percentage of revenues.

The year-end provision for trade receivables amounted to EUR 0.5 million (2018: EUR 0.5 million). The customer with the largest receivable outstanding accounted for 8% of the trade and other receivables at 31 December 2019 (2018: 7%) with other customers accounting for 4% or less.

### Net working capital at 31 December

EUR million	2019	2018
Inventories	56.3	63.5
Trade and other receivables, tax receivable	49.8	55.2
Less: Trade and other payables, tax payables, current provisions	69.6	73.1
<b>Net working capital</b>	<b>36.5</b>	<b>45.6</b>
As % of revenue	8.9%	10.2%

## Net debt

Net debt, including IFRS 16 lease liabilities, decreased by EUR 33.1 million to EUR 47.4 million in 2019. On 21 November 2019, Kendrion raised EUR 31.1 million through an accelerated bookbuild offering of ordinary shares intended to partially finance the acquisition of INTORQ, which was announced on 5 November 2019. The net proceeds of the equity offering were EUR 30.5 million and reduced the debt position per 31 December 2019, pending the completion of the acquisition in January 2020.

Normalised free cash flow reduced net debt with EUR 25.5 million, which was for largely offset by EUR 15.3 million payments for dividend and two share repurchase programs, the EUR 4.5 million cash impact of items that are normalised as one-off costs in the income statement and the payments for lease liabilities.

The leverage ratio (net debt divided by 12 months EBITDA) as defined in Kendrion's facility agreement was 0.8 on 31 December 2019 (2018: 1.1). As at 31 December 2019, Kendrion had a EUR 150 million revolving credit facility at its disposal (2018: EUR 150 million) which matures in 27 July 2023. The agreement contains a covenant with respect to the leverage ratio with a limit of 3.0 on a 12 months basis. In certain situations, Kendrion is allowed to report a leverage ratio of 3.5 for a maximum period of six months.

As per 31 December 2019, the group had a EUR 20 million bridge facility in place dedicated to the partial financing of the aforementioned acquisition of INTORQ. The facility matures on 23 June 2020 and Kendrion intends to refinance the facility with more permanent debt. Further information on the facility agreement and other debt instruments is provided in note 10 to the financial statements.

### Net interest-bearing debt at 31 December

EUR million	2019	2018
Non-current borrowings	47.3	76.2
Non-current mortgage loan	1.6	2.3
Current borrowings	5.6	12.2
Less: Cash and cash equivalents	7.1	10.2
<b>Net bank debt at 31 December</b>	<b>47.4</b>	<b>80.5</b>
EBITDA (normalised)	43.4	58.5
Debt cover	1.09	1.38

### Solvency ratio

The year-end solvency ratio increased to 56.8% (year-end 2018: 48.5%). The year-end solvency was positively affected by the proceeds of the accelerated bookbuild offering of ordinary shares on 21 November 2019. The proceeds of the offering, intended for the partial financing of the acquisition of INTORQ, announced on 5 November 2019, improved the financial position of Kendrion as per 31 December 2019, pending the completion of the acquisition in January 2020. Besides the proceeds of the share offering, the EUR 17.3 million shorter balance sheet, driven by lower working capital requirements, contributed positively to the solvency ratio.

### Free cash flow

Normalised free cash flow amounted to EUR 25.5 million in 2019 (2018: EUR 10.5 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 amounted to EUR 21.0 million (2018: EUR 2.7 million).

The significant increase in free cash flow compared to last year is caused by lower working capital requirements as well as lower capital investments. EBITDA contributed EUR 43.4 million to the cash flow, normalised working capital requirements resulted in an inflow of EUR 11.1 million, capital investments resulted in an outflow of EUR 19.8 million and interest and tax payments amounted to EUR 9.2 million.

For more details on cash flow, see the 'consolidated statement of cash flows' in the financial statements on page 93 of this Annual Integrated Report.

### Normalised free cash flow

EUR million	2019	2018
Reported free cash flow	21.0	2.7
Acquisition of an associate	–	2.6
Non-recurring restructuring costs net of tax paid	4.5	5.2
<b>Normalised free cash flow</b>	<b>25.5</b>	<b>10.5</b>

### Developments per segment

#### Industrial

Industrial – which accounts for 37% of Kendrion's total revenue – reported revenue of EUR 153.6 million (2018: EUR 164.7 million). Normalised EBITA was EUR 11.9 million (2018: EUR 19.4 million) and EBITA as a percentage of revenue was 7.8% (2018: 11.8%).

2018 EBITA for the Industrial and Automotive segments have been restated for comparability reasons. The organisational transformation of Kendrion into a functional Automotive organisation with three separate industrial business units, effective 1 January 2019, has affected the allocation of corporate and other central costs and income. As from 2019, corporate activities are not shown as a separate segment

anymore and costs and income are reallocated over the segments Automotive and Industrial.

Industrial manufacturing activity in our main markets was resilient in the first six months of 2019, compared to 2018, but decreased markedly in the second half year of 2019. Especially Germany, which is the most important market for Kendrion's industrial activities, was affected by a reduction in activity levels. All three Industrial business units felt the weaker market. Revenues exposed to the German machine building market were especially affected, with revenue in other market segments, such as medical, aviation and infrastructure, more stable. Towards the end of 2019, we also experienced destocking at many of our industrial customers. Revenue in Industrial Magnetic Systems decreased 7% (2018: 4.0%), in Industrial Control Systems 9% (2018: 12% increase) and 5% in Industrial Drive Systems (2018: 1% increase). Operating costs decreased EUR 1 million in 2019 (2%), as cost reduction measures more than offset the annual salary increases. Depreciation charges increased EUR 0.8 million mainly because capacity investments in the long term growth opportunity for industrial automation and robotics in 2018 started to depreciate in 2019.

Industrial capital investments amounted to EUR 4.8 million (2018: EUR 9.3 million), which is below the depreciation level of EUR 6.7 million.

#### Automotive

General market conditions for Automotive, which deteriorated as from the second half of 2018, remained challenging throughout 2019. Market analysts estimate that the total number of cars sold in 2019 was EUR 89 million, around 6% lower than the 94 million cars sold in 2018, with especially reduced car production in China and Germany.

As a result, Automotive – which accounts for 63% of Kendrion’s total revenue – realised revenue of EUR 258.8 million (2018: EUR 283.9 million), a decrease of 9% compared with last year. The normalised operating result before amortisation decreased to EUR 7.5 million, compared with EUR 16.0 million in 2018. This resulted in a normalised EBITA margin of 2.9% (2018: 5.6%).

Operating costs decreased EUR 5.1 million in 2019 (6%), as our cost reduction measures more than offset the annual salary increases.

Automotive capital investments amounted to EUR 13.3 million (2018: EUR 18.8 million), which is 6% above depreciation. Most investments related to new customer projects and included production lines for a particle filter valve line in China, the finalisation of the piston cooling valve line in Germany and the finalisation of a production line for a new active damping project in Austria.

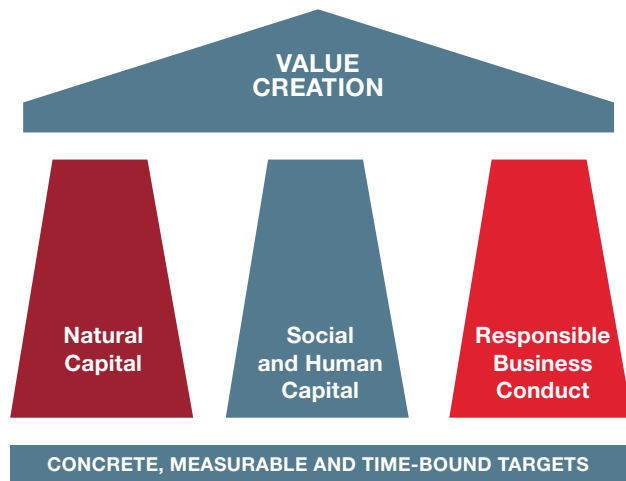
## Management statement

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 2019 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 2:116, 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 Corporate Social Responsibility (CSR) strategy is aligned to our strategic plan and derived from ongoing interaction and dialogue with our stakeholders. We aim to continuously grow revenue and profitability in a sustainable way, with a lean and focussed organisation, and to provide a top-quality work environment for our employees.



Kendrion's strategic plan is the basis of our CSR strategy. The CSR strategy reflects Kendrion's mission and commitment to conduct its 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. This means strategic decisions take account of a range of financial and non-financial considerations. Key principles and measurable targets underpin the Kendrion CSR strategy; supported by three pillars of value creation: Natural Capital, Social and Human Capital and Responsible Business Conduct.

## Long-term sustainable value

The automotive market is experiencing significant disruption as vehicles become ever more Autonomous, Connected, Electric and Shared (known as 'ACES'). We view this disruption as one of the key drivers of our long-term growth opportunities and therefore also the design and implementation of our CSR strategy. In Automotive, we have introduced five ACES Lighthouse platforms to make use of the disruption in the automotive market. For example, we have won our first project for a 'battery cooling valve and control system', a system that extends battery lifespan and the range of electric vehicles by controlling battery temperature.

We also continue to invest in the other areas that are key drivers of our long-term growth strategy: China and brakes for industrial automation and robots. In China, we continue to invest in production lines, our local supply chain and workforce

to build and train our Chinese team. On the Industrial side the servo slim line brake per smaller collaborative robots was introduced. In addition, the recent acquisition of INTORQ, a manufacturer of spring-applied brakes and electromagnetic brakes and clutches for electrical drive technologies, is expected to strengthen our position in this important growth market in Europe, the US, China and India. Our growth initiatives are an integral part of our CSR initiative.

## 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. In addition, stakeholder engagement helps Kendrion to progress its CSR strategy, 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 on a case-by-case basis and includes formal and informal channels that are applied with varying degrees of regularity. The key stakeholder groups are described on page 49 of this Annual Integrated Report.

In 2018, Kendrion carried out an in-depth stakeholder engagement process, which included a structured sustainability survey and expert sessions, as input for its strategy development process. The outcome of the 2018 engagement

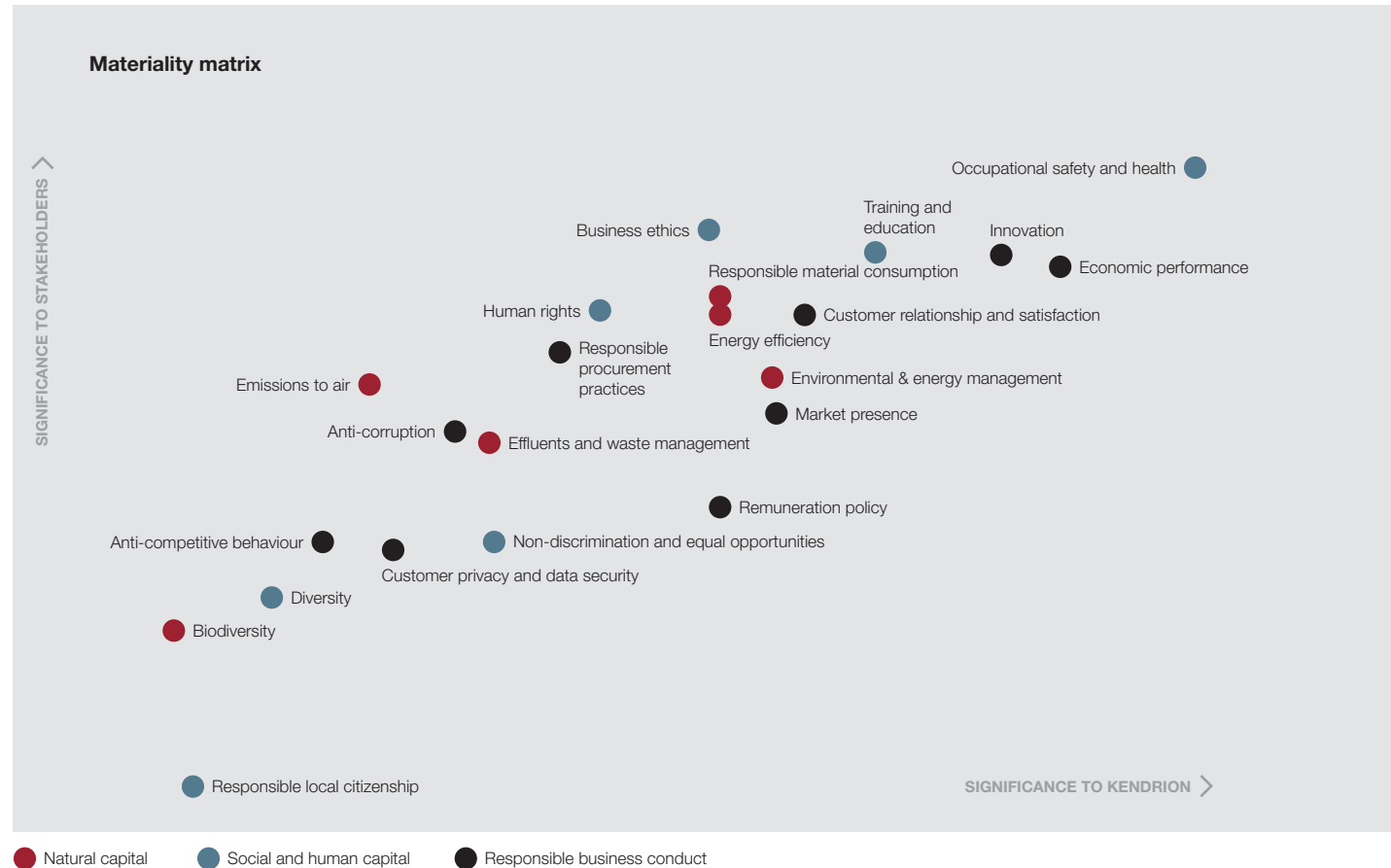
process has formed the starting point for the design of the CSR strategy and related 2019-2023 target framework. Stakeholder dialogue continues frequently with customers, suppliers, shareholders, and employees as part of regular engagement. Kendrion is committed to conducting a structured in-depth stakeholder engagement process – inspired by the 2018 stakeholder engagement edition – in the course of 2020.

## Materiality analysis

For a focused 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.

Kendrion previously conducted a materiality analysis for its 2015-2017 CSR strategy, which was fully updated in 2018. In general, the most important material topics are the same as these identified in the materiality analysis for the 2015-2017 CSR strategy. Innovation, customer relationship and satisfaction, business ethics and human rights were introduced as new topics following the 2018 materiality analysis.

As part of the 2018 materiality analysis, Kendrion conducted talks with certain external stakeholders and commissioned a comprehensive sustainability survey. The sustainability survey was categorised along the three pillars of value creation that form the basis of Kendrion’s CSR strategy: 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. The 2018 materiality analysis forms the basis for the design of the 2019-2023 CSR target framework. In addition to the annual management review, Kendrion plans to update the 2018 materiality analysis in the course of 2020.

## 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 tap into its ongoing engagement with stakeholders and potential subsequent changes to the materiality matrix to facilitate the further development of the 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 181 in the section 'About the Sustainability Report'.

### 2019-2023 TARGET FRAMEWORK



#### Natural Capital

**15%**

**Relative reduction of energy consumption**



**15%**

**Relative reduction of CO<sub>2</sub> 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 pages 181-182 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.



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<sub>2</sub> emissions and waste management.

### Energy consumption & CO<sub>2</sub> emission

Energy efficiency and reduction of CO<sub>2</sub> emission is part of our CSR 2019-2023 target framework. We aim to achieve a 15% relative reduction of energy consumption and CO<sub>2</sub> 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<sub>2</sub> emission. Kendrion applies an environmental reporting system that tracks the CO<sub>2</sub> 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 specifies 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 Mishawakaare are ISO 14001 certified.

Kendrion’s drive to use energy efficiently and reduce CO<sub>2</sub> emission is reflected in a range of activities and investments carried out in 2019. In 2019, Kendrion completed the design of a five-year roadmap with measures for the production plants aimed at the realisation of a 15% relative reduction of energy consumption and CO<sub>2</sub> emission by the end of 2023. This five-year roadmap has been designed after extensive review and recommendations made by various specialists at our plants. Relevant considerations for the design of the five-year energy and CO<sub>2</sub> 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: upgrading air compressors, including heat recovery from air compressors, integration of cooling for washing machines, introduction of new molding machines, installation of chillers for clean rooms, repairing compressed air leaks, extending energy-efficient LED technology across plants,

#### 2019-2023 TARGET FRAMEWORK

Relative reduction of energy consumption

TARGET 2023  
**15%**

ACTUAL

**↑7.1%**



Relative reduction of CO<sub>2</sub> emission

TARGET 2023  
**15%**

ACTUAL

**↑0.4%**



#### REALISED IN 2019

- Completed design of a five-year roadmap and started with implementation
- 2.5% decrease absolute energy consumption
- 8.5% decrease in absolute CO<sub>2</sub> emissions

#### Implementation of the waste management hierarchy in global waste management practices

##### REALISED IN 2019

- Waste data collection fully centralised
- Introduction of uniform waste registers
- Improved internal reporting and control procedures

including offices, further optimisation of heating systems and installation of solar panels. The establishment of the functional Automotive organisation as per January 2019 and the related introduction of comparable key performance indicators across the plants has facilitated the monitoring of progress and has contributed to the consistent execution of the five-year energy and CO<sub>2</sub> reduction roadmap. Nearly all plants made a promising start.

Providing employees with dedicated 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<sub>2</sub> footprint through energy-efficient offices. With its modern design, Kendrion's new head office in Amsterdam is a good example of such an office. We aim to promote greener transport options with our updated travel guidelines aimed at CO<sub>2</sub> neutrality and cost reduction that were reintroduced in 2019. The new location of 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. 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. The intention is to extend the car free day to other Kendrion locations in the course of 2020.

In addition to the targeted actions to reduce energy consumption and CO<sub>2</sub> emission at the Kendrion production plants and energy efficient offices, we also actively support external initiatives and are committed to using available specialist expertise. We are therefore also proud to announce that our Chief Commercial Officer Automotive has become a member of the Senate of Economy (*Senat der Wirtschaft*),

		2019	2018	Δ % 2019 / 2018
<b>Energy consumption</b>				
Power	kWh	23,409,585	24,429,160	-4.2%
Fuel oil	kWh	468,560	262,014	78.8%
Natural gas	kWh	11,829,214	11,916,656	-0.7%
		<b>35,707,359</b>	<b>36,607,830</b>	-2.5%
<b>Energy consumption per EUR million added value</b>				
Power	kWh	124,200	118,075	5.2%
Fuel oil	kWh	2,486	1,266	96.4%
Natural gas	kWh	62,760	57,598	9.0%
		<b>189,446</b>	<b>176,939</b>	7.1%
<b>Energy consumption</b>				
Absolute consumption, kWh		35,707,359	36,607,830	-2.5%
Relative consumption, kWh / million EUR added value		189,446	176,939	7.1%
<b>CO<sub>2</sub> emissions<sup>1</sup></b>				
Absolute emissions, tonnes		6,698	7,322	-8.5%
Relative emissions, tonnes / million EUR added value		35.5	35.4	0.4%

See for reporting periods, definitions, conversion factors and scope pages 181-182 of this Annual Integrated Report.

<sup>1</sup> Scope 1 and 2 of the Greenhouse Gas Protocol.

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<sub>2</sub> emission.

Further to our ambition to use energy efficiently and reduce CO<sub>2</sub> 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. As part of our Automotive activities, Kendrion develops actuators that are relevant for electric and hybrid vehicles. This includes products such as a sound actuator for electric and hybrid vehicles, solenoids for haptic accelerator pedals and clutches for switching between electric and combustion engines. The Otto Particle Filter (OPF) is another sustainable solution in line with the regulations on reducing emissions in the automotive industry that contributes to our responsible product portfolio. The OPF helps to clean fine particles from exhaust fumes and thus reduces emissions. Our valves that manage fluids such as oil, water, diesel and gasoline also help to reduce emissions.



## 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.

In 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. Moreover, the internal control process has been improved with the appointment of the Global Internal Audit and Risk Manager who has a prominent role in the review and validation of (historical) data. The improvements have enabled an in-depth analysis of the different categories of waste generated by the Kendrion production plants. The analysis revealed the differences between the production plants, not only in the amount of waste per plant, but also by offering further insight into the efforts made by the plants with respect to recycling and reuse. The outcome of this extensive review will form the basis for the development and implementation of harmonised waste management practices, with the aim to introduce concrete and measurable waste targets in 2021.

### Global waste management plan

With a view to reducing differences in local practices with respect to minimising and disposing waste in the various regions in which Kendrion operates, we are committed to implementing a global waste management plan, with harmonised waste management practices that will enable each plant to contribute to the minimisation and responsible disposal of waste.



**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 2019, 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, in many cases realised with the support of Together@Kendrion. These include projects such as participation in the Villingen City Run sponsoring the local Caritas Association for humanitarian aid projects, visiting the older residents at the Suzhou Social Welfare Institute, donating to the Science, Technology, Engineering and Maths (STEM) program, donations to kindergartens and supporting educational institutes.

**Health & Safety**

Health and Safety is given the highest priority in every aspect of Kendrion’s operations. 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. In 2019, Kendrion established a Health Task Force with a view to monitor and improve Kendrion's health and safety figures.

In addition to certain centrally coordinated health and safety-related initiatives, 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.

Programs aimed at further enhancing process safety awareness were implemented across Kendrion's production plants in 2019. Dedicated safety training tailored to the different production processes at the Kendrion plants, which included the evaluation of industry accidents and lessons learned, has been provided.

## 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

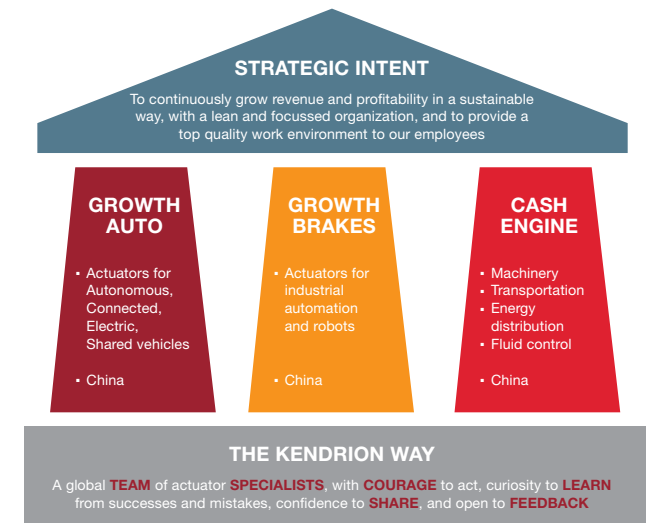
Due to the continued focus on the safety of the production processes, Kendrion achieved good safety results across its production plants. All the major production plants apply the 5S methodology, which aims for the continuous improvement of a safe working environment and working conditions. The production 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 2019 comprised 37 nationalities (2018: 37) employed in 10 countries. 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.

## The Kendrion Way

2019 saw the roll-out of a global inter-company campaign: '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.



**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 CSR 2019-2023 target framework. The overview below provides a selection of our responsible products.

**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 keep to ensure that lifts remain a safe and comfortable means of transportation.

**Products that reduce climate impact**

In addition to the development of actuators that are relevant for a full range of electric and hybrid vehicles, the OPF that helps cleaning fine particles from exhaust fumes and fluid management valves to help reduce emissions, our so-called 'dog clutch' for mild hybrid trucks offers a huge contribution to CO<sub>2</sub> reduction. Electrification and fuel cell solutions are obvious options to drastically reduce CO<sub>2</sub> 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 reducing of CO<sub>2</sub> emission.

**Products that improve health**

Preventing contamination of drinking water is a priority that concerns all of us. Kendrion manufactures precise, high-performance micro valves for applications in the drinking water sector. Our latest solenoid valve not only meets the most stringent requirements, they also contribute to helping our customers get more energy-efficient products to market quickly.

**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 2019**

- Safety brakes in lifts
- 'Dog clutch' for mild hybrid trucks
- Micro valves in applications for drinking water



**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 2019  
**25**

ACTUAL

**35**



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

## 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. While the volumes of these magnets used by Kendrion are comparatively limited, Kendrion cannot avoid the use of permanent magnets altogether. A category of permanent magnets contains a number of rare earth metals. The mining and of refining of rare earth metals is energy-intensive. The use of permanent magnets in products increases their functionality, such as the torque. As a result, less material is required and the product is lighter, which in turn reduces energy consumption and emissions.

The most 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 1,543 tonnes of copper (best estimate) in the manufacture of its products in 2019 (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. Audits that reveal that the relevant 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 35 (2018: 39) supplier implementation audits conducted in 2019 have been encouraging: there were no suppliers that did not fulfil the recommended requirements for compliance with the Supplier Code of Conduct.

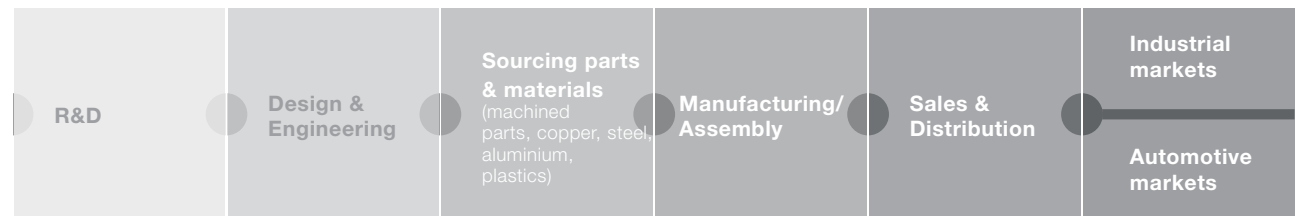
Through the approach and initiatives set out above, Kendrion actively encourages its suppliers to take responsibility in addressing issues that affect the supply chain as a whole.

## 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 that form part of the Global Legal Compliance and Governance Framework (GLC&GF). In addition to setting norms, values and expected behaviours, the GLC&GF is aimed at ensuring compliance with applicable laws and regulations.

The GLC&GF includes the following key policies and procedures: 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.

Simplified supply chain overview Kendrion



Customers  
(Tier 1/OEM and  
after markets)

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 policies and procedures of the GLC&GF. The policies and procedures of the GLC&GF 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 the GLC&GF and behave in accordance with the spirit and the letter of Kendrion's policies and procedures.

## Sustainable development goals

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

In 2018, Kendrion 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. Based on this review, Kendrion determined that SDGs 3, 12 and 13 are the SDGs on which Kendrion can have the greatest positive impact.

To report on our progress going forward, Kendrion will develop relevant 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<sub>2</sub> 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.

## Reporting principles and external verification

Being transparent and accountable is fundamental to the way in which Kendrion operates. 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, an initial materiality analysis was carried out for the 2015-2017 CSR strategy. This analysis was fully updated in 2018. Kendrion selected relevant material themes and topics derived from Kendrion's strategic plan, its activities and applicable laws and regulations.

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 CSR data collected. Selected CSR performance targets are subject to a limited assurance review by Deloitte Accountants B.V. Please refer to pages 181-182 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 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. Kendrion has participated in the Transparency Benchmark since 2014 and most recently was ranked number 24, the highest ranking it has ever received.

## 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 CSR strategy 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.



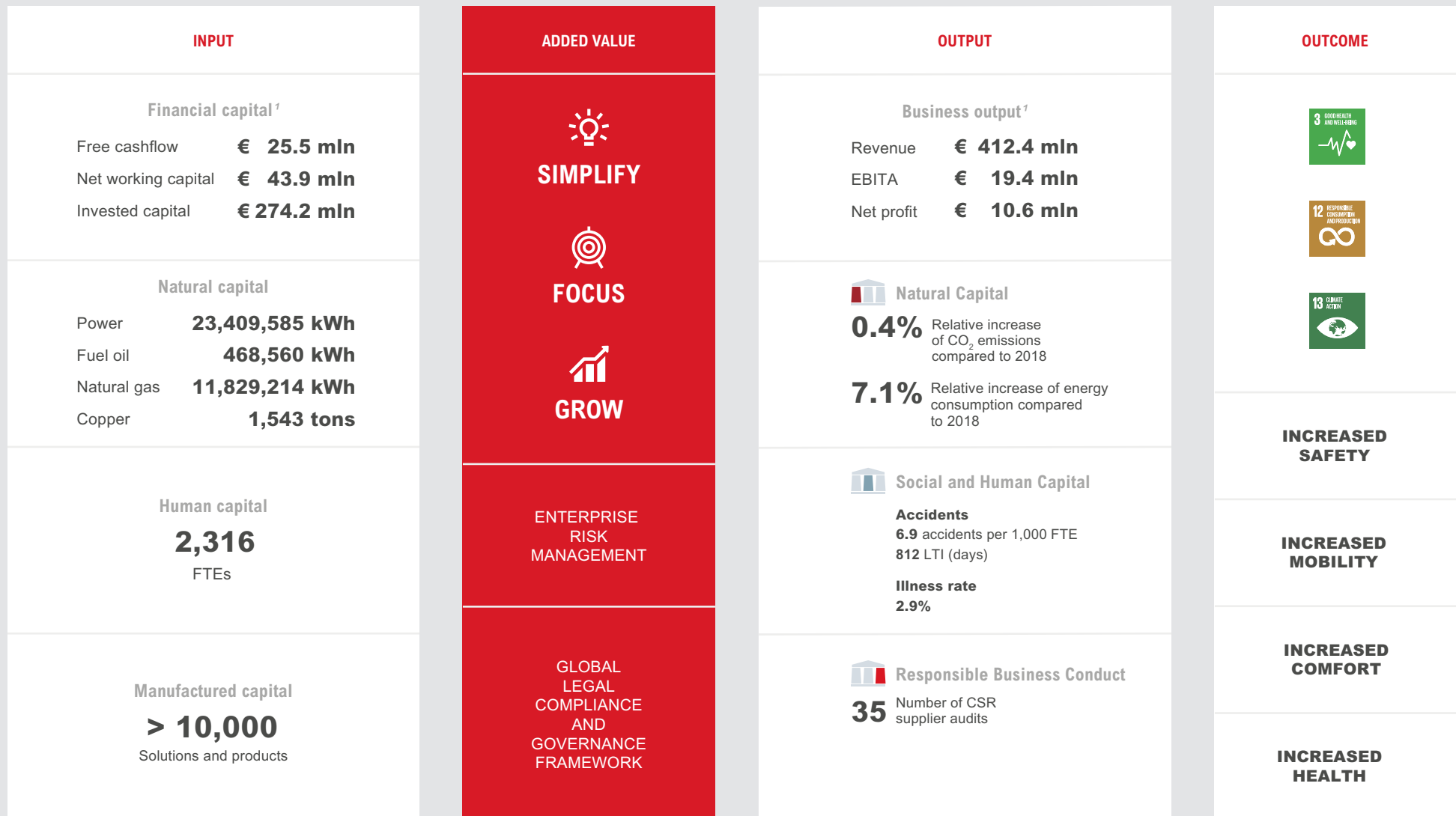
### Technical universities, schools and institutes

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.

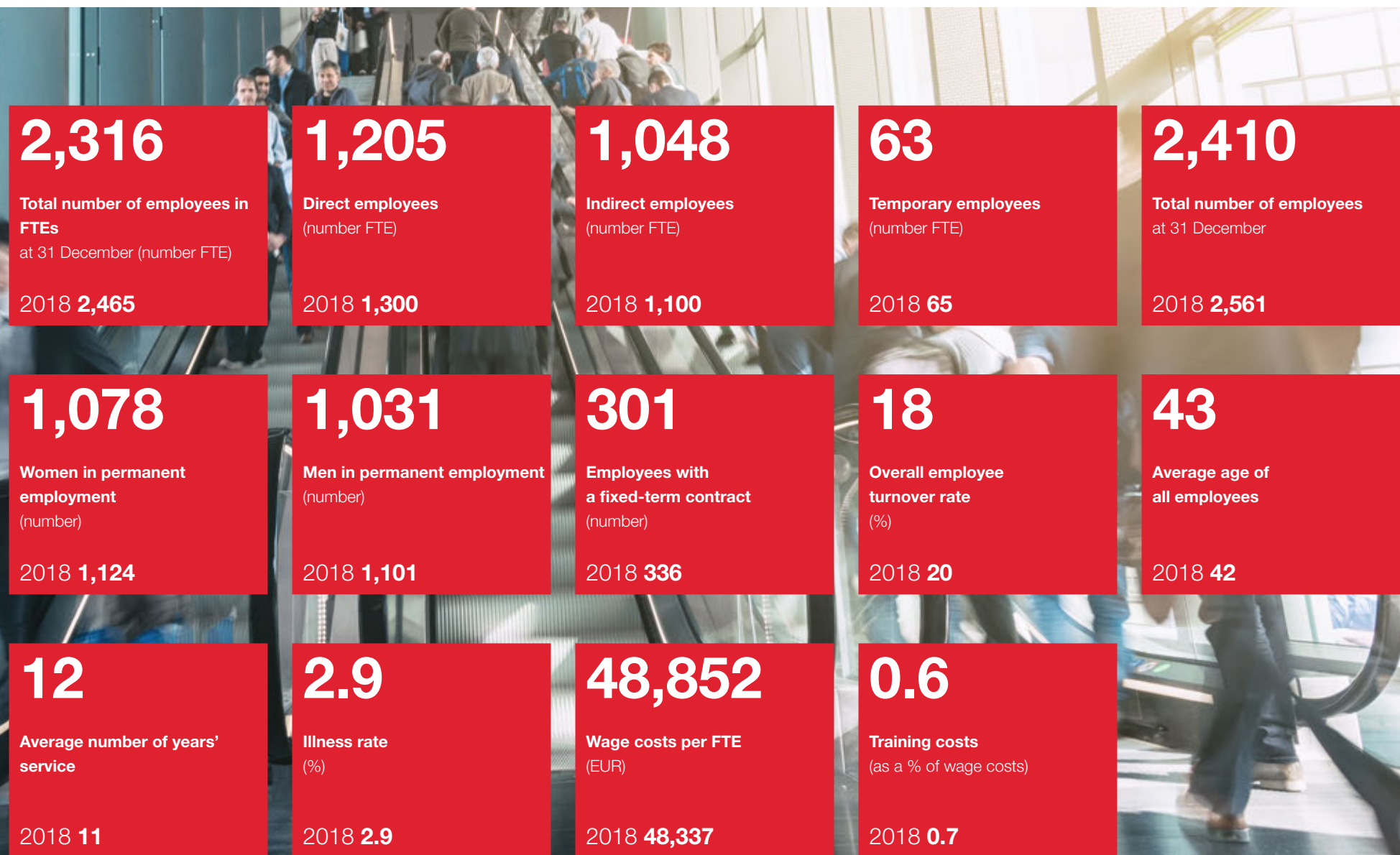
The table below describes the communication resources and channels per stakeholder and their relevance to Kendrion's CSR strategy.

 <h2>Customers</h2> <p><b>Communication resources and channels</b> Customer and sales meetings, Kendrion websites, contract meetings, press releases Engagement with customers takes place at regular intervals</p> <p><b>Topics discussed</b> Quality of products and services, Kendrion's CSR strategy and objectives, customer satisfaction, waste, energy, water use, use of rare earth materials, conflict minerals, responsible business conduct, ISO and IATF certification</p> <p><b>Relevance to Kendrion's CSR strategy</b> 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</p>	 <h2>Suppliers</h2> <p><b>Communication resources and channels</b> Supplier Code of Conduct, implementation audits, Kendrion websites, supplier and contract meetings Engagement with suppliers takes place at regular intervals</p> <p><b>Topics discussed</b> Quality of products and services, Kendrion's CSR strategy 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</p> <p><b>Relevance to Kendrion's CSR strategy</b> 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</p>	 <h2>Employees</h2> <p><b>Communication resources and channels</b> Works Council meetings, meetings with employee representatives, employee satisfaction and culture surveys, workshops, training courses, internal personnel magazine, e-mail newsletters, feedback meetings, staff meetings Engagement with employees takes place on a daily basis</p> <p><b>Topics discussed</b> Kendrion's CSR strategy and objectives, particularly regarding health and safety, employability, training and development, employee satisfaction and company culture, responsible business conduct, Global Legal Compliance and Governance Framework</p> <p><b>Relevance to Kendrion's CSR strategy</b> Obtain views and observations concerning sustainability from the employee's perspective, further insight into employees' capabilities and motivations, strengthening business sustainability culture, enhancing employee participation and awareness</p>
 <h2>Shareholders</h2> <p><b>Communication resources and channels</b> General Meeting of Shareholders, analyst and investor meetings, conferences, press releases, Kendrion website Engagement with shareholders takes place at least on a quarterly basis</p> <p><b>Topics discussed</b> Kendrion's CSR strategy and objectives</p> <p><b>Relevance to Kendrion's CSR strategy</b> 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</p>	 <h2>Local communities</h2> <p><b>Communication resources and channels</b> Local meetings, Kendrion websites, open days Engagement with local communities takes place at regular intervals</p> <p><b>Topics discussed</b> Communities' participations and investments</p> <p><b>Relevance to Kendrion's CSR strategy</b> Community connection, involvement and participation</p>	 <h2>Technical universities, schools and institutes</h2> <p><b>Communication resources and channels</b> Presence at fairs, organisation of student events, projects and internships engagement with universities, schools and institutes takes place at regular intervals</p> <p><b>Topics discussed</b> Kendrion's CSR strategy and objectives, also with a view to creating awareness and stressing the importance and relevance of sustainability</p> <p><b>Relevance to Kendrion's CSR strategy</b> Obtain views and observations concerning sustainability of new generation and raise awareness</p>

Value creation model



<sup>1</sup> Excluding one-off costs. The bridge from reported to normalised figures can be found on page 31.



# 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 strive to 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.

## The Kendrion Way

In 2019 we started to roll-out of a global inter-company campaign: ‘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 focused organisation and providing a top quality work environment for our employees is 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.

## Talent management

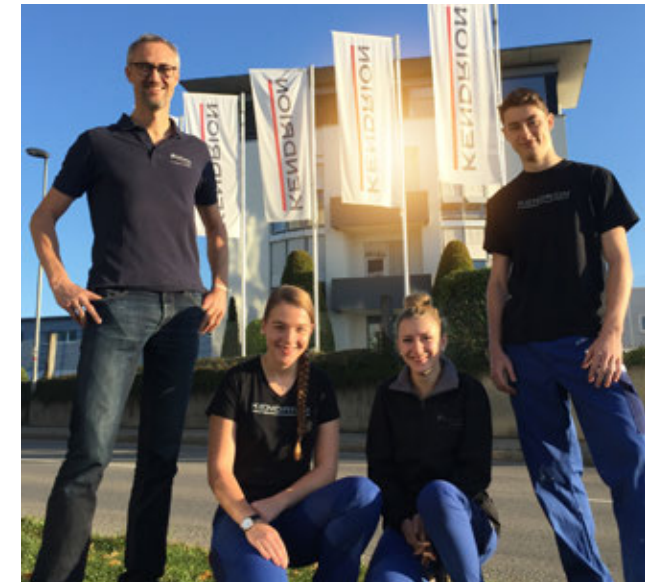
Talented and skilled employees are key to the successful execution of our strategy. Our talent management strategy focuses on the following key areas: attracting, selecting, recruiting and retaining talent, engaging employees, enabling career development and providing competitive compensation and benefits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

Maintaining a solid talent pipeline to ensure effective succession management is a priority in all areas in which we operate.

One of our focus areas is China, where we invest substantially in production lines and the local supply chain.



## WELCOME NEW TRAINEES

Beginning of September 2019, Kendrion welcomed 23 new apprentices and students. Nine aspiring industrial mechanics started at the Villingen, Engelswies and Markdorf sites and five mechatronics engineer trainees were welcomed in Villingen, Malente and Eibiswald. The Villingen site took on two machine and plant operator trainees and two industrial clerks. Also aiming to exchange knowledge, every year the Villingen plant welcomes at least one exchange student from Canada. Up to now Kendrion has welcomed 9 Canadian trainees. German trainees also spend time in Canada. In 2020 Kendrion will send one student to spend a semester at the Lakehead University in Thunder Bay.

These investments can only succeed if they are matched by expanding and training our local team to realise our growth ambitions.

Our web-based talent management and succession-planning tool identifies and facilitates the monitoring and review of our internal candidates. 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. Our web-based talent management and succession-planning tool has a global reach and ever since its introduction, the number of employees monitored and reviewed has increased to approximately 150. We expect that number to continue to increase going forward.

New employees are recruited through various channels, including employee referrals, online job boards and external recruitment agencies. In addition, we are developing an employer-branding pilot that will be rolled out through recognised social media. Through this pilot, we will not only be aiming to recruit talent, but also to promote enhanced diversity as part of the recruitment process and candidate journey.

Our annual employee turnover rate was 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. To encourage innovation and creativity among our employees, we set-up and make use of modern communication and working methods to meet present-day values and demands.

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. The survey revealed – amongst others – the strong connection employees feel towards Kendrions as employer. As we are constantly looking to raise the bar and track our progress, we consider preparing a Kendrion-wide employee satisfaction and culture survey at the end of 2020. Besides gaining insight into themes such as good employership practice, efficiency, customer focus, role clarity and leadership, the survey will also explore how our employees view important themes such as Corporate Social Responsibility (CSR).

### **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 2019, the percentage of vacancies filled with internal candidates was 24% (2018: 30%). As well as providing mandatory training, we aim to create a culture in which the sharing of ideas, knowledge and expertise and training on the job are encouraged.

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 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). A new group of talented and ambitious employees started the High Potential program in 2018 and are expected to complete the program in 2020.

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. As part of the acquisition of INTORQ and the planned integration of Kendrion's business unit Industrial Drive Systems (IDS) and INTORQ, the Executive Board commissioned an HR development scan with the aim to develop available potential and to combine cultures as smoothly as possible.

The HR development scan focused on strengths, development areas, potential and team effectiveness of senior management of IDS and INTORQ, with the ultimate goal of defining the new operating model for the combined businesses of IDS and INTORQ.

### Compensation and benefits

Having compensation and benefits schemes in place that are in line with industry standards and local practice helps us 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.

### 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 70% (2018: 75%) of all Kendrion employees are represented by these works councils and employee representatives. Approximately 81% (2018: 68%) 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.

### 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 nationality, ethnic background, age, religion, gender, education, etc. – also gives us access to a larger talent pool. This is why the employer-branding pilot we are developing addresses diversity as part of the recruitment process. 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 CSR strategy, 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. The issue of unconscious bias was addressed and discussed at the annual top management meeting, which is attended by Kendrion's 40 most senior employees. Other initiatives include our annual Girls' Day which is held at various Kendrion locations and offers girls aged 12 to 15 the opportunity to get acquainted with Kendrion and our products.

Kendrion's workforce comprised 37 nationalities (2018: 37) employed in 10 countries in 2019. 51% of our workforce is female. We have a healthy balance of nationalities and gender across the organisation as a whole. Although the percentage of women in senior management positions has improved, diversity will continue to require attention. The Management Team and other senior employees within Kendrion are committed to continue to promote diversity in all parts of the Kendrion organisation.



In the Group IT meeting in November 2019 in Villingen, over 10 nationalities and all levels of the company were represented.

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

# Investment in new projects

The economic outlook for 2020 remains uncertain as geopolitical uncertainty around the US – China trade wars, and the impact of Brexit remains. As a result, a clear turning point with respect to global growth and industrial manufacturing is not visible. The state of the global economy remains fragile and more trade tensions could emerge. The IMF forecasts growth of 3.3% in 2020, which is slightly up from the 2.9% in 2019, and slightly down from earlier IMF estimates.

Economic circumstances for industrial manufacturing weakened in 2019 affecting revenues, especially towards the last months of the year. A prolongation of weaker manufacturing activity in Europe is expected to impact the industrial business units in 2020, especially affecting revenues from products that relate to the machine-building industry. Other segments served by the industrial business units, such as medical, aviation, wind power and infrastructure are expected to be more stable. The long-term outlook for the industrial units remains good with significant growth opportunities in the market for Industrial Brakes for industrial automation and robotics, and with opportunities to achieve above-average returns in targeted niche markets in Industrial Magnetic Systems and Industrial Control Systems. Effective 1 January 2020, Kendrion merged the business units Industrial Magnetic Systems and Industrial Control Systems into one single Industrial Actuators and Controls business unit. Industrial Drive Systems and INTORQ, the acquisition of which was completed on 8 January 2020, will form a leading industrial brake company that will continue as the Industrial Brakes business unit. The industrial business units have structurally reduced their cost base with approximately EUR 2 million per year via restructuring measures taken in 2019, with full effect as from 2020.

The disruption of the automotive industry continues. The 'ACES' Autonomous, Connected, Electric, and Shared mobility, in combination with the ongoing push for greater safety and comfort, present the automotive industry with unprecedented opportunities and challenges. Kendrion Automotive, therefore, continues to focus on products that benefit from these changes, such as its sound system for electric cars, a battery cooling system that enhances the longevity of car batteries and valves for smart active damping systems. The slowdown in the automotive market, which started in the second half year of 2018, continued in 2019, affecting car production in China and Germany in particular. Although uncertainty remains, expectations are that the market for passenger cars will stabilise in 2020. The longer-term outlook for Automotive remains good, which is supported by the EUR 320 million in lifetime revenues that were added to the commercial pipeline, which is 1.25 times the 2019 revenue level. Kendrion Automotive has structurally reduced its cost base with another EUR 3 million per annum via further restructuring measures taken in 2019, which are effective as from 2020.

Kendrion expects investments in 2020 to be in line with depreciation charges. Most investments relate to new projects.

Kendrion will concentrate its resources and capital in those areas in which it believes it has the most opportunities for profitable growth.

# Kendrion's approach to risk management

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 offers management to exercise the associated discretionary powers. Kendrion actively conveys the need to maintain a healthy balance between entrepreneurial spirit and risk.

Risk management is fully integrated in Kendrion's business practices. Kendrion's approach to risk management comprises 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. At the enterprise level, the Executive Board, together with senior management, conducts an annual risk survey. The results of the annual risk survey are assessed and discussed initially with the Kendrion's Management Team and the Audit Committee subsequently with the Supervisory Board. Risk owners are assigned to the top-10 risks identified and are responsible for preparing mitigation plans and report on mitigation progress and risk development on a quarterly basis to the Executive Board. At the operational level, Kendrion's plants hold internationally recognised certifications designed to assess and improve their processes.

Kendrion's risk management is not intended to eliminate all risks entirely: doing business is never without risk. Our objective is to adopt an approach to business risks that minimises the probability of adverse events and the impact of such events, while always considering the necessary balance between risk exposure and costs. The Executive Board and the Management Team periodically review and discuss Kendrion's approach to risk management, including Kendrion's risk appetite. The outcome of this periodic review is subsequently presented to and discussed with the Audit Committee before being presented to the Supervisory Board. The Executive Board strives to balance business opportunities with the reasonable expectations of shareholders, employees, regulators and other stakeholders.

Kendrion has 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. As part of the every day decision-making, Kendrion devotes attention to the optimisation of risk management and control systems. (The Executive Board emphasises that risk management and control systems can neither offer absolute guarantees that the company's objectives will be achieved nor entirely prevent material errors, loss, fraud, or violations of laws or regulations.)

The Executive Board and the Management Team periodically review and discuss Kendrion's approach to risk management, including Kendrion's risk appetite.

# Enterprise Risk Management Framework

Kendrion's approach to the company's risk management and risk-reward appetite are summarised in the Enterprise Risk Management Framework as shown here.



## Control environment and reporting in the year under review

### Control environment

The Executive Board is responsible for identifying, assessing and managing the risks associated with Kendrion's strategy and activities, including establishing the risk appetite, implementing and maintaining the risk management and internal control system and supervising its performance. The risk management and internal control system extends to areas such as culture, policy-making, processes, duties, influencing conduct and other aspects of doing business. Risk management and control aim to prevent and promptly identify and address material errors, loss, fraud or infringements of applicable laws, rules and regulations.

The major elements and foundation of Kendrion's risk management and internal control system during the year under review include the following:

### Code of Conduct

Kendrion has implemented a Code of Conduct that applies to all Kendrion employees and to the members of the Executive Board and the members of the Supervisory Board. Relevant elements of the Kendrion Code of Conduct are also addressed in the supply chain through the Supplier Code of Conduct. The principles and best practices set forth in the Code of Conduct reflect the main values that guide Kendrion's employees and the members of the Executive Board and the Supervisory Board in the execution of their duties. The core themes include conduct in the market, authorities, gifts, anti-bribery, corporate social responsibility, accountability in general, and the obligation to exercise due care regarding health and safety, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by regularly bringing the Code of Conduct to the attention of its employees

and the Supervisory Board. Deviations from the Code of Conduct are not tolerated. Kendrion also has an internal audit program (KiC: Kendrion-in-Control) that periodically reviews companies on these and other topics.

### Internal audit function

In 2019, Kendrion has further strengthened its internal audit and risk management function. The design and operation of Kendrion's internal audit setup prior to 2019, including the internal audits carried out as part of the KiC program, has been regarded as adequate despite not formally qualifying as independent within the meaning of the Dutch Corporate Governance Code. In 2019, Kendrion has after careful consideration, decided to establish an independent internal audit function within the meaning of the Dutch Corporate Governance Code. Kendrion has hired a Global Internal Audit and Risk Manager who is responsible for the design and the execution of the annual audit plan in order to assess the adequacy of Kendrion's internal control systems and facilitate the risk management processes. The Global Internal Audit and Risk Manager reports to the Executive Board with direct and independent access to the Audit Committee and external auditor. The annual audit plan is prepared in concurrence with the Executive Board, the Audit Committee and the external auditor and approved by the Executive Board and Supervisory Board. The scope of review of the internal audits carried out by the internal audit function includes operational processes, next to the reporting cycles around revenue, procurement, fixed assets, inventories, human resources and tax that were already part of the Kendrion in Control program. In fulfilling his responsibility, the Global Internal Audit and Risk Manager will from time to time make use of guest auditors from business or corporate positions. 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.

### Speak-up procedure

Kendrion offers employees on all levels the opportunity to report, in good faith, any suspected irregularities, including possible violations of laws, rules and regulations. Kendrion has facilitated this by establishing an independent anonymous reporting line. In addition, confidential counsellors have been appointed whom employees can contact if they have questions concerning the best course of action in a particular situation or wish to report a suspected irregularity. All reports are handled with the utmost care and confidentiality regardless of whether they are reported internally or through the anonymous reporting hotline. No reports were made that justified any extraordinary disciplinary measures in 2019.

### 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 Kendrion's 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.

### Rules and Regulations and Letters of Representation

Kendrion employs Rules and Regulations and Letters of Representation. The Rules and Regulations constitute rules of behaviour governing all Kendrion managing directors.

The Letters of Representation are submitted once a quarter, in a bottom-up procedure, ultimately to Kendrion's CFO. All officers are required to sign the letter to confirm to their managers that the financial and non-financial information they have reported is correct and complete and no violations of applicable laws, rules and regulations and the Kendrion Code of Conduct with material impact occurred.

**Group Reporting and control**

Kendrion has implemented Group Reporting Manuals governing all operating companies to provide for correct financial and non-financial reporting. The Group Reporting Manual is continually updated. To this end, Kendrion has implemented measures including the formation of the Kendrion Group Reporting Committee, with representatives from the operating companies. Reporting sets are standardised based on a standard Chart of Accounts. A Corporate Social Responsibility Reporting Manual has also been implemented to ensure accurate and reliable reporting of non-financial data.

**Planning and control cycle**

Insight into Kendrion’s performance is obtained from monthly reports by all the operating companies, detailed financial quarterly forecasts, weekly cash forecasts and daily consolidated revenue reports. In addition to these periodic reports, Kendrion prepares a Mid-term Plan with a five-year horizon, and a detailed annual budget to provide a precise management tool for the following calendar year. Assessment and follow-up on the progress, development of key performance indicators and deviations from short and long-term targets are performed periodically at various levels in the organisation. Each business unit submits a comprehensive written report at least once a quarter, which provides details about the financial and operational situation and the status of any current claims and proceedings, where relevant. Kendrion has implemented a capital expenditure procedure that makes use of standard investment request forms. Executive Board approval is required for capital investments exceeding EUR 50,000. Regular discussions in weekly conference calls between the Executive Board, the Management Team and similar reviews within the business units address the risks and internal risk management system.

**Financial reporting risk management**

The controllers’ duties include the management of financial reporting risks. Pursuant to this duty, the controllers periodically monitor the organisation’s implementation of and compliance with control measures. Kendrion has also implemented corporate guidelines that specify the monthly closing procedures and the controls to be performed.

**Compliance objectives**

Kendrion operates in various jurisdictions and is committed to complying with all applicable laws, rules and regulations. The responsibility for compliance rests with local management. To ensure that the company’s conduct is in compliance with the applicable laws, rules and regulations in the various jurisdictions and in line with stakeholders’ reasonable expectations, Kendrion has adopted a Global Legal Compliance and Governance Framework. The Global Legal Compliance and Governance Framework is supported by a range of global procedures and policies that need to be applied at all times in the course of conducting business.

To manage and mitigate the risk of non-compliance, Kendrion also uses external specialists for designated compliance areas and obtains advice from external specialists to acquire timely information about the latest developments in laws, rules and regulations.

**Key risks**

**Strategic**

- Uncertain economic and political conditions
- Managing organisational integration and change
- Insufficient standardisation and digitisation of processes

**Operational**

- Purchase price increases and sourcing interruptions
- Inability to attract and retain qualified staff
- Lack of the right (innovative) capabilities

**Financial**

- Tax
- Treasury

**Compliance**

- Intellectual property

## Strategic risks

Kendrion's strategy has associated risks for which the company has mitigating measures in place. Apart from the key strategic risks that are elaborated below, there are other strategic risks that are also recognised by Kendrion (e.g. customer dependency, technological substitutes). Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

### Uncertain economic and political conditions

Uncertain economic and political conditions could pressure Kendrion's financial results and the company's ability to achieve its strategic goals. Kendrion has a flexible organisation that enables the company to move in tandem with the economic tides. 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 utilise opportunities for reducing working hours in specific countries.

### Managing organisational integration and change

The acquisition of INTORQ and its subsequent integration into Kendrion could prove to be more difficult than anticipated, leading to additional costs or to synergies not being realised. To a certain extent, the same would also be applicable to the intended merger of the IMS and ICS business units in the industrial segment. Failure to sufficiently or effectively manage the change in the company, both cultural and organisational/operational, could lead to inefficiencies. Kendrion will manage this by appointing an integration team with defined objectives

and responsibilities and clear escalation procedures. Progress will be tracked and reported to the Executive Board.

### Insufficient standardisation and digitisation of processes

Insufficient standardisation and harmonisation of processes could lead to less efficient and/or effective processes, ultimately negatively impacting Kendrion's bottom line. Insufficient digitisation will also impact the aforementioned efficiency and/or effectiveness of processes, but also contains the risk that Kendrion is unable to follow future industry or supply chain standards or satisfy client expectations. Kendrion has several programs in place that are driving process standardisation and harmonisation, both from an operational perspective (development and production processes) and from an IT perspective.

## Operational risks

As a manufacturer of high-quality electromagnetic systems and components for industrial and automotive applications, Kendrion recognises operational risks related to its development and production processes. Apart from the key operational risks, which are presented below, operational risks also include risks such as product liability, IT infrastructure and security, environmental liability, and (natural) disasters. Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

### Purchase price increases and sourcing interruptions

Kendrion could suffer from the reduced availability of raw materials and fluctuations in their price. Kendrion aims to minimise the effects of price fluctuations on the group's results and 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. Steel and copper are Kendrion's most important raw materials, followed by permanent magnets. Where feasible, Kendrion concludes fixed-price arrangements with steel suppliers. For copper, when the copper price risk is not passed on to the customer, Kendrion usually fixes the purchase price for the next quarters in advance. The agreements Kendrion has concluded with the majority of customers who buy components containing permanent magnets provide for automatic price adjustments based on movements in the price of permanent magnets.

### Inability to attract and retain qualified staff

An inability to attract and retain qualified people (engineers) may lead to high dependency on existing personnel and loss of knowledge. Kendrion's required know-how is highly specific and requires on-the-job training. A lack of skilled employees could impede the achievement of Kendrion's strategic objectives. Kendrion strives for good labour conditions in all locations by having local health and safety programs and periodic monitoring through staff satisfaction surveys. By actively investing in succession planning (e.g. through a HIPO program for high potentials), various in-house training programs and apprentice programs, Kendrion intends to facilitate ambition and potential in order to remain an attractive employer that is able to retain its skilled employees.

### Lack of the right (innovative) capabilities

A lack of the right capabilities and limited market intelligence might lead to incremental innovations (focus on perfectionism) instead of innovations that meet (future) customer demands. A focus on products that ultimately prove to be unsuccessful and a failure to respond adequately to market disruptions and to the impact of megatrends could lead to stagnation and even a decline in market share and financial performance in the longer term. In order to mitigate this risk, Kendrion's innovation

projects are carried out in close cooperation and consultation with its customers, an approach which Kendrion perceives as contributing to the company's added value. Although Kendrion's main focus is on technological leadership, it also actively manages the cost price by exploiting low-cost production opportunities within the group as well as exploring alternative uses of materials and sources. In addition to Kendrion's innovation activities, mergers and acquisitions can provide further support in ensuring an effective future product portfolio and technology base, for which the recent acquisition of INTORQ provides a good example.

## Financial risks

Kendrion's operations are financed by shareholder capital, supplemented with a revolving credit facility from the bank. Given its global coverage, Kendrion holds balances in different locations and in multiple currencies. Apart from the key financial risk mentioned below, Kendrion also recognises financial risks related to debt financing, credit exposure, and interest and exchange rate fluctuations (refer to page 139 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.

### Tax

Kendrion operates in various tax jurisdictions and is exposed to a multitude of tax rules and regulations. It is possible that Kendrion's interpretations of local and cross-border regulations are contested by local tax authorities during tax audits, possibly leading to additional taxes and fines. In most countries, the responsibility for accurate tax returns has been assigned to local management, who receive assistance from reputable

local tax consultants. Kendrion carries out an annual inventory at corporate level, in close collaboration with renowned international tax consultants, to assess whether fiscal developments could have an effect on the company's subsidiaries. Corporate reviews of the tax expenses and tax positions of the company's subsidiaries are carried out once a quarter. Kendrion has developed and implemented a tax compliance audit program. This program serves as the basis for reviews and assessments of the operating companies' compliance with the regulations governing a variety of taxes. The tax compliance audit program has been incorporated in the internal audit program.

## Compliance risks

Given its global footprint, Kendrion operates production plants in the US, Europe and China, and has a global client base. Apart from the key compliance risk mentioned below, Kendrion also recognises compliance risks related to bribery and corruption, local laws and regulations, claims and disputes, and insurance. Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

### Intellectual Property (IP)

There is a risk that the competitive technological know-how Kendrion has accrued may end up in the hands of the competition, which could ultimately put Kendrion's leading position in jeopardy. In turn, Kendrion could also unintentionally breach patented technologies of third parties, possibly resulting in claims. Kendrion mitigates these risks by the strict implementation of its IP policy. Important elements of this policy are the application for a patent for the company's most important technological innovations, and establishing confidentiality agreements with relevant customers. Kendrion protects itself from the risk of infringing third-party patents by cooperating

with a specialised patent agency that carries out studies of potential infringements of Kendrion's rights by third parties and vice versa.

## Results of the internal audit program (KiC)

In 2019, all internal audits were supervised by the (interim) Group Controllers in Amsterdam, until the end of the third quarter. As of 1 October 2019, a Global Internal Audit and Risk Manager was hired to further strengthen the corporate governance structure and increase the independence of the audits conducted. The internal audit program and audit scope are reviewed at periodic intervals by the Global Internal Audit and Risk Manager and improved as needed on the basis of recent developments and new requirements.

In 2019, the internal audits covered more than 90% of the value of the relevant reporting cycles. The overall results of the audits conducted in 2019 were satisfactory. The majority of the control deficiencies revealed by the 2018 audits had been addressed, with remediation completed or in progress. 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. 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 66-67. 'The Kendrion Way' is described in the section 'Sustainability' on page 44 and in the section 'People & Culture' on page 53. 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 Zeist, 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 page 55 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. 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 2019. Kendrion does not grant loans or guarantees to Executive Board members.

## Management Team

Effective as of 1 January 2019, Kendrion's organisational structure with five business units was changed into a combination of a functional Automotive organisation through the merger of the business units Passengers Cars and Commercial Vehicles, and the existing three Industrial business units. A new Industrial business unit named Industrial Actuators and Controls will be established in 2020 through the merger of the business units Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS). Upon completion of the acquisition of INTORQ on 8 January 2020, the businesses of Industrial Drive Systems (IDS) and INTORQ will be merged into one new Industrial Brakes business unit in the course of 2020. The composition of the Management Team is aligned to Kendrion's organisational structure and the upcoming changes thereto.

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, China, Global Purchasing, Information Technology, People, Corporate Social Responsibility and Compliance. In addition, the Business Unit Managers of the Industrial business units 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 Management Team meets regularly and those members of the Management Team who are not also members of the Executive Board are regularly invited to attend Supervisory Board meetings and the Supervisory Board – often through coordination of the Chairman of the Supervisory Board. The Supervisory Board maintains appropriate contacts with the members of the Management Team who are not also members of the Executive Board.

With the support of an independent external consultant, the members of the Executive Board, together with the other members of the Management Team, conducted a 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. Special consideration was given to the 2019 strategic and operational spearheads, including the implementation of the functional Automotive organisation and the related harmonisation of operational performance across the Automotive plants and the development of commercial, R&D, purchasing and operational capabilities in China. In addition to reviewing past performance,

the Management Team considered the 2020 strategic and operational spearheads. 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.

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 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 pages 69-76 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 page 73 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 2019.

### 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 and to develop new diversity targets and initiatives. If a vacancy arises, Kendrion will continue to identify and look for internal and external candi-

dates 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.

The composition of the Supervisory Board is diverse, experienced and knowledgeable and reflects a balanced participation of two men and two women. Following the appointment in 2019 of Jeroen Hemmen as CFO and member of the Executive Board, the Executive Board consists of two men. When considering candidates for the CFO vacancy, the Supervisory Board took into account relevant diversity principles as well as functional requirements, quality, expertise and experience, which ultimately resulted in the nomination and subsequent appointment of Jeroen Hemmen during the Extraordinary General Meeting of Shareholders held on 7 June 2019.

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 64.57% (2018: 54.29%) of the total number of shares entitled to vote attended or were represented at the General Meeting of Shareholders held on 8 April 2019.

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 8 April 2019, 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 8 October 2020) 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 reviewed 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, the external auditor 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 57-63 and Report of the Supervisory Board on pages 71-76 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;
- Insider Trading Code;
- Policy on bilateral contacts with shareholders;
- Code of conduct.

### 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 Corporate Social Responsibility 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.

Kendrion has shown consistent performance in the annual Tax Transparency Benchmark of the Dutch Association of Investors for Sustainable Development (VBDO). In 2019, Kendrion was given the no. 3 ranking (2018: 6) for small cap companies and ranked no. 21 (2018: 22) among the 77 (2018: 76) listed companies included in the benchmark.

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 2019 of 25% underlines Kendrion's responsibility to society with regard to taxation. Information about the reconciliation of the effective tax rate can be found on page 154 of this Annual Integrated Report.

**H. ten Hove** (Chairman)**J.T.M. van der Meijs****M.J.G. Mestrom****Dr T.J. Wünsche**

<b>Year of birth</b>	1952	1966	1961	1964
<b>Nationality</b>	Dutch	Dutch	Dutch	German
<b>International expertise</b>	Yes	Yes	Yes	Yes
<b>Gender</b>	Male	Female	Female	Male
<b>Date of first appointment</b>	19 August 2013	31 October 2016	11 April 2016	31 October 2016
<b>Term of office</b>	2017-2021 (2 <sup>nd</sup> term)	2019-2023 (2 <sup>nd</sup> term)	2016-2020	2016-2020
<b>Current number of SB positions</b>	3 (2 Chair)	3	1	2
<b>Shares in Kendrion</b>	No	No	No	No
<b>Professional experience</b>	Manufacturing/industry	Finance	HR/organisational design	Automotive
<b>Additional positions</b>	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.	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.	Chief Human Resources Officer at Brenntag AG.	Global CEO of the Chassis Brakes International Group; Member of the Supervisory Board of the Altenloh, Brinck & Co.
<b>Former positions</b>	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 Siegwark Druckfarben Group. Senior Global Human Resources positions within Royal Philips.	CEO of Benteler Automotive. CEO of Eberspächer Exhaust Technology.

# Towards a solid foundation for a promising future

Over this past year, Kendrion made considerable progress towards becoming a more agile and future-proof business. We achieved this through focus: by enhancing internal operations and by committing resources to specific markets and geographical areas – next-generation vehicles, Industrial Brakes and especially China. This clear focus has given a strong signal to stakeholders and the Executive Board: the company is moving in the right direction.

## CHAIRMAN OF THE SUPERVISORY BOARD

Henk ten Hove



### Agile

Early in 2019, the passenger car and truck/bus business units were merged into a single, more functional organisation. Management is harmonising operations of the eight plants to achieve operational cost efficiencies while simultaneously increasing market agility. Aligning processes and KPIs will also help to share best practices and further reduce CO<sub>2</sub> emissions and energy consumption – a key CSR goal.

Commercially, all levels of the organisation have worked to better understand customers, so we can respond faster to rapidly evolving needs. Management reduced the number of development projects, focusing instead on a portfolio of a few key innovations that will help the company to differentiate itself and grow. These ‘Lighthouse’ platforms are described in more detail on pages 14-20.

While the financial results this year were disappointing compared with last year, we are confident that Kendrion has excellent opportunities in three emerging areas – China, Industrial Brakes and next-generation vehicles ‘ACES’. The large number of ‘ACES’ business nominations provides a strong foundation for the medium to long-term future.

With the acquisition of INTORQ, Kendrion positions itself as the leading supplier of industrial brakes with a comprehensive product portfolio that is unique in the market. The recent merger of the Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) business units is expected to create a better balance between growth and profitability.

Lastly, at the corporate level, management is anticipating the future as well. IT, Communications and Internal Audit received a considerable quality upgrade at the brand new, modern head office in Amsterdam.

### Trust in the future

We work hard to retain the confidence of our shareholders, despite the disappointing results. Significantly, they have signalled their trust in our long-term prospects in China and ‘ACES’, and in our management’s proven success in identifying operational improvements and sound investments.

Furthermore, Kendrion’s balance sheet remains strong, also after the INTORQ acquisition. We have set an ambitious goal of a return on investment of at least 20% by 2023. A challenging target, especially in today’s macroeconomic climate; however, we are committed to achieving this.

We believe Kendrion is a solid company with exceptional products. The Supervisory Board’s confidence in the direction that the company is taking is reflected in the reappointment of Joep van Beurden as CEO for another four years and the appointment of Jeroen Hemmen as CFO in June 2019.

The Supervisory Board is pleased to see the growing number of product nominations in Automotive, in combination with the internal improvements. We expect this will translate into improving results, especially when the market picks up again.

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 2019.

## Performance in 2019

Over the past year, Kendrion faced a difficult economic environment, especially in the automotive market where the market slowdown continued with decreasing sales throughout 2019. The industrial sector made a stable start in 2019. However, during the second half of 2019 it also experienced a decrease in activities, especially in Germany, which is an important market for Kendrion's Industrial activities. With the consistent execution of the 'Simplify, Focus, Grow' over the past years, Kendrion has built an agile and lean organisation that offers the flexibility to address changes in the economic climate and trading environment. The five innovative Lighthouse platforms for Automotive and – on the Industrial side – the servo slim line brake for smaller collaborative robots, underpin the organisation's agile and flexible response to disruption and new opportunities.

Whilst trading in Europe and the US was under pressure during 2019, Kendrion's business in China showed growth of almost 30% by capitalising on opportunities in the automotive and the industrial sector. The focus on China, as a market where opportunities have been identified in a range of automotive and industrial applications, and by investing in production capacity, local supply chain and workforce, has resulted in growth in 2019 with more in the pipeline.

The Supervisory Board believes that the recent acquisition of INTORQ, a manufacturer of spring-applied brakes and electromagnetic brakes and clutches for electrical drive technologies, will strengthen the company's position in the industrial brake market, which is an important growth market. Also our shareholders have been supportive of the INTORQ acquisition, which is reflected in the successful capital increase through which an amount of EUR 31.1 million was raised to help finance the acquisition.

## Focus items 2019

The Supervisory Board believes 'focus' is key to achieving the strategic plan and to creating long-term sustainable value. In 2019, the Supervisory Board, in coordination with the Executive Board and the Management Team, placed special emphasis on the following subjects:

### Transformation of the Automotive organisation

In view of the introduction of a more centralised Automotive organisation in January 2019, the Supervisory Board discussed the design and implementation of key initiatives that formed part of the transformation of the Automotive organisation.

In discussing the transformation of the Automotive organisation, the Supervisory Board devoted attention to various topics, including:

- the increase of sales intensity and capacity;
- the harmonisation of operational performance of the production plants by introducing score cards with comparable key performance indicators for all eight production plants;
- strengthening the global footprint of the Automotive plants through the establishment of so-called competence centres where optimal use is made of the strengths of each production plant;
- globalising the R&D function to improve development efficiency and to refocus the R&D portfolio.

Various in-depth discussions took place between the Executive Board and the Supervisory Board. Where appropriate the Supervisory Board received presentations from members of the Management Team, including the Chief Operational Officer Automotive and the Chief Commercial Officer Automotive. The Supervisory Board believes good progress has been made transforming the Automotive organisation.

### Expansion China

The focus on expansion and growth in China over the past years is yielding good results. Important steps have been taken to scale the China business and further grow the project pipeline. Realising the revenue growth as a result of this pipeline requires an investment in capability and capacity of the local organisation. Other activities that have been undertaken include expansion of product lines, optimisation of production processes and certifying product quality and reliability of the supply chain.

To manage the project pipeline in a balanced manner, resource capacity planning and optimisation remain important and are continuously evaluated and advanced as needed.

In 2019, the Chairman of the Supervisory Board visited Kendrion's facility in Suzhou, in China, to discuss the growth strategy and principal risks and opportunities related to this. During his visit, the Chairman also met with representatives of the local authorities who expressed their support for Kendrion's expansion plans.

The Supervisory Board has consistently supported the expansion and growth in China, and emphasised the importance of maintaining project performance and the delivery of high-quality products. The Supervisory Board believes that the steps taken are appropriate and have been conducive to realising strong sustainable growth in China in 2019 and beyond. Given the importance of the China growth strategy, the importance of the successful execution and further development of the project pipeline, this topic will remain on the list of focus items for 2020.

#### Completing search for new CFO

At the end of 2018, the Supervisory Board led the search for a new CFO. When considering candidates, the Supervisory Board took into account diversity principles as well as functional requirements, quality, expertise and experience. Both external and internal candidates have been considered. At the end of a comprehensive process, the Supervisory Board unanimously resolved to nominate Jeroen Hemmen for a four-year term as of 1 July 2019. With Jeroen Hemmen as CFO, the Supervisory Board expects Kendrion to continue to make good progress with its strategic plan. In the shareholder meeting held early June 2019, Jeroen Hemmen was appointed as CFO and member of the Executive Board.

#### Implementation 2019-2023 CSR target framework

Sustainability is a priority for the Supervisory Board. The Supervisory Board was regularly updated about the progress made on the 2019-2023 CSR target framework. These updates included relevant developments, challenges and opportunities connected to each of the value creation pillars: Natural Capital, Social and Human Capital and Responsible Business Conduct.

In line with the 2019-2023 CSR target framework, a five-year roadmap aimed at the realisation of 15% relative reduction of energy consumption and CO<sub>2</sub> emission by the end of 2023 has been developed. The Supervisory Board has been informed about the encouraging start that was made implementing measures under this five-year roadmap. Additional initiatives contributing to the realisation of the 2019-2023 CSR target framework were made in waste management, maintaining a responsible product portfolio and greener transport options.

Sustainability forms an integral part of management performance, and sustainability performance criteria are included in the Executive Board's short-term and long-term variable remuneration. Similarly, sustainability performance criteria are part of the variable remuneration of the Management Team. The Supervisory Board pursued a structured approach to assessing this performance during the year under review.

In 2019 important progress has been made with the implementation of the CSR target framework 2019-2023. The Supervisory Board expects to further develop initiatives that are conducive to addressing climate change, the increasing scarcity of natural resources and the reduced availability of energy sources in 2020 and beyond.

#### Focus items 2020

The Supervisory Board has defined the following attention points for 2020:

- Integration of INTORQ and the Industrial Drive Systems (IDS) business unit of Kendrion to create one Industrial Brakes business unit;
- Completion of the combination of Kendrion's business units Industrial Magnetic Systems (IMS) and Industrial Control Systems (ICS) into the industrial business unit Industrial Actuators and Controls;
- Expanding the organisation in China;
- Further advancing the Automotive project pipeline with new customer projects and the continuation of redirecting the Automotive R&D function to enable the development of actuators for the next generation vehicles.

#### Meetings and attendance

The Supervisory Board held 13 meetings in 2019, seven of which were regular scheduled meetings. The six additional meetings were related to the nomination of Jeroen Hemmen as CFO and member of the Executive Board, the acquisition of INTORQ, and the related acquisition financing structure, including the cancellation of the share buyback program of 625,000 shares and the capital increase by means of accelerated bookbuild offering. On 21 November 2019, Kendrion announced that it successfully realised a capital increase of EUR 31.1 million.

The Supervisory Board considered the acquisition of INTORQ, and had various in-depth discussions with the Executive Board. In discussing the acquisition, the Supervisory Board considered matters such as strategic rationale for the transaction, business plan and valuation, funding scenarios, key due diligence

findings, post-acquisition integration outlook, including the envisaged organisational set-up post-acquisition and related matters. The Supervisory Board unanimously supported the acquisition of INTORQ and believes that the combined businesses of Industrial Drive Systems (IDS) and INTORQ will significantly strengthen Kendrion's position in the industrial brakes market.

Kendrion rolled out a company culture campaign known as The Kendrion Way. The Kendrion Way attempts to capture the company culture 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 Supervisory Board believes that the values captured in this phrase are essential to building an organisation that is agile and flexible to take advantage of the many opportunities in its markets such as the 'ACES' within automotive and collaborative robots within the industrial sector.

Special consideration was given to Kendrion's IT organisation. The IT 'baseline review' conducted in 2019 evaluated the maturity and cost level of the IT function as compared to its performance. Based on the outcome of this review, the IT strategic plan was significantly altered. The Audit Committee of the Supervisory Board closely monitored progress on the execution of the new IT plan.

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 2019 was 98% (2018: 100%).

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 members of the Supervisory Board and members of the Management Team.

The agenda for the Supervisory Board meetings covered the 2019 focus items described on page 71-73 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 preparation of the General Meeting of Shareholders. Another topic that was given attention during 2019 included the status of the ongoing German tax audits.

The annual two-day strategy meeting in 2019 was held in Malente, Germany to discuss strategic options and the strategic plan 2020-2024. The meeting was combined with a visit to the production plant in Malente where Supervisory Board members met local management of the Automotive and Industrial business units. The plant visit provided deeper insight into the operations of these business units.

The external auditor attended the meeting of the Supervisory Board in February 2019 during which the full-year figures for 2018 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. Building upon the experience with the external consultant, in 2019 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 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.

In Supervisory Board-only meeting(s), the members assess the functioning of the Executive Board and the individual members. Following this assessment, feedback was provided to the Executive Board members. The Supervisory Board is committed to achieving improvements with respect to items highlighted during the evaluation and to having an evaluation conducted by an external consultant once every three years.

## 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.

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 can be found on the corporate website at [www.kendrion.com](http://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 program 'Kendrion in Control'.

The Audit Committee consists of Jabine van der Meijs (Chair) and Thomas Wünsche.

The Audit Committee held four meetings in 2019. Attendance during 2019 was 100% (2018: 100%). The CFO 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 2018, the half-year financial statements for 2019 and the management letter were discussed. The Audit Committee met with the external auditor without the CFO.

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 and internal control system, 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 program 'Kendrion in Control'.

Regular updates were provided on the maintenance and effectiveness of the risk management 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 process and the internal audit program: 'Kendrion in Control'.

The Audit Committee discussed the current approach and operation of the internal audit program 'Kendrion in Control' and the matters arising from the internal audit program. Although the Audit Committee is satisfied with the approach and operation of the internal audit program and of the opinion that the risk management and internal control system meet Kendrion's needs, the Audit Committee recommended the carrying out of an assessment regarding the establishment of an independent internal audit and risk management function. The outcome of the assessment was presented to the Audit Committee in May 2019. Taking into consideration the current internal audit setup in view of the progressing public opinions with respect to the design and operation of the internal audit function, including the increased emphasis on good corporate governance which – amongst other things – compels adequate risk management and internal control systems that are assessed by the internal audit function, it was decided to establish an independent internal audit function within the meaning of the Dutch Corporate Governance Code.

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 outcome of the IT baseline review that was carried out in 2019 and monitored progress on the execution of the new IT strategy plan.

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 2019 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.

### 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% (2018: 100%). 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

In the first quarter of 2019, the HR Committee advised the Supervisory Board on the selection and nomination of the new CFO. The HR Committee – together with an executive search agency – developed a role profile, taking into account the ongoing business and operational requirements, including the progress and stage of the 'Simplify, Focus, Grow' strategy as well as the financial situation of Kendrion. In the selection process, both external and internal candidates were considered. The Supervisory Board unanimously resolved to nominate Jeroen Hemmen for a four-year term as of 1 July 2019 to further ensure long-term continuity in the Executive Board.

As part of the CFO's first performance review in January 2020, the HR committee will consider an increase to the CFO's 2020 annual fixed base salary up to the medium level relative to the reference group described in the Executive Board remuneration

policy, and make recommendations to the Supervisory Board accordingly.

Jabine van der Meijs was first appointed to the Supervisory Board on 31 October 2016 for a three-year term ending in October 2019. The HR Committee advised the Supervisory Board regarding the reappointment of Jabine van der Meijs. On 8 April 2019, the General Meeting of Shareholders resolved to reappoint Jabine van der Meijs for a four-year term ending on the date of the annual General Meeting of Shareholders to be held in 2023.

Marion Mestrom who commenced her first term as member of the Supervisory Board in 2016 has indicated that she will be available for a second term as member of the Supervisory Board. The Supervisory Board is therefore pleased to nominate Marion Mestrom for reappointment. The nomination for the reappointment of Marion Mestrom for a second term as member of the Supervisory Board will be proposed to the General Meeting of Shareholders on 6 April 2020.

Thomas Wünsche who commenced his first term as member of the Supervisory Board in 2016 has indicated that he will not be available for a second term as member of the Supervisory Board and that he will step down upon expiry of his first term that is the date of the General Meeting of Shareholders on 6 April 2020. We want to thank him for his valuable contribution to Kendrion over the past years.

In view of the upcoming expiry of the second term of Henk ten Hove in 2021, the HR Committee will commence the search to find a new Chairman for the Supervisory Board.

### 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 HR Committee also informed itself about the Dutch Act to implement the EU Shareholders' Rights Directive that became effective on 1 December 2019. The Dutch Act contains a list of subjects that must be reflected in the remuneration policy of listed companies. Upon the recommendation of the HR Committee, the Supervisory Board will propose the necessary amendments to the remuneration policy for adoption by the General Meeting of Shareholders on 6 April 2020.

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 2019 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 2019 financial statements meet all requirements for transparency and correctness. Therefore, the Supervisory Board recommends

that the General Meeting of Shareholders to be held on 6 April 2020 adopt the 2019 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.

#### Supervisory Board

Henk ten Hove, Chairman  
Jabine van der Meijs  
Marion Mestrom  
Thomas Wünsche, Vice-Chairman

17 February 2020

### Profit appropriation

Kendrion realised net profit of EUR 7.9 million in 2019. Normalised net profit amounted to EUR 10.6 million.

The Supervisory Board approved the proposal of the Executive Board to pay out 35% of normalised net profit as dividend.

The members of the Supervisory Board have signed the 2019 financial statements to comply with their statutory obligation pursuant to article 2:101, paragraph 2, of the Dutch Civil Code.

### Concluding remarks

The Supervisory Board is appreciative of and fully supports the strategy for 2020-2024 as presented in June 2019 during the two-day strategy meeting in Malente. The Supervisory Board takes the opportunity to thank Kendrion's business partners for their long-standing business relationship, our shareholders for their trust and the Executive Board, the Management Team and all Kendrion employees around the world for their valuable contribution and the great efforts they have shown in 2019.

### Introduction

This Remuneration Report describes the application of the Remuneration Policy for the Executive Board and the actual performance in 2019 against the predefined performance criteria. In addition, the Remuneration report provides an overview of the remuneration of the Supervisory Board in 2019.

### Performance in 2019

The global economic climate and trading environment in 2019 was challenging, especially in the automotive sector that struggled throughout the year and that is experiencing significant disruption as vehicles become ever more Autonomous, Connected, Electric and Shared (the 'ACES'). In automotive, the market slowdown continued during 2019 with decreasing vehicle sales across the globe. Although the industrial sector started the year at the activity level of 2018, activities decreased in the second half of 2019, especially in Germany, which is Kendrion's main market for industrial activities. With the consistent execution of the 'Simplify, Focus, Grow' during the years 2016, 2017 and 2018, Kendrion has built a robust and lean organisation with a strong financial position. With the robust and lean organisation, Kendrion responded to these developments by enhancing focus on the further improvement of operational effectiveness, containing cost levels and improving cash conversion.

Despite the difficult trading environment, Kendrion continued to invest in its growth areas: Automotive, China, and brakes for industrial automation and robots. In Automotive, five 'ACES' Lighthouse platforms were introduced to make use of the disruption in the automotive market. In addition, an important project was won in 2019 for a battery cooling valve and control system that extends battery lifespan and the range of electric vehicles by controlling the battery temperature.

In China, significant investments were made in production lines, local supply chain and workforce to build and train the Chinese team. In Industrial Brakes, an important Lighthouse platform was introduced with Kendrion's servo slim line brakes; a compact electromagnetic safety brake for the growing market of smaller (collaborative) robots. In addition, the recent acquisition of INTORQ, a manufacturer of spring-applied brakes and electromagnetic brakes and clutches is expected to strengthen Kendrion's position in the market for industrial automation and robots.

In 2019, the five-year roadmap with measures for the production plants aimed at the realisation of a 15% relative reduction of energy consumption and CO<sub>2</sub> emission by the end of 2023 was completed and a promising start was made with the execution of the roadmap. Energy-efficient offices also contribute to the reduction of Kendrion's CO<sub>2</sub> footprint, and in 2019 Kendrion's head office moved to a modern and energy efficient building. Maintaining a responsible product portfolio is an integral part of Kendrion's ambition to create long-term sustainable value. One of the key products that helps reducing emissions is Kendrion's Otto Particle Filter (OPF) that cleans fine particles from exhaust fumes.

### Remuneration Policy

The Remuneration Policy for the Executive Board has been adopted by the General Meeting of Shareholders, most recently in April 2018. The HR Committee of the Supervisory Board conducted a scenario analysis in the context of the design and application of the 2018 Remuneration Policy. The Remuneration Policy is reviewed at least every four years by the HR Committee at the instruction of the Supervisory Board. For the Executive Board 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, motivate and retain qualified and experienced executives in order to deliver Kendrion's 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.

The remuneration structure and level for the members of the Executive Board is set at the median level relative to the reference group of companies admitted to listing on NYSE Euronext Amsterdam (AScX Index) and strives to achieve an appropriate balance between Kendrion's annual plan and budget on the one hand and the long-term strategy on the other hand. The reference group that has been used for the design of the 2018 Remuneration Policy consists of companies from the AScX Index, excluding financial services, real estate and movies and entertainment companies. The remuneration package consists of the following elements: (i) base salary, (ii) short-term incentive, (iii) long-term incentive, and (iv) other benefits such as pension contributions.

The Remuneration Policy for the Executive Board has a performance-oriented design, whereby results and performance are used to determine short-term and long-term incentives that are of a challenging and appropriate level. The short-term and long-term incentives are based on predetermined, specific and measurable performance criteria. The short-term and long-term incentives are appropriate in relation to the base salary and take into account the pay ratios within Kendrion.

The Supervisory Board is authorised to adjust the amount of the short-term and long-term incentives 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 incentives awarded to members of the Executive Board should it transpire that such incentives were unjustifiably awarded on the basis of incorrect information.

## Base salary

Members of the Executive Board receive a base salary, the amount of which is in line with the remuneration principles of the Remuneration Policy, and payable in cash on a monthly basis. Base salary levels may be adjusted based on general market movement (to be reviewed at least every four years) and Dutch inflation rates (to be reviewed on an annual basis).

On 8 April 2019, the General Meeting of Shareholders reappointed Joep van Beurden as CEO and member of the Executive Board for a four-year term commencing on 1 December 2019 and ending on 1 December 2023. The remuneration package that becomes effective as of 1 December 2019 includes an increased annual gross base salary, 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 in April 2018.

In 2019, the following annual base salary levels applied to the members of the Executive Board:

	2019 annual gross base salary	2019 actual gross base salary
CEO (J.A.J. van Beurden)	EUR 504,645 <sup>1</sup> EUR 550,000 <sup>2</sup>	EUR 508,424.58 <sup>3</sup>
CFO (J.H. Hemmen)	EUR 235,000 <sup>4</sup>	EUR 117,500

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

	2018 annual gross base salary	2017 annual gross base salary	2016 annual gross base salary	2015 annual gross base salary
CEO (J.A.J. van Beurden)	EUR 490,900	EUR 474,300	EUR 465,000	EUR 465,000
CFO (J.H. Hemmen)	Not applicable – effective date of appointment to the Executive Board 1 July 2019			

<sup>1</sup> Effective until 1 December 2019.

<sup>2</sup> Effective as of 1 December 2019 (i.e. the commencement date of the CEO's second term).

<sup>3</sup> 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).

<sup>4</sup> Effective as of 1 July 2019 (i.e. the effective date of appointment to the Executive Board).

### Target amount

The short-term incentive target amount is set at:

- 40% of annual gross base salary for the CEO<sup>1</sup>;
- 35% of annual gross base salary for the CFO.

### Performance incentive zone

- The amount of the pay-out of the short-term incentive for the achievement of the performance criteria is maximised at 150% of the short-term incentive target amount.
- 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.
- In the case of performance below the threshold performance of the relevant performance criterion, the amount of the pay-out of the short-term incentive will be equal to zero.

### Financial performance criteria

- The financial driven performance criteria determine 60% of the short-term incentive.
- Each year the Supervisory Board selects three financial driven performance criteria from the list below that apply to the relevant performance year with a view to incentivising year-on-year delivery of short-term financial objectives that support Kendrion's overall annual objectives.
- The Supervisory Board can deviate from the foregoing and select four financial driven performance criteria from the list below that apply to the relevant performance year.
- 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 each financial performance criterion.
- List of financial performance criteria:
  - Net profit;
  - Return on sales (ROS);
  - Average return on capital employed (ROIC);
  - Organic growth;
  - Free cash flow;
  - EBITDA.

### Non-financial performance criteria

- The non-financial performance criteria determine 40% of the short-term incentive. Each year the Supervisory Board selects a certain number of non-financial performance criteria derived from Kendrion's strategic priorities and an appropriate pay-out scheme.
- 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-performance criteria achieved.
- The amount of the pay-out for the achievement of non-financial performance criteria will be equal to 150% of the short-term incentive target amount if all selected non-performance criteria are achieved.
- If the achievement of non-financial performance criteria falls below a certain minimum threshold number of selected non-financial performance criteria, the amount of the pay-out will be equal to zero.
- A 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.

### Investment

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 share ownership level has been reached as prescribed under Kendrion's 'Share ownership guideline' of the Remuneration Policy.

<sup>1</sup> 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 to adjust the CEO's short-term incentive for at target performance to 60% of the annual gross base salary, with a maximum of 90% of the annual gross base salary (i.e. the short-term incentive is maximised at 150% of the at-target amount) effective as of 1 December 2019, the commencement date of the second term. The reappointment resolution does not also encompass a change to the Executive Board Remuneration Policy as adopted in April 2018.

### 2019 short-term incentive

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 2019 short-term incentive, the Supervisory Board considered – amongst others – the volatile economic climate and trading environment and the importance of long-term value creation through continued investments in key growth areas that are identified in the strategic plan as approved by the Supervisory Board. To this end, the Supervisory Board followed the recommendation of the HR Committee and selected four financial performance criteria, a non-financial performance criterion in the area of sustainability and other non-financial criteria that are directly linked to Kendrion's strategic plan, including the key growth areas identified therein. 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.

In 2019, the following short-term incentive target amounts applied to the members of the Executive Board:

	2019 short-term incentive target amount
CEO (J.A.J. van Beurden)	EUR 212,536.50 (i.e. the sum of EUR 185,036.50 <sup>1</sup> and EUR 27,500 <sup>2</sup> )
CFO (J.H. Hemmen)	EUR 41,125 <sup>3</sup>

For the performance year 2019, the short-term incentive is allocated as follows:

Short-term incentive as percentage of annual gross base salary in 2019					
Performance criterion	Weight	Minimum		At target	Maximum
ROIC	15%	0	CEO	6%	9%*
				9%	13.5%**
			CFO	5.25%	7.88%
ROS	15%	0	CEO	6%	9%*
				9%	13.5%**
			CFO	5.25%	7.88%
EBITDA	10%	0	CEO	4%	6%*
				6%	9%**
			CFO	3.5%	5.25%
Free cash flow	20%	0	CEO	8%	12%*
				12%	18%**
			CFO	7%	10.5%
Non-financial performance criteria	40%	0	CEO	16%	24%*
				24%	36%**
			CFO	14%	21%
<b>TOTAL</b>	<b>100%</b>	<b>0</b>	<b>CEO</b>	<b>40%</b>	<b>60%*</b>
				<b>60%</b>	<b>90%**</b>
			<b>CFO</b>	<b>35%</b>	<b>52.5%</b>

<sup>1</sup> EUR 185,036.50 for the 11-month period ending 30 November 2019; based on an annual amount of EUR 201,858 which amount represents 40% of the annual gross base salary of EUR 504,645 (i.e. EUR 201,858 \* 11/12th).

<sup>2</sup> EUR 27,500 for the one-month period commencing 1 December 2019 and ending 31 December 2019; based on an annual amount of EUR 330,000 which amount represents 60% of the annual gross base salary of EUR 550,000 (i.e. EUR 330,000 \* 1/12th).

<sup>3</sup> The short-term incentive target amount has been time pro-rated to account for the effective date of appointment to the Executive Board on 1 July 2019. The annual target amount of EUR 82,250 represents EUR 35% of the annual gross base salary of EUR 235,000.

\* Effective until 1 December 2019.

\*\* Effective as of 1 December 2019 (i.e. the commencement date of the CEO's second term).

### 2019 short-term financial performance criteria

In 2019, the actual performance against the financial performance criteria was as follows:

2019 short-term incentive performance on financial performance criteria					
Pay-out as % of short-term					
Financial performance criterion	incentive target amount	Pay-out as % of annual gross base salary		Pay-out in EUR	
ROIC	0%	0%		EUR 0	
ROS	0%	0%		EUR 0	
EBITDA	0%	0%		EUR 0	
Free cash flow	150%	CEO (J.A.J. van Beurden)	CFO (J.H. Hemmen)	CEO (J.A.J. van Beurden)	CFO (J.H. Hemmen)
		12% <sup>1</sup>	10.5%	EUR 63,761	EUR 12,337.50 <sup>4</sup>
		18% <sup>2</sup>		(i.e. the sum of EUR 55,511 and EUR 8,250) <sup>3</sup>	

### 2019 short-term non-financial performance criteria

The HR Committee reviewed performance of the members of the Executive Board against the non-financial performance criteria that are directly linked to Kendrion's strategic plan, including the sustainability ambitions and key growth areas described therein, and made recommendations to the Supervisory Board accordingly. The score on the non-financial performance criteria did not vary among the members of the Executive Board and represented 24% of the CEO's annual gross base salary for the 11-month period ending 30 November 2019 and 36% of the CEO's annual gross base

salary for the one-month period commencing 1 December 2019 and ending 31 December 2019. This resulted in a pay-out of EUR 127,521.90<sup>5</sup> for the CEO. For the CFO, the score on the non-financial performance criteria represented 21% of the annual gross base salary, resulting in a pay-out of EUR 24,675 (i.e. 21% of the annual gross base salary of EUR 235,000 \* 0.5).

<sup>1</sup> Effective until 1 December 2019.

<sup>2</sup> Effective as of 1 December 2019 (i.e. the commencement date of the CEO's second term).

<sup>3</sup> EUR 55,511 for the 11-month period ending 30 November 2019 (i.e. 12% of annual gross base salary of EUR 504,645 \* 11/12th) and EUR 8,250 for the one-month period commencing 1 December 2019 and ending 31 December 2019 (i.e. 18% of annual gross base salary of EUR 550,000 \* 1/12th).

<sup>4</sup> The long-term incentive target amount has been time pro-rated to account for the effective date of appointment to the Executive Board on 1 July 2019 (i.e. 10.5% of the annual gross base salary of EUR 235,000 \* 0.5).

<sup>5</sup> The sum of EUR 111,021.90 for the 11-month period ending 30 November 2019 (i.e. 24% of annual gross base salary of EUR 504,645 \* 11/12th) and EUR 16,500 for the one-month period commencing on 1 December 2019 and ending on 31 December 2019 (i.e. 36% of annual gross base salary of EUR 550,000 \* 1/12th).

## 2019 pay-out short term incentive

Overall performance resulted in the following pay-out of the short-term incentive in 2019:

	Total pay-out 2019 short-term incentive	Pay-out as % of annual gross base salary
CEO (J.A.J. van Beurden)	EUR 191,282.90 (gross)	37.62% of the actual 2019 gross base salary of EUR 508,424.58 37.90% of the gross annual base salary of EUR 504,645 (applicable until 1 December 2019) 34.78% of the gross annual base salary of EUR 550,000 (applicable as of 1 December 2019)
CFO (J.H. Hemmen)	EUR 37,012.50 (gross)	31.5%

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	2018	2017 <sup>1</sup>	2016 <sup>1</sup>	2015 <sup>1</sup>
CEO (J.A.J. van Beurden)	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.	Not applicable – effective date of appointment to the Executive Board 1 December 2015.

CFO (J.H. Hemmen) Not applicable – effective date of appointment to the Executive Board 1 July 2019.

<sup>1</sup> 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 incentive

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

The overview below describes the key elements of the long-term incentive scheme as recorded in the Executive Board Remuneration Policy.

### Conditional shares

The members of the Executive Board are eligible for a grant of conditional performance shares. The actual number of performance shares is determined by the Supervisory Board in accordance with the provisions of the Remuneration Policy. 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 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.

### Target value

The target value at grant date is set at the following maximum:

- 55% of the annual gross base salary of the CEO as per the grant date<sup>1</sup>;
- 50% of the annual gross base salary of the CFO as per the grant date.

### Performance measure

The vesting percentage of the performance shares is conditional upon the achievement of performance measured as:

Weight	Performance measure
40%	Relative TSR
40%	EPS
20%	a non-financial measure in the area of sustainability

### EPS

EPS is calculated by dividing the profit or loss attributable to shareholders of Kendrion by the weighted average number of shares outstanding during the relevant 12-month period.

### Non-financial measure – sustainability

The non-financial measure in the area of sustainability shall be determined taking into account Kendrion's Corporate Social Responsibility strategy.

### Performance incentive zone

The performance incentive zone for EPS and the non-financial performance measure in the area of sustainability shall be set by the Supervisory Board between zero and 150% of the on-target level. The actual performance incentive zones will be disclosed after the expiry of the relevant three-year performance period.

### Relative TSR

The relative TSR will be measured against the performance of twelve selected TSR peer companies.

The calculation to determine Kendrion's ranking shall be conducted by an external independent and reputable specialised firm designated by the Supervisory Board.

Kendrion's ranking, after three years, determines the number of performance shares that vest, 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%

#### 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.

<sup>1</sup> 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 to adjust the CEO's long-term incentive for at target performance to 60% of the annual gross base salary, with a maximum of 90% of the annual gross base salary (i.e. the long-term incentive is maximised at 150% of the at-target amount) effective as of 1 December 2019, the commencement date of the second term. The reappointment resolution does not also encompass a change to the Executive Board Remuneration Policy as adopted in April 2018.

With respect to the long-term incentive under the Remuneration Policy as adopted by the General Meeting of Shareholders in April 2018, the members of the Executive Board were granted conditional performance shares as described in the table below.

In accordance with the 2018 Remuneration Policy, the vesting percentage of the performance shares remains conditional upon the achievement of performance measured as relative TSR, EPS and a non-financial measure in the area of sustainability.

Kendrion's external auditor Deloitte Accountants B.V. performed procedures regarding the calculation of the base salary and the variable remuneration of the Executive Board for the year under review.

#### 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.

	2019 annual gross base salary	Target amount	Average share price Q4 2018	Conditional performance shares	Expiry vesting period	Expiry holding period
CEO (J.A.J. van Beurden)	EUR 504,645 (until 1 December 2019) EUR 550,000 (as of 1 December 2019)	EUR 281,925.41 (i.e. the sum of EUR 254,425.41 and EUR 27,500) <sup>1</sup>	EUR 24.39	11,559	End of 2021	End of 2023
CFO (J.H. Hemmen)	EUR 235,000	EUR 58,750 (i.e. 50% of EUR 235,000 * 0.5) <sup>2</sup>	EUR 24.39	2,409	End of 2021	End of 2023

Long-term incentive	2018 number of shares	Expiry vesting period	Expiry holding period	2017 number of shares <sup>3</sup>	Expiry vesting period	Expiry holding period	2016 number of shares <sup>3</sup>	Expiry vesting period	Expiry holding period	2015 <sup>3</sup>
CEO (J.A.J. van Beurden)	6,960	End of 2020	End of 2022	3,383	End of 2019	End of 2021	3,970	End of 2018	End of 2020	Not applicable – effective date of appointment to the Executive Board 1 December 2015
CFO (J.H. Hemmen)	Not applicable – effective date of appointment to the Executive Board 1 July 2019									

<sup>1</sup> EUR 254,425.41 for the 11-month period ending 30 November 2019 (i.e. 55% of the annual gross base salary of EUR 504,645 \* 11/12th) and EUR 27,500 for the one-month period commencing 1 December 2019 and ending 31 December 2019 (i.e. 60% of the annual gross base salary of EUR 550,000 \* 1/12th).

<sup>2</sup> For the CFO, the long-term incentive for at target performance has been time pro-rated to account for the effective date of appointment to the Executive Board on 1 July 2019.

<sup>3</sup> The long-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 long-term incentive is subject to the Executive Board Remuneration Policy adopted in April 2018.

### Settlement previous variable remuneration schemes

For the performance year 2016, Joep van Beurden earned a short-term incentive of EUR 180,420 (gross), which amount was based on 97% achievement of the 2016 performance criteria resulting in a gross bonus amount equal to 38.80% of his 2016 gross annual base salary (i.e. 38.80% of EUR 465,000). One third of the 2016 amount was paid in cash (i.e. EUR 60,140) and two-thirds of the 2016 amount (i.e. EUR 120,280) was paid in conditional shares. The net number of conditional shares accordingly awarded was 3,970. This number of conditional shares was calculated on the basis of the closing share price on 10 April 2017 (i.e. EUR 30.30). Pursuant to the then applicable remuneration policy, the award of the conditional shares becomes unconditional after three years, including the relevant year in which the performance is assessed. The 2016 variable remuneration is supplemented with a share match. Depending on the achievement of long-term performance criteria, the 2016 number of conditional shares will be increased by 100% net (a matching ratio of 1:1). The 2016 share match performance criteria and scores are listed in the table below. Due to the performance of Kendrion in the period 2016-2018, Joep van Beurden will be awarded 1,588 shares (net) under the 2016 share match scheme. The award became due upon expiry of the aforementioned three-year vesting period 2016-2018. Based on the closing share price on 31 December 2018 of EUR 20.95 this represents a gross amount of EUR 65,878.

Weight	2016 performance criteria	Result
30%	Relative total shareholder return (compared to the average of the AScX and SDAX)	0
30%	Absolute total shareholder return	0
40%	Sustainability (energy and CO <sub>2</sub> reduction, waste & recycling, employee satisfaction and management development/succession planning)	100%

The shares awarded pursuant to the share match scheme are subject to a holding period of two years.

For the performance year 2017, Joep van Beurden earned a short-term incentive of EUR 170,748 (gross), which amount was based on 90% achievement of the 2017 performance criteria resulting in a gross bonus amount equal to 36% of his 2017 gross annual base salary (i.e. 36% of EUR 474,300). One third of the 2017 amount was paid in cash (i.e. EUR 113,832) and two-thirds of the 2017 amount (i.e. EUR 113,832) was paid in conditional shares. The net number of conditional shares accordingly awarded was 3,383. This number of conditional shares was calculated on the basis of the closing share price on 9 April 2018 (i.e. EUR 33.65). Pursuant to the then applicable remuneration policy, the award of the conditional shares becomes unconditional after three years, including the relevant year in which the performance is assessed. The 2017 variable remuneration is supplemented with a share match. Depending on the achievement of long-term performance criteria, the 2017 number of conditional shares will be increased by 100% net (a matching ratio of 1:1). The 2017 share match performance criteria and scores are listed in the table below. Due to the performance of Kendrion in the period 2017-2019, Joep van Beurden will be awarded 1,353 shares (net) under the 2017 share match scheme. Based on the closing share price on 31 December 2018 of EUR 20.95 this represents a gross amount of EUR 56,129.

Weight	2017 performance criteria	Result
30%	Relative total shareholder return (compared to the average of the AScX and SDAX)	0
30%	Absolute total shareholder return	0
40%	Sustainability (energy and CO <sub>2</sub> reduction, waste & recycling, employee satisfaction and management development/succession planning)	100%

The shares awarded pursuant to the share match scheme are subject to a holding period of two years.

The Supervisory Board has considered the settlement of the 2016 share match scheme and 2017 share match scheme in light of the principles of reasonableness and fairness and has concluded that the outcome is fair.

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 2016 annual bonus amount, Jeroen Hemmen purchased 149 shares. In accordance with the share based incentive plan for employees, the prior purchase of 149 shares will be matched (a matching ratio of 1:1), provided Jeroen Hemmen is still employed by Kendrion as at 31 December 2019. Due to compliance with the condition of the share-based incentive plan for employees, Jeroen Hemmen will be awarded 149 (net) shares under the share-based incentive plan for employees. The shares awarded are subject to a holding period of two years.

### Pension and other benefits

Kendrion bears the cost of contributions for the retirement pension and risk premiums for partner pension and disability cover for members of the Executive Board and annually makes a maximum gross amount of EUR 75,000 available for this purpose. 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.

Amounts earned or awarded under and in accordance with the short-term incentive scheme and the long-term incentive scheme will not be included as a basis for calculation of pension contributions and premiums, or any other remuneration or allowance, severance amount or benefit.

The Executive Board participates in the defined contribution plan of Kendrion. The pension contribution in 2019 was EUR 31,238 (2018: EUR 30,546) for the CEO and EUR 12,664 for the CFO.

Kendrion provided the CFO with a company car through the lease policy for members of the Executive Board. The lease budget amounts to EUR 2,000 per month. In the case the CFO does not make use of a company car through the lease policy, the CFO shall be entitled to a monthly gross car allowance of EUR 2,000.

## Share ownership guideline

Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual gross base salary for the CEO and 50% of the annual 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 shares purchased with 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.

## Severance payment

In the event of termination of the contract on Kendrion's initiative, the severance payment for members of the Executive Board is maximised at one year's gross annual 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 severance payment 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 14 (2018: 12). This pay ratio is based on the average of the 2019 Executive Board remuneration including pensions and other expenses and the average wage costs per FTE in 2019 as disclosed on page 52 of this Annual Integrated Report.

## Remuneration of the Supervisory Board

The remuneration received by the members of the Supervisory Board comprises a fixed remuneration that is independent of the results of Kendrion. The General Meeting of Shareholders held on 10 April 2017 resolved that as of 1 January 2017, the annual gross fixed remuneration of the members of the Supervisory Board is as described in the table below.

Position	Annual gross fixed remuneration
Chairman of the Supervisory Board	EUR 45,000
Member of the Supervisory Board	EUR 35,000
Chairperson of the Audit Committee	EUR 6,000
Member of the Audit Committee	EUR 5,000
Chairperson of the HR Committee	EUR 6,000
Member of the HR Committee	EUR 5,000

As of 1 January 2017, out-of-pocket expenses of the members of the Supervisory Board are reimbursed based on actual expenses incurred. The remuneration of the members of the Supervisory Board is in line with the median of the peer group.

The aggregate amount of the remuneration of the Supervisory Board members in 2019 amounts to EUR 172,000. The table below gives a breakdown of the remuneration in 2019 per Supervisory Board member.

Supervisory Board member	2019
H. ten Hove	EUR 50,000
M.J.G. Mestrom	EUR 41,000
J.T.M. van der Meijs	EUR 41,000
T.J. Wünsche	EUR 40,000
<b>Total</b>	<b>EUR 172,000</b>

**Executive Board remuneration comparative<sup>1</sup>**

EUR thousand	2019	2018	2017	2016	2015	2014
J.A.J. van Beurden, CEO	853.5 <sup>2</sup>	768.4 <sup>2</sup>	737.8	645.4	38.8	
J.H. Hemmen, CFO	189.4					
<i>Remuneration of former Executive Board members</i>						
P. Veenema, CEO					734.6	668.7
F.J. Sonnemans, CFO		689.0	662.6	533.3	459.5	525.6
Pay ratio	14	12	13	13	14	13
<i>Company performance</i>						
Revenue (EUR million)	412.4	448.6	461.8	443.4	442.1	428.9
Normalised EBITA (EUR million)	19.4	35.4	37.5	31.1	25.8	32.9
Normalised EBITA margin	4.7%	7.9%	8.1%	7.0%	5.8%	7.7%

<sup>1</sup> Based on settled short- and long-term benefits, refer to note 1.14 of the financial statements for detailed disclosure.

<sup>2</sup> Restated to include 2016 long-term incentive.

The remuneration received by the Supervisory Board members comprises a fixed component that is not linked to the performance of Kendrion.

**Supervisory Board remuneration comparative**

	2019	2018	2017	2016	2015	2014
<i>Base fee</i>						
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
<i>Committee fee</i>						
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