KENDRION

WE MAGNETISE THE WORLD

ANNUAL REPORT 2009

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A digital version of this report is available on the corporate website (www.kendrion.com) along with other publications such as press releases, presentations as well as the English and Dutch summarised version of the 2009 Annual Report.

Kendrion N.V.
Euronext code 0000383511
Fondscode 38351
ISIN code 0000383511
Chamber of Commerce 30113646

Contents

Profile

KENDRION N.V. develops, manufactures and markets high-quality electromagnetic systems and components. Kendrion's operations are organised into four market-focused business units: *Industrial Magnetic Systems, Industrial Drive Systems, Passenger Car Systems* and *Commercial Vehicle Systems.*

KENDRION has leading positions in a number of business-to-business niche markets. Germany is Kendrion's main home market, although other countries are growing in significance.

Kendrion activities

KENDRION develops, manufactures and markets electromagnetic components for industrial and automotive applications. Kendrion's electromagnets are used all over the world in products such as lifts, door locking systems, industrial robots, medical equipment, electrical switchbox systems, diesel engines and air-conditioning and motor cooling systems. Kendrion continues to expand its field of operations by organic growth and acquisitions.

Kendrion's key customers include Bosch, Siemens, Daimler, Continental, ZF Lemförder, Evobus, Hyundai and Yutong.

Kendrion N.V.

Industrial Magnetic Systems	Industrial Drive Systems	Passenger Car Systems	Commercial Vehicle Systems
Electromagnetic components as standard and individual solutions for the industry	Electromagnetic brakes and clutches for the industrial drive technology	Customer-specific project developments for applications in the automobile industry and hydraulics	Individual system solutions for commercial vehicle and off-road industry

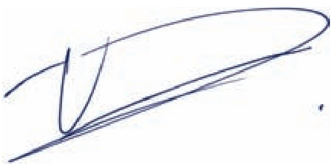
Preface *To all our shareholders and other stakeholders,*

2009 was an exceptional year, a year that was dominated by the developing global economic crisis. While this crisis was already becoming evident in the second half of 2008, the situation during the first six months of 2009 was much worse than had been forecast. As a result, the revenue generated during the first half of 2009 declined by a shocking 35-40%. The dramatic decline in revenue during the first quarter resulted in Kendrion's decision to implement a new package of measures which included further cost reductions. This package of measures – the 'Springtime Plan' – included the closure of production units in Austria and Spain and further improvements in the efficiency of many of the operating companies. Self-evidently, these measures had major consequences for our employees: the total number of own employees was reduced from about 1,400 at the beginning of 2009 to about 1,030 at the end of the year under review. The ultimate objective of the Springtime Plan was to achieve annual cost reductions of about EUR 20 million. This objective has been achieved.

In spite of – or, probably, in part due to – all the measures we have implemented we are convinced that Kendrion's relative strength as compared to the company's competitors has been further enhanced in this crisis year. The range of measures Kendrion has implemented resulted in a strong financial position and a flexible and improved cost structure. In addition, the company has launched many offensives in sales, innovation and product development. In 2009, the Passenger Car Systems and Commercial Vehicle Systems business units, in particular, achieved a broader customer and project base. The first effects of this expansion were already becoming apparent in the second half of 2009. The development of the common rail diesel projects offers particularly promising prospects for the coming years.
In view of the extremely reticent market the other two industrial business units focused on the retention of and, if possible, expansion of their customer bases and project portfolio.

In view of the economic crisis the management of working capital received even more attention than was already customary within Kendrion. The company's stocks were greatly reduced and the quality of the accounts receivable portfolio was improved even further. Kendrion was also able to conclude a new two-year financing agreement with its existing financiers. The broad support among major shareholders for the private share issue also made a substantial contribution to Kendrion's ability to conclude this agreement.
2009 was also the year in which Kendrion, for the first time in the company's history, was able to focus in full on its electromagnetic operations. The period of many years in which Kendrion operated as a diversified company came to an end in February 2009 with the definitive sale of the Vink Group. In view of the developments that took place in 2009 this was certainly the right step to take. With the focus the company has achieved in its operations, Kendrion is now a leading international company in its niche markets that leverages existing know-how, innovative capacity and commercial strengths to offer solutions to its industrial customers. Our objective remains the achievement of excellent returns and a clear company profile. The strategy Kendrion has adopted places stringent requirements on the management and has resulted in the ability to make major project investments in the medium term. Other important elements of Kendrion's strategy relate to sales and engineering staff that are active on an international scale and the establishment of production locations in targeted international markets. In addition, the attention devoted to innovation has increased even further via the Innovation Calendar and the recently installed Innovation Board.
Kendrion will once again endeavour to make acquisitions in the coming years that enhance the existing operations. In addition to reviewing the situation in Germany and Italy, in particular, Kendrion will also investigate the opportunities available in countries outside Europe, such as the USA and China, where the company already has a number of production facilities. In 2010 Kendrion will also review the possibility of establishing activities in India.

At the beginning of 2010 it is virtually impossible to provide a forecast for the economic developments during the course of this year and the following years. However, we certainly have the feeling that the trough in our activities was reached as early as mid-2009. Consequently, we expect that we shall now be able to achieve gradual growth. The rate of growth, however, is still very uncertain; it will probably be several years before we see a return to pre-crisis levels.
It is clear that the crisis has resulted in us making great demands on our staff. As indicated above we have unfortunately had to say farewell to a large number of employees, whereby the company took the greatest possible care. We wish, more than ever before, to thank our current employees for their efforts and contribution to our company. They are an important part of the reason why our ambitions remain at a high level and why we hope to once again further expand our company in the coming years.



Piet Veenema, CEO

Kendrion at a glance
Key figures

EUR million, unless otherwise stated	2009	2008
Net profit	4.0	12.9
Continued operations [1]		
Revenue	149.2	204.2
Organic growth	(27.0%)	3.6%
Operating result before amortisation (EBITA) [6]	5.1 [6]	14.3
Operating result before depreciation and amortisation (EBITDA) [6]	12.8	21.6
Net investments	5.9	13.5
Depreciation and amortisation	8.8	8.3
Financial position		
Total equity	96.1	93.5
Net interest-bearing debt [3]	13.9	75.3
Share information		
Outstanding shares at year-end (x 1,000)	11,316	10,288
Net result per share	0.37	1.25
Main key figures [6]		
Solvency (total equity/balance sheet total)	62.9%	33.3%
Net interest-bearing debt [3]/equity (gearing)	0.1	0.8
Main key figures on pro forma basis [6]		
Normalised net profit	1.0	8.0
Working capital in % of revenue [1]	14.5%	11.6%
Net interest-bearing debt [3]/operating result before depreciation and amortisation (EBITDA)	1.1	2.4
Operating result before amortisation (EBITA)/net finance costs	1.6	3.2
EBITA/invested capital [2, 4] (ROI)	4.5%	12.4%
EBITA/invested capital [2, 4] ex goodwill (ROI)	6.4%	17.6%

EUR million, unless otherwise stated	Target	Actual
Organic growth of continued operations	> 10% per year	(27.0%)
Return on invested capital [2]	> 17.5%	4.6%
Solvency	at least 30%	62.9%
Ratio of interest-bearing debt and EBITDA	< 3.00	1.1
Free cash flow [5]	healthy free cash flow in relation to organic growth in % of net profit	neg.
Dividend distribution	30% of net profit	—

[1] Continued operations: Kendrion Electromagnetic and holding companies, exclusive of Vink UK and Ireland.

[2] Total invested capital is tangible fixed assets, intangible assets and current assets less the current tax liabilities, trade, payables and other payables.

[3] 2008 inclusive of Vink's net interest-bearing debt in assets and liabilities classified as held for sale.

[4] EBITA 2008 continued operations/invested capital 2008 after the deduction of the Vink Group (invested capital in assets and liabilities classified as held for sale).

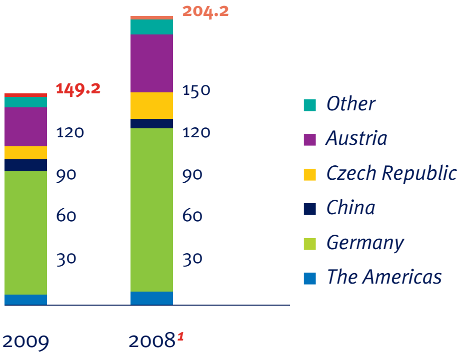
[5] Before cash flow relating to acquisitions and sale of operations.

[6] 2009 EBITA and EBITDA excluding effect restructuring provision and costs related to the disposal of the Vink Group. Normalisations: see page 34.

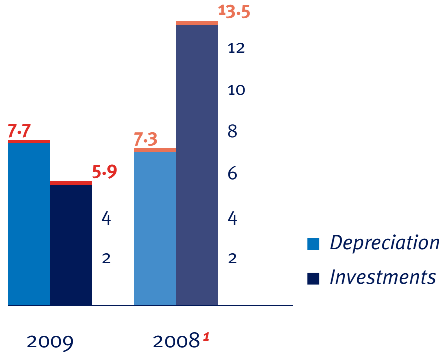
EUR million

[1] Continued operations: Kendrion Electromagnetic and holding companies excluding Vink UK and Vink Ireland.
[2] Before cash flow relating to acquisitions and sale of operations.
[3] Excluding amortisation related to acquisitions (part of other intangible assets).

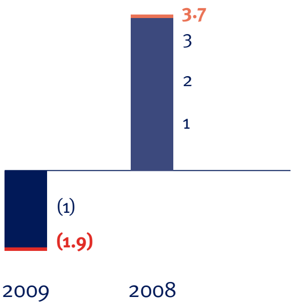
Revenue by region



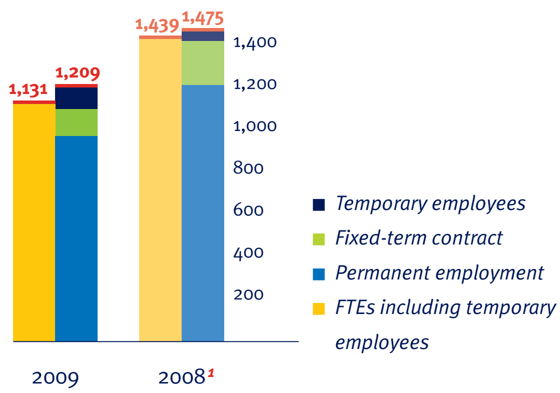
Depreciation and amortisation[3]/investments



Free cash flow[2]



Number of employees in FTEs and absolute numbers



Kendrion at a glance
Mission, strategy and financial objectives

Mission

Kendrion is committed to being a leading international company that uses its existing know-how, innovative capabilities and commercial strengths to provide solutions to the company's industrial and automotive customers. In doing so Kendrion intends to be a transparent, flexible and reliable company where entrepreneurial zeal is combined with clear profit targets. Kendrion seeks to further strengthen its position as a fast-growing high-tech company.

Strategy

Kendrion's policy is focused on the creation of sustainable added value and the achievement of appealing return on investment for the company as a whole. This is based on a powerful focus on a number of selected operations and on profitable growth achieved both organically and via acquisitions.
Kendrion intends to build up and expand its leading European market positions in selected niche markets in terms of revenue and added value. Kendrion utilises its existing know-how, innovative capacity and commercial strengths to offer solutions to a wide range of customers, whereby the company shall focus on the further expansion in the fields of applications for electromagnetic systems and components. In addition, Kendrion intends to evolve from a player on the European market into a global player.
Kendrion is characterised by its transparency, flexibility and local entrepreneurship, whereby the company is driven by challenging but realistic targets. In addition, Kendrion intends to be and remain a company that appeals to its employees, customers and shareholders.
Kendrion is aware of the importance of its social responsibility, and for this reason the social and environmental standards governing all processes are continually being made more stringent.

Kendrion's spearheads are:

- Niche market leadership in selected business-to-business markets;
- Organic growth in the current operations;
- Utilisation of synergy in and between the business units (locally but also internationally);
- Balanced spread of the operations;
- Targeted acquisitions;
- Enhancement of the innovative capacity.

Niche market leadership in selected business-to-business markets

Kendrion endeavours to achieve niche market leadership in selected business-to-business markets. Niche markets are small markets, whereby 'small' relates not so much to revenue or volume as to a limited number of suppliers in the sense of quality (technology and innovation).
Kendrion intends to acquire a leading position in the niche markets that offer appealing margins and which are governed by relatively high barriers to entry (know-how, investments). Kendrion's products and services have the following features:

- The products and services are of an innovative and technical nature;
- Products and services are customised, dedicated to the supplier or customer;
- The contribution may be 'minor', but is essential to the customer's finished products;
- The number of customers (or suppliers) is limited but there are long-term relationships;
- The market for a specific product or service offers the company an opportunity to hold a leading position in that market.

Organic growth in the current operations

Kendrion endeavours to achieve organic growth in its operations in terms of revenue, volume and result.
This can be achieved by having powerful market positions, the further expansion of the company's high-grade engineering and test facilities, and the provision of excellent logistics concepts. Top priority is assigned to the provision of first-rate service.

Utilisation of synergy in and between the business units

Kendrion's four market-focused business units operate in different markets. Kendrion endeavours to achieve optimum synergy in and between the business units by measures including joining forces in marketing and sales and achieving economies of scale in production, purchasing and support services such as HR, Finance, and IT.

A balanced spread of the operations

Kendrion focuses on a balanced customer base, a customer base in which no customer generates more than 5% of the entire company's revenue. Kendrion intends to safeguard stable results by avoiding a dependency on one geographical market. Kendrion endeavours to achieve a balanced geographical spread of its operations, whereby priority is assigned to covering the most relevant European markets. Nevertheless, the importance of countries in Eastern Europe and, especially, outside Europe shall continue to increase. Eastern Europe offers opportunities in terms of production locations and markets, as is illustrated by the operating companies in the Czech Republic and Romania. The Far East and the USA are also becoming more important, and an increased focus is placed on these areas for further growth.

Targeted acquisitions

Kendrion endeavours to acquire companies that enhance its leading positions (both in terms of its markets and the geographical spread of its operations). These acquisitions are pursued, in particular, for the industrial business units.

Enhancement of the innovative capacity

Globalisation and technological developments are increasing the competitive pressure. Kendrion is aware that the company will be unable to achieve and retain its planned growth and attractive market positions without permanent improvements to its operations and its knowledge of markets and customers. This will in turn require Unique Selling Points and innovation. In 2009, Kendrion introduced an Innovation Calendar which lists fixed times over the years in which the business units are stimulated to introduce innovations. This will result in an annual presentation of Kendrion's most important innovations for our stakeholders. Kendrion also installed an external Innovation Board to provide the necessary advice and support to the company.

Financial objectives

- Annual organic growth in revenue of at least 10%;
- Growth of the company, including acquisitions, to revenue of about EUR 350 million within the next two to three years;
- Return on investment (ROI) inclusive of goodwill of more than 17.5%;
- Payment terms and stock levels of each operation in line with the market, taking account of local variations;
- A healthy free cash flow given the organic growth achieved;
- Solvency ratio of about 30%;
- Interest-bearing debt/EBITDA of lower than 3.0;
- Dividend distribution of at least 30% of the net profit, unless dictated otherwise by intended long-term investments and/or acquisitions and/or exceptional circumstances.

Important events (content of press releases)

12 February 2009

The European Competition Authority's approval for the sale of the Vink Group to Edmundson Distribution Limited was received on 5 February 2009. The sale was completed on 12 February 2009.

31 March 2009

Kendrion announced the 'Springtime Plan' in response to the further deterioration in market conditions. The number of jobs will be reduced by 330 to 1,070. The costs of the 'Springtime Plan' amount to EUR 8.5 million: the annual reduction of costs totals approximately EUR 20 million.

28 September 2009

Kendrion N.V. issued 1,028,750 shares (9.99% of the outstanding share capital). The proceeds of the share issue amount to EUR 9.2 million. A large number of the existing major shareholders subscribed to the share issue. Kendrion also concluded a new, two-year financing arrangement of EUR 50 million besides the continuation of the present guarantee facility for the European Commission's claim.

Kendrion at a glance

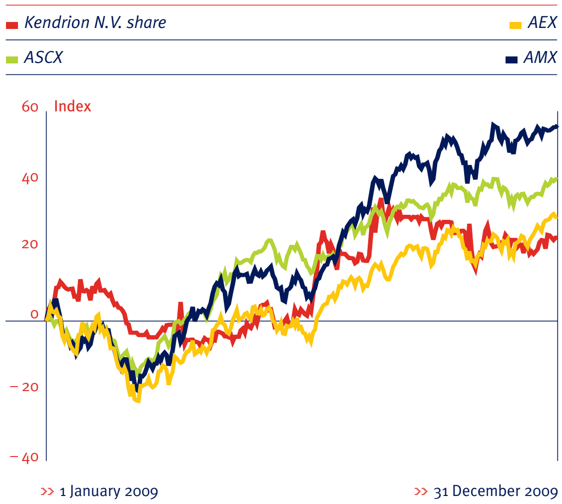
Information on Kendrion N.V. shares

Share capital

The authorised share capital amounts to EUR 80,000,000 and is comprised of 40,000,000 ordinary shares with a nominal value of EUR 2.00. On 31 December 2009, 11,316,374 shares had been issued.
On the balance sheet date the company owned 48,488 shares that are required to cover the current share plans.

Kendrion's shares are listed on NYSE Euronext's Amsterdam market.

Movements in the share price from 2 January 2009 to 31 December 2009



Movements in the number of outstanding shares	Ordinary shares entitled to dividend	Repurchased shares	Total number of issued shares
At 1 January 2009	10,272,392	15,232	10,287,624
Repurchased	45,000	45,000	
Delivered repurchased shares	11,744	11,744	
Issuance of shares	1,028,750		1,028,750
At 31 December 2009	11,267,886	48,488	11,316,374

Other information

In EUR, unless otherwise stated	2009	2008	2007
Number of shares x 1,000 at 31 December	11,316	10,288	10,288
Market capitalisation at 31 December, EUR million	105.8	74.1	185.2
Highest price in the financial year	10.30	18.17	22.90
Lowest price in the financial year	6.59	5.80	16.77
Price on 31 December	9.35	7.20	18.00
Average daily ordinary share volume	4,230	6,979	18,894
Result per share	0.35	1.25	0.35
Price earnings ratio	26.71	5.76	14.17

Major shareholders

Pursuant to the Netherlands Financial Supervision Act, Kendrion is aware, on the basis of the information in the registers of the Netherlands Authority for the Financial Markets (AFM), that the following shareholders possessed an interest of more than 5% on 31 December 2009:

Shareholder		Date of report
ING Groep N.V.	12.72%	1 November 2006
New NIB Ltd.	9.22%	29 September 2009
Dr. T. Tettamanti	8.48%	1 November 2006
Menor Investments B.V.	7.92%	7 January 2009
Aviva Plc	7.58%	1 November 2006
Darlin N.V.	5.09%	1 November 2006
Janivo Participaties II B.V.	5.09%	1 November 2006
Jan Plas S.A.	5.02%	2 April 2009
Navitas B.V.	5.01%	28 November 2006
Total	66.13%	

More changes in the size of these interests occurred during the course of 2009 (for example, as a consequence of the share issue of 28 September 2009). These changes fall within the disclosure thresholds as stipulated in the Financial Supervision Act and which, consequently, did not need to be disclosed by the major shareholders. New NIB Ltd. has disclosed that its interest in Kendrion dropped to 4.93% as per 16 February 2010.

Dividend

Kendrion's dividend policy takes account of both the interests of the shareholders and the expected further development of the company. Pursuant to this policy at least 30% of the net profit is distributed among the shareholders, subject to the proviso that the solvency ratio is retained at a level of at least 30% and unless dictated otherwise by investments, acquisitions or exceptional circumstances.

In the medium to long-term Kendrion's reserve and dividend policies are also designed to enable the company, in part within the scope of the current strategy, to grow whilst retaining a healthy solvency ratio.

An extraordinary item concerns the current proceedings following the fine the European Commission imposed on Kendrion in 2005 for the alleged involvement of one of Kendrion's former subsidiaries in illegal price-fixing agreements, and the bank guarantee of EUR 40 million Kendrion issued to the European Commission in connection with this fine. Pursuant to the current credit agreement with the banks the calculations of covenants take account of a considerable portion of this bank guarantee. This ensures that the company will retain its healthy position should the Court of First Instance unexpectedly rule against Kendrion. The Court of First Instance was initially expected to issue its ruling in 2009. However, the Court of First Instance announced that it is unable to provide any further clarity on the date of its ruling.

Kendrion recorded a net profit of EUR 4 million over 2009, including the EUR 10 million book profit on the divestment of the Vink Group in February 2009. The payment of a cash dividend of EUR 10 million in April 2009 took account of this book profit. Excluding this book profit, Kendrion recorded a net loss due to the Springtime reorganisation announced in March 2009. The Executive Board has decided, with the approval of the Supervisory Board, to transfer the net profit 2009 to the other reserves.

Financial calendar

Thursday 25 February 2010	Publication of the 2009 full-year figures
Wednesday 7 April 2010	General Meeting of Shareholders
Tuesday 11 May 2010	Publication of the results for the first quarter of 2010
Tuesday 24 August 2010	Publication of the results for the first six months of 2010
Tuesday 9 November 2010	Publication of the results for the third quarter of 2010
Monday 28 February 2011 *	Publication of the 2010 full-year figures
Monday 4 April 2011 *	General Meeting of Shareholders

* *The House of Representatives of the Dutch Parliament* (Tweede Kamer) *adopted the legislative proposal for the implementation of the EU Directive on the exercise of shareholder rights on 8 December 2009. One of the provisions of this proposal prescribes that meetings shall be convened with a notice of at least 42 days. If the Senate of the Dutch Parliament* (Eerste Kamer) *does not amend this provision of the legislative proposal then the financial calendar for 2011 may need to be changed.*

Voting by proxy

Pursuant to Kendrion's Articles of Association shareholders can be represented by proxy at meetings of shareholders. Shareholders who are unable to attend the General Meeting of Shareholders can request proxy forms from the company. These are issued free of charge. Shareholders may also grant a proxy electronically through e-voting (www.rbs.com/evoting).

Participation

A share plan for the top management of Kendrion was introduced in 2005. This plan provides for the issue of shares in Kendrion as payment in kind. After the General Meeting of Shareholders each year the number of shares to be awarded to the top management of Kendrion in that year is determined by the Supervisory Board on the basis of the Board's recommendations. 4,275 shares were awarded pursuant to this plan in 2009. The plan does not extend to the Board.

The former long-term incentive (LTI) scheme for the Board was still applicable for the period 2007-2009. Pursuant to this scheme, Kendrion is required, depending on the extent to which a number of predetermined targets have been achieved, to issue the members of the Board a maximum of 2,113 shares for at-target performance as payment in kind for 2009. During the past three years 6,374 shares have been issued to the members of the Board under this LTI scheme. A bonus scheme in shares was granted to the members of the Executive Board for 2009. In addition, the focus bonus as defined in 2008 has been converted to a deferred payout in shares in 2012. More information about the shares issued to the members of the Executive Board is enclosed on page 99 and 100. A comprehensive description of the (new) LTI is included in the remuneration policy section on pages 47 and following.

Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading. These regulations govern the Supervisory Board, Board, Innovation Board, Business Unit Managers and their Controllers, and a number of other employees. In addition, the Board and the Supervisory Board are governed by restrictions on trading in other listed companies. Kendrion has designated a number of consultants affiliated with the company as insiders. Kendrion's Compliance Officer is entrusted with the supervision of compliance with the regulations.

Investor relations

Kendrion attaches great importance to appropriate communications with financial stakeholders and other interested parties such as investors, capital providers and analysts to provide them with a good insight into the developments at Kendrion. Price-sensitive information is disclosed in public announcements. Transparency should lead to healthy pricing, and must support sufficient liquidity. In 2009, Kendrion was nominated for the second year in a row for the Henri Sijthoff Award for the quality of public information and financial statements in the 'Midcap and Smallcap funds' category. Kendrion won the award for the best website in the 'other funds' category.

Analysts

The following stock exchange analysts actively monitor the Kendrion share:

Fortis Bank (Nederland) N.V.	René Verhoef
Rabo Securities N.V.	Frank Claassen
SNS Securities N.V.	Frank van Wijk
Theodoor Gilissen Bankiers N.V.	Tom Muller

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More information about the Kendrion share is available from Kendrion's website, www.kendrion.com.

Report of the Supervisory Board

Members of the Supervisory Board

① **S.J. van Kesteren (68)**
Mr Van Kesteren is the Chairman of the Supervisory Board. In 2005 the General Meeting of Shareholders appointed Mr Van Kesteren for a four-year term until 2009. In 2009 the General Meeting of Shareholders reappointed Mr Van Kesteren for a four-year term until 2013. He is the Chairman of the Remuneration Committeee of Kendrion.
Mr Van Kesteren is Chairman of the Supervisory Board of Koninklijke Nedschroef Holding B.V. and a member of the Board of YOFC in Wuhan, China. Formerly he was Chairman of the Board of Draka Holding N.V. and member of the Advisory Board of ABN AMRO N.V.
Mr Van Kesteren is a Dutch national.
Shares held: 0

③ ④ ② ①

② **R.L. de Bakker (59)**
Mr De Bakker was appointed a member of the Supervisory Board during the Extraordinary General Meeting of Shareholders held in June 2005 for a two-year term until 2007. In 2007 Mr De Bakker was reappointed for a four-year term until 2011. He is Chairman of the Audit Committee of Kendrion.
Mr De Bakker is Chairman of the Supervisory Board of SPIE Nederland B.V., member of the Supervisory Board of SPIE Benelux S.A. and member of the Supervisory Board of WCC B.V. He is also a member of the Board of a number of investment companies based in the Netherlands and a member of the Board of Tom-Tom Continuity Foundation, Chairman of the Board of Supervision of Raamwerk Foundation, Vice-Chairman of the Board of Supervision Laurens Foundation and member of the Board of Supervision WoonCompas Foundation. He was formerly a member of the Executive Board and Chief Financial Officer of ASM International N.V.
Mr De Bakker is a Dutch national.
Shares held: 0

③ **H.J. Kayser (48)**
Dr Kayser was appointed to the Supervisory Board during the Extraordinary General Meeting of Shareholders held in July 2009 for a four-year term scheduled to expire in 2013. He is a member of Kendrion's Remuneration Committee. Dr Kayser was the CEO of Kuka AG, a German listed company that manufactures industrial robots, until September 2009. He held several (international) management positions during the period from 1995 to 2008. Dr Kayser began his professional career as a management consultant at McKinsey & Company in Germany and Canada in 1989.
Dr Kayser is a German national.
Shares held: 0

④ **M.E.P. Sanders (56)**
Ms Sanders was appointed a member of the Supervisory Board during the General Meeting of Shareholders held in April 2005 for a three-year term until 2008. In 2008 the General Meeting of Shareholders reappointed Ms Sanders for a four-year term until 2012. She is a member of the Audit Committee of Kendrion. Ms Sanders is Chairman of the Supervisory Board of Solar Total B.V. and Hoens Broadcast Facilities B.V. and Chairman of the Advisory Board of Difrax Beheer B.V. and Kalff de Jager B.V. Ms Sanders is also member of the Advisory Board of De Hoge Dennen B.V. and member of the Board of Supervision of Altrecht N.V. and the ROC Leiden. In addition, Ms Sanders is Director of the investment company Matchem B.V.
Ms Sanders is a Dutch national.
Shares held: 0

Report of the Supervisory Board

Annual Report

Pursuant to Article 31 of Kendrion N.V.'s Articles of Association we hereby present you the Annual Report for 2009 prepared by the Board. The Annual Report includes the financial statements audited by KPMG Accountants N.V. The auditor's unqualified report is enclosed on page 101 and 102 of this Report.

The Supervisory Board and the Board held extensive discussions on the Annual Report for 2009 and the preparation of the Report during meetings attended by the auditor. These discussions have convinced us that the Annual Report complies with the transparency requirements, and we are of the opinion that it constitutes a good basis for the accountability of the Supervisory Board for its supervision and advice during the year under review.

The Supervisory Board recommends that the General Meeting of Shareholders to be held on 7 April 2010 adopts these financial statements and discharges the Executive Board and Supervisory Board of responsibility in respect of their respective management and supervision.

Composition of the Supervisory Board

Pursuant to the Articles of Association the Supervisory Board must be comprised of at least three members. The Supervisory Board decided in the course of 2009 that it was advisable to expand the Supervisory Board to include a fourth member with German nationality who possesses both international experience and experience in the German industrial sector. This was also in part the reason for the amendment of the profile of the Supervisory Board. The revised profile has been published on Kendrion's website.

During the Extraordinary General Meeting of Shareholders held on 1 July 2009 the Supervisory Board submitted a proposal to the shareholders recommending that Dr H.J. Kayser be appointed as the fourth member of the Supervisory Board. The shareholders adopted this proposal.

Mr S.J. van Kesteren, Chairman of the Supervisory Board, was reappointed for a four-year term scheduled to expire in 2013 at the General Meeting of Shareholders held on 6 April 2009. In addition, the Supervisory Board has appointed Mr R.L. de Bakker to the position of Deputy Chairman of the Supervisory Board.

All four members of the Supervisory Board comply with best practice provision III.3.4 of the Netherlands Corporate Governance Code (stipulating the maximum number of Supervisory Boards of Dutch listed companies of which an individual may be a member).

The Supervisory Board is of the opinion that it complies with the independence requirements stipulated by the Netherlands Corporate Governance Code.

The profile of the Supervisory Board includes a statement (in part in view of the diversity provisions of best practice provision III.3.1 of the Corporate Governance Code) that endeavours shall be made to achieve a mixed composition in terms of age and experience and that preferably at least one woman shall be a member of the Supervisory Board. These endeavours have been achieved.

Committees

In view of the expansion to four members as per 1 July 2009, the Supervisory Board was of the opinion that it was opportune to institute two specific committees, namely an Audit Committee and a Remuneration Committee. The Audit Committee is comprised of Mr De Bakker (Chairman and financial expert within the meaning of the Corporate Governance Code) and Ms Sanders. The Remuneration Committee is comprised of Mr Van Kesteren (Chairman) and Dr Kayser.
The Corporate Governance Code prescribes that the position of the Chairman of the Remuneration Committee shall not be fulfilled by the Chairman of the Supervisory Board. However, this provision has not been applied in view of the restricted size of Kendrion's Supervisory Board.

Both committees have been assigned the duty of making the preparations for the decision-making by the full Supervisory Board. The roles and responsibilities of the committees are in accordance with the relevant provisions of the Corporate Governance Code (best practice provisions III.5.4 and III.5.10). The regulations of both committees have been published on Kendrion's website.

Meetings

The Supervisory Board met with the Board on ten occasions. These meetings reviewed a number of permanent items on the agenda which included the company's strategy, the results of and developments within the market-focused business units and Kendrion as an entity, cost reductions (Springtime), corporate governance, the independence of and (re)appointment of the auditor, the auditor's findings and recommendations, the business units' policy and business plans, the financing, fiscal position, risk management, PR, IR, as well as management development. A number of meetings were convened specifically to define the strategy in more detail, inclusive of the growth and acquisition policy.

In four meetings of the Supervisory Board, not attended by the Board, the performance of the Supervisory Board and its members, the performance of the Board and its members and an evaluation of the remuneration policy governing the Board were discussed.
These meetings also reviewed the requirements for the profile, composition and competence of the Supervisory Board. The Supervisory Board also held consultations with the external auditor, in part attended by the Board. In addition to these formal meetings, the Chairman of the Supervisory Board held regular informal discussions with the CEO. The Supervisory Board also paid a working visit to the Kendrion company in the Czech Republic.

With the exception of one meeting, all meetings were attended by all members of the Supervisory Board.

The Audit Committee held two meetings with the CFO during the year under review which discussed issues including the development in the results, the tax position, risk management, claims and the treasury activities. Consultations were also held with the auditor in the absence of the Board. Both members of the Committee attended both meetings.

The Remuneration Committee held one meeting.
The meeting was attended by the Executive Board and an external advisor. During the meeting the remuneration policy for the Board from 2010 onwards was discussed. Both members of the Committee attended the meeting.

Highlights supervision

The impact of the economic crisis on Kendrion was discussed on several occasions and the so-called Springtime Plan and its execution were also addressed during these meetings. We are fully aware of the huge impact the Plan has had on the organisation in general and on the people who had to leave the company in particular. We would like to compliment the management of the local companies for successfully implementing this plan on time and within the budget.

The financial results as well as working capital and other developments (including the associated press releases) were discussed in detail during the meetings held prior to the publication of the quarterly, half-year and annual figures. The company's external auditor attended the meeting in which the annual figures were discussed.

The Supervisory Board also closely and actively monitored the preparations for the new financing arrangement and the share issue of 9.99% of the capital, and approved both.

Kendrion's strategy is based on niche market leadership in selected business-to-business markets, organic growth of the strategic operations and the utilisation of synergies. Kendrion's objective is to achieve a geographical spread of activities both in and outside Europe.
One meeting was devoted especially to examining and discussing the company's strategy. During this meeting the Supervisory Board also, in association with the Business Unit Manager of Passenger Car Systems, scrutinised this business unit's principles, risks and opportunities in greater detail.

The internal risk management and control systems received full attention. The internal control system for financial reporting once again took further shape during the course of 2009. More information is enclosed in the risk management section on pages 25 and following of this Report. In one meeting, the management letter of the auditor was discussed as well as the results, progress and further improvements of the internal tests of the financial reporting systems.

The Supervisory Board closely monitors the developments relating to the fine imposed by the European Commission for the alleged infringement of Article 81, paragraph 1, of the EC Treaty by a former Kendrion subsidiary. It is not clear when the appeal will proceed before the Court of First Instance. In the absence of new relevant information the provision formed for this fine in 2005 remains unchanged (except for accrued interest).

The Supervisory Board recognises the importance of Kendrion's social responsibility and fully supports the even further intensification of the focus on the company's social and environmental standards that govern the process.

Corporate Governance Code

In 2009 the Supervisory Board and the Board jointly formed an opinion on the amended Corporate Governance Code that came into force on 1 January 2009.
The Supervisory Board endorses the general objective and background of the amendments. Kendrion already complied with most of the amended and new provisions. The other amendments were to the fullest extent possible incorporated in the company's structure and procedures during the course of 2009. More information is given in the Corporate Governance section of the Report of the Board on pages 44 and following.

Both the Supervisory Board and the Board comply with the conflicts of interest rules laid down in the Corporate Governance Code. No transactions took place in the year under review in which conflicts of interest on the part of the members of the Board or the Supervisory Board played a role.

The prevailing regulations and addendum governing the ownership of and transactions in the own company's securities and securities of other designated companies offer sufficient assurances.

Remuneration Executive Board

The Supervisory Board determined the remuneration for the individual members of the Executive Board in accordance with the remuneration policy approved by the General Meeting of Shareholders. A specification of the remuneration for the Executive Board and the Supervisory Board is enclosed in the notes to the financial statements (page 99 and 100). The Supervisory Board has received confirmation from the auditor that the figures on which the bonus for the Executive Board is based are derived from the audited financial statements, and that the calculation of the bonus has been checked.

Remuneration policy

The remuneration policy is designed to offer remuneration that attracts managers qualified to manage an international company of the nature and character of Kendrion. The policy is also sufficiently challenging to motivate managers and, with good performance, retain them for the longer term. The composition of the remuneration package supports Kendrion's short and long-term objectives.

The package is of a performance-oriented design, whereby the results are used to determine a variable income that is of a challenging level but not excessive.

The Supervisory Board adopted the remuneration package after taking account of the movement in results, movement in the share price and non-financial indicators also relevant to the long-term creation of company value. Consideration was also given to the influence of the total remuneration of the Executive Board on the overall remuneration rates within the company. The Supervisory Board has analysed the possible outcomes of the proposed variable remuneration components of the new policy in 2010 and the following years.

The Supervisory Board periodically benchmarks the remuneration package against information supplied by external experts to verify that it is in line with the company's objectives and the market.

A further explanation of the remuneration policy is provided on pages 47 and following.

Share plan

A share plan for the top management of Kendrion was introduced in 2005. This plan provides for the allocation of shares in Kendrion as payment in kind. After the General Meeting of Shareholders in each year the number of shares awarded to the top management of Kendrion in that year is determined by the Supervisory Board on the basis of the Executive Board's recommendations.
4,275 shares were awarded pursuant to this plan in 2009. The plan does not extend to the Board.

Profit appropriation

Kendrion recorded a net profit of EUR 4 million over 2009, this includes the EUR 10 million book profit on the divestment of the Vink Group in February 2009. The payment of a cash dividend of EUR 10 million in April 2009 took account of this book profit. Excluding this book profit, Kendrion recorded a net loss due to the Springtime reorganisation announced in March 2009. The Executive Board has decided, with the approval of the Supervisory Board, to transfer the net profit to the other reserves.

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

The Supervisory Board thanks the Board and all Kendrion employees for their contribution and efforts in the difficult year 2009.

Supervisory Board
S.J. van Kesteren, Chairman
R.L. de Bakker
H.J. Kayser
M.E.P. Sanders

Zeist, 24 February 2010

Report of the Board
Members of the Board

Board

③ **P. Veenema* (54)**
Position: Chief Executive Officer
Nationality: Dutch
Joined Kendrion: 1993
Appointment to current position: 2003
Additional positions: member of the Supervisory Board of Helvoet Holding B.V.

① **E. Ris* (51)**
Position: Chief Financial Officer
Nationality: Dutch
Joined Kendrion: 2001
Appointment to current position: 2004
New term: 2008-2012
Additional positions: member of the Supervisory Board of Dekker Beheermaatschappij Krabbendam B.V. and member of the Board of Supervision of Zaans Medisch Centrum, Chairman of the Audit Committee of Zaans Medisch Centrum

② **H. Freitag (59)**
Position: Chief Operating Officer
Nationality: German
Joined Kendrion: 1978
Appointment to current position: 1 January 2009

* *Executive Board*

① ② ③

Report of the Board
Highlights

Highlights of 2009

- Realisation of a focused company with an explicit profile;
- The economic crisis resulted, on average, in a 35% decline in revenue during the first six months of 2009;
- Kendrion responded to the economic crisis with the implementation of the Springtime Plan at the end of the first quarter of 2009:
  - Number of jobs reduced by more than 300;
  - Reorganisation provision of EUR 8.5 million;
  - Annual cost savings of EUR 20 million;
- Growth in revenue recorded in the second half of 2009 by Passenger Car Systems (start-up of diesel engine products) and Commercial Vehicle Systems (improved market conditions, in particular in the Far East);
- More attention to innovation:
  - Introduction of an Innovation Calendar;
  - Installation of an external five-member Innovation Board;
  - Appointment of internal Innovation Managers;
- Drastic reduction of stock levels results in a positive free cash flow of EUR 8 million in the second half of 2009;
- Increasing net profit in successive quarters resulting from the slight improvement in market conditions and the effects of the cost-reduction measures;
- Strong financial position, with a solvency ratio of more than 60% (equity about EUR 96 million) and low bank debts (EUR 13.9 million at the end of 2009).

Report of the Board
Organisational structure

Kendrion is a strongly focused company with one main objective: the development, manufacture and sales of high-grade electromagnetic components and systems. The operations are organised into four market-focused business units, namely:

- *Industrial Magnetic Systems*, focused on the development and manufacture of electromagnetic actuators for industrial applications;
- *Industrial Drive Systems*, focused on the development and manufacture of electromagnetic brakes and clutches;
- *Passenger Car Systems*, focused on the development and manufacture of electromagnetic components and systems for the automotive industry;
- *Commercial Vehicle Systems*, focused on the development and manufacture of components and complete cooling systems for coaches, trucks and special vehicles.

Each business unit has a number of operating companies in various geographical locations. The organisation has implemented a decentralised structure to promote the company's decisiveness.
The individual business units have a shared strategy and the Business Unit Managers and the Directors of the individual operating companies collaborate in a wide range of fields, such as engineering, project management, purchasing, production strategy, marketing and sales.
The Board, supported by the Business Unit Managers – together the Executive Committee – takes all significant decisions concerning the strategy and direction of the electromagnetic operations as a whole including the allocation of resources to the individual operating companies. The Executive Committee that meets regularly reviews the financial and operational performance of the individual companies on the basis of the internal management information and identifies the prevalent best practices to be shared and implemented within Kendrion.

Kendrion strongly encourages motivated local entrepreneurship. Short lines of communication enable managers to respond rapidly and adequately to new developments at their customers or in local markets. Kendrion's Board performs a coordinating role in the development of strategy, and is responsible for the acquisition policy.

A number of responsibilities are entrusted to Kendrion Group Services, such as financing and cash management, reporting and controlling, taxation, risk management, corporate communications and investor relations, facility management, insurance, IT, human resources management, legal affairs, and corporate governance.

More information about the business units is enclosed on pages 38 and following of this Annual Report.

Report of the Board
Objectives

Kendrion's objectives in 2009

- Completion of the Focused Acceleration strategy;
- An alert response to the consequences of the economic crisis for Kendrion;
- Realisation of strategic acquisitions in selected operations;
- Modification of the organisation to accommodate the consequences of the Focused Acceleration strategy;
- Enhancement of the innovative capacity;
- Further improvement of working capital management;
- Further implementation of risk management.

Although 2009 was clearly dominated by the economic crisis it can, nevertheless, be concluded that Kendrion has made progress in many areas.

Completion of the Focused Acceleration strategy
Kendrion succeeded in reaching agreement with a third party on the sale of the Vink Group in November 2008. The transfer took place in February 2009 once the European Competition Authority had granted its approval for the sale. With this divestment Kendrion achieved its objective of evolving into a focused company with a clear profile and was able to complete its Focused Acceleration strategy.

An alert response to the consequences of the economic crisis for Kendrion
During the second half of 2008 it became clear that the global economy was in a crisis. Kendrion responded by taking a large number of measures in the fourth quarter of 2008 that included a reduction of the number of permanent employees (approximately 65) and temporary employees (approximately 70), the introduction of short-time working and the reduction of the salary with 10% of about 50 senior managers. It was already evident that the emphasis would need to be placed on the control of the staff costs in 2009, and that the company would need to exhibit an alert response to the consequences of the economic crisis for Kendrion.
However, when it transpired that the crisis was much more severe than had been forecast at the beginning of 2009, Kendrion responded with the company's Springtime Plan, announced on 31 March 2009, which resulted in the elimination of an additional 330 jobs. The Plan, which cost EUR 8.5 million, was implemented rapidly and achieved its target of potential savings of EUR 20 million per annum. Following the implementation of the Springtime Plan, and with the assistance of a slight recovery in economic conditions during the year under review, the company recorded an improvement in the results in each successive quarter.

Realisation of strategic acquisitions in selected operations
Kendrion, with its aforementioned focus strategy, has always endeavoured to create the conditions required for extra growth in the company's electromagnetic core business. This is primarily to be achieved by organic growth, supplemented with strategic acquisitions that enable Kendrion to develop into a leading global high-tech company. For this reason the company once again initiated and maintained many contacts with potential acquisition candidates. However, with the ebb of the economic tide almost all the acquisition candidates needed to devote their full attention to their business and consequently assigned a lower priority to the sale of their operations. Kendrion expects that many of the contacts made in the past will result in further supplementary and targeted acquisitions during the coming years.

Modification of the organisation to accommodate the consequences of the Focused Acceleration strategy
As mentioned above, Kendrion achieved its objective of becoming a focused company at the beginning of the year under review. Self-evidently, this also had consequences for Kendrion's organisational structure and management. The management of the electromagnetic operations has been intensified, duplicate positions in the companies and the former divisional holding were eliminated, a new Executive Committee was instituted and the management information was streamlined. As a result, the remaining staff of the holding (renamed Kendrion Group Services) in Zeist, the Netherlands, are now much closer to the business.

Enhancement of the innovative capacity
Kendrion has long been an innovative company, as is demonstrated by the vigorous growth in the past years. However, globalisation and technological developments are increasing the competitive pressure. Kendrion realises that the company will be unable to retain its growth and interesting market positions without permanent improvements in its operations and its knowledge of the markets and customers. Since these improvements will in turn require innovation and Unique Selling Points, the

company once again devoted a great deal of attention to innovation during the year under review. Kendrion drew up an Innovation Calendar and appointed Innovation Managers at each business unit. In addition, the company installed an Innovation Board comprised
of five external experts from various disciplines and countries. The objective of these measures is to ensure that Kendrion becomes an even more appealing supplier and market player in the coming years. These measures are also needed to further enhance Kendrion's image.

Further improvement of working capital management
Kendrion has conducted an active cash management policy for many years, and with success. The economic crisis gives cause to an extra 'monitoring of the dikes', in particular with respect to the timely and full collection of receivables and the reduction of stock levels in line with the lower level of operations. Kendrion succeeded in limiting the overdue receivables. The company's more stringent monitoring of the financial strength of customers has proven worthwhile, and it was not necessary to write off any large uncollectable receivables during the year under review. The reduction of stock levels lagged behind the decline in revenue during the first quarter of 2009, as it took some time to revise the parameters and agreements with suppliers, needed to reduce the stock levels. Incremental reductions of the stock levels implemented from the second quarter onwards ultimately resulted in a total reduction of the stocks in 2009 amounting to EUR 7.8 million (25%).

Kendrion Binder Magnete Vertriebsgesellschaft mbH, Linz (IMS)
In 1947 the engineer Franz Schmachtl founded a distribution company with the emphasis on electrical and mechanical engineering in Linz. The general agency of the company Binder Magnete was taken over in 1961. Twenty years later Binder and Schmachtl agreed on founding a joint subsidiary.

Kendrion Binder Magnete GmbH, Eibiswald (PCS)
The location Eibiswald exists since 1969. Over the years it has become the place for high-quality and innovative electromagnetic components and systems within the group.
The company is considered as a first-class innovative partner of the international automobile industry.

WE MAGNETISE THE WORLD
AUSTRIA

Further implementation of risk management
The regular Kendrion-in-Control programme developed to audit the control and management systems was substantially carried out in 2009. Kendrion decided to visit the companies falling within the scope of the programme only once during the year under review so that the management could devote the necessary attention to the economic crisis and its consequences for the company.

Mid-term Plan
Kendrion's current operations place it in a good position to emerge from the current crisis as a stronger company. The Focused Acceleration strategy implemented in recent years and the measures that were taken in 2009 have actually enabled Kendrion to further increase its financial strength in this crisis year. Moreover, the emphasis on operational excellence resulted in the rapid and decisive implementation of the appropriate cost-reduction measures in these times of crisis (the Springtime Plan) which has further enhanced the company's prospects. Kendrion has always devoted a great deal of attention to its Mid-term Plans. However, the economic uncertainties during the year under review resulted in a shift in emphasis to timely responses to the latest economic developments. This in turn means that on the completion of the Springtime Plan the costs must be kept as flexible as possible: in particular, any additional production capacity that is required shall need to be obtained by engaging temporary employees. The company shall exercise restraint in the recruitment of new permanent employees. These and other principles are laid down in Kendrion's new and updated Mid-term Plan 2010-2012, 'In motion after Springtime'.
This Plan is, as is always the case, based on targets for the coming years specified in consultation with the Business Unit Managers. The individual operating companies use these targets to prepare their individual Mid-term Plans. The Business Unit Managers use the individual plans to prepare an overall plan for their business unit. The Board then processes the results into Kendrion's Mid-term Plan and tests the plan against the targets specified by Kendrion's Board. The Mid-term Plan serves as a touchstone for the strategy pursued by the management at local and business unit level, as well as for their responsibilities. The company can then determine, at an early stage, whether it meets and, – even more importantly – continues to meet its targets. This enables Kendrion to give a prompt response to major changes in the market conditions, an ability that certainly proved its worth in the year under review.

Report of the Board
Social Responsibility

Corporate Social Responsibility (CSR)

CSR is high on the agenda of Kendrion. It will continually exert an influence on Kendrion's (local) entrepreneurship. For Kendrion, CSR means conducting business with consideration for climate effects and energy sources, with a feeling for people and the environment, and on the basis of a responsibility for the chain in which the company operates. This new form of entrepreneurship pivots on the creation of multiple value – and consequently not just Profit, but also People and Planet. Transparency and chain responsibility are important issues for Kendrion: what is the source of your materials, and what is their destination? Since CSR also creates opportunities for Kendrion for new, innovative products for new markets the theme plays a continuously expanding role within Kendrion, both because the staff assign increasing importance to CSR and because customers and investors wish to conduct business with companies that attach great importance to CSR.

As mentioned above, CSR also offers all Kendrion's business units opportunities to develop innovative products for new markets. Kendrion develops many specific electromagnets that are necessary for the appropriate performance of products that take account of climate effects, sources of energy and the environment. A number of examples are listed below.

Kendrion Industrial Magnetic Systems – Sun Machine
The Sun Machine is a cost-neutral and energy-neutral heating unit. The unit, fired with wood chips, uses a clean combustion process to generate both heat and power that can be sold back to the energy supplier. This is an economical and clean application that has a lower environmental impact. The Sun Machine's performance is dependent on the special electromagnets developed specifically for the unit by Industrial Magnetic Systems in Donaueschingen, Germany.

Kendrion Industrial Drive Systems –
effective wind turbine for home users
Industrial Drive Systems has developed a new and innovative brake system for wind turbines that generate electricity. The existing brake systems consume a relatively large amount of the power generated by the wind turbine. This invention increases the net generated power available to home users. Within the near future private consumers will be able to meet their electricity needs with a personal wind turbine!

Passenger Car Systems –
innovative design of oil pump for diesel engines
The new generation of diesel engines requires innovative technology. Lower fuel consumption and NO_x emissions remain the most important targets of many engine manufacturers. In addition, engine performance also needs to be improved. New electromagnets developed by Passenger Car Systems improve the oil pump's lubrication of the pistons. This contributes to cleaner combustion and reduced fuel consumption.

Commercial Vehicle Systems –
Linnig Variable Transmission
Commercial Vehicle Systems in Markdorf (Germany) devised an innovative system that enables the compressors of air-conditioning installations in city buses and coaches to operate with increased effectiveness and efficiency. The continuously variable transmission operates the air-conditioning's compressor at a speed that is independent of the engine speed. The effect of the air-conditioning can consequently be felt immediately; ideal for short bus trips or bus journeys in hot climates. Moreover, energy savings of 20% can be achieved on longer bus journeys.

Environment and quality

Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make continual organisational and technical

LINNIG Brasil Acoplamentos Ltda., Sao Paulo (CVS)
LINNIG Brasil was founded in 2005. Ten employees are responsible for sales, purchasing, assembly and quality. LINNIG Brasil is specialised in manufacturing fan clutches for buses and trucks.

WE MAGNETISE THE WORLD
BRAZIL

improvements to environmental procedures. During the design phase and technical planning Kendrion takes due account of the consequences for the environment. This relates not only to the reduction of harmful emissions and the achievement of a lower environmental impact, but also to the retention of the company's good reputation. As a company Kendrion bears a social responsibility that necessitates attention to environmental issues when assessing processes. Involvement, both now and in the future, is of great importance to the individual Kendrion companies and the enterprise as a whole. The quality, environmental management and safety systems are usually combined in one system that forms the basis for the implementation of many projects. Virtually all Kendrion's operating companies comply with the most stringent quality and safety requirements. Kendrion's environmental management systems comply with the ISO 14001 standard.

UN Global Compact

Kendrion joined the UN Global Compact in September 2009. The UN Global Compact is the world's largest network initiative that unites companies, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices. Kendrion endorses these principles and will issue periodic reports on the measures it has implemented in these areas.
This is a further example of Kendrion's objective of being a company that all stakeholders can be proud of, in particular regarding the company's social and ethical principles and the manner in which these principles are implemented in everyday practice.

Code of Conduct

Kendrion has implemented a Code of Conduct in its organisation that applies to all Kendrion staff.
The principles and best practices established in this Code reflect the main values that need to guide Kendrion's staff in the performance of their duties, and the actions they need to take in a variety of circumstances and situations. The core themes include market position, authorities, corporate social responsibility, accountability in general, and the obligation for due care regarding safety and health, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by continually bringing the Code to the attention of (new) managers and staff. The Code of Conduct was evaluated in 2009. Kendrion intends to introduce an amended Code of Conduct in the first six months of 2010, in part due to the company's accession to the UN Global Compact.

Whistleblower's Charter

The Whistleblower's Charter offers the Kendrion employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their (legal) position. No irregularities were reported during 2009. The Whistleblower's Charter will be evaluated in 2010.

Report of the Board
Human Resources

Personnel

Kendrion is a decentralised organisation comprised of four market-focused business units. Responsibilities are assigned as low as possible within the organisation, and local entrepreneurship is encouraged. Short lines of communication enable managers to respond rapidly and adequately to new developments at their customers or in local markets. This in turn results in high levels of creativity and involvement at the local companies, as well as ample challenges and feasibilities for the development of the local management. In so doing, local entrepreneurship offers flexibility and opportunities.

2009 will go down in history as a hard one for our employees. The introduction of short-time working in the fourth quarter of 2008 was intensified in the first quarter of 2009. When it became clear that even this would be insufficient to stave off a loss-making situation, Kendrion launched the Springtime (reorganisation) Plan, which involved significant personnel cuts. As people across Kendrion were faced with the prospects of leaving the organisation with an uncertain future, the management's swift and careful execution of the plan helped make the personnel remaining with Kendrion feel more secure through this difficult time.

The successful implementation of the Springtime Plan in 2009 demonstrated the suitability of this organisational structure for Kendrion's operations. In addition, internationalisation offers opportunities to enter new markets, opportunities that can be utilised only with an international attitude.

Kendrion's HR policy is also decentralised, and local management bears the responsibility for the local HR policy within the specified guidelines. A number of duties are coordinated at a central level. These duties primarily relate to the (senior) management, a group of about 50 managers.

New employees to be recruited by the company are selected on the basis of a number of core competences. The quality of the management is assured by internal and external training programmes, and solely highly trained managers are recruited.

Kendrion takes many initiatives to promote itself as an appealing employer in the region, such as publications in regional newspapers and magazines, as well as open days for schoolchildren, family days, and the provision of traineeships. Kendrion also organises fairly regular meetings for its retired employees.

Kendrion attaches importance to the creation of diversity in nationalities and cultures: this diversity promotes intercultural experience, which is highly compatible with the current internationalisation trend.

Bond with the employees

Kendrion's success is determined by the quality of both the company's organisation and employees. An explicit strategy and, on the basis of the strategy, feasible and challenging targets, open and honest labour relations and short lines of communication create a strong bond between Kendrion and its employees.
Kendrion's Board and the Business Unit Managers devote a great deal of attention to the communication of the strategy, the plans of action resulting from the strategy, and the details and progress of the plans. This ensures that the employees are provided with a clear insight into what is expected of them, and consequently are able to make an active contribution to the achievement of growth. Many operating companies have implemented career development and training programmes designed to improve their staff's knowledge and skills. Employees receive guidance in forms such as annual performance appraisal interviews. Kendrion's corporate magazine 'Magnetised', for all staff, is published three times a year. Kendrion has a good relationship with the works councils and the unions.

Number of employees

Kendrion has approximately 1,030 employees in seven European countries and China, Mexico, Brazil and the USA. People make Kendrion, and consequently Kendrion invests in the development of the knowledge and skills of its employees. Kendrion promotes inspirational exchanges of experience and collaboration between the various business units and operating companies.

Remuneration

Kendrion offers its employees good terms of employment that are in line with the market and are always assessed against local benchmarks. A bonus scheme has been implemented for the management that is based on the company's performance (operating result and free cash flow) and on individual long-term and short-term performance targets. Kendrion has implemented a share scheme for selected managers.

Insight

Insight into the quality of the company's Human Resources (HR) is at least as important as insight into Kendrion's financial health, since figures and results are the product of human action. Kendrion obtains this insight with an HR audit developed by the company. Competences, knowledge and experience, as well as the manner in which Kendrion deploys its employees, contribute to the company's continuity and decisiveness. The HR audit, an element of the regular audits, is used to obtain insight in an operating company at a given point in time and to provide information about a number of HR indicators. The audit provides insight into both hard HR indicators and somewhat softer issues. The audit has been found to constitute a uniform and objective instrument that measures quality and which provides a clear insight into opportunities for developments in the HR field. In addition, monthly HR key figures are reported for the entire company. Understanding of the influence of the human factor on the organisation's performance results in an increasingly strategic HRM policy, and offers scope for specific modification.

Awards

Kendrion also encourages innovation and improvement. During the course of 2009 Company Awards were presented to the most innovative Kendrion company and the Kendrion business unit demonstrating the best adaptation to the economic crisis. Industrial Magnetic Systems won the Award for the most innovative company. Passenger Car Systems won the 'Best Adaptation' Award.

Kendrion Binder Magnetic (Suzhou) Co. Ltd., Suzhou (IMS/IDS/PCS)
Kendrion Binder Magnetic (Suzhou) Co. Ltd. was founded in May 2005. The plant in China is specialised in electromagnetic components, i.e. solenoids, clutches and brakes for the business units Industrial Magnetic Systems, Industrial Drive Systems and Passenger Car Systems. The employees guarantee highest customer satisfaction through integrated solutions from one source – from design to production.

LINNIG Drive Tech. (Nanjing) Co. Ltd., Nanjing (CVS)
LINNIG Drive Tech. (Nanjing) Co. was founded in 2006. The main focus is on magnetic clutches for commercial vehicles, such as clutches with angle gear box, 2-speed fan clutches, 3-speed fan clutches and different compressor clutches.

WE MAGNETISE THE WORLD
CHINA

Management development

Kendrion's ambition is to achieve niche market leadership in business-to-business markets by organic growth and strategic acquisitions, and consequently the quality of the management is both important to and characteristic of Kendrion. Good management is of essential importance to the future, and for this reason Kendrion assigns high priority to management development. The corporate management development programme is supported by the Kendrion Executive Programme, a customised, international modular teaching programme in which the company collaborates with the Rotterdam School of Management. The subjects covered by the programme are communication and leadership, sales and marketing, strategy, production and logistics, HR and project management. The programme also constitutes an important platform for exchanges of experience between the (senior) management, and for the further expansion of collaboration between the various operating companies. Every year a group of non-financial managers follows a course in finance. This course, which is also customised, covers issues of importance to Kendrion, such as risk management, purchasing, production, sales, investments and planning and control. In addition, the various business units have implemented training programmes at all levels in the organisation. Kendrion's management development endeavours to find an appropriate equilibrium between the transfer of internal knowledge and the recruitment of external knowledge. The economic crisis resulted in the company's decision to freeze the Kendrion Executive Programme in 2009. On the basis of the current forecasts the company expects to restart the programme in the second half of 2010. This is also applicable to the financial training courses.

A professional organisation of the nature of Kendrion must ensure for continuity. Consequently, the company needs to devote continual attention to the question as to who is to be succeeded by who and when, and what is required to ensure that the succession is a success. Obviously, the converse is also the case: Kendrion wishes to help people fulfil their ambitions: people are the most important factor, and Kendrion intends to invest in their future. Kendrion will also need a group of managers with a well-developed vision of strategy and internationalisation in the future. Kendrion endeavours to retain high potential managers and interest them in filling vacant positions. The development of the managers is followed by means such as annual performance appraisal interviews where the managers' targets and duties are reviewed and the managers receive feedback on their performance. In addition, managers participate in an individual development assessment.

Social policy

Kendrion is and wishes to remain a conscientious and reputable company. Kendrion intends to be a versatile and flexible company for its employees, a company where pleasure in entrepreneurship is combined with clear result targets.

Kendrion's social policy is designed to enable the company to achieve its targets and offer its staff at all levels opportunities to develop and further themselves. Kendrion's HR policy endeavours to ensure that the composition of the company's personnel, including the lower and middle management, reflects the geographical spread of Kendrion's operations.

The importance Kendrion attaches to a good social policy is also demonstrated by the company's accession to the UN Global Compact that includes labour principles relating to the working conditions of employees.

Personnel: key figures	2009	2008
Total number of employees at 31 December	1,105	1,427
Number of women in permanent employment	378	525
Number of men in permanent employment	599	694
Number of employees with a fixed-term contract	128	208
Number of temporary employees	104	48
Number of permanent and temporary employees at 31 December (FTE)	1,131	1,439
Number of direct employees	571	726
Number of indirect employees	534	701
Number of full-time employees	1,055	1,352
Number of part-time employees	50	75
Average age of women	41.3	40.0
Average age of men	39.6	38.8
Average age of all employees	40.3	39.5
Average number of years' service	11.0	9.6
Average rate of absenteeism per employee (%)	3.7	3.9
Influx percentage (%)	5.6	4.8
Departure percentage (%)	21.7	5.1
Wage costs per FTE (EUR)	43,679	40,353
Training costs (as a % of wage costs)	0.39	1.37

Report of the Board
Risks and risk management

Background

Kendrion promotes local entrepreneurship at its companies and, logically, offers scope to exercise the associated discretionary powers. Kendrion actively conveys the essential need to maintain a healthy equilibrium between entrepreneurial spirit and the extent to which risks are accepted. Adequate risk management is an integral element of good business practice. When risks are made visible Kendrion's managers can implement adequate measures in their everyday management that offer them optimum control of the risks. Kendrion's risk management is not intended to eliminate all risks entirely. Kendrion's objective is to adopt the carefully considered approach to business risks required to minimise surprises.

Kendrion has a responsibility to put internal controls and procedures into place and test them to verify their adequate performance. The local management is expected to be fully aware of the operating risks and the necessity for internal control procedures. Kendrion has devoted structural attention to the optimisation of the risk management and control system since 2005 as part of the everyday decision-making.

All companies are logically confronted with business risks during the pursuit of their operations. Kendrion's policy is focused on mitigating the risks or, when possible and prudent, hedging the risks without losing sight of the company's entrepreneurship.

Kendrion Binder Magnety s.r.o., Prostejov (PCS)
This location concentrates on the production of solenoids for the standard and mobile hydraulics. In 1999 the plant in the centre of the Czech Republic was founded. The company enlarged its production area in 2008.

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CZECH REPUBLIC

The Board wishes to emphasise that risk management and control systems – no matter how professional they may be – can neither offer absolute guarantees that the company's objectives shall be achieved nor entirely prevent material errors, loss, fraud, or violations of laws or regulations.

Kendrion has identified the following risk management areas:

Strategic and business risk management

Workshops organised during the year under review once again devoted attention to strategic and business risk management. These workshops evaluated the risks and measures, and discussed mitigating measures for the short and medium term.

Operational risk management

Kendrion's companies make active use of quality systems designed to improve the processes. Virtually all companies have been awarded ISO certification, and possess the relevant safety certificates.

Compliance & regulation

Kendrion must comply with the local legislation and regulations in all countries in which the company is active. The responsibility for compliance rests with the local management. Transactions and affairs that could be of influence on the legal structure of the Kendrion Group Companies and material claims, should be addressed at corporate level. Kendrion obtains advice from external legal experts to acquire timely information about the latest developments in the legislation and regulations, including the applicable stock exchange regulations. Kendrion has also arranged for liability insurance at corporate level to protect the companies and their Directors from possible claims. Internal audits conducted from time to time at the operating companies investigate issues including compliance with local legislation and regulations.

Financial reporting risk management

The Controllers' regular duties include the structured management of financial reporting risks. Kendrion has also implemented corporate guidelines that specify the monthly close procedures and the minimum controls to be performed. In addition, the internal control procedures of the largest companies are reviewed in semi-annual internal audits conducted by teams consisting of Kendrion N.V., Business Unit Controllers, Controllers and contracted qualified auditors.

A structured approach to financial reporting risks and the organisation of workshops to map strategic and operating risks (as mentioned above) are both standard components of risk management. Kendrion's organisation of risk management varies for each focal point and can, if necessary or so required, rapidly be tightened. The specific attention directed to the consequences of the current financial crisis is one example of the necessary tightening of risk management.

Kendrion's risks identified by the aforementioned workshops and arising from the current financial risks are reviewed below. This review extends to a selection of the major risk factors, and is not exhaustive. The four most important risks are indicated by the 'top 4 risk' text at the beginning of the relevant paragraph. An insight into the sensitivity of Kendrion's financial statements to some of the risks referred to below is provided in section 14 of the financial statements.

Strategic risks

External

Adaptation to current economic conditions (top 4 risk)

A lack of further adaptation to deteriorating economic conditions could be detrimental to Kendrion's financial results and the company's ability to achieve its strategic goals

There is great uncertainty about the development of the economy in the coming years. Kendrion implemented a major internal reorganisation at an early stage of the current economic crisis in which the company endeavoured to cut into 'the heart' of the organisation as little as possible. Kendrion has also emphatically adopted the philosophy of maintaining a flexible organisation now revenue is beginning to increase again. However, a further deterioration in the conditions could cause unexpected setbacks in the results and lead to the company's adaptation to a new situation that would include measures with financial consequences. Kendrion has also implemented specific crisis controls that include the close monitoring of customers, suppliers and banks. The company has also increased its focus on cash by implementing measures including the reduction of stocks in line with the smaller order book and the adoption of a restrained investment policy.

Sustainable market developments / competition

Kendrion could become more dependent on one of its markets in which it operates

Kendrion is a technically-driven company with a leading position in the European market. The barriers to entry to specific markets are substantial due to the high levels of technological knowledge and investments that are required. Kendrion's competitors are often smaller family-owned companies focused on a specific segment. In 2009 approximately 36% of the revenue from electromagnetic components and systems was generated by the automotive market, a market characterised by competition and, consequently, pressure on prices. As a result, and notwithstanding the companies' good market positions, customers endeavour to pass this pricing pressure back up the supply chain. Kendrion has adopted a strategy stipulating that the company shall not become excessively dependent on a specific market or customer and has adjusted its investment and acquisition policy accordingly.

Internal

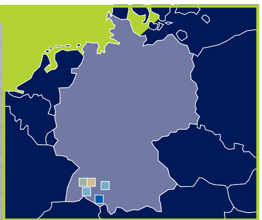
Innovation

Kendrion might not be able to benefit from a changing market environment

Kendrion is an innovative player in the field of electromagnetic systems and products. The company carries out innovative projects in close consultation with its customers, an approach which Kendrion also perceives as contributing to the company's provision of added value. However, new technologies and innovations in the market environment could result in the imposition of changed requirements on Kendrion's products and operations. This would offer the company opportunities, but could also be accompanied by risks. Kendrion conducts an innovative policy that enables the company to approach opportunities in a balanced manner. Pursuant to this policy Kendrion has implemented measures including the institution of an Innovation Board in 2009. The Board is comprised of five external members from various disciplines and countries who each make a contribution to the company's innovative capacity together with a number of Kendrion staff. Kendrion also

Kendrion Magnettechnik GmbH, Donaueschingen (IMS)
The main location of the business unit Industrial Magnetic Systems is in Donaueschingen (Baden-Wurttemberg). In 1999, after the merger with Thoma Magnettechnik, the field of industrial magnets was transferred from Villingen to Donaueschingen. The core competence is the development and production of shiftlock, holding, locking, spreading, controlling and vibrating solenoids for industrial applications of the globally oriented customers. The project orientation guarantees an efficient and successful cooperation.

Kendrion Magnettechnik GmbH, Inzigkofen-Engelswies (IMS)
In 1952 the engineer Fred Hahn founded the company Hahn Magnet in Engelswies (Baden). In 1966 the name was changed to Neue Hahn Magnet because the company was taken over by Magnet AG Schweiz, a subsidiary of Binder – today Kendrion. In 2001 Neue Hahn Magnet merged with the company Thoma



Magnettechnik GmbH within the holding company Kendrion, thus forming the new Kendrion Magnettechnik GmbH. The plant in Engelswies is focusing on standard technology lines such as vibrating solenoids, holding solenoids, rotary solenoids as well as spreading solenoids.

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GERMANY

drew up an Innovation Calendar and appointed Innovation Managers at each business unit.

Project management (top 4 risk)

The lack of adequate project management could cause a loss of knowledge and reputation which could in turn be detrimental to Kendrion's productivity, customer contacts and results

Adequate project management is essential if new products are to enter the production phase with success, and the risks associated with inadequate project management can exert a significant effect on the results. Kendrion imposes stringent requirements on the finished product.

Customers request the company to develop products complying with specific functional requirements that can, on occasion, come close to the limits of the technologically achievable. Project teams and the requisite disciplines assess the feasibility, since an incorrect estimation of the technical feasibility can result in the (potential) customer's loss of confidence. Moreover, the available capacities are scarce and the successful completion of projects is of great importance. For this reason the company is also confronted with the risk that Kendrion's engineers succeed in developing a technologically acceptable solution, but that the customer nevertheless decides not to proceed with the approach. In order to avoid such circumstances, Kendrion is continually aiming for single source suppliership.

Kendrion has a number of patents for its operations, although it is impossible to state with certainty that patents provide sufficient protection from third-party infringements. In general, the majority of the development costs are borne by the customer, either in instalments during the development phase or as part of the selling price per unit.

In addition to project management, this definition also extends to greenfield operations and acquisitions.

The progress in the organisation at new locations and recent acquisitions is reported at a number of management levels, thereby ensuring continual attention and, where relevant, implementation of the necessary measures.

Operational risks

External

Commodity markets (top 4 risk)

An inability to access raw materials and/or increases in the cost of raw materials and energy could be detrimental to Kendrion's future results

Kendrion's results could suffer from the reduced availability of raw materials and fluctuations in the price of raw materials due to, for example, increasing or decreasing prices of fossil fuels. Self-evidently, Kendrion endeavours to minimise the effects of price fluctuations on the company's results. The degree to which this is feasible depends on the contractual clauses and the market. In addition, a time lag is usual. Kendrion's main raw material in this respect is copper. When Kendrion cannot pass on price increases to customers then Kendrion either establishes fixed purchase prices for a specific period and/or concludes hedging transactions to limit the risk of price increases. Another raw material for Kendrion is steel, although the major part is comprised in purchased components. Kendrion concludes fixed price arrangements with suppliers for periods between 6-12 months. Kendrion has implemented a multi-sourcing strategy for important materials and components.

Product liability

Product liability claims and/or product recalls could be detrimental to the company's reputation and results

Claims under product liability can be detrimental to Kendrion's operations and operating results due to the resultant damage to the company's reputation. Kendrion has taken out liability insurance at group level for its operating companies to reduce the financial risks arising from possible claims under product liability. The amount of the cover and the other conditions are comparable to those of other companies in Kendrion's industries.

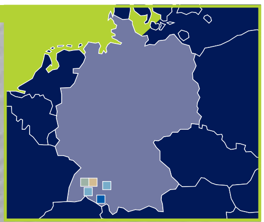
Environmental liabilities

Kendrion's business is exposed to (reputational) risks of environmental liabilities

The nature of Kendrion's operations and business are such that they give cause to limited environmental risks. Most Kendrion companies have been awarded ISO 14001 certification. This certification also includes international environmental standards.

Kendrion Binder Magnete GmbH, Villingen-Schwenningen (IDS and PCS)
In 1911 Wilhelm Binder founded the company W. Binder and began his trade with the production of precision parts for clocks. Today, the two business units Industrial Drive Systems and Passenger Car Systems are united at the location. The business unit Passenger Car Systems develops specific solenoids and solenoid valves for the automobile industry. The core competence of Industrial Drive Systems is the development of electromechanical brakes and clutches for the industrial drive technology.

Kendrion LINNIG GmbH, Markdorf (CVS)
In 1971, Karl Heinz Linnig set up an engineering office for drive engineering in Friedrichshafen. Already with the first own development of an electromagnetic fan clutch for coaches, based on the 'steel on steel' working principle, new standards were set in this specialty area. The high acceptance and increasing demand for



LINNIG fan clutches provided for swift growth of LINNIG Antriebstechnik. Company headquarters have been in Markdorf since 1978. Kendrion LINNIG is part of Kendrion since 2007.

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GERMANY

Internal

Integration of acquisitions

Kendrion could be unsuccessful in integrating an acquired company

Kendrion's strategy is focused on organic growth and growth by means of acquisitions. The risks associated with acquisitions are greater than those associated with organic growth. Kendrion endeavours to obviate these risks by performing comprehensive due diligence processes (encompassing operational, financial, fiscal and legal issues), obtaining guarantees and, where relevant, arranging for external market analyses and carrying out a meticulous assessment of the management and personnel of the acquisition candidate. In addition, Kendrion prepares and implements post-acquisition programmes.

Human resources

Kendrion's ambitious growth plans might not be achieved if the company is unable to retain or attract the right staff

Kendrion's strategy is focused on niche market leadership and the simultaneous achievement of organic growth. Following a period in which the company devoted a great deal of attention to the recruitment of qualified management Kendrion is fully aware of the great importance of retaining the key officers required to enhance the company's market position. For this reason Kendrion assigns a high priority to management development, and programmes have been implemented to develop the skills and knowledge of managers at various levels in the company (more information is given on pages 22 and following).

Information and communication technology systems (ICT)

Inadequate ICT systems (including the infrastructure) and/or implementations of new systems could have a major influence on the company's business processes and, consequently, the results

The major ICT risks include the risk of interruptions, loss of data, and unauthorised access to data. ICT is of importance to Kendrion, both in terms of the risks and business support. Kendrion's CFO bears the overall responsibility for ICT. Kendrion has implemented a corporate ICT policy that extends to issues including:

- the arrangements for ICT decision-making and what can be decided at which level (central or local);
- the manner in which ICT systems are to be implemented;
- the arrangements for the sourcing of ICT products and services for the business units and their operating companies;
- the requirements to be met by the ICT organisation in serving the users;
- the measures that need to be implemented to mitigate risks, such as access security (programmes, equipment backup and recovery, change management procedures, etc.).

The implementation of new software, servers and network systems can result in interruption risks which in turn give cause to major consequential risks (loss of orders, customers, or the company's reputation).
These implementations must be based on best practice guidelines and procedures that include the following:

- an adequate governance structure throughout the entire project;
- thorough preparations;
- the balanced selection of suppliers;
- a milestone planning;
- audits for important go/no-go decisions.

Infrastructure – Most operating companies and Kendrion Group Services are supported by the central group ICT department in Villingen, Germany. This department coordinates the service level agreements with suppliers such as network providers, security, maintenance companies and suppliers of hardware. Kendrion works with highly skilled ICT staff and reputable external ICT suppliers. The servers are well protected against outsiders, fire and unauthorised access and appropriate procedures have been implemented for regular back-ups of the data. The infrastructure operates at a high level of availability. The few operating companies with autonomous infrastructures also have stable systems. However, the ICT management of these autonomous infrastructures will be transferred to the central ICT department in 2010.

Software application portfolio – Most operating companies use a standardised ERP system (2000), Microsoft operating systems (OS) and applications and software for specific applications such as project management. The software is stable and Kendrion has the knowledge required for user support. However, the current ERP application has reached the end of its lifecycle and does not meet Kendrion's future needs. Kendrion is preparing for the introduction of a new ERP system within the next three years. This will involve a substantial investment. Kendrion makes every effort to prevent spiralling costs of new systems.

Production risks

Lack of quality or a serious accident to an employee could cause reputational damage to the company and, consequently, affect results

High-quality finished products and just-in-time deliveries are core values for production companies, and failure to meet these criteria can result in damage to the company's

reputation or financial loss. The operating companies' core competence relates to the use of adequate production planning and to the use of specific performance indicators for quality and just-in-time deliveries. Kendrion also devotes a great deal of attention to the prevention of industrial accidents at its operating companies. In addition, Kendrion above all wishes to be a good employer. There have been virtually no industrial accidents to date. However, Kendrion is aware that the materialisation of a risk of this nature would not only affect all those involved, but would also be detrimental to the reputation of the company in question and the image of the relevant operations in the market.
Kendrion's companies make active use of quality systems designed to improve the processes. Virtually all companies have been awarded ISO certification, and possess the relevant safety certificates.

Financial risks

External

Access to funding

An inability to access and/or control funding could be detrimental to Kendrion's ability to achieve its goals
Kendrion endeavours to maintain a financial position and a net debt to EBITDA ratio that is compatible with the nature and risk profile of the company. Kendrion strives to maintain a solvency ratio of at least 30% and a net debt of a maximum of three times the twelve-month EBITDA. Within the context of financial risks Kendrion has ensured that financing of the company will continue to be safeguarded in the event of a ruling against the company in its appeal against the fine imposed by the EU Competition Authority. To this end the company maintains a higher solvency ratio and a lower maximum net debt/ EBITDA ratio until the definitive ruling is given.

LINNIG de México, S.A. de CV, Mexico City (CVS)
LINNIG de México was founded in 1992. Products and complete aggregates of the LINNIG product range are produced. The main products are fan clutches and compressor clutches.

WE MAGNETISE THE WORLD
MEXICO

Kendrion depends on the top 4 Dutch banks for its funding with bank loans and, consequently, keeps close track of the banks' positions. Kendrion also examines other bank loan funding options.

Treasury

A lack of insight into the treasury risks and a lack of appropriate agreements on the approach to risks of this nature can be detrimental to Kendrion's results
Kendrion has implemented a Treasury Policy. Pursuant to the management's policy significant sensitivities to currency fluctuations are hedged with currency derivatives. Group Companies with significant sensitivities to currency fluctuations must hedge these sensitivities with the central Treasury, which then makes arrangements for the derivatives by entering into back-to-back transactions with counterparties. Future transactions pursuant to existing projects are hedged with derivatives for a maximum of two years, whereby Kendrion makes use of forward exchange contracts or currency options. In addition, loans to Group Companies in currencies other than the euro are hedged at a central level using currency swaps. At balance sheet date Kendrion had not hedged any net investments in its subsidiaries outside the euro zone. In principle significant acquisitions and local debts are financed in the local currency and as a result this financing constitutes a natural hedge against exchange rate risks. Although Kendrion hedges significant sensitivities to interest rate and currency fluctuations, some sensitivities will always remain.

Interest rate risks – The majority of the financing raised by the company is of the form of variable interest rate loans. These variable interest rates can fluctuate and reduce the results. In 2010 the impact of fluctuating market rates of interest will be limited due to the relatively low level of interest-bearing debt following the sale of Distribution Services. Kendrion has hedged the majority of the interest rate sensitivity by means of a current interest rate swap contract.
Fluctuations in the level of interest rates can also affect the assets of pension funds and result in higher pension costs and contributions. The majority of Kendrion's pension schemes are defined contribution pension schemes, and the company is endeavouring to convert defined benefit pension schemes into defined contribution pension schemes.

Exchange rate risks – The majority of Kendrion's revenue, costs, assets and liabilities are denominated in euros. Whenever feasible and profitable, revenue and costs are realised in the same currency. Kendrion monitors expected currency exposures and continuously carries out a quarterly evaluation of projects during their lifetime. Material exposures are hedged.

Impairment (top 4 risk)

Impairment and book losses could be detrimental to Kendrion's financial results

A number of Kendrion's companies carry either intangible assets (including goodwill), deferred tax assets resulting from tax losses carried forward and machines and stocks for specific customers on their balance sheets. The current economic crisis increases the risk of impairments. The Kendrion Group Reporting Manual lays down stringent guidelines for impairment testing and the valuation and monitoring of specific assets. In most instances a solution for any machinery and stock impairment, where relevant, is found via contractual clauses or consultations with the customer.

Tax risks

The outcome of tax disputes, litigation, indemnification and guarantees, and regulatory action could be detrimental to the business and the results.

Kendrion operates in eleven countries with companies that possess a high degree of autonomy. In most countries the responsibility for accurate tax returns has been assigned to the local management. Kendrion carries out an annual inventory at corporate level and in close collaboration with renowned international tax consultants to assess whether fiscal developments could have an effect on the company's subsidiaries.

Control environment and financial reporting risk management in the year under review

Control environment

The Board is responsible for the control environment including internal risk management and control systems, and for the optimum management of the strategic, operational, financial and reporting risks confronting Kendrion. The internal risk management and control systems extend to issues including policy-making, processes, duties, influencing conduct and other aspects of the organisation that jointly provide for the achievement of targets and the prevention or timely identification of potentially material errors, loss, fraud, or infringement of legislation and regulations. The risk management process is based on the generally accepted COSO Enterprise Risk Management framework.

Kendrion employs a structured risk management framework that reveals the various elements of risk management and the relationship between the elements. Kendrion's objective is to avoid duplication within separate systems whenever possible. Links are made, when this is worthwhile, between systems where they interact. This is illustrated in Figure 1, which shows a diagram of Kendrion's management framework.
The factors that underpin the quality of the management framework are integrity, business ethics and the staff's expertise, the management style and the manner in which authorities and responsibilities are delegated and monitored by the management, but also the deployment and development of the staff, and the manner in which the aforementioned factors are directed.

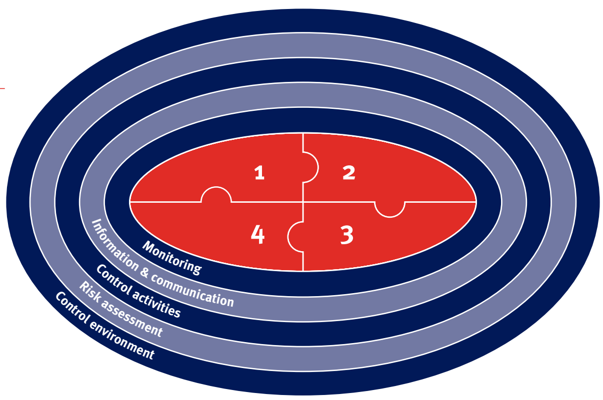
1 Management framework for the continual risk-control process

1 Strategic and business-risk management
Risk-inventory workshops, including sales/marketing, purchasing, financing, legal, and HRM

2 Financial reporting risk management

3 Operational risk management
Quality systems, safety, health and environment

4 Compliance & Regulation



During the year under review the major elements and foundations of Kendrion's internal risk management and control systems were:

Code of Conduct

Kendrion has implemented a Code of Conduct in its organisation that applies to all Kendrion staff.
The principles and best practices established in this Code reflect the main values that need to guide Kendrion's staff in the performance of their duties, and the actions they need to take in a variety of circumstances and situations. The core themes include market position, authorities, corporate social responsibility, accountability in general, and the obligation for due care regarding safety and health, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by continually bringing the Code to the attention of (new) managers and staff.
The Code of Conduct was evaluated in 2009. Kendrion intends to introduce an amended Code of Conduct in the first six months of 2010, in part due to the company's accession to the UN Global Compact.

Whistleblower's Charter

The Whistleblower's Charter offers the Kendrion employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their (legal) position. No irregularities were reported during 2009. The Whistleblower's Charter will be evaluated in 2010.

Regulations to prevent insider trading

Kendrion has implemented regulations to prevent insider trading which are designed to make a contribution to the prevention of employee infringement of the prevailing insider trading and market abuse regulations. More details about these regulations are disclosed on page 10.

Rules and Regulations and Letters of Representation

Kendrion employs Rules and Regulations and Letters of Representation. The Rules and Regulations constitute a Code of Conduct governing all Kendrion Directors.
The Letters of Representation are submitted once a quarter, in a bottom-up procedure, to the operating company Directors and Controllers, and to the Business Unit Managers and their Controllers. Each officer is required to sign the letters to confirm to their managers that the information and financial information they have reported is correct and complete.

Group Reporting Manual

Kendrion has implemented a Group Reporting Manual governing all operating companies to provide for correct financial reporting. The Manual is continually updated.
To this end the company has implemented measures including the formation of the Kendrion Group Reporting Committee, with representatives from the operating companies.

Planning and control cycle

Insight into the Kendrion concern's performance is obtained from the monthly reports of the current figures submitted by all the operating companies. In the summer of each year Kendrion prepares a Mid-term Plan with a three-year planning horizon. This plan provides insight into the strategic course of the companies and business units. The Mid-term Plan is accompanied by a more detailed annual budget to provide a precise management tool. The budget is also used to reach short-term agreements with managers. A complete forecast prepared each quarter offers insight into financial expectations until the end of the year, and updates the budget.
The Board and the Board's control and audit team devote a great deal of attention to the assessment and follow up of all report cycles. When necessary, special audits are conducted to review specific issues in more depth.
Consultations on the progress, development of key performance indicators and variations from long-term targets are held at various levels in the organisation.

Monthly reports and meetings

Regular discussions in the monthly meetings between the Board and the Business Unit Managers and similar reviews within the business units address the internal risk management system. 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. These reports include an estimate of the possible financial consequences of each of the claims.

Management of financial reporting risks in the year under review

Kendrion has adopted a structured approach to the management of financial reporting risks. The company perceives the structured management of financial reporting risks as one of the regular duties of the controllers of the largest Kendrion companies.
In principle, the control measures are integrated in the various company processes. The local controllers supervise compliance. Kendrion has implemented guidelines for the Controllers that specify the monthly close procedures and the minimum controls to be performed. Kendrion has developed a special internal

audit programme for an independent assessment of the companies' control processes. Kendrion has so far opted for a design in which the scope of the programme extends to the companies that jointly account for approximately 80% of the value of the relevant reporting cycles. The reporting cycles Kendrion has implemented for its operating companies are revenue and accounts receivable, purchase and accounts payable, inventories, fixed assets, and human resources. In addition, a team comprised of Kendrion N.V. Controllers, Business Unit Controllers and contracted qualified auditors conducts biannual audits of all the internal control measures at the operating companies involved in the audit programme to assess their performance. In the year under review Kendrion decided not to carry out two audits to enable the management to focus on steering the company through the economic crisis. Kendrion conducts these audits using a method that both safeguards independence and implies a form of management development for the local controllers: the local controllers do not audit their own operating companies.

The companies falling within the scope were once again audited to assess the quality of their financial reporting risk management systems in 2009. As mentioned above, only one audit was carried out in view of the need for the management to focus entirely on the effects of the economic crisis on Kendrion.

Results from and shortcomings revealed by the audit programme

The overall results from the audits carried out in 2009 were satisfactory, even though the economic crisis had a severe impact on the organisation. Some procedures need to be tightened up in some areas, in particular with respect to the (further) segregation of duties in ICT and payment systems, super users of ICT systems and proof of authorisation. Although Kendrion has made progress during the year under review, these types of shortcomings always have tension with what is practically feasible and must be evaluated each year in terms of acceptability and/or other mitigation measures. Two companies were audited only in part due to staff changes in the control department. Kendrion is also of the opinion that more attention can be given to minimum levels of controls for the management of financial reporting risks at smaller companies that fall outside the scope of the regular audit programme.

The company's structural approach to financial reporting risks appears satisfactory, taking also into account the limited number of findings of the local external auditors communicated in the management letters and during the final audits.

In view of the above the Board is of the opinion that the design of the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked adequately in the year under review, such with due regard for the aforementioned shortcomings.

Kendrion N.V., Zeist (Kendrion Group Services)
Kendrion N.V. is the holding company of 15 operating companies around the world. A number of central tasks are entrusted to Kendrion Group Services, such as financing and cash management, reporting and controlling, taxation, risk management, corporate communication and investor relations, facility management, insurance, IT, human resource management, legal affairs, and corporate governance.

WE MAGNETISE THE WORLD
NETHERLANDS

Report of the Board
Financial review

Highlights

Sale of Distribution Services

Kendrion became a fully focused company as of 12 February 2009, on the achievement of the strategic objective adopted at the end of 2004 within the context of the financial restructuring programme. In the first quarter of 2009 Kendrion recorded a net book profit of EUR 10 million. The net book profit of EUR 10 million is recognised under several items in the statement of comprehensive income:

EUR million	
Result on sale of discontinued operations (including operating result until 12 February 2009)	13.9
Expenses included in operating profit, directly related to the sale	(1.0)
Net finance costs related to the sale of the Vink Group	(0.3)
Write-off of deferred tax assets, classified under income tax	(2.6)
Net book profit on the sale of the Vink Group	10.0

The proceeds resulted in a substantial reduction of the bank debt to about EUR 10 million.
The book profit and the sale proceeds resulted in the Board's decision to pay a cash dividend of EUR 10 million. This dividend was paid immediately after the General Meeting of Shareholders on 6 April 2009.

Springtime Plan

Following the emergence of the global economic crisis in the fourth quarter of 2008 Kendrion recorded a 14% decline in revenue in comparison with the same period in 2007 that gave cause to the need to implement a number of measures to reduce costs. One of these measures was the introduction of short-time working in Germany and Austria from 1 January 2009. In addition, the Board, Supervisory Board and 50 managers temporarily waived 10% of their salary (ultimately, for the whole of 2009). During the first months of 2009 the revenue of all business units declined further by an average of 35%, especially in the industrial mechanical engineering market but also in the car and bus markets. This fall in revenue reflected the situation in virtually all industrial markets in Kendrion's most important home market, Germany. Due to the decline in revenue Kendrion recorded an operating loss in the first quarter of 2009.

As Kendrion did not expect a recovery in the short term it was necessary to implement additional measures for a further adjustment of the capacity to the forecast lower demand. In addition, a number of efficiency improvement programmes that had already been initiated were implemented at an accelerated pace. These measures were detailed in the Springtime Plan.

The Springtime Plan attached paramount importance to the retention of Kendrion's leading market position and the company's strength in the development of new products. Kendrion was also determined to retain its strategy of serving the market in a number of geographical areas, with differentiated production locations and local markets. However, following the decline in revenue a number of companies no longer possessed the necessary scale, and for this reason it was more efficient and effective to relocate the production to other companies. The capacity of the production locations in the Czech Republic and China, in particular, has been further reduced and the industrial operations of the Austrian company have been transferred to other companies to enable Austria to focus solely on automotive operations. The number of jobs was also reduced at smaller production companies all over the world. The aforementioned measures have resulted in efficiency improvements whereby, in particular, the lower level of operations at the centre of expertise in Germany was in part absorbed by the relocation of production from other locations. Nevertheless, jobs were also cut at all German operating companies.

The Springtime Plan resulted in a total reduction of the number of own employees from about 1,400 at year-end 2008 to about 1,050 at the end of 2009.

A provision of a planned amount of EUR 8.5 million for the Springtime Plan was formed in the first quarter of 2009.

All business units adopted an extremely dynamic approach to the implementation of the Plan in what were difficult personal circumstances. By mid-2009 an arrangement had been concluded with the majority of the redundant employees, either on an individual basis or in negotiation with the works councils and trade unions.

The closure of the industrial operations in Austria and their transfer to Germany, in particular, had the greatest operational impact. This element of the reorganisation was completed in mid-November 2009. The total reorganisation costs in 2009 ultimately amounted to about EUR 8 million. This includes the write-down of the subordinated debt of Cetra Metaal (vendor loan from 2003 within the scope of a management buy out) of EUR 0.9 million following the bankruptcy order in April 2009, since Kendrion no longer expects further cash inflows from this source. The cash outflow of the EUR 8 million costs amounted to EUR 6 million. The Springtime Plan offers potential annual savings of approximately EUR 20 million.

Financial results

In the first quarter of 2009 Kendrion recorded an operational loss of EUR 0.9 million (excluding the effects of the sale of the Vink Group and the Springtime Plan). The net loss (also normalised) amounted to EUR 0.9 million, due to tax compensation covering the net finance costs.

Although the second quarter was also weak, the Springtime Plan nevertheless made an immediate beneficial contribution to the results from the second quarter onwards.

2009 was closed with a net profit of EUR 4 million after taking account of the effects of the Springtime Plan and the sale of the Vink Group. The normalised operational profit (EBITA) and net profit can be specified as follows:

EUR million	
Operational profit before amortisation and net finance costs (EBITA)	(3.9)
To be eliminated:	
■ Springtime costs	8.0
■ Expenses related to the sale of the Vink Group	1.0
EBITA (normalised)	5.1
Amortisation of intangible assets [3]	(1.1)
Net finance costs [1]	(3.1)
Income tax [2]	0.1
Net profit (normalised) [4]	1.0

After taking account of the loss in the first quarter of 2009, including the reorganisation loss related to the Springtime Plan, the EBITA and net profit as of the second quarter of 2009 improved quarter after quarter.

Revenue

The revenue for 2009 amounted to EUR 149.2 million as compared to EUR 204.2 million in 2008 (solely the electromagnetic operations and holding companies exclusive of Vink UK and Vink Ireland), a 27% decrease. The major effects of the worldwide economic crisis on Kendrion's revenue were felt in the first half year, when revenue decreased by some 35% in comparison with the first half of 2008. Revenue in the third quarter of 2009 was 24% lower than in the same period in the previous year, but was 16% higher than the second quarter of 2009. Kendrion recorded an increase in the revenue of Passenger Car Systems due to increased sales of common rail diesel products. Commercial Vehicle Systems observed an improvement in the market conditions, in particular in the Far East. The industrial business units recorded virtually no improvement in their markets. Kendrion's revenue in the fourth quarter of 2009 decreased by 8% compared to the same period in 2008, although with the EUR 40.4 million revenue in the fourth quarter of 2009 sales improved by 3.5% compared to the third quarter of 2009. The overall situation was similar to that in the third quarter: Passenger Car Systems benefited from the favourable effect of increasing sales in the diesel engine market, Commercial Vehicle Systems' markets continued to improve and Industrial Magnetic Systems observed a slight improvement in the small solenoids market. However, conditions in the mechanical engineering market exhibited no improvement.

[1] Excluding EUR 0.3 million in connection with the sale of the Vink Group (referred to in the 'Sale Distribution Services' paragraph).

[2] Excluding a tax expense of EUR 2.6 million in connection with the Vink Group (referred to in the 'Sale Distribution Services' paragraph) and a tax benefit of EUR 1.0 million in connection with the Springtime Plan; the tax effect of the Springtime Plan relates to the recognition of a deferred tax asset for the Austrian activities due to the recorded losses from the Springtime reorganisation in the first quarter of 2009.

[3] Excluding amortisation of software.

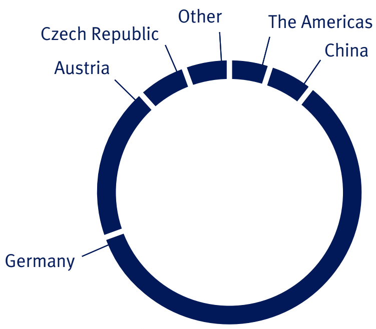
[4] Management estimate. Unaudited figures.

Kendrion Binder Magnete s.r.l., Rădăuți, Romania (PCS)

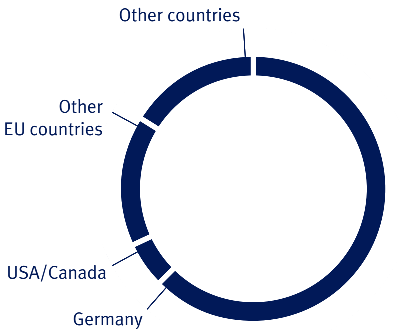
Kendrion Binder Magnete s.r.l. Rădăuți was founded in April 2008. The plant in Romania is an extended workbench for the Austrian plant in Eibiswald and produces injection moulded parts and various assemblies for electro-magnetic components.

WE MAGNETISE THE WORLD
ROMANIA

Revenue by region (2009)



Revenue by customer location (2009)



Added value

The added value during 2009 amounted to EUR 76.6 million (51%) compared to EUR 105.9 million during 2008 (50.8%). The costs of raw materials and work contracted out include the costs of temporary direct employees of EUR 1 million in 2009 (2008: EUR 2.3 million). The costs of temporary employees, which had already been substantially reduced in the fourth quarter of 2008, has since increased incrementally from the third quarter of 2009, especially at Passenger Car Systems but also at Industrial Magnetic Systems, in response to the transfer of production from Austria (relocation due to the Springtime Plan). The added value during 2009 was strongly influenced by the reduction of stock levels. When the aforementioned effects of the costs of temporary employees and the reduction of stock levels are eliminated then the added value as a percentage of revenue increased from 51% in 2008 to 54% in 2009, due to a.o. price increases and increased localised sourcing.

Staff costs and other operating expenses

Staff costs and other operating expenses amounted to EUR 71.9 million in 2009, although this figure includes expenses of EUR 1 million relating to the disposal of the Vink Group and the costs of the Springtime Plan of EUR 7.1 million. Conversely, the implementation of short-time working in Germany and Austria and the management's temporary 10% reduction in salary resulted in savings of approximately EUR 2.5 million. As a result, the normalised costs for 2009 amount to EUR 66.3 million. The staff costs and other operating expenses in 2008 were increased by EUR 3 million due to expenses incurred in the disposal of the Vink Group and the book loss on the sale of Vink UK and Ireland. As a result, the normalised costs for 2008 amount to EUR 83.6 million. As such, the cost savings achieved amount to almost EUR 17 million in the last three quarters. Consequently, Kendrion's objective for the Springtime Plan, a EUR 20 million annual reduction in the costs, has been achieved.

Net finance costs

The net finance costs amount to EUR 3.1 million, excluding the EUR 0.3 million finance costs relating to the sale of the Vink Group. The net finance costs in 2009 also include the bank guarantee fee relating to the EC fine, commitment fees on unused facilities and amortised bank and legal fees (transaction costs). Average debt levels in 2009 amounted to just over EUR 30 million, with an average interest charge of 6.5%. The relatively high average interest rate in comparison with the low average market rates is due to:

- the high margin on a EUR 20 million junior term loan which was refinanced in the fourth quarter of 2009,
- the higher average debt in the first quarter (the proceeds from the sale of the Vink Group were received in mid-February 2009) when the market interest rates had not yet reached the trough, and
- Kendrion's swap of 3-month EURIBOR to a fixed rate of 4.2% for an amount of EUR 15 million contracted in 2007.

Income tax

The recorded income tax expense amounts to EUR 1.5 million, although this includes a write-off of EUR 2.6 million of deferred tax assets relating to the sale of the Vink Group. This results in a normalised income tax benefit of EUR 1.1 million. The benefit primarily accrues from a recorded deferred tax asset in Austria due to the losses incurred as a result of the Springtime Plan. Without this effect the normalised income tax amounts to EUR 0.1 million.The tax benefit is 25% in 2009, which is low in comparison with the normal tax burden of more than 30%. This difference is a.o. due to tax refunds from past years in Germany.

Balance sheet total, working capital and financial position

At 31 December 2009 the balance sheet total amounted to almost EUR 153 million, more than EUR 127 million (45%) lower than the balance sheet total at year-end 2008. The balance sheet total at year-end 2008 still included the assets and liabilities of the Vink Group. When compared with the normalised balance sheet total of about EUR 162 million at year-end 2008, the decrease amounted to more than EUR 9 million (6%). Reference is made to the 2008 Annual Report (page 34).

Working capital as a percentage of revenue at 31 December 2009 was 14.5% (31 December 2008: 11.6%). The increase was the result of the much lower accounts payable (almost EUR 7 million), in part due to investments from 2008 that were paid in 2009 and the reduced purchase orders following the implementation of the programme to reduce stock levels. Kendrion made great efforts to reduce stock levels in view of the crisis. While stock levels were still too high in the first half of the year, a special stock reduction programme achieved considerable results in the second half of the year. At year-end 2009 stock levels were almost EUR 8 million (25%) lower than at the end of the previous year, a decline which is in line with the decrease in revenue.

The economic crisis did not result in the deterioration of the quality of the accounts receivable portfolio due to active working capital management, specific risk management and debt collection measures. By the end of 2009, EUR 0.8 million is more than 60 days overdue and the provision for doubtful debts amounted to EUR 0.4 million. The Days Sales Outstanding including VAT on accounts receivable varies between 30 to 60 days in the various business units.

Kendrion Binder Magnet AG, Hausen am Albis (IMS)
Kendrion Binder Magnet AG was formed within the Kendrion group out of Magnet AG and Binder & Geisser AG. The company is a competent business partner for electromagnetic components and products in Switzerland. The cooperation with the companies Bonfiglioli Vectron and Martreb makes the Swiss location a flexible systems supplier in the field of drive technology. In addition, Kendrion Binder Magnet AG excels through its service range in the area of repairs and modifications.

WE MAGNETISE THE WORLD
SWITZERLAND

At year-end 2009 the solvency ratio was almost 63% (year-end 2008: 33%, normalised balance sheet: 64%). Equity increased by a 9.9% share issue amounting to EUR 9.1 million and the net result over 2009. In addition, a dividend of EUR 10 million was paid in April 2009. At year-end 2009 the net bank debts amounted to EUR 13.9 million.

On 30 June 2009 Kendrion failed to achieve its interest cover covenant within the credit agreement due to the substantial decline in the operating result caused by the economic crisis. Kendrion entered into negotiations with the company's financiers on the acceptance of a temporarily lower interest cover level and on the retention of some scope for acquisitions. At the end of September 2009 Kendrion issued shares amounting to 9.9% of the subscribed share capital in a private placing with most major shareholders. The net proceeds amounted to EUR 9.1 million. On 16 November 2009 Kendrion reached agreement with the company's financiers on a new two-year credit facility of EUR 50 million alongside the existing bank guarantee facility of approximately EUR 40 million relating to the fine imposed by the European Commission (EC) at the end of 2005. At year-end 2009 Kendrion complied with the bank covenants by an ample margin, as is shown below.

The most important conditions in the financing arrangement are:

- Maturity date: 16 November 2011;
- Quarterly redemption of EUR 1,250,000 as from 31 December 2010;
- Margin ratchet between 3.25% and 4%, depending on Kendrion's debt cover ratio;
- Quarterly compliance levels:
  - Bank solvency › 25%, at 31 December 2010 27.5% (actual at 31 December 2009: 38.6%);
  - Debt cover ‹ 4.40, gradually being reduced to 3.40 at 31 December 2010 and 3.25 at 31 March 2011 (actual at 31 December 2009: 2.60);
  - Quarterly interest cover › 2.0, gradually being increased to 2.4 at 31 December 2010 and 3.0 at 31 March 2011 (actual at 31 December 2009: 4.41);
- The bank solvency is calculated with shareholders' equity reduced by 75% of the EC bank guarantee exposure and 50% of the recorded goodwill;
- The debt cover is calculated as net bank debt including 50% of the EC bank guarantee exposure over the 12-month operating result before depreciation and amortisation (EBITDA);
- The interest cover is calculated as the operating result before amortisation of intangible assets of the quarter over the net finance costs;
- Dividend payable of 30% of net profit as of 2011.

At 31 December 2009 Kendrion has a subordinated loan receivable of EUR 0.6 million arising from a company sold in 2003.

Capital expenditure
Capital expenditure in 2009 was limited in comparison with the last few years, with considerable investments in common rail diesel projects in the Passenger Car Systems business unit. Nevertheless, Passenger Car Systems is the most capital expenditure intensive business unit; Passenger Car Systems invested EUR 4 million of Kendrion's total of EUR 5.9 million. These investments were comprised solely of project investments. The capital expenditure level of EUR 5.9 million was below the depreciation level of EUR 7.7 million.

Free cash flow
Free cash flow for 2009 was EUR 1.9 million negative for the continued operations exclusive of the disposal of the Vink Group and earn-out payments. However, when the cash outflow due to the Springtime Plan is eliminated the free cash flow from operations was EUR 4.1 million positive, primarily due to the programme to reduce stock levels.

Contingent liabilities
The following change has taken place in comparison with the situation at 31 December 2008:

- The Slovenian company Maravi d.o.o. has claimed a breach of an existing supply contract by Kendrion Binder Magnete GmbH (Austria) with respect to the purchase of a minimum number of products. On the basis of legal advice Kendrion has formed a small provision.

The disclosed contingent liabilities by the end of 2008 – the EC fine and the claim from Binder Magnete s.r.l. Italy – are still relevant. The claim on Vink UK (covered by our insurers) has since been fully settled by mediation on 11 February 2010. More information is given on page 86 of the notes to the financial statements.

Directors' declaration
The Executive Board is responsible for the preparation of the financial statements and the annual report in accordance with the Dutch law and the International Financing Reporting Standards (IFRS). As prescribed in Article 5-25 C of paragraph 2 of the Financial Supervision Act, and with due regard for the above, the Executive Board declares that to its knowledge (i) the financial statements give a true and fair view of the assets, liabilities, financial position and profit of Kendrion N.V. and the companies jointly included in the consolidation; (ii) the report of the Board gives a true and fair view of the situation at balance sheet date, the situation during the financial year at Kendrion N.V. and the companies affiliated with Kendrion whose figures are incorporated in the financial statements, and (iii) that the report of the Board describes the significant risks which Kendrion faces.

The members of the Executive Board have signed the financial statements to comply with their statutory obligation pursuant to Article 2:101, paragraph 2 of the Netherlands Civil Code and Article 5-25 C, paragraph 2, under C, of the Financial Supervision Act.

Report of the Board
Developments in each business unit

Norman Graf
Business Unit Manager
Industrial Magnetic
Systems

Industrial Magnetic Systems

Profile

The Industrial Magnetic Systems business unit develops and manufactures electromagnetic systems for industrial applications including mechanical engineering, energy distribution, process automation, doors and safety technology, medical equipment and the beverages industry. Both the group of customers and range of applications are extremely diverse. The business unit's products make use of the most advanced technology and comply with the most stringent reliability and precision requirements. The activities of Industrial Magnetic Systems are subdivided into two core competences:

- projects with customised products in large volumes;
- modified products and services.

The business unit's head office is in Donaueschingen (Germany) and the business unit has production facilities in Germany, the USA (where Tri-Tech LLC was taken over in 2008) and China. In addition, the business unit has sales organisations in the UK and Switzerland. The other major European markets are covered by sales partners and distributors.

Kendrion Binder Magnete (UK) Ltd.– Bradford (IDS)
Since 1972 Kendrion Binder Magnete (UK) Ltd. has been a successful service-partner of the business unit Industrial Drive Systems. The rich experience is based on the close and goal-oriented cooperation with customers such as OEMs, distributors, garages and end users. On the basis of this experience the Bradford-location was established as an international service centre for Kendrion products in 2000. An extensive store for products and spare parts provides for a quick supply in more than seventy countries. Beyond that the location carries out customer-specific modifications and offers a repair service for ATEX-approved products.

WE MAGNETISE THE WORLD
UNITED KINGDOM

Objectives and strategy

Industrial Magnetic Systems continues to expand its position from a player on the European market to a global player in specific submarkets, whereby the business unit's objectives are to achieve powerful organic growth and excellent returns.
Industrial Magnetic Systems develops new project activities in its markets by means of relationships with customers operating on a global scale or possessing powerful positions in local submarkets. In addition, Industrial Magnetic Systems' project activities have enabled the business unit to expand its operations to the provision of modified products and services.
These operations offer less risky opportunities to generate revenue, certainly in more difficult economic times. During the coming years the business unit will focus on three key markets: installation engineering in buildings, process automation and energy distribution – the markets where the most important developments are foreseen in the global industry.

Situation in 2009

In 2009, Industrial Magnetic Systems was confronted with a major downturn in most of the business unit's key markets. Although revenue from the energy sector and the medical industry remained at a good level, some other large markets such as the textile industry, machine building and mechanical engineering industry, automation industry and the safety industry suffered major setbacks. The downturn that became apparent in the middle of 2008 continued to accelerate in the year under review and reached its trough in the second and third quarter of 2009. In the last months of 2009, the order intake has increased above the actual revenue. This indicates that the market has stabilised and is growing slightly again.

The business unit implemented its contribution to the Springtime Plan by closing its factories in Spain (Zaragoza) and in Austria (Eibiswald) and by streamlining the number of its production facilities to increase efficiency. The factory closures were completed in November 2009 and their production has since been transferred to other plants. The cost-flexibility measures shall continue in view of the continuing uncertainty and volatility of the markets.

Towards the end of the year the business unit benefited from the renewed expansion of the market activities, as was evident from the short-term revenue figures, increasing order intake and new project activities.
The business unit was, in spite of the crisis, able to further strengthen its engineering and sales capabilities while focusing on target niche markets and technology.

Market and market position

As in the past, Industrial Magnetic Systems' major market is Germany, with its advanced market-leading mechanical engineering and automation industries. This is followed by the energy sector, which has exhibited excellent growth figures in recent years and shall continue to grow in importance in the future. Additional attention was devoted to the development of the markets in France, Italy, the UK and Sweden.
Industrial Magnetic Systems' Chinese operations focus on customers and product applications with a great need of technical know-how, product quality and reliability: the cheap segment of the market receives less attention.

The beverage industry is the most important market segment for the business unit's US operating company, which is the clear market leader in this segment. Expansions to other niche markets are currently in preparation.

Outlook for 2010

The uncertainty surrounding the overall economic situation is decreasing, as is evident from official economic indicators and feedback from and expectations of the customers. In addition to the overall economic development, the business unit expects new business to result from market activities in the last years.
The following targets have been defined for the coming year:

- increase the innovation and market competences and expand the engineering and sales activities while concentrating on defined market and technology requirements. The attention to generating short-term revenue will continue in the project selection process;
- expand the global market activities to the US market with Kendrion Tri-Tech and concentrate on the local Chinese market with a strong sales team in China;
- support the market activities by means of an excellence programme in the factories designed to improve quality, delivery reliability and lead time. Continue to shape the profile and specialisation of all production locations worldwide;
- focus on the development of a flexible organisation and on the continual control of costs, with a rapid response to unforeseen developments in 2010.

Report of the Board
Developments in each business unit

Norman Graf
Business Unit Manager
Industrial Drive Systems

Industrial Drive Systems

Profile

The Industrial Drive Systems business unit develops and manufactures electromagnetic brakes and clutches for industrial drive systems that accelerate, retard, position, hold and secure movable drive components and loads. The primary applications for the business unit's products are robotics and process-automation technology, machine construction and production machines, machine control and lift technology. The business unit's head office and production location are located at Villingen (Germany) and it also has a sales organisation in Bradford (UK). The other major European markets are covered by sales partners and distributors.

Objectives and strategy

Industrial Drive Systems has further enhanced its position as a European market leader in permanent magnet brake technology. The business unit's objectives are to achieve powerful organic growth and excellent returns. Industrial Drive Systems develops new project activities in its markets by means of relationships with customers operating on a global scale or possessing powerful positions in local submarkets. In addition, the business unit is also expanding its operations in the field of services on the basis of project activities.
During the coming years the business unit will focus on two key markets, namely process automation and the generation of sustainable energy, the markets where the most important developments are foreseen in the global industry.

Situation in 2009

The business unit was impacted greatly by the economic downturn as Germany, with its powerful mechanical engineering and servo motor industries, is the business unit's largest market. Many customers were confronted with a drop in revenue of between 20 and 70%.
The trough in the revenue was reached in the second quarter of 2009. The business unit responded rapidly and appropriately by implementing a substantial cost-savings programme (Springtime) involving the introduction of short-time working and a reduction of the workforce.
The situation has subsequently become more stable each month: the short-time working measures have been rescinded and the organisation is once again devoting significant attention to the launch of a new product line and to the expansion of the sales network in Europe, the USA and China.

Market and market position

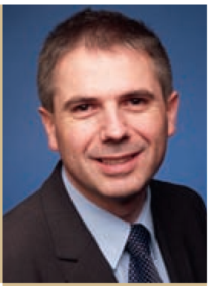
Germany, with its advanced market-leading mechanical engineering and automation industries, remains Industrial Drive Systems' major market. The business unit is the European market leader in permanent magnet spring brakes.
Additional attention has been devoted to the enhancement of the spring-applied brake operations, whereby Kendrion intends to play the role of problem-solver for specific customer needs and questions and, in so doing, distinguish the company from the market for standard products.
Industrial Drive Systems is still a niche player in the USA and China. Nevertheless, the business unit has succeeded in achieving remarkable growth figures in Asia during the past two years. Kendrion expects that this achievement can be repeated in the coming years. The operations in the USA will be expanded energetically via the Kendrion factory in Mishawaka, Indiana (USA).
The increasing use of technology for the generation of sustainable energy, a global trend, opens an attractive new segment of the market to the business unit. Industrial Drive Systems possesses the technology required to develop suitable products for this segment. A number of new projects have already been initiated and Kendrion expects the first results in 2010.

Outlook for 2010

The business unit expects a modest economic recovery in 2010. In addition to the overall economic development, the business unit is making preparations for the launch of its two main product lines in new markets. The following targets have been formulated for the coming year:

- strengthen the innovation and market competences and expand the sales activities in Germany and other countries;
- develop new markets in powerful trend industries with a primary focus on solutions for the customer that use other technologies;
- support the market activities by means of an excellence programme in the factories that specifies explicit targets for quality improvements and an increased reliability of deliveries;
- focus on the development of a flexible organisation and on the continual control of costs with a rapid response to unforeseen developments in 2010.

Report of the Board
Developments in each business unit



Bernd Gundelsweiler
Business Unit Manager
Passenger Car Systems

Passenger Car Systems

Profile

The Passenger Car Systems business unit develops and manufactures electromagnetic components for applications in the automotive industry. The business unit is globally renowned as a competent development and engineering partner and has production facilities in Germany, Austria, the Czech Republic, Romania and China. All products are developed and designed in accordance with the customer's specific needs, whereby great emphasis is placed on performance and reliability. Kendrion has been awarded ISO/TS 16949 certification, and supports environmentally-conscious working methods in accordance with ISO 14001.

Objectives and strategy

Passenger Car Systems is continually expanding its market position by obtaining new customer orders that relate to new projects or to further applications that expand the current portfolio. The business unit's objectives are to achieve acceptable organic growth and returns. The business unit's operations are conducted on the basis of an explicit strategy which addresses niche markets by offering them innovative technological solutions in the fields of switching solenoids (on/off or proportional), braking systems and advanced valve technology (common rail). In addition, the business unit also develops and manufactures electromagnetic components for hydraulic systems. The highly reliable production processes are in part carried out in clean-room conditions, and are virtually entirely or partly automated, depending on the annual production volume.
Passenger Car Systems complies with stringent quality standards through the use of end-of-line control units for complete systems or individual functions.

Situation in 2009

The economic downturn in 2009 resulted in a fall in revenue, in particular during the first half of the year. The business unit implemented a reorganisation programme in accordance with the Springtime Plan and took all the measures required to stabilise the business. Specific monitoring of the customers' stock levels, highly flexible production units, cost-cutting measures and adjustments of the capacity of all plants resulted in an improvement in the situation and strengthened positioning of all plants.
New production lines in the field of common rail applications, bodies and motor management launched during the year under review provided additional revenue. In addition to these new production lines, new versions of applications were introduced that will enlarge the current portfolio for future business.
An evident improvement could be discerned in the second half of the year 2009. The decisive stock management measures, overall reduction in stock levels and increasing customer demand resulted in the need to increase the production capacity. The number of inquiries for new RFQs was indicative of the recovery of the global situation. The net result of the above was a return to increased revenue during the second half of the year.

Market and market position

The international automotive market can be divided into three regions, Europe, the USA and Asia. The business unit's largest market is Europe and, within that market, Germany. From a global perspective the business unit's major customers are Daimler, Continental, Delphi Europe, INA, Automotive Lighting and ZF Lemförder. Customers can rely on Passenger Car Systems as a development partner, with active project teams, in-depth technical knowledge and access to development, test and production facilities.
Further growth in the European electromagnetic component market is expected due to new applications in environmental protection, aggregates that can be switched on/off and common rail technology that minimises emissions. New hybrid and electric cars create new market segments that are favourable to Passenger Car Systems.

Outlook for 2010

Passenger Car Systems shall seek to expand its electromagnetic component operations within the business unit's flexible workforce model. Adaptability is essential in these uncertain economic times. The business unit shall continue to provide its services to its customers and shall develop new electromagnetic components on a global basis.
In the long term Passenger Car Systems expects that the business unit will benefit from the introduction of new projects with unique selling points and that it will be able to enlarge the business with additional applications. The alignment of the production plants to serve customers locally will create further business opportunities.

Report of the Board
Developments in each business unit

Uwe Spörl
Business Unit Manager
Commercial Vehicle
Systems

Commercial Vehicle Systems

Profile

The Commercial Vehicle Systems business unit is made up of the companies of the Kendrion LINNIG Group, which was taken over at the end of 2007. The business unit develops and manufactures components and complete cooling systems for buses, trucks and special vehicles. Products include fan clutches for engine cooling, compressor clutches for vehicle air-conditioning, vibration dampers for crankshaft applications, fan clutches with angle gear for cooling, pneumatic and hydraulic clutches, brakes and belt tensioners.

The business unit's customers include all major OEMs in the bus market and all first-line suppliers of air-conditioning systems, as well as manufacturers of refuse collection vehicles, agricultural vehicles, railway vehicles, and specialised vehicles such as piste bullies for the preparation of ski pistes.

Commercial Vehicle Systems has its head office (including production, R&D, sales and accounting) in Markdorf (Germany), and has additional production, R&D and sales departments in Atlanta (USA), Mexico City (Mexico), São Paulo (Brazil) and Nanjing (China). Commercial Vehicle Systems has a global network of partners for distribution and service.

The business unit's products help to reduce the fuel consumption of commercial vehicles and consequently contribute to lower vehicle emissions. Thanks to this contribution, the unit has seen steady operational growth in recent years. The goal of the unit's corporate philosophy is to provide answers for customers' technical issues by helping them reduce fuel consumption using solutions based on electromagnetic components.

Objectives and strategy

Commercial Vehicle Systems' steady growth over the past ten years has been built on the business unit's objectives of supplying customers all over the world and doing business with every OEM in Asia, the USA and Europe. The unit's objective is to evolve from a local niche player into a global company and to play a critical role in the achievement of Kendrion's ambition to set the standards for quality and speed in R&D. The targets specify excellent organic growth and returns.

Situation in 2009

As the global economic crisis unfolded in 2009, German operations were clearly hard-hit. By the end of the second quarter, new orders were down 40% from one year earlier. In the second half of 2009, the situation improved significantly, however, so that at year-end orders were only down 20% from the previous year.

The commercial vehicle market was particularly affected by the global downturn, and as a result drastic cost-reduction measures involving trimming the business unit's workforce became necessary by the end of the first quarter of 2009. These cost reductions were carried out under Kendrion's Springtime Plan.

The Springtime Plan enabled the business unit to return to profitability in the second quarter and to book sufficient earnings for 2009 as a whole.

Regionally, the crisis hit hardest at Commercial Vehicle Systems' sales in Brazil and Mexico, while the situation in Asia and North America remained satisfactory over the year under review. Sales in China actually increased as compared to 2008.

The truck market segment suffered most, with new orders falling by more than 70%. The bus market held its ground but dropped by 25% in Europe. New order levels in Asia were especially encouraging from the second quarter.

The market for waste collection vehicles also contracted, although less than in other segments.

The crisis increased competitive pressure and, as a result, Commercial Vehicle Systems faced customer demands for lower prices even at decreasing volumes. These lower selling prices were, however, compensated to some extent by falling prices in the raw materials markets (particularly steel).

Market and market position

There are three regions in the international market for components for engine-cooling systems and air-conditioning: Europe, the USA and Asia. Kendrion Linnig is the European market leader in compressor and fan clutches. The company faces technical competition in the engine-cooling segment from companies offering

solutions not based on electromagnetic components. But as the requirements on engine cooling and emission reductions become increasingly stringent, Kendrion is increasingly convinced that the company is in the right position to expand its share of the market.
Although Commercial Vehicle Systems is still a niche player in the USA and South America, the business unit has implemented ambitious objectives that will enable it to achieve steady growth. The situation in Asia is also conducive to growth, and Kendrion is working on new projects with a large number of new customers in that region.

Outlook for 2010

In spite of the economic crisis, the Commercial Vehicle Systems business unit will continue to pursue its international growth objectives. The business unit plans to incorporate an Indian subsidiary in 2010 and enhance its position in Russia. Over the coming years the business unit's growth will focus on the BRIC countries (Brazil, Russia, India and China).
Commercial Vehicle Systems' fuel efficiency and emission reduction products will be the foundation for the further growth of the business unit.
In the bus sector, the business unit forecasts a decline in the sale of city buses resulting from limited community financing. An increase in sales of touring coaches is forecast in view of the need for reinvestments.
The business unit forecasts a probable improvement in the truck market in the wake of the dramatic downturn in 2009.

The business unit forecasts an overall improvement in 2010 as compared with 2009.
Commercial Vehicle Systems sees the gradual movement towards economic recovery and the upward trend in the second half of 2009 as reasons to be cautiously optimistic about 2010.

Corporate governance

Every year Kendrion states the outlines of the company's corporate governance structure in the Annual Report, and submits all substantial changes to the structure to the General Meeting of Shareholders for discussion. Information about corporate governance and the rules and regulations is available at Kendrion's website (www.kendrion.com), under 'Corporate Governance'. This section and the 'Information on Kendrion N.V. shares' section incorporate the information referred to in Article 1 of the Decree of 5 April 2006 for the implementation of Article 10 of the EU Takeover Directive. In addition, the information contained in this section in combination with the information about the management and control systems for the financial reporting contained in the risk management section can be regarded as the Corporate Governance Statement prescribed by the Decree establishing further instructions concerning the content of the annual report *('Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag')* as amended in December 2009. This Corporate Governance Statement has also been published on the company's website.

Kendrion is aware that the House of Representatives of the Dutch Parliament adopted the legislative proposals for the implementation of the EU Directive on the exercise of shareholder rights as well as for 'management and supervision' on 8 December 2009. Kendrion shall implement the requisite measures, to the extent required, once the Senate of the Dutch Parliament has approved the legislation and the new acts come into force.

Corporate governance structure

Kendrion N.V. is a public limited liability company under Netherlands law, with its registered offices in Zeist, the Netherlands. The company's authorised share capital is divided into 40,000,000 ordinary shares with a nominal value of EUR 2.00. At year-end 2009 11,316,374 ordinary shares had been issued, of which 48,488 shares are held by the company. These 'own' shares have been purchased in the past for the purposes of the long-term incentive (LTI) programme and the share plan for the senior management. Kendrion's shares are listed on NYSE Euronext's Amsterdam market. Given the limited number of employees, Kendrion N.V. does not have a Works Council.

Articles of Association

A resolution to amend the Articles of Association can be passed by the General Meeting of Shareholders solely on the proposal of the Executive Board as approved by the Supervisory Board. Resolutions of this nature can be passed by an absolute majority of the votes cast at the General Meeting of Shareholders. Amendments to the Articles of Association are also governed by a number of procedural regulations specified in more detail in the company's Articles of Association.

The company's Articles of Association include what is referred to as a 'creeping control' provision that is similar to the statutory provisions. A shareholder acquiring 20% of the shares or votes is under the obligation to disclose this to the company with immediate effect. Shareholders governed by compulsory disclosure may cast a number of votes at a General Meeting of Shareholders of at most the number disclosed to the company on the day before the day of the publication of the notice convening the relevant meeting. In the absence of a disclosure the number of votes that can be cast is limited to a maximum of the disclosure limit. The Executive Board can grant exemption from the voting right limit. A shareholder acquiring more than 30% of the shares or votes is under the obligation to make an immediate bid for the other issued shares. The bid must be submitted in accordance with the then prevailing statutory regulations. The Executive Board can issue a notice suspending the meeting and voting rights from the time a party is under the obligation to make a bid until the time the party declares the bid unconditional (or is not required to do so because fewer than 66⅔% of the voting rights have been tendered).

General Meeting of Shareholders

A notice convening a General Meeting of Shareholders shall be issued on behalf of the Executive Board or the Supervisory Board by no later than the 15th day prior to the day of the meeting. The Executive Board may determine that those persons shall have the right to attend the meeting and to vote who at a date set by the Executive Board ('*registratiedatum*') have those rights and who have been registered as such in a designated (sub) register, irrespective of the identity of the entitled party with respect to those shares at the time of the meeting.

Votes representing shares can be cast at the General Meeting of Shareholders either personally or by proxy.

No restrictions are imposed on these proxies, which can be granted electronically or in writing to the company, or to independent third parties. Each share grants an entitlement to one vote. All resolutions adopted by the General Meeting of Shareholders are passed by an absolute majority of the votes cast, unless the law or the Articles of Association prescribe a larger majority. The shareholders possess the rights conferred by Kendrion's Articles of Association and by law.

Shareholders individually or jointly representing at least one percent of the issued share capital (or individually or jointly representing at least EUR 50 million of the issued share capital) are entitled to submit a request to the Executive Board or Supervisory Board for the inclusion of items on the agenda of the General Meeting of Shareholders. A request of this nature shall be granted provided that weighty interests of the company do not dictate otherwise, and that the request is submitted in writing to the CEO or the Chairman of the Supervisory Board at least sixty days before the date of the General Meeting of Shareholders. Resolutions relating to items placed on the agenda in this manner can be passed by an absolute majority of the votes cast that represents at least one third of the issued share capital. In the event that an absolute majority supports the resolution but this majority does not represent one third of the issued share capital then in a new meeting to be convened the resolution can be passed by an absolute majority of the votes independent of the represented issued share capital (unless the law prescribes a larger majority or a quorum).

Shareholders representing 66% of the total issued share capital attended or were represented at the regular General Meeting of Shareholders held in the year under review on 6 April 2009.

Shareholders representing 41% of the total issued share capital attended or were represented at the Extraordinary General Meeting of Shareholders held on 1 July 2009.

Board

Kendrion is managed by a Board comprised of three members, of whom two are Executive Directors, and is supervised by the Supervisory Board. The Executive Board possesses the powers that the law or the Articles of Association have not assigned to the Supervisory Board or the General Meeting of Shareholders.
The Executive Board has adopted regulations governing the Board's procedures and decision-making. These regulations have been approved by the Supervisory Board. The members of the Executive Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. Each member of the Executive Board can be dismissed by the General Meeting of Shareholders at any time. The General Meeting of Shareholders can pass a resolution for dismissal on the proposal of the Supervisory Board by an absolute majority of the votes cast. The General Meeting of Shareholders can pass a resolution for dismissal other than on the proposal of the Supervisory Board solely by an absolute majority of the votes cast that represents at least one third of the issued share capital.

The Board is supplemented by an Executive Committee, which is not mandated under the Articles of Association, comprised of the Board and the Business Unit Managers. The Executive Committee is a consultative body and the Board always has the deciding vote.

Important resolutions of the Executive Board require the approval of the Supervisory Board. The resolutions governed by this stipulation are specified in Kendrion's Articles of Association.

The Executive Board has the authority, with the approval of the Supervisory Board, to decide to issue shares in the period until 6 October 2010. This authority relates to a maximum of 10% of the issued share capital at the time of issue. On the basis of this authority, the Executive Board decided (with the approval of the Supervisory Board) to increase the issued share capital with 9.99% as from 28 September 2009 to strengthen the company's financial position by raising new capital. This represents the issue of 1,028,750 shares with a nominal value of EUR 2.00 per share, as a result of which a total of 11,316,374 shares had been issued on 31 December 2009.
In addition, the Executive Board has the authority to arrange for the company to acquire shares in its capital. This authority relates to a maximum of 10% of the issued share capital, and runs until 6 October 2010. Each year, the Executive Board places a request to be granted the authority for the issue and purchase of shares referred to above on the agenda of the General Meeting of Shareholders.

Supervisory Board

The Supervisory Board's duty is to supervise the management of the Executive Board and the general developments within the concern and its affiliated companies, and to advise the Executive Board. Meetings of the Supervisory Board are usually attended by the Board.

In 2009, the number of Supervisory Board members increased from three to four. The members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board has adopted regulations and a profile of the Supervisory Board.

The Supervisory Board elects a Chairman from amongst its members. 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.
Each member of the Supervisory Board can be dismissed by the General Meeting of Shareholders at any time in a resolution passed by an absolute majority of the votes cast. Resolutions for dismissal not on the proposal of the Supervisory Board are passed solely by an absolute majority of the votes cast that represents at least one third of the issued share capital.

An Extraordinary Meeting of Shareholders held on 1 July 2009 appointed Dr H.J. Kayser as the fourth Member of the Supervisory Board. The profile of the Supervisory Board was amended in 2009 in view of the changed company profile, the appointment of a fourth member of the Supervisory Board and the diversity provisions of the amended Corporate Governance Code.

The Supervisory Board decided to establish two committees, namely an Audit Committee and a Remuneration Committee. The committees will be responsible for making the preparations for the decision-making by the Supervisory Board. Their roles and responsibilities are in accordance with the relevant provisions of the Netherlands Corporate Governance Code. The regulations for both committees have been adopted by the Supervisory Board. The regulations have been published on Kendrion's website.

Code of Conduct and the Whistleblower's Charter

The Code of Conduct and the Whistleblower's Charter are available for inspection on the website.
The Whistleblower's Charter offers the Kendrion employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their legal position. Kendrion plans to introduce an amended Code of Conduct in the first half of 2010. The Whistleblower's Charter will also be reviewed in 2010.

Corporate governance structure in light of the Netherlands Corporate Governance Code

The provisions of the Corporate Governance Code 2003 are applicable to Kendrion. Kendrion has applied virtually all the principles and best practice provisions – to the extent that they are applicable – that are laid down in this Code. The Corporate Governance Code was amended on 10 December 2008 and came into force on 1 January 2009. The Corporate Governance Code can be found at www.commissiecorporategovenance.nl. Kendrion endorses the general objectives of and background to the amendments. Kendrion already complied with most of the amended or supplementary provisions of the Corporate Governance Code as per 1 January 2009.

A number of elements of the company structure and internal business processes have been adjusted in accordance with the amended or new provisions of the Corporate Governance Code. These relate, in particular, to the following:

Corporate Social Responsibility (II.1 and III.1 of the Corporate Governance Code): The principles of relevance to the company receive even more attention from the Board and the Supervisory Board. Attention is devoted to the environment, waste, energy, safety and working conditions in both the internal organisation and business processes and the development of products. Kendrion has, for example, joined the UN Global Compact (see further on page 21).

Diversity (III.3 of the Corporate Governance Code): The diversity objectives for the Supervisory Board in terms of age, gender and experience have been laid down in the profile and regulations of the Supervisory Board.

The company reserves, however, the right, both now and in the future, not to apply the occasional best practice provision, whereby the company shall always comply with the principle formulated in the Corporate Governance Code that the company shall explain why it has not applied the best practice provision in question.
For example, the company will not be able to breach existing agreements at will. It should be noted that the Corporate Governance Code also states that agreements of this nature should be respected. The provisions of the Corporate Governance Code that have not been applied are listed below.

II.1.1 *A Management Board member is appointed for a maximum period of four years.* This provision is not in line with the contractual situation of the current CEO. Kendrion respects this contractual situation.

II.2. *Remuneration of the Executive Board.* Kendrion has applied or will apply virtually all best practice provisions. The precise criteria for the variable remuneration are not disclosed, since the company is of the opinion that the disclosure of the (relevant) performance criteria is undesirable from the perspective of the competitive and market positioning of the company. In addition, the publication of the performance criteria is at variance with the management of external expectations, such with the knowledge that there is a simultaneous internal need for incentives for the members of the Executive Board in the form of challenging targets.

II.2.8 *The maximum remuneration in the event of dismissal is one year's salary.* This provision is not in line with the contractual situation of the current CEO (currently over two years based on the years of service). Kendrion respects this contractual situation.

III.5.11 *The Remuneration Committee may not be chaired by the Chairman of the Supervisory Board or by a Supervisory Board member who is a member of the management board of another listed company.* Kendrion has not applied this best practice provision in view of the limited size of the Supervisory Board; the Chairman of the Supervisory Board is also the Chairman of the Remuneration Committee.

IV.3.1 *All investor relations meetings shall be announced in advance, and provisions shall be made for all shareholders to follow these meetings in real time.* Kendrion announces all press conferences and analyst meetings in advance. Kendrion is of the opinion that webcasting these meetings is not necessary. Unannounced meetings with individual analysts are also held. No price-sensitive information is disclosed during these meetings.

Agreements in the meaning of Article 1.j. of the Decree of 5 April 2006 for the implementation of Article 10 of the EU Takeover Directive (change of control)

Kendrion has a credit facility at its disposal which has been concluded with a Dutch consortium of banks. An explanation of this facility is enclosed on page 75 of the financial statements. The credit facility incorporates what is referred to as a 'change of control' provision. Once a party acquires more than half the company's issued share capital or voting rights then the company is governed by a repayment commitment. As a rule the company does not conclude new agreements: these are concluded by the operating companies. Agreements concluded, for example, with leasing companies can also incorporate change of control provisions.

Kendrion Tri-Tech LLC, Mishawaka (IMS and IDS)
Kendrion Tri-Tech is a manufacturer of custom electromagnetic coils, solenoids, solenoid valves and actuators. Kendrion Tri-Tech also manufactures a line of electric buzzers adopted from Trinetics OEM Division. The products are completely custom-designed with collaboration between the staff engineers and the customers. Kendrion Tri-Tech does not merely supply products to the customers – but also support the development and implementation of the products within the customers' systems.

LINNIG Corporation, Atlanta (CVS)
LINNIG Corporation was founded in 1984. At the Atlanta location components and full aggregates of the Linnig product range are produced.

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Remuneration policy

General

Kendrion's current remuneration policy was discussed by and adopted at the General Meeting of Shareholders in 2008 and 2009. The remuneration report, which is published on the company's website, explains the policy for the remuneration of the Executive Board and the Supervisory Board. The remuneration report also provides information about the remuneration that was actually paid. Information about the remuneration received by the individual members of the Executive Board and the Supervisory Board is also enclosed in the financial statements (page 99 and 100). The Remuneration Committee has prepared the proposal for the remuneration policy from 2010 that has since been adopted by the full Supervisory Board.

The policy for the remuneration of the members of the Executive Board is based on the allocation of remuneration of an amount and structure such that qualified and expert executives can be recruited. The policy is also challenging to such an extent that it motivates the members of the Executive Board and, when they exhibit an appropriate performance, ensures they can be retained in the longer term. The composition of the remuneration package promotes the achievement of Kendrion's short and long-term objectives. Pursuant to the amended Code, the Supervisory Board possesses discretionary powers for the downward or upward adjustment of the total remuneration should the variable remuneration system result in unreasonable and inequitable remuneration. In addition, when so requested by the Supervisory Board, the variable component of the remuneration adopted in the past two years must be repaid in part or in full should it transpire that this was unjustifiably awarded on the basis of incorrect financial information. The Supervisory Board periodically tests the package to verify that it is in line with the company's objectives and the market on the basis of information supplied by external experts.

The current remuneration policy provides for a fixed component and a variable component, as well as a pension scheme and a number of fringe benefits.

Fixed remuneration

The fixed remuneration is in line with the policy explained above. Although indexation is part of the remuneration policy, the fixed component of the remuneration was not adjusted in the year under review. In addition, the members of the Board voluntarily waived 10% of their fixed remuneration.

Variable remuneration

The variable remuneration is intended to promote the Executive Board members' attention to the growth of the company and the value of the share. The variable remuneration is appropriate in relation to the fixed remuneration. The Supervisory Board determines the variable remuneration for the individual members of the Executive Board on the basis of their performance and results as compared to the agreed performance criteria.

Information about the allocation of shares on the basis of the variable remuneration packages prevailing through 2008 is enclosed in the financial statements (page 99).

Variable remuneration 2009

In view of the economic conditions it has been decided, with the approval of the General Meeting of Shareholders held in 2009, to relinquish a short-term bonus in cash for 2009. The bonus for 2009 shall be solely in the form of shares. Consequently, the Executive Board shall be awarded an amount in shares. More information is enclosed on page 91 of the financial statements. With an at-target performance this amount in shares would be equal to 40% of the gross fixed salary of the CEO and 35% of the gross fixed salary of the CFO, with a maximum of 50% of the gross annual salary. The shares shall need to be held for a minimum of five years, unless the officer's contract of employment is terminated earlier.
The performance is assessed on the basis of the realisation of shareholder value (the movement in Kendrion's Total Shareholders Return compared to the AScX) as well as on the basis of the Executive Board's performance during the 2009 financial year. The shares shall be allocated immediately after the General Meeting of Shareholders to be held in April 2010.

Proposal for variable remuneration from 2010

It is proposed that a variable bonus for the Executive Board members shall be awarded in 2010 and the following years that promotes the achievement of Kendrion's short and long-term objectives. The annual variable remuneration for an at-target performance will amount to 40% of the gross fixed remuneration of the CEO and 35% of the gross fixed remuneration of the CFO, with a maximum of 50% of the fixed remuneration. 70% of the bonus will be comprised of financial performance criteria (net profit, ROI, free cash flow and relative Total Shareholders Return (the movement in Kendrion's TSR compared to the AScX) and 30% will be comprised of individual (non-financial) performance criteria.

One third of the amount to be determined by the Supervisory Board shall be paid in cash. Two thirds of the bonus shall be comprised of a conditional award of shares (the vesting scheme). The award of the shares becomes unconditional after three years (including the relevant year in which the performance is assessed) if the CEO and CFO are still in office and the Supervisory Board is of the opinion that there are no exceptional circumstances that would render the unconditional award unreasonable.
The award of the shares is definitively withdrawn in the event that the relevant member of the Board leaves Kendrion as a 'bad leaver' during the three-year vesting period. The Supervisory Board possesses discretionary powers to refrain from the full issue of the shares in the event that the relevant member of the Board leaves the company as a 'good leaver' in the vesting period (for example, on retirement or in the event of an occupational disability) when the full issue of the shares would be unreasonable under the circumstances.

Once the award of the shares has become unconditional after the expiry of the vesting period they must be retained for a minimum of two years (the holding period) unless the relevant member of the Board terminates his/her term of office or the term of office is terminated during this period.

The aforementioned financial and individual performance criteria are determined for each full year prior to the beginning of the relevant financial year. The precise criteria are not disclosed, since the company is of the opinion that the disclosure of the (relevant) performance criteria is undesirable from the perspective of the competitive and market positioning of the company.
In addition, the publication of the performance criteria is at variance with the management of external expectations, such with the knowledge that there is a simultaneous internal need for incentives for the members of the Executive Board in the form of challenging targets.

Although this is an annual scheme it nevertheless possesses the long-term nature required by the Corporate Governance Code by virtue of the inclusion of the vesting and holding regulations.

The Supervisory Board has drawn up the scenario analyses prescribed by the Corporate Governance Code.

Kendrion has drawn up this proposed scheme with the intention of introducing a simple and transparent remuneration package. This is also one of the objectives of the amended Corporate Governance Code.

Pensions

Pursuant to the policy, the company bears the cost of the pension contributions of the members of the Executive Board to a maximum of 20% of the pension base.
The pensionable age is 65. No schemes have been agreed for the (voluntary) early retirement of the members of the Executive Board.

Sundry

The company does not grant loans, advances or guarantees to the members of the Executive Board.
No exceptional remuneration was paid to the members or former members of the Executive Board in the year under review.

Remuneration of the Supervisory Board

The remuneration received by the members of the Supervisory Board is comprised of a fixed remuneration that is independent of the results, whereby a distinction is made between the remuneration received by the Chairman and the other members of the Supervisory Board. Pursuant to this distinction the remuneration received by the Chairman is about one third higher than the remuneration received by the other members.
The remuneration received by the members of the Supervisory Board was set by the General Meeting of Shareholders in 2005, and has not been adjusted after this date. However, the Extraordinary General Meeting of Shareholders held on 1 July 2009 did adopt extra remuneration for membership of the Audit Committee and Remuneration Committee that were instituted on that same date. The members of the Supervisory Board have voluntarily waived 10% of their fixed remuneration for 2009.

Severance pay

The contract of employment with the current CEO grants the officer entitlement to severance pay equal to the compensation for involuntary dismissal in the event that the contract of employment is terminated after a change of control. The provision in the current CFO’s contract of employment entitles the officer to severance pay comprised of one year’s salary following a change of control.

Report of the Board
Outlook for the future

2009 was a difficult year due to the global recession. Although some signs of a recovery were discernable during the second half of 2009 – and it would appear that the bottom of the economic trough has been reached – at the beginning of 2010 there is still a great deal of uncertainty in many countries about the continuation of the economic recovery and the extent of any improvement in their economies. The period for which reliable forecasts can be issued has become much shorter. This is also applicable to Kendrion.

However, the measures Kendrion has implemented have enabled the company to come out of the crisis in a stronger position. Moreover, Kendrion's strong financial and competitive position provides a sound basis for future developments.

After the difficult year of 2009 Kendrion expects that the company will be able to return to growth in 2010. Part of this growth will be due to the improvement in the economy, both in Europe and – in particular – China and the USA. However, the majority of the growth will be due to the projects acquired in the past and initiated in 2009. These projects have been acquired by virtually all of Kendrion's business units, but in particular by the Passenger Car Systems business unit (including the common rail diesel engine projects). For this reason Kendrion expects that it shall achieve its target of at least 10% organic growth per annum in 2010.

Current information indicates that investments in 2010 will remain below the level of depreciation due to the lower level of investments in particular by Passenger Car Systems.

Kendrion continues to endeavour to strengthen its existing market positions by means of acquisitions, whereby the emphasis will be placed on the most important home market, Germany. In addition, the company will also devote a great deal of attention to the enhancement of the operations in the USA and China. Kendrion also expects to begin greenfield operations in India in 2010.

In view of the current uncertainty about the speed of the economic recovery in the company's most important home countries it is impossible to provide a reasonable forecast for the development of Kendrion's result in 2010.

Zeist, 24 February 2010

The Executive Board
P. Veenema
E. Ris

Financial statements
Contents

Consolidated statement of financial position as at 31 December

Note	EUR million	2009	2008
	Assets		
1	Property, plant and equipment	45.3	46.7
2	Intangible assets	41.4	43.3
3	Other investments, including derivatives	0.6	1.3
4	Deferred tax assets	13.3	15.2
	Total non-current assets	100.6	106.5
5	Inventories	22.4	30.3
	Current tax assets	0.3	0.7
6	Trade and other receivables	24.8	24.1
7	Cash and cash equivalents	4.7	3.7
29	Assets classified as held for sale	–	115.2
	Total current assets	52.2	174.0
	Total assets	152.8	280.5
	Equity and liabilities		
8, 9	**Equity**		
	Share capital	22.6	20.6
	Share premium	68.4	71.3
	Reserves	1.0	(11.4)
	Retained earnings	3.9	12.8
	Total equity attributable to equity holders of the Company	95.9	93.3
	Minority interest	0.2	0.2
	Total equity	96.1	93.5
	Liabilities		
10	Loans and borrowings	13.6	20.8
11	Employee benefits	6.5	6.6
12	Provisions	2.6	2.6
4	Deferred tax liabilities	3.2	3.7
	Total non-current liabilities	25.9	33.7
7	Bank overdraft	3.7	13.3
10	Loans and borrowings	1.3	51.7
	Current tax liabilities	0.3	1.5
13	Trade and other payables, including derivatives	25.5	31.2
30	Liabilities classified as held for sale	–	55.6
	Total current liabilities	30.8	153.3
	Total liabilities	56.7	187.0
	Total equity and liabilities	152.8	280.5

Consolidated statement of comprehensive income

Note	EUR million	2009	2008
	Revenue	149.2	207.4
21	Other operating income	1.0	0.9
		150.2	208.3
	Changes in inventories of finished goods and work in progress	4.4	(1.5)
	Raw materials and subcontracted work	69.2	103.9
22	Staff costs	53.5	61.0
	Depreciation and amortisation	8.8	8.3
	Impairment of other investments	0.9	–
15, 23	Other operating expenses	18.4	25.6
	Results before net finance costs	**(5.0)**	**11.0**
	Finance income	0.2	0.2
	Finance expense	(3.6)	(4.3)
24	**Net finance costs**	**(3.4)**	**(4.1)**
	Profit before income tax	**(8.4)**	**6.9**
25, 26	Income tax expense	(1.5)	(1.8)
	Profit from continuing operations	**(9.9)**	**5.1**
19	Result on sale of discontinued operations (net of income tax)	13.9	7.8
	Profit for the period	**4.0**	**12.9**
	Attributable to:		
	Equity holders of the Company	3.9	12.8
	Minority interest	0.1	0.1
	Profit for the period	**4.0**	**12.9**
	Other comprehensive income		
	Foreign currency translation differences for foreign operations	(0.5)	(1.5)
	Net change in fair value of cash flow hedges, net of tax	0.2	(1.9)
	Other	–	(0.2)
	Other comprehensive income for the period, net of income tax	**(0.3)**	**(3.6)**
	Total comprehensive income for the period	**3.7**	**9.3**
	Total comprehensive income attributable to:		
	Equity holders of the Company	3.6	9.2
	Minority interest	0.1	0.1
	Total comprehensive income for the period	**3.7**	**9.3**
9	Basic earnings per share (EUR)	0.37	1.25
9	Diluted earnings per share (EUR)	0.37	1.25

Consolidated statement of changes in equity

EUR million	Share capital	Share premium	Translation reserve	Hedging reserve	Reserve for own shares	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance as at 1 January 2008	20.6	75.2	2.5	0.8	(0.1)	(14.4)	3.6	88.2	0.6	88.8
Total comprehensive income for the period										
Profit or loss							12.8	12.8	0.1	12.9
Other comprehensive income										
Foreign currency translation differences for foreign operations			(1.5)					(1.5)		(1.5)
Net change in fair value of cash flow hedges, net of tax				(1.9)				(1.9)		(1.9)
Other						(0.2)		(0.2)		(0.2)
Total other comprehensive income	–	–	(1.5)	(1.9)	–	(0.2)	–	(3.6)	–	(3.6)
Total comprehensive income for the period	–	–	(1.5)	(1.9)	–	(0.2)	12.8	9.2	0.1	9.3
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Own shares acquired					(0.2)			(0.2)		(0.2)
Dividends to equity holders		(3.9)						(3.9)		(3.9)
Total contributions by and distributions to owners						3.6	(3.6)	–		–
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Divestment of minority interest									(0.5)	(0.5)
Balance at 31 December 2008	20.6	71.3	1.0	(1.1)	(0.3)	(11.0)	12.8	93.3	0.2	93.5

EUR million	Share capital	Share premium	Translation reserve	Hedging reserve	Reserve for own shares	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 Januari 2009	20.6	71.3	1.0	(1.1)	(0.3)	(11.0)	12.8	93.3	0.2	93.5
Total comprehensive income for the period										
Profit or loss							3.9	3.9	0.1	4.0
Other comprehensive income										
Foreign currency translation differences for foreign operations			(0.5)					(0.5)		(0.5)
Net change in fair value of cash flow hedges, net of tax				0.2				0.2		0.2
Total other comprehensive income	–	–	(0.5)	0.2	–	–	–	(0.3)	–	(0.3)
Total comprehensive income for the period	–	–	(0.5)	0.2	–	–	3.9	3.6	0.1	3.7
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares	2.0	7.1						9.1		9.1
Own shares acquired					(0.1)			(0.1)		(0.1)
Dividends to equity holders		(10.0)						(10.0)		(10.0)
Total contributions by and distributions to owners						12.8	(12.8)	–	(0.1)	(0.1)
Changes in ownership interests in subsidiaries that do not result in a loss of control										
Balance at 31 December 2009	22.6	68.4	0.5	(0.9)	(0.4)	1.8	3.9	95.9	0.2	96.1

Consolidated statement of cash flows

Note	EUR million	2009	2008
	Cash flows from operating activities		
	Profit for the period	4.0	12.9
	Adjustments for:		
	Net finance costs	3.4	4.1
	Income tax expense	1.5	1.8
	Result on discontinued operations	(13.9)	(7.8)
	Depreciation of property, plant and equipment	7.3	7.0
	Amortisation of intangible assets	1.5	1.3
	Impairment of other investments	0.9	–
		4.7	19.3
	Change in trade and other receivables	(0.8)	9.8
	Change in inventories	7.8	(0.2)
	Change in trade and other payables	(3.5)	(6.9)
	Change in provisions	(0.2)	0.1
		8.0	22.1
	Interest paid	(3.2)	(3.1)
	Tax paid	(0.9)	(1.9)
	Net cash from operating activities	**3.9**	**17.1**
	Cash flows from investing activities		
19	Disposal of subsidiary, net of cash disposed of	77.1	12.9
20	Acquisition of subsidiary, net of cash received (including earn-out payments)	(1.7)	(11.9)
	Investments in property, plant and equipment	(13.9)	(18.0)
	Disinvestments of property, plant and equipment	8.0	4.8
	Investments in intangible fixed assets	(0.1)	(0.3)
	Disinvestments of intangible fixed assets	0.1	–
	(Dis)investments of other investments	0.1	0.1
	Net cash from investing activities	**69.6**	**(12.4)**
	Free cash flow	**73.5**	**4.7**

Note	EUR million	2009	2008
	Cash flows from financing activities		
	Income borrowings (non current)		
	Repayment of borrowings (non current)	(7.0)	(44.2)
	Income borrowings (current)	–	51.7
	Repayment of borrowings (current)	(50.5)	–
	Dividends paid	(10.0)	(3.9)
	Change in shares held in own Company	(0.1)	–
	Proceeds from issue of share capital	9.1	–
	Net cash from financing activities	**(58.5)**	**3.6**
	Cash flow of discontinued operations		
	Net cash from operating activities of discontinued operations	(6.6)	12.0
	Net cash from investing activities of discontinued operations	(1.1)	(2.6)
	Net cash from financing activities of discontinued operations	3.4	(29.4)
	Total cash flow of discontinued operations	**(4.3)**	**(20.0)**
	Change in cash and cash equivalents	10.7	(11.7)
	Effect of exchange rate fluctuations on cash held	(0.1)	(0.0)
		10.6	(11.7)
	Cash and cash equivalents as at 1 January	(9.6)	2.1
7	Cash and cash equivalents as at 31 December	1.0	(9.6)
		10.6	(11.7)

Notes to the consolidated financial statements

Significant accounting policies

Kendrion N.V. is domiciled in the Netherlands. The Company's registered office is Utrechtseweg 33, 3704 HA Zeist. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is involved in the design, manufacturing and sale of high-quality electromagnetic systems and components.

The consolidated financial statements were authorised for issue by the Executive Board on 24 February 2010.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards adopted by the International Accounting Standards Board (IASB) and endorsed by the EU (hereinafter referred to as EU-IFRS) as per 31 December 2009.

The company financial statements are part of the 2009 financial statements of Kendrion N.V. With regard to the company income statement of Kendrion N.V., the Company has made use of the option provided by Section 402 of Book 2 of the Netherlands Civil Code.

(b) Basis of measurement

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

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

- derivative financial instruments are stated at fair value;
- liabilities arising from cash-settled share-based payments arrangements are stated at fair value.

The methods used to measure the fair values are discussed further in Note 14.

The preparation of the financial statements in conformity with EU-IFRS requires the Executive Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered reasonable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Changes in estimation methods and the impact thereof are outlined in the notes to the relevant item.

Judgements made by the Executive Board in the application of EU-IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are included in the following notes:

- Note 20 – business combinations
- Note 2 – measurement of the recoverable amount of cash-generating units containing goodwill
- Note 4 – utilisation of deferred tax assets
- Note 11 – measurement of defined benefit obligations
- Note 12 – provisions

- Note 17 – contingent liabilities
- Note 14 – valuation of financial instruments

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by the Group entities. Certain comparative amounts have been reclassified to match the presentation in the current financial year. The statement of comprehensive income has been revised in 2008 such that the operation classified as held for sale during the course of that accounting period has also been presented as though it had been treated as such from the beginning of the comparative period (as stated in Note 19).

(c) Changes in accounting policies

Overview

As of 1 January 2009, the Group has changed its accounting policies in respect of:

- determination and presentation of operating segments;
- presentation of financial statements.

Determination and presentation of operating segments

The Group continues to determine and present operating segments based on the information that is provided internally to the Board, the Group's chief operating decision-maker. This is in conformity with IFRS 8 – *Operating Segments*. Previously, operating segments were determined and presented in accordance with IAS 14 – *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented in Note 18. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Presentation of financial statements

The Group applies the revised IAS 1 – *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents all owner changes in equity in the consolidated statement of changes in equity, while all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been restated to conform to the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(d) Basis of consolidation

(i) **Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The shares of third parties in shareholders' equity and results are stated separately. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

(ii) **Composition of the Group**

2009

On 5 February 2009 the European Competition Authority's gave approval for the sale of the Vink Group to Edmundson Distribution Limited. The sale was completed on 12 February 2009.

2008

In 2008 the 51% participating interest in Linnig de México S.A. de C.V. was expanded from 51% to 100%.
On 25 August 2008 Kendrion reached agreement with the owners of Tri-Tech LLC for the acquisition of all shares in this company.
On 22 December 2008 Kendrion sold all shares in Servico NV to Robert Bosch GmbH.

(iii) **Transactions eliminated on consolidation**

Intragroup balances and transactions, as well as any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted entities are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

(i) Foreign currency transactions

Transactions expressed in non-euro zone currencies are translated into euros at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in non-euro zone currencies at the reporting date are translated into euros at the exchange rate at that date. Non-monetary assets and liabilities denominated in currencies that are measured at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in the non-euro zone currencies that are measured at fair value and are translated in euros against the exchange rates which were valid at the dates that the fair values were set. Currency differences arising on translation are recognised in the statement of comprehensive income, except loans considered to be part of the net investment, or qualifying cash flow hedges which are recognised directly in the translation reserve.

(ii) Non-euro zone operations

The assets and liabilities of non-euro zone operations, including goodwill and fair value adjustments arising on the moment of acquisition, are translated into euros at exchange rates at the reporting date. The income and expenses of non-euro zone operations are translated into euros at rates approximating the exchange rates at the date of the transaction. Foreign currency differences are recognised directly in the translation reserve.

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

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

(iii) Net investment in non-euro zone operations

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a non-eurozone operation are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in the profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to the profit or loss.

(f) Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy j).

(iii) Subsequent costs

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

(iv) **Depreciation**

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

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

(v) **Recognition of transaction results**

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

(g) Intangible assets

(i) **Goodwill**

All business combinations are accounted for by the purchase method. Goodwill represents amounts arising on the acquisition of investments in subsidiaries, equity-accounted investments and joint ventures. In respect of business combinations that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

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

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

(ii) **Research and development**

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

(iii) **Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and accumulated impairment losses (see accounting policy j). Based on the purchase price allocation of acquisitions intangible assets are recognised which are part of the other intangible assets and relate to a.o. valued customer relations, trade names and technologies.

(iv) **Subsequent expenditure**

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

(v) **Amortisation**

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

(h) Financial instruments and other investments

(i) **Financial instruments**

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, recognised interest bearing loans and borrowings, trade and other payables, cash and cash equivalents, and other non-derivative financial instruments.

Non-derivative financial instruments are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Trade and other receivables

Trade and other receivables are carried at amortised cost less impairment losses (see accounting policy j).

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

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

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

Other non-derivative financial instruments
This concerns subordinated a loan granted to third parties. Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments
The Group holds derivative financial instruments to hedge its foreign currency and interest-rate risk exposures. Derivatives are initially measured at fair value, with attributable transaction costs recognised in the statement of comprehensive income when incurred. Subsequent to initial recognition, derivatives are carried at fair value. Any changes are taken to the profit or loss, unless the instruments are designated as cash flow hedges.

One embedded derivative was identified and separated from the host contract and accounted for separately as a currency forward contract.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes are recognised in the profit or loss.

If the hedging instrument no longer meets the criteria for a cash flow hedge, expires or is sold, then hedge accounting is discontinued prospectively. The cumulative result previously included in equity is recognised in the profit or loss unless it is expected that the original hedged transaction will still take place. When the hedged position is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the profit or loss in the same period that the hedged position or transaction is recognised.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to sell.

The cost of inventories of the Group is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their current location and condition. The cost of inventories includes an appropriate share of overheads based on normal operating capacity.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised as a charge in the profit or loss.

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

(ii) **Non-financial assets**

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

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

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

(iii) **Reversal of impairment losses**

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

(iv) **Calculation of recoverable amount**

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed on initial recognition of these financial assets). Receivables with a short remaining term are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(k) Share capital

(i) **Ordinary shares**

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

(ii) **Repurchase of own shares (treasury shares)**

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

(iii) **Dividends**

The holders of ordinary shares are entitled to receive dividends as determined from time to time by the General Meeting of Shareholders. The Executive Board has the authority to decide, with the approval of the Supervisory Board, what portion of the profit will be allocated for dividend distribution. If applicable the declared but not yet paid dividends are recognised as a liability.

(l) Employee benefits

(i) **Defined contribution plans**

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

(ii) **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

(iii) **Long-term service benefits**

The Group's net obligation in respect of long-term service benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and net of the fair value of any related assets. The discount rate is the yield as at the financial position date on AA-credit rated bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognised in the profit or loss in the period in which they arise. Actuarial results in excess of the so called 'corridor' (10% of the higher of the pension liabilities or the fair value of the pension fund assets) are amortised over the remaining average term of service.

(iv) **Share option scheme and Long-Term Incentive programme (LTI)**

The Company has a Long-Term Incentive programme for the Board that enables them to acquire rights to shares (right to acquire shares discontinued effective 2010). The scheme offers the possibility for the members, for the first time after 2007, to qualify for a given number of shares annually provided certain individually formulated targets, which are partly qualitative and partly quantitative, are met. The number of shares will depend on the extent to which the targets have been achieved after three years and the extent to which the member has invested past bonuses in the Company.
The Company's obligation will be calculated with reference to:

- the number of shares purchased with bonuses;
- the fair value of the amount payable to the employee three years' after the date of purchase of shares with bonuses;
- the fair value as at the allocation date and spread over the period until the member is unconditionally entitled to payment.

The value of the obligation is determined on each financial position date and on the settlement date.

(m) ## Provisions

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

(n) ## Revenue

(i) **Goods sold and services rendered**

Revenue from the sale of goods is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenues are recognised if there are significant uncertainties about the collectability of the consideration due, the associated costs on the possible return of goods and also when there is no continuing management involvement with the goods, and the amount of revenue cannot be measured reliably. The transfer of risks and rewards varies depending on the terms of the individual sales contract.

(ii) **Government grants**

Unconditional government grants are recognised in the profit or loss as operating income when they become receivable. Other government grants are recognised in the financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the profit or loss in the same periods in which the expenses are incurred. Grants for the cost of an asset that compensate the Group are recognised in the profit or loss as other operating income over the useful life of the asset.

(o) ## Expenses

(i) **Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

(ii) **Finance lease payments**

Minimum lease payments are apportioned between the finance expense and the reduction in the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) **Net finance costs**

Finance income comprises interest income on funds invested, financial assets held to maturity and gains on hedging instruments that are recognised in other comprehensive income. Interest income is recognised as it accrues in the profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, commitment fees, accrued interest on provisions, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the profit or loss. All borrowing costs are recognised in the profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) ## Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the profit or loss unless it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year, using applicable tax rates enacted or substantially enacted as at the financial position date, and any adjustment to tax calculated in respect of previous years.
Deferred tax assets and liabilities are recognised using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to

the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be applied. Deferred tax assets are reduced where it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(q) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

(r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilative potential ordinary shares.

(s) Segment reporting

Tthe Group continues to determine and present operating segments based on the information that is provided internally to the Board, the Group's chief operating decision-maker. This is in conformity with IFRS 8 – *Operating Segments*. Previously, operating segments were determined and presented in accordance with IAS 14 – *Segment Reporting*.
Based on the criteria of IFRS 8, in essence the individual operating companies of Kendrion are the operating segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating segment's operating results are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which separate financial information is available.
Based on the aggregation criteria of IFRS 8, however, these operating segments have been aggregated into one single reportable operating segment on the consolidated level of Kendrion as a Group. In accordance with IFRS 8 the Company discloses general and entity-wide disclosures, including information about geographical areas and major customers of Kendrion as a whole.

(t) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for the year ended 31 December 2009. Where relevant to Kendrion, these have been applied during the preparation of these consolidated financial statements:

- The main change in the revised **IAS 1**, 'Presentation of Financial Statements', is the introduction of a statement of comprehensive income. Kendrion adopted this standard in 2009 and has changed the presentation of the financial statements accordingly.

- An amendment to **IAS 23**, 'Borrowing Costs', removes the option of the immediate expensing of borrowing costs relating to assets that take a substantial period of time to prepare for use or sale. This amendment became effective in 2009 and has had a limited impact on the financial statements.

- Amendments to **IFRS 1** and **IAS 27**, 'Determining the cost of an investment in the separate financial statements', became effective in 2009. The amendments have had no impact on the financial statements.

- An amendment to **IAS 32**, 'Financial Instruments: Presentation', changes the classification of some puttable financial instruments that meet the definition of a financial liability into equity because they represent a residual interest in the net assets. A second amendment was issued which addresses the accounting for rights issues such as options and warrants, denominated in a currency other than the issuer's functional currency. Kendrion's financial statements are not affected by either amendment.

- An amendment to **IFRIC 9** and **IAS 39**, 'Embedded Derivatives', clarifies the accounting treatment of embedded derivatives for entities that use the reclassification amendment to IAS 39. The financial statements were not impacted by this amendment.

- An amendment to **IFRS 2**, 'Share-based Payment', clarifies the definitions of vesting conditions and cancellations and became effective in 2009. The amendment has not affected the accounting for the LTI. A second amendment issued in June 2009 clarified how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements. These amendments are not applicable to the Group's consolidated financial statements.

- An amendment to **IFRS 7**, 'Financial Instrument: Disclosures', introduces a fair value hierarchy and additional disclosures for measurement of financial instruments. The amendment became effective in 2009 and resulted in limited additional disclosures in the financial statements.

- **IFRS 8**, 'Operating Segments', requires an entity to adopt the 'management approach' for reporting on the financial performance of its operating segments. The information to be reported is generally the information the management uses internally for the evaluation of segment performance and decisions on the allocation of resources to operating segments. The standard only impacts the presentation (see note 18).
  Reference is made to note (c) and (s) of the notes to the consolidated financial statements.

- **IFRIC 13,** 'Customer Loyalty Programmes', addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy goods or services. The interpretation has not affected the consolidated financial statements since Kendrion has no Customer Loyalty Programmes.

- **IFRIC 15**, 'Agreements for the Construction of Real Estate', applies to companies that develop real estate and became effective in 2009. Kendrion has no activities in this area and the financial statements were consequently not affected by this interpretation.

- **IFRIC 16**, 'Hedges of a Net Investment in a Foreign Operation', clarifies hedge accounting for an entity which hedges the investment in its subsidiaries. Kendrion adopted this interpretation in 2009. The financial statements were not affected by this interpretation.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in the preparation of these consolidated financial statements:

- An amendment to **IAS 24**, 'Related Party Disclosures', clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The revised standard also clarifies that disclosure is required of any commitments of a related party to do something if a particular event occurs or does not occur in the future. The revised standard is effective as from 2011, with earlier application permitted. The amendment is not expected to have influence on Kendrion's financial statements. This standard has not yet been EU-endorsed.

- An amendment to **IAS 39**, 'Financial Instruments: Recognition and Measurement', addresses two separate hedge accounting issues. It clarifies the requirements when options are used for hedging and it regulates inflation-linked hedge relationships. The amendment to IAS 39 will be effective as from 2010. No impact from adopting this amendment is to be expected.

- **IFRS 3**, 'Business Combinations', and **IAS 27**, 'Consolidated and Separate Financial Statements', were revised and will be effective as from 2010. These standards will bring significant changes to the accounting policies related to business combinations and changed ownership interests. Kendrion does not expect a material impact on the presented figures, as the carrying amounts of any assets and liabilities that arose under business combinations prior to the application of the revised standard are not adjusted.

- **IFRS 9**, 'Financial Instruments' (replacement of IAS 39), will become effective as from 2013, with earlier adoption permitted, including for 2009. IFRS 9 introduced new requirements for classifying and measuring financial assets. This standard encompasses an overall change of accounting principles in that standard and will eventually replace IAS 39, the current standard on financial instruments. Since its scope will be expanded during 2010, Kendrion will review the effects after this expansion. This standard has not yet been EU-endorsed.

- An amendment to **IFRIC 14** on minimum funding requirements corrects an unintended consequence of the originally issued interpretation. The amendment is effective as from 2011, with earlier application permitted. As Kendrion does not currently have a pension asset on the balance sheet the financial statements are not expected to be materially affected.

- **IFRIC 17,** 'Distribution of Non-cash Assets to Owners', will apply prospectively as from 2010. No impact is expected as Kendrion has been paying out dividends in cash.

- **IFRIC 18**, 'Transfers of Assets from Customers', clarifies the accounting for agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must then use either to connect the customer to a network or to provide the customer ongoing access to a supply of goods or services. The interpretation must be applied prospectively to transfers of assets from customers received on or after 1 July 2009. Kendrion is currently reviewing whether agreements of this nature exist within its business.

- **IFRIC 19**, 'Extinguishing Financial Liabilities with Equity Instruments', applies when a debtor extinguishes a liability fully or partly by issuing equity instruments to the creditor. The interpretation will be effective as from 2011. Kendrion is currently reviewing whether agreements of this nature exist within its business.

1 ## Property, plant and equipment

EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2008	47.7	60.6	28.0	7.7	144.0
Acquired through business combinations	–	0.1	0.1	–	0.2
Acquired, other	2.4	6.8	3.1	8.9	21.2
Disposals	(1.2)	(2.4)	(1.6)	(4.3)	(9.5)
Classified as assets held for sale	(15.4)	(24.5)	(7.6)	(0.2)	(47.7)
Sale of Group Companies	(2.5)	(1.1)	(0.3)	–	(3.9)
Currency translation differences	(0.2)	0.1	(0.1)	–	(0.2)
Balance as at 31 December 2008	30.8	39.6	21.6	12.1	104.1
Balance as at 1 January 2009	30.8	39.6	21.6	12.1	104.1
Acquired, other	0.5	10.0	2.2	1.2	13.9
Disposals	(0.2)	(0.0)	(0.3)	(7.8)	(8.3)
Currency translation differences	0.0	0.0	0.0	0.0	0.0
Balance as at 31 December 2009	31.1	49.6	23.5	5.5	109.7
Depreciation and impairment losses					
Balance as at 1 January 2008	23.3	42.0	21.2	–	86.5
Depreciation for the year	1.6	5.4	2.6	–	9.6
Disposals	(0.4)	(1.9)	(1.2)	–	(3.5)
Classified as assets held for sale	(9.1)	(17.9)	(6.4)	–	(33.4)
Sale of Group Companies	(0.8)	(0.7)	(0.3)	–	(1.8)
Balance as at 31 December 2008	14.6	26.9	15.9	–	57.4
Balance as at 1 January 2009	14.6	26.9	15.9	–	57.4
Depreciation for the year	1.0	4.3	2.0	–	7.3
Disposals	(0.1)	(0.0)	(0.2)	–	(0.3)
Balance as at 31 December 2009	15.5	31.2	17.7	–	64.4
Carrying amounts					
As at 1 January 2008	24.4	18.6	6.8	7.7	57.5
As at 31 December 2008	16.2	12.7	5.7	12.1	46.7
As at 1 January 2009	16.2	12.7	5.7	12.1	46.7
As at 31 December 2009	15.6	18.4	5.8	5.5	45.3

Translation differences are calculated on the carrying amount and reflected in the related item in the cost.

The estimated useful life is as follows:

Buildings	10 – 30 years
Plant and equipment	5 – 10 years
Other fixed assets	3 – 7 years

2 ## Intangible assets

EUR million	Goodwill	Software	Other	Total
Cost				
Balance as at 1 January 2008	39.8	7.1	7.2	54.1
Acquired through business combinations	6.2	–	2.0	8.2
Acquired, other	–	0.9	0.2	1.1
Currency translation differences	(0.6)	–	–	(0.6)
Classified as assets held for sale	(11.2)	(5.7)	(0.1)	(17.0)
Sale of Group Companies	–	(0.1)	–	(0.1)
Balance as at 31 December 2008	34.2	2.2	9.3	45.7
Balance as at 1 January 2009	34.2	2.2	9.3	45.7
Acquired, other	–	0.1	0.0	0.1
Disposals	–	(0.5)	–	(0.5)
Currency translation differences	(0.2)	0.0	(0.0)	(0.2)
Other	(0.2)	–	–	(0.2)
Balance as at 31 December 2009	33.8	1.8	9.3	44.9
Amortisation and impairment losses				
Balance as at 1 January 2008	–	4.8	0.1	4.9
Amortisation for the year	–	1.3	1.0	2.3
Impairment loss	4.2	–	–	4.2
Disposals	–	–	–	–
Classified as assets held for sale	(4.2)	(4.8)	–	(9.0)
Balance as at 31 December 2008	–	1.3	1.1	2.4
Balance as at 1 January 2009	–	1.3	1.1	2.4
Amortisation for the year	–	0.4	1.1	1.5
Disposals	–	(0.4)	–	(0.4)
Effect of movements in exchange rates	–	0.0	–	0.0
Balance as at 31 December 2009	–	1.3	2.2	3.5
Carrying amounts				
As at 1 January 2008	39.8	2.3	7.1	49.2
As at 31 December 2008	34.2	0.9	8.2	43.3
As at 1 January 2009	34.2	0.9	8.2	43.3
As at 31 December 2009	33.8	0.5	7.1	41.4

Depreciation, amortisation and impairment loss

Depreciation, amortisation and impairment losses are recognised in the following items in the statement of comprehensive income:

EUR million	2009	2008
Depreciation and amortisation of tangible fixed assets and intangible assets	8.8	8.3

The estimated useful life of software is between three and five years. The estimated life of other intangible assets is approximately between eight and ten years. The goodwill has an indefinite estimated useful life.

Impairment testing for cash-generating units containing goodwill

EUR million	2009	2008
Linnig Antriebstechnik Group, including Linnig de México	27.6	27.7
Kendrion Tri-Tech, LLC	6.2	6.5
	33.8	34.2

Main assumptions and method of quantification: Kendrion recognises its intangible assets in accordance with IAS 38 and IFRS 3. In accordance with IAS 36, Kendrion performed an impairment test on the capitalised goodwill in Germany and the USA. The test was based on future cash flows to which the greater part of the goodwill specifically applied. The valuation was based on the discounted cash flow method, assuming an indefinite life. The cash flows for the short term were based on the relevant Mid-term Plans and budgets, which were drawn up locally. After this period, a residual value was calculated on the basis of the results in the last year of relevant forecasts, abstracted from growth. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The discount rate (WACC) was also pre-tax.
In accordance with IAS 36.44, expansion investments were excluded from the calculations. The expected growth in cash flows as a result of these expansion investments was also excluded. A stable situation was assumed for the residual value period, with no further increase in value. The cash flows were discounted at a pre-tax WACC around 14%.

Kendrion has not processed any impairment of goodwill in this accounting period.

3 Other investments, derivatives

Other investments include a subordinated vendor loan of EUR 0.6 million. This loan was granted in the past in connection with the disposal of a company. In 2009 another vendor loan has been impaired (effect EUR 0.9 million negative).

4 Deferred tax assets and liabilities

Kendrion has recognised deferred tax assets for tax loss carry-forwards in a.o. Germany and Austria in the financial position.

Germany

Final assessments have been submitted for the German intermediate holding up to and including 2008, and for the German operating companies up to and including 2008. These years are still open for potential tax audits. At 31 December 2009 the tax loss carry-forwards amounted to about EUR 27 million ('Gewerbesteuer') and EUR 55 million ('Körperschaftsteuer'). These are recognised in full, resulting in deferred tax assets of EUR 11.9 million.

Austria

Final assessments have been submitted up to and including 2005. At 31 December 2009 the tax loss carry-forwards amounted to EUR 3.1 million. These are recognised in full, resulting in deferred tax assets of EUR 0.8 million.

Deferred tax assets and liabilities included in the financial position

The deferred tax assets and liabilities can be specified as follows:

EUR million	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	0.0	0.3	0.7	0.6	(0.7)	(0.3)
Intangible assets	0.0	(0.0)	1.8	1.8	(1.8)	(1.8)
Inventories	(0.0)	(0.1)	0.1	0.1	(0.1)	(0.2)
Employee benefits	0.2	0.1	0.1	0.1	0.1	(0.0)
Provisions	0.3	0.2	(0.1)	0.5	0.4	(0.3)
Other items	0.1	0.0	0.6	0.6	(0.5)	(0.6)
Tax value of recognised loss carry-forwards	12.7	14.7	–	–	12.7	14.7
Deferred tax assets/liabilities	13.3	15.2	3.2	3.7	10.1	11.5

The deferred tax assets relate almost entirely to recognised tax loss carry-forwards.

The deferred tax liabilities relate almost entirely to temporary differences between carrying amount and tax base of property, plant and equipment and intangible assets. These have a relatively long term, at least over five years.

Movements in temporary differences during the financial year

[1] *Effect assets and liabilities classified as held for sale.*

Net, EUR million	2009 As at 1 January	2009 Recognised in income	2009 As at 31 December	2008 As at 1 January	2008 Effect acquisitions	2008 [1]	2008 Recognised in income	2008 As at 31 December
Property, plant and equipment	(0.3)	(0.4)	(0.7)	(1.5)	–	1.4	(0.2)	(0.3)
Intangible assets	(1.8)	(0.0)	(1.8)	(2.5)	(0.9)	0.2	1.4	(1.8)
Inventories	(0.2)	0.1	(0.1)	(0.2)	–	0.0	(0.0)	(0.2)
Employee benefits	(0.0)	0.1	0.1	0.1	–	(0.0)	(0.1)	(0.0)
Provisions	(0.3)	0.7	0.4	–	–	(0.0)	(0.3)	(0.3)
Other items	(0.6)	0.1	(0.5)	1.3	–	(3.9)	2.0	(0.6)
Tax value of loss carry-forwards used	14.7	(2.0)	12.7	18.9	–	(0.8)	(3.4)	14.7
	11.5	(1.4)	10.1	16.1	(0.9)	(3.1)	(0.6)	11.5

In 2009, the net amount from the movement in deferred tax assets and liabilities presented as tax in the profit or loss was negative (2009: EUR – 1.4 million; 2008: EUR – 0.6 million). In 2009 a deferred tax asset was recognised as a consequence of the hedging reserve amounting to EUR 0.3 million (2008: EUR 0.5 million).

Unrecognised deferred tax assets

At 31 December 2009, Kendrion had not valued tax losses of approximately EUR 30 million (2008: EUR 13.8 million) mainly deriving from the Netherlands.
The increase in comparison with the end of 2008 was due to the final settlement of the Dutch tax return for 2007, in which a large tax loss with respect to the sale of Automotive Metals was incurred and recognised by the Dutch Tax Authorities for 75% on the sale of Automotive Metals.

5 Inventories

EUR million	2009	2008
Raw materials, consumables, technical materials and packing materials	10.2	13.0
Work in progress	5.9	8.4
Finished goods	5.0	8.4
Goods for resale	1.3	0.5
	22.4	30.3

The inventories are presented after accounting for a provision for obsolescence amounting to EUR 3.1 million (2008: EUR 3.4 million). In 2009 the amount of the write down to net realisable value of the inventories was EUR 0.3 million (2008: EUR 0.2 million).

6 Trade and other receivables

EUR million	2009	2008
Trade receivables	20.5	18.6
Other taxes and social security	0.6	0.4
Other receivables	0.7	1.3
Prepayments	3.0	3.8
	24.8	24.1

The credit and currency risks associated with trade and other receivables are disclosed in Note 14.

7 ## Cash and cash equivalents

EUR million	2009	2008
Bank balances	4.7	3.7
Bank overdrafts	(3.7)	(13.3)
Cash and cash equivalents in the statement of cash flows	1.0	(9.6)

The bank balances are freely available. The interest-rate risk for the Group and a sensitivity analysis for financial assets and liabilities are disclosed in Note 14.

8 ## Capital and reserves

Capital and share premium

	Ordinary shares entitled to dividend		Repurchased shares		Total number of issued shares	
	2009	2008	2009	2008	2009	2008
At 1 January	10,272,392	10,280,834	15,232	6,790	10,287,624	10,287,624
Repurchased	45,000	15,000	45,000	15,000	–	–
Delivered repurchased shares	11,744	6,558	11,744	6,558	–	–
Issued	1,028,750	–	–	–	1,028,750	–
At 31 December	11,267,886	10,272,392	48,488	15,232	11,316,374	10,287,624

Issuance of ordinary shares

On 28 September 2009, Kendrion issued 1,028,750 shares (9.99% of its outstanding capital) at an exercise price of EUR 9.00 per share to a large number of its existing major shareholders. All issued shares have been paid up. The incremental costs have been deducted from equity.

In 2009, Kendrion also issued 11,744 shares to the Board and senior management as part of its share plan and remuneration package for the Executive Board. Kendrion purchased 45,000 of the Company's shares in 2009. These will cover future issues under Kendrion's share plan and remuneration package for the Executive Board.

Ordinary shares

The authorised share capital consists of:

EUR million	2009	2008
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance as at 1 January: 10,287,624 ordinary shares	20.6	20.6
Balance as at 31 December: 11,316,374 ordinary shares	22.6	20.6

Share premium

EUR million	2009	2008
Balance as at 1 January	71.3	75.2
Dividend payment	(10.0)	(3.9)
Share premium on issued shares	7.1	–
Balance as at 1 December	68.4	71.3

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates in the non-euro zone and exchange differences related to the translation of a financial liability designated as a hedge of a net investment in non-euro zone subsidiaries. Gains and losses relating to the translation risk are recognised in equity. The build-up of the cumulative figure commenced on 1 January 2004. Due to restatements as a direct consequence of the disposal of Distribution Services, a reclass is made in the opening balance of 2008 with countereffect in the other reserves (EUR 2.2 million). The total equity did not change.

Hedge reserve

The hedge reserve comprises the effective share of the cumulative net movement in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet been recognised.

The net movement was EUR 0.2 million (2008: EUR – 1.9 million); the realisation of the hedged transaction amounted to EUR 0.8 million and was recycled to the profit or loss (2008: EUR – 0.2 million) and on the other hand the negative hedge reserve increased with EUR 0.6 million due to valuation (2008: EUR 2.1 million). There was no hedge ineffectivity in 2009 (2008: EUR 0.0 million).

Reserve for own shares

The reserve for Kendrion's own shares comprises the cost of the Kendrion N.V. shares which are held by the Company for the Long-Term Incentive programme and the share option scheme for Directors of operating companies. As at 31 December 2009, Kendrion held 48,488 of its own shares (2008: 15,232). See also Note 27.

Other reserves

Other reserves are all the reserves other than those shown separately and comprise primarily of the accumulated, undistributed profits from previous financial years.

Retained earnings

In 2009, the result for 2008 was fully included in other reserves. Retained earnings in the 2009 financial statements consequently consist solely of the result for 2009.

Restrictions

Certain subsidiaries are restricted, either by law or by the provisions of their Articles of Association, in the extent to which they may distribute equity. These restrictions amounted to EUR 2.7 million as at 31 December 2009 (2008: EUR 2.4 million).

Minority interests

Kendrion has one non 100%-subsidiary that is fully consolidated: Kendrion Binder Magnete Vertriebsgesellschaft mbH (Austria). For the interest that is not held by Kendrion, an amount is included in equity and results.

9 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share as at 31 December 2009 is based on the profit of EUR 3.9 million (2008: EUR 12.8 million) attributable to the holders of ordinary shares and the weighted average number of shares in issue during the year: 10,554,000 (2008: 10,277,000).

EUR million	2009	2008
Net profit attributable to ordinary shareholders	3.9	12.8

Weighted average number of ordinary shares

In thousands of shares	2009	2008
Issued ordinary shares as at 1 January	10,272	10,280
Effect of own shares repurchased	33	8
Effect of shares issued in September 2009	1,029	–
Issued ordinary shares as at 31 December	11,268	10,272
Weighted average number of ordinary shares	10,554	10,277
Basic earnings per share (EUR)	0.35	1.25
Basic earnings per share (EUR), based on weighted average	0.37	1.25

Diluted earnings per share

The calculation of the diluted earnings per share as at 31 December 2009 is based on the profit of EUR 3.9 million (2008: EUR 12.8 million) attributable to the holders of ordinary shares and the weighted average number of shares in issue during the year: 10,554,000 (2008: 10,277,000).

EUR million	2009	2008
Net profit attributable to ordinary shareholders	3.9	12.8
Effect of dilution	0.0	0.0
Net profit attributable to ordinary shareholders (diluted)	3.9	12.8

Weighted average numbers of ordinary shares (diluted)

In thousands of shares	2009	2008
Weighted average numbers of ordinary shares as at 31 December	10,554	10,277
Weighted average numbers of ordinary shares as at 31 December (diluted)	10,554	10.277
Diluted earnings per share (EUR), based on weighted average	0.37	1.25

10 Loans and borrowings

These notes contain information on the contractual provisions of the Group's interest-bearing loans and borrowings, which are carried at amortised cost price. For further information on the interest rate, currency and liquidity risks borne by Kendrion, see Note 14.

EUR million	2009	2008
Non-current liabilities		
Secured bank loans	13.2	20.0
Financial lease liabilities	0.1	0.2
Other loans	0.3	0.6
	13.6	20.8

EUR million	2009	2008
Current liabilities		
Interest-bearing debts to credit institutions	1.3	51.7
	1.3	51.7

Financing conditions

At 31 December 2009, Kendrion had the following credit lines available:

- A EUR 90.6 million Facility Agreement with a consortium of four banks with equal shares consisting of:
  - A EUR 35 million committed revolving credit facility, with a commitment running until 16 November 2011;
  - A EUR 15 million term loan facility, with a commitment running until 16 November 2011 and with a repayment obligation of EUR 1.25 million per quarter beginning on 31 December 2010;
  - A EUR 40.6 million guarantee facility. This facility was provided in connection with the fine imposed by the European Commission, against which Kendrion has appealed.
- EUR 0.6 million in other facilities, including a financial lease.

At 31 December 2009, the total unutilised amount of the facilities was approximately EUR 36 million.

Banking consortium credit facility

Pursuant to the terms of the credit facility contract with the banking consortium, Kendrion has agreed to a number of financial covenants relating to interest-bearing debt/EBITDA (debt cover), solvency ratio and interest coverage. These covenants are tested by treating an increasing proportion of the EU bank guarantee (in connection with the EU fine), including accrued interest, as interest-bearing debt in the calculation of the debt cover (50% at 31 December 2009) and deducting this amount from equity in calculating the solvency ratio (75% at 31 December 2009). In addition, a.o. 50% of goodwill, is deducted from equity in calculating the solvency ratio. The required covenants are tested each quarter. All covenant ratios were satisfied at year-end 2009.

Security provided

In connection with the consortium facility, Kendrion has provided security in the form of pledges of shares of a number of individual Group Companies and pledges of intercompany loans granted to certain Group Companies.

Interest-rate sensitivity

The interest payable on Kendrion's interest-bearing borrowings is mainly at rates fixed for three months or shorter periods. Kendrion has hedged the resulting interest-rate risk by contracting derivative financial instruments. Reference is made to page 82 for further details.

Finance lease liabilities

The finance lease liabilities are payable as follows:

EUR million	2009			2008		
	Minimum lease	Interest	Principal	Minimum lease	Interest	Principal
‹ 1 year	0.1	–	0.1	0.1	–	0.1
1 – 5 years	–	–	–	0.1	–	0.1
› 5 years	–	–	–	–	–	–
	0.1	–	0.1	0.2	–	0.2

The finance lease liabilities relate to machinery. According to the provisions of the lease contracts, no conditional lease payments are due.

11 Employee benefits

EUR million	2009	2008
Present value of unfunded obligations	3.1	3.7
Present value of funded obligations	4.4	8.3
Fair value of plan assets	(2.4)	(5.3)
Present value of net obligations	5.1	6.7
Unrecognised actuarial gains and losses	(0.4)	(1.0)
Classified as assets held for sale	–	(0.4)
Recognised liability for defined-benefit obligations (see below)	4.7	5.3
Liability for long-service leave and anniversaries	1.8	2.1
Classified as assets held for sale	–	(0.8)
Total employee benefits	6.5	6.6
Employee benefits classified as other investments	–	–
Employee benefits classified as liabilities	(6.5)	(6.6)
Total employee benefits	(6.5)	(6.6)

Movements in net liability for defined benefit obligations recognised in the statement of financial position

EUR million	2009	2008
Recognised net liability for defined-benefit obligations as at 1 January	5.3	5.6
Expense recognised in the income statement	0.7	0.9
Benefits paid by the plan	(1.5)	(0.5)
Other movements	0.2	(0.3)
Deconsolidation / classified as held for sale	–	(0.4)
Recognised net liability for defined-benefit obligations as at 31 December	4.7	5.3

Movement in plan assets

EUR million	2009	2008
Fair value of plan assets as at 1 January	(5.3)	(5.4)
Contributions paid employer	(0.1)	(0.4)
Contributions paid participants	(0.1)	(0.1)
Payments made	0.0	0.5
Expected return on plan assets	0.0	(0.3)
Other movements	3.1	0.4
Fair value of plan assets as at 31 December	(2.4)	(5.3)

The other movement is a.o. due to the disposal of Distribution Services.

Expense recognised in the statement of comprehensive income regarding defined benefit arrangements

EUR million	2009	2008
Current service costs	0.2	0.5
Interest on obligation	0.4	0.4
Settlement (gain)/loss recognised	0.2	–
Expected return on plan assets	(0.1)	(0.3)
	0.7	0.6
Effective return on plan assets	0.0	0.2

The cost related to the defined benefit pension arrangements are processed in the following line items of the statement of comprehensive income:

EUR million	2009	2008
Pension costs	0.7	0.6

There were no actuarial gains or losses processed directly in equity.

Principal actuarial assumptions (expressed as weighted averages)

	2009	2008
Discount rate as at 31 December	4.9%	5.3%
Expected return on plan assets as at 31 December	4.4%	4.8%
Future salary increases	2.3%	2.3%
Future pension increases	2.0%	1.9%

Historical information

	2009	2008	2007	2006	2005
Net liability for defined-benefit obligations	7.5	12.0	11.2	11.8	25.1
Fair value of plan assets	2.4	5.3	5.4	6.0	15.1
Deficit in plan	5.1	6.7	5.8	5.8	10.0

Actuarial calculations of employee benefits have not been materially influenced by amendments based on historical experience and by variable assumptions.

Composition plan assets

	2009	2008
Bonds	1.2	2.0
Equity	0.7	1.2
Real estate	0.3	0.8
Government loans	0.1	0.6
Other	0.1	0.7
Total	2.4	5.3

Liabilities arising from employee benefits

The pension plans consist of both defined contribution plans and defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Actuarial gains and losses falling outside the so-called 'corridor' (10% of the higher of the benefit obligations and fair value of the plan assets) are amortised over the remaining average years of service. Calculations are made by qualified actuaries. The pension liability shown on the financial position is the present value of the defined benefit obligation as at the financial position date minus the fair value of the plan assets as at the financial position date plus or minus unallocated actuarial gains and losses. The discount rate used to calculate the defined benefit obligation is based on the yield on AA-rated corporate bonds in Europe.

The greater part of the defined benefit obligation as at year-end 2009 relates to pension arrangements in Germany and Switzerland. The organisation administers the plan in-house and is fully liable for the benefit obligations. A small portion is reinsured.

Liabilities arising from employee benefits also include liabilities relating to long-service leave, termination of employment and service anniversaries.

12 Provisions

EUR million

Other	2009	2008
Balance as at 1 January	2.6	3.0
Provisions made during the period	0.3	0.1
Provisions used during the period	(0.1)	(0.2)
Provisions released during the period	(0.2)	–
Sale of Group Companies	–	(0.3)
Balance as at 31 December	2.6	2.6
Non-current part	2.5	2.6
Current part	0.1	–
	2.6	2.6

This item includes a provision of EUR 2.5 million relating to the fine imposed by the European Commission. Kendrion lodged an appeal against the fine in 2006. It is not clear when the appeal will proceed before the Court of First Instance. (see Note 17).

13 Trade and other payables

EUR million	2009	2008
Trade payables	14.7	18.7
Other taxes and social security contributions	1.3	1.1
Derivatives used for hedging	0.5	1.2
Non-trade payables and accrued expenses	9.0	10.2
	25.5	31.2

14 Financial instruments

Kendrion is exposed to credit, liquidity and market risks (interest-rate, price and exchange rate risks) in the course of its normal business operations. This section of the notes provides information on Kendrion's exposure to each of the above risks, the objectives, policies and procedures for the management and measurement of these risks, and the Group's capital management. More detailed quantified notes are enclosed in these consolidated financial statements.

The Board bears the ultimate responsibility for the organisation and control of Kendrion's risk management framework. Kendrion's risk policy is designed to identify and analyse the risks confronting the Group, implement appropriate risk limits and control measures, and monitor the risks and compliance with the limits. The risk management policy and systems are evaluated at regular intervals and, when necessary, adapted to accommodate changes in market conditions and Kendrion's operations.

Kendrion's Supervisory Board supervises compliance with the Group's risk management policy and procedures.

Credit risk

Credit risk is the risk of financial loss to Kendrion in the event that a client or a counterparty to a financial instrument fails to meet its contractual obligations. Credit risks arise primarily from accounts receivable, derivative transactions concluded with banks, cash positions held with banks and from a subordinated loan granted in the past in connection with the sale of a business. Kendrion continually monitors the credit risk within the Group. Kendrion does not require collateral for trade and other receivables and financial assets.

The credit policy includes an assessment of the creditworthiness of every new major client before offering payment and delivery terms. This assessment includes external credit ratings if they are available. The creditworthiness of major clients is actively monitored on a long-term basis.

Kendrion recognises impairment provisions of an amount equal to the estimated losses on trade and other receivables and other investments. The main component of this provision comprises specific provisions for losses on individual accounts of material significance.

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit risk. The maximum credit risk on the reporting date was as follows:

EUR million	Carrying amount 2009	2008
Cash and cash equivalents	4.7	3.7
Issued loans	0.6	1.5
Trade and other receivables	24.8	24.1
Total	30.1	29.3

Impairment losses

Aged analysis of the trade and other receivables

	2009		2008	
	Gross	Provision	Gross	Provision
Within the term of payment	19.8		17.4	
0 – 30 days overdue	3.9		5.1	
31 – 60 days overdue	0.7		0.7	
› 60 days overdue	0.8	(0.4)	1.1	(0.2)
Total trade and other receivables	25.2	(0.4)	24.3	(0.2)

The provision for trade receivables is used to absorb impairment losses, unless Kendrion is certain that collection of the amount owed is impossible, in which case the amount is treated as a bad debt and written off against the financial asset in question.

At 31 December 2009 the provision for impairment losses on trade and other receivables relates to several customer invoices that the Group believes to be non-collectible, in whole or in part, mainly due to economic circumstances. Of the total provision, EUR 0.1 million represents an impairment of the majority of outstanding invoices of the Vink activities in Ireland and the UK, which activities were disposed of in 2008. Based on historic payment behaviour and information currently known, the Group believes that invoices not due and invoices up to 60 days overdue at 31 December 2009 are collectible. Besides the identified impairment losses at year end, the Group has written off EUR 0.1 million in 2009 (EUR 0.0 million in 2008).
The Group believes that the held-to-maturity investment amount on the statement of financial position will be collected, and therefore no impairment is recognised at 31 December 2009 (EUR 0.0 million in 2008).

Credit risk concentration

The Group's most significant customer, a German-based automotive group, accounts for 16% of the trade and other receivables amount at 31 December 2009. However, of this 16% more than 6% consists of non-recurring receivables regarding the compensation of development costs. The second largest customer accounts for less than 5% of the total trade and other receivables amount on 31 December 2009. In 2008 the largest customer accounted for less than 10% of total outstanding amounts.

Liquidity risk

The liquidity risk is the risk of Kendrion being unable to meet its financial obligations at the required time. Liquidity risk management is based on the maintenance of sufficient liquidity in the form of unused (committed) credit facilities or cash to meet present and future financial obligations in normal and difficult circumstances. Kendrion had approximately EUR 36 million available within its existing credit facility on the financial position date.

The contractual terms of the financial obligations, including the estimated interest payments and repayment obligations, are set out below.

31 December 2009 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Non-derivative financial liabilities							
Bank loans	14.5	(15.4)	(0.3)	(1.5)	(13.6)	–	–
Finance lease liabilities	0.1	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)	–
Bank overdrafts	3.7	(3.7)	(3.7)	–	–	–	–
Other debt	0.3	(0.3)	(0.0)	(0.0)	(0.3)		
Trade and other payables	25.5	(25.5)	(25.5)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.5	(0.5)	(0.3)	(0.2)	–	–	–
Forward exchange contracts	–	–	0.1	(0.1)	–	–	–
Total	44.6	(45.5)	(29.7)	(1.8)	(13.9)	(0.1)	–

31 December 2008 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Non-derivative financial liabilities							
Bank loans	71.7	(76.9)	(5.6)	(21.4)	(49.9)	–	–
Finance lease liabilities	0.2	(0.2)	(0.1)	(0.1)	–	–	–
Bank overdrafts	13.3	(13.3)	(13.3)	–	–	–	–
Other debt	0.6	(0.7)	–	–	–	(0.7)	–
Trade and other payables	31.2	(31.2)	(31.2)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.6	(0.6)	(0.2)	(0.2)	(0.2)	–	–
Forward exchange contracts	1.2	(1.2)	(0.5)	(0.3)	(0.4)	–	–
Total	118.8	(124.1)	(50.9)	(22.0)	(50.5)	(0.7)	–

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Within the scope of the Company's risk management Kendrion has hedged the currency and interest-rate risks with derivatives, whereby the hedges have been designated as cash flow hedges. The following table lists the value of these derivatives at financial position date, and when the derivatives will influence the profit or loss and the cash flows.

Cash flow hedges (in cash flows statement)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

2009 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.5)	(0.5)	(0.3)	(0.2)	–	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	0.0	0.0	0.1	(0.1)	–	–	–
Total	(0.5)	(0.5)	(0.2)	(0.3)	–	–	–

2008 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.6)	(0.6)	(0.2)	(0.2)	(0.2)	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(1.0)	(1.0)	(0.3)	(0.3)	(0.4)	–	–
Total	(1.6)	(1.6)	(0.5)	(0.5)	(0.6)	–	–

Cash flow hedges (in statement of comprehensive income)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss.

2009 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.5)	(0.5)	(0.3)	(0.2)	–	–	–
Forward exchange contracts							
Assets	–	–	(0.2)	(0.2)	(0.3)	–	–
Liabilities	–	–	–	–	–	–	–
Total	(0.5)	(0.5)	(0.5)	(0.4)	(0.3)	–	–

2008 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.5)	(0.5)	(0.2)	(0.1)	(0.2)	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(1.0)	(1.0)	(0.3)	(0.3)	(0.4)	–	–
Total	(1.5)	(1.5)	(0.5)	(0.4)	(0.6)	–	–

Market risk
Market risk is the risk of deterioration of Kendrion's income due to changes in market prices, such as exchange rates,and interest rates. Management of market risk exposure is intended to keep the market risk position within acceptable limits.

Derivatives are used to manage certain market risks. These transactions are usually carried out within the treasury framework adopted by the Board. Where necessary, Kendrion uses hedge accounting to manage volatility in the statement of comprehensive income.

Interest-rate risk
The majority of the Group borrowing has a floating interest rate (3-month EURIBOR in most cases). As a result, Kendrion is exposed to the risk of changes in cash flows due to interest-rate movements.

Kendrion's policy is to base between 50% and 85% of the borrowings on a fixed interest rate. For this reason Kendrion occasionally concludes interest rate swap contracts or other financial instruments with financial counterparties. Kendrion has currently contracted one interest-rate swap with a notional value of EUR 15 million and a remaining term of one year. Kendrion classifies this interest-rate swap as a cash flow hedge.

In view of the debt position and the interest-rate swap at 31 December 2009, a 1 percentage point increase in the interest rate across the yield curve at 1 January will not result in a material increase in the interest expenses in 2010 (less than EUR 0.1 million).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial assets and liabilities.

				2009		2008	
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Senior bank loans	EUR	EURIBOR + 3.25%	2011	14.5	14.5	47.5	47.5
Senior bank loan	EUR	3.65%	2009	–	–	4.2	4.2
Junior bank loan	EUR	EURIBOR + 3.25%	2009	–	–	20.0	20.0
Bank overdrafts	Various	EURIBOR + 3.25%	2011	3.7	3.7	13.3	13.3
Finance lease liabilities	USD	6.5-8.0%	2012	0.1	0.1	0.2	0.2
Other debts	EUR	2.50%	2012	0.3	0.3	0.6	0.6
Total interest-bearing debt				18.6	18.6	85.8	85.8

Sensitivity analysis interest
Financial assets and liabilities with a fixed interest rate are not recognised at fair value by processing the value changes in the statement of comprehensive income. Kendrion also designates derivatives (interest-rate swaps) as cash flow hedges, not as fair value hedges. For this reason a movement in interest rates on the financial position date has no influence on the result.

A 1 percentage point increase or decrease in the interest rate across the yield curve at 1 January 2010 would result in a EUR 0.1 million increase or decrease in the fair value of the interest-rate swaps. Since these are cash flow hedges the movement in fair value is recognised in an equity reserve (hedge reserve).

Exchange rate risk
Kendrion is exposed to exchange rate risks on sales, purchases, equity positions and loans expressed in currencies other than the euro. The Kendrion companies are primarily financed in their own currency. The majority of the revenues and costs of the Kendrion companies are realised in the euro zone. Approximately 85% of the cost base and 75% of the turnover is realised in the euro zone. Sales outside the euro zone are partly produced locally and partly exported. Most of these exports are expressed in euros.

The Group's activities in the Czech Republic result in the most significant currency exposure, since the majority of turnover is generated in euros and part of the costs are realised in Czech krones. This exchange rate risk is hedged with derivatives. The exchange rate risk policy is discussed in the financial risks section of the Annual Report.

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was close to zero at 31 December 2009.

A 10 percentage point appreciation of the currencies listed below against the euro would increase shareholders' equity at 31 December 2009 and the result for 2009 by the amounts shown in the following table. The same analysis was performed at 31 December 2008. A 10 percentage point depreciation of the listed currencies against the euro would have had the opposite effect.

The same test was done for the profit or loss, where the sensitivities for a 10% appreciation or depreciation on 31 December 2009 would have had an impact below EUR 0,1 million.

31 December 2009	Equity	Result
US dollar	0.3	0.0
Czech krone	0.8	(0.0)
Swiss franc	0.2	0.0
Chinese yuan	0.2	0.0

31 December 2008	Equity	Result
US dollar	0.5	0.0
Czech krone	1.2	0.1
Swiss franc	0.1	0.0
Chinese yuan	0.1	0.0

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR 1	As at 31 December 2009	As at 31 December 2008	Average over 2009
Danish krone*	7.4482	7.4506	7.4506
Norwegian krone*	8.8900	9.7500	9.0888
Swedish krone*	10.2520	10.8700	10.5986
Pound sterling	0.8881	0.9525	0.8940
Swiss franc	1.4836	1.4850	1.5057
Czech krone	26.4732	26.8752	26.4964
Hungarian forint*	308.1664	266.6667	292.6544
Chinese yuan	9.8350	9.5612	9.5035
US dollar	1.4406	1.3917	1.3922
Mexican peso	18.9222	19.2334	18.9079
Brazilian real	2.5113	3.2653	2.7809
Romanian ley	4.2363	4.0225	4.2236

** These currencies relate to the countries with Distribution Services operations that have since been divested. For this reason the average currency rates have been calculated solely over the first months of 2009 and the closing rate is from March 2009.*

Capital management

The Executive Board's policy is designed to maintain a strong capital gearing to retain the confidence of investors, creditors and the markets and to safeguard the future development of the business activities. The Executive Board monitors the return on equity, which Kendrion defines as the net operating result divided by shareholders' equity, excluding minority interests. The Executive Board also monitors the level of dividend distributed to ordinary shareholders.

The Executive Board seeks to strike a balance between a higher return that would be achievable with a higher level of borrowed capital and the benefits and security of sound capital gearing.

No changes were made to Kendrion's capital management system during the reporting period.

Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements beyond those stipulated by law, other than the covenants with the banks as explained on page 75.

Fair values

Measurement of fair value

Several of Kendrion's accounting policies, as well as the information supply by Kendrion, require the fair value of both financial and non-financial assets and liabilities to be determined. For valuation and information supply, the fair value is measured using the following methods. Where applicable, more detailed information on the basis of the fair value measurement is disclosed in the specific notes on the asset or liability in question. The principal methods and assumptions used in estimating the fair value of financial instruments included in the summary are given below.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market value. The market value of property is the estimated amount for which the property in question could be exchanged on the valuation date between a buyer and seller in an arm's length transaction in which both parties have acted knowledgeably, prudently and without compulsion. The market value of other items of property, plant and equipment is based on the quoted market prices of comparable assets and goods.

Intangible assets

The fair value of patents and trademarks acquired as part of a business combination is measured on the basis of the discounted estimated royalties which have been avoided through ownership of the patent or trademark. The fair value of customer relationships acquired in a business combination is based on the excess earnings method over multiple periods, valuating the asset in question by deducting a real return on all other assets which in total create the related cash flows. The fair value of other intangible assets is based on the expected discounted value of the cash flows from the use and ultimate sale of the assets.

Financial lease liabilities

The fair value is estimated on the basis of the present value of future cash flows, discounted at the interest rate for lease contracts of a similar kind. The estimated fair value reflects movements in interest rates.

Inventories

The fair value of inventories acquired as part of a business combination is determined on the basis of the estimated selling price as part of the normal business operations, less the estimated costs of completion and the selling costs, plus a reasonable profit margin which reflects the completion and sales effort.

Trade and other receivables/trade and other payables

The face value of receivables and liabilities falling due within one year is regarded as a reflection of their fair value. The fair value of all other receivables and liabilities is measured on the basis of present value.

Interest-bearing loans

The fair value is calculated on the basis of the present value of future repayments of principal and interest at the prevailing market rate of interest, augmented by the currently applicable credit mark-up.

Derivatives

The fair value of forward exchange contracts is based on the present value of the contractual cash flows for the remaining term based on a risk-free interest rate.

Non-derivative financial liabilities

The fair value of non-derivative financial liabilities is determined for information supply and is based on the present value of future repayments of principal and interest, discounted at a risk-free rate and a margin based on the credit worthiness of the counter party on the reporting date.

The following table shows the fair values and carrying amounts of the financial instruments.

EUR million	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
Assets carried at amortised costs				
Loans and receivables (including current tax assets)	25.1	25.1	24.8	24.8
Cash and cash equivalents	4.7	4.7	3.7	3.7
Held-to-maturity investments	0.6	0.6	1.5	1.5
Other long-term receivables	–	–	0.4	0.4
	30.4	30.4	30.4	30.4
Liabilities carried at amortised costs				
Secured bank loans	(14.5)	(14.5)	(71.7)	(71.7)
Other debts	(0.3)	(0.3)	(0.6)	(0.6)
Finance lease liabilities	(0.1)	(0.1)	(0.2)	(0.2)
Bank overdraft	(3.7)	(3.7)	(13.3)	(13.3)
Trade and other payables (including current tax liabilities)	(25.3)	(25.3)	(31.5)	(31.5)
	(43.9)	(43.9)	(117.3)	(117.3)
Liabilities carried at fair value				
Interest derivatives	(0.5)	(0.5)	(0.6)	(0.6)
Forward exchange contracts	–	–	(1.2)	(1.2)
	(0.5)	(0.5)	(1.8)	(1.8)

The Group has no available-for-sale financial assets and all liabilities at fair value were designated as such upon initial recognition. The loans and receivables consist of the trade and other receivables, including the current tax assets in the statement of financial position. The held-to-maturity investments and other long-term receivables are included in the other investments, including derivatives in the statement of financial position. The interest derivatives and forward exchange contracts are included in the trade and other payables in the statement of financial position. In 2008 the interest derivatives were included in the other investments, including derivatives.

Interest rate used in measuring fair value

The interest rate used for discounting estimated cash flows, where applicable, is based on the swap curve as at 31 December, augmented by the prevailing credit mark-up, and is as follows:

	2009	2008
Derivatives	4.55%	3.75%
Leases	5.25%	3.75%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 quoted prices (unadjusted in active markets for identical assets or liabilities;

Level 2 inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 inputs fot the asset or liability that are not based on observable market data (inobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2009		(0.5)		(0.5)
Derivative financial assets		(0.5)		(0.5)
31 December 2008		(1.2)		(1.2)
Derivative financial assets		(1.2)		(1.2)

15 ## Operating lease agreements

Lease contracts in which the Company acts as lessee

The sums payable on non-redeemable operating lease and rental contracts are as follows:

EUR million	2009	2008
‹ 1 year	2.4	1.8
1 – 5 years	4.2	4.0
› 5 years	3.4	2.9
	10.0	8.7

In the 2009 financial year a charge of EUR 0.8 million was recognised in the profit or loss in respect of operating leases (2008: EUR 0.7 million) based on continuing activities. The operating lease contracts are mostly related to buildings.

16 ## Capital commitments

During the year ended 31 December 2009, the Group signed purchase contracts for fixed assets totalling EUR 0.7 million (2008: EUR 2.9 million).

17 ## Contingent liabilities

Lawsuits at 31 December 2009

On 30 November 2005, the European Commission imposed a fine on Kendrion amounting to EUR 34 million for the alleged infringement of competition law by the Company's former subsidiary Fardem Packaging B.V. The facts and circumstances that were then known and the legal counsel taken at the time resulted in Kendrion's decision to form a provision of EUR 2.3 million at 31 December 2005 for the fine imposed on Fardem Packaging B.V. and other entities. Kendrion has also issued a guarantee. Kendrion lodged an appeal against this fine in 2006. The European Commission filed a rejoinder in early 2007. No developments have taken place since then. The Court of First Instance can provide no further information about the date on which a hearing can be held or a ruling can be expected.

Vink Plastics Ltd. (UK) supplied semi-finished products to a customer in 2002 and 2003 that were processed by the customer and then sold to a number of foreign parties. The insurance company submitted a claim on behalf of the customer to Vink Plastics at the end of 2006 relating to defects in these products that amounted to approximately GBP 360,000. Vink Plastics Ltd. (UK) was not included in the sale of the Vink Group. In 2009, a court case was initiated against Vink Plastics and its supplier. Vink Plastics has taken legal measures in 2009 by instituting a lawsuit to safeguard a potential further claim against Vink Plastics' supplier. As per 31 December 2009 a provision has not been formed. On 11 February 2010 the issue is settled by mediation. Vink Plastics' product liability insurer covered the small loss.

Kendrion Binder Magnete GmbH (Germany) was summoned to appear before the court of Milan, Italy, by the Italian company Binder Magnete s.r.l., not a member of Kendrion, in connection with Kendrion Binder Magnete GmbH's termination of the distribution contract between the parties. Binder Magnete s.r.l. claims compensation of EUR 1,250,000. Kendrion has filed a counterclaim. The facts and circumstances currently known and the legal counsel that was taken resulted in the decision to form a provision of EUR 60,000. Two witnesses were heard in 2009. The date of the court's ruling is unknown.

In June 2009, Kendrion Binder Magnete GmbH (Austria) was summoned to appear before the court in Graz in Austria by the Slovenian company Mavari d.o.o. in connection with an alleged breach of a provision in a supply contract to purchase a minimum number of products. Mavari claims compensation of EUR 250,000. The facts and circumstances currently known and the legal counsel that was taken resulted in the decision to form a provision of EUR 17,500. The date of the court's ruling is unknown.

Kendrion disposed multiple divisions and companies over the last years. Representations and warranties normal for such transactions are included in the Share Purchase Agreements. As is customary for transactions of this nature, Kendrion also represents and warrants on potential fiscal claims arising from periods prior to the different disposals.

18 Operating segments

Geographical segments based on physical location of Kendrion operating companies

The revenue and non-current assets per geographic area are specified below.

EUR million	America (North & South)		Germany		China	
	2009	2008	2009	2008	2009	2008
Revenue from transactions with third parties	7.5	9.7	88.1	116.5	8.4	6.8
Non-current assets	8.3	9.2	64.6	63.8	1.2	1.5

EUR million	Czech Republic		Austria		Other European countries		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenue from transactions with third parties	9.2	18.9	28.0	41.0	8.0	14.6	149.2	207.4
Non-current assets	2.4	3.1	9.5	11.6	0.6	0.8	86.7	90.0

Sales segmented by customer location

EUR million	America (North & South)	
	2009	2008
Germany	93.4	129.5
USA/Canada	8.2	8.2
Other EU countries	23.6	38.8
Other countries	24.0	30.9
Total	149.2	207.4

Major customers

Kendrion is not significantly reliant on one major customer.

19 Discontinued operations

In 2008 in line with Kendrion's focused acceleration strategy a decision was taken to investigate the feasibility of divesting the Distribution Services division. The division comprised the Vink Group and Servico NV. When the definitive decision to sell Distribution Services was taken during 2008, the operations were designated as discontinued operations.
On 17 December 2008 Kendrion reached definitive agreement with Robert Bosch GmbH (Germany) on the sale of Servico NV. In 2008 Servico had revenues of EUR 34 million and an operating result of approximately EUR 3 million. Servico is based in Belgium and has 87 employees. The divestment of Servico has been fully recognised in 2008. The transaction resulted in a book profit for Kendrion on discontinued operations of EUR 9.2 million in 2008.

On 25 November 2008 Kendrion reached definitive agreement with British company Edmundson Distribution Limited (UK) on the sale of the Vink Group. In 2008 the Vink Group had revenues of approximately EUR 300 million and an operating result of about EUR 5 million. The Vink Group has offices in Sweden, Norway, Finland, Denmark, Germany, the Netherlands, Belgium, France, Switzerland, the Czech Republic and Hungary, and has about 1,050 employees.
The sale was completed on 12 February 2009. The group of assets and liabilities of the Vink Group to be divested were classified as held for sale until the moment of actual disposal at 12 February of this year under review. The sales value of the transaction is around EUR 86 million, and the sales proceeds from the transaction amounted to approximately EUR 79 million (excluding costs of disposal). In 2008 the transaction resulted in an impairment loss for Kendrion amounting to EUR 5 million (recognised in the discontinued operations) and disposal costs of EUR 1.4 million recognised in the other operating expenses (recognised in the other operating expenses, Note 23). In 2009, following the realisation of the transaction with Edmundson Distribution Limited, Kendrion recorded a result from its discontinued operations amounting to EUR 15.6 million. When the net loss incurred from 1 January 2009 to 12 February 2009 is taken into account the result amounted to EUR 13.9 million. The book profit recorded in 2009 was higher due to the impairment loss of EUR 5 million taken in 2008. Besides Kendrion recorded EUR 1 million disposal costs under the operating expenses of continued operations (reference is made to Note 23).

Discontinued operations

EUR million	2009[1]	2008
Revenue (from transactions with third parties)	28.3	335.3
Other operating income	0.2	3.7
Expenses	(29.5)	(325.5)
Depreciation	(0.3)	(3.6)
Impairment loss	–	(5.0)
Results from operating activities before finance costs	(1.3)	4.9
Net finance costs	(0.5)	(3.1)
Results from operating activites, net of net finance costs	(1.8)	1.8
Income tax expense	0.1	(3.2)
Results from operating activites, net of income tax	(1.7)	(1.4)
Bookprofit on sale of shares of discontinued operations	15.6	9.2
Income tax expense on sale of shares of discontinued operations	–	–
Earnings (loss) for the year	13.9	7.8
Basic earnings (loss) per share (EUR)	1.23	0.76
Diluted earnings (loss) per share (EUR)	1.23	0.76

[1] Effective moment of disposal 12 February 2009.

Effects of the disposals of individual assets and liabilities of Kendrion

EUR million	2009[1]	2008
Property, plant and equipment	14.2	2.1
Intangible assets	8.2	0.1
Other investments, including derivatives	1.2	–
Deferred tax assets	4.9	0.1
Inventories	38.2	3.6
Current tax assets	0.4	0.4
Trade and other receivables	43.7	2.6
Cash and cash equivalent	6.6	0.6
Total non-current liabilities	(9.6)	(2.2)
Current tax liabilities	(1.1)	(0.1)
Trade and other payables	(47.6)	(3.9)
Net assets and liabilities	59.1	3.3
Payment received in cash	86.0	13.5
Cash disposed of	(6.6)	(0.6)
Payment received in cash, net of cash disposed of	79.4[2]	12.9

[1] Effective moment of disposal 12 February 2009.

[2] Excluding disposal costs incurred in 2009 and costs in 2008 with cash flow effect in 2009. This explains the difference with the consolidated statement of cash flows.

20 Business combinations

2009

There were no acquisitions in 2009. However some earn out payments were done related to SKA GmbH & Co KG (part of the former Automotive Metals division) and Kendrion Tri-Tech LLC.

2008

In 2008 the participating interest in Linnig de México S.A. de C.V. at Mexicaltzingo, Mexico, was expanded from 51% to 100%, and hereby goodwill of EUR 0.2 million was recognised. Linnig de México generates annual revenue of approximately EUR 2 million and has about 25 employees. Kendrion had already acquired 51% of the shares during the acquisition of the Linnig Antriebstechnik Group at the end of 2007.

On 25 August 2008, Kendrion reached agreement with the owners of Tri-Tech LLC for the acquisition of all shares in this company. Kendrion Tri-Tech is focused, in particular, on the development and manufacture of electromagnetic components for soft drinks dispensers. The company generates revenue of approximately EUR 3.5 million and has about 35 employees. Kendrion Tri-Tech is based in Mishawaka (Indiana), USA.

The Board estimates that if the acquisition of Kendrion Tri-Tech had taken place on 1 January 2008 the consolidated income would have amounted to approximately EUR 210 million and the consolidated profit for 2008 would have amounted to EUR 13.1 million. In determining these amounts the Board has assumed that the same fair value adjustments as were made on the acquisition date would apply if the acquisition had taken place on 1 January 2008. The acquisition of Linnig de México would not have had any effect on the consolidated income in view of the majority interest already held prior to the acquisition in 2008. The effect of Linnig de México on the consolidated profit for 2008 is negligible.

21 Other operating income

EUR million	2009	2008
Release of unused provisions	0.1	–
Net gain on disposal of property, plant and equipment	0.3	0.1
Other	0.6	0.8
	1.0	0.9

22 Staff costs

EUR million	2009	2008
Wages and salaries	46.0	52.7
Social security charge	6.1	7.6
Contributions to defined contribution plans	0.2	0.0
Expenses related to defined benefit plans	0.7	0.6
Increase in liability for long-service leave	0.5	0.1
	53.5	61.0
Total number of employees and temporary workers as at 31 December (fte)	1,131	1,439

23 Other operating expenses

EUR million	2009	2008
Lease expenses	0.8	0.7
Increase in provision for doubtful debts	0.2	0.1
Premises costs	3.6	4.1
Maintenance expenses	1.8	2.4
Transport expenses	1.0	1.5
Consultancy expenses	2.6	3.5
Sales and promotion expenses	0.7	1.4
Car, travel and representation costs	1.9	2.6
Expenses of disposal Distribution Services	1.0	1.4
Other	5.7	7.9
	18.4	25.6

Research & Development expenses totalled EUR 3.2 million in the year under review (2008: EUR 4.8 million). These expenses are presented in the consolidated statement of comprehensive income on the lines staff costs and other operating expenses.

24 Net finance costs

EUR million	2009	2008
Interest income	0.2	0.0
Net exchange gain	–	0.2
Finance income	0.2	0.2
Interest expenses	(3.6)	(4.3)
Net exchange loss	0.0	0.0
Finance expense	(3.6)	(4.3)
Net financing costs	(3.4)[1]	(4.1)

[1] Including EUR 0.3 million directly related to the disposal of the Vink Group.

25 Income tax

Recognised in the consolidated statement of comprehensive income

EUR million	2009	2008
Current tax charge on year under review	(1.5)	(1.8)
Adjustments for prior years	–	–
Total corporation tax expenses in the statement of comprehensive income	(1.5)	(1.8)

26 Reconciliation with the effective tax rate

	Reconciliation with tax rate		Reconciliation with effective rate EUR million	
	2009	2008	2009	2008
Profit before income tax			(8.4)	6.9
Income tax expense at local corporation tax rate	25.5%	25.5%	(2.1)	1.8
As non deductible reprimanded expenses	0.8%	0.0%	(0.1)	0.0
Effect of change in temporary differences	(7.1)%	(8.7)%	0.6	(0.6)
Current year losses for which no deferred tax asset was recognised	(9.6)%	4.3%	0.8	0.3
Write down of deferred tax assets [1]	(32.8)%	0.0%	2.8	0.0
Other movements	5.3%	5.0%	(0.5)	0.3
Under/over – provision in previous years	0.0%	0.0%	0.0	0.0
	(17.9)%	26.1%	1.5	1.8

[1] Mainly due to disposal of the Vink Group.

27 Related parties

Identity of related parties

A related-party relationship exists between Kendrion and its subsidiaries, their managers and executives. Kendrion has a number of agreements with its subsidiaries relating to the charging of central costs to and from the business units, including management, development, information technology and marketing costs, as well as agreements in respect of Group financing. Internal supplies also take place within the business units. Intercompany transactions are effected at market prices. For a list of the principal subsidiaries and associates please refer to page 103.

Transactions with managers in key positions

The remuneration of the Board is as follows:

EUR thousand	2009	2008
Total remuneration	1,463	1,202
Pension and other expenses	162	137
	1,625	1,339

The total remuneration is included in staff costs (see Note 22).

The Company introduced a Long-Term Incentive programme (LTI) for the members of the Board in 2005 that enables them to acquire rights to shares. After 2007 the members qualify for a certain number of shares each year provided that they meet specific individual targets that are partly qualitative and partly quantitative. The number of shares depends on the extent to which the targets have been achieved after three years and the extent to which the member has invested past bonuses in the Company. The shares are definitively allocated when the former member of the Board still holds the same or a similar position three years after the conditional allocation. An obligation of EUR 0.1 million was recognised for this allocation (2008: EUR 0.1 million). EUR 0.0 million was charged to the income statement in 2009 (2008: EUR 0.1 million). The members of the Board were entitled to a total of 3.377 shares during the period 2006-2008. The performance of these members was on target, and the shares purchased by the members of the Board from the short-term bonus in 2006 were issued to them after the General Meeting of Shareholders held on 6 April 2009.

A modified incentive plan, introduced in 2008, rewards the members of the Executive Board with a non-recurrent cash bonus when sufficient focus in the Company's activities is introduced within a period of a maximum of three years. The performance is in part assessed on the basis of the realisation of long-term shareholder value (the movement in Kendrion's TSR compared to the AScX) and in part on the individual performance of the members of the Executive Board during this period. The amount of this non-recurrent incentive cannot amount to more than 150% of the fixed remuneration. With an at-target performance the bonus amounts to 75% of the fixed remuneration, comparable to the former LTI. The required focus was introduced on the sale of Vink. The Supervisory Board then determined the actual remuneration on the basis of this focus bonus (based on at-target performance). The General Meeting of Shareholders held in 2009, on the basis of a proposal to that effect, converted this remuneration into a deferred pay-out scheme whereby the members of the Executive Board will receive shares three years after the determination and without further conditions. The number of shares was determined immediately after the General Meeting of Shareholders held in 2009 on the basis of the net bonus and the closing share price at that moment. The number of shares amounted to 17,269 for the CEO and 12.886 for the CFO. The shares so allocated will be issued in 2012.

The Executive Board has allocated 50% of the 2008 short-term bonus after tax to the purchase of Kendrion shares. This related to 4,092 shares.

In view of the economic conditions it was decided, with the approval of the General Meeting of Shareholders held in 2009, to relinquish a short-term bonus in cash for 2009. The bonus for 2009 shall be solely in the form of shares. With an at-target performance this amount in shares amounts to 40% (CEO) and 35% (CFO) of the gross fixed income, with a maximum of 50% of the gross annual salary. The shares must be held for a minimum of five years unless the contract of employment is terminated earlier. The performance is in part assessed on the basis of the realisation of long-term shareholder value (the movement in Kendrion's TSR compared to the AScX) and in part on the basis of the Executive Board's performance during the 2009 financial year. The targets have been realised for 37.5%. The number of shares shall be determined immediately after the General Meeting of Shareholders to be held on 7 April 2010. This determination will be based on the net bonus and the prevailing share price on that date.

Some of Kendrion's operating companies have insured part of their defined benefit pension obligations. This relates to Kendrion companies in Germany (EUR 0.4 million) and Switzerland (EUR 2 million). In Germany the plan assets are insured with two companies: 80% is insured with HDI Gerling Lebensversicherungs AG and the remaining 20% is insured with Allianz Lebensversicherungs AG. The legal carrier of the pension plan in Switzerland is the multi-employer pension fund ASGA Pensionkasse in St. Gallen. No expenses have been recognised in 2009 within the context of any necessary write-downs of the aforementioned parties' plan assets. All three companies are regarded as financially strong, creditworthy parties.

28 Accounting estimates and judgements by management

The Board discussed the selection and disclosure of the critical accounting policies for financial reporting and estimates as well as the application of these policies and estimates with the Supervisory Board.

In preparing the financial statements, the management is required under IFRS to make various judgements, estimates and assumptions which affect the implementation of policy and the amounts disclosed in relation to assets, liabilities, income and expenses. The estimates and assumptions are based on experience and factors deemed reasonable in the circumstances. Estimates and assumptions are constantly reappraised.
Changes in the accounting estimates used are reflected in the period in which the estimate is changed if the change affects only that period or in the period in which the estimate is changed and in future periods if the change affects both the reporting period and future periods.

Estimated impairment of goodwill

Kendrion tests annually whether the goodwill is subject to any impairment, in conformity with the accounting policy disclosed in Note j. The impairment model applied is the discounted cash flow method (value determination on the basis of the discounted value of the expected cash flows) applying a weighted average cost of capital (pre-tax WACC) of around 14%. The use of estimates is essential for making this calculation. The explicit prognoses period contains five planning years. As of year six the residual value is calculated based on the last explicit prognoses year (year five). No further growth in earnings is considered. The first three years of the explicit prognoses period are based on cash flow projections derived from the bottom-up generated Mid-Term Plan (available per company and approved by the Board). The last two years are based on experience or target data for the company under review. The pre-tax WACC is consistent with external sources of information, past experience and internal assessment of the used assumptions.

Pensions

Since the pension arrangements involve long-term obligations and uncertainties, it is necessary to make assumptions in order to estimate the amount that Kendrion needs to invest to fund its pension obligations. Actuaries calculate the obligation for defined benefit plans partly on the basis of information provided by the Board, such as future pay rises, the return on plan assets, mortality tables and the probable extent to which pension scheme members will leave the scheme because they have reached retirement age, become incapacitated or left the Company.

29 (19) Assets classified as held for sale

On 25 November 2008 Kendrion reached definitive agreement with British company Edmundson Distribution Limited (UK) on the sale of the Vink Group. The sale was completed on 12 February 2009. The sales value of the transaction is EUR 86 million. At the moment of disposal the group of assets to be divested comprised assets of EUR 117.4 million less liabilities of EUR 58.3 million (31 December 2008: EUR 115.2 million less liabilities of EUR 55.6 million).

In 2008 an impairment loss of EUR 5 million was recognised as a result of the revaluation of the group of assets to be divested to the book value or lower fair value. The recoverable amount of the participating interest in the Germany region as specified in the Share Purchase Agreement concluded with Edmundson is lower than the book value of the recognised goodwill and the participation value. This has resulted in an impairment loss on the recognised goodwill of EUR 4.2 million and an impairment loss on the participating interest of EUR 0.8 million. The recognition of both items in the result for 2008 resulted in a higher book profit of EUR 5 million for the entire transaction in 2009.

The accounting principles for the valuation of assets classified as held for sale are identical to the accounting principles applied for the consolidated EU-IFRS financial statements. For a general discussion of assets, refer to the notes to the consolidated financial statements.

Assets classified as held for sale

EUR million	2009	2008
Property, plant and equipment	–	13.9
Intangible assets	–	8.1
Other investments, including derivatives	–	1.2
Deferred tax assets	–	4.9
Total non-current assets	–	28.1
Inventories	–	35.0
Current tax assets	–	0.6
Trade and other receivables	–	44.5
Cash and cash equivalent	–	7.0
Total current assets	–	87.1
Total assets	–	115.2

As a result of the impairment losses in 2008 of EUR 5 million referred to in Note 19 it is not possible to reconcile the statement of movements in the tangible fixed and intangible assets (Notes 1 and 2). The exceptional impairment loss in 2008 to the extent relating to the shares (EUR 0.8 million) has been assigned pro rata over the assets classified as held for sale.

30 (19) Liabilities classified as held for sale

The accounting principles for the valuation of liabilities classified as held for sale are identical to the accounting principles applied for the consolidated EU-IFRS financial statements. For a general discussion of liabilities, refer to the notes to the consolidated financial statements.

Liabilities classified as held for sale

EUR million	2009	2008
Loans and other non-current borrowings	–	0.3
Employee benefits	–	1.2
Provisions	–	0.0
Deferred tax liabilities	–	1.8
Total non-current liabilities	–	3.3
Current tax liabilities	–	1.1
Trade and other payables	–	51.2
Total current liabilities	–	52.3
Total liabilities	–	55.6

31 Post-balance sheet events

There are no post-balance sheet events.

Company balance sheet as at 31 December

(before profit appropriation)

Note	EUR million	2009	2008
	Fixed assets		
	Property, plant and equipment	0.1	0.1
	Intangible assets	0.1	0.2
1.3	Financial assets	117.0	129.3
	Total non-current assets	117.2	129.6
	Current assets		
1.4	Receivables	1.5	0.2
	Cash and cash equivalents	0.0	–
	Total current assets	1.5	0.2
	Total assets	118.7	129.8
1.5	**Equity**		
	Share capital	22.6	20.6
	Share premium	68.4	71.3
	Reserves	1.0	(11.4)
	Retained earnings	3.9	12.8
	Total equity	95.9	93.3
1.6	**Provisions**	2.5	2.3
1.7	**Loans and borrowings (current)**	20.3	34.2
	Total equity and liabilities	118.7	129.8

Company income statement

Note	EUR million	2009	2008
1.11	Share in results of Group Companies after tax	5.4	21.1
	Other results after tax	(1.5)	(8.3)
	Net profit	3.9	12.8

Notes to the company financial statements

1 ## Notes to the company financial statements

1.1 **General**

The company financial statements are part of the 2009 financial statements of Kendrion N.V. With regard to the company income statement of Kendrion N.V., the company has made use of the option provided by Section 402 of Book 2 of the Netherlands Civil Code.

1.2 **Principles of valuation of assets and liabilities and determination of results**

In selecting the principles of valuation of assets and liabilities and determination of results employed in the company financial statements, Kendrion N.V. has made use of the option provided by Section 362, subsection 8, of Book 2 of the Netherlands Civil Code. Consequently, the principles of valuation of assets and liabilities and determination of results (the 'accounting policies') employed in the company financial statements of Kendrion N.V. are identical to those employed in the consolidated EU-IFRS financial statements. Interests in entities in which Kendrion has significant influence are measured using the equity method. The consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board as endorsed for use in the European Union (hereinafter referred to as 'EU-IFRS'). These policies are discussed on pages 58 – 68.

The share in the results of Group Companies relates to Kendrion N.V.'s share in the results of those companies. Results on transactions whereby assets and liabilities have been transferred between Kendrion N.V. and its subsidiaries and between subsidiaries have not been recognised to the extent they can be considered unrealised.

1.3 **Financial fixed assets**

EUR million	Interest in Group Companies	Loans to Group Companies	Deferred tax	Total 2009	Total 2008
Carrying amount as at 1 January	106.4	20.8	2.1	129.3	123.8
Results of Group Companies	5.4	–	–	5.4	21.1
Movements in loans and borrowings	–	(15.4)	–	(15.4)	(8.4)
Movements in deferred tax assets	–	–	(2.1)	(2.1)	(3.6)
Other movements	(0.2)	–	–	(0.2)	(3.6)
Carrying amount as at 31 December	111.6	5.4	–	117.0	129.3

The main part of the loans to Group Companies has a duration of over one year.

The investments in the principal subsidiaries and associates are disclosed on page 103 of the annual report.

1.4 **Receivables**

EUR million	2009	2008
Receivables from Group Companies	0.9	–
Prepayments and accrued income	0.6	0.2
	1.5	0.2

1.5 **Equity**

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Statutory reserve for partici-pations	Other reserves	Retained earnings	Total 2009	Total 2008
Balance as at 1 January	20.6	71.3	1.0	(1.1)	(0.3)	2.4	(13.4)	12.8	93.3	88.2
Appropriation of retained earnings	–	–	–	–	–	–	12.8	(12.8)	–	–
Dividend payment	–	(10.0)	–	–	–	–	–	–	(10.0)	(3.9)
Repurchased own shares	–	–	–	–	(0.1)	–	–	–	(0.1)	(0.2)
Issue of ordinary shares	2.0	7.1	–	–	–	–	–	–	9.1	–
Other	–	–	(1.0)	0.2	–	0.3	0.2	–	(0.3)	(3.6)
Total recognised income and expenses	–	–	–	–	–	–	–	3.9	3.9	12.8
Balance as at 31 December	22.6	68.4	0.0	(0.9)	(0.4)	2.7	(0.4)	3.9	95.9	93.3

1.5.1 **Share capital**

The authorised capital of Kendrion N.V. amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 11,316,374 ordinary shares have been issued.

1.5.2 **Share premium**

The share premium represents revenue from shares issued at more than their nominal value (issued above par). The issued and paid share capital, including share premium, is fiscally acknowledged capital.

1.5.3 **Translation reserve**

This statutory reserve comprises exchange differences resulting from the conversion of foreign currencies (including loans to foreign entities). On the sale of a Group Company, the accumulated translation differences relating to it are transferred to the income statement and accounted for in the transaction result.

1.5.4 **Hedge reserve**

The hedge reserve comprises the effective share of the cumulative net movement in the fair value of cash-flow hedging instruments relating to hedged transactions that have not yet been executed.

1.5.5 **Reserves for own shares**

The reserve for Kendrion's own shares comprises the cost of the Kendrion shares which are held by the Company for the Long-Term Incentive programme and the share scheme for Directors of operating companies. As at 31 December 2009, Kendrion held 48,488 of its own shares (2008: 15,232).

1.5.6 **Statutory reserve for participations**

This reserve represents the undistributed profits of subsidiaries the free distribution of which the Company cannot procure. The statutory reserve for participations arises as a result of participations being valued by the equity method and is shown as the share in the undistributed results of the subsidiaries since they were first valued using the equity method. The amount of any dividend – from these subsidiaries – to which there is an entitlement on adoption of the financial statements is deducted from this reserve.

1.5.7 **Other reserves**

Other reserves are all the reserves other than those shown separately and comprise primarily the cumulative, undistributed profits from previous financial years.

1.5.8 **Retained earnings**

In 2009, the full result for 2008 was included in other reserves. Retained earnings consequently consists solely of the result for 2009.

1.6 **Provisions**

EUR million	2009	2008
Other provisions	2.5	2.3
	2.5	2.3

The provisions include a provision of EUR 2.5 million relating to the fine imposed by the European Commission.

1.7 **Loans and borrowings (current)**

EUR million	2009	2008
Debts to credit institutions	0.0	0.2
Debts to suppliers and trade payables	0.3	1.0
Debts to Group Companies	18.7	32.6
Other debts	1.3	0.4
	20.3	34.2

1.8 **Financial instruments**

See section 14 of the notes to the consolidated financial statements for details on financial instruments.

1.9 **Staff costs**

EUR million	2009	2008
Wages and salaries	1.7	1.6
Social security charge	0.1	0.1
Pension costs	0.1	0.1
	1.9	1.8

Kendrion N.V. has only defined contribution plans for its employees. Kendrion N.V. had 10 employees (FTEs) as at year-end 2009 (2008: 11).

1.10 **Commitments not appearing on the balance sheet**

1.10.1 Joint and several liability and guarantees

The Company and its Group Companies have issued guarantees mainly in the context of the financing by financial institutions, and shares have also been pledged in certain cases. The Company has issued declarations of joint and several liability, as referred to in Section 403 of Book 2 of the Netherlands Civil Code, for:

- Combattant Holding B.V., Zeist
- Kendrion Finance B.V., Zeist

A EUR 40.6 million bank guarantee has been issued to the European Commission. This guarantee is valid until 14 March 2011. As part of the Group's Facility Agreement, the consortium of banks that issued the guarantee have undertaken to extend the guarantee on the maturity date by one year and to increase the amount by the accrued interest. The guarantee relates to the fine of EUR 34 million (excluding accrued interest) imposed by the European Commission at the end of 2005 in connection with alleged price-fixing by a former subsidiary (see also section 17 of the notes to the consolidated financial statements).

1.10.2 Fiscal unity

Kendrion N.V. and its Dutch subsidiaries form a fiscal unity for corporation tax purposes; according to the standard terms, each of the companies is jointly and severally liable for corporation tax payable by all the members of the fiscal unity.

1.11 **Share in results of Group Companies**

This relates to Kendrion N.V.'s share in the results of its associates, of which EUR 5.4 million (2008: EUR 21.1 million) relates to Group Companies.

Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by KPMG to the Company, its subsidiaries and other consolidated entities:

EUR thousand			2009			2008
	KPMG Accountants N.V.	Other KPMG member firms and affiliates	Total KPMG	KPMG Accountants N.V.	Other KPMG network	Total KPMG
Audit of financial statements	91	199	290	208	414	622
Other assurance services	11	24	35	44	37	81
Tax advisory services	–	10	10	–	74	74
Other non-audit services	–	103	103	–	88	88
Total	102	336	438	252	613	865

1.12 **Remuneration of and share ownership by the Executive Board and Supervisory Board**

Remuneration of the Executive Board

The remuneration of current Executive Board members charged to Kendrion N.V. and Group Companies, including pension expenses as referred to in Section 383, subsection 1, of Book 2 of the Netherlands Civil Code, amounted to EUR 1,288,500 (2008: EUR 918,400). This remuneration is specified as follows:

EUR thousand			2009			2008
	P. Veenema	E. Ris	Total	P. Veenema	E. Ris	Total
Fixed remuneration	326.2	243.9	570.1	362.5	271.0	633.5
Variable remuneration:						
– focus bonus	264.0	197.0	461.0	–	–	–
– current	54.4	35.6	90.0	73.0	54.0	127.0
– non-current	13.9	7.0	20.9	22.5	16.9	39.4
Total remuneration	658.5	483.5	1,142.0	458.0	341.9	799.9
Pension and other expenses	79.1	67.4	146.5	64.6	53.9	118.5
	737.6	550.9	1,288.5	522.6	395.8	918.4

The General Meeting of Shareholders on 6 April 2009 approved the focus bonus, converted into a deferred pay-out scheme. Referred is to pages 90 and 91 for more details.
The 2009 current variable remuneration after income tax will be fully converted into shares directly after the General Meeting of Shareholders on 7 April 2010 against the prevailing shareprice of that date.
The variable non-current remuneration for 2009 includes the shares distributed to P. Veenema and E. Ris (704 and 353 respectively) in the context of the LTI programme.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2009 amounts to EUR 98,000 (2008: EUR 85,000). This remuneration is specified as follows:

EUR thousand	2009	2008
Current Supervisory Board Members:		
S.J. van Kesteren	34	35
M.E.P. Sanders	25	25
R.L. de Bakker	25	25
H.J. Kayser	14	–
	98	85

No loans, advances or related guarantees have been given to the current Board or Supervisory Board Members.

Share ownership by the Executive Board and the Supervisory Board

		31 December 2009	31 December 2008
Executive Board	P. Veenema:	10,717	7,014
	E. Ris:	6,820	4,067
Supervisory Board		–	–

Zeist, 24 February 2010

Executive Board
P. Veenema
E. Ris

Supervisory Board
S.J. van Kesteren
R.L. de Bakker
H.J. Kayser
M.E.P. Sanders

Other information

To: the General Meeting of Shareholders

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2009 of Kendrion N.V., Zeist. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2009, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, 24 February 2010

KPMG ACCOUNTANTS N.V.
J.P. Faber RA

Profit appropriation

Provisions regarding the appropriation of profit (summary of article 34 of the Articles of Association)
Pursuant to article 34, the Executive Board shall have the authority to decide, subject to the approval of the Supervisory Board, what portion of the profit – the positive balance on the statement of comprehensive income – is to be appropriated to reserves. The remaining profit shall be at the disposal of the General Meeting of Shareholders. The Executive Board shall, subject to the approval of the Supervisory Board, submit a proposal concerning the dividend on ordinary shares.

Appropriation of net profit

EUR million	
Net profit	3.9

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 3.9 million will be added to other reserves.

Post-balance sheet events
There are no post-balance sheet events.

Principal subsidiaries

as at 31 December 2009

Industrial Magnetic Systems (Norman Graf)

Kendrion Magnettechnik GmbH, Donaueschingen, Germany	Norman Graf/Gerhard Subek
Kendrion Magnettechnik GmbH, Engelswies, Germany	Klaus Strefling
Kendrion Binder Magnetic (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion Tri-Tech LLC, Mishawaka, Indiana, USA	Dale O'Chap/Brad Price
Kendrion Binder Magnet AG, Hausen am Albis, Switzerland	Edgar Bruhin
Kendrion Binder Magnete Vertriebsgesellschaft mbH, Linz, Austria (51%)[1]	Erich Holzinger

Industrial Drive Systems (Norman Graf)

Kendrion Binder Magnete GmbH, Villingen-Schwenningen, Germany	Norman Graf
Kendrion Binder Magnete (UK) Ltd, Bradford, United Kingdom	Peter McShane
Kendrion Binder Magnetic (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion Tri-Tech LLC, Mishawaka, Indiana, USA	Dale O'Chap/Brad Price

Passenger Car Systems (Bernd Gundelsweiler)

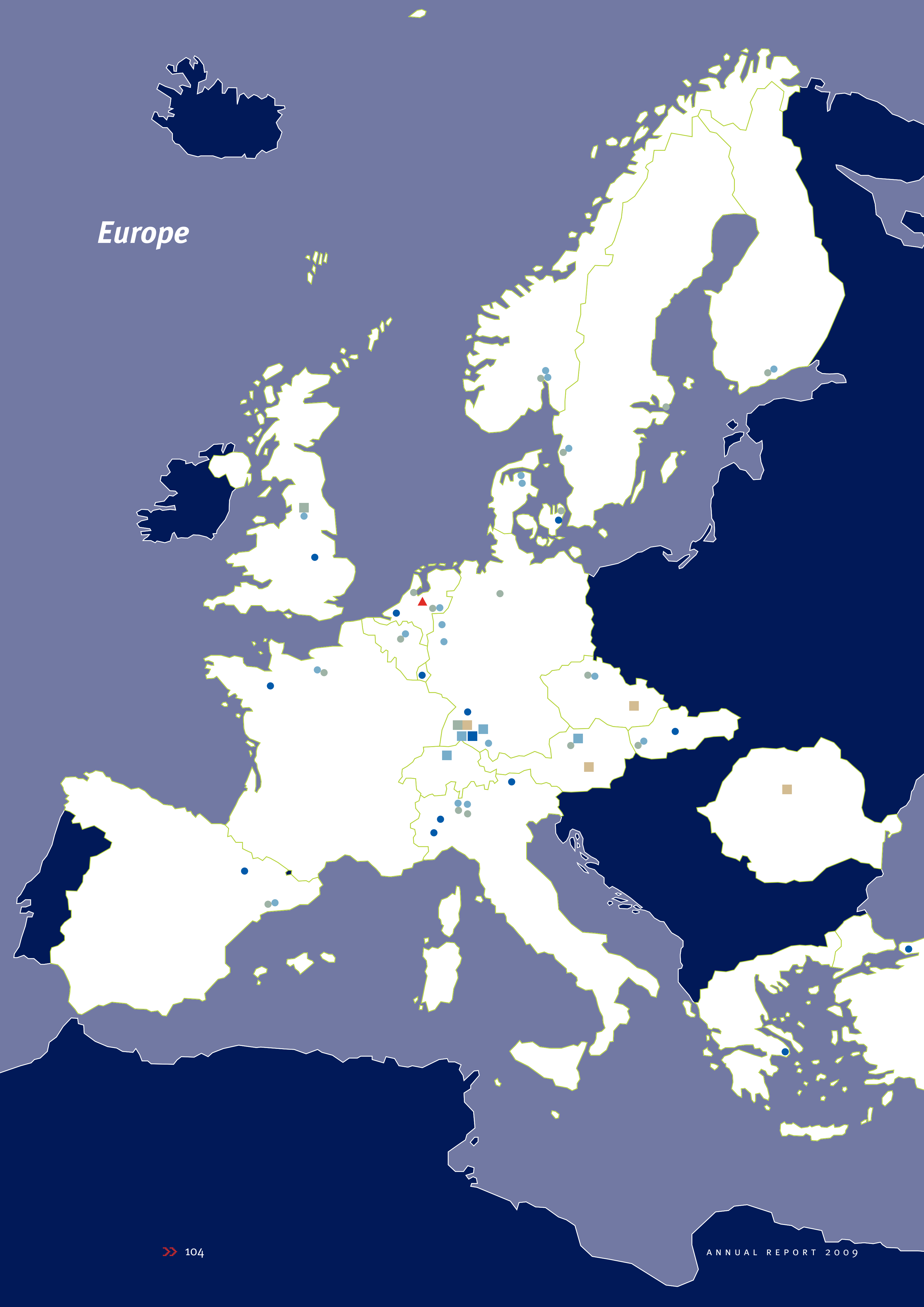
Kendrion Binder Magnete GmbH, Villingen-Schwenningen, Germany	Bernd Gundelsweiler
Kendrion Binder Magnete GmbH, Eibiswald, Austria	N.N.
Kendrion Binder Magnety s.r.o, Prostejov, Czech Republic	Jiři Hýbl
Kendrion Binder Magnetic (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen W eisshaar
Kendrion Binder Magnete s.r.l., Rădăuţi, Romania	Artur Daneliuc

Commercial Vehicle Systems (Uwe Spörl)

Kendrion Linnig GmbH, Markdorf, Germany	Uwe Spörl
Linnig Brasil Acoplamentos Ltda., Louveira, Brazil	Klaus Mertens
Linnig Corporation, Tucker, USA	Jürgen Häberle
Linnig de México, S.A. de C.V., Mexicaltzingo, Mexico	Alexander Glaser
Linnig Drive Tech. (Nanjing) Co. Ltd., Nanjing, P.R. China	Liangchen Lu

[1] *Fully consolidated. The minority interest is shown separately on the consolidated statement of financial position and the consolidated statement of comprehensive income.*

A complete list of all subsidiaries and associates can be obtained from the Chamber of Commerce in Utrecht (number 30113646) and from the offices of the Company.


Europe

- Industrial Magnetic Systems
- Industrial Drive Systems
- Passenger Car Systems
- Commercial Vehicle Systems
- Subsidiaries
- Partners
- Kendrion N.V.

Kendrion N.V.

Industrial Magnetic Systems	Industrial Drive Systems	Passenger Car Systems	Commercial Vehicle Systems
Electromagnetic components as standard and individual solutions for the industry	Electromagnetic brakes and clutches for the industrial drive technology	Customer-specific project developments for applications in the automobile industry and hydraulics	Individual system solutions for commercial vehicle and off-road industry

Five-year summary

EUR million	2009	2008	2007	2006	2005
Kendrion N.V. consolidated [1]					
Income statement conform financial statements					
Revenue	149.2	207.4	501.0	568.5	531.0
Organic growth	(27.0)%	3.6%	7.0%	5.6%	7.3%
Operating result (EBIT)	(5.0)	11.0	21.8	25.1	20.7
Depreciation and amortisation	8.8	8.3	10.1	13.5	14.3
Operating result before depreciation and amortisation	3.8	19.3	31.9	38.6	35.0
Profit for the period	4.0	12.9	3.7	14.3	17.5
Balance sheet as per 31 December conform financial statements					
Total assets	152.8	280.5	303.1	291.5	255.7
Total equity	96.1	93.5	88.8	83.8	69.1
Net interest-bearing debt [6]	13.9	75.3	85.2	87.5	75.5
Working capital [2]	21.7	22.4	63.2	75.8	65.2
Invested capital [8]	113.1	177.4	174.5	167.2	146.2
Cash flow conform financial statements					
Net cash from operating activities	3.9	21.3	23.8	13.1	27.4
Net investments	5.9	13.5	16.2	11.5	13.2
Free cash flow [7]	(1.9)	3.7	7.6	1.6	14.2
Ratios – pro forma					
Solvency	62.9%	33.3%	29.3%	28.7%	26.9%
Net interest-bearing debt [6] /EBITDA [3,4] (debt cover)	1.1	2.4	2.2	2.3	2.1
Net interest-bearing debt [6] /equity (gearing)	0.1	0.8	1.0	1.0	1.1
EBITA [3]/net finance costs (interest cover) [4,5]	1.6	3.2	3.8	4.1	3.5
Working capital [2] in % of revenue	14.5%	11.6%	11.8%	13.3%	12.3%
Market capitalisation (in millions) as at 31 December	105.8	74.1	185.2	196.3	153.2
Net interest-bearing debt as at 31 December [6]	13.9	75.3	85.2	87.5	75.5
Theoretic value of the organisation (Enterprise value) [5]	119.7	149.4	270.4	283.8	228.7
Number of employees per 31 December (fte) [4]	1,027	2,414	2,493	2,749	2,579

[1] The reader should be aware that Kendrion went through a lot of changes since 2005; divestments took place including results on disposals, wich does not give a clear insight in comparability between the years.

[2] Relates to inventories, receivables minus non-interest bearing debts.

[3] 2009 EBITA and EBITDA excluding effect restructuring provision and costs related to the disposal of the Vink Group.

[4] 2008 including Distribution Services.

[5] Pro forma. Unaudited.

[6] For 2008 including net interest bearing debt Vink in assets and liabilities as held for sale.

[7] Before cash flow acquisitions and disposals.

[8] Total assets minus trade and other payables, current tax liabilities, non-current tax assets and other investments.

Glossary

Code of Conduct A set of behavioural rules and standards which broadly reflects the values that should guide all employees, for example in relation to doing business responsibly, safety, health and the environment.

Compliance Officer The Kendrion employee who is charged with supervising compliance with the regulations to prevent insider trading.

Corporate governance The management of the business, the supervision of that management, the rendering of account thereon and the way in which stakeholders can influence decisions.

COSO Enterprise Risk Management Framework Risk management framework based on the system proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (see www.coso.org).

Creeping control clause Clause in the law and the Articles of Association of Kendrion N.V. which stipulates that if a shareholder: (i) acquires 20% of the shares or votes, that shareholder must notify the company thereof immediately; (ii) acquires 30% of the shares or votes, that shareholder is obliged to table a bid immediately for the remaining shares.

Defined benefit scheme A pension scheme where the employee is promised a pension the level of which depends on their age, salary and years of service. The commitment carried in the financial is the cash value of the projected pension benefits on the financial position date, less the fair market value of fund investments.

Defined contribution scheme Pension scheme where the employer pays agreed contributions to a fund or insurance company and no obligation arises for the employer to pay supplementary contributions in the event of a shortfall in the fund or insurance company.

Derivatives Derivative financial products which do not represent a direct cash value; they include options, forward exchange contracts and swap contracts.

ERP system Enterprise Resource Planning: a system which supports all the business processes within an organisation, such as purchasing, sales and accounting, with data being exchanged between departments.

Fair value The current value. For assets or liabilities for which there is an active market, this is generally the market value.

Greenfield operation The start-up of a new activity, usually in a new location, which is not based on an acquisition. In reality this is organic growth.

Hedging The covering of financial risks, usually relating to (undesirable) movements in market interest rates, exchange rates and raw material prices.

IFRS International Financial Reporting Standards, also referred to as IAS (International Accounting Standards). With effect from 2005, all listed companies in the European Union must comply with these new accounting rules.

Interest rate swap Derivative financial product whereby an agreement is reached with a counterparty (bank) to exchange specific interest payments on a predetermined underlying amount during a predetermined period. A variable interest rate (e.g. three-month EURIBOR) is usually swapped for a fixed interest rate.

Mid-Term Plan A plan for the medium term (three years) which is drawn up by Kendrion annually to facilitate the management and control of its organisation in the short to medium term.

Natural hedge Natural hedges arise where financial risks are neutralised without the use of derivative financial products, for example where currency risks relating to income in dollars are hedged by simultaneous dollar expenditure.

Normalisation Figures from which exceptional effects have been eliminated in order to improve comparability and transparency.

Number of employees (FTEs) Number of employees stated in full-time equivalents.

Organic (sales) growth Growth in revenue after eliminating the effects of acquisitions and disposal of activities.

Return on investment (ROI) The result before amortisation, interest and tax as a percentage of the average invested capital.

Return on sales (ROS) The result before interest and tax as a percentage of revenue.

Solvency ratio The ratio of total equity to the financial position total.

Translation risk Translation risk: a change in the value of an asset or liability of a subsidiary as a result of movements in the (non-euro) exchange rate.

TSR Total shareholders return.

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