KENDRION

WE MAGNETISE THE WORLD

# ANNUAL REPORT 2015

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ISIN code 0000383511
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A digital version of this report
is available on the website
(www.kendrion.com) along with
other publications such as press
releases, presentations as well as
Annual Magazines and CSR Reports.

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# Profile

**KENDRION** develops, manufactures and markets high-quality electromagnetic and mechatronic systems and components for industrial and automotive applications. For over a century we have been engineering precision parts for the world's leading innovators in passenger cars, commercial vehicles and industrial applications. As a leading technology pioneer, Kendrion invents, designs and manufactures complex components and customised systems as well as local solutions on demand. Committed to the engineering challenges of tomorrow, taking responsibility for how we source, manufacture and conduct business is embedded into our culture of innovation. Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, our expertise extends across Europe to the Americas and Asia. Created with passion and engineered with precision. Kendrion – we magnetise the world.

# Organisation

**KENDRION N.V.**

**INDUSTRIAL**

INDUSTRIAL MAGNETIC SYSTEMS

Electromagnetic components and mechatronic solutions for advanced technologies.

BINDER

INDUSTRIAL CONTROL SYSTEMS

Customised mechatronic solutions designed to optimise automatic processes.

KUHNKE

INDUSTRIAL DRIVE SYSTEMS

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

BINDER

**AUTOMOTIVE**

PASSENGER CARS

Electromagnetic, mechatronic and electronic components and systems for specific customer applications in the automotive industry.

BINDER KUHNKE

COMMERCIAL VEHICLES

Individual systems for commercial vehicles and off-highway applications as well as the hydraulic industry.

BINDER LINNIG

- Development, production and marketing of high-quality electromagnetic and mechatronic systems and components
- 2,700 employees (including about 80 temps) in 15 countries
- Revenue: approximately EUR 442 million
- Listed company on Euronext's Amsterdam Market

# Preface *To all our shareholders and other stakeholders,*

Kendrion is a focused, technologically advanced and innovative company that is active in Europe, Asia and the Americas. Over the past few years, we have gained leading positions in several electromagnetic niche markets. We expect that electromagnetism will remain the dominant technology in our products in the foreseeable future. Kendrion aims to provide its customers with ever-increasing value to further boost its appeal as a supplier.

From an economic perspective, 2015 was a mixed year. After a promising first half, the second half proved more difficult, as the world economy was dominated by concerns over the slowing of growth in China. Closer to home, and more directly relevant to Kendrion, in the second half of 2015 the issues concerning Volkswagen and the emissions of its diesel passenger cars in the USA were revealed. The precise impact on our business is hard to determine, but we did see a negative effect in the fourth quarter of 2015 and expect this to continue in 2016. On the industrial side, the German machine equipment industry was stable.

Kendrion recorded revenue growth of 3% in 2015, well below our target of 10%. This organic growth was lower than inflationary pressures on our operating costs, which resulted in a reduction in our operating result and net profit compared to 2014. Strong free cash flow allowed us to strengthen our position as a financially sound and solid market player. We are determined to further improve our operational and financial position in the coming years.

Kendrion's business units cooperate intensively on technical issues. We attach paramount importance to innovation, supported by the Kendrion Mechatronics Center. The strong cooperation between Kendrion and its customers on innovation is especially gratifying. Our customers clearly regard Kendrion as an innovative, trustworthy long-term partner.

We devoted a great deal of attention to sustainability and corporate social responsibility in 2015, framed by our successful three-year CSR programme called 'Taking Responsibility'. More information on this will be available in Kendrion's 2015 CSR Report, which will be published in the spring of 2016.

At the end of 2015, my predecessor, Piet Veenema, left Kendrion in a well-managed transition after 12 years as CEO of Kendrion. Under Mr Veenema's leadership, Kendrion developed into a successful international niche player. I would like to express my gratitude for his many years of inspired, successful leadership.

I also want to thank our employees, customers, suppliers and other stakeholders for their hard work, support and commitment. Kendrion is an ambitious company and I look forward to many more years of success.

Joep van Beurden
CEO

# Kendrion at a glance

# Key figures

EUR million, unless otherwise stated

### Share information

**Net profit per share (EUR)**

| | | |
|---|---|---|
| 2014 | 1.56 | |
| 2015 | 1.28 | ↓ 18% |

### Operations

**Revenue**

| | | |
|---|---|---|
| 2014 | 428.9 | |
| 2015 | 442.1 | ↑ 3% |

**Operating result before amortisation (EBITA) [1]**

| | | |
|---|---|---|
| 2014 | 32.9 | |
| 2015 | 25.8 | ↓ 22% |

**Operating result before depreciation and amortisation (EBITDA)**

| | | |
|---|---|---|
| 2014 | 49.3 | |
| 2015 | 45.2 | ↓ 8% |

**Net profit**

| | | |
|---|---|---|
| 2014 | 20.2 | |
| 2015 | 16.8 | ↓ 17% |

**EBITA [1] / invested capital [2] (ROI)**

| | | |
|---|---|---|
| 2014 | 13.0% | |
| 2015 | 10.2% | ↓ 22% |

**Investments**

| | | |
|---|---|---|
| 2014 | 20.6 | |
| 2015 | 22.3 | ↑ 8% |

**Depreciation**

| | | |
|---|---|---|
| 2014 | 16.4 | |
| 2015 | 19.4 | ↑ 18% |

**Solvency (total equity / balance sheet total)**

| | | |
|---|---|---|
| 2014 | 46.0% | |
| 2015 | 49.8% | ↑ 8% |

**Working capital in % of revenue**

| | | |
|---|---|---|
| 2014 | 10.5% | |
| 2015 | 9.8% | ↓ 6% |

| EUR million, unless otherwise stated | 2015 | 2014 |
|---|---|---|
| Net profit | 16.8 | 20.2 |
| Organic growth | 3.1% | 8.2% |
| Total equity | 169.9 | 153.2 |
| Net interest-bearing debt | 69.1 | 83.0 |
| Net interest-bearing debt / equity (gearing) | 0.41 | 0.54 |
| Net interest-bearing debt / operating result before depreciation and amortisation (EBITDA) | 1.53 | 1.68 |
| Operating result before depreciation and amortisation (EBITDA) / net finance costs [3] | 20.1 | 13.9 |
| Issued and outstanding shares at year-end (x 1,000) | 13,188 | 13,031 |

## Realisation of targets

| Organic growth | |
|---|---|
| Target | > 10% per year |
| Actual | 3.1% |

| Return on Sales (ROS)[1] | |
|---|---|
| Target | > 10.0% |
| Actual | 5.8% |

| Return on Invested capital (ROI)[1, 2] | |
|---|---|
| Target | > 17.5% |
| Actual | 10.2% |

| Solvency | |
|---|---|
| Target | not below 35% |
| Actual | 50% |

| Ratio of net interest-bearing debt and EBITDA | |
|---|---|
| Target | < 3.00 |
| Actual | 1.53 |

| Free cash flow[4] | |
|---|---|
| Target | healthy free cash flow in relation to organic growth in % of net profit |
| Actual | 126% |

| Dividend distribution | |
|---|---|
| Target | between 35%-50% of net profit |
| Actual | 61% of net profit |

1 *EBITA is excluding amortisation related to acquisitions (part of other intangible assets).*

2 *Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash and non-interest bearing debts.*

3 *The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities and the amortisation of upfront and legal fees.*

4 *Free cash flow is excluding cash flow relating to acquisitions.*

# Mission, strategy and financial objectives

## Mission

Kendrion is 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. 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 strategy is aimed at creating sustainable added value and achieving an attractive return on investment for the company. Kendrion focuses on a number of selected operations and on profitable growth achieved both organically and through acquisitions. Kendrion wants to evolve from a European player into a more global player. Within this context, the USA and Asia are important regions for further growth.

Kendrion utilises its existing know-how, innovative capacity and strong commercial relationships to offer solutions to a wide range of customers. The company focuses on further expansion in the fields of applications for electromagnetic and mechatronic systems and components.

Kendrion, characterised by its transparency, flexibility and local entrepreneurship, 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 sustainability and of Kendrion's social responsibility for its strategy and value creation and for this reason the social and environmental standards governing all processes are continually improved.

Kendrion's spearheads are:

- Niche market leadership in selected business-to-business markets;
- Organic growth in its current operations;
- Utilisation of synergy in and between the business units (locally and internationally);
- Balanced spread of the operations;
- Targeted add-on acquisitions;
- Enhancement of its innovative capacity;
- Corporate Social Responsibility and sustainability.

**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, where 'small' refers not so much to revenue or volume as to a limited number of suppliers. 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 related services have the following features:

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

**Organic growth in its current operations**
Kendrion endeavours to achieve organic growth in its operations in terms of revenue and profit. Top priority is assigned to the provision of first-rate service and a detailed understanding of the relevant market segments and customer demands.

**Utilisation of synergy in and between the business units**
Kendrion's two divisions with five 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 exchanges of engineering know-how, purchasing and support services such as HR, Finance and IT.

**Balanced spread of the operations**
Kendrion intends to safeguard stable results by ensuring it does not become overly dependent on any specific market or customer. Kendrion strives to achieve a balanced customer base in which, in principle, no customer generates more than 5% of the company's total revenue.

**Targeted add-on acquisitions**
Kendrion endeavours to acquire companies that enhance the company's leading position in its markets. Acquisition targets need to offer good returns in terms of their EBIT and ROI, preferably at levels similar to or above Kendrion's returns, but at least leading to improvement of the earnings per share. The smooth and careful integration of acquisitions is then essential.
The integration plans are typically developed before the acquisition decision.

**Enhancement of its 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 a culture of innovation, strong engineering capacity, detailed knowledge of markets and customers and permanent improvements to its operations. Kendrion uses a multi-year innovation calendar that encourages the business units to introduce innovations. This led to annual presentations of Kendrion's most important innovations to its stakeholders, such as the third Kendrion Symposium, which Kendrion organised again in Villingen, Germany, in March 2015.

Kendrion makes use of the services of an external Business Development Board for the provision of advice and support to the company. Kendrion has also developed an intellectual property strategy and devotes continually increasing efforts to the development of knowledge management.

**Corporate Social Responsibility (CSR) and sustainability**
Pursuant to Kendrion's mission CSR and sustainability are intrinsic, integral elements of the company's operations. This form of entrepreneurship pivots on the creation of multiple values (People, Planet and Profit). Sustainability is already at the core of many of the company's products and innovations. Kendrion intends to secure a sustainable and 'green' environment for the generations to come for so far as this is within the company's control. Kendrion has enhanced its sustainability strategy and has brought the strategy further into line with the company's overall strategy. Integrated thinking and integrated reporting will become more and more important.
Some of the relevant global trends such as climate change, scarcity of resources, sustainable energy and population growth also offer opportunities for Kendrion.
The product portfolios of Kendrion's divisions, especially the Automotive Division, already include many products that meet customer requirements for energy savings and lower emissions. In the longer term these can make an essential contribution to the creation of value for all Kendrion's stakeholders and the attraction of motivated employees.

## » Strategic objectives
In February 2013, Kendrion stated its target of increasing revenue from EUR 285 million in 2012 to EUR 450-500 million in 2015.
In 2015 revenue has increased to EUR 442 million, around EUR 291 million of which is generated by automotive operations (i.e. cars, buses and trucks). The combined revenue of the industrial activities totals approximately EUR 151 million. Further organic growth is expected for the coming years, where Kendrion's automotive activities, in particular, will be the driving force.

## Financial objectives

Kendrion's financial objectives are the following:

- Annual organic growth in revenue of at least 10%;
- Return on Sales (EBITA margin) in excess of 10%;
- Return on Investment (ROI), inclusive of goodwill, in excess of 17.5%;
- A healthy free cash flow given the organic growth achieved;
- Solvency ratio not below 35%;
- Interest-bearing debt/EBITDA of lower than 3.0;
- Dividend distribution between 35% and 50% of the net profit.

In August 2015, Kendrion indicated that it expects annual revenue of EUR 550 – 600 million in 2018. The Executive Board expects to provide a more comprehensive update on its financial objectives in the second quarter of 2016.

## Important events

**5 January 2015**
The acquisition of Steinbeis Mechatronik GmbH in Ilmenau, Germany, effective 5 January 2015, will further strengthen Kendrion's research and engineering capabilities.

**13 April 2015**
Upon the proposal of the Supervisory Board, following recommendations from the Audit Committee and the Executive Board and after a careful selection process, the General Meeting of Shareholders held on 13 April 2015 appointed Deloitte Accountants B.V. as the company's new external audit firm for a term of three years (2015-2017).

**4 November 2015**
At the Extraordinary General Meeting of Shareholders held on 4 November 2015, Mr Joep van Beurden was appointed as Kendrion's CEO and as a member of the Executive Board with effect from 1 December 2015. Joep van Beurden succeeded Mr Piet Veenema, who announced his resignation as Kendrion's CEO at the end of 2014. Piet Veenema left the company on 31 December 2015.

# Kendrion at a glance

# Information on Kendrion N.V. shares

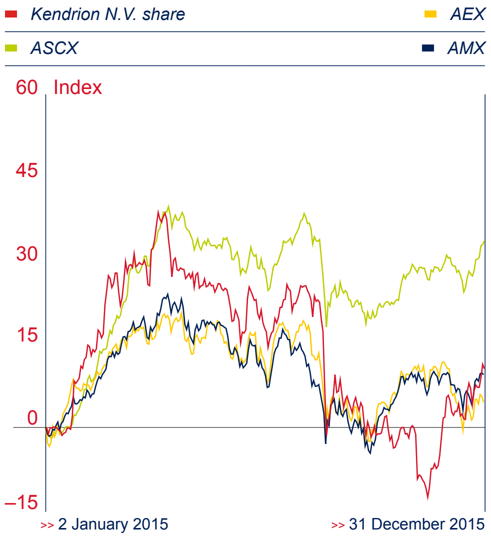
### » Share capital

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 2015, 13,188,154 shares had been issued.

On the balance sheet date the company owned no shares in its own capital.

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

Movements in the share price from 2 January 2015 to 31 December 2015




| **Movements in the number of outstanding shares** | Ordinary shares entitled to dividend | Shares owned by Kendrion | Total number of issued shares |
|---|---|---|---|
| At 1 January 2015 | 13,026,325 | 4,657 | 13,030,982 |
| Issued shares (share dividend) | 146,148 | – | 146,148 |
| Issued registered shares (share plan) | 11,024 | – | 11,024 |
| Delivered shares | 5,985 | (5,985) | – |
| Repurchased shares | (1,328) | 1,328 | – |
| At 31 December 2015 | 13,188,154 | – | 13,188,154 |

**Other information**

| In EUR, unless otherwise stated | 2015 | 2014 | 2013 |
|---|---|---|---|
| Number of shares x 1,000 at 31 December | 13,188 | 13,031 | 12,962 |
| Market capitalisation at 31 December (EUR million) | 319.7 | 281.7 | 309.2 |
| Enterprise value (EV) (EUR million) | 388.8 | 364.7 | 358.1 |
| Highest share price in the financial year | 30.39 | 26.22 | 23.90 |
| Lowest share price in the financial year | 19.18 | 19.00 | 16.24 |
| Share price on 31 December | 24.24 | 21.62 | 23.85 |
| Average daily ordinary share volume | 37,123 | 21,704 | 11,278 |
| EBITDA multiple (over EV) | 8.59 | 7.40 | 9.71 |
| Result per share | 1.28 | 1.56 | 1.33 |
| Normalised result per share | 1.28 | 1.56 | 1.14 |
| Share price earnings ratio | 19.01 | 13.86 | 20.92 |

| Major shareholders | Interest in % | Date of report |
|---|---|---|
| Delta Lloyd Deelnemingen Fonds N.V. | 10.71% | 19 December 2013 |
| Kempen Capital Management N.V. | 5.98% | 23 November 2015 |
| Janivo Beleggingen B.V. | 5.88% | 4 October 2011 |
| Darlin N.V. | 5.09% | 1 November 2006 |
| T. Rowe Price Associates, Inc. | 5.04% | 29 June 2015 |
| Total | 32.70% | |

### » (Former) 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 shareholders as shown in the table left, possessed an interest of more than 3% on 31 December 2015.

Project Holland Beheer B.V. notified on 23 July 2015 that it sold off a part of its major shareholding and holds 4.25% of the capital of Kendrion N.V. On 28 July 2015 it notified that it holds 1.5% of the capital of Kendrion.

Invesco Limited notified that it sold off a part of its major shareholding and holds 1.91% of the capital of Kendrion N.V. as per 16 November 2015.

Delta Lloyd N.V. (through Delta Lloyd Levensverzekering N.V.) notified that it sold off its major shareholding and holds no shares anymore as per 24 November 2015.

Other movements in the size of the interests of Kendrion's major shareholders also took place during the course of 2015. These changes fall within the disclosure thresholds as stipulated in the Financial

Supervision Act and, consequently, do not need to be disclosed by the major shareholders.

Transactions between the company and legal persons holding at least 10% of the shares in the company as specified in best practice provision III.6.4 of the Netherlands Corporate Governance Code have not taken place.

## Dividend

Kendrion's dividend policy takes account of both the interests of the shareholders and the expected further development of the company.

Kendrion endeavours to realise an attractive return for shareholders, supported by a suitable dividend policy. However, to provide the necessary assurances for its continuity the company needs to retain a healthy financial position. When the dividend to be distributed to shareholders is determined, consideration also needs to be given to the amount of profit to be retained to support the medium and long-term strategic plans of the company and to maintain a minimum solvency ratio of 35%. Kendrion strives to distribute an annual dividend of between 35% and 50% of the net profit. In principle, Kendrion offers shareholders an opportunity to opt for dividend in cash and/or in the form of ordinary shares in Kendrion N.V.'s capital.

In the light of the strong financial position and business outlook, the Executive Board proposes, with the approval of the Supervisory Board, to increase for this year the pay-out ratio and maintain the dividend per share at the level of last year.
A proposal will be submitted to the shareholders for the payment of a dividend of 61% of the net profit of 2015. The dividend is equivalent to an amount of EUR 10.3 million. The number of outstanding shares entitled to dividend at 31 December 2015 was 13,188,154 and, consequently, the dividend amounts to EUR 0.78 per ordinary share. The dividend policy going forward remains unchanged.

A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 11 April 2016 for the payment of the dividend, at the shareholder's discretion, in cash and/or in ordinary shares, charged to the share premium reserve. The share dividend will be set on 3 May 2016 (before start of trading), on the basis of the volume-weighted average price of all ordinary shares in Kendrion traded on 26, 27, 28 and 29 April and 2 May 2016, at a level whereby the value of the dividend in shares is virtually equal to the cash dividend.
The dividend will be made available on 6 May 2016.

## Voting by proxy

Shareholders can be represented by proxy at meetings of shareholders. At request a proxy can be granted to an independent third party. Shareholders who are unable to attend the General Meeting of Shareholders can request proxy forms from the company. These are issued free of charge and are also available on Kendrion's website. Shareholders may also grant a proxy electronically through e-voting (www.abnamro.com/evoting).

## Participation

The share plan for the top management 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 Executive Board's recommendations. The plan does not extend to the Executive Board. In addition, the CEOs of the Division Automotive and Division Industrial, the Business Unit Managers and a number of other officers were offered an opportunity to apply for the conversion of a maximum of half of their annual net cash bonus into shares. Kendrion doubles the number of shares after three years when officers are still employed by Kendrion and still possess the shares. Pursuant to these share plans a total of 11,024 shares were awarded in 2015. For central administration and handling purposes it has been decided to issue new – registered – shares.

A bonus scheme in shares was granted to the members of the Executive Board for 2015. More information about the shares granted to the members of the Executive Board is enclosed on pages 122-123 and 131. A comprehensive description of the bonus scheme for 2015 and onwards is included in the remuneration policy section on pages 57-59.

## Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading. These regulations govern the Supervisory Board, Executive Board, the CEOs of both Divisions, the Business Unit Managers and their Controllers, and a number of other employees. In addition, the Executive Board and the Supervisory Board are governed by restrictions on trading in other listed companies. Kendrion has also 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.

## Liquidity providing

In 2015, SNS Securities N.V. acted as a liquidity provider for Kendrion N.V. As such, SNS Securities acts as the counterparty for buy or sell orders of which the bid and ask prices are set within a range around the last executed price. Relatively small (retail) buy and sell orders can then be conducted via the liquidity provider, which results in a fairer and more orderly market.

## Analysts

The following stock exchange analysts actively monitor the Kendrion share:

| | |
|---|---|
| ABN AMRO Bank N.V. | Maarten Bakker |
| ING Bank N.V. | Tijs Hollestelle |
| Rabo Securities N.V. | Frank Claassen |
| SNS Securities N.V. | Johan van den Hooven |
| Theodoor Gilissen Bankiers N.V. | Joost van Beek |
| The Idea Driven Equities Analyses company | Maarten Verbeek |

## Financial calendar

| | |
|---|---|
| Thursday, 25 February 2016 | Publication of the 2015 full-year figures |
| Monday, 14 March 2016 | Record date General Meeting of Shareholders |
| Monday, 11 April 2016 | General Meeting of Shareholders |
| Wednesday, 13 April 2016 | Ex-dividend date |
| Thursday, 14 April 2016 | Dividend record date |
| Friday, 15 April – Monday, 2 May 2016, 3 pm | Dividend election period (stock and/or cash) |
| Tuesday, 3 May 2016 | Determination stock dividend exchange ratio |
| Tuesday, 3 May 2016 | Publication of the results for the first quarter of 2016 |
| Friday, 6 May 2016 | Cash dividend made payable and delivery stock dividend |
| Thursday, 18 August 2016 | Publication of the results for the first six months of 2016 |
| Thursday, 3 November 2016 | Publication of the results for the third quarter of 2016 |
| Wednesday, 22 February 2017 | Publication of the 2016 full-year figures |
| Monday, 10 April 2017 | General Meeting of Shareholders |

# Members of the Supervisory Board

From left to right: **M.E.P. Sanders, H. ten Hove, and R.L. de Bakker.**

**H. ten Hove (63)**
Mr Ten Hove was appointed Chairman of the Supervisory Board as from December 2013. The Extraordinary General Meeting of Shareholders had appointed
Mr Ten Hove as member of the Supervisory Board as from 19 August 2013 for a four-year term until 2017. Mr Ten Hove is member of the Remuneration Committee of Kendrion and acting member of the Audit Committee.
Mr Ten Hove is member of the Supervisory Board of Rabobank Vaart en Vechtstreek, member of the Supervisory Board of SPG Prints, Icopal Group and Unica Groep B.V. He is Chairman of the Economic Board of the Zwolle region and Chairman of the foundation which owns the shares of BDR Thermea. He is the former CEO of Wavin N.V.

Mr Ten Hove is a Dutch national. He does not possess any shares in Kendrion.

**R.L. de Bakker (65)**
Mr De Bakker was appointed a member of the Supervisory Board during the Extraordinary General Meeting of Shareholders held in June 2005. In 2015, he is reappointed for a period of two years until 2017. He is Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Kendrion.
Mr De Bakker is Chairman 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, a member of the Board of the Tom-Tom Continuity Foundation, Chairman of the Supervisory Board of the Florence Zorg Foundation and Vice-Chairman of the Supervisory Board of Save the Children Nederland Foundation. He was formerly CFO and member of the Executive Board of ASM International N.V.

Mr De Bakker is a Dutch national. He does not possess any shares in Kendrion.

**M.E.P. Sanders (62)**
Mrs Sanders was appointed a member of the Supervisory Board during the General Meeting of Shareholders held in April 2005. In 2012 the General Meeting of Shareholders reappointed Mrs Sanders for a four-year term until 2016. She is Chair of the Remuneration Committee of Kendrion.
Mrs Sanders is Chair of the Supervisory Board of Hoens Broadcast Facilities B.V., of the Warande Foundation and Chair of the Advisory Board of Difrax Beheer B.V.
Mrs Sanders is member of the Supervisory Board of Stern Groep N.V. She also serves as a member of the Board at a number of investment companies based in the Netherlands.
Mrs Sanders is a Dutch national. She does not possess any shares in Kendrion.

In accordance with the schedule of rotation, Mrs Sanders will retire as a member of the Supervisory Board during the General Meeting of Shareholders to be held on 11 April 2016. The Supervisory Board is pleased that a successor has been found for Mrs Sanders in the person of Mrs Marion Mestrom. A proposal will be submitted to the General Meeting of Shareholders, to be held on 11 April 2016, to appoint Mrs Mestrom as a member of the Supervisory Board for a term of four years. Mrs Mestrom is responsible for global Human Resources of the German listed company Brenntag AG. Previously she was the global Human Resources Director for Siegwerk Druckfarben Group also located in Germany. Before that she held several global Human Resources positions within Royal Philips, also in Asia for a couple of years.

Mr Horst Kayser has decided to step down as a member of the Supervisory Board with effect from 7 January 2016.

# Report of the Supervisory Board

## » Annual Report

We hereby present the Annual Report for 2015 prepared by the Executive Board. The Annual Report includes the financial statements audited by Deloitte Accountants B.V. The unqualified independent auditor's report is enclosed on pages 133-139 of this Report.

The Supervisory Board and the Executive Board held extensive discussions on the Annual Report for 2015 and the preparation of the Annual Report, in part during a meeting 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 account of the supervision and advice given by the Supervisory Board during the year under review.

The Supervisory Board recommends that the General Meeting of Shareholders to be held on 11 April 2016 adopts these financial statements and discharges the Executive Board and Supervisory Board of responsibility in respect of their respective managerial and supervisory obligations.

## » Composition of the Supervisory Board and Executive Board

**Supervisory Board**

The membership of the Supervisory Board remained unchanged during the year under review. Since January 2016, the Supervisory Board has consisted of three members with one vacant position. Mrs Sanders will step down as a member of the Supervisory Board during the General Meeting of Shareholders to be held on 11 April 2016. The Supervisory Board is pleased that a qualified successor has been found in the person of Mrs Marion Mestrom. Dr Kayser has decided to step down as a member of the Supervisory Board with effect from 7 January 2016. The reason is that his heavy workload as head of Corporate Strategy of Siemens prevents him from making sufficient time available to fully perform his duties as a member of the Supervisory Board. The Supervisory Board and the Executive Board respect his decision and are grateful to Dr Kayser for his work as a member of the Supervisory Board. We are in the process of recruiting a successor.

All members of the Supervisory Board, including Mrs Mestrom, comply with the provisions of the Netherlands Corporate Governance Code and Management and Supervision Act which set out the maximum number of positions an individual may hold on the Supervisory Boards of Dutch entities.

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 (partly in connection with the diversity provisions of the Netherlands Corporate Governance Code and Dutch legislation) that endeavours shall be made to achieve 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 successful. The profile of the Supervisory Board is available on the company's website.

Legislation is in force to provide for the balanced participation of men and women in the management and supervision of 'large' public and private limited liability companies. Balanced participation is deemed to exist when at least 30% of the seats are held by men and at least 30% by women. Kendrion's Executive Board and Supervisory Board did not yet reflect this gender balance. The imbalance in the Executive Board is partly due to the limited number of members. Kendrion attaches great importance to diversity and wishes to increase the percentage of women in the Supervisory Board.

Both the Supervisory Board and the Executive Board comply with the conflicts of interest rules laid down in Kendrion's internal regulations, the Netherlands Corporate Governance Code and Dutch law.

**Executive Board**

At the Extraordinary General Meeting of Shareholders held on 4 November 2015, Mr Joep van Beurden was appointed as Kendrion's CEO and member of the Executive Board with effect from 1 December 2015. Joep van Beurden succeeded Mr Piet Veenema, who announced his resignation as Kendrion's CEO at the end of 2014 and left the company on 31 December 2015. The Supervisory Board is very pleased with this appointment and at the same time grateful to Mr Veenema for his contribution over the years and the development of Kendrion under his leadership, during which time it has become the successful international niche player it is today.

### Evaluations

In several meetings of the Supervisory Board, not attended by the Executive Board, the Supervisory Board discussed its own performance, its committees and its members and the performance of the Executive Board and its members.
An evaluation of the remuneration policy governing the Executive Board was also made. These meetings also reviewed the requirements governing the Supervisory Board's profile, composition and competence. The Supervisory Board has specified the following special topics for 2016:

- careful attention to the changes in the Executive Board and Supervisory Board;
- extra attention to a review of the Mid-term Plan with greater emphasis on profitability and reduced complexity;
- growth of the business outside Europe;
- next steps in the management development programme;
- post-acquisition evaluation of Kuhnke.

The issues requiring special attention in 2015 included the appointment of the new CEO, organic growth in China/Asia, the expansion strategy of the Industrial Division and management development. The post-acquisition evaluation of Kendrion (Shelby) Inc. was another item of attention.

We have seen further developments in the USA, but not the growth in China that had been anticipated. For both the automotive and industrial segments, extensive market research has been carried out to further explore both organic and non-organic growth opportunities. This will serve as input for the next 3-year (mid-term) plan. Management development has been discussed on various occasions.
We are happy to see that special programmes are in place devoting attention to young potentials as well as individual development plans. Other elements which must and will be addressed are succession planning and gender and international diversity. The main conclusion from the evaluation of our acquisition of Kendrion (Shelby) Inc. (formerly FAS Controls, Inc.) in the USA was that creating a foothold in the local market was a good decision, however the integration and transformation into the Kendrion culture took longer than expected. The sale of some non-core activities at an acceptable price level also proved to be more difficult than expected.

The Supervisory Board also held consultations with the external auditor, some of which were attended by the Executive Board. In addition to these formal meetings, the Chairman of the Supervisory Board held regular informal discussions with the CEO, and the Chairman of the Audit Committee had informal discussions with the CFO.

The Audit Committee once again reviewed the need for a separated internal audit department. The Supervisory Board recommends that the Executive Board maintains the current situation in line with the Audit Committee's proposal.
The Supervisory Board is of the opinion that the internal control procedures described in more detail on pages 31 and following of this Annual Report fulfil Kendrion's needs.

KPMG Accountants N.V. ('KPMG') had been Kendrion's auditor since 2005. Legislation prescribes the rotation of audit firms after a maximum of eight years, whereby a transitional period of three years is permitted. At the proposal of the Supervisory Board, following recommendations from the Audit Committee and the Executive Board and after a careful selection process, the General Meeting of Shareholders held on 13 April 2015 appointed Deloitte Accountants B.V., a member of Deloitte Touche Tohmatsu Limited, as the company's new external audit firm for a term of three years (2015-2017).

## Meetings

The Supervisory Board held meetings with the Executive Board on six occasions. Key issues were the search for a new CEO and the strategic development of the company. In each meeting we reviewed and discussed the development and results of the business units in relation to the agreed targets. Other issues on the agenda were the combination and integration of the business units, innovation priorities, CSR, risk management, management development and the implementation of the group-wide ERP project 'HORIZON'. Another important item was the auditor's report and its recommendations. All but two of the meetings were attended by all members of the Supervisory Board. On several occasions division, business unit and staff directors were invited.

In March a delegation of the Supervisory Board attended the Kendrion symposium (for customers) in Germany. In March the entire Supervisory Board made a working visit to the plants in Prostejov (Czech Republic) and Eibiswald (Austria).

## Committees

The Supervisory Board has two committees, an Audit Committee and a Remuneration Committee. Both Committees have been assigned the work of preparing the groundwork for the Supervisory Board's decision-making process. The regulations of both Committees have been published on the Kendrion website.

**Audit Committee**

In 2015, the Audit Committee was comprised of Mr De Bakker (Chairman and financial expert as defined by the Netherlands Corporate Governance Code) and Dr Kayser. Following Dr Kayser's departure from the Supervisory Board, Mr Ten Hove will be an acting member of the Audit Committee.

The Audit Committee held four meetings with the CFO and his staff during the year under review where issues were discussed, including the development in the results, control environment, tax position, transfer pricing, risk management, information security, contingency planning, compliance, treasury activities, the transition to the new audit firm, the dividend policy, the ERP HORIZON project, hedging, goodwill impairment evaluation and insurances.

The Audit Committee has devoted extensive attention to the management letter and internal audit findings; and the way in which the limited number of small issues can be solved. The external auditors joined the meetings in which the full year figures for 2014 and the half-yearly figures for 2015 were discussed. In this meeting, the auditor's report (including among others the key findings regarding goodwill, the tax position, internal control and the draft auditor opinion), were extensively discussed. The members of the Committee attended all meetings, sometimes by telephone.

**Remuneration Committee**

In 2015, the Remuneration Committee was comprised of Mrs Sanders (Chair) and Mr Ten Hove.

The Remuneration Committee held four meetings. Most of these meetings were attended by members of the Executive Board. The bonus systems were discussed as well as the expected outcome of the variable remuneration for 2014 and the target setting for 2015.

A new remuneration policy for the Executive Board was adopted by the Extraordinary General Meeting of Shareholders of 4 November 2015 at the proposal of the Supervisory Board. The Committee had the lead and was extensively involved in the search for a new CEO and the succession for retiring members of the Supervisory Board. Both members of the Committee attended all meetings.

## Highlights of supervision

The discussions between the Executive Board and the Supervisory Board are open and constructive. There is transparency and documentation is well prepared, which allows a critical and balanced exchange of views and opinions.

The financial results, 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-yearly and annual figures.

The Audit Committee and the Supervisory Board devoted comprehensive attention to the organisation's internal risk management and control systems, including the degree of flexibility of the workforce. The auditor's overview of internal control issues was discussed together with the status of the internal tests of the financial reporting systems. The Supervisory Board expressed its satisfaction that the management letter of the company's new auditor once again revealed a limited number of findings and no findings which qualified as significant. The Supervisory Board closely monitors follow-up actions regarding issues that are reported. More information on this is contained in the risk management section on pages 31-40 of this Annual Report.

The Supervisory Board monitored the integration of the Automotive Control Systems and Passenger Car Systems business units, as well as the Heavy Duty Systems and Commercial Vehicle Systems business units.

The Supervisory Board was updated from time to time on the progress of the ERP HORIZON project and is satisfied that its implementation complied with the planned overall time frame and that the related costs did not deviate significantly from the specified budget. All operations have now implemented the new system except for some smaller plants.

The Supervisory Board had several discussions of organisational and management development issues and reviewed the progress of agreed plans.

In mid-year a special meeting was dedicated to market opportunities and the competitive environment based on more extensive market research.

We discussed opportunities and threats in more detail in order to assess the organic and non-organic growth opportunities in and outside Europe.

The Supervisory Board and the Executive Board discussed the dividend proposal that will be added to the agenda of the General Meeting of Shareholders to be held on 11 April 2016 (see page 10).

The Supervisory Board recognises the importance of Kendrion's Corporate Social Responsibility and advocates focusing strongly on the company's social and environmental standards regarding its processes and on the relationship between the overall strategy and sustainability.

The Supervisory Board reviewed the achievements of 2014 and endorsed the annual CSR plan 'Taking Responsibility' which covers the years 2015 to 2017. More information about Kendrion's CSR activities can be found on pages 24-26 and in the CSR Report.

The Supervisory Board is periodically updated on the latest developments concerning relevant legislation and corporate governance regulations.

## » Remuneration policy

The remuneration policy is designed to offer a package that attracts managers qualified to manage an international company of the nature and character of Kendrion.

The policy must also be sufficiently challenging to motivate managers and, if they perform well, to 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, which 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 policy. A new remuneration policy for the Executive Board was adopted by the Extraordinary General Meeting of Shareholders of 4 November 2015 at the proposal of the Supervisory Board.

The Supervisory Board periodically benchmarks the remuneration package (including pensions) against information supplied by external experts to verify that it is in line with the company's objectives and growth, as well as the market and legislation.

Further explanation of the remuneration policy is provided on pages 56-59 and can also be found in the Remuneration Report of the Supervisory Board published on Kendrion's website.

## 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. Arrangements have also been made with the former CEO with regard to his resignation.

A specification of the remuneration of the Executive Board and the Supervisory Board is enclosed in the notes to the financial statements (pages 122-123 and 131).

The Supervisory Board has received confirmation from the auditor that the figures on which the 2015 bonus for the Executive Board is based are derived from the audited financial statements and that the calculation of the bonus has been checked.

## Profit appropriation

Kendrion recorded a net profit of EUR 16.8 million over 2015.

In the light of the strong financial position and business outlook, the Executive Board proposes, with the approval of the Supervisory Board, to increase for this year the pay-out ratio and maintain the dividend per share at the level of last year.
A proposal will be submitted to the shareholders for the payment of a dividend of 61% of the net profit of 2015.
The dividend is equivalent to an amount of EUR 0.78 per share entitled to dividend.
A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 11 April 2016 for the payment of the dividend, at the shareholder's discretion, in cash and/or in ordinary shares charged to the share premium reserve. The dividend policy going forward remains unchanged.

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.

2015 was a dynamic year with many challenges. We are grateful to our customers for their business relation with Kendrion, to shareholders for their loyalty and trust and our employees for their spirit and efforts.

Supervisory Board
H. ten Hove, Chairman
R.L. de Bakker, Vice-Chairman
M.E.P. Sanders

Zeist, 24 February 2016

# Members of the Executive Board

**J.A.J. van Beurden*** **(55)**
Position: Chief Executive Officer
Nationality: Dutch
Joined Kendrion: 1 December 2015
Appointment to current position:
1 December 2015
Additional positions: Non-Executive Director Antenna Company, Advisor of the Management Board of Adyen, member of the Supervisory Board of the Twente University

**F.J. Sonnemans (54)**
Position: Chief Financial Officer
Nationality: Dutch
Joined Kendrion: 2013
Appointment to current position: 2013

* *During the Extraordinary General Meeting of Shareholders that took place on 4 November 2015, Mr Joep van Beurden was appointed as Kendrion's CEO and as a member of the Executive Board as of 1 December 2015. Joep van Beurden succeeded Mr Piet Veenema. Piet Veenema resigned as CEO with effect from 1 December 2015 and left the company on 31 December 2015.*

**Joep van Beurden** (left), **Frank Sonnemans** (right).

# Report of the Executive Board Highlights

- Further development of a focused company with a clear profile;
- 2015 was a challenging year, with growth and profitability lower than last year;
- 3% revenue growth in 2015, driven by the Automotive Division, to total revenue of EUR 442 million, just short of the company's target of EUR 450-500 million;
- Acquisition of Steinbeis Mechatronik GmbH, an engineering and research company engaged in the development of innovative mechatronic products, became effective on 5 January 2015;
- Mr Joep van Beurden was appointed Kendrion's CEO and succeeded Mr Piet Veenema on 1 December 2015;
- Ramp up of production of solenoid valves for the damper business started towards year-end. Total revenue during the project's lifetime will be at least EUR 300 million, with further potential in Europe and the USA;
- Extra attention to sales and marketing activities in China and the USA, with a contribution to revenue from outside Europe which increased from 24% to 27%;
- Presence of the manufacturing capabilities in Eastern Europe (Romania) further strengthened on the transfer of production from Germany;
- Further focus in Automotive by streamlining the existing four business units into two newly formed business units, Passenger Cars and Commercial Vehicles;
- Market position updated. Focus will be on specific market segments with a total size of over EUR 3 billion, 30% of which are industrial markets and 70% are automotive markets;
- Implementation of the ERP HORIZON project completed according to plan, with implementations in Germany, Switzerland, China and the Netherlands;
- Further steps taken in sustainability and Corporate Social Responsibility, within the context of Kendrion's successful 'Taking Responsibility' 3-year programme;
- First group of fifteen selected employees graduated from the Kendrion High Potential Programme;
- Successful third Kendrion Symposium in Villingen, Germany, which was based on the 'Magnetised by megatrends' theme and explored economic, ecological and technical changes;
- Decline in EBITA (as a % of revenue) to 5.8% (2014: 7.7%), with anticipated revenue decline in Automotive Control Systems and higher operating costs impacting profitability;
- Strong free cash flow (normalised) of EUR 21.2 million, as compared to net profit of EUR 16.8 million;
- Good financial position, with solvency of 50% (total equity EUR 170 million) and net debt of EUR 69 million (net debt cover of 1.5) at the end of 2015;
- In August 2015, Kendrion announced that it expects annual revenue to increase to EUR 550-600 million by 2018. The Executive Board expects that it will be able to issue a more comprehensive update on its financial objectives in the second quarter of 2016.

# Organisational structure

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

**Division Industrial**

- *Industrial Magnetic Systems:* electromagnetic components and mechatronic solutions;
- *Industrial Control Systems:* customised mechatronic solutions designed to optimise automatic processes;
- *Industrial Drive Systems:* full-line provider of electromagnetic brakes and clutches for industrial applications.

**Division Automotive**

- *Passenger Cars:* electromagnetic, mechatronic and electronic components and systems for specific customer applications in the automotive industry;
- *Commercial Vehicles:* individual systems for commercial vehicles and off-highway applications as well as the hydraulic industry.

Each division has a number of operating companies in various geographical locations. The organisation has implemented a decentralised structure to promote the company's agility and decisiveness.

The divisions and individual business units have a shared strategy and collaborate with the individual operating companies in a wide range of fields, such as engineering, project management, purchasing, production strategy, marketing and sales. The Executive Board, supported by the CEOs of the divisions – together the Executive Committee – takes all significant decisions concerning the strategy and direction of the 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 divisions and their business units 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 Executive Board performs a coordinating role in the development of the strategy, and is responsible for the acquisition policy.

A number of responsibilities and coordinating activities are entrusted to Kendrion Group Services, such as financing and cash management, reporting and controlling, group taxation, risk management, corporate communications and investor relations, facility management, insurance, IT, human resources management, strategic marketing, Corporate Social Responsibility, legal & compliance and corporate governance.

More information about the divisions is enclosed on pages 49 and following of this Annual Report.

## Continued focus on key issues

Kendrion had a challenging year in 2015. Economic circumstances were mixed in the company's main markets. This, combined with the start of new projects, resulted in organic growth for the company of 3%. The Automotive Division recorded organic growth (5%), while growth in the Industrial Division was flat due to lower export activity in the German machine building industry and projects that shifted to 2016. The focus in 2015 remained on the objectives that Kendrion formulated in 2009 and that once again demonstrated their value in 2015.

These objectives are:

- Actively respond to developments in all key markets;
- Increase flexibility of staffing and costs;
- Further globalisation;
- Enhance capacity for innovation;
- Improve sustainability;
- Further improve working capital management;
- Continue to strengthen risk management;
- Management development.

Kendrion can conclude that the specific steps taken to attain these objectives continued in 2015.

**Actively respond to developments in all key markets**

In 2015, new steps were taken to strengthen the engineering staff in the company's operations to ensure that the company could continue to take advantage of developments in its key markets and respond to customer demands in the appropriate manner. Kendrion assigns top priority to local empowerment and engineering. Therefore, engineering capacity was increased, especially in companies outside Germany. The acquisition of Steinbeis Mechatronik GmbH was aimed at further strengthening Kendrion's mechatronic research and engineering capacity. The company once again allocated time and energy to market intelligence, in particular within the marketing departments of Kendrion's business units. Tools such as 'treasure mapping' continued to be used for the assessment of potential new projects prior to taking decisions on their adoption.

**Increase flexibility of staffing and costs**

Flexibility in all areas and at all levels is essential to Kendrion's development and growth. Kendrion is convinced that companies which are most successful in adapting to rapidly changing circumstances have the best prospects for the future. This is why Kendrion devotes great effort to incorporating flexibility in its total cost structure (staffing costs and other operating expenses) and to continually assessing every available opportunity and option which can help achieve this objective. Kendrion works closely with its works councils to discover new ways to keep costs as flexible as possible. In addition, Kendrion's suppliers are managed in a manner that enables them to respond rapidly to developments in the company's market segments. It is for this reason that Kendrion is making considerable efforts to select strategic suppliers for the longer term who will ensure increased flexibility in the future. This was also an important issue in the Strategic Purchasing Board in 2015. The company actively monitors the flexibility of each division and business unit.

**Further globalisation**

The world is Kendrion's marketplace. New projects in the Americas, launched at the end of 2013, resulted in improved opportunities and provide a good basis for further growth in the coming years at Kendrion (Shelby) Inc. Kendrion continued to increase its manufacturing capabilities in Eastern Europe (Romania) and continued to focus on its two factories in China with new projects launched during 2015.

**Enhance capacity for innovation**
Kendrion has developed an organisational structure designed to ensure continued innovation within the company, with dedicated Innovation Managers at the Kendrion business units who promote an innovative attitude throughout the company. This results in each business unit introducing several new innovations per year.

**Improve sustainability**
Sustainability is at the core of many of the company's products and innovations. Kendrion and its highly motivated staff utilise the specific expertise and experience available within the company in innovative projects focused on increasing safety and achieving substantial reductions of emissions and fuel consumption. Kendrion is inspired by its ambition to secure a sustainable and 'green' environment for generations to come, fully appreciating and assuming its responsibility for achieving this objective. Kendrion installed an internal CSR Board, which coordinates action plans to further improve sustainability in the company, its products, its internal processes and its supply chain. Kendrion formulated a new three-year sustainability strategy called 'Taking Responsibility' and has brought it further in line with the company's overall strategy. See also pages 24-26 of this report for more information on Kendrion's Taking Responsibility Programme.

**Further improve working capital management**
Kendrion continued to focus on optimising working capital management in 2015. Kendrion's substantial efforts in the fourth quarter were rewarded with a significant improvement in most business units' working capital as compared to earlier quarters. As a result, Kendrion's net working capital reduced to 9.8% of revenues.

**Continue to strengthen risk management**
Kendrion's risk management encompasses many issues and is fully embedded in the company's operations. More information is available on pages 31 and following. Risk management continued to receive full attention in 2015, both in terms of strategic risks and financial reporting, the extension of the internal audit programme and the alignment with the Kendrion risk management programme.

**Management development**
Good management, expertise and motivation are of essential importance to the future. Kendrion assigns high priority to management development, both to ensure that important management positions are filled as soon as possible with highly qualified people and that staff are offered the maximum opportunity to develop their career within the company. Kendrion's corporate management development programme is designed to achieve these objectives. More information can be found on pages 27 and 28 of this report.

## » Financial
Over the course of 2016, Kendrion will review its financial targets and objectives. Kendrion expects to continue to focus on organic growth in the years to come with a greater emphasis on profitability and expects this growth to lead to increasing return on sales.

## » Mid-term Plan
Kendrion has always devoted a great deal of attention to Mid-term Plans. The new Mid-term Plan 2016-2018 – under the name 'Focus on markets – markets in focus' – concentrates largely on building on Kendrion's opportunities for growth in advanced solutions and applications. The acquisition of Kuhnke has resulted in a substantial increase in Kendrion's technical possibilities and capabilities. Kendrion will also continue to focus on issues including flexibility, sales and marketing.

Pursuant to standard practice, the Mid-term Plan is based on targets for the coming years, which are specified in consultation with the Executive Committee. The operating companies employ these targets to prepare their individual Mid-term Plans. The Division CEOs and Business Unit Managers then use these individual plans to prepare an overall plan for their division or business unit. The Executive Board processes the results to draw up Kendrion's Mid-term Plan and tests it against the targets specified by Kendrion's Executive Board. The Mid-term Plan serves as a benchmark for the strategy pursued by management at division, business unit and local levels, as well as for their responsibilities. Kendrion can then determine, at an early stage, whether it is meeting the company's targets.

# Report of the Executive Board Innovation

Kendrion has an ambitious and clear strategy in place to achieve its desired market position and future growth. In brief, Kendrion aims to be the global innovation leader in its niche markets. The company carries out innovative projects in close consultation with its customers, an approach which Kendrion also feels contributes to the creation of added value. Kendrion has put enhancing its innovative capacity high on the agenda. This involves more than simply asking people to be innovative: in Kendrion's opinion, innovation is achieved by creating the appropriate conditions and giving it the attention it deserves.

For this reason, Kendrion makes use of a number of tools to strengthen innovative development in its business. In 2015, these included:

- The Business Development Board, comprised of international experts in various fields;
- Innovation Managers within each business unit;
- An Innovation Calendar, requiring the divisions and their individual business units to develop new ideas at fixed times during the year;
- Annual Innovation Awards;
- 'Treasure Mapping Portfolio Management' (prioritisation of the most promising projects);
- The Technology Radar, this is Kendrion's 'in-house Wikipedia', where engineers can exchange information, share knowledge and easily contact each other;
- 'Technology scouting', i.e. looking for new specialist technologies and developments around the globe and sharing this knowledge with other companies in the technology sector;
- The Kendrion Mechatronics Center, which bundles research topics at a corporate level and supports the engineering centres of the operative business units;
- The R&D Day, which provides an exchange platform for engineers throughout all Kendrion business units to network and discuss current topics;
- The third Kendrion Symposium, held in March 2015, explored the economic, ecological and technological changes under the heading 'Magnetised by Megatrends', and so provided a platform for discussions between about 250 customers, partners and Kendrion experts.

With the acquisition of Steinbeis Mechatronik GmbH in Ilmenau becoming effective in January 2015, Kendrion further strengthened its research and development capabilities, especially in mechatronics, and further improved its customer service and its support for its own engineering centres. This company was merged with the Kendrion Academy, which was established to enhance cooperation with research centres and educational institutions, to support networking and communication between engineers, and to form partnerships for conducting research in relevant engineering fields. All these activities have now been bundled under the new name Kendrion Mechatronics Center. The Academic Advisory Board of the joint entity comprises senior experts and representatives from the academic world in the field of magnetic drives, mechatronic systems, precision engineering and vibration research.

As mentioned above, Kendrion also gives out annual Innovation Awards. In 2015, this award was won by the Passenger Car Systems business unit for its piston cooling valve which enables heating of the engine for cold starts by reducing the oil cooling cycle. An improved flow capability and a two-thirds reduction in weight and power consumption lead to lower $CO_2$ emissions and oil usage. Several customers have already shown an interest in this solenoid valve with an innovative pressure compensation mechanism.

Future expenditures for research and development are expected to increase in line with revenues.

## Taking Responsibility

Innovation and acceleration are the drivers of our industry. Passion for technology is the foundation of our company. Transparency, flexibility and attention to detail – this is how we engineer precision components – often small revolutions – for the world's leading innovators.

The culture that drives our innovation is the very same culture that defines our approach to corporate social responsibility (CSR). To Kendrion, social responsibility is not a separate pillar in its organisation, but an ambition which is integrated into everyday decision-making. At Kendrion, CSR is not just about being responsible; it is about actively taking responsibility.

The principle of taking responsibility is embedded in the company's culture of innovation. It is precisely what happens when smart and passionate engineers come together in a high-technology environment that is open to dynamic new ideas. In taking the company forward, they also focus on sourcing smart materials, introducing energy-efficient machinery, conducting business in a fair manner and creating growth opportunities for the company's employees. These are not just CSR issues; they are engineering challenges that are driving the company's business forward into the future. In many places, being responsible is simply an obligation, a tactic to avoid falling behind. To Kendrion, 'Taking Responsibility' is a strategy for staying ahead. After all, in an industry of innovation, taking responsibility is not just tactically smart. It is also smart business.

Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make ongoing organisational and technical improvements to environmental procedures. During the design and technical planning stages, Kendrion takes due account of the consequences for the environment. This not only enables the company to lower harmful emissions and reduce its environmental footprint, but also ensures that it can maintain its good reputation. As a company, Kendrion bears a social responsibility that makes it necessary to consider environmental issues when assessing processes. Commitment to these values, both now and in the future, is of great importance to both the individual Kendrion companies and the organisation as a whole. Within the individual Kendrion companies, the quality, environmental-management and safety systems tend to be combined into one single system that underpins the implementation of many different projects. Virtually all of Kendrion's operating companies comply with the most stringent quality and safety requirements. Kendrion's environmental management systems comply with the ISO 14001 standard and some plants have also ISO 50001 certification.

## CSR Board; the 'Taking Responsibility' programme

The CSR Board gives further shape to Kendrion's CSR activities and helps the business units to realise their own plans. The CSR Board is comprised of eleven enthusiastic representatives from the business units and a number of the corporate departments. In the course of 2014, the CSR Board, together with the Executive Committee, formulated a new three-year programme (2015-2017) under the name 'Taking Responsibility'. Kendrion attaches great importance to maintaining good relationships with customers, employees, suppliers, other business partners and the communities in which Kendrion is active. Cooperation and regular consultation are essential if Kendrion is to fulfil its ambitions. For this reason, the insights of various stakeholders were incorporated into the 'Taking

Responsibility' programme. In a number of sessions, the programme was reviewed with these stakeholders, who were given the opportunity to give feedback, including on the issues that are most relevant in terms of sustainability. The relevant megatrends were also explored, such as the rapid growth of the world population, the increasing scarcity of natural resources, the transition to more sustainable energy, climate change, the increased transportation needs of people and goods and the availability of qualified employees.

Within the broader context of its value creation model, Kendrion has defined six key priorities for its Taking Responsibility programme for the years 2015-2017, which are basically in line with the priorities that were pursued in the previous years. They are as follows:

- Environmental protection;
- Responsible use of resources in the supply chain;
- Good labour conditions;
- Fair business conduct;
- Sustainable products;
- Strong communities.

For each of these key issues, annual targets and key performance indicators (KPIs) apply. Step by step, there will be an even stronger emphasis on incorporating all CSR measures in the business processes. Ambitious goals have been set in the area of energy and $CO_2$ reduction. In addition, developments in the field of the circular economy are closely monitored and opportunities for Kendrion are reviewed. For further information, see the CSR Report 2015 which will be published at the end of March 2016.

## >> Results for 2015

Kendrion achieved the vast majority of its targets for 2015, as can be seen in the CSR Report 2015.

**Environmental protection**

As in previous years, a considerable number of energy efficiency measures and investments were implemented at various plants in the Group. New ISO 50001 certificates were granted to Kendrion companies and the LED light project was enlarged.

**Responsible use of resources in the supply chain**

During the past year, Kendrion emphasised the value of CSR in its supply chains by asking its product suppliers to adopt the Kendrion Supplier Code of Conduct. 36 CSR audits were carried out as well. The roll-out of a waste, recycling and hazardous materials handbook in Kendrion's major plants continued. The objective to have ISO 14001 certifications at all production plants is nearly completed.

**Good labour conditions**

Satisfied and healthy employees are essential to ensure success now and in the future. In 2015, Kendrion worked on this in a range of different ways, for example by offering opportunities for training and further education, health programmes, projects focused on work-life balance and team-building activities. The Kendrion employee satisfaction survey has been rolled out to various plants. Non-discrimination and diversity are key priorities that define Kendrion's approach to its employees. Various HR awards were granted to Kendrion companies. The absenteeism rate was only 2.5% and the number of accidents (41) was considerably lower than in 2014 (50).

**Fair business 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 key 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 behaviour, corporate social responsibility, accountability in general and the obligation to provide due care regarding health and safety, the environment and social interests. Kendrion promotes compliance with the Code of Conduct by continuously bringing the Code to the attention of current and new managers and staff. The provisions of the Code of Conduct pertaining to anti-bribery were updated in 2015. A similar Code of Conduct was introduced for Kendrion's suppliers a few years ago. Kendrion has also adopted an Anti-Bribery & Corruption policy and launched online compliance trainings.

**Sustainable products**
Downsizing is an important trend – in automotive there is a focus across the company's customer base on smaller engines, improved performance and lower $CO_2$ emissions. There is a strong public demand for environmental conservation. This is directly related to the finiteness of the world's natural resources. The industry needs to find new ways to keep mobility affordable and clean. Consequently, fuel efficiency is another megatrend. Kendrion observes a shift in customer needs and requirements, which are increasingly focused on downsizing, fuel efficiency, environmental aspects, safety and comfort. Kendrion, as an innovative company focused on sustainability and environmental conservation, is in an excellent position to provide proactive support to customers in the form of ideas, solutions and state-of-the-art products. A substantial number of Kendrion's products, especially within the automotive markets, contribute directly to the reduction of emissions and fuel consumption. Furthermore, many of Kendrion's products have a safety role. Two new industrial products were added to the greensigned label.

**Strong communities**
Kendrion intends to engage in community investment initiatives as a means of promoting development and benefiting local stakeholders. The right approach to community investment can help establish mutually beneficial relationships between Kendrion and its local stakeholders and contribute to long-term improvements in the quality of life of local communities in a way that is both sustainable and supportive of the company's business objectives.

In 2015, for example, two new students joined the corporate community-investment programme in India, which gives students from disadvantaged backgrounds the opportunity to get a university degree and complete an internship at Kendrion's facility in Pune, India. In addition, various local charity fundraising activities were organised and employees actively participated in existing charity initiatives.

Its local sourcing policy also contributes to strengthening local communities.

Kendrion believes that pursuing a transparent and fair tax policy is part of a sound community strategy. It received the no. 1 ranking in the Dutch Tax Transparency benchmark for small cap companies and ranked no. 6 among all listed companies.

## » UN Global Compact
Kendrion joined the UN Global Compact in 2009. The UN Global Compact is the world's largest network initiative, bringing together businesses, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices. Kendrion fully endorses these principles.

## » CSR Report
Kendrion published its 2014 CSR Report, based on the General Reporting Initiative (GRI) guidelines 4.0, around the end of March 2015. The Report contains a limited assurance report from the external auditor. The Report has been published on Kendrion's website. Kendrion's performance in 2015 will be presented in more detail in the next CSR Report, which will be published at the end of the first quarter of 2016. In 2015, Kendrion ranked 37$^{th}$ in the Transparency Benchmark of the Dutch Ministry of Economic Affairs, measuring the top 500 companies in the Netherlands. In 2014, Kendrion ranked 42$^{nd}$. The higher ranking in 2015 demonstrates again that progress has been made. In 2015, Kendrion also filed a second report to the Carbon Disclosure Project.

## » CSR Award
After a pre-selection, the third Kendrion CSR Award, awarded by the company's senior management during the Top Management Meeting in Prostejov, Czech Republic, in September 2015, was presented to Kendrion (Prostejov) in recognition of its thorough sustainability programme.

## Personnel

In 2015, the number of the company's staff remained approximately the same: about 2,700 employees (including about 80 temporary employees) located in 15 countries.

Kendrion is a decentralised organisation with two Divisions: the Industrial Division and the Automotive Division.

Responsibilities are assigned as low as possible within the organisation, and local entrepreneurship is encouraged. This ensures that Kendrion can respond rapidly to the continually changing market and special customer requirements. Moreover, it enables Kendrion to promote creativity, innovation and offer all business units an opportunity to develop their full potential. Kendrion Group Services (Financial Controlling, Treasury, Taxation, Legal and Compliance, Human Resources, Technology and Innovation, Information Technology, Corporate Social Responsibility, Investor Relations, Marketing & Communication and Facility Management) play an important role in the facilitation and supervision of the operations.

Kendrion's organisation is able to respond to challenges by adopting a results-oriented and efficient approach. The flexibility provided by possible variations in working hours and the use of temporary employees enables the company to adopt an appropriate response to economic fluctuations. In view of the uncertainty of economic conditions, maintaining the flexibility of costs – including personnel costs – will continue to be of great importance in the coming years.

Kendrion's Human Resources (HR) policy is decentralised, and local management bears the responsibility for the local HR policy within specified guidelines. A number of duties are coordinated at a central level by the international HR department, which is located in Villingen, Germany. These duties primarily relate to the (development of) senior management, to the improvement of opportunities for recruitment and general topics such as HR Marketing. The HR department also focused on closer cooperation between the operating companies to improve exchanges and enable colleagues to benefit from each other's knowledge and skills.

Kendrion, like many other companies, operates in markets with a shortage of skilled engineers. Kendrion's operating companies further extended regional activities that are intended to enhance their appeal as local employers. The companies' presence and marketing at schools and universities and their PR activities were intensified. Another focus in 2015 was the incorporation of the new career website. This was aimed at increasing the recognition of Kendrion's employer brand.

The completion of the takeover of Steinbeis Mechatronik GmbH in Ilmenau, Germany, in January 2015, meant that an additional 14 skilled employees became available for engineering projects.

The number of employees is expected to develop in line with the revenue development in 2016.

## Management development

Good management, expertise and motivation are of essential importance for 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 programme in which the company collaborates with the Rotterdam School of Management. Two three-day modules are organised each year. 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.

It is also important for Kendrion to develop talented employees for future management roles. This is why the company implemented the 'Kendrion High Potential Programme' in 2012. This is a modular training programme covering a period of three years. The first group of fifteen selected high-potential employees graduated in 2015 and a new group of high potentials has started.

Almost every year a group of non-financial officers follows a course in finance. This course, which is customised, covers issues that are important to Kendrion, such as risk management, investment decisions, working capital management and planning and control. In addition, the various business units have implemented training programmes at all levels in the organisation.

The development of managers is supported by various processes including annual performance appraisal interviews in which the managers' targets and duties are reviewed and they receive feedback on their performance. In addition, managers participate in an individual development assessment. Kendrion has started to implement a web-based tool that will support top management succession planning and will become operational in the first half of 2016.

## Compensation

Kendrion offers its employees attractive remuneration packages that are in line with the local market and based on job-specific requirements. A bonus scheme has been implemented for management that is based on the company's performance (operating result and free cash flow) and on individual performance targets. These include CSR and innovation targets. Kendrion has also implemented a share scheme for senior management.

Approximately 1,400 of the contracts of employment in Germany and Austria are governed by or follow the collective bargaining agreements for the metal industry in the respective countries.

## Bond with the employees

Kendrion's Executive Committee devotes a great deal of attention to internal communication of its strategy, corresponding plans of action, and progress towards strategic goals. Many operating companies have implemented career development and training programmes designed to improve their staff's knowledge and skills. Kendrion's corporate magazine 'Magnetised' is published for all staff three times a year. Social events are organised regularly to strengthen the bond between employees.

In general, Kendrion has a good relationship with the works councils and the unions.

## Staff loyalty

As Kendrion's employees are the company's most valuable asset, Kendrion has implemented a variety of staff loyalty measures at all its plants all over the world. These measures range from individual support to specific programmes and opportunities for the benefit of all Kendrion employees. In order to measure the company's staff satisfaction properly, Kendrion expects to launch a group-wide employee satisfaction survey within the next few years. This forms part of Kendrion's long-term Corporate Social Responsibility Programme, 'Taking Responsibility'.

In 2015, at least 60% of the total workforce participated in staff satisfaction surveys. The aim for 2016 is a further increase in the number of participating group companies and to reach at least a 70% group-wide satisfaction score.

### Family and career

Kendrion continually strives to improve the compatibility of its employees' work and family commitments. The company has, for example, introduced flexible working hours for employees who need to care for family members. Kendrion offers individualised work schedule solutions to certain employees with young children who need day care. Kendrion is endeavouring to ensure that employees do not need to choose between 'children or Kendrion', but can focus on 'children and Kendrion'.

### Health and safety

A healthy workforce is very important to Kendrion. Health and safety are key topics that are also included in the company's Corporate Social Responsibility Programme 'Taking Responsibility'. The overall absenteeism rate in 2015 was 2.5%. Kendrion's aim is to stay below 3% in 2016 as well.

Kendrion takes dedicated measures in case of illness of individual employees, aimed at keeping the period of illness as short as possible. Kendrion also introduced a number of programmes to pro-actively promote the health of its employees. These include free fruit, company medical officer consultations, flu vaccinations, company sport groups, anti-smoking courses and ergonomic workplace solutions.

With regard to safety, Kendrion has stringent safety requirements, processes, meetings and training programmes in place, designed to minimise the number of work-related accidents. The specific target for 2015 was to reduce the number of accidents compared to 2014 (50); the total number of accidents in 2015 was 41.

## Awards

### AAAA Award CHINA

The Chinese Suzhou labour security bureau awarded Kendrion (Suzhou) Co. Ltd. in 2014 the AAA level credible employer certification in 2014. Only a few companies in Suzhou (which has more than 10 million inhabitants) have received this certification. In 2015, the Suzhou plant was able to further improve and was awarded one more ‘A’, receiving the AAAA status. The company received this standard for being a harmonious and social company without employee complaints, no labour issues and positive employee survey results.

### FamilyNET Award 2015

The compatibility of work and family (work-life balance) has long been on the agenda of Kendrion’s operating companies. They are supported by both the Ministry of Finance and Economy and the employers’ associations, Südwestmetall and Chemistry Baden-Württemberg, as part of the nationwide familyNET project. Kendrion’s South German companies were honoured to be awarded the familyNET award for outstanding family-friendly projects for a third time in 2015.

## 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.

The need to say farewell to temporary or permanent employees, for example due to the economic situation, can have a great impact on the people involved and their families. Kendrion acts in accordance with the prevailing local conditions and circumstances and with respect for the individual concerned.

In 2014, Kendrion started the project ‘promoting voluntary engagement of Kendrion employees’ in Villingen, Germany. Volunteering and social engagement are accorded very high priority for Kendrion and the programme was adopted at some of Kendrion’s sites worldwide in 2015.

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. Kendrion attaches importance to the creation of diversity in nationalities, cultures and gender. This diversity also promotes intercultural experience, which is highly compatible with the current internationalisation trend. It is important that Kendrion is a versatile company which reflects society. For this reason any form of preference or discrimination must be excluded. Kendrion did not receive any complaints regarding discrimination in 2015.

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. Labour standards, including health & safety promotion, education, absenteeism and staff satisfaction, are also key elements of the Corporate Social Responsibility programme 2015-2017 ‘Taking Responsibility’, as defined by the CSR Board and the Executive Committee. Kendrion’s CSR Board also includes delegates from various HR departments. Reference is also made to the CSR Report as published on Kendrion’s website. CSR activities also contribute to making Kendrion an attractive employer for (potential) employees.

| Personnel: key figures | 2015 | 2014 |
|---|---|---|
| Total number of employees at 31 December | 2,730 | 2,808 |
| Number of women in permanent employment | 1,192 | 1,233 |
| Number of men in permanent employment | 1,239 | 1,215 |
| Number of employees with a fixed-term contract | 299 | 360 |
| Number of permanent and temporary employees at 31 December (FTE) | 2,658 | 2,713 |
| Number of direct employees (FTE) | 1,360 | 1,443 |
| Number of indirect employees (FTE) | 1,212 | 1,192 |
| Number of temporary employees (FTE) | 85 | 78 |
| Average age of all employees | 41.8 | 41.1 |
| Average number of years' service | 10.8 | 10.4 |
| Average rate of absenteeism per employee (%) | 2.5% | 2.3% |
| Influx percentage (%) | 12% | 13% |
| Departure percentage (%) | 15% | 15% |
| Wage costs per FTE (EUR) | 47,440 | 43,817 |
| Training costs (as a % of wage costs) | 0.8% | 0.8% |

## Background

Kendrion promotes local entrepreneurship at its companies and, consequently, offers scope to the management 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: seeking business opportunities is not without risks. Kendrion's objective is to adopt an approach to business risks that minimises surprises and the impact of any surprises that nevertheless occur, while always taking account of the necessary balance between risk exposure and costs. Kendrion's risk-reward appetite is periodically evaluated by the Executive Board and shared with and discussed by the Supervisory Board and Executive Committee. The Executive Board balances business opportunities with the expectations of shareholders, employees, regulators and other stakeholders. The risk-reward appetite can be specified in the following terms:

| Risk category | Strategic objectives | Kendrion's risk-reward appetite |
|---|---|---|
| Strategic risks | Profitable growth and satisfactory free cash flow | **Moderate:** strike appropriate balance between risk and reward |
| | Customer intimacy | |
| | Balanced spread of activities, both geographically and between markets | |
| | Solid financial position | |
| Operational risks | | **Moderate:** align targets and the related costs, focus on sustainable profit maximisation |
| Financial reporting risks | | **Low:** full compliance with financial reporting rules and regulations, transparency |
| Compliance risks | | **Low:** full compliance with the relevant legislation and regulations |

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 as part of the everyday decision-making. All companies are logically confronted with business risks during the pursuit of their operations.

The Executive 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's approach to the company's risk management is laid down in the Enterprise Risk Management Framework as shown in the following illustration:

**Kendrion Risk Management 2015**

**Enterprise Risk Management**

**Strategic & Business Risk Management**
- Quarterly evaluation per business unit
- Yearly strategic update

**Operational Risk Management**
- Quality systems
- Safety & health; environment
- Hedging against commodity price risk
- Monitoring & hedging financial market risk
- Insurance
- IT governance
- Quarterly evaluation per business unit

**Financial Reporting Risk Management**
- Group Reporting Manual
- Group Reporting Committee
- Monthly closing procedures
- Internal control procedures
- Audits (external & internal)
- Monthly review cycle with business unit management

**Compliance & Regulatory**
- Reporting & disclosures
- Legal counseling
- Internal audits
- Anti-Bribery & Corruption
- Training

**Planning & Control Cycle**

**Kendrion's Code of Conduct & Whistleblower's Charter**

**Kendrion's Control 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. 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.

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

### Control environment
The Executive 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.

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

### 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, gifts, anti-bribery, 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. In various countries, the Code of Conduct is incorporated in each employment contract. The paragraphs regarding anti-bribery in the Code of Conduct were updated in 2015. A Supplier Code of Conduct has also been introduced to address the above themes in the supply chains.

### 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.
One irregularity was reported in 2015 by an external person involving the sale of materials by an employee for his own personal benefit. This was further investigated by external forensic experts. The issue had no material financial impact and no operational impact. Adequate measures have been taken against the employee involved and additional internal control measures have been introduced in order to prevent such incidents in the future.

### 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. These regulations include a prohibition on dealing in Kendrion's shares in the period prior to the publication of the quarterly, half-yearly and annual figures.

### Rules and Regulations and Letters of Representation
Kendrion employs Rules and Regulations and Letters of Representation. The Rules and Regulations constitute rules of behaviour governing all Kendrion Managing Directors. The Letters of Representation are submitted once a quarter, in a bottom-up procedure, to the Managing Directors and Controllers of the operating companies and, ultimately, to Kendrion's CFO. All officers are required to sign the letter to confirm to their managers that the financial and non-financial information they have reported is correct and complete and no violations of regulations and the Kendrion Code of Conduct with material impact occurred.

### Group Reporting Manual including Standard Chart of Accounts
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. Reporting sets are standardised. Kendrion furthermore has a global Standard Chart of Accounts, whereby all operating companies are required to make use of a single detailed accounting structure. A Corporate Social Responsibility Reporting Manual has also been implemented to ensure correct non-financial reporting.

### Planning and control cycle
Insight into Kendrion's performance is obtained from the monthly reports of the current figures submitted by all the operating companies, weekly cash forecasts and daily consolidated turnover reports. 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 expected performance against the budget.
The Executive Board and the Executive Board's internal control team devote a great deal of attention to the assessment and follow up of all reporting 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.
Kendrion has implemented a capital expenditure procedure which makes use of standard investment request forms.
Executive Board approval is required for new projects with planned annual revenue in excess of EUR 1 million to test return on investment, payback period and cash flows.
Executive Board approval is also required for capital investments in excess of EUR 100,000.

**Quarterly and monthly reports and meetings**

Regular discussions in the monthly meetings between the Executive Board, the Division Management and similar reviews within the business units address the internal risk management system.
Each business unit and division submits a comprehensive written report at least once a quarter which provides details about the financial and operational situation (to which CSR will be added as of 2016) and the status of any current claims and proceedings, where relevant.

**Strategic and business risk management**

In 2015, the Executive Board together with the senior management of the divisions and business units conducted a risk survey which reviewed over forty potential risks that could confront Kendrion in relation to the company's strategic objectives.
The results of this survey were discussed with the Executive Committee to determine the most important risks which Kendrion could face (in terms of the greatest impact, likelihood and vulnerability). The results were also discussed with the Supervisory Board. The risk assessment will be evaluated at periodic intervals in terms of relevance and mitigating actions.
The following section contains more information on strategic and business risks.

**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 and quality certificates.

**Financial reporting risk management**

The controllers' regular duties include the structured management of financial reporting risks. Pursuant to this duty the controllers periodically monitor the organisation's implementation of and compliance with control measures, i.e. monitor the use of control measures as an integrated element of the Group's operations. Kendrion has also implemented corporate guidelines that specify the monthly closing procedures and the controls to be performed. Kendrion has an internal audit programme (KiC: Kendrion-in-Control) to determine effectiveness of Kendrion's control framework. Companies with an annual revenue of more than EUR 15 million are audited at least once a year. Companies with annual revenue of less than EUR 15 million are audited at least once every two years. The internal audits encompass the revenue and accounts receivable, the purchases and accounts payable, inventories, fixed assets, human resources and compliance reporting cycles. All internal audits are supervised by Kendrion N.V. controllers and some internal audits were supported by an external audit firm.

**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. Kendrion introduced a Legal & Compliance framework in 2015. 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. Stricter rules for the legal review of material contracts are prescribed. 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 Managing Directors from possible claims.
The Legal & Compliance framework includes internal legal & compliance audits conducted from time to time at the operating companies to investigate issues including compliance with local legislation and regulations.

Kendrion has also adopted an Anti-Bribery and Corruption (AB&C) policy which has resulted in the implementation of procedures for the mitigation of the relevant risks. This policy encompasses issues including the periodic performance of risk assessments, due diligence, communication and training. Kendrion has introduced an online compliance training, which is compulsory for all staff working in purchasing, sales, management and for some other specific officers.
An additional policy for competition law compliance, including online training for relevant staff, will be introduced in 2016.

## Strategic and business risks

Kendrion's strategic and business risks identified are reviewed below. The most important risks selected are:

- Volatile economic conditions;
- Competition;
- Technological substitution;
- Shifts in customer preferences;
- Customer dependency;
- Non-performing Information Systems and data security.

These risks are associated with Kendrion's strategic objectives and could impact these objectives as follows:

| | Profitable growth | Customer intimacy | Balanced spread | Solid financial position |
|---|---|---|---|---|
| Volatile economic conditions | • | • | • | • |
| Competition | • | • | | |
| Technological substitution | • | • | | |
| Shift in customer preferences | • | • | | |
| Customer dependency | • | | • | |
| Information Systems | • | • | | |

**Volatile economic conditions**
Kendrion experiences volatility in economic development. A lack of adaptation to deteriorating economic conditions could be detrimental to Kendrion's financial results and the company's ability to achieve its strategic goals. The likelihood is high and the vulnerability is moderate. Kendrion has prioritised the maintenance of a flexible organisation to enable the company to 'breathe' with the economic tides. Flexibility not only relates to working with temporary personnel or with personnel with contracts of employment for a definite period and a focus on the reduction of variable operating expenses. It also includes the ability to communicate up-to-date financial information efficiently to decision-makers throughout the organisation, the development of plans to enable personnel to switch between business units, make justifiable insourcing and outsourcing decisions, adjust supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and make use of opportunities for the reduction of working hours in specific countries.

Kendrion periodically carries out sensitivity analyses to review the relationship between the decrease in revenue and the operating result. These analyses are performed on the basis of a 'bottom-up' approach with input from the operating companies.
The managements of the divisions performed an additional 'top-down' flexibility review during 2015 to assess the outcome of these periodic sensitivity analyses.
Based on this evaluation Kendrion has further improved the quality of the sensitivity analyses.

Kendrion strives to keep pace with the volatility of market demand and to mitigate as much as possible a decline in revenue before incurring an operating loss and redundancy expenses. However, structurally lower revenues will normally result in the need for fundamental changes to the organisation. Any such decision to implement cost-reduction measures is taken only once the decline has been assessed as structural. Moreover, the results can decline incrementally and in specific business areas, when adaptation such as redundancy expenses will be required.

In addition to the strong focus on flexibility, Kendrion's medium to longer-term objective is to further decrease the company's dependency on the European and, more specifically, German market. Kendrion is of the opinion that a broader geographical spread in combination with a spread between customers and markets will reduce the company's vulnerability to regional economic or market downturns. Within this context it should be noted that Germany discourages the hiring of temporary staff by the imposition of penalty rates when temporary employees are hired for longer than three months.

Furthermore, Kendrion has a solid financial position and sufficient financial resources to continue its investments in growth, both in terms of competent staff and appropriate production equipment. All accounts receivable departments and purchasing departments devote specific attention to the financial position of the company's customers and suppliers.

**Competition, technological substitution and shifts in customer preferences**

Kendrion faces competition from peers, in some cases from competing technologies and on some occasions also from (potential) customers. If Kendrion were to lose its competitive edge in relation to these parties and competing technologies, it would lessen Kendrion's ability to achieve its profitability and growth targets. Furthermore, Kendrion could become unable to offer its markets or customers the solutions they need, due to the company's inability to meet customer requirements. This is a particularly important issue for the Automotive Division. The impact on profitable growth and customer intimacy could be high: the likelihood and vulnerability are moderate. In view of the pressure imposed on prices in this competitive market, special high technological solutions are essential to appropriate opportunities for profitability.

Kendrion is an innovative player in the field of electromagnetic and mechatronic 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. Although this would offer the company opportunities it could also result in the risk of being unable to meet the requirements or lagging in developing new solutions. Kendrion has put the enhancement of the company's innovative capacity high on the agenda. Kendrion uses a number of tools to strengthen innovative development in its operations, as further described on page 23.

Kendrion's strategy to localise production as much as is feasible reduces its vulnerability to risks from competitive shifts resulting from exchange rate movements. Although Kendrion's main focus is on technological leadership, it also actively manages the cost price by exploiting low-cost production opportunities within the group as well as exploring alternative use of materials and sources.

**Customer dependency**

Kendrion has a wide range of customers in various markets and, consequently, the company's dependency on a small number of customers is relatively low. The customer concentration in the Automotive Division is higher than that in the Industrial Division. Losing one of the large customers in the Automotive Division would have a high impact and, in the absence of compensatory measures, would be detrimental to this division's growth objective and profitability. The likelihood of this happening is however low to moderate as Kendrion is a technologically advanced player which offers tailor-made customer solutions whose development times and costs are usually high. Kendrion endeavours to minimise its vulnerability by ensuring that single customers do not normally generate more than 5% of Kendrion's total revenues. Three customers (Volkswagen Group, Continental and Daimler) generate more than 5% of the consolidated revenues. Kendrion is actively pursuing the reduction of single customer dependency by securing projects from other customers.

**Non-performing Information Systems (IS) and data security**

Inadequate IS (including the infrastructure) and/or the implementation of new systems could have a big impact on the company's business processes and, consequently, the results. The likelihood and vulnerability are low to moderate as an adequate range of mitigating actions has been taken. This risk has received significant management attention during the past years due to the migration to a single common ERP application within the Group.

The major IS risks include the risk of operation faults, interruptions, loss of data, unauthorised system access and cyber security. Information Systems are of importance to Kendrion, both in terms of the risks and business support. Kendrion's Executive Board and, in particular, the CFO bears the overall IS responsibility. Kendrion has implemented a corporate IS policy and strategy which extends to issues including:

- The arrangements for IS decision-making and the decisions that can be made at each level (central or local);
- IT governance for system and data responsibility (master data management);
- The regulations governing the implementation of IS systems;

- The arrangements for sourcing IS products and services for the business units and their operating companies;
- The requirements to be met by the IS organisation in serving the users as internal customers;
- The performance of external information security audits;
- The measures that need to be implemented to mitigate risks, such as access security programmes, equipment backup and recovery, change management procedures, etc.;
- The development of solutions for customer requirements (such as EDI) and the integration of suppliers in the supply chain for Kendrion's processes (supplier portals).

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

- An adequate governance structure throughout the entire projects;
- Thorough preparations;
- Balanced selection of financially strong suppliers;
- Milestones and extensive cutover planning and reviews;
- Audits for important go/no-go decisions;
- Business case analysis – internal and external (benchmark against other companies);
- End user acceptance and training.

*Infrastructure* – Operating companies and Kendrion Group Services are supported by the group's central IT department in Villingen, Germany. This department sets and coordinates the service level agreements with suppliers such as application and network providers, security providers, maintenance companies and suppliers of hardware and networks for the entire group. Kendrion works with highly skilled IT staff and reputable external and international IT suppliers. The servers are well protected against outsiders, with firewall and unauthorised-access control. Appropriate procedures have also been implemented for regular backups and disaster recovery of the data.
The infrastructure operates at a high level of availability. The availability of the services is monitored and the support team is active on a 24/7 basis.

*Software application portfolio* – Most operating companies use a standardised ERP system, 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. In 2011, Kendrion's Executive Committee decided to invest in a new ERP software application. Since then Kendrion's operating companies have successfully migrated to the new ERP platform.
The migration of the remaining entities was completed in 2015.

ERP implementations are accompanied by high risks of business interruption and substantial budget overrides. Kendrion has implemented measures to minimise these risks by strict and high-level governance that also extends to adequate project management. Measures implemented, such as the recruitment of a dedicated Program Director and the appointment of Information Managers, have paid off. Milestones, the various audits and deliverables that have also been agreed and laid down in the contract with IFS (the ERP software supplier) reduce the risk of cost overruns.

## Other important risks

| Strategic | Operational | Financial |
|---|---|---|
| Project management | Commodity markets | Treasury |
| Intellectual property | Product liability | Tax |
| Attraction and retention of qualified staff | Environmental liabilities | |

### Strategic risks

**Project management**

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 Kendrion. In order to avoid such circumstances, Kendrion is continually aiming for sole suppliership. 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. However, in spite of the compensation for the costs incurred, there is a risk that engineering hours allocated to a customer do not generate new revenue when the customer ultimately decides not to select Kendrion's product.

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

**Intellectual Property (IP)**

The high-grade technological know-how Kendrion has accrued regularly results in inventions that can be utilised to improve existing products or develop new high-quality products which in turn enable the company to obtain an edge on the competition. There is a risk of this know-how leaking out or coming into the hands of the competition, which could ultimately put Kendrion's leading position in jeopardy.

Kendrion restricts this risk by the further development of the company's IP policy. Pursuant to one important element of this policy Kendrion applies for a patent for each of the company's most important technological innovations. Applications for patents of this nature may be submitted in the geographical areas in which the most important direct and indirect customers – and competitors – are located and in which the applicable regulations and administration of justice offer an effective means of contesting patent infringements.

In other instances the know-how acquired from projects for specific customers can be protected by concluding confidentiality agreements with the relevant customers. For this reason confidentiality agreements may also be concluded with Kendrion developers. The development of new products or submission of applications for patents is accompanied by the risk of the infringement of third-party IP rights. Any such infringement can result in the relevant third party claiming damages and filing a petition for an injunction prohibiting the use of the technology in question. Kendrion protects itself from this risk by cooperating with a specialised patent agency. This agency carries out studies of potential infringements of Kendrion's rights by third parties and vice versa.

**Attraction and retention of qualified staff**

People are Kendrion's most important asset. A lack of skilled staff could have a high impact on most of the strategic objectives. The likelihood and vulnerability are moderate to high and, consequently, this is an important area for attention. Electromagnetic and mechatronic know-how is highly specific and requires on-the-job-training. Kendrion is making great efforts to mitigate this risk by taking actions including the following:

- The Kendrion Executive Programme for senior management at the Rotterdam School of Management, which provides high-quality management training;
- The HIPO programme for high potentials (see pages 28);

- The management development programme;
- Apprentice programmes at several companies;
- Maintenance of good contacts with education institutes;
- Various in house training programmes;
- Health & safety programmes, good labour conditions and staff satisfaction surveys, which are also part of the CSR Programme 'Taking Responsibility'.

## Operational risks

### Commodity markets

Kendrion's results could suffer from the reduced availability of raw materials and fluctuations in their price. Steel and copper are Kendrion's most important raw materials, followed by permanent magnets. Raw materials are purchased from reputable suppliers. Steel is Kendrion's number-one raw material, although a large proportion of it is contained in purchased components such as turning parts. Where feasible, Kendrion concludes fixed-price arrangements with steel suppliers. These prices also govern a large number of Kendrion's component suppliers. Regarding copper prices, when the copper price risk is not passed on to the customer, Kendrion usually fixes the purchase price for the next quarters on a rolling basis. Kendrion closely monitors developments in prices for permanent magnets. The agreements Kendrion has concluded with the majority of customers who buy components containing permanent magnets provide for automatic price adjustments based on movements in the price of permanent magnets.

As far as is feasible, Kendrion actively endeavours to increase the number of alternative sources for its most important raw materials. Obviously, Kendrion aims to minimise the effects of price fluctuations on the group's results. Whether or not this objective is feasible depends on contractual clauses and on the market. Raw materials are purchased separately by each business unit on the basis of their individual requirements but in accordance with the group policy reviewed quarterly by the Strategic Purchasing Board. This body was established to coordinate activities and exploit knowledge across business units and economies of scale.

### Product liability

Claims under product liability can be detrimental to Kendrion's operations and operating results due to the resultant damage to the company's reputation. In addition to all quality requirements and procedures, 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 and scope of the cover are comparable to those of other companies in Kendrion's sectors: the cover is benchmarked periodically. Kendrion also aims to limit the group's liability exposure by employing up-to-date general terms and conditions and arranging for reviews of material or long-term contracts by legal advisors.

### 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.

## Financial risks

### Treasury

Please refer to pages 108 and following of the financial statements for an outline of Kendrion's financial market risks and the policy to mitigate these risks or their impact.

### Tax

Kendrion's operating companies have been granted a high degree of autonomy. In most countries the responsibility for accurate tax returns has been assigned to the local management, who receive assistance from reputable local tax consultants. Kendrion carries out an annual inventory at corporate level, in close collaboration with renowned international tax consultants, to assess whether fiscal developments could have an effect on the company's subsidiaries. Corporate reviews of the tax expenses and tax positions of the company's subsidiaries are carried out once a quarter. Kendrion has developed and implemented a tax compliance audit programme.
This programme serves as the basis for reviews and assessments of the operating companies' compliance with the regulations governing a variety of taxes. The tax compliance audit programme has been incorporated in the internal audit programme.

Kendrion strongly believes that pursuing a transparent and honest tax policy is a part of doing good business. Kendrion's aim is to manage risks effectively and comply with all applicable rules, regulations and disclosure requirements. Kendrion's tax position corresponds to the geographical spread of the operations and no aggressive tax structures are employed involving the movement of funds through tax havens.

**Results from and shortcomings revealed by the internal audit programme (KiC)**

The design of Kendrion's internal audit programme, the transparent internal financial reporting system, a culture which promotes transparency and the involvement of Group Controllers at Zeist, the Netherlands, all facilitate Kendrion's maintenance and improvement of the integrity and effectiveness of its internal control and financial reporting systems.

Group companies were visited in 2015 to determine compliance with Kendrion's control framework. All internal audits are supervised by the Group Controllers in Zeist, the Netherlands, to guarantee the independence of the audits conducted. The internal audit programme and audit scope are reviewed at periodic intervals and improved on the basis of recent developments and new requirements.

In 2015, the internal audits encompassed more than 90% of the value of the relevant reporting cycles. The overall results of the audits conducted in 2015 were again satisfactory. The limited number of control deficiencies revealed by the 2014 audits had been addressed, with remediation completed or in progress. This conclusion is in line with the management letter, in which the external auditors reported a limited number of findings and no findings which qualified as significant.

In view of the above, the Executive 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, with due regard for the aforementioned shortcomings, the risk management and control systems performed adequately in the year under review.

**Changes in the group**
On 23 December 2014, Kendrion signed the agreement governing the acquisition of Steinbeis Mechatronik GmbH in Ilmenau, Germany, for an amount of EUR 1.0 million. Steinbeis Mechatronik GmbH is an engineering and research company engaged in the development of innovative mechatronic products. The acquisition became effective on 5 January 2015.

**Financial results**
2015 was a challenging year for Kendrion with only moderate revenue growth of 3% and a decrease in net profit to EUR 16.8 million (2014: EUR 20.2 million).

Net return as a percentage of revenue decreased to 3.8%. The anticipated revenue decline in Automotive Control Systems and non-recurring warranty expenses reduced the profitability of the Automotive Division. The profitability of the Industrial Division was adversely influenced by the delay of several new projects to 2016, especially in Industrial Control Systems, and the phasing out of a large customer contract. The investments for new projects in 2014 and 2015 resulted in a EUR 3.0 million increase in depreciation. These projects will support growth in 2016 and beyond. All other business units showed stable profitability or modest growth compared to 2014.

**Financial results**

| EUR million | 2015 | 2014 |
|---|---|---|
| Revenue | 442.1 | 428.9 |
| Net profit | 16.8 | 20.2 |
| Net return as % | 3.8% | 4.7% |
| EBITA return on investments | 10.2% | 13.0% |

**Sales segmented by customer location**

| EUR million | 2015 | Share | 2014 | Share | Growth |
|---|---|---|---|---|---|
| Germany | 215.5 | 49% | 213.7 | 50% | 1% |
| Other European countries | 107.1 | 24% | 112.0 | 26% | (4)% |
| Asia | 40.5 | 9% | 36.3 | 9% | 12% |
| The Americas | 76.7 | 17% | 65.6 | 15% | 17% |
| Other countries | 2.3 | 1% | 1.3 | 0% | 77% |
| Total | 442.1 | 100% | 428.9 | 100% | 3% |

**Revenue**
In 2015, revenue increased by 3% from EUR 428.9 million to EUR 442.1 million. At constant rates of exchange revenue growth was flat.

The Automotive Division achieved organic growth of 5%. Revenue of the Industrial Division remained stable compared to 2014. Revenue development in the first part of 2015 was strong, driven by Automotive. However, activity levels in the worldwide automotive industry started to lose momentum slightly as from the middle of the year. Organic growth in the second half year was limited.

The geographical breakdown of revenue by customer location shifted in 2015 with a higher revenue contribution from outside Europe, which increased to 27% of revenue or EUR 120 million (2014: EUR 103 million). This was driven by higher sales in North America and Asia and is in line with Kendrion's strategic spearhead to further expand the company's presence outside Europe. Consequently, Europe's contribution to revenue decreased from 76% to 73% in 2015.

## Developments in the divisions

### Industrial Division

The Industrial Division – which accounts for 34% of Kendrion's total revenue – reported revenue of EUR 151 million, in line with last year. The operating result before amortisation decreased to EUR 10.1 million, compared to EUR 12.9 million in 2014. This resulted in an EBITA margin of 6.7% (2014: 8.6%).

Market conditions in the main industrial markets were not conducive to revenue growth in the Industrial Division. The German machine building market, which is the main indicator for the Division, slowed down in the second half of the year due to lower export activity.

High customer demand for Industrial Drive Systems' permanent magnet brake lines and the successful launch of several new projects in all of the Division's business units offset the negative impact from specific declines at two large industrial customers, leading to flat revenue development. One large customer project is being phased out and another major customer experienced significantly lower demand in its Asian end markets. Industrial Drive Systems and Industrial Control Systems were faced with two of their larger projects being delayed to 2016.

The flat revenue development and inflationary pressure on staff costs and other operating expenses resulted in lower profitability compared to 2014. Staff costs increased mainly due to salary increases and non-recurring redundancy costs of EUR 0.6 million related to a staff reduction in Industrial Control Systems. Other operating expenses increased partly due to non-recurring dismantling costs related to the outsourcing of chemical plating activities in Industrial Control Systems. Depreciation charges were also higher following investments in 2014 and 2015, in part related to projects which have been delayed to 2016.

Industrial Magnetic Systems started the year very well, with significant growth in the first two quarters on the back of various new project introductions. Growth slowed down in the second half of the year, partly affected by some customers reducing their stock levels at year-end, resulting in an increase of 5% in total revenue for the year. With the exception of Switzerland, all locations of the business unit and all major markets contributed to growth. Kendrion Switzerland was hurt by the strong Swiss franc which has a significant adverse impact on the industrial activities in that country. The expansion of the manufacturing site in Engelswies, Germany, progressed well. Industrial Magnetic Systems also continued to relocate certain production lines to the new plant in Sibiu, Romania. This has improved cost efficiency in the business unit and will continue to do so going forward.

Industrial Control Systems had a difficult start of the year with a revenue decline in the first two quarters. The revenue decline was mainly attributable to the machine building market, where large customers were faced with lower demand, particularly in their Asian end markets. Other markets such as medical and especially aerospace performed well. Industrial Control Systems was also faced with a delay in one of its large new customer projects, which is now expected to start in 2016. The situation for Industrial Control Systems improved in the second half of the year, but revenue for the year was nonetheless 6% lower than in 2014. Industrial Control Systems is continuing to relocate production activities to its plant in Sibiu, Romania. This lowers the cost base of the business unit. The business unit will further reduce costs in Germany and non-recurring redundancy costs of EUR 0.6 million were recognised at year-end relating to 10 people who will gradually leave during 2016.

Industrial Drive Systems had a mixed year. On the one hand, the business unit benefited from very high demand for its permanent magnet lines and various new orders won. On the other hand, the business unit was faced with the expected phasing out of a high-volume customer project and the delayed launch of a large new project in Suzhou, China. The delayed project is now anticipated to start in the second half of 2016. Overall, 2015 revenue for Industrial Drive Systems was in line with 2014, which was fully due to the phasing out of the customer which reduced growth by 6%. In 2015, the business unit won its first serial production orders for its new KOBRA spring-applied brake. With the KOBRA spring-applied brake, Industrial Drive Systems has successfully widened its product portfolio, significantly increasing its geographical and technological end markets.

Overall, performance in the Industrial Division was mixed, held back mainly by a limited number of specific customer developments affecting overall growth and profitability. Kendrion will continue to focus on offering high-quality innovative products to its niche markets. Both the order book and the project portfolio, including several delayed projects that will now start in 2016, support the anticipated growth in 2016.

**Automotive Division**

The Automotive Division – which accounts for 66% of Kendrion's total revenue – increased its revenues to EUR 291 million, 5% up from EUR 278 million in 2014. The operating result before amortisation decreased to EUR 17.7 million compared to EUR 20.7 million in 2014. This resulted in a lower EBITA margin of 6.1% (2014: 7.4%).

Revenue and profit growth were impacted by the phasing out of customer contracts in Automotive Control Systems which had been anticipated. Revenue growth for the year excluding Automotive Control Systems was close to 10%, driven by increased volumes from new projects that ramped up during 2014/2015 and positive currency impacts, with a strong contribution from both Passenger Car Systems and Commercial Vehicles.

Activity levels in the worldwide automotive industry were high in the first half of 2015, but started to lose momentum slightly just before the summer period. During the first half of the year, Passenger Car Systems was the main driver of the Division's organic growth. At the end of the third quarter the Volkswagen diesel issue became public. While it is still unclear what the effect of a possible backlash will be in the longer term, Kendrion started to see some impact from this in the last months of 2015. The effects of a slowdown among a number of important automotive customers became more visible in this business unit in the latter part of the year and the fourth quarter demonstrated that year-end effects in this business are always difficult to predict, as several of the large customers halted production early and reduced stock levels.

A number of new projects commenced towards the end of the year, notably the production of solenoid valves for active damping systems for which the first samples were delivered in 2015. The total revenue during this project's lifetime is expected to be at least EUR 300 million with further potential in both Europe and the USA. These projects will support revenue development going forward.

After a strong 2014, Automotive Control Systems saw a significant reduction in revenue of almost 10% driven by the phase out of customer contracts, while new projects will only start in 2016 and beyond. Future revenue development in Automotive Control Systems will be supported by the start-up of new projects especially in the area of sound-design technology and further electronic fuel-pump control unit projects. The business units Automotive Control Systems and Passenger Car Systems were integrated at year-end into a new business unit Passenger Cars.

Good progress was made with the activities in Commercial Vehicles which achieved 7% growth in 2015. The increase in growth in this business unit was largely achieved outside Germany with good progress in North America, India, Mexico and China. Market conditions in Brazil were more challenging. During the year, the Heavy Duty Systems business unit was integrated with the Commercial Vehicles Systems business unit into a new business unit Commercial Vehicles.

In China, the business executed its growth plan, with a number of changes to the business unit's organisation and good progress on the localisation of production processes and material supplies. Uncertainty in the second half year however had an impact on performance after a good start to the year.

In North America performance improved in 2015 compared to the previous year, with revenue growth driven by growth in the North American heavy truck market and high sales in pressure switches, pressure regulating valves and transmission valves.

The plant in India achieved improved revenues and results which were significantly up on the year before, driven by new projects with existing and new customers. The implementation and introduction of a local supply base in India contributed to results.

The reduction in the operating result of the Automotive Division before amortisation to EUR 17.7 million (2014: EUR 20.7 million) was largely driven by the revenue decline in Automotive Control Systems and non-recurring warranty expenses in 2015, while 2014 benefited from incidental reimbursements. Depreciation was EUR 1.6 million higher than in 2014, due to the investments made in 2014 and 2015 in new projects, which will lead to further growth in the near future. The impact of

these factors was only partly offset by the additional profit from revenue growth elsewhere. Several actions were taken during 2015 to improve future profitability in the Automotive Division.
This included efficiency measures taken at the Automotive Control Systems business unit, with a reduction of 20 FTEs. This resulted in non-recurring costs of EUR 0.3 million and will generate annual savings of EUR 1.2 million by the end of 2016.

Kendrion is actively pursuing the reduction of single customer dependency by winning projects from other customers. The dependency on individual large customers is higher in the Automotive Division than in the Industrial Division. The top 10 customers generate approximately 60% of the combined revenue of this Division.

In the period 2013-2015, Kendrion reported new projects in Passenger Car Systems amounting to an estimated sales value of around EUR 750 million over the projects' lifetimes. In 2015, new projects were acquired with a total estimated value of EUR 180 million. In the next five years, revenue of approximately EUR 190 million will be phased out.

The main future growth markets for the Automotive Division are suspension (damper) systems, driver assistance systems, cylinder, valve and camshaft adjustments, fuel systems, thermal management and hydrogen valves. The current project portfolio, the current new project opportunities and actions taken in 2015 to improve future profitability are reasons for optimism about the Division's prospects for the future.

**Added value**

In 2015, added value amounted to EUR 214.0 million (2014: EUR 204.6 million). The increase over last year was mainly due to the 3% organic revenue growth in 2015. Added value as a percentage of revenue remained stable at 48%.

Pre-agreed annual discounts, customary for automotive projects, are usually compensated for by purchase discounts and by new projects that are ramping up.

In 2015, overall raw material prices for the key raw materials were relatively stable, with a slight decline in the copper and steel prices agreed for 2015. Permanent magnet prices were also relatively stable.

**Staff costs and other operating expenses**

Staff costs, including costs for temporary employees, amounted to EUR 133.1 million, compared to EUR 125.4 million in 2014.

The higher staff costs were mainly due to the increase in annual salaries, which was higher than in the previous year, especially in Germany, and also included a negative currency impact of EUR 3.0 million.
In addition non-recurring restructuring costs of EUR 0.9 million related to the business units Industrial Control Systems and Automotive Control Systems and a further investment in engineering staff adversely impacted staff costs.
Consequently, total staff costs as a percentage of revenue increased slightly by 0.9%, despite several efficiency measures implemented throughout Kendrion's operations which reduced the total number of direct staff.

Staff costs in relation to revenue and added value evolved as follows:

| Staff costs | 2015 | 2014 |
|---|---|---|
| Staff costs (EUR million) | 133.1 | 125.4 |
| % of revenue | 30.1% | 29.2% |
| % of added value | 62.2% | 61.3% |

| FTE (at 31 December) | 2015 | 2014 |
|---|---|---|
| Direct staff | 1,360 | 1,443 |
| Indirect staff | 1,212 | 1,192 |
| Temporary staff | 85 | 78 |
| Total FTEs | 2,658 | 2.713 |

Other operating expenses for 2015 amounted to EUR 35.7 million (2014: EUR 29.9 million). The increase over the previous year related mainly to business development projects, non-recurring warranty expenses of EUR 1.3 million, an increase in research and development costs and higher repairs and maintenance expenses. The currency impact caused EUR 1.4 million of the increase. In addition, the 2014 other operating expenses were reduced by incidental reimbursements of EUR 1.6 million. As a result, the overall ratio of operating expenses as a percentage of revenue increased to 8.1% (2014: 7.0%).

Total Research & Development expenses (including staff and other operating expenses) for 2015 totalled EUR 26.4 million (2014: EUR 23.2 million).

**Net financing costs**

Net financing costs fell to EUR 3.3 million (2014: EUR 4.6 million), in spite of unfavourable currency exchange results of EUR 0.5 million (2014: positive EUR 0.4 million). Excluding currency results, the financing costs decreased by EUR 2.2 million compared to 2014 mainly due to the continued reduction in debt levels and the lower financing costs related to the new financing agreement concluded on 15 August 2014. Net financing costs in 2014 included a non-recurring write-off amounting to EUR 0.7 million which related to the unamortised portion of the capitalised transaction costs of the previous financing agreement.

Average (gross) debt levels, excluding cash and deposits, amounted to EUR 94 million in 2015. The average interest charge on borrowings in 2015 was 1.9% (2014: 2.7%). The lower average interest rates had a positive impact of EUR 0.8 million on the net financing costs.

More information on the revolving credit facility, available credit lines and conditions can be found on pages 102-104 of the financial statements.

**Income tax**

Income tax expense in 2015 amounted to EUR 1.9 million (2014: EUR 4.7 million). The effective income tax rate for 2015 was 10.3% (2014: 18.9%).

The effective tax rate in 2015 was positively influenced by incidental tax benefits of EUR 2.5 million. These benefits mainly relate to the final agreement on the partial deductibility of the interest expenses and guarantee fees in relation to the EC fine. This agreement resulted in an additional tax loss carry-forward in the Netherlands. Excluding these benefits, the effective tax rate for 2015 would have been approximately 24% (2014: 23%, normalised).

More information about the effective tax rate can be found on page 121 of the financial statements.

Tax paid in 2015 amounted to EUR 3.7 million. The difference between this and the tax charge in the profit and loss account is largely due to deferred tax assets relating to loss carry-forwards during 2015.

**Net income**

| | |
|---|---|
| Net income attributable to equity holders of the company (EUR million) | 16.8 |
| Earnings per share (EPS) (EUR) | 1.28 |

Kendrion proposes an optional dividend of 61% of the net result, equivalent to EUR 0.78 per share entitled to dividend.

**Financial position and working capital**

Total assets increased to EUR 340.9 million (2014: EUR 333.5 million). Non-current assets increased by EUR 4.1 million. This was mainly caused by currency effects on goodwill denominated in USD (EUR 2.9 million) and capital expenditure on software which exceeded depreciation by EUR 1.8 million. The higher capital expenditure on software was mainly due to the final stage of the roll-out of the ERP software which went live in 2015 in the Kendrion Kuhnke plants (Germany and Romania) and several smaller Kendrion operations.

## Condensed statement of financial position

### Assets

| EUR million | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Property, plant and equipment | 82.7 | 83.1 |
| Intangible assets | | |
| ■ Goodwill | 93.4 | 90.5 |
| ■ Acquisition related | 23.3 | 24.8 |
| ■ Software | 9.9 | 8.1 |
| ■ Development costs | 1.0 | 0.8 |
| Other | 0.6 | 0.9 |
| Deferred income tax | 15.9 | 14.5 |
| **Non-current assets** | **226.8** | **222.7** |
| Inventories | 52.5 | 49.0 |
| Income tax | 2.7 | 3.0 |
| Trade and other receivables | 48.7 | 49.2 |
| Cash | 10.2 | 9.6 |
| **Current assets** | **114.1** | **110.8** |
| **Balance sheet total** | **340.9** | **333.5** |

Goodwill payments were made for the Linnig Group in 2007, Kendrion (Mishawaka) LLC in 2008, Kendrion (Aerzen) GmbH in 2010, Kendrion (Shelby) Inc. at the end of 2011, and Kendrion Kuhnke Automation and Kendrion Kuhnke Automotive in 2013.

Intangible assets relating to these acquisitions consisted largely of the calculated fair value of customer relations and technology. The annual amortisation charge relating to these intangibles amounted to EUR 3.8 million in 2015. More information can be found on pages 91 and following.

### Deferred income tax assets

| EUR million | 2015 | 2014 |
|---|---|---|
| **Valued tax losses carried forward** | | |
| German income tax (15.8%) | 27.9 | 31.3 |
| German trade tax (12.2%) | 6.2 | 1.0 |
| Dutch income tax (25.0%) | 20.8 | 18.0 |
| Other | 0.5 | 3.0 |
| Total | 55.4 | 53.3 |
| Tax value of recognised loss carry-forwards | 10.6 | 10.6 |
| Tax value temporary differences | 5.3 | 3.9 |
| Deferred income tax assets | 15.9 | 14.5 |

More detailed information can be found on pages 95-97 of the financial statements.

### Net working capital at 31 December

| EUR million | 2015 | 2014 |
|---|---|---|
| Inventories | 52.5 | 49.0 |
| Trade and other receivables, tax receivable | 51.4 | 52.2 |
| Less: Trade and other payables, tax payables, current provisions | 60.5 | 56.3 |
| Net working capital | 43.4 | 44.9 |
| As % of revenue | 9.8% | 10.5% |

**Working capital**

Net working capital as a percentage of revenue improved compared to the previous year to 9.8% of revenue (2014: 10.5%).

Receivables and payables both showed an improvement of 0.6% as a percentage of revenue. Inventory levels were EUR 3.5 million higher mainly due to higher production in December and currency effects (EUR 0.9 million). The year-end provision for trade receivables amounted to EUR 0.4 million (2014: EUR 0.4 million).

**Solvency ratio**

The year-end solvency ratio increased to 49.8% (year-end 2014: 46.0%), mainly due to the net profit development, the improvement in debt level and positive currency translation effects on equity (EUR 5.6 million) which in turn were mainly a result of the stronger USD and CNY.

**Net debt**

Net debt decreased by EUR 13.9 million during 2015 to EUR 69.1 million. The free cash flow, before payment of the EUR 1.0 million acquisition price for Steinbeis Mechatronik GmbH, amounted to EUR 21.2 million in 2015. This was partly offset by the cash portion of the optional dividend which amounted to EUR 6.1 million (approximately 60% of total dividend).

The future activities will be financed via Kendrion's current revolving credit facility (EUR 150.0 million) with a syndicate of three banks and via free cash flow of the Group. A revision of the current financing structure is not foreseen in the near future. Further information is provided in note 10 to the Financial Statements.

**Net interest bearing debt at 31 December**

| EUR million | 2015 | 2014 |
|---|---|---|
| Non-current borrowings | 65.2 | 80.5 |
| Non-current mortgage loan | 4.4 | 5.0 |
| Current borrowings | 9.7 | 7.1 |
| Less: cash and cash equivalents | 10.2 | 9.6 |
| Net bank debt at 31 December | 69.1 | 83.0 |
| 12 months EBITDA | 45.2 | 49.3 |
| Debt cover | 1.53 | 1.68 |

**Credit facilities in place**

| EUR million | Actual |
|---|---|
| ■ Syndicated bank facilities | 150.0 |
| ■ Mortgage loan | 5.0 |
| ■ Other loans and facilities, including financial leases | 2.8 |

**Credit facility compliance**

| | | Actual |
|---|---|---|
| Debt cover (Net bank debt/12 months EBITDA) | < 3.0 | 1.53 |
| Interest cover (12 months EBITDA/Net finance charges[1]) | > 4.0 | 20.14 |

[1] *The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities and the amortisation of upfront and legal fees.*

**Invested capital at 31 December**

| EUR million | 2015 | 2014 |
|---|---|---|
| Balance sheet total | 340.9 | 333.5 |
| Less: non-interest bearing debt | 60.5 | 56.3 |
| Less: freely available cash | 10.2 | 9.6 |
| Less: deferred income tax | 15.9 | 14.5 |
| Invested capital | 254.3 | 253.1 |

The invested capital in 2015 was impacted as follows:

| EUR million | |
|---|---|
| Higher property, plant and equipment plus software and development costs | 1.6 |
| Higher goodwill and acquisition related intangible assets | 1.4 |
| Lower net working capital | (1.5) |
| Other impacts | (0.3) |

## Free cash flow

In 2015, the normalised free cash flow generated, before acquisition payments, was again strong at EUR 21.2 million (2014: EUR 17.1 million), compared to EUR 16.8 million net profit. The main reasons for the higher free cash flow compared to net profit were the annual EUR 3.8 million non-cash amortisation charge on the intangibles arising from acquisitions and the improvement in working capital.

Investments in property, plant and equipment and software amounted to EUR 22.3 million, which was EUR 2.9 million higher than depreciation. Cash proceeds from disinvestments amounted to EUR 2.5 million. Both divisions made a satisfactory contribution to the overall free cash flow. Capital expenditure on plant and equipment relates mostly to investments in production lines for new projects, such as a new production line for an active damping system which became operational at the end of the year in Austria.

**Normalised free cash flow**

| EUR million | 2015 | 2014 |
|---|---|---|
| Reported free cash flow | 20.2 | (27.7) |
| Acquisition of subsidiaries | 1.0 | 1.0 |
| EC fine paid | – | 43.8 |
| Normalised free cash flow | 21.2 | 17.1 |

## Contingent liabilities

Information about contingent liabilities is enclosed on page 117 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 Dutch law and International Financing Reporting Standards as adopted by the EU (EU-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 Executive 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 Executive 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 Executive Board Industrial Division

## Profile

The Industrial Division develops and manufactures electromagnetic and mechatronic systems and components for many industrial applications in markets such as process automation, energy generation and distribution, medical and analytical equipment, transportation and aerospace.

The Division's main technologies include electromagnetic brakes and clutches, electromagnetic actuators for switching, locking and positioning, special fluid valves and control technology.
The Division's activities are carried out in three business units: Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems. Industrial Magnetic Systems specialises in the development and production of customised solutions for switching, locking and positioning based on electromagnetic actuator technology. Industrial Control Systems focuses on the development and assembly of gas and fluid control valves and systems and control technology. Industrial Drive Systems specialises in the development and manufacture of electromagnetic brakes and clutches.

The Division's main focus is on customer-specific and sophisticated systems and components for large and mid-size OEMs of industrial or professional equipment. The Division's main differentiators are application expertise and engineering skills to design high-performance products and the Division's production facilities specialise in low-volume and high-variety production. Besides the customer-specific systems and components, the Division has a portfolio of standard and application-specific components.

The Industrial Division's largest production facilities are located in Germany and the Division also has facilities in China, the USA, Romania and Switzerland. Products are marketed via an own sales organisation with sales offices in Germany, the UK, Austria, Switzerland, Italy, Sweden, China and the USA. The Division also has a worldwide sales distribution network, which is dedicated mainly to the standard and application specific components.

## Market and market position

The total market size for electromagnetic and mechatronic systems and components in which the Industrial Division operates is estimated at EUR 3 billion fragmented across many different industries. Approximately 30% of the end markets are in Europe, 30% in the USA and 40% in Asia and the rest of the world.

The Industrial Division's focus areas are process automation, energy generation and distribution, medical and analytical equipment, industrial appliances, logistics (mail and parcel sorting), transportation, locking and safety and aerospace. These end markets have sufficient size and offer attractive growth potential in which Kendrion is able to deliver superior value and achieve an above-average return. Based on a market survey carried out in 2015, Kendrion estimates the accessible size of the chosen focus markets to be EUR 0.9 billion, with mid-single-digit growth between 2015 and 2019.

The Division competes in a market with many small and mid-sized producers, which often have a regional focus. The main market for the Industrial Division continues to be Germany, with its advanced and globally leading mechanical engineering and automation industries. Other key markets for the Division are Asia, the USA, Switzerland, Italy, France and Sweden.

The Division is characterised by a relatively low customer concentration. Only a few customers represent an annual revenue of several million euros. Large customers of the Division include Siemens, Schindler, B/E Aerospace, Stoll, Euchner, Oerlikon, Fresenius, Dräger and Perkin Elmer.

## Developments in 2015

Revenue for the Division totalled EUR 150.8 million (2014: EUR 150.5 million).

Several successful product launches in all business units contributed to revenue in 2015, although the revenue contribution from new projects was lower than expected as some customers delayed the launch of their products in Industrial Control Systems and Industrial Drive Systems. Besides the contribution from new projects, Industrial Drive Systems benefited from strong demand growth for its electromagnetic brakes (PE brakes). The PE brakes represent approximately half of the business unit's revenues.

Total revenue was adversely impacted by declines at two specific customers and a slowdown in the German machine building sector, caused mainly by lower exports.

Industrial Drive Systems enjoyed a significant number of customer enquiries for its new modular spring-applied brake (the KOBRA), which was introduced to the market in 2014. Kendrion also received the first customer orders for KOBRA serial production.

In 2015, Industrial Magnetic Systems started the expansion and improvement of its production facility in Engelswies, Germany, which is expected to be completed in mid-2016.

In 2015, the Division established a second industrial production facility in Sibiu, Romania. By the end of 2015, three production lines had been relocated from the Industrial Magnetic Systems plant in Germany to the new plant in Romania. Where economically and technologically feasible, the Industrial Division might increase the usage of the Romanian production facilities.

As part of Kendrion's ongoing programme to relocate serial production from Germany to Romania, Industrial Control Systems is planning a staff reduction of 10 FTEs, to be executed during 2016, for which a provision of EUR 0.6 million was recorded in the fourth quarter of 2015.

## Outlook

Several new product launches are planned for 2016 and the Division has a healthy project portfolio with a significant number of promising projects.

Industrial Magnetic Systems will start production for a number of new projects mainly in the process automation, transportation and locking and safety markets. A significant portion of the new projects will start in the Chinese operations in Suzhou. The project portfolio further consists of several key projects for the energy distribution and beverage dispensing markets, but revenues from these projects are not expected before 2017.

Industrial Control Systems expects to launch a new project in the oxygen latch programme for aircrafts as well as various smaller projects. A significant portion of the R&D activities of Industrial Control Systems has been invested in the development of a new safety FIO (Fast Input Output) for process automation customers. Kendrion expects this FIO to contribute to the revenue of Industrial Control Systems in 2017 and beyond.

Industrial Drive Systems has secured the first serial production orders from various customers for its new modular spring-applied brake (the KOBRA brake). Kendrion expects to start production in 2016 with a further ramp-up in 2017. Industrial Drive Systems anticipates another strong year for its permanent magnet (PE) brakes, based on demand from existing customers and new customer projects. Industrial Drive Systems will invest in a new production line to meet the increasing demand for PE brakes. The new production set-up is expected to increase capacity and lead to more efficient production.

## Profile

The Automotive Division develops, manufactures and markets innovative high-quality electromagnetic components, mechatronics solutions and sound systems for applications and customers in the automotive industry all over the world. These include major OEMs and Tier One Suppliers in the global markets for passenger cars, buses, heavy trucks, construction and agricultural machinery, municipal vehicles, engine as well as industrial equipment manufacturers and aftermarket service providers.

Kendrion has the ambition to become the global technology and innovation leader in electromagnetic and mechatronic applications.

Kendrion's automotive business is renowned as a competent development and engineering partner with an international development network and has production facilities in Germany, Austria, the Czech Republic, Romania, North America, Mexico, Brazil, India and China. All products are developed and designed in accordance with the customer's specific needs, placing great emphasis on performance and reliability. Kendrion has been awarded ISO/TS 16949 certification, and supports environmentally-friendly working methods in accordance with ISO 14001 and ISO 50001 for several plants.

At the end of 2015, the Automotive organisation was further streamlined by combining the existing four business units into two new business units: Passenger Cars and Commercial Vehicles.

The business units within the Automotive Division have similar economic characteristics and display a number of similarities regarding their products, production processes and customers. Machines, techniques and employees are to a high extent interchangeable between the business units within the Division.

Passenger Cars offers innovative technological solutions such as advanced valve technology (common rail and gasoline valves, active damping systems, engine management), hydraulic and pneumatic solenoids (on/off or proportional) and stroke solenoids, sound actuators, electrodynamic actuators and electronics. The highly reliable production processes are partly carried out in clean-room conditions and are entirely or partly automated, depending on the annual production volume. Passenger Cars complies with stringent quality standards through the use of end-of-line control units for complete systems or individual functions.

Commercial Vehicles' main technologies include clutches for thermal management and air condition, custom control flow valves and coils, belt dampers, pressure switches, circuit breakers, mechanical switches, standard / mobile hydraulics and lighting applications. Intelligent electronic systems and their integration are provided in customer-specific applications.

## Market and market position

The total size of the market for electromagnetic and mechatronic systems and components in which the Automotive Division operates is estimated at EUR 9 billion. Approximately 25% of the end markets are in Europe, 25% in the USA and 50% in Asia and the rest of the world.

The Automotive Division is focusing on a number of important global trends such as the rise of environmental-friendly vehicles, driver assistance systems, autonomous driving, digitalisation in cars and connectivity. Kendrion, as a niche player in environmental, safety and comfort applications, is well-positioned to make use of these trends.

The Automotive Division has selected a number of focus areas in end markets that have sufficient size, offer attractive growth potential in which Kendrion is able to deliver superior value and achieve an above-average return. Kendrion expects further growth due to new applications in human machine interface, sound design systems, enhanced valve technology, environmental protection, on/off and common rail gasoline technology that minimises emissions. New hybrid, electric and fuel cell cars also create new market opportunities. Commercial Vehicles has a leading position in the international market for thermal management, damping, electrical components and actuators.

Based on a market survey carried out in 2015, Kendrion estimates the accessible size of the chosen focus markets to be EUR 2 billion, growing by 4% annually between 2015 and 2019.

The Automotive Division's largest market currently is Europe and, within that market, Germany, where Kendrion extended its market position. Uncertainties in the diesel market affected the Division's business slightly towards the end of 2015, but the long-term outlook remains intact mainly due to further valve projects. Kendrion's sound design systems enjoyed strong interest from different customers.

The Division's market share in the North American and Asian market increased on the back of several new projects and Kendrion expects it to continue to grow over the coming years.

The major customers are Volkswagen, Daimler, Continental, Delphi Europe, WABCO, Stanadyne, ThyssenKrupp, Chrysler, Automotive Lighting, ZF Friedrichshafen, EvoBus, Yutong, Hyundai KIA, Navistar, Ashok Leyland and Eaton.

Customers rely on Kendrion as a development partner, with active project teams, in-depth technical knowledge and access to development, test and production facilities.

## » Developments in 2015

Revenue for the Division amounted to EUR 291.3 million (2014: EUR 278.4 million).

In 2015, Passenger Cars further strengthened its position with new business in thermal management, sound design, electronics and the next generation of Kendrion's piston cooling valve.
The business unit also successfully started serial production for its innovative new active damping system. Additional damping business for a new customer has been acquired for the European market.

Furthermore, Passenger Cars expanded its common rail diesel business. New developments for alternative propulsion systems (hybrid and electric cars) and thermal management applications are in progress. In China, the business unit gained new business in the engine management sector and intensified its sales activities at local OEMs.

In the USA, serial production of the gasoline control valves and park lock solenoids is running well. The preparation for the next generation of the gasoline valve has already started.

In 2015, Commercial Vehicles achieved a stable performance in engine cooling, vibration damping and air condition applications. The hydraulic solenoid business based in the Prostejov plant in the Czech Republic was integrated into Commercial Vehicles. This business mainly serves the off-highway industry (agriculture and construction) and some industrial applications and provides excellent opportunities for further growth. Over the next few years, the business unit expects to develop new technologies and new products in the fields of thermal management, reduction of fuel consumption, energy saving and smart mechatronic solutions for future applications.

The plant in Pune, India, has seen continued growth due to the healthy economic upturn in that region. New projects have been gained with existing and new customers. An example is the entrance into the generator (genset) market, which Kendrion supplies with fuel saving technology for the end user of permanent power supplies. The development of a local supply base continued with high priority and excellent results.

Sales were stable in North America, where the business unit has a major share in the heavy truck market for pressure switches and fluid regulating valves.
After restructuring Commercial Vehicles' sales and engineering teams, the business unit sees opportunities in new business especially for customised products.
The business in Toluca, Mexico developed well.

In Brazil, Commercial Vehicles' business faced challenges due to the economic downturn in that country. Kendrion is currently focusing on maintaining its market share and developing its business. Kendrion will continue to evaluate the situation and its response in 2016.

## Outlook

The Division has a healthy project portfolio and will expand its position with further product launches in both Passenger Cars and Commercial Vehicles. Kendrion will be exploring new business opportunities in mechatronic systems. The production and new development of products will be as much as possible on a local-for-local basis, whilst utilising the company's global base. Kendrion expects to launch a new product range within fluid controls and thermal management for modern heavy and medium duty engine and commercial vehicle applications.

As a customer-orientated organisation with a strong focus on corporate social responsibility, Kendrion is committed to achieving market and innovation leadership in electromagnetic and mechatronic niche technologies.

The integration of Kendrion's automotive activities into two larger business units provides an enlarged customer and product portfolio and a more focused R&D base which puts Kendrion in a stronger position to achieve further growth.

Every year Kendrion states the outlines of the company's corporate governance structure in the Annual Report, and submits all substantial changes, if any, to the structure to the General Meeting of Shareholders for discussion. Information about corporate governance and applicable 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 characterised by a transparent and efficient corporate governance structure that lays down the relationship between the shareholders, Supervisory Board, its Committees, and Executive Board.

## » 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 2015 13,188,154 ordinary shares had been issued. Kendrion's shares are listed on Euronext's Amsterdam market. 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. The Articles of Association have been published on Kendrion's website.

### 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 42nd day prior to the day of the meeting. Parties who have the right to vote and attend the meeting and who are registered as such in a designated (sub)register on the 28th day prior to the day of the meeting *(registratiedatum)* will be entitled to attend the meeting and vote, 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. 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 3% 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 to include items on the agenda shall be granted provided that the motivated request is submitted in writing to the CEO or the Chairman of the Supervisory Board at least 60 days before the date of the General Meeting of Shareholders. Resolutions relating to items placed on the agenda at the request of shareholders can be passed by an absolute majority of the votes cast that represents at least one third of the issued share capital.

Unless indicated otherwise, there are no restrictions on the transfer of shares, the exercising of voting rights or the term for exercising those rights, and there are no special controlling rights attached to shares.

Shareholders representing 47.02% of the total issued share capital attended or were represented at the General Meeting of Shareholders held in the year under review on 13 April 2015. Shareholders representing 51.7% of the total issued share capital attended or were represented at the Extraordinary General Meeting of Shareholders held on 4 November 2015.

**Executive Board**

In 2015, Kendrion was managed by an Executive Board with two members (the CEO and CFO) and was supervised by the Supervisory Board. The General Meeting of Shareholders held on 15 April 2013 appointed Mr Sonnemans as CFO for a period of four years. Mr Veenema resigned as CEO with effect from 1 December 2015. Mr Van Beurden was appointed as CEO as of 1 December 2015 by the Extraordinary General Meeting of Shareholders held on 4 November 2015. He was appointed for a period of four years.

The Executive Board possesses the powers which the relevant legislation and Articles of Association have not assigned to the Supervisory Board or the General Meeting of Shareholders.

The Executive Board has adopted regulations governing the Executive 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 Executive Board is currently supplemented by an Executive Committee, which is not mandated under the Articles of Association, comprised of the Executive Board and the CEOs of the two Divisions. The Executive Committee is a consultative body and the Executive 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 and to limit or exclude pre-emptive rights of existing shareholders in the period until 13 October 2016. This authority relates to a maximum of 10% of the issued share capital at the time of the General Meeting of Shareholders of 13 April 2015, augmented by the number of shares to be issued on the basis of the existing share plan for key management.

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 13 October 2016. 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 company and its affiliated companies, and to advise the Executive Board. Meetings of the Supervisory Board are usually attended by the Executive Board.

The Supervisory Board consists of four members. Currently there is one vacancy following the decision of Dr Kayser to step down from the Board with effect from 7 January 2016. Mrs Sanders will step down with effect from the date of the General Meeting of Shareholders of 11 April 2016. It will be proposed to the shareholders to appoint Mrs Mestrom as a member of the Supervisory Board for a period of four years.

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.

The Supervisory Board has established two Committees, an Audit Committee and a Remuneration Committee. The Committees are responsible for preparing certain decisions for the Supervisory Board. The regulations for both Committees have been adopted by the Supervisory Board. The regulations have been published on Kendrion's website.

**Corporate governance structure in light of the Netherlands Corporate Governance Code**

The provisions of the Netherlands Corporate Governance Code are applicable to Kendrion. Kendrion has applied virtually all the principles and best practice provisions – to the extent that they are applicable – laid down in the Code.

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 Netherlands Corporate Governance Code that the company shall explain why it has not applied the best practice provision in question. The provisions of the Netherlands Corporate Governance Code that have not been applied are listed below.

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.

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 meetings and analyst meetings in advance. In the past, webcasting these meetings was not necessary in Kendrion's opinion. This will be reconsidered. Investor Relations presentations are published on the company's website. 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)**

The credit facility of Kendrion N.V. 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.

## » Remuneration policy

**General**

Kendrion's current remuneration policy was discussed by and adopted at the Extraordinary General Meeting of Shareholders held on 4 November 2015. 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 over 2015. Information about the remuneration received by the individual members of the Executive Board and the Supervisory Board is also enclosed in the financial statements (pages 122-123 and 131-132).

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. 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 additional benefits.

**Fixed remuneration**

The fixed remuneration is in line with the aforementioned policy. At the start of 2015, the fixed component for the CFO was only adjusted pursuant to the indexation provision of the remuneration policy. The fixed remuneration of the new CEO is somewhat higher than that of the former CEO.

**Variable remuneration**

The variable remuneration is intended to promote the Executive Board members' attention to the development 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.

A variable bonus for the Executive Board members shall be awarded each year 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 60% of the gross fixed remuneration for the CEO and 50% of the gross fixed remuneration for the CFO. 60% of the bonus criteria will be comprised of financial performance criteria (net profit, ROS, ROI, organic growth and free cash flow) and 40% will be comprised of individual (non-financial) performance criteria. The financial performance criteria are weighted approximately equally.

One third of the amount to be determined by the Supervisory Board shall be paid in cash. Two thirds of the gross variable remuneration 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 Executive 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 Executive 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 Executive Board terminates his/her term of office or the term of office is terminated during this period. The members of the Executive Board may sell such a portion of the shares as it is needed to pay the personal income taxes as a consequence of the unconditional award of shares ('sell to cover') within the holding period.

The aforementioned financial and individual performance criteria are determined for each full year at the beginning of the relevant financial year.

The variable remuneration policy shall be supplemented with a share match. As stated above, 2/3 of the gross annual variable remuneration is invested in shares. Kendrion will, depending on the long-term performance criteria, increase the number of shares awarded pursuant to the above by 100% net (a matching ratio of 1:1). The performance criteria are the relative Total Shareholders Return (TSR), the absolute TSR (dividend ratio and share price development) and a group of sustainability criteria. The relative TSR and absolute TSR will carry a weighting of 30% each, and the sustainability criteria will carry a weighting of 40%. The performance period shall be of a term of three years, which begins at the time of the award of the annual variable remuneration. This performance period is in line with the provisions of the Netherlands Corporate Governance Code. Consequently the award, where relevant, is made after a period of three years.

The shares awarded pursuant to the annual variable remuneration are governed by a vesting period of three years (including the year over which the performance is measured) and a holding period of two years. The shares awarded pursuant to the share match are governed by a holding period of two years, which begins at the time of the award.

The relative TSR performance criterion for the share match is achieved when Kendrion's TSR score is higher than the average of the AScX and the German Small Cap Index, the SDAX. The absolute TSR criterion will be achieved if the increase in the share price together with the dividends in the three-year period concerned, taking account of all circumstances, is reasonable in the Supervisory Board's judgment.

The sustainability criteria are (i) energy/$CO_2$ reduction, (ii) waste & recycling (sustainable business processes), (iii) employee satisfaction and (iv) management development / succession planning. Each of these sustainability criteria is assigned an equal weighting of 25%.

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

**Pensions and risk premium**

Pursuant to the policy, the company bears the cost of the contributions for the old-age pension and risk premiums for partner pension and disability of the members of the Executive Board and makes a maximum of EUR 75,000 available annually for this. No schemes have been agreed for the (voluntary) early retirement of the members of the Executive Board. This amount includes compensation for the reduction of the maximum pension accrual pursuant to the Reduction of Maximum Pension Accrual and Contribution Rates and Maximum Pensionable Income Act *(Wet verlaging maximumopbouw- en premiepercentages pensioen en maximering pensioengevend inkomen)* (Witteveen Framework 2015).

**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.

**Severance pay**

In the event of termination of the contract on Kendrion's initiative, the CEO and CFO will receive a severance payment of a maximum of one year's fixed gross remuneration. They have no right to the severance payment if the contract is terminated due to urgent cause or serious culpability.

In the event of termination of the contract on the initiative of the CEO or CFO within one year after control in Kendrion N.V. has changed on the grounds that continuation of the agreement cannot reasonably be expected of him, he will receive an amount to be determined by the Supervisory Board as a severance payment. The payment is capped at a maximum of one year's gross fixed remuneration.

| Element | Fixed | Variable | |
|---|---|---|---|
| | Base salary | Annual incentive | Long-term incentive |
| Way of payment | Cash | Performance related restricted shares | 3-year performance related restricted shares |
| Performance measure | Not applicable | ■ Net profit<br>■ ROI<br>■ Free cash flow<br>■ ROS<br>■ Organic growth — Total 60%<br><br>■ Non-financial individual performance, including sustainability — Total 40% | ■ Relative Total Shareholders Return (compared to the average of the AScX and SDAX) — Total 30%<br><br>■ Absolute Total Shareholders Return (dividend and share price) — Total 30%<br><br>■ Sustainability (energy and $CO_2$ reduction, waste & recycling, employee satisfaction and management development/succession planning) — Total 40% |
| Pay-out at minimum performance | 100% | 0% | 0% |
| Target pay-out | 100% | CEO: 40% as % of gross fixed remuneration<br>CFO: 35% as % of gross fixed remuneration | CEO and CFO: 100% of number of shares awarded based on annual incentive (net) |
| Maximum pay-out | 100% | CEO: 60% as % of gross fixed remuneration<br>CFO: 50% as % of gross fixed remuneration | CEO and CFO: 100% of number of shares awarded based on annual incentive (net) |

**Resignation**

The former CEO Mr Veenema resigned voluntarily as per 1 December 2015 from his statutory position and left the company at the end of the year. Within the framework of the applicable remuneration policy, the Supervisory Board decided in the third quarter of 2015 to grant a variable remuneration for 2015 of 40% of the gross fixed remuneration. The shares granted conditionally in past years were paid out on an unconditional basis. As long-term variable remuneration for the period 2013-2015, he also received, on an unconditional basis, 50% of the part of the variable remuneration for 2013 and 2014 that was invested in shares. No other special material payments have been made. The figures relating thereto can be found on pages 122-123 and in the 2015 remuneration report.

**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 General Meeting of Shareholders held on 16 April 2012 resolved that the fixed remuneration of the Chairman of the Supervisory Board amounts to EUR 40,000 and each of the other members EUR 30,000, besides the remuneration of EUR 5,000 for the membership of one of the Committees of the Supervisory Board. In addition to this fixed remuneration, the members also receive a contribution towards their expenses.

# Report of the Executive Board Outlook

Kendrion has worked hard and consistently over the past years on gaining leading positions in electromagnetic niche markets. This has resulted in Kendrion's development into a focused, technologically advanced and innovative company that is active in markets all over the world. Kendrion aspires to move from being a supplier of high-end electromagnetic components towards becoming a specialised supplier of more complete electromagnetic solutions. Sustainability is also a key focus area for Kendrion; a new three-year programme 'Taking Responsibility' was developed for the years 2015 to 2017, focusing on issues such as environmental protection and the responsible use of resources in the supply chain. The overall strategy for the years 2016 to 2018 has been laid down in Kendrion's Mid-term Plan 'Focus on markets – markets in focus'.

The economic prospects for 2016 are mixed. Kendrion's most important home market, Germany, is expected to achieve slight economic growth. The economic outlook for the company's operations in the USA is good, while economic development in China seems to be slowing down.

Taking limited overall global economic growth as a starting point, Kendrion expects its revenue to increase in 2016. The Industrial Division forecasts further revenue growth in its three business units. This expectation is based chiefly on the projects acquired over the last year, particularly in Germany and China. The Automotive Division forecasts further growth both in Commercial Vehicles and Passenger Cars, also supported by the ramp-up of the new damper project that was launched at the end of 2015. Uncertainty however remains, especially with regard to developments concerning Volkswagen and the Chinese economy.

Kendrion expects that investments in 2016 will be significantly in excess of depreciation charges. Most of these investments relate to new projects.

# Financial statements

## Contents

# Consolidated statement of financial position at 31 December

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| | **Assets** | | |
| | **Non-current assets** | | |
| 1 | Property, plant and equipment | 82.7 | 83.1 |
| 2 | Intangible assets | 127.6 | 124.2 |
| 3 | Other investments, including derivatives | 0.6 | 0.9 |
| 4 | Deferred tax assets | 15.9 | 14.5 |
| | **Total non-current assets** | **226.8** | **222.7** |
| | **Current assets** | | |
| 5 | Inventories | 52.5 | 49.0 |
| | Current tax assets | 2.7 | 3.0 |
| 6 | Trade and other receivables | 48.7 | 49.2 |
| 7 | Cash and cash equivalents | 10.2 | 9.6 |
| | **Total current assets** | **114.1** | **110.8** |
| | **Total assets** | **340.9** | **333.5** |

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| | **Equity and liabilities** | | |
| 8, 9 | **Equity** | | |
| | Share capital | 26.4 | 26.1 |
| | Share premium | 62.7 | 68.8 |
| | Reserves | 64.0 | 38.1 |
| | Retained earnings | 16.8 | 20.2 |
| | **Total equity** | **169.9** | **153.2** |
| | **Liabilities** | | |
| 10 | Loans and borrowings | 69.6 | 85.5 |
| 11 | Employee benefits | 19.8 | 19.6 |
| 13 | Provisions | – | 0.4 |
| 4 | Deferred tax liabilities | 11.4 | 11.4 |
| | **Total non-current liabilities** | **100.8** | **116.9** |
| 7 | Bank overdraft | 9.0 | 6.5 |
| 10 | Loans and borrowings | 0.7 | 0.6 |
| 13 | Provisions | 0.8 | – |
| | Current tax liabilities | 1.8 | 1.5 |
| 14 | Trade and other payables | 57.9 | 54.8 |
| | **Total current liabilities** | **70.2** | **63.4** |
| | **Total liabilities** | **171.0** | **180.3** |
| | **Total equity and liabilities** | **340.9** | **333.5** |

# Consolidated statement of comprehensive income

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| 19 | Revenue | 442.1 | 428.9 |
| 21 | Other income | 0.1 | 0.2 |
| | **Total revenue and other income** | **442.2** | **429.1** |
| | Changes in inventories of finished goods and work in progress | (0.2) | (1.4) |
| | Raw materials and subcontracted work | 228.4 | 225.9 |
| 22 | Staff costs | 133.1 | 125.4 |
| | Depreciation and amortisation | 23.2 | 19.8 |
| 16, 23 | Other operating expenses | 35.7 | 29.9 |
| | **Result before net finance costs** | **22.0** | **29.5** |
| | Finance income | 0.2 | 0.8 |
| | Finance expense | (3.5) | (5.4) |
| 24 | **Net finance costs** | **(3.3)** | **(4.6)** |
| | **Profit before income tax** | **18.7** | **24.9** |
| 25, 26 | Income tax expense | (1.9) | (4.7) |
| | **Profit for the period** | **16.8** | **20.2** |

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| | **Other comprehensive income** | | |
| | Remeasurements of defined benefit plans* | (0.3) | (1.9) |
| | Foreign currency translation differences for foreign operations** | 5.6 | 5.7 |
| | Net change in fair value of cash flow hedges, net of income tax** | 0.3 | 0.0 |
| | Tax on other comprehensive income | – | 0.5 |
| | Other comprehensive income for the period, net of income tax | 5.6 | 4.3 |
| | **Total comprehensive income for the period** | **22.4** | **24.5** |
| 9 | Basic earnings per share (EUR) | 1.28 | 1.56 |
| 9 | Diluted earnings per share (EUR) | 1.28 | 1.55 |

* *This item will never be reclassified to profit or loss.*

** *These items may be reclassified to profit or loss.*

# Consolidated statement of changes in equity

| EUR million | Share capital | Share premium | Translation reserve | Hedge reserve | Reserve for own shares | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | 25.9 | 74.4 | (1.0) | (0.4) | (0.2) | 18.7 | 16.7 | 134.1 |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit or loss | – | – | – | – | – | – | 20.2 | 20.2 |
| **Other comprehensive income** | | | | | | | | |
| Remeasurements of defined benefit plans | – | – | – | – | – | (1.4) | – | (1.4) |
| Foreign currency translation differences for foreign operations | – | – | 5.7 | – | – | – | – | 5.7 |
| Net change in fair value of cash flow hedges, net of income tax | – | – | – | 0.0 | – | – | – | 0.0 |
| Total other comprehensive income for the period | – | – | 5.7 | 0.0 | – | (1.4) | – | 4.3 |
| Total comprehensive income for the period | – | – | 5.7 | 0.0 | – | (1.4) | 20.2 | 24.5 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | |
| Issue of ordinary shares | 0.2 | 1.4 | – | – | – | – | – | 1.6 |
| Own shares sold | – | – | – | – | 0.1 | (0.1) | – | – |
| Share-based payment transactions | 0.0 | 0.1 | – | – | – | 0.0 | – | 0.1 |
| Dividends to equity holders | – | (7.1) | – | – | – | – | – | (7.1) |
| Appropriation of retained earnings | – | – | – | – | – | 16.7 | (16.7) | – |
| Balance at 31 December 2014 | 26.1 | 68.8 | 4.7 | (0.4) | (0.1) | 33.9 | 20.2 | 153.2 |

# Consolidated statement of changes in equity (continued)

| EUR million | Share capital | Share premium | Translation reserve | Hedge reserve | Reserve for own shares | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 26.1 | 68.8 | 4.7 | (0.4) | (0.1) | 33.9 | 20.2 | 153.2 |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit or loss | – | – | – | – | – | – | 16.8 | 16.8 |
| **Other comprehensive income** | | | | | | | | |
| Remeasurements of defined benefit plans | – | – | – | – | – | (0.3) | – | (0.3) |
| Foreign currency translation differences for foreign operations | – | – | 5.6 | – | – | – | – | 5.6 |
| Net change in fair value of cash flow hedges, net of income tax | – | – | – | 0.3 | – | – | – | 0.3 |
| Total other comprehensive income for the period | – | – | 5.6 | 0.3 | – | (0.3) | – | 5.6 |
| Total comprehensive income for the period | – | – | 5.6 | 0.3 | – | (0.3) | 16.8 | 22.4 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | |
| Issue of ordinary shares | 0.3 | 3.8 | – | – | – | – | – | 4.1 |
| Own shares sold | – | – | – | – | 0.1 | (0.1) | – | – |
| Share-based payment transactions | 0.0 | 0.3 | – | – | – | 0.1 | – | 0.4 |
| Dividends to equity holders | – | (10.2) | – | – | – | – | – | (10.2) |
| Appropriation of retained earnings | – | – | – | – | – | 20.2 | (20.2) | – |
| Balance at 31 December 2015 | 26.4 | 62.7 | 10.3 | (0.1) | – | 53.8 | 16.8 | 169.9 |

# Consolidated statement of cash flows

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| | **Cash flows from operating activities** | | |
| | Profit for the period | 16.8 | 20.2 |
| | Adjustments for: | | |
| | Net finance costs | 3.3 | 4.6 |
| | Income tax expense | 1.9 | 4.7 |
| | Depreciation of property, plant and equipment and software | 19.4 | 16.4 |
| | Amortisation of other intangible assets | 3.8 | 3.4 |
| | Impairment of property, plant and equipment | 0.1 | (0.0) |
| | Share-based payments | 0.4 | 0.1 |
| | | 45.7 | 49.4 |
| | Change in trade and other receivables | 1.9 | 2.5 |
| | Change in inventories | (2.5) | (1.0) |
| | Change in trade and other payables* | 2.4 | (47.4) |
| | Change in provisions | 0.2 | (1.6) |
| | | 47.7 | 1.9 |
| | Interest paid | (3.2) | (4.7) |
| | Interest received | 0.1 | 0.4 |
| | Tax paid | (3.7) | (3.5) |
| | **Net cash flows from operating activities** | **40.9** | **(5.9)** |

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| | **Cash flows from investing activities** | | |
| 20 | Acquisition of subsidiary, net of cash received | (1.0) | (1.0) |
| | Investments in property, plant and equipment | (19.5) | (16.4) |
| | Disinvestments of property, plant and equipment | 2.0 | 0.4 |
| | Investments in intangible fixed assets | (2.8) | (4.2) |
| | Disinvestments of intangible fixed assets | 0.5 | 0.2 |
| | (Dis)investments of other investments | 0.1 | (0.8) |
| | **Net cash from investing activities** | **(20.7)** | **(21.8)** |
| | **Free cash flow** | **20.2** | **(27.7)** |
| | **Cash flows from financing activities** | | |
| | Proceeds from borrowings (non current) | – | 21.4 |
| | Repayment of borrowings (non current) | (17.0) | (1.8) |
| | Proceeds from borrowings (current) | 0.0 | 0.0 |
| | Proceeds from the issue of share capital | 0.0 | 0.1 |
| | Dividends paid | (6.1) | (5.7) |
| | Change in treasury shares | 0.0 | 0.0 |
| | **Net cash from financing activities** | **(23.1)** | **14.0** |
| | Change in cash and cash equivalents | (2.9) | (13.7) |
| | Cash and cash equivalents at 1 January | 3.1 | 16.2 |
| | Effect of exchange rate fluctuations on cash held | 1.0 | 0.6 |
| 7 | Cash and cash equivalents at 31 December | 1.2 | 3.1 |

* *Change in payables 2014 include the payment of the EC fine on 3 April 2014 of EUR 43.8 million.*

# Notes to the consolidated financial statements

### Reporting entity

Kendrion N.V. (the 'Company') is domiciled in the Netherlands. The Company's registered office is at Utrechtseweg 33, 3704 HA Zeist. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries (together also referred to as the 'Group'). The Group is involved in the design, manufacture and sale of high-quality electromagnetic and mechatronic systems and components.

## Basis of preparation

### (a) Statement of compliance

The consolidated financial statements as of 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards published by the International Accounting Standards Board (IASB) as as adopted by the European Union (hereinafter referred to as EU-IFRS).

The Company financial statements are part of the 2015 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.

The consolidated financial statements were authorised for issue by the Executive Board on 24 February 2016.

### (b) Basis of measurement

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

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

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

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

The preparation of the financial statements in accordance 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 for 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 an 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 of such changes 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 2 – measurement of the recoverable amount of cash-generating units containing goodwill
- note 4 – utilisation of tax losses
- note 11 – measurement of defined benefit obligations
- note 13 – provisions
- note 15 – valuation of financial instruments
- note 18 – contingent liabilities
- note 20 – business combinations and acquisitions of non-controlling interests

## Significant accounting policies

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

### (a) >> Basis of consolidation

**(i) Business combinations**

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

The Group measures goodwill at the acquisition date as:

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

If the excess is negative, a bargain purchase gain is recognised immediately in comprehensive income (hereafter also referred to as 'profit or loss'). The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

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

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

**(ii) Subsidiaries**

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

**(iii) Composition of the Group**

The Company reached an agreement with the owners of Steinbeis Mechatronik GmbH on the acquisition of the company on 23 December 2014. Completion of this transaction was on 5 January 2015.

**(iv) Transactions eliminated on consolidation**

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

## (b) >> Foreign currency

### (i) Foreign currency transactions

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

### (ii) Translation of foreign currency financial statements

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

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

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

## (c) >> Property, plant and equipment

### (i) Owned assets

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

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

(ii) **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 a 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 g).

(iii) **Subsequent costs**

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

(iv) **Depreciation**

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

Leased assets are depreciated over the shorter of their respective lease terms and useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

(v) **Recognition of transaction results**

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

## (d) >> Intangible assets

(i) **Goodwill**

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

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

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

**(ii) Research and development**

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

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

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

Research and development expenses incurred by the Industrial Division primarily relate to pre-production prototypes or tests for products already being marketed (application engineering). These expenses do not qualify as development expenditure, but may be recognised as an intangible asset. Research and development expenses incurred by the Automotive Division are not recognised as marketable until Kendrion has been nominated as the supplier for the particular vehicle platform or model and has also successfully completed the pre-production release stages. These release stages also serve as the prerequisite for the demonstration of the technical feasibility of the product, especially in view of the stringent demands imposed on comfort and safety technology. For this reason, development costs are recognised as an asset solely on the date of Kendrion’s nomination as the supplier and the completion of a specific pre-production release stage. The development is deemed to have been completed once final approval for series production has been granted. As a result, only a very few of the Automotive Division’s research and development projects meet the recognition criteria.

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

**(iii) Other intangible assets**

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

(iv) **Subsequent expenditure**

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

(v) **Amortisation**

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

## (e) >> Financial instruments and other investments

**Financial instruments**

**Non-derivative financial instruments**

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. They are recognised as at the respective dates on which they originate.

Non-derivative financial instruments are recognised initially at fair value, less any directly attributable transaction costs. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or if it transfers the rights to receive the contractual cash flows as part of a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the statement of financial position if, and only if, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. 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 note g).

*Recognised interest-bearing loans and borrowings*

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

*Trade and other payables*

Trade and other payables are carried at amortised cost.

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

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

**Derivative financial instruments, including hedge accounting**
The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

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

Embedded derivatives are accounted for separately from the host contract. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value in profit or loss. Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss. At 31 December 2015, no embedded derivatives existed.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve, a component of equity, to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes are recognised immediately in profit or loss.

On initial designation of a derivative as a cash flow hedge, the Group formally documents the relationship between the hedging instrument, the hedged item and the hedged risk, including the risk management objective and strategy for undertaking the hedge transaction, together with the methods that are used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in achieving offsetting of the changes in the cash flows for the hedged risks attributable to the respective hedged items, and whether the actual results of each hedge are within a range of 80-125%. Regarding a cash flow hedge for a forecasted transaction, the Group determines whether the hedged transactions are highly likely to occur and present an exposure to variations in cash flows that could ultimately affect profit or loss.

If a 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 profit or loss unless it is expected that the original hedged transaction will still take place.

## (f) >> Inventories

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

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

## (g) >> Impairment

### (i) Financial assets

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 of assets that have similar credit risk characteristics.

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

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

### (ii) Non-financial assets

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

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

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

**(iii) Reversal of impairment losses**

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

**(iv) Calculation of recoverable amount**

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

## (h) >> Share capital

**(i) Ordinary shares**

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

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

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

(iii) **Dividends**

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

## (i) >> Employee benefits

(i) **Defined contribution plans**

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

(ii) **Defined benefit plans**

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

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

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

**(iii) Other long-term service benefits**

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

**(iv) Share-based payment transactions**

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

## (j) >> Provisions

A provision is recognised in the statement of financial position if the Group has a present legal or constructive obligation as a result of a past event, that can be measured reliably and it is probable that settlement of the obligation will involve an outflow of funds.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The unwinding of the discount is recognised as finance cost.

(k) ## Revenue

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

Revenue from the sale of goods is recognised in profit or loss if the significant risks and rewards of ownership have been transferred to the customer. 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 if 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 profit or loss as operating income when they become receivable.

Other government grants are recognised in the statement of financial position initially as deferred income if 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 other income in profit or loss in the periods in which the expenses are incurred. Grants for the cost of an asset that compensate the Group are recognised in profit or loss as other operating income over the useful life of the asset.

(l) ## 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) **Financial 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, and financial assets held to maturity. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings, commitment fees, accrued interest on provisions, interest on pension liabilities, impairment losses recognised on financial assets and losses on interest rate hedge instruments to the extent they are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Realised and unrealised foreign currency gains and losses on monetary assets and liabilities, including changes in fair value of currency hedge instruments that are not qualified as cash flow hedges, are reported on a net basis.

### (m) » Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss unless it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax, payable or receivable, on the taxable income for the year, using applicable tax rates enacted or substantially enacted by the financial position date, and any adjustment to tax calculated in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future;
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantially enacted by 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 the intention is to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be applied. Deferred tax assets are reduced if it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of a dividend are recognised at the same time as the liability to pay the related dividend is recognised.

### (n) » Earnings per share

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

### (o) » Segment reporting

The Group defines and presents operating segments based on the information that is provided internally to the Executive Board, the Group's chief operating decision-maker. This is in conformity with IFRS 8 – Operating segments.

On the basis of the criteria of IFRS 8, Kendrion's business units are the Group's operating segments. An operating segment is a part of the Group engaging in business activities that may result in revenue and expenses, including the revenue and expenses relating to transactions with any of the Group's other segments. The Executive Board conducts regular reviews of the operating segment's results to reach decisions on the resources to be allocated to the segment and to assess its performance, whereby separate financial information for each operating segment is available.

However, and on the basis of the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: the Automotive Division and the Industrial Division. In accordance with IFRS 8, the Company also discloses general and entity-wide information, including information about geographical areas and major customers of the Group as a whole. More information on the reportable segments is provided in note 19.

### (p) » New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective, and have been endorsed by the European Union, for annual periods beginning on or after 1 January 2015 and therefore apply to the year ended 31 December 2015:

- **Amendments to IAS 19:** Defined Benefit Plans; Employee Contributions. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions (e.g. fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age) as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment has no material impact on the consolidated financial statements.

- **IFRS Annual Improvements:** cycle 2010–2012. The standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 were amended as part of the Annual Improvements project. Among the amendments relevant for the Group are clarification of the definition of vesting conditions (IFRS 2) and disclosure of those factors that are used to identify the entity's reportable segments if operating segments have been aggregated (IFRS 8). These changes have no material impact on the consolidated financial statements.

- **IFRS Annual Improvements:** 2011–2013. The standards IFRS 3, IFRS 13 and IAS 40 were amended as part of the Annual Improvements project. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardise terminology. These changes have no material impact on the consolidated financial statements.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are not effective at 31 December 2015 but may be relevant are as follows:

- **IFRS 9:** Financial instruments. IFRS 9, final version published in July 2014, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 contains new guidance on:
  - Classification and measurement of financial instruments. For financial liabilities designated as accounted for at fair value through profit or loss (FVTPL) using the fair value option (FVO), the amount of the change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in other comprehensive income (OCI). The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 requirements for financial liabilities have been carried forward into IFRS 9;
  - Key change in terms of recognition and measurement of impairment losses on financial assets. IAS 39 only allows impairment losses based on losses already incurred. Whereas the IFRS 9 model is based on an expected credit loss model for calculating impairment on financial assets. For certain financial instruments such as trade accounts receivable, simplifications for recognising impairment losses apply; and
  - New general hedge accounting requirements that aim for a closer alignment of hedge accounting with the entity's risk management strategy.

  IFRS 9 applies to annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Endorsement by the European Union is still pending, but is expected to occur in the course of 2016. The Impact on the consolidated financial statements of the Group is to be analysed in the near future.

- **IFRS 15:** Revenue from contracts with Customers. The new standard does not differentiate between different types of contracts and services, but rather introduces uniform criteria for the timing of revenue recognition. According to IFRS 15, an entity can recognise revenue at any time so that it reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The transfer of major risks and rewards of ownership of the goods is no longer the deciding factor. The new model involves five steps for recognition of revenue with the first steps being the identification of the contract with the customer (1) and the separate performance obligations it contains (2). The transaction price is then determined (3) and allocated to the performance obligations in the contract (4). Finally (5), sales are recognised for each performance obligation in the amount of the allocated portion of the transaction price as soon as the agreed-upon good or service has been provided or the customer receives control over it. Principles are set out for determining whether the good or service has been provided over time or at one point in time.

  The rules and definitions of IFRS 15 supersede the content of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. Consequently, it also amends IAS 16, IAS 38 and IAS 40 requiring entities to use the requirements of IFRS 15 for the recognition and measurement of gains and losses on disposal of non-financial assets that are not an output of an entity's ordinary activities.

IFRS 15 applies to annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Endorsement by the European Union is still pending, but is expected to be given in the course of 2016. The impact on the consolidated financial statements of the Group is to be analysed in the near future.

- **IFRS 16 Leases:** On 13 January 2016, the IASB issued a new accounting standard, IFRS 16 Leases. This standard will eliminate the current accounting model for lessees: on-balance sheet finance leases and off-balance sheet operating leases. In their place, IFRS 16 introduces a single on-balance sheet accounting model similar to current finance lease accounting, unless the lease terms is 12 months or less or the underlying asset has a low value. Lessor accounting remains similar to current accounting practice, which means that lessors continue to classify leases as finance and operating leases. Under IFRS 16 the balance sheet of lessees will be impacted by recognising the corresponding asset ('right to use the asset') of the operating lease arrangement. On the other hand, a liability is recognised with regard to the obligation to make lease payments. The statement of comprehensive income is impacted by depreciation of the operating lease asset and corresponding interest component, which is not necessarily similar to the cash rental previously recognised in the statement of comprehensive income. The new standard is expected to impact financial metrics such as solvency, EBIT(DA), earnings per share and return on equity.

  This standard applies to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. Endorsement by the European Union is still pending, but is expected to be given in the course of 2016. The impact on the consolidated financial statements of the Group is to be analysed in the near future.

## (q) >> Fair values

### (i) Measurement of fair value

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

### (ii) Property, plant and equipment

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

(iii) **Intangible assets**

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

(iv) **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 nature. The estimated fair value reflects movements in interest rates.

(v) **Inventories**

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

(vi) **Trade and other receivables/trade and other payables**

The face value of receivables and liabilities falling due within one year is regarded as a reflection of their fair value. The fair value of all other receivables and liabilities is measured on the basis of present value. The discount factor is based on the risk-free interest rate of the same duration as the receivable and/or payable, plus a credit mark up reflecting the credit worthiness of the Group.

(vii) **Interest-bearing loans**

The fair value is calculated on the basis of the present value of future repayments of principal and interest at the prevailing market rate of interest, supplemented by a credit mark-up reflecting the credit worthiness of the Group.

(viii) **Derivatives**

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

(ix) **Non-derivative financial liabilities**

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

(x) **Contingent consideration**

The fair value of contingent considerations arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities. If appropriate, it is discounted to present value.

## (r) >> Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This section provides general information about the Group's exposure to each of the above risks in the course of its normal business operations, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included in the financial instrument section in these consolidated financial statements.

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

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

For a more detailed description of risk management and the position of financial risk management in the Group's framework, see the Report of the Executive Board.

(i) **Credit risk**

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

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

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

(ii) **Credit risk concentration**

The customer with the largest receivable outstanding, an American automotive group, accounted for 6% of the trade and other receivables at 31 December 2015. In 2014, the largest customer accounted for 6% of total trade and other receivables. Other customers individually accounted for 5% or less of the trade and other receivables at 31 December 2015. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players, this reduces the Group's dependency on the German market.

(iii) **Investments and financial instruments**

The Group currently does not invest in debt securities. Cash positions and exposure to the financial instruments of financial counterparties are monitored actively. The Group's main financial counterparties are well-established banks with good creditworthiness. The cash in bank accounts at other than the core-relationship banks is maintained at the minimum level required for the operations of the Group's companies.

(iv) **Liquidity risk**

The liquidity risk is the risk that the Group is unable to meet its financial obligations at the required time. Liquidity risk management is based on the maintenance of sufficient liquidity in the form of unused (committed) credit facilities or cash to meet present and future financial obligations in normal and adverse circumstances.

A summary of the credit lines available to the Group is disclosed in note 10 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of BNP Paribas, Deutsche Bank and ING Bank on an equal basis. The Group had approximately EUR 77 million available within its existing revolving credit facility on the financial position date.

(v) **Market risk**

The market risk is the risk of the deterioration of the Group's income due to movements in market prices, such as those relating to exchange rates and interest rates. The management of market risk exposure is intended to keep the market risk position within acceptable limits.

Derivatives are used to manage specific market risks. These transactions are carried out within the treasury framework adopted by the Executive Board. If necessary, the Group uses hedge accounting to manage volatility in the statement of comprehensive income.

(vi) **Interest rate risk**

Pursuant to the Group's policy more than 50% of the exposure to changes in interest rates on borrowings is maintained on a fixed rate basis, taking into account any assets with exposure to changes in interest rates and expected short-term free cash flows. The policy is implemented by making use of derivative financial instruments such as interest rate swaps and interest rate options.

The Group has currently outstanding interest swap contracts with a total underlying notional value of EUR 62.5 million in order to reduce interest rate risk exposure to increasing market rates. EUR 12.5 million matures in the fourth quarter of 2016, EUR 20 million in the third quarter of 2017 and EUR 30 million in 2018.

(vii) **Currency risk**

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

The Group's activities in the Czech Republic have the most significant currency exposure, since the majority of revenue is generated in euros and part of the costs are in Czech korunas. Pursuant to the Group's policy this currency exposure is hedged to a level of at least 70% for the next four quarters and at least 35% for the next four quarters thereafter. Exchange rate risks are hedged with derivatives.

The Group also actively hedges intercompany loans in foreign currencies with currency forwards, swaps or back-to-back loans in the same foreign currency.

Pursuant to the Group's policy for other monetary assets and liabilities denominated in a foreign currency, net exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates as required to correct short-term imbalances.

The Group's policy stipulates that, in principle, equity investments and other translation exposures are not hedged.

(viii) **Other price risks**

Steel, copper and rare earth metals used in permanent magnets are the most important commodities that confront Kendrion with potential price risks.

Copper constitutes the Group's main direct exposure to raw material price risks, since copper wire is an important component of electromagnets. Pursuant to the Group's policy, the sensitivity to copper prices is actively reduced both by concluding fixed-price purchase contracts in the normal course of business with copper wire suppliers and by including raw material clauses in sales contracts. As the need arises the Group can also conclude derivative financial instrument contracts with financial counterparties to hedge the copper risk. No financial derivative contracts for raw materials were outstanding at the balance sheet date.

The Group is also exposed to risks associated with rare earth metals such as neodymium, a component of permanent magnets, which are used in some of the Group's products. Prices of these commodities have shown significant volatility since 2011. The Group closely monitors developments in this market and has increased stock levels and the number of supply sources for these permanent magnets. Furthermore, agreements have been made with customers representing the majority of the sales volume in this context, to link sales prices to movements in permanent magnet prices.

The Group is mainly indirectly exposed to raw material price risks relating to oil and steel, primarily as part of the purchase prices of machined components. This exposure is monitored and, if feasible, reduced by means of raw material clauses with customers and by concluding fixed-price agreements with suppliers for periods of between six and twelve months. The Kendrion steel contracts also partly govern the purchasing from component suppliers.

The Group has formed a Strategic Purchasing Board with representatives from all business units, which meets on a quarterly basis and has the objective of further increasing and sharing knowledge on commodities and commodity markets, reducing risks and/or prices, and setting purchasing policies.

**(ix) Capital management**

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

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

Kendrion carried out an evaluation of its dividend policy during the course of 2011. The results of this evaluation were discussed at the General Meeting of Shareholders on 16 April 2012. Kendrion intends to distribute an annual dividend of between 35% and 50% of the net profit, taking into consideration the amount of net profit to be retained to support the medium and long-term strategic plans of the company and to maintain a minimum solvency of 35%.

Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements beyond those stipulated by law.

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 2014 | 46.2 | 83.4 | 35.7 | 10.3 | 175.6 |
| Acquired, other | 2.1 | 14.5 | 4.7 | 4.0 | 25.3 |
| Disposals | (0.1) | (1.8) | (0.4) | (8.9) | (11.2) |
| Currency translation differences | 0.4 | 0.7 | 0.1 | 0.1 | 1.3 |
| Balance as at 31 December 2014 | 48.6 | 96.8 | 40.1 | 5.5 | 191.0 |
| | | | | | |
| Balance as at 1 January 2015 | 48.6 | 96.8 | 40.1 | 5.5 | 191.0 |
| Acquired, other | 1.8 | 5.3 | 4.6 | 7.5 | 19.2 |
| Disposals | (2.5) | (2.8) | (3.0) | (2.0) | (10.3) |
| Currency translation differences | 0.3 | 0.8 | 0.1 | 0.1 | 1.3 |
| Balance as at 31 December 2015 | 48.2 | 100.1 | 41.8 | 11.1 | 201.2 |
| | | | | | |
| **Depreciation and impairment losses** | | | | | |
| Balance as at 1 January 2014 | 18.6 | 50.8 | 25.6 | 0.1 | 95.1 |
| Depreciation for the year | 1.8 | 9.1 | 3.8 | 0.0 | 14.7 |
| Impairment | – | (0.0) | – | – | (0.0) |
| Disposals | (0.0) | (1.7) | (0.2) | – | (1.9) |
| Balance as at 31 December 2014 | 20.4 | 58.2 | 29.2 | 0.1 | 107.9 |
| | | | | | |
| Balance as at 1 January 2015 | 20.4 | 58.2 | 29.2 | 0.1 | 107.9 |
| Depreciation for the year | 1.9 | 10.6 | 4.3 | – | 16.8 |
| Impairment | – | – | – | 0.1 | 0.1 |
| Disposals | (1.0) | (2.5) | (2.7) | (0.1) | (6.3) |
| Balance as at 31 December 2015 | 21.3 | 66.3 | 30.8 | 0.1 | 118.5 |
| | | | | | |
| **Carrying amounts** | | | | | |
| As at 1 January 2014 | 27.6 | 32.6 | 10.1 | 10.2 | 80.5 |
| As at 31 December 2014 | 28.2 | 38.6 | 10.9 | 5.4 | 83.1 |
| | | | | | |
| As at 1 January 2015 | 28.2 | 38.6 | 10.9 | 5.4 | 83.1 |
| As at 31 December 2015 | 26.9 | 33.8 | 11.0 | 11.0 | 82.7 |

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

The estimated useful lives are as follows:

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

## 2 >> Intangible assets

| EUR million | Goodwill | Development costs | Software | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January 2014 | 87.1 | 0.2 | 10.0 | 37.7 | 135.0 |
| Acquired, other | – | 0.7 | 3.5 | 0.0 | 4.2 |
| Purchase price allocation adjustment | 0.5 | – | – | – | 0.5 |
| Disposals | – | (0.2) | (0.0) | – | (0.2) |
| Currency translation differences | 2.9 | 0.1 | 0.0 | 0.9 | 3.9 |
| Balance as at 31 December 2014 | 90.5 | 0.8 | 13.5 | 38.6 | 143.4 |
| | | | | | |
| Balance as at 1 January 2015 | 90.5 | 0.8 | 13.5 | 38.6 | 143.4 |
| Acquired through business combinations | – | – | 0.0 | 1.5 | 1.5 |
| Acquired, other | – | 0.8 | 4.3 | 0.0 | 5.1 |
| Disposals | – | (0.6) | (0.8) | – | (1.4) |
| Currency translation differences | 2.9 | 0.0 | 0.0 | 0.8 | 3.7 |
| Balance as at 31 December 2015 | 93.4 | 1.0 | 17.0 | 40.9 | 152.3 |
| | | | | | |
| **Amortisation and impairment losses** | | | | | |
| Balance as at 1 January 2014 | – | 0.0 | 3.7 | 10.4 | 14.1 |
| Amortisation for the year | – | 0.0 | 1.7 | 3.4 | 5.1 |
| Disposals | – | – | (0.0) | – | (0.0) |
| Balance as at 31 December 2014 | – | 0.0 | 5.4 | 13.8 | 19.2 |
| | | | | | |
| Balance as at 1 January 2015 | – | 0.0 | 5.4 | 13.8 | 19.2 |
| Amortisation for the year | – | 0.0 | 2.6 | 3.8 | 6.4 |
| Disposals | – | – | (0.9) | – | (0.9) |
| Balance as at 31 December 2015 | – | 0.0 | 7.1 | 17.6 | 24.7 |

| EUR million | Goodwill | Development costs | Software | Other | Total |
|---|---|---|---|---|---|
| **Carrying amounts** | | | | | |
| At 1 January 2014 | 87.1 | 0.2 | 6.3 | 27.3 | 120.9 |
| At 31 December 2014 | 90.5 | 0.8 | 8.1 | 24.8 | 124.2 |
| | | | | | |
| At 1 January 2015 | 90.5 | 0.8 | 8.1 | 24.8 | 124.2 |
| At 31 December 2015 | 93.4 | 1.0 | 9.9 | 23.3 | 127.6 |

The other intangible assets mainly comprise the carrying amount of customer relationships amounting to EUR 22.5 million (2014: EUR 23.2 million). These customer relationships were acquired through business combinations. The addition in other intangible assets in 2015 mainly relates to the acquisition of Steinbeis Mechatronik GmbH.

### Depreciation and amortisation

Depreciation and amortisation are recognised in the following items in the consolidated statement of comprehensive income:

| EUR million | 2015 | 2014 |
|---|---|---|
| Depreciation and amortisation | 23.2 | 19.8 |

The estimated useful life of software is between three and eight years. The estimated useful life of other intangible assets is approximately between eight and fifteen years. Goodwill has an indefinite estimated useful life. The investments in software during 2015 of EUR 4.3 million (2014: EUR 3.5 million) mainly relate to the completion of a new ERP system and upgrade of office applications. The depreciation period for the ERP system is eight years based on its expected useful life.

**Impairment testing for cash-generating units containing goodwill**

| Goodwill EUR million | 2015 | 2014 |
|---|---|---|
| Kendrion Linnig Group | 27.6 | 27.6 |
| Kendrion (Mishawaka) LLC | 7.0 | 6.3 |
| Kendrion (Aerzen) GmbH | 7.1 | 7.1 |
| Kendrion (Shelby) Inc. | 20.6 | 18.4 |
| Kendrion Kuhnke Automation | 17.7 | 17.7 |
| Kendrion Kuhnke Automotive | 13.4 | 13.4 |
| | 93.4 | 90.5 |

**Key assumptions and method of quantification**

The Group recognises its intangible assets in accordance with IAS 38 and IFRS 3. Pursuant to IAS 36, the Group has performed an impairment test with reference to the capitalised goodwill in Germany and the USA. This test was carried out by discounting future cash flows ('value in use') to be generated from the continuing use of the cash-generating unit to which the goodwill applies and on the assumption of an indefinite life. The cash flows for the next three years were based on mid-term plans and budgets drawn up by the local management and approved by the Executive Board. For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a moderate growth rate of 2% taken into account. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model was also pre-tax. Expansion investments were excluded from the calculations. The expected growth in cash flows as a result of these expansion investments was also excluded.

The Group did not recognise any impairment of goodwill in this reporting period.

Key assumptions used in the calculation of recoverable amounts concern discount rates, terminal value growth rates and EBITA growth. Assumptions are based on past experience and external sources.

These assumptions are as follows:

### Discounted cash flow projections

| | Discount rate | | Terminal value growth rate | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Kendrion Linnig Group | 8.0% | 8.7% | 2.0% | 2.0% |
| Kendrion (Mishawaka) LLC | 10.5% | 11.2% | 2.0% | 2.0% |
| Kendrion (Aerzen) GmbH | 7.9% | 8.6% | 2.0% | 2.0% |
| Kendrion (Shelby) Inc. | 10.4% | 11.5% | 2.0% | 2.0% |
| Kendrion Kuhnke Automation | 8.0% | 8.6% | 2.0% | 2.0% |
| Kendrion Kuhnke Automotive | 8.1% | 8.8% | 2.0% | 2.0% |

### Discount rate

In determining the pre-tax discount rate, first the post-tax average costs of capital were calculated for all cash generating units containing goodwill. The post-tax rate is based on debt leveraging compared to the market value of equity of 24%. All the post-tax weighted average cost of capital rates of cash generating units approximated 6% to 8%, and these rates were used for calculating the post-tax cash flows.

### Terminal value growth rate

All cash generating units with goodwill have five years of cash flows included in their discounted cash flow models. A conservative long-term growth rate in perpetuity has been determined on the basis of a growth rate of 2%.

### Sensitivity to changes in assumptions

The recoverable amounts of all cash-generating units with goodwill exceed their carrying amounts. Management has carried out an analysis of sensitivity to changes in the key assumptions. The following table shows the amount by which each of these two assumptions would need to change for the estimated recoverable amount to equal the carrying amount:

**Change required for carrying amount to equal recoverable amount**

| | Discount rate (post tax) | | Forecasted EBITA | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Kendrion Linnig Group | 13.9% | 10.3% | (71%) | (60%) |
| Kendrion (Mishawaka) LLC | 1.4% | 1.7% | (20%) | (23%) |
| Kendrion (Aerzen) GmbH | 3.7% | 2.6% | (47%) | (33%) |
| Kendrion (Shelby) Inc. | 6.6% | 2.7% | (55%) | (30%) |
| Kendrion Kuhnke Automation | 13.2% | 11.6% | (72%) | (67%) |
| Kendrion Kuhnke Automotive | 9.0% | 10.0% | (56%) | (58%) |

This table shows that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

## 3 >> Other investments, derivatives

Other investments in 2015 include financial derivatives and recognised upfront and legal fees related to the facility agreement (see note 10). Kendrion amortises these costs over the remaining maturity of the facility. As these costs relate to the facility agreement as a whole and not to individual loans, these costs are not part of the effective interest rate of outstanding loans.

## 4 >> Deferred tax assets and liabilities

The Group has recognised deferred tax assets for tax loss carry-forwards in Germany and the Netherlands in the financial position.

**Germany**

Tax assessments have been submitted for the German intermediate holding up to and including 2013, and for the German operating companies up to and including 2013. As from 2010, these years are still open for potential tax audits with the exception of Kendrion (Aerzen) GmbH which has been audited up to and including 2008. For the German operating companies of Kuhnke tax assessments have been submitted up to and including 2014. For these companies the years up to and including 2011 have been audited and the tax assessments are final.

At 31 December 2015 the tax loss carry-forwards amounted to about EUR 6.2 million ('Gewerbesteuer') and EUR 27.9 million ('Körperschaftsteuer'). These are recognised in full, resulting in deferred tax assets of EUR 5.2 million.

**The Netherlands**

Tax assessments have been submitted up to and including 2013. The years 2009 up to 2013 are still open for potential tax audits. At 31 December 2015 the tax loss carry-forwards amounted to EUR 21 million. These are recognised in full, resulting in deferred tax assets of EUR 5.2 million.

The main element of the tax loss carry-forwards originates from 2007, after the final settlement of the Dutch tax return for 2007, in which a large tax loss incurred on the sale of Automotive Metals was recognised.

**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 | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Property, plant and equipment | 0.2 | 0.2 | 3.6 | 3.5 | (3.4) | (3.3) |
| Intangible assets | 0.6 | 0.6 | 7.2 | 7.2 | (6.6) | (6.6) |
| Inventories | 0.1 | 0.3 | 0.2 | 0.2 | (0.1) | 0.1 |
| Employee benefits | 1.6 | 1.5 | – | – | 1.6 | 1.5 |
| Provisions | 0.4 | 0.5 | 0.2 | 0.1 | 0.2 | 0.4 |
| Other items | 2.4 | 0.8 | 0.2 | 0.4 | 2.2 | 0.4 |
| Tax value of recognised loss carry-forwards | 10.6 | 10.6 | – | – | 10.6 | 10.6 |
| Deferred tax assets/liabilities | 15.9 | 14.5 | 11.4 | 11.4 | 4.5 | 3.1 |

The deferred tax assets relate to a large extent to recognised tax loss carry-forwards. The tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position amount to EUR 2.0 million. These unrecognised tax losses carry forward will expire mainly in 2019 and in 2020.

The deferred tax liabilities relate almost entirely to temporary differences between the carrying amount and tax base of property, plant and equipment and intangible assets. These are of a relatively long-term nature, mostly longer than five years.

Tax loss carry forward limitation rules apply in certain jurisdictions in which Kendrion has carry forward tax losses. These rules might under certain circumstances lead to a (proportional) forfeiture of recognised and unrecognised carry forward tax losses in case of a direct or indirect change in ownership.

### Movement in temporary differences during the financial year

| Net, EUR million 2015 | At 1 January | Recognised in profit or loss | Recognised in other comprehensive income | At 31 December |
|---|---|---|---|---|
| Property, plant and equipment | (3.3) | (0.1) | – | (3.4) |
| Intangible assets | (6.6) | 0.0 | – | (6.6) |
| Inventories | 0.1 | (0.2) | – | (0.1) |
| Employee benefits | 1.5 | 0.0 | 0.1 | 1.6 |
| Provisions | 0.4 | (0.2) | – | 0.2 |
| Other items | 0.4 | 1.8 | – | 2.2 |
| Tax value of loss carry-forwards used | 10.6 | (0.0) | – | 10.6 |
| | 3.1 | 1.3 | 0.1 | 4.5 |

| Net, EUR million 2014 | At 1 January | Recognised in profit or loss | Recognised in other comprehensive income | At 31 December |
|---|---|---|---|---|
| Property, plant and equipment | (2.3) | (1.0) | – | (3.3) |
| Intangible assets | (6.8) | 0.2 | – | (6.6) |
| Inventories | (0.1) | 0.2 | – | 0.1 |
| Employee benefits | 0.4 | 0.6 | 0.5 | 1.5 |
| Provisions | 0.5 | (0.1) | – | 0.4 |
| Other items | 0.7 | (0.3) | – | 0.4 |
| Tax value of loss carry-forwards used | 11.7 | (1.1) | – | 10.6 |
| | 4.1 | (1.5) | 0.5 | 3.1 |

In 2015, the net amount from the movement in deferred tax assets and liabilities, presented as tax in statement of comprehensive income, is positive EUR 1.3 million (2014: negative EUR 1.5 million).

## 5 >> Inventories

| EUR million | 2015 | 2014 |
|---|---|---|
| Raw materials, consumables, technical materials and packing materials | 25.6 | 23.7 |
| Work in progress | 11.5 | 11.0 |
| Finished goods | 11.9 | 11.1 |
| Goods for resale | 3.5 | 3.2 |
| | 52.5 | 49.0 |

The inventories are presented after accounting for a provision of EUR 7.8 million (2014: EUR 6.1 million) for obsolescence. In 2015, the amount of the write-down to net realisable value of the inventories was EUR 1.3 million (2014: EUR 1.2 million). The write-down and reversals are included in cost of sales.

## 6 >> Trade and other receivables

| EUR million | 2015 | 2014 |
|---|---|---|
| Trade receivables | 43.8 | 44.8 |
| Other taxes and social security | 1.6 | 0.9 |
| Other receivables | 1.9 | 2.4 |
| Derivatives used for hedging | 0.1 | – |
| Prepayments | 1.3 | 1.1 |
| | 48.7 | 49.2 |

The credit and currency risks associated with trade and other receivables are disclosed in note 15, and in the financial risk management paragraph of note r.

## 7 >> Cash and cash equivalents

| EUR million | 2015 | 2014 |
|---|---|---|
| Bank balances | 10.2 | 9.6 |
| Bank overdrafts | (9.0) | (6.5) |
| Cash and cash equivalents in the statement of cash flows | 1.2 | 3.1 |

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 notes 15 and r.

## 8 >> Capital and reserves

### Capital and share premium

| | Shares entitled to dividend | | Shares owned by Kendrion | | Total number of issued shares | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| At 1 January | 13,026,325 | 12,954,487 | 4,657 | 7,789 | 13,030,982 | 12,962,276 |
| Issued shares (share dividend) | 146,148 | 58,596 | – | – | 146,148 | 58,596 |
| Issued registered shares (share plan) | 11,024 | 10,110 | – | – | 11,024 | 10,110 |
| Delivered shares | 5,985 | 3,132 | (5,985) | (3,132) | – | – |
| Repurchased shares | (1,328) | – | 1,328 | – | – | – |
| At 31 December | 13,188,154 | 13,026,325 | – | 4,657 | 13,188,154 | 13,030,982 |

### Issuance of ordinary shares

In 2015, 146,148 new shares were issued as share dividend. During 2015, the Company delivered 17,009 shares to the Executive Board and senior management as part of its share plan and remuneration packages. The Company purchased 1,328 of its own shares in 2015 (2014: none).

### Ordinary shares

The authorised share capital consists of:

| EUR million | 2015 | 2014 |
|---|---|---|
| 40,000,000 ordinary shares of EUR 2.00 | 80.0 | 80.0 |

### Issued share capital

| | | |
|---|---|---|
| Balance at 1 January 2015: 13,030,982 ordinary shares (2014: 12,962,276) | 26.1 | 25.9 |
| Balance at 31 December 2015: 13,188,154 ordinary shares (2014: 13,030,982) | 26.4 | 26.1 |

### Share premium

| EUR million | 2015 | 2014 |
|---|---|---|
| Balance as at 1 January | 68.8 | 74.4 |
| Dividend payment | (10.2) | (7.1) |
| Share premium on issued shares | 4.1 | 1.5 |
| Balance as at 31 December | 62.7 | 68.8 |

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates in the non-euro zone. Gains and losses relating to the translation risk are recognised in equity. The build-up of the cumulative figure commenced on 1 January 2004.

### Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net movement in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, net of tax.

The net movement was EUR 0.3 million (2014: EUR 0.0 million). The hedge reserve increased by EUR 0.2 million due to the realisation of hedged transactions (2014: EUR 0.4 million). The hedge reserve increased by EUR 0.1 million due to valuation effects (2014: negative EUR 0.4 million). There was no hedge ineffectiveness in 2015 (2014: EUR 0.0 million).

### Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for the remuneration packages for the Executive Board. At 31 December 2015, the Company held none of its own shares (2014: 4,657), see also note 27.

### Other reserves

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

### Retained earnings

In 2015, the result for 2014 was fully transferred to other reserves. Retained earnings in the 2015 financial statements consequently consist solely of the result for 2015.

## 9 >> Earnings per share

### Basic earnings per share

The calculation of the basic earnings per share at 31 December 2015 is based on the profit for the period of EUR 16.8 million (2014: EUR 20.2 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2015: 13,132,000 (2014: 13,002,000).

| EUR million | 2015 | 2014 |
|---|---|---|
| Net profit attributable to ordinary shareholders | 16.8 | 20.2 |

**Weighted average number of ordinary shares**

| In thousands of shares | 2015 | 2014 |
|---|---|---|
| Issued ordinary shares at 1 January | 13,026 | 12,954 |
| Effect of shares issued as share plan | 11 | 10 |
| Effect of own shares delivered and repurchased | 5 | 3 |
| Effect of shares issued as share dividend | 146 | 59 |
| Ordinary shares outstanding at 31 December | 13,188 | 13,026 |
| | | |
| Weighted average number of ordinary shares | 13,132 | 13,002 |
| Basic earnings per share (EUR) | 1.28 | 1.55 |
| Basic earnings per share (EUR), based on weighted average | 1.28 | 1.56 |

### Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2015 is based on the profit of EUR 16.8 million (2014: EUR 20.2 million) attributable to the holders of ordinary shares and the weighted average number of shares in issue during the year, after adjustment for the effects of all dilutive potential ordinary shares amounting to 13,139,000 (2014: 13,012,000).

| EUR million | 2015 | 2014 |
|---|---|---|
| Net profit attributable to ordinary shareholders | 16.8 | 20.2 |
| Effect of dilution | (0.0) | (0.0) |
| Net profit attributable to ordinary shareholders (diluted) | 16.8 | 20.2 |

**Weighted average number of ordinary shares (diluted)**

| In thousands of shares | 2015 | 2014 |
|---|---|---|
| Weighted average numbers of ordinary shares at 31 December | 13,132 | 13,002 |
| Weighted average numbers of ordinary shares at 31 December (diluted) | 13,139 | 13,012 |
| Basic earnings per share (EUR), based on weighted average (diluted) | 1.28 | 1.55 |

## 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 rates, and the currency and liquidity risks borne by the Group, see note 15 and accounting policy r.

| EUR million | 2015 | 2014 |
|---|---|---|
| **Non-current liabilities** | | |
| Bank syndicate loans | 63.5 | 78.2 |
| Mortgage loans | 4.4 | 5.0 |
| Financial lease liabilities | 0.5 | 1.0 |
| Other loans | 1.2 | 1.3 |
| | 69.6 | 85.5 |

| EUR million | 2015 | 2014 |
|---|---|---|
| **Current liabilities** | | |
| Current portion loans | 0.7 | 0.6 |
| | 0.7 | 0.6 |

**Financing conditions**

At 31 December 2015, the Group had the following credit lines available:

- EUR 150.0 million revolving Credit Facility with a syndicate of three banks consisting of BNP Paribas, Deutsche Bank and ING Bank. The Credit Facility is committed until 15 August 2019 and includes an option (accordion option) to increase the facility by a maximum of EUR 75.0 million;
- EUR 5.0 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 1.3 million in subsidised term loans with final maturity in 2019;
- EUR 0.5 million in financial leases for various equipment in the Kuhnke facilities in Malente and Sibiu;
- EUR 1.0 million in other overdraft facilities.

At 31 December 2015, the total unutilised amount of the facilities was approximately EUR 77 million.

**Banking syndicate credit facility**

Pursuant to the terms of the credit facility with the banking syndicate, the Group has agreed to financial covenants relating to the leverage ratio (interest bearing debt / EBITDA) and interest coverage (EBITDA / interest costs). In accordance with these covenants, the leverage ratio should remain below 3.0, which can under certain circumstances be temporarily increased to a maximum of 3.5. The interest coverage should always exceed 4.0. Both covenants are tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 1.5 (2014: 1.7) and the actual interest coverage at year-end was 20.1 (2014: 13.9).

**Security provided**

The Group has provided a mortgage on its premises in Malente, Germany for a EUR 5.0 million loan. No security is provided in relation to the EUR 150.0 million credit facility.

**Interest-rate sensitivity**

Interest on the EUR 6.8 million other loans is based on a fixed-term interest rate. Interest amounts payable on the EUR 150 million Credit Facility are based on short-term interest rate (mainly three months). See note 15 and accounting policy r for further details.

**Financial lease liabilities**

The financial lease liabilities are payable as follows:

| EUR million | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Minimum lease | Interest | Principal | Minimum lease | Interest | Principal |
| ‹ 1 year | 0.4 | 0.0 | 0.4 | 0.5 | 0.0 | 0.5 |
| 1 – 5 years | 0.1 | 0.0 | 0.1 | 0.5 | 0.1 | 0.4 |
| › 5 years | – | – | – | – | – | – |
| | 0.5 | 0.0 | 0.5 | 1.0 | 0.1 | 0.9 |

The financial lease liabilities mostly relate to financial leases for various items of equipment in Germany and Romania.

## 11 >> Employee benefits

| EUR million | 2015 | 2014 |
|---|---|---|
| Present value of unfunded obligations | 14.7 | 15.4 |
| Present value of funded obligations | 8.2 | 6.9 |
| Fair value of plan assets | (5.6) | (5.0) |
| Recognised net liability for defined benefit obligations | 17.3 | 17.3 |
| Liability for long-service leave and anniversaries | 2.5 | 2.3 |
| Total employee benefits | 19.8 | 19.6 |

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

| EUR million | 2015 | 2014 |
|---|---|---|
| Recognised net liability for defined benefit obligations at 1 January | 17.3 | 15.8 |
| Expense recognised in the consolidated statement of comprehensive income | 0.5 | 0.7 |
| Benefits paid | (0.9) | (0.9) |
| Other movements (including currency differences and employer contributions paid) | 0.0 | (0.2) |
| Actuarial (gains) losses in other comprehensive income | 0.4 | 1.9 |
| Acquired through business combinations | – | – |
| Recognised net liability for defined benefit obligations at 31 December | 17.3 | 17.3 |

**Movement in plan assets**

| EUR million | 2015 | 2014 |
|---|---|---|
| Fair value of plan assets at 1 January | 5.0 | 4.8 |
| Contributions paid employer | 0.1 | 0.1 |
| Contributions paid participants | 0.1 | 0.1 |
| Benefits paid | (0.1) | (0.1) |
| Return on plan assets | 0.1 | 0.1 |
| Actuarial gains (losses) in other comprehensive income | 0.5 | (0.0) |
| Fair value of plan assets at 31 December | 5.6 | 5.0 |

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

| EUR million | 2015 | 2014 |
|---|---|---|
| Current service costs | 0.2 | 0.3 |
| Net interest | 0.3 | 0.4 |
| | 0.5 | 0.7 |
| | | |
| Effective return on plan assets | 0.6 | 0.0 |

The costs relating to the defined benefit pension arrangements are included in the following line items of the statement of comprehensive income:

| EUR million | 2015 | 2014 |
|---|---|---|
| Staff costs | 0.2 | 0.3 |
| Net finance costs | 0.3 | 0.4 |
| | 0.5 | 0.7 |

**Principal actuarial assumptions (expressed as weighted averages)**

| | 2015 | 2014 |
|---|---|---|
| Discount rate at 31 December | 1.8% | 1.9% |
| Future salary increases | 0.7% | 0.6% |
| Future pension increases | 1.3% | 1.4% |

### Historical information

| EUR million | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net liability for defined benefit obligations | 22.9 | 22.3 | 20.6 | 9.6 | 10.4 |
| Fair value of plan assets | 5.6 | 5.0 | 4.8 | 4.4 | 3.8 |
| Deficit in plan | 17.3 | 17.3 | 15.8 | 5.2 | 6.6 |

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

### Composition plan assets

| EUR million | 2015 | 2014 |
|---|---|---|
| Bonds | 2.1 | 2.2 |
| Equity | 1.3 | 1.2 |
| Real estate | 1.0 | 0.7 |
| Government loans | 0.0 | 0.1 |
| Other | 1.1 | 0.8 |
| Total | 5.6 | 5.0 |

### Sensitivity analysis

| | Defined benefit obligation | |
|---|---|---|
| EUR million | 1 percent point increase | 1 percent point decrease |
| Discount rate | (2.0) | 3.7 |
| Future salary growth | 0.2 | (0.2) |
| Future pension | 2.4 | (1.4) |

**Liabilities arising from employee benefits**

The pension plans included defined contribution plans as well as defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Calculations are made by qualified actuaries. The pension liability shown in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate 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 at year-end 2015 relates to pension arrangements in Germany, Austria and Switzerland. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group companies is reinsured.

Liabilities arising from employee benefits also include liabilities relating to long-service leave, early retirement and service anniversaries of EUR 2.5 million (2014: EUR 2.3 million).

## 12 >> Share-based payments

At 31 December 2015, the Group had the following share-based payment arrangements.

**Loyalty bonus (equity settled)**

The Group has a share incentive programme, which entitles managers to purchase shares in the Company for an amount up to 50% of their respective net cash bonuses. Employees who retain these shares for three years and remain in service for three years become entitled to a number of shares equal to the number of shares they individually purchased. Pursuant to this incentive programme, a total of 2,906 shares was issued in 2015, resulting from shares granted in 2012. Expenses recognised in profit or loss for the shares in this programme amount to EUR 0.1 million.

**Terms & conditions of the share programme (loyalty bonus)**

| Grant date | Number of instruments | Vesting conditions |
|---|---|---|
| Shares granted to key management in 2013 | 1,714 | 3 years of service |
| Shares granted to key management in 2014 | 3,015 | 3 years of service |
| Shares granted to key management in 2015 | 3,018 | 3 years of service |
| Total shares | 7,747 | |

**Share plan for the Executive Board (equity settled)**

Details of the remuneration of the Executive Board are provided in note 27.

**Awarded shares**

Every year, the Company awards a number of its own shares to certain key employees. There are no vesting conditions attached to these shares. Expenses recognised in profit or loss for the shares amount to EUR 0.1 million.

## 13 » Provisions

| EUR million | 2015 | 2014 |
|---|---|---|
| Balance at 1 January | 0.4 | 2.0 |
| Provisions made during the period | 0.8 | 0.3 |
| Provisions transferred/used during the period | (0.4) | (1.9) |
| Provisions released during the period | – | – |
| Balance at 31 December | 0.8 | 0.4 |
| | | |
| Non-current portion | – | 0.4 |
| | – | 0.4 |

## 14 » Trade and other payables

| EUR million | 2015 | 2014 |
|---|---|---|
| Trade payables | 39.8 | 36.1 |
| Other taxes and social security contributions | 1.2 | 2.7 |
| Derivatives used for hedging | 0.3 | 0.4 |
| Non-trade payables and accrued expenses | 16.6 | 15.6 |
| | 57.9 | 54.8 |

## 15 » Financial instruments

**Credit risk**

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

| EUR million | Carrying amount | |
|---|---|---|
| | 2015 | 2014 |
| Cash and cash equivalents | 10.2 | 9.6 |
| Other long term investments | 0.6 | 0.9 |
| Current income tax | 2.7 | 3.0 |
| Trade and other receivables | 48.7 | 49.2 |
| Total | 62.2 | 62.7 |

### Impairment losses

**Aging analysis of the trade and other receivables**

| EUR million | 2015 | | 2014 | |
|---|---|---|---|---|
| | Gross | Provision | Gross | Provision |
| Within the term of payment | 41.0 | – | 40.7 | – |
| 0 – 30 days due | 6.4 | – | 6.6 | – |
| 31 – 60 days due | 0.4 | – | 0.8 | – |
| > 60 days due | 1.3 | (0.4) | 1.5 | (0.4) |
| Total trade and other receivables | 49.1 | (0.4) | 49.6 | (0.4) |

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

At 31 December 2015 the provision for impairment losses on trade and other receivables relates to several customer invoices that the Group believes to be non-collectible, in whole or in part. Based on historic payment behaviour and financial information currently known all receivables that are not impaired at 31 December 2015 are collectible. EUR 1.7 million of trade receivables are over 30 days overdue, of which EUR 0.4 million is provided for. The Group has written off less than EUR 0.2 million receivables in 2015 (2014: less than EUR 0.1 million), which are recognised under other operating expenses in the statement of comprehensive income.

The customer with the largest trade receivables outstanding, an American automotive group, accounted for 7% of the trade and other receivables at 31 December 2015. At 31 December 2014 the largest customer accounted for 6% of total receivables. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

### Liquidity risk

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

| 31 December 2015<br>EUR million | Carrying amount | Contractual cash flows | 0 – 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | › 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Bank syndicate loans | 63.5 | (66.9) | (0.5) | (0.5) | (1.0) | (64.9) | – |
| Finance lease liabilities | 0.5 | (0.5) | (0.2) | (0.2) | (0.0) | (0.1) | – |
| Bank overdrafts | 9.0 | (9.0) | (9.0) | – | – | – | – |
| Other loans and borrowings | 6.3 | (7.2) | (0.5) | (0.5) | (1.0) | (3.6) | (1.6) |
| Trade and other payables | 57.9 | (57.9) | (57.9) | – | – | – | – |
| Tax liabilities | 1.8 | (1.8) | (1.8) | – | – | – | – |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swap contracts | 0.3 | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |
| Forward exchange contracts | – | – | – | – | – | – | – |
| Total | 139.3 | (143.6) | (69.9) | (1.3) | (2.1) | (68.7) | (1.6) |

| 31 December 2014<br>EUR million | Carrying amount | Contractual cash flows | 0 – 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | › 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Bank syndicate loans | 78.2 | (83.7) | (0.6) | (0.6) | (1.2) | (81.3) | – |
| Finance lease liabilities | 1.0 | (1.1) | (0.2) | (0.2) | (0.4) | (0.3) | – |
| Bank overdrafts | 6.5 | (6.5) | (6.5) | – | – | – | – |
| Other loans and borrowings | 6.9 | (8.1) | (0.5) | (0.5) | (1.0) | (3.6) | (2.5) |
| Trade and other payables | 54.8 | (54.8) | (54.8) | – | – | – | – |
| Tax liabilities | 1.5 | (1.5) | (1.5) | – | – | – | – |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swap contracts | 0.3 | (0.3) | – | (0.1) | (0.1) | (0.1) | – |
| Forward exchange contracts | 0.1 | (0.1) | – | (0.1) | – | – | – |
| Total | 149.3 | (156.1) | (64.1) | (1.5) | (2.7) | (85.3) | (2.5) |

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

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

**Cash flow hedges (in statement of cash flows)**

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

| 2015<br>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 | (0.3) | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |
| **Forward exchange contracts** | | | | | | | |
| Assets | 0.1 | 0.1 | 0.1 | – | – | – | – |
| Liabilities | – | – | – | – | – | – | – |
| Total | (0.2) | (0.2) | 0.1 | (0.1) | (0.1) | (0.1) | – |

| 2014<br>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 | (0.3) | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |
| **Forward exchange contracts** | | | | | | | |
| Assets | – | – | – | – | – | – | – |
| Liabilities | (0.0) | (0.0) | – | (0.0) | – | – | – |
| Total | (0.3) | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |

**Cash flow hedges (in statement of comprehensive income)**

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

| 2015<br>EUR million | Carrying<br>amount | Contractual<br>cash flows | 0 – 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | › 5 years |
|---|---|---|---|---|---|---|---|
| **Interest rate swap contracts** | | | | | | | |
| Assets | – | – | – | – | – | – | – |
| Liabilities | (0.3) | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |
| **Forward exchange contracts** | | | | | | | |
| Assets | 0.1 | 0.1 | 0.1 | – | – | – | – |
| Liabilities | – | – | – | – | – | – | – |
| Total | (0.2) | (0.2) | 0.1 | (0.1) | (0.1) | (0.1) | – |

| 2014<br>EUR million | Carrying<br>amount | Contractual<br>cash flows | 0 – 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | › 5 years |
|---|---|---|---|---|---|---|---|
| **Interest rate swap contracts** | | | | | | | |
| Assets | – | – | – | – | – | – | – |
| Liabilities | (0.3) | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |
| **Forward exchange contracts** | | | | | | | |
| Assets | – | – | – | – | – | – | – |
| Liabilities | (0.0) | (0.0) | | (0.0) | | – | – |
| Total | (0.3) | (0.3) | (0.0) | (0.1) | (0.1) | (0.1) | – |

**Interest-rate risk**

Part of the Group's loans is governed by a floating interest rate (usually 3-month EURIBOR). In view of the Treasury Policy, the Group hedges at least 50% of the floating interest rate exposure. To this extent the Group has outstanding interest rate swaps with a notional amount of in total EUR 62.5 million. The aggregate fair value of the outstanding interest rate swaps at 31 December 2015 was negative EUR 0.3 million (2014: negative EUR 0.3 million).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. The majority of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalise the nominal interest rate. The EUR 5.0 million mortgage loan was acquired through business combinations in 2013 and initially recorded at fair value. The effective interest rate of the loan is 3.7%. Other loans are not provided at an upcount or discount and no incremental transaction costs were incurred when the loans were drawn.

| | | | | | 2015 | | 2014 |
|---|---|---|---|---|---|---|---|
| | Currency | Nominal interest | Year of redemption | Fair value | Carrying amount | Fair value | Carrying amount |
| Banking syndicate loans | EUR | IBOR + 1.5% | 2019 | 63.5 | 63.5 | 78.2 | 78.2 |
| Mortgage loan | EUR | 6.4% | 2022 | 5.3 | 5.0 | 5.9 | 5.6 |
| Other loans | EUR | 3.5% | 2019 | 1.3 | 1.3 | 1.3 | 1.3 |
| Bank overdrafts | Various | IBOR + 1.5% | 2016 | 9.0 | 9.0 | 6.5 | 6.5 |
| Finance lease liabilities | EUR | 3.0% – 6.5% | 2017 | 0.5 | 0.5 | 1.0 | 1.0 |
| Total interest-bearing debt | | | | 79.6 | 79.3 | 92.9 | 92.6 |

**Sensitivity analysis interest**

Financial assets and liabilities with a fixed interest rate are not recognised at fair value by processing the value changes in profit or loss. For this reason a movement in interest rates across the yield curve at 1 January 2015 would not have had a material influence on the 2015 result.

The Group has hedged a considerable part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps and the loans with a fixed rate, in total EUR 55.7 million of the EUR 79.2 million long and short term loans at financial year-end have an interest rate which is fixed for one year or longer. Based on the interest bearing debt levels at year-end and expected cash flow development, a 1% point increase in the interest rate across the yield curve as from 1 January 2016, will have an increasing effect on interest expenses in 2016 of maximum EUR 0.1 million.

**Exchange rate risk**

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was positive EUR 0.1 million at 31 December 2015 (2014: negative EUR 0.1 million).

A 10% point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2015 and the result for 2015 by the amounts shown in the following table. The same analysis was performed at 31 December 2014. A 10% point depreciation of the listed currencies against the euro would have had the opposite effect.

The same test was done for the profit or loss, where the sensitivities for a 10% appreciation or depreciation on 31 December 2015 would have had an impact as is shown below.

| 31 December 2015 | Equity | Result |
|---|---|---|
| US dollar | 3.9 | (0.0) |
| Czech koruna | 0.7 | (0.1) |
| Chinese yuan | 1.1 | 0.0 |
| Rumanian lei | 0.6 | (0.0) |
| Swiss franc | (0.0) | (0.0) |

| 31 December 2014 | Equity | Result |
|---|---|---|
| US dollar | 3.9 | 0.0 |
| Czech koruna | 0.7 | (0.4) |
| Chinese yuan | 1.2 | (0.1) |
| Rumanian lei | 0.4 | (0.1) |
| Swiss franc | 0.1 | (0.1) |

Principal exchange rates during the reporting period were as follows:

**Applicable currency rates**

| Value of EUR | At 31 December 2015 | At 31 December 2014 | Average over 2015 |
|---|---|---|---|
| Pound sterling | 0.7340 | 0.7789 | 0.7279 |
| Swiss franc | 1.0835 | 1.2024 | 1.0737 |
| Czech koruna | 27.0230 | 27.7350 | 27.3028 |
| Chinese yuan | 7.0608 | 7.5358 | 6.9861 |
| US dollar | 1.0887 | 1.2141 | 1.1119 |
| Mexican peso | 18.9145 | 17.8679 | 17.6476 |
| Brazilian real | 4.3117 | 3.2207 | 3.6461 |
| Romanian lei | 4.5240 | 4.4828 | 4.4437 |
| Indian rupee | 72.0215 | 76.7190 | 71.3756 |
| Swedish krona | 9.1895 | 9.3930 | 9.3405 |

### Fair values of financial instruments

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

| EUR million | 2015 | | 2014 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Assets carried at amortised costs** | | | | |
| Receivables (including current tax assets) | 51.4 | 51.4 | 52.2 | 52.2 |
| Cash and cash equivalents | 10.2 | 10.2 | 9.6 | 9.6 |
| Held to maturity investments | 0.6 | 0.6 | 0.9 | 0.9 |
| | 62.2 | 62.2 | 62.7 | 62.7 |
| **Liabilities carried at amortised costs** | | | | |
| Banking syndicate loans | (63.5) | (63.5) | (78.2) | (78.2) |
| Mortage loan | (5.0) | (5.3) | (5.6) | (5.9) |
| Other loans | (1.3) | (1.3) | (1.3) | (1.3) |
| Finance lease liabilities | (0.5) | (0.5) | (1.0) | (1.0) |
| Bank overdraft | (9.0) | (9.0) | (6.5) | (6.5) |
| Trade and other payables (including current tax liabilities) | (59.7) | (59.7) | (56.3) | (56.3) |
| | (139.0) | (139.3) | (148.9) | (149.2) |
| **Assets and liabilities carried at fair value** | | | | |
| Interest derivatives | (0.3) | (0.3) | (0.3) | (0.3) |
| Forward exchange contracts | 0.1 | 0.1 | (0.1) | (0.1) |
| | (0.2) | (0.2) | (0.4) | (0.4) |

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 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.

**Interest rate used in measuring fair value**

The interest rate used for discounting estimated cash flows, where applicable, is based on the swap curve at 31 December 2015, augmented by the prevailing credit mark-up, and is as follows:

| | 2015 | 2014 |
|---|---|---|
| Derivatives | 0.1% | 0.1% |
| Leases | 1.5% | 2.0% |
| Banking syndicate loans | 1.5% | 1.6% |
| Mortgage loans | 2.5% | 2.5% |
| Other loans | 2.5% | 2.5% |

**Fair value hierarchy**

The fair value calculation method of all assets and liabilities carried at amortised costs are categorised in level 2 of the fair value hierarchy.

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

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

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

level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| Derivative contracts used for hedging | – | (0.2) | – | (0.2) |
| Total | – | (0.2) | – | (0.2) |
| **31 December 2014** | | | | |
| Derivative contracts used for hedging | – | (0.4) | – | (0.4) |
| Total | – | (0.4) | – | (0.4) |

**Master netting**

The Company has no master netting agreement in place. All derivative instruments are presented individually as either an asset or liability.

16 >> **Operating lease agreements**

**Lease contracts for which the Group acts as lessee**

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

| EUR million | 2015 | 2014 |
|---|---|---|
| < 1 year | 3.6 | 3.3 |
| 1 – 5 years | 3.3 | 3.4 |
| > 5 years | 1.5 | 2.1 |
| | 8.4 | 8.8 |

In the 2015 financial year a charge of EUR 0.5 million was recognised in profit or loss in respect of operating leases (2014: EUR 0.6 million). The operating lease contracts mostly relate to buildings.

17 >> **Capital commitments**

As at 31 December 2015 the Group had capital commitments totalling to EUR 3.5 million (2014: EUR 4.7 million).

18 >> **Contingent liabilities**

The Group has divested itself of a number of divisions and companies in the past. The customary representations and warranties for transactions of this nature are included in the relevant share or asset purchase agreements. The Group, as is customary for transactions of this nature, also issued representations and warrants for potential (tax) claims relating to periods prior to the various divestment dates.

19 >> **Operating segments**

The Group, in accordance with IFRS 8, has included general and entity-wide disclosures in these consolidated financial statements.

**Geographical segments based on physical location of the Group operating companies**

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

| EUR million | Germany | | Other European countries | | Asia | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenue from transactions with third parties | 279.3 | 285.6 | 72.7 | 69.2 | 24.2 | 18.9 |
| Other non-current assets | 167.0 | 168.0 | 17.9 | 14.5 | 1.7 | 1.8 |
| Deferred tax assets | 8.6 | 7.4 | 5.6 | 4.8 | 0.0 | 0.2 |
| Net liability for defined benefit obligations | 14.7 | 15.5 | 2.6 | 1.8 | 0.0 | 0.0 |

| EUR million | The Americas | | Consolidated | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue from transactions with third parties | 65.9 | 55.2 | 442.1 | 428.9 |
| Other non-current assets | 24.3 | 23.9 | 210.8 | 208.2 |
| Deferred tax assets | 1.7 | 2.1 | 15.9 | 14.5 |
| Net liability for defined benefit obligations | 0.0 | 0.0 | 17.3 | 17.3 |

**Revenue segmented by customer location**

| EUR million | 2015 | 2014 |
|---|---|---|
| Germany | 215.5 | 213.7 |
| Other European countries | 107.1 | 112.0 |
| Asia | 40.5 | 36.3 |
| The Americas | 76.7 | 65.6 |
| Other countries | 2.3 | 1.3 |
| Total | 442.1 | 428.9 |

**Information about reportable segments**

Kendrion has split all activities over two divisions: the Automotive Division and the Industrial Division. Based on the division structure and the criteria of IFRS 8-Operating segments, Kendrion has concluded that within this structure the Kendrion business units are the operating segments within the Group. Based on the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: the Automotive Division and the Industrial Division.

| EUR million | Industrial Division | | Automotive Division | | Corporate activities | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenue from transactions with third parties | 150.8 | 150.5 | 291.3 | 278.4 | – | – | 442.1 | 428.9 |
| Inter-segment revenue | 0.1 | 0.2 | 0.4 | 0.2 | – | – | 0.5 | 0.4 |
| EBITA | 10.1 | 12.9 | 17.7 | 20.7 | (2.0) | (0.7) | 25.8 | 32.9 |
| EBITA margin | 6.7% | 8.6% | 6.1% | 7.4% | – | – | 5.8% | 7.7% |
| Reportable segment assets | 106.0 | 102.7 | 206.5 | 199.1 | 28.4 | 31.7 | 340.9 | 333.5 |

**Major customers**

Three customers (Volkswagen, Continental and Daimler) individually account for more than 5% of the company's total revenue.

## 20 >> Business combinations and acquisitions of non-controlling interests

The Company reached an agreement with the owners of Steinbeis Mechatronik GmbH on the acquisition of the company on 23 December 2014. Kendrion obtained control over Steinbeis Mechatronik GmbH on 5 January 2015. From that date on, the financial statements of Steinbeis Mechatronik GmbH have been consolidated by the Group. The Company had annual revenues in 2015 of EUR 1.0 million and employed 16 FTE as per 31 December 2015. The total consideration transferred for this acquisition amounted to EUR 1.0 million.

## 21 >> Other income

| EUR million | 2015 | 2014 |
|---|---|---|
| Release of unused provisions and accrued expenses | – | 0.0 |
| Net gain on disposal of property, plant and equipment | – | 0.0 |
| Other | 0.1 | 0.2 |
| | 0.1 | 0.2 |

## 22 >> Staff costs

| EUR million | 2015 | 2014 |
|---|---|---|
| Wages and salaries | 105.5 | 98.8 |
| Social security charges | 19.5 | 18.4 |
| Temporary personnel | 3.7 | 4.4 |
| Contributions to defined contribution plans | 0.4 | 0.4 |
| Expenses related to defined benefit plans | 0.2 | 0.3 |
| Increase in liability for long-service leave | 0.2 | 0.1 |
| Other costs of personnel | 3.6 | 3.0 |
| | 133.1 | 125.4 |
| | | |
| Total number of employees and temporary workers at 31 December (FTE) | 2,658 | 2,713 |

## 23 >> Other operating expenses

| EUR million | 2015 | 2014 |
|---|---|---|
| Lease expenses | 0.5 | 0.6 |
| Increase in provision for doubtful debts | 0.2 | 0.0 |
| Premises costs | 8.1 | 7.3 |
| Maintenance expenses | 5.6 | 4.5 |
| Transport expenses | 2.0 | 2.1 |
| Consultancy expenses | 6.4 | 5.2 |
| Sales and promotion expenses | 2.3 | 2.7 |
| Car, travel and representation costs | 4.6 | 4.0 |
| Other | 6.0 | 3.5 |
| | 35.7 | 29.9 |

Research & Development expenses (including staff and other operating expenses) for 2015 totalled EUR 26.4 million (2014: EUR 23.2 million).

## 24 >> Net finance costs

| EUR million | 2015 | 2014 |
|---|---|---|
| Interest income | 0.2 | 0.4 |
| Net exchange gain | – | 0.4 |
| Finance income | 0.2 | 0.8 |
| | | |
| Interest expenses | (2.7) | (5.0) |
| Interest expenses related to employee benefits | (0.3) | (0.4) |
| Net exchange loss | (0.5) | – |
| Finance expense | (3.5) | (5.4) |
| | | |
| Net financing costs | (3.3) | (4.6) |

## 25 >> Income tax

**Recognised in the consolidated statement of comprehensive income**

| EUR million | 2015 | 2014 |
|---|---|---|
| Current tax charge on year under review | (1.9) | (4.7) |
| Total corporation tax expenses in the income statement | (1.9) | (4.7) |

## 26 >> Reconciliation with the effective tax rate

| | Reconciliation with tax rate | | Reconciliation with effective rate EUR million | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Profit before income tax | | | 18.7 | 24.9 |
| Income tax expense at local corporation tax rate | 25.0% | 25.0% | 4.7 | 6.2 |
| Non-deductible expenses | 2.2% | 0.4% | 0.4 | 0.1 |
| Effect of tax rates in foreign jurisdictions | (0.8)% | 0.0% | (0.2) | 0.0 |
| Tax exempt income | 1.6% | (2.4)% | 0.3 | (0.6) |
| Changes in estimates related to prior years | (3.2)% | 0.4% | (0.6) | 0.1 |
| Recognition of previously unrecognised tax losses* | (13.8)% | (5.6)% | (2.6) | (1.4) |
| Current-year losses for which no deferred tax asset is recognised | 0.3% | 0.8% | 0.1 | 0.2 |
| Other movements | (0.9)% | 0.3% | (0.2) | 0.1 |
| | 10.3% | 18.9% | 1.9 | 4.7 |

* *Mainly due to recognition of carry forward tax losses in The Netherlands.*

## 27 » Related parties

**Identity of related parties**

A related-party relationship exists between the Company and its subsidiaries, their managers and executives. The Company has a number of agreements with its subsidiaries relating to the charging of central costs to and from the business units, including management, development, information technology and marketing costs, as well as agreements in respect of Group financing and use of intellectual property. Internal supplies are also obtained within the business units. Intercompany transactions are effected at arm's length market prices. As all subsidiaries are fully consolidated and reflected in these financial statements, the amounts of these transactions are not further specified. For a list of the principal subsidiaries, see pages 142 and 143.

**Transactions with managers in key positions**

The remuneration of the Executive Board and Supervisory Board is as follows:

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Total remuneration | 1,275.6 | 1,178.7 |
| Pension and other expenses | 190.1 | 165.6 |

The total remuneration is included in staff costs (see note 22). For a description of the variable remuneration of the members of the Executive Board, see pages 57 to 59.

As Mr Van Beurden joined Kendrion as per 1 December 2015, he will not receive a variable remuneration for 2015. The Supervisory Board has decided that, on the basis of the performance and relevant criteria in 2015, the CFO shall receive a variable remuneration of 22% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 68,250, of which EUR 22,750 will be paid in cash. EUR 45,500 is awarded conditionally in shares on the basis of the closing share price on 11 April 2016. The vesting period ends in 2017 and the holding period ends in 2019.

The former CEO Mr Veenema resigned voluntarily as per 1 December 2015 and left the company at the end of 2015. Within the framework of the applicable remuneration policy, the Supervisory Board decided in the third quarter of 2015 that the former CEO receives a variable remuneration of 40% of his gross variable remuneration. The gross variable remuneration amounts to EUR 159,120, which has been paid in cash. The 3,587 shares conditionally granted in prior years have been paid out unconditionally. He also received unconditionally, as long-term variable remuneration for the period 2013-2015, 50% of the part of the variable remuneration of 2013 and 2014 that was invested in shares, being 1,794 shares.

The vesting and holding periods for shares awarded to the CFO in prior years at year-end can be specified as follows:

| Description | Number of shares | Vesting period | Holding period |
|---|---|---|---|
| Shares granted to the CFO (variable remuneration 2013) | 1,044 | End of 2015 | End of 2017 |
| Shares granted to the CFO (variable remuneration 2014) | 1,451 | End of 2016 | End of 2018 |

**Pensions**

The Executive Board participated in the defined contribution plan of the Company in 2015. The contribution was EUR 6,250 for the CEO, Mr Van Beurden, EUR 21,635 for the CFO and EUR 25,455 for the former CEO, Mr Veenema.

**Transactions with shareholders**

There were no transactions with shareholders.

## 28 >> Accounting estimates and judgements by management

The Executive 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 that 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

The Group tests annually whether goodwill is subject to any impairment, in conformity with the accounting policy disclosed in note g.

The impairment model applied is the discounted cash flow method (value in use determined based on the discounted value of the expected cash flows) with a weighted average cost of capital (pre-tax WACC) of 8-11%. The use of estimates is essential for making this calculation. The explicit forecast period contains five planning years. As of year six the residual value is calculated based on the last explicit forecast year (year five). No further growth in earnings is considered, with the exception of an inflation adjustment. The first three years of the explicit forecast period are based on cash flow projections derived from the bottom-up generated mid-term plan (available per company and approved by the Executive Board). The last two years are based on experience or target data for the Group under review. The pre-tax WACC is consistent with external sources of information, past experience and internal assessment of the assumptions used.

### Pensions

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

### Utilisation of tax losses

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be set off. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed if the probability of future taxable profits improves.

## 29 >> Post-balance sheet events

There were no post-balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2015.

# Company balance sheet at 31 December
(before profit appropriation)

| Note | EUR million | 2015 | 2014 |
|---|---|---|---|
| | **Fixed assets** | | |
| | Property, plant and equipment | 0.1 | 0.1 |
| | Intangible assets | 0.1 | – |
| | Other investments, including derivatives | 0.3 | 0.5 |
| 1.3 | Financial assets | 194.9 | 173.0 |
| | **Total non-current assets** | 195.4 | 173.6 |
| | **Current assets** | | |
| 1.4 | Receivables | 0.9 | 0.5 |
| | Cash and cash equivalents | 0.0 | 0.0 |
| | **Total current assets** | 0.9 | 0.5 |
| | **Total assets** | 196.3 | 174.1 |
| 1.5 | **Equity** | | |
| | Share capital | 26.4 | 26.1 |
| | Share premium | 62.7 | 68.8 |
| | Legal reserves | 11.2 | 5.1 |
| | Other reserves | 52.8 | 33.0 |
| | Retained earnings | 16.8 | 20.2 |
| | **Total equity** | 169.9 | 153.2 |
| 1.6 | **Current liabilities** | | |
| | Loans and borrowings | 26.4 | 20.9 |
| | **Total current liabilities** | 26.4 | 20.9 |
| | **Total equity and liabilities** | 196.3 | 174.1 |

# Company income statement

| Note | EUR million | 2015 | 2014 |
| --- | --- | --- | --- |
| 1.11 | Share in results of Group companies after tax | 16.3 | 21.5 |
| | Other results after tax | 0.5 | (1.3) |
| | **Net profit** | 16.8 | 20.2 |

# Notes to the company financial statements

1 » **Notes to the company financial statements**

**1.1 General**

The Company financial statements are part of the 2015 financial statements of Kendrion N.V. (the 'Company'). With regard to the Company statement of comprehensive income 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 employed in the company financial statements for the valuation of assets and liabilities and determination of results, Kendrion N.V. has made use of the option provided by Section 362, subsection 8, of Book 2 of the Netherlands Civil Code. Consequently, the principles employed in the Company financial statements of Kendrion N.V. for the valuation of assets and liabilities and determination of results (the 'accounting policies') are identical to those employed in the consolidated EU-IFRS financial statements. Interests in entities in which Kendrion N.V. has significant influence are measured using the equity method. The consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board as endorsed for use in the European Union (hereinafter referred to as 'EU-IFRS'). These policies are discussed in notes a – r.

The share in the results of Group companies relates to the Company's share in the results of those companies. Results on transactions whereby assets and liabilities have been transferred between the Company 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 2015 | Total 2014 |
|---|---|---|---|---|---|
| Carrying amount at 1 January | 165.7 | 2.8 | 4.5 | 173.0 | 197.4 |
| Results of Group companies | 16.3 | – | – | 16.3 | 21.5 |
| Dividend payments by Group companies | – | – | – | – | (45.0) |
| Movements in loans and borrowings | – | (0.7) | – | (0.7) | (5.6) |
| Movements in deferred tax assets | – | – | 0.7 | 0.7 | 0.4 |
| Other movements | 5.6 | – | – | 5.6 | 4.3 |
| Carrying amount at 31 December | 187.6 | 2.1 | 5.2 | 194.9 | 173.0 |

The main portion of the loans to Group companies has a duration of over one year.

The investments in the principal subsidiaries and associates are disclosed on pages 142 and 143 of the Annual Report.

## 1.4 Receivables

| EUR million | 2015 | 2014 |
|---|---|---|
| Receivables from Group companies | 0.6 | 0.3 |
| Prepayments and accrued income | 0.3 | 0.2 |
| | 0.9 | 0.5 |

All receivables are due within one year.

## 1.5 Equity

| EUR million | Share capital | Share premium | Translation reserve | Hedge reserve | Reserve for participations | Reserve for own shares | Other reserves | Retained earnings | Total 2015 | Total 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January | 26.1 | 68.8 | 4.7 | (0.4) | 0.8 | (0.1) | 33.1 | 20.2 | 153.2 | 134.1 |
| Appropriation of retained earnings | – | – | – | – | – | – | 20.2 | (20.2) | – | – |
| Foreign currency translation differences for foreign operations | – | – | 5.6 | – | – | – | – | – | 5.6 | 5.7 |
| Net change in fair value of cash flow hedges, net of income tax | – | – | – | 0.3 | – | – | – | – | 0.3 | 0.0 |
| Issue of ordinary shares | 0.3 | 3.8 | – | – | – | – | – | – | 4.1 | 1.6 |
| Own shares sold | – | – | – | – | – | 0.1 | (0.1) | – | – | – |
| Share-based payment transactions | 0.0 | 0.3 | – | – | – | – | 0.1 | – | 0.4 | 0.1 |
| Dividend payment | – | (10.2) | – | – | – | – | – | – | (10.2) | (7.1) |
| Other | – | – | – | – | 0.2 | – | (0.5) | – | (0.3) | (1.4) |
| Total recognised income and expenses | – | – | – | – | – | – | – | 16.8 | 16.8 | 20.2 |
| Balance at 31 December | 26.4 | 62.7 | 10.3 | (0.1) | 1.0 | – | 52.8 | 16.8 | 169.9 | 153.2 |

### 1.5.1 Share capital

The authorised capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 13,188,154 ordinary shares have been issued.

### 1.5.2 Share premium

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

1.5.3 **Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates outside the euro zone. Gains and losses relating to the translation risk are recognised in equity. The build-up of the cumulative figure commenced on 1 January 2004.

1.5.4 **Hedge reserve**

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

1.5.5 **Statutory reserve for participations**

This reserve pertains to participating interests that are accounted for according to the equity accounting method. The reserve represents the difference between the participating interests' retained profit and direct changes in equity, as determined on the basis of the Company's accounting policies, and the share thereof that the Company may distribute. It is shown as the share in the undistributed results of the subsidiaries since they were first valued using the equity method. The amount of any dividend – from these subsidiaries – to which there is an entitlement on adoption of the financial statements is deducted from this reserve.

1.5.6 **Reserve for own shares**

The reserve for the Company's own shares comprises the cost of the Company shares that are held by the Company for the remuneration package for the Executive Board. At 31 December 2015, the Company held none of its own shares (2014: 4,657).

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 2015, the full result for 2014 was included in other reserves. Retained earnings consequently consist solely of the result for 2015.

## 1.6 Loans and borrowings (current)

| EUR million | 2015 | 2014 |
|---|---|---|
| Debts to suppliers and trade payables | 0.5 | 0.4 |
| Debts to Group companies | 24.8 | 19.4 |
| Other debts | 1.1 | 1.1 |
| | 26.4 | 20.9 |

### 1.7 Financial instruments

See note 15 to the consolidated financial statements for details on financial instruments.

### 1.8 Staff costs

| EUR million | 2015 | 2014 |
|---|---|---|
| Wages and salaries | 2.4 | 2.1 |
| Social security charge | 0.1 | 0.1 |
| Pension costs | 0.3 | 0.3 |
| Other costs of personnel | 0.4 | 0.1 |
| | 3.2 | 2.6 |
| | | |
| Total number of employees and temporary workers at 31 December (FTE) | 13 | 11 |

The average number of FTEs during the year was 13 (2014: 11). In this financial year 0.3 FTE (2014: 0 FTE) are employed outside The Netherlands.

The Company has only defined contribution plans for its employees.

### 1.9 Commitments not appearing on the balance sheet

#### 1.9.1 Joint and several liability and guarantees

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

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

#### 1.9.2 Fiscal unity

The Company and its Dutch subsidiaries excluding Landfort II B.V. form a tax group for corporation tax purposes. According to the standard terms, each of the companies is jointly and severally liable for corporation tax payable by all the members of the fiscal unity.

### 1.10 Share in results of Group Companies

This relates to the Company's share in the results of its associates, of which EUR 16.3 million (2014: EUR 21.5 million) relates to Group Companies.

## 1.11 Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by Deloitte Accountants B.V. and its member firms and affiliates in 2015, or by KPMG Accountants N.V. and its member firms and affiliates in 2014 to the Company, its subsidiaries and other consolidated entities:

| EUR thousand | | | 2015 | | | 2014 |
|---|---|---|---|---|---|---|
| | Deloitte Accountants B.V. | Other Deloitte member firms and affiliates | Total Deloitte | KPMG Accountants N.V. | Other KPMG member firms and affiliates | Total KPMG |
| Audit of financial statements | 98.0 | 318.0 | 416.0 | 102.5 | 306.4 | 408.9 |
| Other assurance services | 53.2 | – | 53.2 | – | – | – |
| Tax advisory services | – | – | – | – | – | – |
| Other non-audit services | – | – | – | – | – | – |
| Total | 151.2 | 318.0 | 469.2 | 102.5 | 306.4 | 408.9 |

## 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 the Company and Group companies, including pension expenses as referred to in Section 383, subsection 1, of Book 2 of the Netherlands Civil Code, amounted to EUR 1,315,700 (2014: EUR 1,194,300). This remuneration is as follows:

| EUR thousand | | | | 2015 | | | 2014 |
|---|---|---|---|---|---|---|---|
| | P. Veenema* | J.A.J. van Beurden** | F.J. Sonnemans | Total | P. Veenema | F.J. Sonnemans | Total |
| Fixed remuneration | 397.8 | 38.8 | 312.0 | 748.6 | 390.0 | 306.0 | 696.0 |
| Variable remuneration | 308.7 | – | 68.3 | 377.0 | 195.0 | 137.7 | 332.7 |
| Total remuneration | 706.5 | 38.8 | 380.3 | 1,125.6 | 585.0 | 443.7 | 1,028.7 |
| Pension and other expenses | 87.1 | 23.8 | 79.2 | 190.1 | 83.7 | 81.9 | 165.6 |
| | 793.6 | 62.6 | 459.5 | 1,315.7 | 668.7 | 525.6 | 1,194.3 |

* *Left on 31 December 2015.*
** *Appointed as per 1 December 2015.*

The 2015 variable remuneration will be granted directly after the General Meeting of Shareholders to be held on 11 April 2016. Part (1/3) of the variable remuneration will be paid in cash after income tax and other part (2/3) will be covered conditionally for in shares against the prevailing closing share price of 11 April 2016.

### Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2015 amounts to EUR 150,000 (2014: EUR 150,000). This remuneration is as follows:

| EUR thousand | 2015 | 2014 |
|---|---|---|
| Supervisory Board members: | | |
| H. ten Hove | 45 | 45 |
| R.L. de Bakker | 35 | 35 |
| M.E.P. Sanders* | 35 | 35 |
| H.J. Kayser** | 35 | 35 |
| | 150 | 150 |

No loans, advances or related guarantees have been given to the Executive Board or Supervisory Board members.

* *Will resign as from the General Meeting of Shareholders (11 April 2016).*

** *Resigned as from 7 January 2016.*

### Share ownership by the Executive Board and the Supervisory Board

| | | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| Executive Board | P. Veenema* | 48,879 | 41,808 |
| | J.A.J. van Beurden** | 20,000 | – |
| | F.J. Sonnemans | – | – |
| Supervisory Board | | – | – |

* *Resigned on 1 December 2015.*

** *Appointed as per 1 December 2015. Purchased shares at his own initiative before this date.*

Zeist, 24 February 2016

| **Executive Board** | **Supervisory Board** |
|---|---|
| J.A.J. van Beurden | H. ten Hove |
| F.J. Sonnemans | R.L. de Bakker |
| | M.E.P. Sanders |

# Other information

## To: the Shareholders and Supervisory Board of Kendrion N.V.

### » Independent auditor's report

**Report on the audit of the financial statements 2015**

**Our opinion**

We have audited the accompanying financial statements 2015 of Kendrion N.V. ('the Company') based in Zeist. The financial statements include the consolidated financial statements and the company financial statements as set out on the pages 61 up to and including 132.

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 2015, its financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS-EU') and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2015, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position at 31 December 2015;
- The following statements for 2015: consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows; and
- The notes to the consolidated financial statements, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company balance sheet at 31 December 2015;
- The company income statement for 2015; and
- The notes to the company financial statements comprising a summary of the significant accounting policies and other explanatory information.

**Basis for our opinion**

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Kendrion N.V. in accordance with the Regulation on Auditor Independence in Assurance Engagements (*'Verordening inzake de onafhankelijkheid van accountants' – ViO)* and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Regulation on Rules of Professional Conduct and Practice of Accountants (*'Verordening Gedrags- en Beroepsregels Accountants' – VGBA*).

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

## Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we have set the materiality for the financial statements as a whole at EUR 2.1 million (2014: EUR 1.8 million). The materiality has been set by applying a factor of 8.5% of reported 2014 profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We reassessed the group materiality level based on the actual profit before tax, which was lower than prior year's level used in calculating our materiality level. In our assessment we have considered one-off effects that have affected profit before tax, commonly used percentages that are applied to the amount of profit before tax (between 5 and 10%), as well as alternative relevant materiality benchmarks such as level of revenues (0.8%) and net assets (3%), which benchmarks would lead to significantly higher materiality levels if applied. We also considered the component materiality levels allocated to the audits of group entities and used for substantially all detailed testing. Based on our reassessment we have concluded that our group materiality level is acceptable.

We have agreed with the Supervisory Board to report to them any misstatements in excess of EUR 105 thousand (2014: EUR 90 thousand) identified during the audit, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Materiality overview

| | |
|---|---|
| Group materiality level | EUR 2.1 million |
| Basis for group materiality level | 8.5% of reported 2014 profit before tax |
| Threshold for reporting misstatements | EUR 105.000 |

## Scope of the group audit

Kendrion N.V. is the ultimate parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Kendrion N.V.

Because we are ultimately responsible for the opinion, we are also responsible for managing, supervising and performing the group audit. We have thus determined the nature and extent of the audit procedures to be carried out for group entities, with which the size and/or the risk profile of the group entities or operations were decisive. This is the basis on which we have selected group entities for which an audit or review had to be performed on the complete set of financial information or on specific items.

Kendrion N.V. is divided into two reportable segments, as disclosed in note 19 of the consolidated financial statements of Kendrion N.V. These two reportable segments encompass 29 operating companies or groups of operating companies (hereinafter referred to as: components) that report to responsible management. Assurance procedures are performed on each of these components. The most significant components are Kendrion (Villingen) GmbH, Kendrion Kuhnke Automotive GmbH and Kendrion (Shelby) Inc. which on a combined basis contribute approximately 50% of consolidated revenue.

Our group audit mainly focused on the components that are considered most relevant from a quantitative or qualitative perspective. We ourselves have performed audit procedures at Kendrion N.V. (company-only level) and performed desk-top review procedures on the components beyond the audit scope.

For all relevant foreign components we have involved other auditors to perform audit procedures, audit procedures on specific account balances, or desk-top reviews. In our capacity of group auditor we have had a strong involvement in these component audits, in accordance with the International Standard on Auditing 600. This involvement includes the issuance of audit instructions to the component auditors; organizing centralized kick-off meetings with the teams responsible for these components; involvement in determining the audit approach on significant risks; frequent consultations with these component auditors during the audit process and the finalization phase; assessing and discussing their reporting for group purposes; visiting selected component locations together with group management and the component auditor; and reviewing the audit files of selected component auditors.

Considering their share in consolidated revenue, 92% of the components is subject to audit procedures. Desk-top review procedures have been performed in respect of components that have not been not audited, mostly at group level.

| **Audit coverage** | |
|---|---|
| Audit coverage of consolidated revenue | 92% |
| Audit coverage of consolidated results before net finance costs | 83% |
| Audit coverage of total assets | 89% |

Performing the procedures at the components as referred to above, together with additional procedures at group level, has allowed us to obtain sufficient and appropriate audit evidence about the group’s financial information to provide an opinion on the financial statements.

## Our Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

**Risk in relation to auditor's rotation and planning and performing the group audit for the first time**

Taking into account the mandatory rotation legislation, Kendrion N.V. decided to change auditor effective 2015.
We have identified risks and attention areas that relate to carrying out the audit for the first time, including areas such as:

- Gaining sufficient understanding of the Company and its operations, including its control environment and information systems, to enable us to develop our group-wide audit risk assessment, audit strategy and audit plan;
- Obtaining sufficient appropriate evidence regarding the opening balances, including the selection and application of accounting principles;
- Communicating with the previous auditor about the scope and the approach of the previous audit and the conclusions reached;
- Selecting specialists to support the audit team in certain areas, and
- Selecting and instructing (local) component auditors to carry out audit procedures based on our instructions.

### How the key audit matter was addressed in the audit

In cooperation with the Company's management and key personnel we have developed and executed an audit transition plan that encompasses all relevant risks and judgment areas. As part of the transition plan we have visited the main components (and the component auditors) in Germany and the USA.

The observations and conclusions from our transition procedures have been communicated with the Executive Board and the Supervisory Board and have been incorporated in our 2015 group audit plan.

At group level we have spent approximately 234 hours on our transition activities, including 101 hours at partner level.

**Key audit matter**

Risk in relation to the decentralized operations

Kendrion is a group with 35 legal entities, grouped in 29 components that are part of two reportable segments. The majority of operations takes place in Germany and the USA.

The decentralized structure, with no activities taking place in the Netherlands, increases the importance of the Company's control environment in order to oversee the remote operations.

In our role as group auditor it is essential that we obtain an appropriate level of understanding of the components.

**How the key audit matter was addressed in the audit**

We have evaluated the Company's internal controls that address these risks, including centralized monitoring controls at both group and segment level. As a general note, we have identified several internal controls established within the Company, albeit that documentation of some of these controls could be further improved. Compliance with internal controls throughout the Company is monitored through Kendrion In Control ('KIC') procedures conducted by experienced Finance & Control officials, notably at head office level.

During our audit we have specifically focused on risks in relation to the decentralized structure and we have extended our involvement in local audit work performed by the component auditors. We have organized site visits at, and meetings and conference calls with components included in our audit scope.

**Key audit matter**

Valuation of goodwill

The Company has recorded a significant amount of goodwill that is subject to an annual impairment test. The goodwill is allocated to the cash generating units within the two reportable segments and amounts to EUR 93.4 million as at 31 December 2015 (2014: EUR 90.5 million).

The Company performs an annual impairment test to identify impairment losses, arising when the recoverable amount for a cash generating unit is lower than the carrying amount recorded. Based on the impairment test, no impairment losses have been identified.

The impairment review is based on valuation models that require the input of cash flow forecasts estimated by management, as well as other key assumptions.

**How the key audit matter was addressed in the audit**

We have reviewed the impairment model and involved valuation specialists to assess the models used and the key assumptions applied.

Furthermore, we have evaluated the internal controls related to the preparation of the impairment model and the review of the forecasted cash flows, growth rates, discount rates and other relevant assumptions. In our audit procedures we have also compared actual performance per cash generating unit to assumptions applied in prior year models, to address the risk of bias.

Finally, we have assessed the adequacy of disclosure notes, including the disclosures on the sensitivity of management's assumptions.

Reference is made to note 2 of the consolidated financial statements.

**Responsibilities of the Executive Board and the Supervisory Board for the financial statements**

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

**Our responsibilities for the audit of the financial statements**

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to the related disclosures in the financial statements in our auditor's report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about such matters or when, in extremely rare circumstances, not communicating such matters is in the public interest.

## Report on other legal and regulatory requirements

### Report on the Report of the Executive Board and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code, concerning our obligation to report about the Report of the Executive Board and other information, we declare that:

- We have no deficiencies to report as a result of our examination whether the Report of the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Report of the Executive Board, to the extent we can assess, is consistent with the financial statements.

### Engagement

We were engaged by the Annual General Meeting as auditor of Kendrion N.V. on 13 April 2015 for the audit for the years 2015, 2016 and 2017.

Amsterdam, 24 February 2016

Deloitte Accountants B.V.
Signed by: B.E. Savert

## Provisions in the Articles of Association governing the appropriation of profit

Under article 35.1 and 35.2 of the Articles of Association of the Company, the Executive Board shall, with the approval of the Supervisory Board, determine which part of the profits is added to the reserves. The profit remaining after transfer to the reserves is available to the General Meeting of Shareholders. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by the Executive Board at the date of each dividend payment.

## Profit appropriation

**Appropriation of net profit**

| EUR million | |
|---|---|
| Net profit | 16.8 |

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 16.8 million will be added to the other reserves.

## Post-balance sheet events

There are no post-balance sheet events.

# Five-year summary

1 Relates to inventories, receivables minus non-interest bearing debts (2013 is excluding EC fine payable).
2 2011 is including Kendrion (Shelby) Inc.
3 Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash and non-interest bearing debts (2013 is including EC fine).
4 Before cash flow relating to acquisitions and disposals (2011 and 2013 excluding acquisition expenses, and 2014 excluding EC fine payment).
5 Pro forma. Unaudited.
6 2011 EBITA and EBITDA are normalised (excluding EC fine and a.o. acquisition expenses).
7 2013 EBITDA is including full year Kuhnke.
8 The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities and the amortisation of upfront and legal fees.
9 2013 revenue is including full year Kuhnke.
10 The results for 2011 have been negatively influenced by a non-recurring supplementary provision of EUR 39 million as a result of the judgement regarding the EC fine.

| EUR million, unless otherwise stated | 2015 | 2014 | 2013 | 2012 | 2011[10] |
|---|---|---|---|---|---|
| **Kendrion N.V. consolidated** | | | | | |
| **Statement of comprehensive income conform financial statements** | | | | | |
| Revenue | 442.1 | 428.9 | 354.0 | 284.9 | 267.9 |
| Organic growth | 3.1% | 8.2% | (1.2)% | (4.1)% | 20.7% |
| Operating result (EBIT) | 22.0 | 29.5 | 20.9 | 24.4 | (11.5) |
| Operating result before amortisation (EBITA) | 25.8 | 32.9 | 23.9 | 26.7 | (10.0) |
| Depreciation of property, plant and equipment and software | 19.4 | 16.4 | 13.0 | 10.4 | 9.3 |
| Operating result before depreciation and amortisation (EBITDA) | 45.2 | 49.3 | 36.9 | 37.1 | (0.7) |
| Net profit for the period | 16.8 | 20.2 | 16.7 | 18.0 | (20.1) |
| | | | | | |
| **Statement of financial position at 31 December conform financial statements** | | | | | |
| Total assets | 340.9 | 333.5 | 334.8 | 230.1 | 229.3 |
| Total equity | 169.9 | 153.2 | 134.1 | 103.1 | 91.7 |
| Net interest-bearing debt | 69.1 | 83.0 | 49.0 | 21.3 | 25.9 |
| Working capital[1, 2] | 43.4 | 44.9 | 40.6 | 33.9 | 35.8 |
| Invested capital[3] | 254.3 | 253.1 | 242.5 | 180.1 | 176.7 |
| | | | | | |
| **Statement of cash flows conform financial statements** | | | | | |
| Net cash from operating activities[4] | 40.9 | 37.9 | 30.5 | 28.3 | 27.6 |
| Net investments | 19.8 | 20.0 | 18.5 | 18.7 | 13.5 |
| Free cash flow[4] | 21.2 | 17.1 | 11.7 | 9.7 | 14.6 |
| | | | | | |
| **Ratios – pro forma** | | | | | |
| Solvency | 49.8% | 46.0% | 40.1% | 44.8% | 40.0% |
| Net interest-bearing debt / EBITDA[6, 7] (debt cover)[5] | 1.5 | 1.7 | 1.2 | 0.6 | 0.6 |
| Net interest-bearing debt / equity (gearing) | 0.4 | 0.5 | 0.4 | 0.2 | 0.3 |
| EBITDA[6, 7] / net finance costs (interest cover)[8] | 20.1 | 13.9 | 11.7 | 17.7 | 18.9 |
| Working capital[1, 2] in % of revenue[9] | 9.8% | 10.5% | 10.2% | 11.9% | 12.1% |
| | | | | | |
| Market capitalisation as at 31 December | 319.7 | 281.7 | 309.2 | 186.5 | 189.6 |
| Net interest-bearing debt as at 31 December | 69.1 | 83.0 | 49.0 | 21.3 | 25.9 |
| Theoretic value of the organisation (Enterprise value)[5] | 388.8 | 364.7 | 358.1 | 207.8 | 215.5 |
| Number of employees at 31 December (FTE)[2] | 2,658 | 2,713 | 2,756 | 1,632 | 1,695 |

# Principal subsidiaries

At 31 December 2015

## Industrial Division, Marcel Zegger*

### Industrial Magnetic Systems

| | |
|---|---|
| Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany | Norman Graf |
| Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany | Alfons Mattes |
| Kendrion (Suzhou) Co. Ltd, Suzhou, P.R. China | Jürgen Weisshaar |
| Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA | Corey Hurcomb |
| Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania | Mihai Petculescu |
| Kendrion (Switzerland) AG, Hausen am Albis, Switzerland | Edgar Bruhin |
| Kendrion (Linz) GmbH, Linz, Austria | Erich Holzinger |
| Kendrion (Italy) S.r.l., Torino, Italy | Vincenzo Leo |

### Industrial Control Systems

| | |
|---|---|
| Kendrion Kuhnke Automation GmbH, Malente, Germany | Robert Lewin |
| Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania | Mihai Petculescu |
| Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden | Ronnie Jennerheim |

### Industrial Drive Systems

| | |
|---|---|
| Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany | Michael Bernhard |
| Kendrion (UK) Ltd., Bradford, United Kingdom | Peter McShane |
| Kendrion (Suzhou) Co. Ltd, Suzhou, P.R. China | Jürgen Weisshaar |
| Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA | Corey Hurcomb |
| Kendrion (Aerzen) GmbH, Aerzen, Germany | Gregor Langer |
| Kendrion (Italy) S.r.l., Torino, Italy | Vincenzo Leo |

* *Mr. M. Zegger has been appointed CEO of the Industrial Division effective 1 February 2015.*

## Automotive Division, Bernd Gundelsweiler

### Passenger Cars

| | |
|---|---|
| Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany | Markus Kieninger |
| Kendrion Kuhnke Automotive GmbH, Malente, Germany | Torsten Komischke |
| Kendrion (Eibiswald) GmbH, Eibiswald, Austria | Martin Kollmann |
| Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania | Andra Boboc |
| Kendrion (Shelby) Inc., Shelby, North Carolina, USA | Brian Jacobs |
| Kendrion Drive Tech. (Nanjing) Co., Ltd., Nanjing, P.R. China | Shufeng Xue |

### Commercial Vehicles

| | |
|---|---|
| Kendrion (Markdorf) GmbH, Markdorf, Germany | Erik Miersch |
| Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic | Václav Dostal |
| Kendrion (São Paulo) Sistemas Automotivos Ltda., Louveira, Brazil | Peter Ellner |
| Kendrion Toluca, S.A. de C.V., Mexicaltzingo, Mexico | Alexander Glaser |
| Kendrion Drive Tech. (Nanjing) Co., Ltd., Nanjing, P.R. China | Shufeng Xue |
| Kendrion (Pune) Private Limited, Pune, India | Sameer Deshmukh |
| Kendrion (Shelby) Inc., Shelby, North Carolina, USA | Brian Jacobs |

## Technology and Innovation

| | |
|---|---|
| Kendrion Mechatronics Center GmbH*, Ilmenau, Germany | Sören Rosenbaum/Jörg Rönnert |

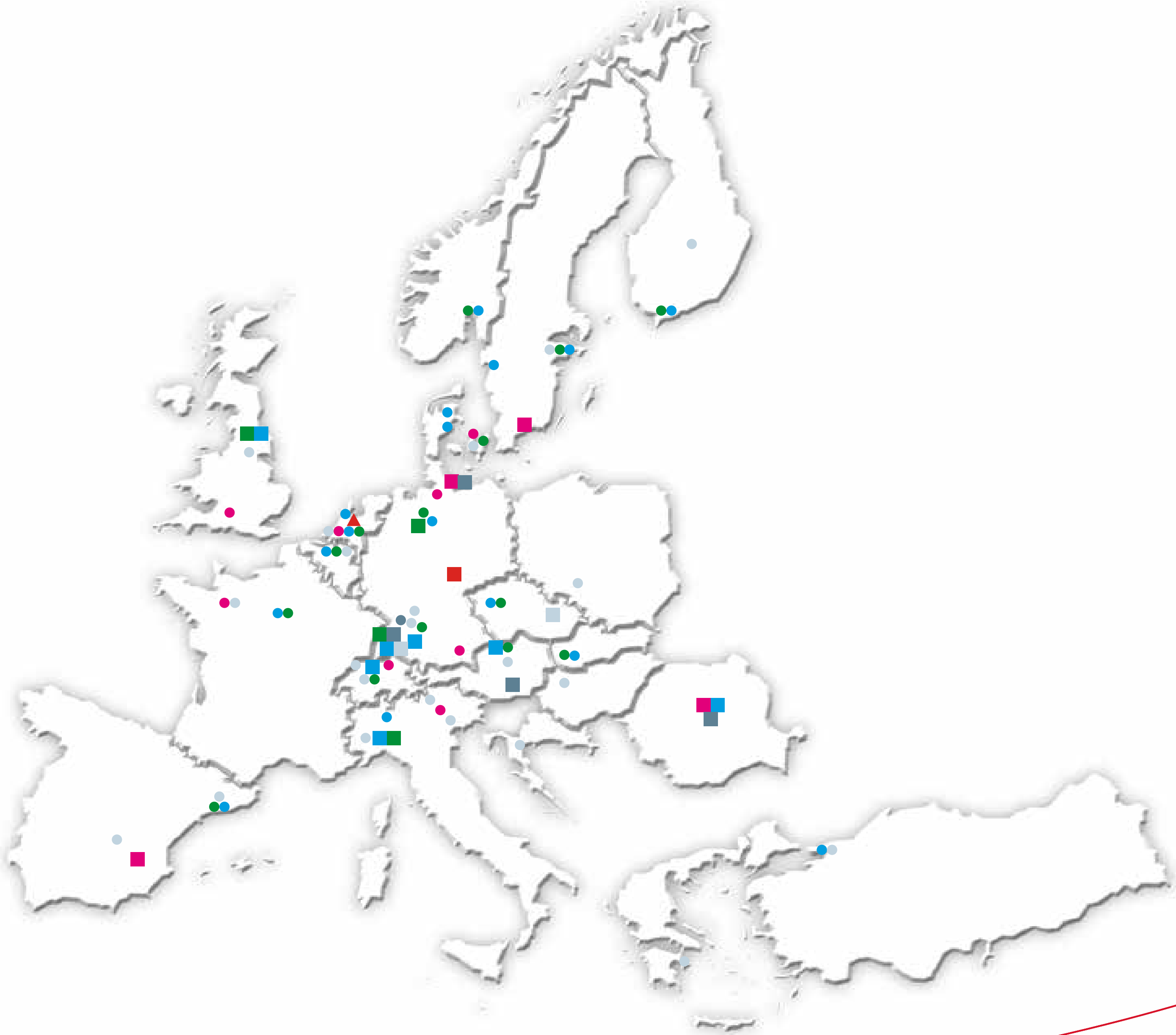
A complete list of all subsidiaries is available from the Chamber of Commerce in Utrecht (number 30113646) and from the Company offices.

* *As per 5 January 2015.*

- Industrial Magnetic Systems
- Industrial Control Systems
- Industrial Drive Systems
- Passenger Cars
- Commercial Vehicles
- Kendrion Mechatronics Center
- Kendrion N.V.

- Subsidiaries
- Partners

# *Europe*



# Rest of the world

# 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.

**Defined benefit plan** 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 position is the cash value of the projected pension benefits on the financial position date, less the fair market value of fund investments.

**Defined contribution plan** 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: an ICT 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.

**FTE** Full Time Equivalent: equal to the number of total scheduled person hours divided by the number of hours per week which constitute a full-time person (40 hours). FTE may consist of several part-time individuals whose combined work hours in a week equal the full-time person.

**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 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 the Group annually to facilitate the management and control of its organisation in the short to medium term.

**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.

**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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