KENDRION

WE MAGNETISE THE WORLD

FOCUS

INTEGRATED ANNUAL REPORT 2018

Support the agriculture
Through our solutions, we help farmers harvest their crops.

Elimination of external wiring
The new Servo Slim Line hollow shaft brake is integrated inside the robot joint eliminating the need for external wiring, while ensuring safety.

Better climate solutions
Electromagnetic control valves help reduce emissions and improve energy consumption while driving.

Aviation solution
Entire locking unit for the unlikely event of pressure loss in the cabin of aircrafts. Oxygen masks are automatically released above the passenger seats.

Road and pedestrian safety
Sound actuators create a specific engine sound for hybrid and electric vehicles to ensure a safer environment for pedestrians and cyclists.

Safe human-machine interaction
Tubular solenoids serve as a parking stop and emergency brake in 'cobots' – robotic arms that can interact with humans.

Guaranteed functionality even under extreme conditions
Our brakes hold and stop the conveyor belts in challenging environments.

Comfortable and safe driving
Our electromagnetic actuators for active damping systems ensure a comfortable and safe ride.

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

Climate control
Through our products, we ensure a pleasant climate when travelling with buses or trains.

Feeding industrial processes
Oscillating solenoids precisely manage the continuous bulk feeding of material in various automated processes.

Efficient sorting overhead
Kendrion’s fast electromagnetic switches are used in the modern overhead conveying systems for intralogistics.

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

We magnetise the world

Kendrion develops, manufactures and markets high-quality electromagnetic 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.

We are committed to the engineering challenges of tomorrow, and 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, Kendrion's expertise extends across Europe to the Americas and Asia. Created with passion and engineered with precision.

INDUSTRIAL

INDUSTRIAL MAGNETIC SYSTEMS

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

INDUSTRIAL CONTROL SYSTEMS

Industrial automation, locking units and fluid control systems

INDUSTRIAL DRIVE SYSTEMS

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

AUTOMOTIVE

PASSENGER CARS

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

COMMERCIAL VEHICLES

Systems and components for commercial vehicles and off-highway applications with focus on hydraulics, valves and clutches

CEO
Joep van Beurden

‘Continue the journey …’

‘2018 was a year of two halves. The prospects appeared promising in the first half. There were a number of reasons for optimism: a strong economy worldwide, low unemployment and high consumer confidence. However, this sentiment changed significantly in the second half of the year, and looking back, it started with automotive. We have seen what initially looked like an accelerating slowdown in the sales of diesel cars and car production bottlenecks caused by difficulties of some major car manufacturers to comply with the new Worldwide Harmonised Light Vehicles Test Procedure (WLTP) spread to a more general slowdown in the sales of passenger cars. Several macroeconomic developments such as tensions in the trade relationship between the US and China and uncertainty caused by the Brexit negotiations negatively impacted consumer confidence. Kendrion’s Automotive business, both in Passenger Cars and to a lesser extent in Commercial Vehicles, has felt the impact of this as global sales of automotive products have slowed. 2019 has got off to a difficult start and we expect this to continue for the foreseeable future.’

Strategy
‘Kendrion will, of course, also be affected by this. As I stated, we’ve seen weaker trading in our Automotive activities. Kendrion Industrial was less affected by the slower second half and had a good year. The good news is that looking at the longer term, there is a large and growing number of opportunities on the horizon. This is the case in Passenger Cars where we focus on trends such as electrification, autonomous driving and the quest for improved safety and comfort with respect to our brakes for industrial robots and in China. We have simplified and streamlined our organisation over the past three years and as a result Kendrion is financially healthy and has the necessary resilience to withstand temporary economic headwinds. We are ready and eager to continue our journey and fully tap into the opportunities that lie ahead. We will consequently move full steam ahead in our three focus areas of Automotive, Robotics and China.’

Outlook
‘In summary, 2019 is shaping up to be a year in which there will be some macroeconomic challenges. This will not distract us from our course. We have robustly optimised our organisation and are committed to remaining focused on the opportunities we see ahead of us.’

448.6 ↓ 2.9%
Revenue
(EUR million)
2017 **461.8**

35.4 ↓ 6%
EBITA[1]
(EUR million)
2017[2] **37.5**

22.6 ↓ 3%
Net profit[1]
(EUR million)
2017[2] **23.3**

12.4% ↓ 1.5%
ROI[1]
(in %)
2017[2] **13.9%**

11.5% ↑ 1.7%
Working capital[1]
(as % of revenue)
2017[2] **9.8%**

10.5 ↓ 36%
Free cash flow[1]
(EUR million)
2017[2] **16.4**

48.5% ↓ 1.3%
Solvency
2017[2] **49.8%**

1.4 ↑ 17%
Net debt / EBITDA[1]
2017[2] **1.2**

1 Excluding one-off costs. The bridge from reported to normalised figures can be found on page 27.

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

2,465 ↓ 6.8%

Total number of employees (FTE)
(at 31 December)

2017 **2,645**

49%/51%

Total number of employees by gender
(in % M vs F)

2017 **50%/50%**

2.9% ↑ 0.2%

Illness rate
(in %)

2017 **2.7%**

7.3

Accidents
(per 1,000 FTE)

2017 **6.8**

600

Lost Time Injuries
(in days)

2017 **432**

176.9 ↑ 1.7%

Relative energy consumption
(in tonnes kWh/million added value)

2017 **173.9**

35.4 ↑ 5.6%

Relative CO_2 emission
(in tonnes kWh/million added value)

2017 **33.5**

100%

100% of top 30 of suppliers signed Supplier Code of Conduct

2017 **100%**

39

Number of CSR supplier audits

2017 **37**

See for reporting periods, definitions, scope and external assurance pages 180 and 181 of this report.

At the forefront of a series of important megatrends

One of Kendrion's key strengths is its capacity for innovation. As outlined in Kendrion's strategic update of 15 August 2018, Kendrion positions itself at the forefront of key megatrends that provide substantial opportunities for growth in the coming years.

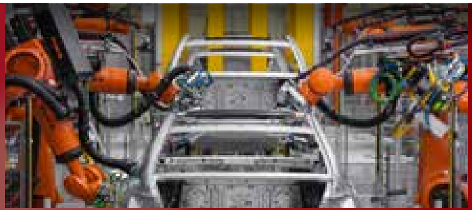
Automotive activities

Electrification
Kendrion actively develops actuators that are relevant for full electric and hybrid vehicles. This includes products such as our sound actuator for electrical vehicles, solenoids for haptic accelerator pedals, clutches for switching between electric and combustion engines for commercial vehicles and valves for regulating the flow of hydrogen in fuel cells.

Safety and comfort
Our customers are investing in systems to make cars and trucks ever more safe and comfortable and Kendrion is innovating products to improve seating comfort. In the field of safety, we are developing innovative parking locks, valves for smart shock absorber systems and a system for sensor cleaning.

Efficiency
The world is moving towards electrical 'zero emission' vehicles and this creates a need for a continual focus on making existing internal combustion engines cleaner and more efficient. Kendrion has a range of products including our OPF valve, which helps clean fine particles from exhaust fumes, and several valves for the management of fluids such as oil, water, diesel and gasoline to help reduce emissions.

Industrial activities



Robotics
The use of both industrial robots and smaller so-called 'collaborative robots' is growing and Kendrion is consequently investing in new and improved types of permanent magnet brakes for a range of different types of robots.

Urbanisation
As more and more people move to urban areas, energy generation and power distribution are becoming increasingly complex, which in turn drives demand for Kendrion's power switches and best-in-class circuit breakers. More high-rise buildings will create added demand for Kendrion's magnetic brakes for elevator systems.

Strengths

- Innovation
- Engineering capabilities
- Reputation for quality and reliability
- Leading positions in key markets segments
- Longstanding relationships with reputable customers
- The ability to produce globally at consistently high standards
- Sound financial position
- Advanced Corporate Social Responsibility culture

Weaknesses

- Still underrepresented in Chinese market
- Low growth in certain legacy activities
- Suboptimal use of synergies between locations and business units
- Less than desired diversification in top management positions

Opportunities

- The electrification and automation of cars and trucks
- Robotisation requiring electromagnetic brake solutions
- Sound systems for acoustic alerting systems in electric vehicles
- China
- Ongoing reduction of complexity to enhance organisational effectiveness and efficiency
- M&A

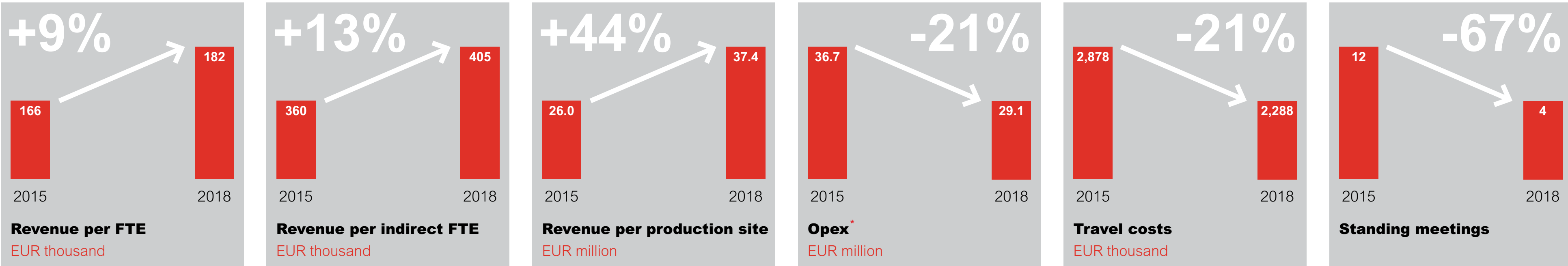
Threats

- Lower demand for diesel-powered cars
- Scarcity of highly qualified staff and engineers in particular
- Commoditisation of part of the product portfolio
- Shortage of raw materials and fluctuating raw material prices
- Further deterioration of global geopolitical and economic environment

Create opportunities for profitable growth

SIMPLIFY

Kendrion continued to simplify its business in a fundamental way in 2018. The reason for this is straightforward: complexity drives cost and slows down decision-making. The reduction in management and organisational layers combined with targeted streamlining of the manufacturing footprint has resulted in a more effective and efficient organisation. It also has improved operating margin and profitability.
Going forward, we will continue to focus on ensuring that our organisation is as lean and simple as possible.



* 2018 excluding IFRS 16 Lease.

FOCUS

Kendrion will focus its resources and capital on the areas that offer the greatest opportunities for profitable growth. The designated areas in 2018 were:

- China, where Kendrion has identified a significant opportunity for its products in a range of automotive and industrial applications, leveraging its unparalleled reputation for quality and reliability.
- Passenger Cars, specifically in the areas of electrification, autonomous driving, safety and comfort.
- Permanent Magnet brakes, especially in the market for industrial robots.

Going forward, we expect to continue to invest our resources and capital in opportunities in these three areas.

GROW

We expect in the longer term that the pipeline we are currently developing in our three areas of growth mentioned before will allow us to accelerate growth in revenue in a manner that will provide the opportunity to grow faster than the historical average.

Strategic financial targets

EBITA margin
as from the end of 2018

TARGET
10%

ACTUAL
7.9%

Expected average organic growth
at constant rates of exchange, per annum until 2018

TARGET
5%

ACTUAL
1.0%

Dividend policy
pay out ratio of the net profit

TARGET
50%

ACTUAL
52%

Kendrion stated its medium-term financial objectives on 3 May 2016 when it announced a strategic update.

2018 was the final year of our three-year 'Simplify, Focus, Grow' plan containing the following targets:

- EBITA Margin: 10%
- Average organic growth: 5%
- Dividend pay-out: 35-50%

With an EBITA margin of 7.9% in 2018, we are proud that we significantly improved our profitability from 5.8% in 2015. However, we still have some work to do before we reach the target of 10%.

Our average organic growth has stood at a disappointing 1.0% for the past three years. Kendrion's position in a number of market segments with significant growth opportunities has improved significantly and we are confident that our investments in China, Passenger Cars and Permanent Magnet brakes for robots will lead to significant additional revenue in the future.

Kendrion's dividend pay-out has been at the high end of the targeted range for the past three years.

Kendrion announced its long-term financial targets for 2023 on 15 August 2018:

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

We will continue to ensure Kendrion is managed in a simple and lean way. In addition, we will continue to invest in our R&D capacity and financial resources in our three focus areas: Passenger Cars, China and Permanent Magnet brakes.

Targeted add-on acquisitions

Kendrion has a strong financial position and a healthy balance sheet. Kendrion endeavours to acquire companies that enhance the company's leading position in its automotive and industrial markets with emphasis on its three areas of focus. Acquisition targets must offer good returns in terms of their EBITDA and ROI in order to contribute to Kendrion's financial targets.

‘Ready to take up challenges in automotive’

Dr Manfred Schlett
CCO Kendrion Automotive

‘The future in automotive belongs to sensing, computing and, most importantly for Kendrion, actuating. Kendrion is an expert in actuation. All sensor data input and subsequent analyses and calculations are almost always translated into an action in the car or truck. And that's where we come in. The opportunities in this segment, with developments such as autonomous and predictive driving, build on our ability to offer new solutions in the field of actuation. Every car will have numerous actuators, for opening and closing, comfort, safety, autonomous driving and climate control.’

Focus on growth

‘While we are well positioned in the traditional combustion engines market that will remain in existence for years to come, our growth will be achieved in electromagnetic, computer-controlled and smart actuation. Our markets are in the midst of a radical transformation. OEMs are developing new platforms and models and our challenge is to develop a new understanding of the requirements and demands with which our systems must comply. Not only technically, but also from an organisational point of view. The future in automotive calls for speed, co-creation, cutting-edge technology, innovation, competitive pricing and an agile, global approach. Kendrion is ready to take up that challenge. 2019 marks the beginning of new projects and opportunities, which will as always be carried out in close collaboration with our customers. In addition to our traditional projects, we will work on new dynamic and agile projects that will form the foundation for our future growth in an automotive world that is being disrupted as never before.’

‘Lightweight cobots call for Kendrion’

Ralf Wieland
Business Unit Manager
Kendrion Industrial
Drive Systems

‘Robotics are hot. Particularly developments relating to cobots, which are lightweight collaborative robots that interact with people, provide exciting opportunities for Kendrion. We have always held a very strong position in the heavyweight robots field and are now actively building a position in the lightweight segment. These robots have up to eight axes of movement. Each axis has a drive and usually a brake. These are the electromagnetic brakes that are at the heart of our expertise.’

Excellent opportunities

‘In order to save space, brakes for robots must have a hollow shaft design for routing the cables inside the robot. We have succeeded in developing three new brake sizes within a very short timeframe by using our existing technology and employing agile processes. Speed is of the utmost importance in this market, which is dominated by start-ups. China is the main market for robots with up to a 70% share. Europe lags behind at around 30% of the market and the US is not yet a prominent market. This is why our European robot team spends a lot of time in Asia where everything is happening. Most of the start-ups are very good at programming and software development, but less experienced in motors and brakes. We help them develop their markets through our state-of-the-art brake technology, expertise and local production facilities. While our R&D is in Europe, our production and industrialisation are located in Europe and China. I expect continued growth in robotics in 2019 and foresee excellent opportunities in the years ahead.’

‘Focus on growth in world’s largest industrial country’

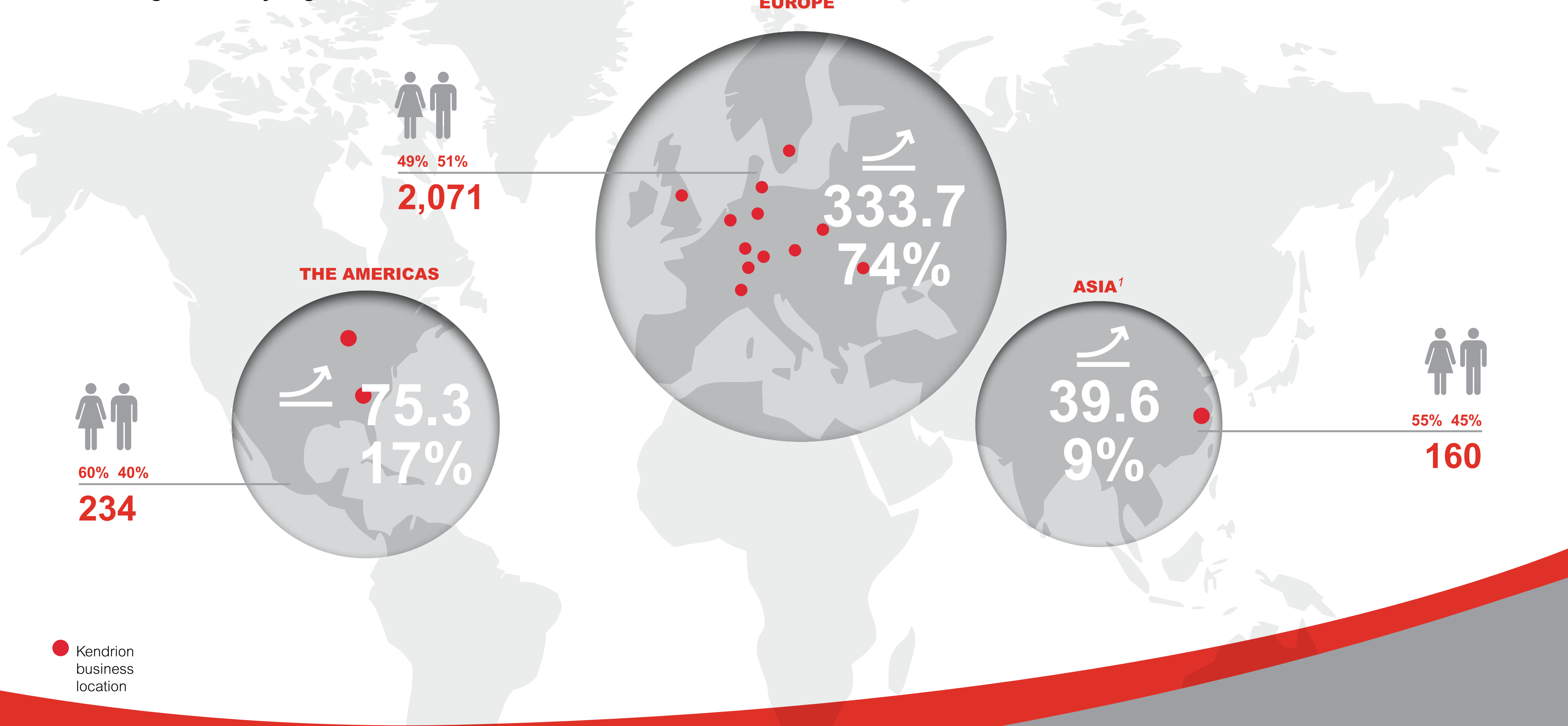
Telly Kuo
President
Kendrion Asia

‘China has become the world’s largest industrial country and this clearly opens up outstanding opportunities for Kendrion given our current relatively small presence in China. Market research has revealed that China represents about a quarter of our combined markets in terms of size. With China currently accounting for only 5% of our revenue, it is obvious that we are currently underrepresented in China. We have already identified considerable market opportunities for Industrial Magnetic Systems, Industrial Drive Systems and Automotive, which point to extensive room for growth. We can potentially grow to become 5 to 7 times larger than we are now. In line with Kendrion’s focus worldwide, we concentrate in China on achieving growth in automotive and robotics.’

Largest automotive market

‘China is the largest automotive market in the world with annual sales of 24 million passenger cars and 3.5 million commercial vehicles. Kendrion excels at energy saving and emission reduction and offers winning products such as the OPF (particle filters), parklock and external sound products. We’re investing in a permanent magnet brake production line for Chinese robotics. The energy and transportation markets in China recognise Kendrion as the solenoid expert. After passing through the ‘Simplify and Focus’ strategic stages, we are now entering the ‘Grow’ stage. Our focus in 2019 will be on R&D investments, sales expansion and supply chain enhancements. Here in China, Kendrion promotes the combination of German technology and Chinese manufacturing, with Germany standing for leading technology and reliable quality and China for fast response and competitive pricing. We are convinced that we offer the market the perfect match and are confident we will rapidly gain market share in China.’

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



FINANCIAL RESULTS
EUR million

Revenue	EBITA[2]	Net profit[2]	EBITA %[2]	ROI[2]	Total FTE
448.6	35.4	22.6	7.9%	12.4%	2,465

1 Including other countries with revenue of EUR 2.7 million.

2 Excluding one-off costs. The bridge from reported to normalised figures can be found on page 27.

Movements in the number of outstanding shares	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2018	13,396,034	121,586	13,517,620
Issued shares (share dividend)	168,298	(117,567)	50,731
Issued registered shares (share plan)	6,514	–	6,514
Delivered shares	4,019	(4,019)	–
Repurchased shares	(178,852)	178,852	–
At 31 December 2018	13,396,013	178,852	13,574,865

Other information

EUR, unless otherwise stated	2018	2017[2]	2016
Number of shares x 1,000 at 31 December	13,575	13,518	13,396
Market capitalisation at 31 December (EUR million)	283.7	542.9	358.3
Enterprise value (EV) (EUR million)	364.2	613.5	412.3
Highest share price in the financial year	44.35	40.95	27.87
Lowest share price in the financial year	20.30	26.30	19.00
Share price on 31 December	20.90	40.16	26.75
Average daily ordinary share volume	21,899	18,048	13,352
EBITDA multiple (over EV)[1]	6.23	10.22	8.02
Result per share	1.03	1.45	1.12
Normalised result per share[1]	1.69	1.73	1.47
Share price earnings ratio[1]	12.39	23.16	18.18

Major shareholders as at 31 December 2018	Interest in %	Date of report
Teslin Participaties Coöperatief U.A.	12.29	At 6 July 2017
NN Group N.V.	9.52	At 7 April 2017
Kempen Capital Management N.V.	5.98	At 23 November 2015
Cross Options Beheer B.V.	5.37	At 8 May 2017
Monolith N.V.	5.24	At 8 May 2017
T. Rowe Price Group, Inc.	4.97	At 5 May 2017
FIL Limited	4.18	At 15 August 2018
Capfi Delen Asset Management	3.21	At 9 May 2017
Total	50.76	

1 Excluding one-off costs. The bridge from reported to normalised figures can be found on page 27.

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

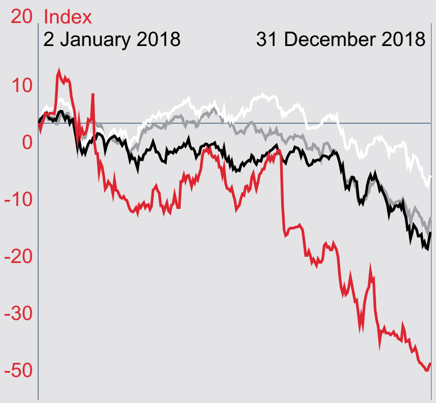
Share capital

The authorised share capital of Kendrion N.V. amounts to EUR 80,000,000, divided into 40,000,000 ordinary shares, each having a nominal value of EUR 2.00. The total number of issued shares as at 31 December 2018 amounted to 13,574,865. There is only one class of ordinary shares and no depositary receipts for shares have been issued. Kendrion's ordinary shares are listed on NYSE Euronext Amsterdam Small Cap Index (AScX).

Movements in the share price

from 2 January 2018 to 31 December 2018

Kendrion N.V. share	AEX
ASCX	AMX



Treasury shares

Due to the 2018 share buyback programme, Kendrion N.V. currently holds 178,852 ordinary shares in its own capital, representing 1.3% of the total issued share capital. The own shares held by Kendrion N.V. are non-voting, do not have any dividend entitlement, and are held in treasury for payment of future stock dividends and share-based incentive plans.

Dividend policy

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

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

Kendrion will propose a dividend of EUR 0.87 per share, representing a payment of dividend of 52% of normalised net profit for 2018 at the Annual General Meeting of Shareholders on 8 April 2019. The total amount of dividend is EUR 11.7 million. It will be proposed that payment of the dividend be made in cash, or, at the option of shareholders, in the form of ordinary shares charged to the share premium reserve with any remaining fraction being settled in cash.

Major shareholders

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

Share buybacks

A programme for buying back 178,852 ordinary shares was launched in 2018 to neutralise the dilutive effect of the 2017 final stock dividend and share-based incentive plans. These shares will be held as treasury shares and will be used to pay future stock dividends and share-based incentive plans. The programme commenced on 14 May 2018 and was completed on 29 June 2018.

Participation

Kendrion maintains a share-based incentive plan for its senior management and certain key employees. Senior management and certain key employees were eligible to apply for the conversion of a maximum of half of the cash amount of their annual net cash bonus into Kendrion shares. Under this share-based incentive plan, Kendrion offers to double the number of shares after three years, provided the participant concerned is still employed by Kendrion and still holds the shares. Pursuant to these share plans, a total of 6,514 ordinary shares was issued in 2018.

In 2018, conditional shares have been granted to the members of the Executive Board pursuant to the Executive Board long-term incentive plan. More information about conditional shares granted to the members of the Executive Board is set out on pages 153 and 154 and pages 162 and 163. A comprehensive description of the long-term incentive plan is included in the ‘Remuneration policy’ section on pages 73-79.

Regulations to prevent insider trading

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

Investor relations

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

Liquidity provider

In 2018, NIBC Bank N.V. acted as a liquidity provider for Kendrion N.V. As such, NIBC Bank acts as the counterparty for buy or sell orders for which the bid and ask prices are set within a range around the last executed price. 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:

Degroof Petercam	Frank Claassen
ING Bank N.V.	Tijs Hollestelle
Kepler Cheuvreux	Guido Nunes
NIBC Markets N.V.	Johan van den Hooven
The Idea-Driven Equities Analyses Company	Maarten Verbeek

Financial calendar

Tuesday, 19 February 2019	Publication of the 2018 full-year figures
Monday, 11 March 2019	Record date General Meeting of Shareholders
Monday, 8 April 2019	General Meeting of Shareholders
Wednesday, 10 April 2019	Ex-dividend date
Thursday, 11 April 2019	Dividend record date
Friday, 12 April – Monday, 29 April 2019, 3 pm	Dividend election period (stock and/or cash)
Tuesday, 30 April 2019	Determination stock dividend exchange ratio
Thursday, 2 May 2019	Cash dividend made payable and delivery stock dividend
Tuesday, 7 May 2019	Publication of the results for the first quarter of 2019
Tuesday, 13 August 2019	Publication of the results for the first six months of 2019
Tuesday, 5 November 2019	Publication of the results for the third quarter of 2019
Tuesday, 18 February 2020	Publication of the 2019 full-year figures
Monday, 6 April 2020	General Meeting of Shareholders

J.A.J. van Beurden

Position	Chief Executive Officer
Year of birth	1960
Nationality	Dutch
Joined Kendrion	1 December 2015
Appointment to position	1 December 2015
Additional positions	Member of the Supervisory Board of Adyen; Member of the Supervisory Board of the Twente University.

F.J. Sonnemans*

Position	Chief Financial Officer
Year of birth	1961
Nationality	Dutch
Joined Kendrion	15 February 2013
Appointment to position	15 April 2013
Reappointment to position	10 April 2017

* Frank Sonnemans resigned as CFO effective 1 January 2019.

INDUSTRIAL MAGNETIC SYSTEMS (IMS)
Development and production of customised solutions for switching, locking, holding and positioning based on electromagnetic technology.

INDUSTRIAL CONTROL SYSTEMS (ICS)
Development and production of electromechanical systems, valves, fluid control systems and control technology.

INDUSTRIAL DRIVE SYSTEMS (IDS)
Full-range provider of safety brake solutions in industrial applications.

WHERE OUR PRODUCTS ARE USED
Access control systems
Aircraft interiors
Elevator systems
Energy generation and distribution
Food and beverage industry
Industrial appliances
Industrial automation
Medical equipment
Robotics
Safety systems
Textile machinery

OUR CUSTOMERS INCLUDE
Bosch Rexroth
Collins Aerospace
(previously B/E Aerospace)
Dräger
Eaton Corporation
Euchner
Fresenius
KUKA
Oerlikon
PerkinElmer
Schindler
Siemens
Stoll

TOTAL MARKET SIZE
(IN EUR)

3 billion

ACCESSIBLE SIZE CHOSEN FOCUS MARKETS
(IN EUR) Market survey 2015

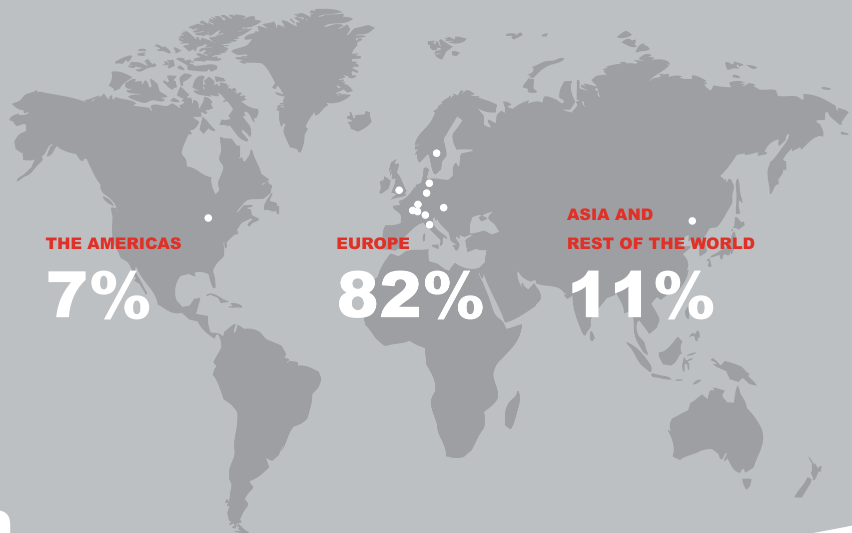
0.9 billion

TOTAL INDUSTRIAL REVENUE
(IN EUR)

164.7 million

2017 **162.5 million**

• KENDRION LOCATIONS WITH REGIONAL REVENUE BREAKDOWN



Profile

The Industrial activities focus on developing and manufacturing electromagnetic systems and components for a wide range of industrial applications such as industrial automation, energy generation and distribution, medical and analytical equipment, transportation and aerospace.

The 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, rotating 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.

All three business units focus on customer-specific systems and components for large and mid-size OEMs of industrial or professional equipment. The main differentiators are application expertise and engineering skills to design high-performance products of unparalleled quality. The production facilities specialise in low-volume, high-quality and high-variety production. Besides the customer-specific systems and components, the industrial portfolio comprises standard and application-specific components.

The largest industrial production facilities are located in Germany, with further facilities in China, the USA and Romania. Products are marketed via an own sales organisation in Germany, the UK, Austria, Italy, France, Sweden, China and the USA. A worldwide sales distribution network is mainly dedicated to standard and application-specific components.

Market and market position

The total size of the market for electromagnetic systems and components in which the industrial business units operate is estimated to be EUR 3 billion, across many different end-markets.

The Industrial focus areas are industrial automation and robotics, 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 opportunities in which Kendrion is able to deliver superior value and achieve above-average returns. Kendrion estimates the accessible size of the chosen focus markets to be EUR 0.9 billion, with low to midrange single-digit growth over the coming years.

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

Developments in 2018

Industrial activities realised revenue of EUR 164.7 million in 2018 (2017: EUR 162.5 million).

The Industrial activities posted modest revenue growth on the back of a strong 2017, with most of the growth realised in the Industrial Control Systems business unit. All industrial business units continued to benefit from the favourable market conditions in the German machine-building sector.

Industrial Magnetic Systems achieved further successful expansion of its business with China and North America as its main growth areas. The plant in Romania was further developed as a production facility for the European market. A 30% minority share was acquired in Newton CFV, Inc., a US-based company for flow control valves for the food and beverage industry. The business unit serves customers on a local basis in Europe, Asia and North America.

Industrial Control Systems saw increased revenue driven mainly by favourable market conditions across its markets. The ability to supply products according to customer demand in a difficult electronics component supply market was a key driver behind the realisation of growth in 2018. The business unit expects to further expand its Romanian production facility to include production lines and insourcing projects in 2019.

Industrial Drive Systems enjoyed a solid year for electromagnetic Permanent Magnet brakes, driven in particular by the growing demand for automation in the robot and machine-building industry. The Spring Applied brake portfolio has been extended to include brakes for the fast-growing Collaborative Robots segment. In China, the first phase of the production line for Permanent Magnet brakes has been completed. The production line will play an important role in meeting the demand for locally produced brakes in the years ahead.

Industrial Magnetic Systems achieved further successful expansion of its business with China and North America as its main growth areas.

PASSENGER CARS (PC)

Development and production of advanced valve technology, solenoids and sound actuators. Focus applications are fuel systems, active damping systems, engine management, transmission systems, sound systems, actuation and locking systems and electronic control units.

COMMERCIAL VEHICLES (CV)

Development and production of electromagnetic clutches, valves and pressure switches. Focus applications are engine-cooling systems, angle gearbox systems, clutches for switching auxiliary units, custom control flow valves and brake systems.

WHERE OUR PRODUCTS ARE USED

- Active suspension systems
- Belt damping systems
- Engine brakes
- Engine management
- Fuel systems
- Hydraulics
- Sound systems
- Thermal management
- Transmission

OUR CUSTOMERS INCLUDE

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

TOTAL MARKET SIZE

(IN EUR)

9 billion

ACCESSIBLE SIZE CHOSEN FOCUS MARKETS

(IN EUR) Market survey 2015

2 billion

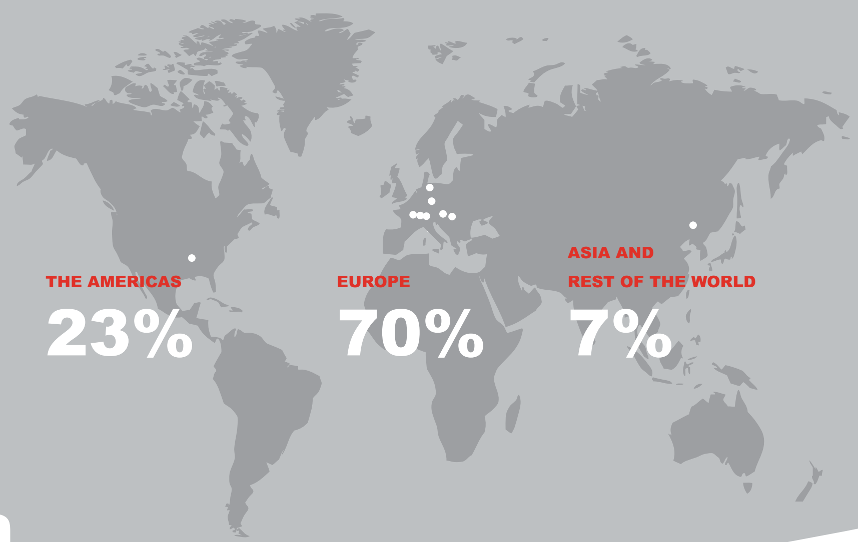
TOTAL AUTOMOTIVE REVENUE

(IN EUR)

283.9 million

2017 **EUR 299.3 million**

• KENDRION LOCATIONS WITH REGIONAL REVENUE BREAKDOWN



Profile

Kendrion's Automotive business develops, manufactures and markets innovative high-quality electromagnetic components, solutions and applications for customers in the automotive industry worldwide. Customers include major OEMs and Tier One suppliers in the global markets for passenger cars, light commercial vehicles, buses, heavy trucks, construction and agricultural vehicles and engines.

Kendrion is recognised as a high-quality and trusted development and engineering partner with in-depth technical knowledge and access to development, testing and production facilities. Kendrion has an international network and facilities in Germany, Austria, Romania, the Czech Republic, the USA and China.

Products are developed and designed in accordance with the customer's specific needs, placing great emphasis on performance, quality and reliability.

The Passenger Cars business unit provides innovative technological solutions, including advanced valve technology for fuel systems, active damping systems, engine management, thermal management, sound actuators for internal and external sound applications, electrodynamic actuators and electronic control units. The highly reliable production processes are carried out partially in clean-room conditions and are entirely or partially automated depending on the annual production volume. Kendrion complies with stringent quality standards through the use of end-of-line control units for complete systems or individual functions.

The Commercial Vehicles business unit's main focus is on electromagnetic clutches, gear boxes, pressure switches, valves and solenoids. Application areas include compressor, fan and auxiliary drive clutches, thermal management and thermostat units, fluid control systems and mobile hydraulics. Commercial Vehicles is evolving its product portfolio from the traditional diesel engine systems into modern hybrid and electrified power trains. New projects focus on auxiliary drive support in fully electrified and hybrid trucks.

Market and market position

The total size of the market for electromagnetic systems and components in which the automotive business units operate is estimated to be 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.

Kendrion is focusing on a number of important global trends towards improved performance and efficiency of traditional combustion engines, alternative engines, hybrid drives, automation and the demand for safety and comfort. Kendrion, as a niche player in environmental, safety and comfort applications, is well positioned to capitalise on these trends.

Kendrion has selected focus areas in core markets that have sufficient size and provide attractive growth potential and in which Kendrion can deliver superior value and achieve above-average returns. Focus areas include suspension systems, thermal management, engine management, human machine interface, sound design systems and fuel systems that minimise emissions. New hybrid, electric and fuel cell cars are also creating new market opportunities. Based on a market survey carried out in 2015, Kendrion estimates the accessible size of the chosen focus markets to be approximately EUR 2 billion.

Europe continues to be Kendrion's largest automotive market, with Germany being the predominant country within this market. Kendrion's position outside Europe improved further, with the company winning several new projects for transmission systems and engine systems in China.

Developments in 2018

Revenue for the Automotive activities amounted to EUR 283.9 million in 2018 (2017: EUR 299.3 million).

2018 has been a challenging year for Passenger Cars with deteriorating market conditions in the second half of the year. Weaker-than-expected passenger car sales in both Europe and China affected leading major automotive customers. The backlog in test and validation procedures to comply with the new Worldwide Harmonised Light Vehicles Test Procedures (WLTP) and pressure on diesel sales also impacted Kendrion.

Kendrion obtained new serial business in fuel systems, engine management, transmission systems and active damping in 2018. The focus on China has resulted in the successful acquisition of a sizeable project for a regeneration air valve for particulate filters in order to comply with the latest emissions regulations and an application for a transmission system for a major local car manufacturer.

Kendrion moved to a larger manufacturing facility in the city of Suzhou in the first quarter of 2018 in order to accommodate the strong growth in China and the promising project pipeline. The focus in the USA is on improving the efficiency and profitability of the existing product lines and on preparing for serial production of the next generation of gasoline valves that was launched in 2018. Passenger Cars' development focus in 2018 was on safety and comfort, electrification and emission reduction with both several applications in engine management, transmission, sound design and new active damping system projects.

Commercial Vehicles introduced a global matrix organisation in 2018. This allows Kendrion to simplify the organisation across all locations, which makes it possible to tap into synergies and increase efficiency. Commercial Vehicles is dedicated to meeting customer needs and consequently focuses on medium-volume business. This means that standardised proven designs are used whenever possible. Commercial Vehicles is well positioned in the markets for specialised electromagnetic clutches, fluid control valves, pressure switches and solenoids for mobile hydraulics.

Various simplification measures were implemented in the Automotive organisation in 2018, including the sale of a small R&D centre in Ilmenau, Germany via a management buy-out, the closure of the manufacturing location in Toluca, Mexico, the establishment of centres of excellence in the R&D organisation and a major restructuring at the Malente, Germany location resulting in the number of indirect FTEs being reduced by 42.

Kendrion prepared in the second half of 2018 for a new organisational structure in which the Commercial Vehicles and Passenger Cars business units and the central corporate organisation will be transformed into one functional Automotive group. The commercial organisation of the Automotive group will be headed by a newly appointed Chief Commercial Officer with the focus on securing future growth via converting sales enquiries into customer project nominations. The serial business organisation will be headed by a newly appointed Chief Operating Officer, responsible for producing and delivering the highest quality at the lowest costs. The new organisation went into effect on 1 January 2019. The three industrial business units are unaffected.

Kendrion obtained new serial business in fuel systems, engine management, transmission systems and active damping in 2018.

Normalisation impact

During the final year of the 2016-2018 'Simplify, Focus, Grow' strategy, Kendrion continued with the implementation of simplification measures. In total EUR 8.8 million one-off costs were incurred in 2018, of which EUR 8.4 million relate to the simplification programme, with corresponding savings of EUR 6.4 million. The after tax normalisation amounted to EUR 8.8 million, which includes EUR 2.3 million one-off costs related to a provision for the expected outcome of the German tax audits covering the audit years 2010-2014 and the expected impact on the years thereafter. The one-off costs have been excluded from the results in order to show the underlying financial performance of the business.

Financial results

EUR million	2018 Normalised	2017 [1] Normalised	2018 Reported	2017 [1] Reported
Revenue	448.6	461.8	448.6	461.8
Operating result before amortisation (EBITA)	35.4	37.5	26.6	32.4
Return on sales (ROS)	7.9%	8.1%	5.9%	7.0%
Net profit	22.6	23.3	13.8	19.5
Net return as %	5.0%	5.1%	3.1%	4.2%
EBITA return on investments (ROI)	12.4%	13.9%	9.6%	12.2%

[1] Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Normalised financial results

EUR million	2018	2017 [1]
Reported result before net finance costs	24.3	29.2
Reported amortisation	2.3	3.2
Reported operating result before amortisation (EBITA)	**26.6**	**32.4**
One-off income related to simplification measures in other income	(0.1)	–
One-off costs related to simplification measures in raw materials	0.8	0.2
One-off costs related to simplification measures in staff costs	6.4	3.2
One-off costs related to simplification measures in other operating expenses	1.7	1.7
Normalised EBITA	**35.4**	**37.5**
Reported amortisation	(2.3)	(3.2)
Reported net finance costs	(3.1)	(3.4)
One-off costs related to tax audit in finance expense	0.3	–
Reported share profit or loss of an associate	(0.1)	–
Normalised profit before income tax	**30.2**	**30.9**
Reported income tax expense	(7.3)	(6.3)
One-off costs related to tax audit in income tax expense	2.0	–
Impact one-off costs on income tax expense	(2.3)	(1.3)
Normalised profit for the period	**22.6**	**23.3**

Financial results

After a solid first half of 2018, the market for passenger cars deteriorated in the second half of 2018 with weaker than expected sales in both Europe and China affecting our leading automotive customers. As a result 2018 revenue decreased by 2% at constant rates of exchange compared to 2017. The normalised operating result before amortisation (EBITA) amounted to EUR 35.4 million (2017: EUR 37.5 million), as the positive impact of the company's simplification measures did not fully offset the negative impact of the lower revenue, and cost inflation. Normalised net profit totalled EUR 22.6 million (2017: EUR 23.3 million).

The normalised operating result before amortisation (EBITA) as a percentage of revenue was 7.9% (2017: 8.1%).

Revenue

In 2018, revenue decreased by 2.9% from EUR 461.8 million to EUR 448.6 million.

The Industrial activities increased 1% while Automotive decreased 5%.

At constant rates of exchange, the revenue decline was 2.1%, fully attributable to market weakness in automotive.

The Industrial activities achieved organic growth of 1.8%, at constant rates of exchange. The Automotive activities decreased by 4.2% at constant rates of exchange.

Developments per segment

Industrial

Industrial – which accounts for 37% of Kendrion's total revenue – reported revenue of EUR 165 million, an increase of 1% compared with last year. The normalised operating result before amortisation (EBITA) increased by 20% to EUR 20.5 million, compared with EUR 17.1 million in 2017. This resulted in a normalised EBITA margin of 12.5% (2017: 10.5%).

Continued strong demand from industrial customers, mostly in Germany and China, and the successful launch of new projects, more than offset the impact from the closure of the Swiss manufacturing activities and the low order intake from one of the major customers active in the textile industry. The simplification measures implemented in 2016 and 2017 contributed to the significant increase in profitability.

The aforementioned closure of the Swiss manufacturing activities and the lower order intake from a major customer both impacted Industrial Magnetic Systems, causing 4% lower revenues for this business unit. Market conditions, particularly in the German machine-building sector, remained good throughout the year. The negative impact from the lower revenues on profitability was largely offset by simplification measures taken in 2017 and efficiency gains from the ongoing relocation from production from Germany to the plant in Sibiu, Romania.

Industrial Control Systems had the best year on record with a revenue increase of 12% and a significant increase in profitability based on this growth in combination with a leaner and more efficient organisation. The revenue increase was driven by higher demand for power heat controllers from a leading customer in synthetic textile machines and strong market conditions in the medical and machine automation segments. Industrial Control Systems is continuing to relocate production activities to its plant in Sibiu, Romania, which will help to further lower the cost base of the business unit.

Industrial Drive Systems reported a revenue increase of 1%. Revenue was negatively impacted by the end of lifetime of some projects in the non-strategic market for clutches. Revenue in electromagnetic brakes increased significantly, as well as revenue in China. The clear focus on electromagnetic brakes and the positive impact of simplification measures taken in 2016 and 2017 contributed to significantly improved profitability compared with 2017.

Automotive

Automotive – which accounts for 63% of Kendrion's total revenue – realised revenue of EUR 284 million, a decrease of 5% compared with last year. The normalised operating result before amortisation decreased to EUR 14.7 million, compared with EUR 21.0 million in 2017. This resulted in a normalised EBITA margin of 5.2% (2017: 7.0%).

The general market conditions for automotive were stable in the first half of 2018, but deteriorated in the second half of 2018. The largest market for passenger cars, China, showed the first year on year decline in decades while the European market for passenger cars was impacted by a backlog at various car manufacturers in test and validation procedures to comply with the new Worldwide Harmonised Light Vehicles Test procedures. The decline in market share of diesel cars impacted revenues in valves for fuel systems.

Kendrion Passenger Cars reported a 6% revenue decrease compared with last year which was fully attributable to a revenue weakness in the second half of the year. Passenger Cars successfully introduced and ramped up production for new projects for solenoid valves for active damping, actuators for transmission systems and electronic control units for external sound. Revenue and – most importantly – the project pipeline in China also grew significantly. However this did not offset the impact from the weaker market conditions in general and diesel in particular.

During 2018, various measures were taken to further streamline the research and development organisation and to address pockets of inefficiency. The goal of these measures is to improve the focus on the multitude of opportunities in Passenger Cars to grow the company, while at the same time improving cost-efficiency. Measures taken include a restructuring in the manufacturing location in Malente, Germany and a management buy-out of a small R&D centre in Ilmenau, Germany. The financial and organisational contribution of the measures are expected to be realised in 2019.

Revenue in Commercial Vehicles decreased by 4% compared with last year. Revenue was positively influenced by favourable market conditions for heavy trucks in the United States. Revenue from hydraulic solenoids for agricultural machines in Europe remained stable at a high level, while, in particular, angle gearbox revenues from large Asian customers lagged behind expectations, in part due to the weakening market for buses in China. Lower revenues impacted Commercial Vehicles' profitability resulting in lower operating profit compared with 2017. In the past years, Commercial Vehicles successfully integrated manufacturing activities in small scale locations in Brazil, India, China and Mexico into the larger plants in the US, Germany and the Czech Republic. Commercial Vehicles will remain focused on achieving further economies from scale from these integrations to improve cost efficiency going forward.

Added value

In 2018, normalised added value amounted to EUR 212.5 million, a decrease of 3.8% compared with last year (2017: EUR 220.9 million), in line with the revenue decrease. Added value as a percentage of revenue remained stable at 47.4% (2017: 47.6%).

Automotive was somewhat impacted by higher purchase prices caused by volume reductions, but the negative impact on the group's added value margin was absorbed by the higher relative share of Industrial revenues, which, on average, carry a higher gross margin. Pre-agreed annual discounts, which are customary for automotive projects, are usually compensated for by purchase discounts and new projects that are ramping up at higher prices.

Staff costs and other operating expenses

Normalised staff costs, including costs for temporary employees, amounted to EUR 127.9 million, compared with EUR 131.0 million in 2017, despite wage inflation of around 3.5%.

The lower staff costs were mainly the result of decreased production and the impact of simplification measures, which more than offset the yearly increases in annual salaries (mostly related to the tariff increase in Germany). Total staff costs as a percentage of revenue remained stable compared with last year.

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

Staff costs	2018	2017
Staff costs (in EUR million)	127.9	131.0
As % of revenue	28.5%	28.4%
As % of added value	60.2%	59.3%

FTE (at 31 December)	2018	2017
Direct staff	1,300	1,355
Indirect staff	1,100	1,150
Temporary employees	65	140
Total number of FTE	**2,465**	**2,645**

Normalised other operating expenses for 2018 amounted to EUR 26.2 million (2017: EUR 29.9 million). The decrease compared with last year was mainly the result of the simplification measures taken in 2017 and 2018. As a result, the overall ratio of operating expenses as a percentage of revenue decreased to 5.8% (2017: 6.5%).

Other operating expenses in relation to revenue and added value evolved as follows:

Other operating expenses	2018	2017[1]
Other operating expenses (in EUR million)	26.2	29.9
As % of revenue	5.8%	6.5%
As % of added value	12.3%	13.5%

Research & Development expenses (included in staff and other operating expenses) for 2018 totalled EUR 27.7 million (2017: EUR 28.3 million).

[1] Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Net financing costs

Normalised net financing costs decreased to EUR 2.8 million (2017: EUR 3.4 million), mainly due to the lower financing costs in the new credit facility that Kendrion entered into with a consortium of three lenders (ING Bank, Deutsche Bank and HSBC).

Average (gross) debt levels, before deduction of cash and deposits, amounted to EUR 89 million including lease liabilities in 2018 (2017: EUR 70 million). The average interest charge on borrowings in 2018 was 1.4% (2017: 1.9%).

More information on the revolving credit facility, available credit lines and conditions can be found on pages 131-133 of the financial statements.

Income tax

The normalised income tax expense amounted to EUR 7.6 million in 2018 (2017: EUR 7.6 million). The normalised effective income tax rate for 2018 was 25% (2017: 25%).

The reported tax rate in 2018 was significantly influenced by the estimated impact of the tax audits in Germany. A provision of EUR 2.3 million, including EUR 0.3 million interest expense, has been recognised for the expected outcome of the tax audits with respect to the audit years 2010 to 2014 and the anticipated impact on the years thereafter. More information on the effective tax rate can be found on page 152 of the financial statements.

Normalised tax paid in 2018 amounted to EUR 5.6 million. The difference between tax paid and normalised effective tax expense was largely due to the realisation of deferred tax assets relating to loss carry-forwards during 2018.

Net income

Normalised net income attributable to equity holders of the company (EUR million)	22.6
Normalised earnings per share (EPS) (EUR)	1.69

Kendrion proposes an optional dividend of 52% of the normalised net result (2017: 50%), equivalent to EUR 0.87 per share entitled to dividend.

Financial position and working capital

Total assets increased to EUR 375.3 million (2017: EUR 360.2 million). Non-current assets increased by EUR 9.7 million mainly due to investment in property, plant and equipment, software and development costs which exceeded depreciation levels by EUR 7.6 million. Capital expenditure on plant and equipment related mostly to investments in production lines for new projects. Inventories increased by EUR 6.2 million compared with last year mainly in Industrial activities. Industrial revenue growth, buffer stocks held to accommodate relocations of certain production lines from Germany to Sibiu and safety stocks held in relation to supply chain shortages for specific purchase parts contributed to the higher inventory levels at year-end.

Trade and other receivables decreased by EUR 3.4 million and Trade and other payables by EUR 1.4 million, mainly as a result of the lower production and sales in the fourth quarter compared with 2017.

Net working capital at 31 December

EUR million	2018	2017[1]
Inventories	63.5	57.3
Trade and other receivables, tax receivable	55.2	58.6
Less: Trade and other payables, tax payables, current provisions	73.1	74.5
Net working capital	**45.6**	**41.4**
As % of revenue	10.2%	9.0%

Working capital

Net working capital as a percentage of revenue increased compared with the previous year, to 10.2% of revenue (2017: 9.0%). Excluding the effect of provisions and payables related to the simplification measures, normalised net working capital amounted to 11.5% (2018: 9.8%). The aformentioned increased inventory levels were the main reason for the increased working capital as a percentage of revenue.

The year-end provision for trade receivables amounted to EUR 0.5 million (2017: EUR 0.3 million).

1 Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Condensed consolidated statement of financial position

Assets

EUR million	2018	2017[1]
Property, plant and equipment	113.6	105.6
Intangible assets		
■ Goodwill	92.1	90.9
■ Acquisition related	13.2	15.7
■ Software	6.6	8.6
■ Development costs	4.2	2.7
Other	3.5	0.7
Deferred income tax	13.2	12.5
Non-current assets	**246.4**	**236.7**
Inventories	63.5	57.3
Income tax	1.0	1.0
Trade and other receivables	54.2	57.6
Cash	10.2	7.6
Current assets	**128.9**	**123.5**
Balance sheet total	**375.3**	**360.2**

Intangible assets

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.

Acquisition-related intangible assets consisted largely of the calculated fair value of customer relations and technology. The annual amortisation charge relating to these intangible assets amounted to EUR 2.3 million in 2018 (2017: EUR 3.2 million). More information can be found on pages 120-123 and following.

Detailed information regarding the deferred tax positions can be found on pages 124-126 of the financial statements.

Solvency ratio

The year-end solvency ratio decreased to 48.5% (year-end 2017: 49.8%), mainly due to the extended balance sheet following the high investment level in 2018.

Net debt

Net debt increased by EUR 9.9 million during 2018 to EUR 80.5 million. Normalised free cash flow, before payments related to the simplification measures, amounted to EUR 10.5 million in 2018. The free cash flow was more than offset by the cash portion of the optional dividend which amounted to EUR 5.8 million (approximately 65% of total dividend), EUR 6.6 million resulting from the share buy-back programme, the acquisition of a majority stake in Newton CFV and the one-off payments related to the simplification measures.

Future working capital and investments needs are financed via Kendrion's revolving credit facility (EUR 150.0 million) with a syndicate of three banks and via free cash flow generated. Further information is provided in note 10 to the financial statements.

Net interest-bearing debt at 31 December

EUR million	2018	2017[1]
Non-current borrowings	76.2	60.4
Non-current mortgage loan	2.3	3.0
Current borrowings	12.2	14.8
Less: Cash and cash equivalents	10.2	7.6
Net bank debt at 31 December	**80.5**	**70.6**
EBITDA (normalised)	58.5	60.0
Debt cover	1.38	1.18

Invested capital at 31 December

EUR million	2018	2017[1]
Balance sheet total	375.3	360.2
Less: non-interest bearing debt	73.1	74.5
Less: freely available cash	10.2	7.6
Less: deferred income tax	13.2	12.5
Invested capital	**278.8**	**265.6**

Normalised free cash flow

EUR million	2018	2017[1]
Reported free cash flow	2.7	13.2
Acquisition of an associate	2.6	–
Non-recurring restructuring costs net of tax paid	5.2	3.2
Normalised free cash flow	**10.5**	**16.4**

[1] Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Free cash flow

In 2018, the normalised free cash flow, before payments related to the simplification measures, of EUR 10.5 million was below last year (2017: EUR 16.4 million). The main reasons for the lower free cash flow were the increase in working capital of EUR 4.2 million and the investments exceeding depreciation by EUR 7.6 million.

Net investments in property, plant and equipment and software amounted to EUR 30.7 million (2017: EUR 28.3 million).

Contingent liabilities

Information about contingent liabilities is provided on page 148 of the notes to the financial statements.

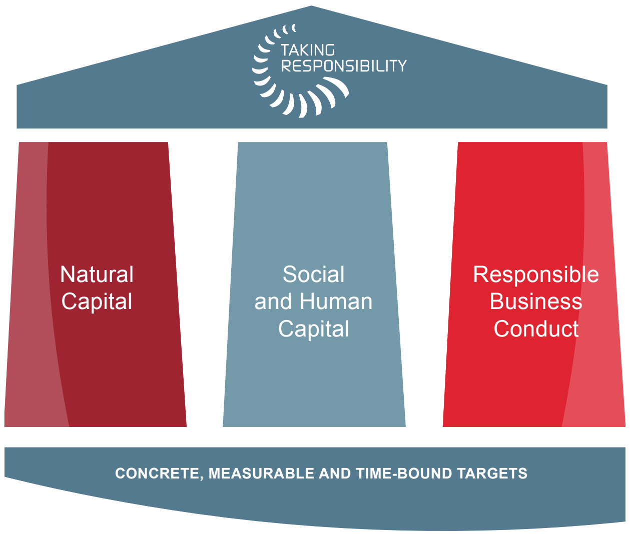
Management statement

In accordance with article 5:25c of the Financial Supervision Act (Wet op het Financieel Toezicht), the Executive Board confirms, to the best of its knowledge, that: (i) the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit and loss of Kendrion N.V. and its consolidated companies; (ii) the Annual Integrated Report gives a true and fair view of the position as at 31 December 2018 and the developments during the financial year of Kendrion N.V. and its group companies included in the consolidated financial statements; and (iii) the Annual Integrated Report describes the main risks Kendrion is facing.

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

Action on sustainability

Sustainability is an integral part of Kendrion's overall business strategy. Kendrion's Corporate Social Responsibility (CSR) programme is aligned with Kendrion's strategic pillars 'Simplify, Focus and Grow' and supports the development of Kendrion's business in a responsible and sustainable way.



VALUE CREATION PILLARS

The three pillars of value creation are: Natural Capital, Social and Human Capital and Responsible Business Conduct. They form the basis of Kendrion's CSR programme. The CSR programme reflects Kendrion's mission and commitment to conduct business in a responsible and sustainable way and aspires to strike the right balance between long-term value creation and profitability on the one hand and the objective of playing a meaningful role in addressing key societal and environmental matters on the other. This means strategic decisions are taken based on a range of financial and non-financial considerations. Key principles and measurable targets support the Kendrion CSR programme.

Reporting and transparency

Being transparent and accountable is fundamental to the way in which Kendrion operates. Kendrion has applied the Global Reporting Initiative's (GRI) Standards while compiling the sustainability performance included in this Annual Integrated Report. The GRI Standards are internationally the most widely used standardised sustainability reporting standards.

Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework in order to safeguard the quality and accuracy of the data collected. Selected sustainability performance targets are subject to a limited assurance review by Deloitte Accountants B.V.

Stakeholder dialogue

The strength of any CSR programme always depends on the engagement with the company's internal and external stakeholders, including the communities in which it operates. This is why Kendrion conducts a regular and open dialogue with its stakeholders. Kendrion believes this leads to continuous improvement as it complies with its key sustainability principles and delivers against its sustainability performance targets. The dialogue with stakeholders enables Kendrion to identify and address material topics proactively and collaboratively and to develop sustainable solutions relevant to its operations. The key stakeholder groups as described on page 34 of this Annual Integrated Report have been determinated on the basis of Kendrion's regular interaction with the relevant stakeholders.

In 2018, Kendrion conducted extensive talks with certain external stakeholders and performed a comprehensive sustainability survey among its key stakeholder groups to gain deeper insight into the relevance and importance of sustainability topics. The sustainability survey response rate was good with nearly 130 participating stakeholders. The outcome of the talks with stakeholders and the results of the sustainability survey were discussed by the Executive Board and the Supervisory Board and have formed the starting point for the determination and design of the CSR programme, as well as the new target framework and related commitments for the period 2019-2023.

STAKEHOLDERS

Customers

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

Suppliers

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

Employees

Kendrion endorses a culture that empowers its employees to reach their full potential and to achieve the best results. Kendrion aspires to create an open and inclusive culture to attract, motivate and retain a highly diverse workforce that reflects the communities in which it operates.
An engaged and committed workforce contributes to the achievement of Kendrion's financial and non-financial targets.

Investors

The endorsement of sustainable development and addressing environmental, social and governance (ESG) related matters is becoming increasingly important for Kendrion's investors. Kendrion engages with its major shareholders and banks, not only concerning Kendrion's CSR programme, its material topics and objectives, but also about the ESG policies and activities of its major shareholders and banks.

Local communities

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

Technical universities, schools and institutes

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

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

Customers

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

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

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

Suppliers

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

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

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

Employees

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

Topics discussed
Kendrion's CSR programme and objectives, particularly regarding health and safety, employability, training and development, employee satisfaction and company culture, responsible business conduct, Global Legal Compliance
and Governance Framework

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

Investors

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

Topics discussed
Kendrion's CSR programme and objectives

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

Local communities

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

Topics discussed
Communities participations and investments

Relevance to Kendrion's CSR programme
Community connection, involvement and participation

Technical universities, schools and institutes

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

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

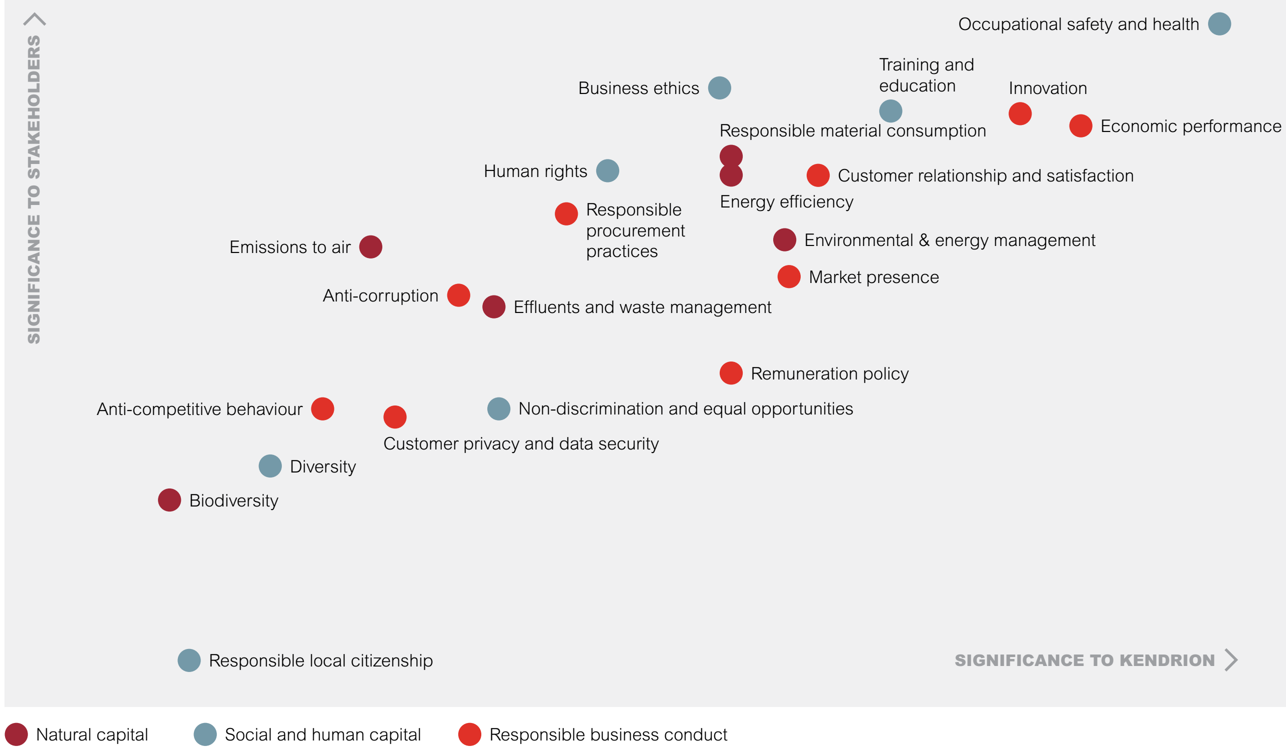
Relevance to Kendrion's CSR programme
Obtain views and observations concerning sustainability of new generation and raise awareness

Materiality analysis

A list of relevant sustainability topics for Kendrion has been identified through the materiality analysis. The materiality analysis is intended to help Kendrion identify topics within the context of Kendrion's business and global trends. The identified material topics also reflect the diverse perspectives of Kendrion's stakeholders. The inputs are both from internal and external stakeholders. The materiality analysis is carried out based in part on a number of material aspects as defined by the GRI.

Kendrion previously conducted its materiality assessments for the 2015-2017 CSR programme. The process was strengthened in 2018 in order to better align priorities across the entire Kendrion organisation. Innovation, customer relationship and satisfaction, business ethics and human right are new material topics. The following material topics were deleted: employee satisfaction, involvement of supply chain in CSR issues, freedom of association and collective bargaining, transport, forced and compulsory labour, renewable energy and public policy. Kendrion also conducted talks with certain external stakeholders and commissioned a comprehensive sustainability survey. The sustainability survey was categorised along the three pillars of value creation that form the basis of Kendrion's CSR programme: Natural Capital, Social and Human Capital and Responsible Business Conduct. The sustainability survey participants were asked to rate topics according to their importance and to assess Kendrion's perceived performance on these topics. Participants were also asked to state the relative importance of each of the three value creation pillars and an open question allowed participants to add missing topics.

MATERIALITY MATRIX



Kendrion's materiality matrix shows the material topics along two axes: significance to stakeholders and significance to Kendrion. While this Annual Integrated Report generally covers topics in the above materiality matrix, Kendrion has not set measurable sustainability targets for each topic. Going forward, Kendrion will report against the 2019-2023 target framework and related commitments and will tap into its ongoing engagement with stakeholders and potential subsequent changes to the materiality matrix to facilitate the further development of the sustainability target framework and related commitments. Kendrion reports on the following GRI indicators: economic performance (201), anti-corruption (205), energy (302), emissions (305), occupational health and safety (403), training and education (404) and diversity and equal opportunity (405). The full GRI Content Index, containing page references to the relevant GRI components can be found on pages 182-188.

2018 targets and progress

Please refer to pages 180 and 181 of this Annual Integrated Report for reporting periods, definitions, scope and external assurance.

2018 TARGETS

Natural Capital

TARGET 2018
5%
Annual reduction of relative energy consumption compared to 2017
RESULT 2018
1.7% relative increase

TARGET 2018
5%
Annual reduction of (relative) CO_2 emission compared to 2017
RESULT 2018
5.6% relative increase

Social and Human Capital

TARGET 2018
≤ 10
Accidents per 1,000 FTE
RESULT 2018
7.3

TARGET 2018
≤ 400
Lost Time Injuries (in days)
RESULT 2018
600

TARGET 2018
≤ 2.6%
Illness rate
RESULT 2018
2.9%

Responsible Business Conduct

TARGET 2018
25
Implementation audits to be performed at strategic suppliers
RESULT 2018
39

NATURAL CAPITAL

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

Energy consumption & CO_2 emissions

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

Energy consumption		2018	2017	Δ % (2018/2017)
Power	kWh	24,429,160	24,954,778	-2.1%
Fuel oil	kWh	262,014	498,940	-47.5%
Natural gas	kWh	11,916,656	11,443,447	4.1%
		36,607,830	36,897,165	-0.8%

Energy consumption per EUR million added value		2018	2017	Δ % (2018/2017)
Power	kWh	118,075	117,635	0.4%
Fuel oil	kWh	1,266	2,352	-46.2%
Natural gas	kWh	57,598	53,944	6.8%
		176,939	173,931	1.7%

Energy consumption	2018	2017	Δ % (2018/2017)
Absolute consumption, kWh	36,607,830	36,897,165	-0.8%
Relative consumption, kWh / million EUR added value	176,939	173,931	1.7%

CO_2 emissions[1]	2018	2017	Δ % (2018/2017)
Absolute emissions, tonnes	7,322	7,098	3.2%
Relative emissions, tonnes / million EUR added value	35.4	33.5	5.6%

See for reporting periods, definitions, conversion factors and scope pages 180 and 181 of this Report.

1 Scope 1 and 2 of the Greenhouse Gas Protocol.

Collection of waste data
Kendrion encounters differing local practices with respect to minimising and disposing waste in the different regions in which it operates. Local practices in the USA, China and Europe differ significantly. In advancing its efforts to define a global waste management plan, Kendrion ran an extensive pilot for the collection of waste data across all its production plants. The objective is to define a waste management plan that enables each plant Kendrion-wide to make an optimum contribution to the minimisation and responsible disposal of waste. The outcomes of the pilot have been assessed and will form the basis for the further development of the global waste management plan and the implementation of harmonised waste management practices.

emissions is reflected in a range of activities and investments carried out in 2018. Targeted actions to reduce energy consumption include the application of technologies such as high-pressure air, electric devices and other efficient production equipment for various production lines. Other efforts aimed at reducing production-line energy consumption include installing air-conditioning and ventilation that is more efficient and extending LED lighting to certain additional production areas. Activities aimed at reducing CO_2 emissions include using recycled paper, concluding or extending additional CO_2 neutral energy contracts and a car free day for all employees of Kendrion's plant in China. The feasibility of installing solar panels on the roofs of the production plants was assessed in 2018 and Kendrion will begin installing solar panels on the roofs of certain production plants in 2019.

Providing employees with dedicated training and appointing energy scouts who are responsible for identifying potential for further enhancing the efficient use of energy during the production process are also part of Kendrion's efforts to reduce its environmental footprint.

Waste management

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

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

A range of activities and investments were carried out in 2018 that were aimed at further optimising the minimisation and responsible disposal of waste related to production. Activities included efforts to reduce hazardous waste through the implementation of process changes, the installation of a new socketing machine with reduced exhaust, plastic waste separation after moulding processes for better recycling and improvement of procurement processes to decrease obsolete resins and adhesive materials.

SOCIAL AND HUMAN CAPITAL

The Social and Human Capital pillar concerns people's competences, capabilities and motivations. Material themes for the Social and Human Capital pillar include community connection, health & safety, diversity and inclusion and company culture.

Community connection

Local employer and a good neighbour

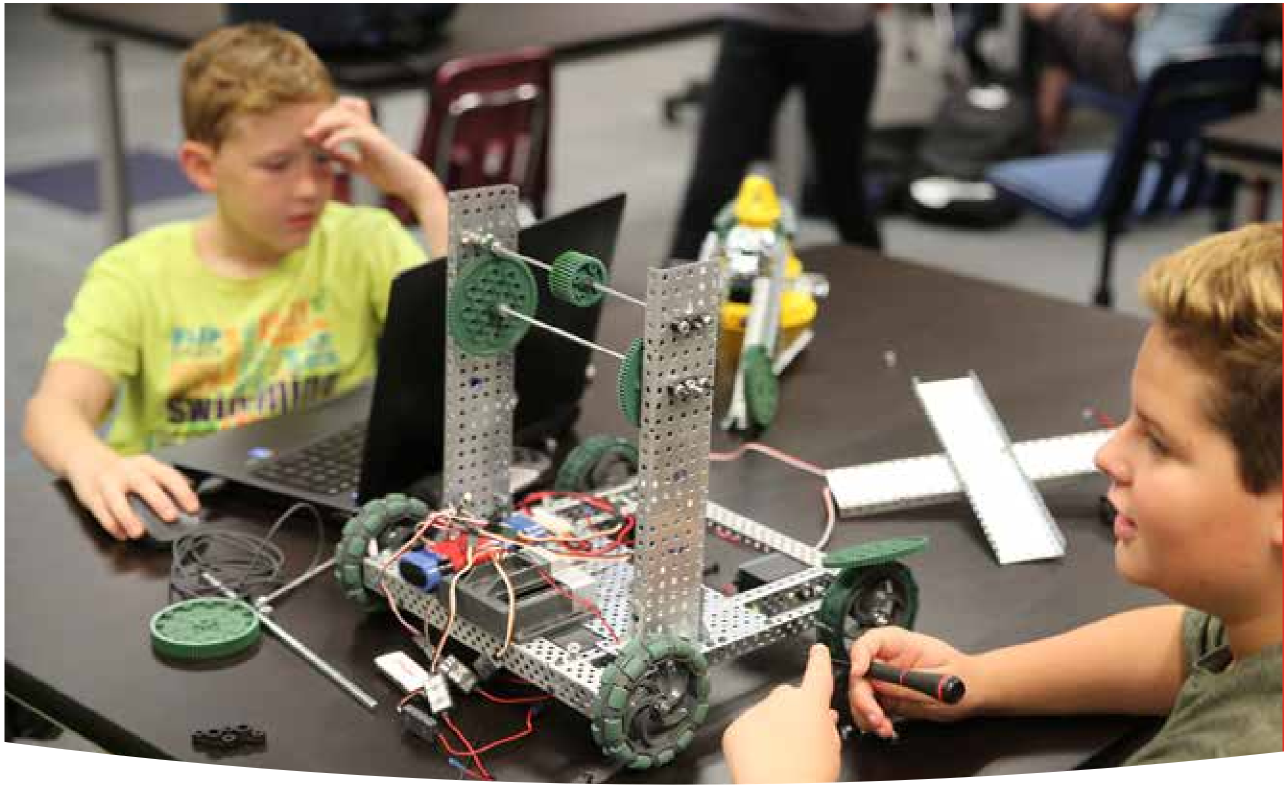
Kendrion maintains strong ties to the communities in which it operates by encouraging an open dialogue with local management and through Kendrion's long-standing commitment to being a local employer and a good neighbour.

Together@Kendrion

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

Volunteering

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



Supporting local community

In 2018, Kendrion continued making a conscious effort to support the economic and social well-being of local communities through strong local community engagement and by supporting local community and social development projects. These include projects such as providing a middle school with funding to participate in a robotic competition, buying breathing monitors for the neonatal department of a local hospital, participating in local clean-up events, giving a workshop on CO_2 reduction and climate protection, supporting a foundation that runs personality-development programmes for children in primary schools and children's homes and packing and transporting food packages for underprivileged families.

Health & Safety

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

In addition to certain centrally coordinated health and safety-related initiatives, day-to-day responsibility for health and safety is concentrated within the business units in which health and safety are managed systematically and in a standardised manner with clear rules and procedures based on recognised industry standards and best practices that are laid down in Health, Safety & Environmental (HSE) policies. Each production plant further implements tailored initiatives to enhance their HSE standards depending on plant-specific needs, production lines and technologies. With HSE audits, the implementation and compliance with HSE policies are assessed at regular intervals.

Concrete and measurable performance targets for Kendrion's business units and local management include health and safety metrics, which are set on the number of accidents per 1,000 FTE, Lost Time Injury (LTI) rates and illness rates.

Programmes aimed at further enhancing process safety awareness were implemented across Kendrion's production plants in 2018. Dedicated safety training tailored to the different production processes at the Kendrion plants, which included the evaluation of industry accidents and lessons learned, has been provided.

Certifications

Kendrion's production plants hold global certifications demonstrating the quality of Kendrion's production and management processes, including ISO 9001 Quality Management Systems, ISO/TS 16942 Quality Management Systems for the automotive industry, ISO 14001 Environmental Management Systems and ISO 50001 Energy Management System.

PLANT CERTIFICATIONS

16 production plants of which 8 automotive production plants

	ISO 9001	ISO/TS 16942	ISO 14001	ISO 50001
Production plants	16	8	15	9

5S methodology

Due to the continued focus on the safety of the production processes, Kendrion generally achieved good safety results across its production plants. All the major plants apply the 5S methodology, which aims for the continuous improvement of a safe working environment and working conditions.

The production plants that have implemented the 5S approach apply a systematic process to optimise their production lines and periodically perform 5S implementation audits to verify compliance with the methodology.

Diversity and inclusion
Kendrion believes in the strength of a diverse workforce. Kendrion is committed to attracting and retaining a diverse global workforce through its employment strategy. Kendrion's workforce in 2018 comprised 37 nationalities (2017: 38) employed in 10 countries. 51% of our workforce is female.
Kendrion continues to undertake action to further improve diversity in technical and non-technical roles and at all levels of the organisation.

Company culture and ethical behaviour

Kendrion believes it is important that all activities are conducted with integrity and in a transparent manner. To this end, Kendrion fosters a culture in which shared norms, universal ethical values and behaviours are the standard. Shared norms, ethical values and expected behaviours are laid down in a set of internal policies and procedures that form part of the Global Legal Compliance and Governance Framework (GLC&GF). In addition to setting norms, values and expected behaviours, the GLC&GF is aimed at ensuring compliance with applicable laws and regulations.

The GLC&GF includes the following key policies and procedures: Code of Conduct, Anti-Bribery and Anti-Corruption Policy, Speak-up Procedure, Competition Compliance Manual, Insider Trading Code, Data Protection Governance Guidelines, Personal Data Breach Reporting Procedure, Supplier Code of Conduct and related internal policies and procedures.

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

RESPONSIBLE BUSINESS CONDUCT

The Responsible Business Conduct pillar focuses on business conduct and integrity, accountability and transparency. Material themes for the Responsible Business Conduct pillar include supply chain management and anti-bribery and anti-corruption.

Supply chain management

Kendrion operates as part of a supply chain with a central focus on manufacturing and production processes. Kendrion and other parties forming part of the supply chain are collectively responsible for maintaining the quality and sustainability of the products in the supply chain. All parties forming part of the supply chain play a role in addressing major issues that affect the supply chain as a whole.

Kendrion intends to play a meaningful role in the supply chain in which it is active. In many instances, Kendrion is a relatively minor link in the supply chain. In order to achieve realistic results, it is of great importance that Kendrion continues the dialogue with its suppliers and, in the selection and assessment of suppliers, continues to consider their performance with respect to sustainability.

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

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

The most frequently used materials are steel, aluminium, copper and plastics. In many cases, semi-finished products are purchased based on specifications of Kendrion's customers. Kendrion used 1,924 tonnes of copper (best estimate) in the manufacture of its products in 2018 (2017: 1,916 tonnes).

Supplier Code of Conduct and implementation audits

The Kendrion Supplier Code of Conduct requires suppliers to accept their responsibility for matters concerning the environment, human rights, working conditions and fair trade. Kendrion regularly conducts implementation audits to review whether suppliers comply with the standards and principles of the Supplier Code of Conduct. Audits that reveal that the relevant supplier does not meet the requirements of the Supplier Code of Conduct are followed by a meeting to prepare a remediation plan. Failure to adequately follow up the remediation plan may result in the termination of the relationship with the relevant supplier.

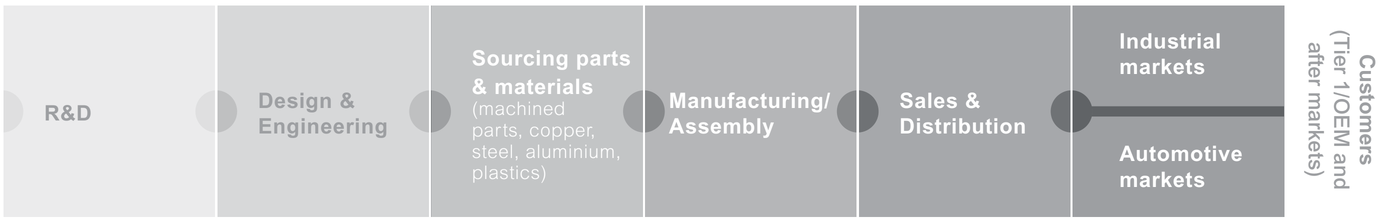
The results of the 39 supplier implementation audits conducted in 2018 have been encouraging: there were no suppliers that did not fulfil the recommended requirements for compliance with the Supplier Code of Conduct.

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

Anti-Bribery and Anti-Corruption

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

Simplified supply chain overview Kendrion



Target framework 2019-2023

Parallel to and in line with the new long-term financial targets announced in August 2018, Kendrion has developed a sustainability target framework for 2019-2023. The 2019-2023 target framework has been structured along the three pillars of value creation: Natural Capital, Social and Human Capital and Responsible Business Conduct.

The outcomes of the stakeholder dialogues and the sustainability survey have been taken into consideration when determining the 2019-2023 target framework.

Consistent with the approach in 2018, each value creation pillar has its own key themes and target framework.

Going forward, Kendrion will report progress on the 2019-2023 target framework and related commitments.

2019-2023 TARGETS

Natural Capital

15%
Relative reduction of energy consumption

15%
Relative reduction of CO_2 emission

Implementation of the waste management hierarchy
in global waste management practices

Social and Human Capital

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

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

The implementation of a global company culture campaign
along the theme 'Growth through Innovation and Continuous Improvement'

Rewarding 10 community investment initiatives per year
through Together@Kendrion

Responsible Business Conduct

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

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

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

Sustainable development goals

The United Nations introduced 17 Sustainable Development Goals (SDGs) and 169 associated targets aimed at sustainable development worldwide in 2015. Also as part of the 2019-2023 sustainability target framework, Kendrion aims to contribute to the advancement of several selected SDGs.

In 2018, Kendrion conducted a further review on where it can best contribute to the advancement of SDGs. To this end, Kendrion carefully considered all SDGs, while taking into account the dialogues with stakeholders and the outcome of the sustainability survey performed during the year under review. Based on the review, Kendrion determined that the SDGs 3, 12 and 13 are the SDGs where Kendrion can have the greatest positive impact.

To report on our progress going forward, Kendrion will develop relevant best practices and standards – and where appropriate qualitative and quantitative targets – that support the advancement of the selected SDGs.

3 GOOD HEALTH AND WELL-BEING

SDG 3 – Good health and well-being

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SDG 12 – Responsible consumption and production

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

13 CLIMATE ACTION

SDG 13 – Climate action

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

VALUE CREATION MODEL

INPUT

Financial capital[1]

Free cashflow € 10.5 mln
Net working capital € 51.4 mln
Invested capital € 285.3 mln

Natural capital

Power 24,429,160 kWh
Fuel oil 262,014 kWh
Natural gas 11,916,656 kWh
Copper 1,924 tons

Human capital

2,465
FTEs

Manufactured capital

> 10,000
Solutions and products

ADDED VALUE

SIMPLIFY

FOCUS

GROW

ENTERPRISE RISK MANAGEMENT

GLOBAL LEGAL COMPLIANCE AND GOVERNANCE FRAMEWORK

OUTPUT

Business output[1]

Revenue € 448.6 mln
EBITA € 35.4 mln
Net profit € 22.6 mln

Natural Capital

5.6% Relative increase of CO_2 emissions compared to 2017

1.7% Relative increase of energy consumption compared to 2017

Social and Human Capital

Accidents
7.3 accidents per 1,000 FTE
600 LTI (days)

Illness rate
2.9%

Responsible Business Conduct

100% of top 30 of suppliers signed Supplier Code of Conduct

39 Number of CSR supplier audits

OUTCOME

3 GOOD HEALTH AND WELL-BEING

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

INCREASED SAFETY

INCREASED MOBILITY

INCREASED COMFORT

INCREASED HEALTH

[1] Excluding one-off costs. The bridge from reported to normalised figures can be found on page 27.

2,465
Total number of employees in FTEs
at 31 December (number FTE)
2017 **2,645**

1,300
Direct employees
(number FTE)
2017 **1,355**

1,100
Indirect employees
(number FTE)
2017 **1,150**

65
Temporary employees
(number FTE)
2017 **140**

7.0
Employee engagement score
(on a scale of 10.0)

2,561
Total number of employees
at 31 December
2017 **2,664**

1,124
Women in permanent employment
(number)
2017 **1,142**

1,101
Men in permanent employment
(number)
2017 **1,165**

336
Employees with a fixed-term contract
(number)
2017 **357**

20
Overall employee turnover rate
(%)
2017 **18**

42
Average age of all employees
2017 **42**

11
Average number of years' service
2017 **11**

2.9
Average rate of absenteeism per employee
(%)
2017 **2.7**

48,337
Wage costs per FTE
(EUR)
2017 **48,436**

0.7
Training costs
(as a % of wage costs)
2017 **0.7**

Our people

Central to achieving our ambitions is the creation of a culture and environment that empowers everyone to reach their full potential to achieve the best results. We enable our people to execute various ideas to increase engagement and performance. We aspire to create a sustainable culture of high performance whilst at the same fostering an open and inclusive culture in order to attract, motivate and retain a highly diverse workforce that reflects the communities in which we operate and gives our people the right opportunities for career development and personal growth in a safe and attractive working environment.

Organisational transformation

Kendrion initiated its strategy for 2016-2018 based on the 'Simplify, Focus, Grow' pillars in May 2016. The related aim is to deliver sustainable profitable growth for the business. In 2018, additional simplification measures were introduced, specifically in our Passenger Cars business unit. These measures include the creation of a dedicated centre of excellence for sound, software and electronics in Malente, Germany. Furthermore, an organisational transformation and restructuring programme was designed pursuant to which a functional Automotive group will be established in 2019.

Kendrion updated its Corporate Social Responsibility programme, which specifically includes 'Social and Human Capital' as one of the three CSR pillars of long-term value creation, in August 2018. In order to further emphasise our dedication to 'Social and Human Capital', a solid target framework supports the Social and Human Capital pillar of long-term value creation. Focus areas of the Social and Human Capital target framework include key topics such as health & safety, diversity and inclusion, company culture and community connection. Please refer to the 'Sustainability' section for more information about our Corporate Social Responsibility programme.

Employee engagement and culture

Offering the opportunity to provide and receive feedback is imperative to maintaining an engaging work environment. This is why the employees of all the operating companies were invited to participate in the Kendrion-wide employee satisfaction and culture survey during the year under review (while in 2017 only a selection of Kendrion's major operating companies participated in an employee and culture survey). Going forward, we will repeat the Kendrion-wide employee satisfaction and culture survey at regular intervals, also with a view to allowing benchmarking of data for comparison purposes across the Kendrion organisation.

74% of our employees took part in the survey in 2018. The overall employee engagement score was 7.0 (on a scale of 10.0). Our employees provided feedback on what they appreciate and find challenging about working at Kendrion. People are committed to contribute to the successful contribution to the company strategy. There is room for improvement with respect to communication among teams. Necessary action is and will be taken at the appropriate levels (global, local and department-based) to ensure our employees feel their feedback is being followed up.

Talent management & learning and development

Developing the capabilities needed to successfully enable an organisational transformation is a matter of great importance. A resilient talent pool with engaged and talented employees form the foundation for growth and innovation. We consequently do our utmost to attract and retain talent and provide learning and development opportunities, with the aim of creating a sustainable culture of high performance. We are continuously building a solid pipeline to ensure effective succession management for our most critical management positions by mapping candidates and undertaking reviews of internal and external candidates' suitability, readiness and required development for candidates for management roles. Our web-based talent management and succession-planning tool facilitates the monitoring and review of internal candidates.

As part of our efforts to develop our people, we advocate the principle of internal mobility and aim to fill vacancies with internal candidates. Internal moves are considered beneficial to the development of our people by providing them with new and challenging opportunities, while at the same time keeping knowledge within the organisation. The percentage of vacancies filled with internal candidates was 30% in 2018.

Our overall employee turnover rate was 20% in 2018. The retention rate of our leadership talent was 86%.

Together with the Rotterdam School of Management, we developed a Leadership & Performance Programme that comprises three modules designed exclusively for Kendrion.

The modules of the Leadership & Performance Programme focus on themes such as understanding and improving performance within the context of the market and industry in which Kendrion operates. The Leadership & Performance Programme also constitutes an important platform for exchanging experience among senior management and further expanding collaboration among operating companies. Kendrion's Leadership Team (consisting of Kendrion's 30 most senior employees) participated in the third module of the Leadership & Performance Programme in 2018, after having completed the first and second module in 2017.

We encourage the advancement of young talent to management roles in our business. The Kendrion High Potential programme is our global learning and development programme and provides our talents who have the potential for management roles with access to various learning modules. The High Potential programme offers development opportunities that match business and individual needs (such as strengthening of personal competencies). A new group of talented and ambitious employees started the High Potential programme in 2018 and participants of this group are expected to complete the programme in 2020.

In the Kendrion-wide employee satisfaction and culture survey in 2018, our employees stated that they have good opportunities to develop.

Diversity and inclusion

We believe in the strength of a diverse workforce and the importance of our management teams reflecting the diversity of our employee base. Diverse and inclusive teams make our organisation more innovative. Having the right mix of people in the right jobs, with the right capabilities, encourages better decision-making and helps us to grow our business.

As part of the Social and Human Capital target framework, we have made it a priority in our Corporate Social Responsibility programme to further advance diversity across our organisation by training and developing senior management on various aspects of diversity and inclusion and organising Kendrion-wide diversity and inclusion initiatives.

Kendrion's workforce comprised 37 nationalities (2017: 38) employed in 10 countries in 2018. 51% of our workforce is female. We have a healthy balance of nationalities and gender across the organisation as a whole. However, the percentage of women in senior management positions at Kendrion's operating companies is relatively low. We continue to actively strive to recruit more women for senior management positions.

Remuneration

The remuneration framework is designed to create transparency and fairness in the structure of both fixed remuneration and variable remuneration. Kendrion offers its employees attractive remuneration packages that are in line with industry standards and the local market and are based on job-specific requirements.

Employee representation

Works councils or employee representatives have been appointed at Kendrion's largest operating companies in Germany, Romania and Austria, which are involved in a wide range of employment, health & safety and social matters, in accordance with local labour legislation. Approximately 75% of all Kendrion employees are represented by these works councils and employee representatives. Approximately 68% of the employment contracts in Germany and Austria are governed by or follow the collective bargaining agreements for the metal industry in the country concerned.

> The Kendrion High Potential programme is our global learning and development programme for our talents who have the potential for management roles.

The economic outlook for 2019 is mixed. The IMF forecasts growth of 3.5% in 2019, which is lower than the 3.7% and 3.8% it projected for 2018 and 2017 respectively. More importantly, overall sentiment deteriorated considerably in the final months of 2018. The escalating US-China trade war, uncertainty regarding Brexit, political turbulence in France and Italy and a slowing Chinese economy all contributed to this deterioration.

Kendrion expects investments in 2019 to exceed depreciation charges. Most of these investments relate to new projects.

Financial targets

Kendrion focuses on designing, producing and selling electromagnetic actuators for automotive and industrial applications. The company has a leading position as a technologically advanced and innovative company with an excellent reputation for quality and reliability in Europe, the USA and Asia.

Kendrion will concentrate its resources and capital on those areas in which it believes it has the most opportunities for profitable growth, rather than spreading its efforts equally across its businesses.

Kendrion has set three clear, simple and ambitious financial goals for 2023. Deliver an ROI of at least 20%, realise an EBITDA margin of more than 15% and distribute a dividend of 35 to 50% of net profit.

Outlook per business unit

Industrial Magnetic Systems will launch production for a number of new projects in the process automation, locking and safety and logistics markets. A large proportion of the new projects will be realised in Kendrion's Chinese facility in Suzhou. Industrial Magnetic Systems will continue the collaboration with strategic partner Newton CFV, in which Kendrion acquired a minority stake in August 2018, with the aim of acquiring new business for the highly innovative valves it has developed for the US food and beverage market.

Industrial Control Systems expects to realise revenue growth in 2019. It forecasts some further increases in the FIO (Fast Input Output) module line, while the Power Heat Controller business is expected to remain at a healthy level. Industrial Control Systems will further expand its Romanian production facilities with new production lines and insourcing projects.

Industrial Drive Systems expects another solid year driven mainly by demand for its products in China. The application of electromagnetic brakes in the OEM servo motor segment for robotics is expected to remain one of the strongest markets. Kendrion will install the next phase of a production line for Permanent Magnet brakes in Suzhou, which will play an important role in meeting the increasing demand for locally produced brakes.

The disruption of the traditional passenger car market continues. Autonomous driving, electrification and the push for greater safety and comfort present the automotive industry with unprecedented opportunities and challenges. The Passenger Cars business unit therefore continues to focus on products that benefit from these changes, such as its sound actuator for electric cars and its valves for smart shock absorber systems. The automotive market slowed particularly in the second half year of 2018. There continues to be pressure on the sale of diesel cars. The outlook for Passenger Cars in the longer term remains good, with many opportunities being driven by the aforementioned multiple disruptions.

Commercial Vehicles continues to shift its focus to pave the way for future growth. Clutches for hybrid drives, thermostat units for higher engine efficiency, portfolio expansion for hydraulics and further feature evolution of its pressure switch line form the cornerstones of its R&D efforts.

Kendrion's approach to risk management

Effective risk management is key to executing Kendrion's strategy, achieving long-term value for Kendrion's stakeholders, protecting the company's reputation and ensuring good corporate governance. Kendrion promotes local entrepreneurship and, 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.

Effective risk management is an integral element of good business practice. Kendrion's risk management approach comprises two main complementary elements: a top-down strategic view of risk at the enterprise level and a bottom-up view of risk at the operational level. Kendrion's risk management is not intended to eliminate all risks entirely: doing business is never without risks. Kendrion's objective is to adopt an approach to business risks that minimises the chance to have adverse events and the impact of such events, while always taking into account the necessary balance between risk exposure and costs. The Executive Board and the Management Team periodically review and discuss Kendrion's approach to risk management, including Kendrion's risk appetite. The outcome of this periodic review is subsequently presented to and discussed with the Audit Committee before being presented to the Supervisory Board. The Executive Board strives to balance business opportunities with the reasonable expectations of shareholders, employees, regulators and other stakeholders.

Kendrion has a responsibility to put internal controls and procedures into place and test them to verify their effectiveness. Local management is expected to be fully aware of the operating risks and the necessity for internal control procedures. Kendrion devotes continual attention to the optimisation of risk management and control systems as part of the everyday decision-making. The Executive Board emphasises 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 employs a structured and well-defined Enterprise Risk Management Framework that connects the various elements of risk management and the relationship between these elements. The factors that underpin the quality of the Enterprise Risk Management Framework are integrity, business ethics and the employees' expertise. Management style and the manner in which authorisations and responsibilities are delegated and monitored by the management are equally important.

Effective risk management is key to executing Kendrion's strategy, achieving long-term value for Kendrion's stakeholders, protecting the company's reputation and ensuring good corporate governance.

Enterprise Risk Management Framework

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

Moderate

STRATEGIC RISKS

Risk appetite
Strike appropriate balance between risk and reward

- Quarterly evaluation per business unit
- Risk management survey
- Yearly strategic update

OPERATIONAL RISKS

Risk appetite
Align targets and the related costs, focus on sustainable profit maximisation

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

Low

FINANCIAL REPORTING RISKS

Risk appetite
Full compliance with financial reporting rules and regulations

- Group Reporting Manuals
- Group Reporting Committee
- Monthly closing procedures
- Internal control procedures
- Audits (external & internal)
- Weekly review cycle with business unit management

COMPLIANCE & FRAUD RISKS

Risk appetite
Full compliance with applicable laws, rules and regulations in all jurisdictions where Kendrion operates

- Compliance procedures
- Reporting & disclosures
- Legal counseling
- Internal audits
- Training
- Speak-up line

IT & SYSTEMS RISKS

Risk appetite
IT interruptions, loss of data and unauthorised system access should be limited as much as possible

- IT governance for system and data responsibility (master data management);
- Periodical external information security audits
- Access security programmes
- Equipment backup and recovery
- Change management procedures

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

Control environment

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

The major elements and foundations of Kendrion's risk management and internal control system during the year under review were:

Code of Conduct

Kendrion has implemented a Code of Conduct that applies to all Kendrion employees and to the members of the Executive Board and the Supervisory Board. The principles and best practices set forth in the Code of Conduct reflect the main values that guide Kendrion's employees and the members of the Supervisory Board in the execution of their duties. The core themes include conduct in the market, authorities, gifts, anti-bribery, corporate social responsibility, accountability in general, and the obligation to exercise due care regarding health and safety, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by regularly bringing the Code of Conduct to the attention of its employees and the Supervisory Board. Deviations from the Code of Conduct are not tolerated. The Code of Conduct is published on Kendrion's website.

Kendrion also has a Supplier Code of Conduct to address the above themes in the supply chain.

Speak-Up Procedure

Kendrion offers employees on all levels the opportunity to report, in good faith, any suspected irregularities, including possible violations of laws, rules and regulations. Kendrion has facilitated this by establishing an independent anonymous reporting hotline. In addition, confidential counsellors have been appointed whom employees can contact if they have questions concerning the best course of action in a particular situation or wish to report a suspected irregularity. All reports are handled with the utmost care and confidentiality regardless of whether they are reported internally or through the anonymous reporting hotline. No reports were made that justified any disciplinary measures in 2018.

Insider trading

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

Rules and Regulations and Letters of Representation

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

Group Reporting Manual

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

Planning and control cycle

Insight into Kendrion's performance is obtained from the monthly reports of the current figures submitted by all the operating companies, detailed financial quarterly forecasts, weekly cash forecasts and daily consolidated revenue reports. In the second quarter of each year, Kendrion prepares a Mid-term Plan. The planning horizon of the Mid-term Plan is five years. This plan provides insight into the strategic course of the companies and business units.

In the fourth quarter, the Mid-term Plan forms the basis of a more detailed annual budget to provide a precise management tool for the following calendar year. Assessment and follow-up on the progress, development of key performance indicators and deviations from short- and long-term targets are performed periodically at various levels in the organisation. 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 for which the limit was reduced from EUR 100,000 to EUR 50,000 in 2018.

Periodic reports and meetings

Regular discussions in weekly conference calls between the Executive Board, the Management Team and similar reviews within the business units address the risks and internal risk management system. Each business unit submits a comprehensive written report at least once a quarter which provides details about the financial and operational situation and the status of any current claims and proceedings, where relevant.

Strategic and business risk management

A risk management session was held with Kendrion's top management in 2018 during which the following topics were assessed and discussed:

- Effective tools for managing risk;
- Objectives of Enterprise Risk Management;
- Kendrion risk culture;
- Kendrion risk appetite;
- Emerging risks.

The goal of the session was to increase risk awareness, including compliance and fraud risks, and to make sure Kendrion's top management is aware of the risk culture and appetite within Kendrion.

The Executive Board, together with the senior management of the holding, business units and operating companies, conducted an annual risk survey in 2018 that reviewed nearly fifty potential risks. An open question allowed participants to add additional potential risks based on their own experience and expertise. Each risk was scored on perceived likelihood, impact and Kendrion's vulnerability. The top ten risks were calculated based on a multiplication of the scores and an evaluation per risk. The results of the annual risk survey were assessed and discussed initially with the Audit Committee and the business unit management teams and subsequently with the Supervisory Board. The annual risk assessment is evaluated with respect to relevance and mitigating actions at periodic intervals.

Operational risk management

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

Financial reporting risk management

The controllers' duties include the management of financial reporting risks. Pursuant to this duty the controllers periodically monitor the organisation's implementation of and compliance with control measures. Kendrion has also implemented corporate guidelines that specify the monthly closing procedures and the controls to be performed. Kendrion has an internal audit programme (KiC: Kendrion-in-Control) to determine the 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 (tax) compliance reporting cycles. The internal audits also include procedures relating to fraud risks.

Compliance objectives

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

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

Strategic and business risks

Kendrion's strategic and business risks identified are reviewed below. The most important risks selected based on the final outcome of the risk management survey are:

1. Pressure from large customers and customer dependency;
2. Increased competition;
3. Future product portfolio, including impact of megatrends;
4. Technological substitution;
5. Attraction and retention of qualified staff;
6. Non-performing Information Systems and cyber security.

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

	ROI > 20% as from end 2023	EBITDA margin > 15% as from end 2023	Dividend 35-50% of net profit
Pressure from large customers and customer dependency	•	•	•
Increased competition	•	•	•
Future product portfolio	•	•	•
Technological substitution	•	•	•
Attraction and retention of qualified staff	•	•	
Information Systems and cyber security	•	•	

Pressure from large customers and customer dependency

Kendrion has a wide range of customers in various markets and, consequently, the company's dependency on a small number of large customers is relatively low. Customer concentration in Automotive is higher than in Industrial; however, in the past years, these risks have also been ranked higher by the industrial business units. Losing one of the large customers in Automotive would have a high impact and, in the absence of compensatory measures, would be detrimental to Kendrion's growth objective and profitability. The likelihood of this happening is assessed as low to moderate as Kendrion is a technologically advanced player which offers tailor-made customer solutions whose development times and costs are usually high. Apart from the risks related to large customer accounts, large customers provide opportunities for accelerating (international) growth.

Kendrion's main response to this risk is to actively pursue the reduction of single customer dependency by securing projects from other large customers.

Increased competition and technological substitution

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 particularly important for the Automotive activities. The impact on organic growth and profitability could be significant, the likelihood and vulnerability are moderate. In view of the pressure imposed on prices in this competitive market, especially high technological solutions are essential to realise opportunities for profitability.

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 uses a number of tools to strengthen innovative development in its operations.
Kendrion's strategy to localise production as much as is feasible reduces its vulnerability to risks from competitive shifts resulting from exchange rate movements and changes in export or import restrictions. 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.

Future product portfolio, including impact of megatrends

A focus on products that ultimately prove to be unsuccessful and a failure to respond adequately to market disruptions and to the impact of megatrends could lead in the longer term to stagnation and even a decline in market share and financial performance.

The mitigating measures relating to the risks 'Increased competition' and 'Technical substitution' also apply to this risk. In addition to Kendrion's innovation activities, M&A can provide further support in ensuring an effective future product portfolio and technology base. With the new five-year EUR 150 million revolving loan facility entered into on 24 July 2018, Kendrion has sufficient funding in place for investments in new technologies and possible M&A transactions.

Recruitment and retention of qualified staff

Central to achieving Kendrion's strategic objectives is the creation of a culture and environment that empowers everyone to reach their full potential to achieve the best results. Kendrion supports the creation of a sustainable culture of high performance. A lack of skilled employees could impede the achievement of Kendrion's strategic objectives. The likelihood and vulnerability are moderate to high and this is consequently an important area for attention. Kendrion's required know-how is highly specific and requires on-the-job training.

Mitigating actions include:

- Succession Planning tool for Kendrion's potential top management;
- The Kendrion Leadership & Performance Programme for senior management at the Rotterdam School of Management, which provides high-quality management training;
- The HIPO programme for high potentials (see page 49);
- Apprentice programmes at several companies;
- Regular contact with relevant educational institutions;
- Various in-house training programmes;
- Health & safety programmes, good labour conditions and staff satisfaction surveys.

Non-performing Information Systems (IS) and cyber security

Inadequate or non-performing IS (including the infrastructure) could have a significant impact on the company's business processes and, consequently, the results. The likelihood and vulnerability are moderate as a range of mitigating actions have been taken.

The major IS risks include the risk of faults in IS operations, interruptions, loss of data, unauthorised system access and other events as a result of insufficient cyber security controls and monitoring, or poorly managed system changes and new implementations. Information Systems are of importance to Kendrion, both in terms of the risks and business support. Kendrion's Executive Board, in particular, the CFO bears the overall IS responsibility. Kendrion has implemented a corporate IS policy and strategy that governs:

- The arrangements for IS decision-making including which decisions can be made at which level (central or local);
- IT governance for system and data responsibility (master data management);
- The arrangements for sourcing IS products and services for operating companies;
- The requirements to be met by the IS organisation in serving its internal customers;
- Periodical information security audits, covering both external penetration testing, and internal security risks and mitigations;
- The measures 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 and upgrades are managed carefully through:

- A formal governance structure throughout the entire project;
- Thorough preparation and impact assessment;
- 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 are supported by the group's central IT department in Villingen (Germany), as well as by local IT teams who take responsibility for site-specific infrastructure. These teams work together to set and coordinate 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.

Software application portfolio – 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 sufficient knowledge required for user support.

Other important risks

Strategic	Operational	Financial
Volatile economic conditions	Commodity markets	Treasury
Project management	Product liability	Tax
Intellectual property	Environmental liabilities	

Strategic risks

Volatile economic conditions

Deteriorating economic conditions could be detrimental to Kendrion's financial results and the company's ability to achieve its strategic goals. The likelihood is significant and vulnerability is moderate to low. Kendrion has a flexible organisation to enable the company to move in tandem with the economic tides. Flexibility not only relates to working with temporary staff and focusing on the reduction of variable operating expenses, it also includes the ability to communicate up-to-date financial information efficiently to decision-makers throughout the organisation, make justifiable insourcing and outsourcing decisions, adjust supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and utilise opportunities for reducing working hours in specific countries.

Kendrion furthermore 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.

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.

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 loss of the project. In addition, the risk that Kendrion's engineers succeed in developing a technologically acceptable solution, but that the customer nevertheless decides not to proceed with Kendrion also needs to be managed. 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.

Intellectual Property (IP)

The 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 ending up in the hands of the competition, which could ultimately put Kendrion's leading position in jeopardy.

Kendrion mitigates this risk by the strict implementation of its IP policy. An important element of this policy is that Kendrion applies for a patent for each of the company's most important technological innovations.

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. Kendrion protects itself from the risk of infringing patents itself 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.

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. For copper, 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. Raw materials are purchased separately by each business unit on the basis of their individual requirements but in accordance with the group policy reviewed periodically to 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 and is benchmarked periodically. Kendrion also aims to limit the group's liability exposure by employing up-to-date general terms and conditions and mandatory 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.

Financial risks

Treasury

Please refer to page 138 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

In most countries the responsibility for accurate tax returns has been assigned to local management, who receive assistance from reputable local tax consultants. Kendrion carries out an annual inventory at corporate level, in close collaboration with renowned international tax consultants, to assess whether fiscal developments could have an effect on the company's subsidiaries. Corporate reviews of the tax expenses and tax positions of the company's subsidiaries are carried out once a quarter. Kendrion has developed and implemented a tax compliance audit 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 tax policy is a part of doing good business. Kendrion's aim is to manage tax risks effectively and to comply with all applicable rules, regulations and disclosure requirements. The business is leading in setting up international structures: we declare profits and we pay tax in the jurisdictions in which the economic activity occurs. Our tax planning strategy is based on the spirit of the law. This means that we do not seek to avoid taxes through structures in tax haven jurisdictions, we strive to pay our fair share of tax in the countries in which we operate, we aim at filing accurate and timely tax returns and we strive to maintain strong and transparent relationships with tax authorities in the various countries. These values have been formalised in the Kendrion Group tax policy, which is distributed to all operating companies and is updated periodically.

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 2018 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 by the Group Controllers in Zeist, the Netherlands and improved as needed on the basis of recent developments and new requirements.

In 2018, the internal audits covered more than 90% of the value of the relevant reporting cycles. The overall results of the audits conducted in 2018 were satisfactory. The limited number of control deficiencies revealed by the 2017 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 control statement

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

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

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

The governance framework of Kendrion is based on the statutory requirements applicable to public limited liability companies in the Netherlands, including the principles of the Dutch Corporate Governance Code (the 'Code')* and Kendrion's articles of association. The articles of association provide a tailored framework for the affairs and governance of Kendrion, including a sound and transparent system of checks and balances. For the articles of association and additional information about Corporate Governance at Kendrion, please refer to the website https://www.kendrion.com/group-services/en/.

Kendrion N.V.

Kendrion N.V. is a public limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Zeist, the Netherlands. For details regarding Kendrion's share capital, reference is made to section 'Share and shareholder information' on pages 18 and 19.

Kendrion, as the ultimate parent company, holds all the shares of Kendrion Finance B.V., a private limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Zeist, the Netherlands. Kendrion Finance B.V., directly or indirectly, holds the shares in all of Kendrion's operating companies. All operating companies are, directly or indirectly, wholly owned subsidiaries. Kendrion is not subject to the large company structure regime and does not have a works council. Reference is made to section 'People and Culture' on pages 47-49 for information about works councils and employee representation established at certain of Kendrion's operating companies.

Two-tier governance structure

Kendrion is managed by the Executive Board under supervision of the Supervisory Board. Members of the Executive Board and the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders. The General Meeting of Shareholders can amend the articles of association upon the proposal of the Executive Board, with the prior approval of the Supervisory Board. A resolution to amend the articles of association can only be adopted by an absolute majority of the votes cast during the General Meeting of Shareholders.

Executive Board

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

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

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

The General Meeting of Shareholders appoints the members of the Executive Board upon nomination of the Supervisory Board. In compliance with provision 2.2.1 of the Code, all members of the Executive Board are appointed for a maximum term of four years and may be reappointed for a term of not more than four years at a time. Other than upon a proposal of the Supervisory Board, the members of the Executive Board are dismissed by the General Meeting of Shareholders by a resolution adopted by an absolute majority representing at least one-third of the issued share capital.

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

The composition of the Executive Board and information about its members are provided on page 20.

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

The Executive Board adopted Executive Board regulations that have been approved by the Supervisory Board. The Executive Board regulations govern the Executive Board's procedures and decision-making.

Pursuant to the Executive Board regulations, a member of the Executive Board may not participate in the deliberation and decision-making process of the Executive Board concerning any subject in which a member of the Executive Board has a personal interest that conflicts with the interests of Kendrion. A member of the Executive Board shall immediately report any conflict of interest to the Chairman of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with a member of the Executive Board

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

require the approval of the Supervisory Board. There were no transactions in which there was a conflict of interest with a member of the Executive Board in 2018. Kendrion does not grant loans or guarantees to Executive Board members.

Management Team

Kendrion's Management Team supports the Executive Board. The Management Team acts as a consultative body to the Executive Board. The Management Team consists of the members of the Executive Board, five Business Unit Managers, the President of Kendrion Asia, the General Counsel, the Global HR Manager and the Director Strategic Initiatives. The Management Team meets regularly and is involved in the review of the financial and operational performance of the business units based on internal management information and identifies prevalent best practices. Members of the Management Team who are not also members of the Executive Board are regularly invited to attend Supervisory Board meetings and the Supervisory Board – often through coordination of the Chairman of the Supervisory Board – also maintains appropriate contacts with the members of the Management Team who are not also members of the Executive Board.

The members of the Executive Board, together with the other members of the Management Team, conducted an annual review of their own performance, including aspects that require further improvement.

Supervisory Board

The Supervisory Board is charged with the supervision of the management by the Executive Board and the general performance and development of Kendrion.

It also advises the Executive Board. In discharging its role, the Supervisory Board focuses on – among other things – the effectiveness of Kendrion's risk management and internal control systems and the integrity and quality of the financial reporting.
The Supervisory Board is composed in such a way that its members can operate critically and independently of each other, the Executive Board, the Management Team, and any other particular interests. Each of the Supervisory Board members has the necessary expertise, experience and background to perform his or her tasks and duties.

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

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

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

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

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

The Supervisory Board has established two committees: an Audit Committee and an HR Committee. The committees of the Supervisory Board are responsible for preparing the decision-making of the Supervisory Board. The tasks and procedures of the committees of the Supervisory Board are set out in their regulations, which can be found on the website https://www.kendrion.com/group-services/en/. The present composition of the Supervisory Board, its committees and information about the Supervisory Board members are provided on pages 65-72 of this Annual Integrated Report.

The members of the Supervisory Board do not receive nor do they have any shares and rights to acquire shares in Kendrion as remuneration. Kendrion does not grant loans or guarantees to Supervisory Board members.

Pursuant to the Supervisory Board regulations, a member of the Supervisory Board may not participate in the deliberation and decision-making process concerning any subject in which a member of the Supervisory Board has a personal interest that conflicts with the interests of Kendrion.
There were no transactions in which there was a conflict of interest with a member of the Supervisory Board in 2018.

Diversity within the Executive Board, Management Team and Supervisory Board

Kendrion values a diverse workforce both across the Kendrion organisation as a whole and at the level of the Executive Board, the Management Team and the Supervisory Board. As part of the Social and Human Capital target framework of the Corporate Social Responsibility programme, the further advancement of diversity across the organisation is a priority. A diverse range of competences and skills and a variety of backgrounds within the Executive Board, the Management Team, and the Supervisory Board contribute to effective decision-making and consequently value creation. If a vacancy arises, Kendrion will continue to identify and look for candidates for positions on the Executive Board, Management Team and the Supervisory Board from a variety of backgrounds, without compromising relevant expertise and experience. In the event external recruitment consultants are engaged to identify a pool of candidates, Kendrion will provide search instructions in line with the diversity principles it endorses.

The composition of the Supervisory Board is diverse, experienced and knowledgeable and reflects a balanced participation of two men and two women within the meaning of article 2:66 of the Dutch Civil Code. The position of CFO became vacant as of 1 January 2019 and the Supervisory Board launched a search to find a replacement. An external recruitment consultant has been engaged and instructed to identify a pool of potential candidates that fit the diversity principles supported by Kendrion. The Management Team consists of a healthy mix of skills, nationalities, ages, backgrounds and other relevant factors.

For more information about the nationality and background of the members of the Executive Board and the Supervisory Board, please refer to pages 20 and 66 of this Annual Integrated Report.

General Meeting of Shareholders

At least once a year, Kendrion convenes an annual General Meeting of Shareholders. Meetings are convened by the Executive Board and/or Supervisory Board. Meetings can also be convened at the request of shareholders jointly representing at least 10% of Kendrion's outstanding share capital if authorised by a competent Dutch court.
Shareholders who hold at least 3% of the outstanding share capital have the right to propose an item for the agenda. Kendrion will include the item on the agenda for the General Meeting of Shareholders if it has received the substantiated proposal or draft resolution, in writing, at least sixty days prior to the date of the General Meeting of Shareholders.
Each shareholder is entitled to attend General Meetings of Shareholders in person or be represented by written proxy and exercise voting rights in accordance with the provisions of the articles of association.
Each outstanding share entitles the holder to one vote. Resolutions are adopted by absolute majority of the votes cast, unless the articles of association or applicable law provide otherwise.

Shareholders representing 54.29% (2017: 54.8%) of the total number of shares entitled to vote attended or were represented at the General Meeting of Shareholders held on 9 April 2018.

Kendrion values a diverse workforce both across the Kendrion organisation as a whole and at the level of the Executive Board, the Management Team and the Supervisory Board.

For more information on the authority of the General Meeting of Shareholders and the articles of association, please visit https://www.kendrion.com/group-services/en/.

Relations with stakeholders

Kendrion values the relationship with its shareholders and other stakeholders, and endorses the concept of transparent exchange of information with its shareholders. The foregoing is also supported by the 'Policy for (bilateral) contact with shareholders' which can be found on the website https://www.kendrion.com/group-services/en/.

Special provisions relating to shares

Unless indicated otherwise, there are no restrictions on the transfer of shares, the exercise of voting rights or the term for exercising those rights, and there are no special controlling rights attached to shares. On 9 April 2018, the General Meeting of Shareholders granted the Executive Board the authority to: (i) subject to the prior approval of the Supervisory Board, issue shares or grant rights to acquire shares and restrict or suspend pre-emptive rights, in each case for a period of eighteen months (i.e. until 9 October 2019); (ii) acquire shares in Kendrion on NYSE Euronext Amsterdam in accordance with the articles of association.

Auditor

The General Meeting of Shareholders appointed the external auditor, Deloitte Accountants B.V., for a second period of three years (i.e. for the 2018 to 2020 financial years) on 9 April 2018. The General Meeting of Shareholders may put questions to the external auditor with respect to the external auditor's opinion on the financial statements. The external auditor shall therefore attend and be entitled to address the General Meeting of Shareholders.

The Audit Committee of the Supervisory Board is involved in the design of the internal audit programme and is informed about the main findings of the internal audits conducted. For further details about the Audit Committee and the performance of its duties, reference is made to the 'Report of the Supervisory Board' on pages 70 and 71.

For the management statement of the Executive Board which is required pursuant to article 5:25c of the Financial Supervision Act *(Wet op het Financieel Toezicht)*, reference is made to the 'Report of the Executive Board' on page 32.

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

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

Corporate Governance statement

This section 'Corporate Governance' and the section 'Share and shareholder information' on pages 18 and 19 include the information referred to in the Decree for the implementation of article 10 of the Takeover Directive. In addition, this section 'Corporate Governance Report' in combination with the section 'Risk management' on pages 51-59 and the section 'Report of the Supervisory Board' on pages 65-72 can be regarded as the Corporate Governance Statement required pursuant to the Decree on the contents of the management report *(Besluit inhoud bestuursverslag)*.

Taxes

Kendrion strongly believes that pursuing a transparent and fair tax policy is an important part of doing business. This is in line with the group's Code of Conduct. In addition, there is a need to balance the interests of all relevant stakeholders, including customers, local communities, governmental institutions, and shareholders. The Group tax policy was discussed with the Audit Committee, to ensure that the interests of all relevant stakeholders were properly reflected in the policy. The Group tax policy also provides guidelines to the relevant employees on how to deal with tax dilemmas and whom to consult in case of any tax dilemmas.

Kendrion not only pays a substantial amount of corporate income tax in the countries where it does business but is also subject to several other taxes such as VAT, pay-as-you-earn tax deductions (withholding tax), payroll taxes and property taxes. Kendrion believes it has an obligation to pay the amount of tax legally due in any territory.

At the same time, it is in the interest of the company's continuity and its financial results to optimise its tax position. This too is part of sound business operations. Kendrion also has a responsibility in this respect to its shareholders to enhance shareholder value. The commercial needs of Kendrion remain paramount and all tax planning is undertaken in this context. All transactions must have a business purpose and/or commercial rationale: 'tax follows business'. In addition, consideration is also given to Kendrion's reputation and to its corporate and social responsibilities.

Another important aspect of Kendrion's tax policy is to effectively manage risk and to comply with both the letter and the spirit of all applicable tax laws, rules, regulations and disclosure requirements. Kendrion makes use of the services of accredited tax advisers at both local and group levels and has included tax compliance in its internal audit programme. In cases where (the interpretation of) the tax law is unclear, the optimal and legally most defensible position is taken. If necessary and feasible, tax authorities are consulted in advance for additional certainty. Kendrion's aim in this regard is to be open and transparent towards all authorities and to act with complete integrity. Compliance with all anti-bribery legislation is safeguarded and is part of Kendrion's internal training programme. Kendrion's tax policy is regularly discussed with the Audit Committee of the Supervisory Board.

Transactions conducted between group companies located in different countries are conducted in line with the OECD Guidelines for Multinational Enterprises and other local transfer-pricing regulations. The company uses the Master File concept for transfer-pricing purposes to ensure that coherent and up-to-date principles are applied.

Kendrion is aware of the ongoing OECD BEPS developments in areas including treaty abuse, transfer pricing and country-by-country reporting. As Kendrion's tax position corresponds to the geographical spread of the operations and as no aggressive tax structures are employed involving the movement of funds through secrecy jurisdictions (tax havens), the company believes that the impact of these developments is limited. Furthermore, even though Kendrion understands the tendency to use country-by-country reporting to gain more insight into local tax contributions, it has been decided, with a view to overall competitiveness, not to introduce this particular kind of reporting at this stage.

More information about taxes can be found on pages 30, 124-126 and 152 of this Report.

In 2018, Kendrion was given the no. 6 ranking in the Dutch Tax Transparency benchmark for small cap companies and ranked no. 22 among the 76 listed companies included in the benchmark.

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CHAIRMAN OF THE SUPERVISORY BOARD
Henk ten Hove

‘Facing the future with confidence’

‘We can conclude in retrospect that the Kendrion ‘Simplify, Focus, Grow’ strategy is delivering on its ambitions and promises. The company has simplified processes and structures both at a central level and within the business units by exploring synergies and interrelations between them. This has resulted in a significant improvement in profitability, especially in Industrial. While relentlessly striving for continuous improvement through simplification and a sharp focus on specific growth opportunities, organic growth is now our major objective. We do, of course, realise that at this moment in time we are facing a worrying general economic trend and a market slowdown, especially in automotive. This does not, however, diminish the opportunities that lie before us.’

Target

‘Our starting position and opportunities for filling our order pipeline remain positive even when viewed against the background of these altering circumstances. From this solid basis, we now need to shift up a gear and realise further organic growth. In other words, we must achieve sustainable profitable growth. We introduced our new ambition in conjunction with the launch of our Plan 2019-2023: a Return on investment of at least 20% by 2023. This target reflects our aim to achieve expansion and growth in a profitable manner. With this in mind, Kendrion continues to pay full attention to its focus areas of Automotive, Robotics and China, without losing sight of the other activities and opportunities they present.’

Sustainability

‘Our Corporate Social Responsibility strategy constitutes a key part of our business that is inextricably linked to virtually all our activities. We updated our CSR programme in 2018 and introduced our three pillars – Natural Capital, Social and Human Capital, and Responsible Business Conduct – and set new and challenging targets for each pillar. We have integrated these CSR targets into our incentive plans in order to send a clear message that CSR is intrinsically linked to our business performance. We have a clear ambition to continue to play a prominent role in this field.’

Confidence

‘We are a small and effective Supervisory Board, which continually endeavours to strike a balance between distance and involvement. We are informed in a timely and comprehensive manner and are involved in all major issues and developments, whether they are strategic, operational or CSR-related topics. We have confidence in Kendrion’s strategy and the company’s management. This is also why we are committed to extending the CEO’s contract for a new four-year period. Kendrion is ready to show that the company’s plans lead to positive results for all stakeholders. Kendrion’s Supervisory Board members face the future with confidence.’

   

	H. ten Hove (Chairman)	**J.T.M. van der Meijs**	**M.J.G. Mestrom**	**Dr T.J. Wünsche**
Year of birth	1952	1966	1961	1964
Nationality	Dutch	Dutch	Dutch	German
International expertise	Yes	Yes	Yes	Yes
Gender	Male	Female	Female	Male
Date of first appointment	19 August 2013	31 October 2016	11 April 2016	31 October 2016
Term of office	2017-2021	2016-2019	2016-2020	2016-2020
Current number of SB positions	3 (2 Chair)	3	1	2
Shares in Kendrion	No	No	No	No
Professional experience	Manufacturing/industry	Finance	HR/organisational design	Automotive
Additional positions	Member of the HR Committee of Kendrion N.V.; member of the Supervisory Boards of SGP Prints B.V. (until mid-February 2018) and Unica Groep B.V.; Chairman of the Supervisory Board of Alfen N.V. (as of mid-February 2018); Chairman of the Economic Board of the Zwolle region (until May 2018); Chairman of the foundation BDR Thermea.	CFO of Royal Schiphol Group; non-executive member of the board of AdP (Aéroports de Paris); non-executive director of the board of Brisbane airport.	Chief Human Resources Officer at Brenntag AG.	Global CEO of the Chassis Brakes International Group; Member of the Supervisory Board of the Altenloh, Brinck & Co.
Former positions	CEO of Wavin N.V.	Vice-President Finance (Capital Projects) at Shell Global Solutions; Finance Director at Shell Australia; Financial Controller/Deputy Finance Director at the Brunei Shell Companies.	Head of Global Human Resources at Siegwerk Druckfarben Group. Senior Global Human Resources positions within Royal Philips.	CEO of Benteler Automotive. CEO of Eberspächer Exhaust Technology.

Focus on long-term value creation

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

This Supervisory Board Report sets out the way in which the Supervisory Board fulfilled its duties and responsibilities in 2018.

2018 in summary

With a solid first half and a difficult second half year, 2018 has been mixed. The three Industrial business units performed well, while the performance of Passenger Cars and to a lesser extent Commercial Vehicles were impacted by a challenged automotive market.

As part of the 2016-2018 'Simplify, Focus and Grow' strategy, additional simplification measures were taken in the Passengers Cars business unit in 2018. These measures included the establishment of a centre of excellence for sound, software and electronics in Malente and the divestment of the R&D centre in Ilmenau. The simplification measures taken during the past three years focused on achieving complexity reduction and cost-efficiency. This has increased profitability levels and improved resilience to market uncertainties such as in the automotive market in the second half of 2018.

A strategic update for 2019-2023 was presented in August 2018. The strategy will continue to be based on the 'Simplify, Focus and Grow' pillars, with an emphasis on 'Focus and Grow', for the next five years. The strategic spearheads for 2019-2023 are Passenger Cars (specifically in the area of electrification, autonomous driving, safety and comfort), Permanent Magnet Brakes for robotics and China.
The sustainability target framework for 2019-2023 was also presented in August 2018 simultaneously with the presentation of the strategic update. The Supervisory Board believes that the strategic spearheads and the sustainability target framework are key to long-term value creation.

Although market circumstances remain uncertain and challenging, especially for the automotive industry, the Supervisory Board is confident that Kendrion is ready for the next phase where it will put greater emphasis on the 'Focus and Grow' pillars and concentrate on the strategic spearheads.

It was announced in 2018 that Frank Sonnemans would step down as CFO at the end of the year. The Supervisory Board thanks Frank Sonnemans for his contribution and his commitment during his time with Kendrion. A search and selection process for his successor was immediately launched upon the announcement.

Focus items 2018

The Supervisory Board believes focus is key to achieving the strategy and to creating long-term value. In carrying out its task in 2018, the Supervisory Board, in coordination with the Executive Board and the Management Team, placed special emphasis on the following subjects:

- *Sustainable profitable growth strategy 2019-2023*

In addition to supervising the progress and execution of the company's strategy for the last year of the 2016-2018 strategy cycle, the Supervisory Board devoted adequate time to reviewing strategic options and discussing the strategic plan 2019-2023. Amongst others, a two-day strategy meeting was organised in Sibiu, Romania where the members of the Supervisory Board held constructive discussions with the Executive Board and the Management Team on the strategic options and the strategic plan 2019-2023. During the strategy meeting in Sibiu, time was also spent reviewing market trends most relevant to Kendrion and their impact on the company's strategy.

During the sessions regarding the strategic options and strategic plan 2019-2023, the Supervisory Board ensured that the Executive Board's viewpoints were appropriately challenged and tested. The Supervisory Board supported the setting of priorities relevant to investments and innovation, establishing an adequate organisational structure to facilitate the execution of the strategic plan, pipeline development and accelerated investments in China.

■ *Continuous operational improvement*
During the year, there was an ongoing focus on achieving operational improvement by implementing additional simplification measures. Important measures were taken, especially within the Passengers Cars organisation, including the creation of a centre of excellence for sound, software and electronics in Malente and the divestment of the R&D centre in Ilmenau.
Furthermore, an organisational transformation and restructuring programme was designed pursuant to which a functional Automotive group will be established in 2019.

The measures taken in 2018 will enable the company to place greater emphasis on the 'Focus and Grow' pillars and to concentrate on the spearheads of the strategic plan 2019-2023.

Various in-depth and thorough discussions took place between the Executive Board and the Supervisory Board about the simplification measures, particularly regarding the restructuring programme in Malente pursuant to which a more optimal organisation was created and realigned to fit the company's strategy. The contemplated establishment of a functional Automotive group in 2019 was also extensively discussed with the Supervisory Board. In addition, staffing of key positions and efforts aimed at the fundamental improvement of the pipeline were discussed.

The Supervisory Board fully supported the decisions of the Executive Board needed to realise functional and operational improvement. Operational improvement continues to be key in the execution of the strategic plan 2019-2023 and it consequently remains on the list of points for attention in 2019.

■ *CSR target framework 2019-2023*
Sustainability is a priority for the Supervisory Board and it stressed during the discussions regarding sustainability the importance of continuous improvement of the integration of sustainable practices within Kendrion's business processes. A sustainability target framework for 2019-2023 was developed in 2018 that has the support of the Supervisory Board. The Supervisory Board believes that availability of adequate resources is essential for the successful execution of the sustainability target framework 2019-2023.

The Supervisory Board was frequently updated on the progress being made towards achieving the 2018 annual sustainability targets. These updates included relevant developments, challenges and opportunities connected to each of the value creation pillars: Natural Capital, Social and Human Capital and Responsible Business Conduct.

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

■ *Opportunities in China and the USA*
The Supervisory Board monitored the investments and implementation programme in China and it is confident that the steps taken are appropriate and conducive to the development of a healthy pipeline.

Opportunities in the USA were assessed in 2018 and Kendrion successfully completed an investment in a Florida corporation in which Kendrion acquired a 30% stake.
The business covers the production of valves for the food and beverage industry that control the flow rate and pressure for water, syrup and flavours and beverage gasses.
The Supervisory Board acknowledges that local presence is essential and is confident that the investment in the Florida-based corporation will contribute to growth development in the USA.

Focus items 2019

The Supervisory Board expects to focus on and report on progress towards achieving the following priorities in 2019:
- Completing the search for a new CFO;
- Completing the transformation of the Automotive organisation, i.e. functional and operational improvements, pipeline development and innovation;
- Expansion in China;
- Implementation of the CSR target framework 2019-2023.

Meetings and attendance

The Supervisory Board held twelve meetings in 2018, eight of which were regular scheduled meetings. The four additional meetings were required to ensure the Supervisory Board was sufficiently informed and could make considered decisions regarding topics such as the organisational transformation and restructuring programme for Passenger Cars, the establishment of a functional Automotive group and the investment in the USA. All meetings were attended by the members of the Executive Board, and at times by members of the Management Team. In addition, meetings were held without the Executive Board and without the Management Team. The attendance percentage for the Supervisory Board regular scheduled meetings in 2018 was 100% (2017: 93%).

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

The agenda for the Supervisory Board meetings covered the 2018 focus items set out on pages 67 and 68, as well as topics that are annually addressed, such as: operational and financial performance; progress against the strategic plan and the principal risks associated with the operation; progress and the achievement of milestones of special projects; risk management and internal control system; governance and compliance; IT and cyber security; and preparation of the General Meeting of Shareholders. Other topics that were given attention during 2018 included the status of the ongoing German tax audits, Kendrion's group insurance programme and refinancing, with the latter being successfully completed in July 2018.

The two-day strategy meeting that was held in Sibiu, Romania to discuss strategic options and the strategic plan 2019-2023 was combined with a visit to the production plant in Sibiu where the Supervisory Board members met local management of the Passengers Cars and Industrial Control Systems business units. The plant visit provided a deeper insight into the operations of these business units. A number of production processes were explained and local management provided several product demonstrations.

The external auditor attended the meeting of the Supervisory Board in February 2018 during which the full-year figures for 2017 and the auditor's report were discussed.

Evaluation

The Supervisory Board continued to invest in its own ongoing training during the year and received updates on governance and compliance. Associated with the Supervisory Board members' training is the annual evaluation, which provides an assessment of its effectiveness, that of its committees and its individual members.

In 2018, the Supervisory Board commissioned an evaluation conducted by an independent external consultant. The Supervisory Board members, the Executive Board members and the General Counsel provided feedback through a written assessment followed by an individual interview. The written assessment included reviews of the composition and expertise of the Supervisory Board, time management, effectiveness of and dynamics among the members of the Supervisory Board and between the Supervisory Board and the Executive Board, tasks and responsibilities, including allocation of responsibilities between the Supervisory Board and its committees, and the effectiveness and performance of the Chairman of the Supervisory Board. The interview session participants were asked to provide feedback based on certain themes.

The outcome of the evaluation confirmed the diverse composition of the Supervisory Board and the constructive cooperation among the members of the Supervisory Board and vis-à-vis the Executive Board. There is room for extensive discussions and exchange of various perspectives. The outcome showed that the Supervisory Board members take appropriate responsibility and that they are valued for their personal dedication, expertise and ongoing commitment. Continued strengthening of effective allocation of responsibilities among the Supervisory Board and its committees is conducive to the effectiveness of the overall decision-making process and the quality of the meetings. The Supervisory Board's own succession planning was also highlighted and discussed.

The Supervisory Board greatly values the annual evaluation because it drives a culture of continuous improvement of the performance of and the relationship between the Supervisory Board and the Executive Board. Going forward, the Supervisory Board is committed to achieving improvements with respect to items highlighted during the evaluation and to having an evaluation conducted by an external consultant once every three years, unless there is reason to do so more frequently.

The composition, performance and succession planning of the Executive Board and the performance of its individual members were also addressed and discussed.

Composition

The Supervisory Board consists of four members: Henk ten Hove (Chairman), Jabine van der Meijs, Thomas Wünsche and Marion Mestrom.

The Supervisory Board operates independently of the Executive Board, the Management Team, any other participating interests and each other. Each of the Supervisory Board members has the necessary expertise, experience and background to carry out his or her tasks and responsibilities. All members of the Supervisory Board are independent within the meaning of the Dutch Corporate Governance Code. The members of the Supervisory Board satisfy the statutory requirements concerning the number of supervisory or non-executive functions that they can have with large enterprises. The composition of the Supervisory Board is in line with the Supervisory Board profile as drawn up by the Supervisory Board and uploaded on the website https://www.kendrion.com/attachment/T015HVWS-Profile-Supervisory-Board.pdf.

The composition of the Supervisory Board reflects balanced participation of two men and two women within the meaning of article 2:66 of the Dutch Civil Code.

Committees of the Supervisory Board

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

Audit Committee

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

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

The Audit Committee held four meetings in 2018. Attendance during 2018 was 100% (2017: 78%). The CFO and the Group Controller attended all meetings. The external auditor Deloitte Accountants B.V. attended the meetings of the Audit Committee during which the full-year financial statements for 2017, the half-year financial statements for 2018 and the management letter were discussed. The Audit Committee met with the external auditor without the CFO being in attendance.

The Audit Committee monitored and reviewed regular topics such as: the quarterly financial results, the half-year and full-year financial statements, the auditor's report, maintenance and effectiveness of risk management and internal control system, the external audit plan, transfer pricing, tax policy, treasury policy, IT and cyber security, the speak-up procedure, legal and compliance, the annual evaluation of external auditor and the annual evaluation of the approach and operation of the internal audit programme 'Kendrion in Control'.

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

In view of the annual evaluation concerning the absence of an independent internal audit department, the Audit Committee deliberated the current approach and operation of the internal audit programme 'Kendrion in Control' and the

The Supervisory Board operates independently of the Executive Board, the Management Team, any other participating interests and each other.

matters arising from the internal audit programme. Based on the recommendation of the Audit Committee, the Supervisory Board is of the opinion that the risk management and internal control system meet Kendrion's needs and that adequate measures have been taken. Therefore, the Supervisory Board is satisfied with the current approach and operation of the internal audit programme.

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

Deloitte Accountants B.V. was reappointed as external auditor by the General Meeting of Shareholders on 9 April 2018 for a term of three years up to and including the financial year 2020. The Audit Committee monitored both the external auditor's performance and the effectiveness of the external audit process and its independence. The Audit Committee approved the 2018 external audit plan, including scope and materiality applied. Reviews and discussions were held on the findings of the external auditor in its management letter and the actions taken to address the recommendations and observations made by the external auditor.

In addition to the above, the Audit Committee monitored and discussed Kendrion's group insurance programme and refinancing, with the latter being successfully completed in July 2018.

HR Committee

The HR Committee consists of Marion Mestrom (Chair) and Henk ten Hove. The HR Committee held two meetings, with an attendance rate of 100% (2017: 100%). The CEO attended both meetings. In addition to the scheduled meetings, the HR Committee had a number of informal meetings with and without the members of the Executive Board being present.

- *Succession planning*

Kendrion announced in 2018 that after nearly six years, Frank Sonnemans would step down as CFO effective 1 January 2019. In light of the vacancy for a CFO, the HR Committee engaged with an external executive search agency and commenced a thorough search and selection process. Interviews were held with several candidates. The HR Committee expects to make a recommendation to the Supervisory Board in the first quarter of 2019. The Supervisory Board will subsequently make a nomination to the General Meeting of Shareholders for the appointment of the new CFO.

An additional aspect of the HR Committee's work is reviewing the rotation schedule for the Supervisory Board and making relevant recommendations accordingly. The HR Committee was pleased to recommend to the Supervisory Board the nomination for reappointment of Jabine van der Meijs. The nomination for the reappointment of Jabine van der Meijs for a second term as member of the Supervisory Board will be proposed to the General Meeting of Shareholders on 8 April 2019.

- *Performance management*

During the first quarter of 2018, the HR Committee focused on performance in 2017 and the individual performance reviews of the members of the Executive Board. The outcome of the performance review process was discussed with the Supervisory Board without the members of the Executive Board.

- *Variable remuneration*

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

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

The HR Committee engaged an independent external consultant in 2018 to support the HR Committee in carrying out a review of the Executive Board variable remuneration.

- *Settlement variable remuneration Frank Sonnemans*

Following the resignation of Frank Sonnemans, the HR Committee made recommendations to the Supervisory Board regarding the settlement of his variable remuneration. The Supervisory Board resolved the cash settlement of share incentives as set out in the Remuneration Report 2018.

Financial statements and auditor's opinion

The financial statements 2018 included in this Integrated Annual Report have been audited and Deloitte Accountants B.V. has issued an unqualified opinion. They were discussed with the Supervisory Board, the Audit Committee in the presence of the external auditor, and the Executive Board. The Supervisory Board is of the opinion that the financial statements meet all requirements for transparency and correctness. Therefore, the Supervisory Board recommends that the General Meeting of Shareholders to be held on 8 April 2019 adopt the financial statements and the appropriation of net income.

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

Profit appropriation

Kendrion realised net profit of EUR 13.8 million in 2018. Normalised net profit amounted to EUR 22.6 million.

The Supervisory Board approved the proposal of the Executive Board to pay out 52% of normalised net profit as dividend.

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 Dutch Civil Code.

Concluding remarks

Kendrion has in recent years streamlined and simplified its operations, improving its ability to tap into business opportunities within its focus areas, while improving its resilience in times of a cyclical downturn.

Combined with the additional functional and operational improvements achieved in 2018 and the sustainable profitable growth strategy 2019-2023, the Supervisory Board believes the company is ready for the next phase, despite difficult market conditions.

The Supervisory Board takes the opportunity to thank Kendrion's business partners for their long-standing business relationship, our shareholders for their trust and the Executive Board, the Management Team and all Kendrion employees around the world for their valuable contribution in 2018 and looks forward to a successful execution of the strategic plan 2019-2023.

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

Zeist, 18 February 2019

This Remuneration Report provides an overview of the Executive Board Remuneration Policy and the application thereof in 2018.

Remuneration Policy

The Remuneration Policy has been adopted by the General Meeting of Shareholders, most recently in April 2018. The HR Committee conducted a scenario analysis in the context of the design and application of the Remuneration Policy. The Remuneration Policy is reviewed at least every four years by the HR Committee of the Supervisory Board at the instruction of the Supervisory Board.

Remuneration principles

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

The remuneration structure and level for the members of the Executive Board is set at the median level relative to the reference group of companies admitted to listing on NYSE Euronext Amsterdam (ASCX) and strives to achieve an appropriate balance between Kendrion's annual plan and budget on the one hand and the long-term strategy on the other hand. The remuneration package consists of the following elements: (i) base salary, (ii) short-term incentive, (iii) long-term incentive, and (iv) other benefits such as pension contributions.

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

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

Base salary

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

In 2018, the following annual base salary levels applied to members of the Executive Board:

Annual gross base salary	
CEO (J.A.J. van Beurden)	EUR 490,900
CFO (F.J. Sonnemans)	EUR 335,966

Short-term incentive

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

Target amount

The short-term incentive target amount is set at:

- 40% of annual gross base salary for the CEO
- 35% of annual gross base salary for the CFO

Performance incentive zone

- The amount of the payout of the short-term incentive for the achievement of the performance criteria is maximised at 150% of the short-term incentive target amount.
- In the case of performance equal to the threshold performance of the relevant performance criterion, the payout of the short-term incentive will be equal to 50% of the relevant target amount. A linear curve will be applied to calculate the payout between threshold performance and maximum performance.
- In the case of performance below the threshold performance of the relevant performance criterion, the amount of the payout of the short-term incentive will be equal to zero.

Financial performance criteria

- The financial driven performance criteria determine 60% of the short-term incentive.
- Each year the Supervisory Board selects three financial driven performance criteria from the list below that apply to the relevant performance year with a view to incentivising year-on-year delivery of short-term financial objectives that support Kendrion's overall annual objectives.
- In exceptional circumstances the Supervisory Board can deviate from the foregoing and select four financial driven performance criteria from the list below that apply to the relevant performance year.
- The Supervisory Board may allocate different weight percentages to the different financial performance criteria it selects for a particular year, provided a minimum weight of 10% shall apply to each financial performance criterion.
- List of financial performance criteria:
  - Net profit
  - Return on sales
  - Average return on capital employed
  - Organic growth
  - Free cash flow
  - EBITDA

Non-financial performance criteria

- The non-financial performance criteria determine 40% of the short-term incentive. Each year the Supervisory Board selects a certain number of non-financial performance criteria derived from Kendrion's strategic priorities and an appropriate payout scheme.
- Achievement of each individual non-financial performance criterion will be measured by applying a binary scoring model. The amount of the payout for the achievement of non-financial performance criteria depends on the number of non-performance criteria achieved.
- The amount of the payout for the achievement of non-financial performance criteria will be equal to 150% of the short-term incentive target amount if all selected non-performance criteria are achieved.
- If the achievement of non-financial performance criteria falls below a certain minimum threshold number of selected non-financial performance criteria, the amount of the payout will be equal to zero.
- A step curve will be applied to calculate the payout between the achievement of the minimum threshold number of selected non-financial performance criteria and achievement of all selected non-financial performance criteria.

Investment

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

For the performance year 2018, the short-term incentive is allocated as follows:

in %	Short-term incentive as percentage of annual gross base salary in 2018				
Performance criterion	Weight	Minimum		At target	Maximum
Organic growth	10%	0	CEO	4%	6%
			CFO	3.5%	5.2%
ROS	20%	0	CEO	8%	12%
			CFO	7%	10.5%
EBITDA	20%	0	CEO	8%	12%
			CFO	7%	10.5%
Free cash flow	10%	0	CEO	4%	6%
			CFO	3.5%	5.2%
Non-financial performance criteria	40%	0	CEO	16%	24%
			CFO	14%	21%
TOTAL	**100%**	**0**	**CEO**	**40%**	**60%**
			CFO	**35%**	**52.5%**

In 2018, the performance against the financial performance criteria was as follows:

in %	2018 performance on financial performance criteria	
Financial performance criterion	Payout as % of target amount	Payout as % of annual gross base salary
Organic growth	0%	0%
ROS	0%	0%
EBITDA	0%	0%
Free cash flow	0%	0%

The HR Committee reviewed performance of the members of the Executive Board against the non-financial performance criteria, which have been derived from Kendrion's strategic priorities and focus on sustainability, China and operational improvement, and made recommendations to the Supervisory Board accordingly. The score varied among the members of the Executive Board and ranged between 14% and 24% of the annual gross base salary.

Overall performance resulted in the following payout of the short-term incentive in 2018: CEO EUR 117,816 and CFO EUR 47,035.

Long-term incentive

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

The members of the Executive Board are eligible for a grant of conditional performance shares. The actual number of performance shares is determined by the Supervisory Board in accordance with the provisions of the Remuneration Policy. The conditional performance shares will vest upon achievement of performance measured over a period of three years following the grant date, and are restricted by a holding period for another two years after vesting.

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

Target value

- The target value at grant date is set at the following maximum:
  - 55% of the annual gross base salary of the CEO as per the grant date
  - 50% of the annual gross base salary of the CFO as per the grant date

Performance measure

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

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

EPS

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

Non-financial measure – sustainability

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

Performance incentive zone

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

Relative TSR

- The relative TSR will be measured against the performance of twelve selected TSR peer companies.
- The calculation to determine Kendrion's ranking shall be conducted by an external independent and reputable specialised firm designated by the Supervisory Board.
- Kendrion's ranking, after three years, determines the number of performance shares that vest, in accordance with the following performance incentive zone:

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

TSR Performance Peer Group

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

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

With respect to the long-term incentive under the Remuneration Policy as adopted by the General Meeting of Shareholders in April 2018, the CEO was granted 6,960 conditional performance shares and the CFO was initially granted 4,330 conditional performance shares.

It was announced in 2018 that Frank Sonnemans would step down as CFO per 1 January 2019. Consequently, all 4,330 conditional performance shares initially granted to him lapsed in accordance with the provisions of the long-term incentive plan. Further details regarding the settlement of share-based plans in which Frank Sonnemans participated is provided on this page and on page 78.

The table shows how the number of conditional performance shares has been calculated.

	Target amount	Average share price Q4 2017	Conditional performance shares
CEO	EUR 269,995 (i.e. 55% of EUR 490,900)	EUR 38.79	6,960
CFO	EUR 167,983 (i.e. 50% of EUR 335,966)	EUR 38.79	4,330*

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

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

Settlement variable remuneration CFO

Following the announcement in 2018 that Frank Sonnemans would step down as CFO per 1 January 2019, the HR Committee made recommendations to the Supervisory Board regarding the settlement of his variable remuneration, in particular regarding the settlement of share based plans in which Frank Sonnemans participated.

The table on page 78 provides an overview of Kendrion N.V. shares held by Frank Sonnemans pursuant to the share based plans in which he participated and the way in which these plans were settled.

The cash settlement of in total 3,057 share match shares (i.e. the sum of 1,321 shares (gross) for the performance period 2017-2019 and 1,736 (gross) for the performance period 2016-2018) against a per share amount of EUR 25.46 (i.e. the average rate during the fourth quarter of 2018 up to and including 4 December 2018) resulted in an aggregate cash amount of EUR 77,831 (gross).

The cash settlement of in total 4,403 shares (i.e. the sum of 2,026 shares granted under the 2017 variable remuneration and 2,377 shares granted under the 2016 variable remuneration) against a per share amount of EUR 25.46 (i.e. the average rate during the fourth quarter of 2018 up to and including 4 December 2018) resulted in an aggregate cash amount of EUR 112,100 (gross).

Without prejudice to the provision of the Kendrion N.V. Insider Trading Code and applicable laws and regulations on market abuse, any applicable holding period for Kendrion N.V. shares held by Frank Sonnemans expires per 1 January 2019.

The Supervisory Board has considered the above mentioned settlement arrangement of Frank Sonnemans in light of the principles of reasonableness and fairness and has concluded that the outcome is fair.

* All 4,330 conditional performance shares lapsed due to resignation CFO.

Variable remuneration CFO

2018		Settlement
Conditional performance shares	4,330	All 4,330 conditional performance shares lapsed in accordance with the applicable Remuneration Policy and long-term incentive plan.
2017		
Conditional shares	2,026[1]	All 2,026 conditional shares: (i) become unconditional as per 1 January 2019 in line with the then applicable Remuneration Policy (ii) have been settled in cash based on the average rate of Q4 2018 up to and including 4 December 2018
Share match shares (1:1) performance period 2017-2019	1,321 (gross)[2]	All 1,321 share match shares have been settled in cash based on the average rate of Q4 2018 up to and including 4 December 2018
2016		
Conditional shares	2,377[3]	All 2,377 conditional shares: (i) become unconditional as per 1 January 2019 in line with the then applicable Remuneration Policy (ii) have been settled in cash based on the average rate of Q4 2018 up to and including 4 December 2018
Share match shares (1:1) performance period 2016-2018	1,736 (gross)[4]	All 1,736 share match shares have been settled in cash based on the average rate of Q4 2018 up to and including 4 December 2018
2015		
Shares	2,083[5]	The holding period for all 2,083 shares expires per 1 January 2019
Share match shares (1:2) performance period 2015-2017	1,512[6]	The holding period for all 1,512 shares expires per 1 January 2019

Vesting and holding periods CEO

The expiry of vesting periods and holding periods for conditional shares awarded to Joep van Beurden are specified as follows:

Variable remuneration	Number of shares	Expiry vesting period	Expiry holding period
CEO long-term variable remuneration 2018	6,960[7]	End of 2020	End of 2022
CEO long-term variable remuneration 2017	3,383[8]	End of 2020	End of 2022
CEO long-term variable remuneration 2016	3,970[9]	End of 2019	End of 2021

1 Calculated on the basis of the closing share price on 9 April 2018.
2 Based on 40% achievement of performance criteria and time pro-rated.
3 Calculated on the basis of the closing share price on 10 April 2017.
4 Based on 40% achievement of performance criteria.
5 Calculated on the basis of the closing share price on 11 April 2016.
6 Based on 100% achievement of performance criteria.
7 Calculated on the basis of the average share price Q4 2017.
8 Calculated on the basis of the closing share price on 9 April 2018.
9 Calculated on the basis of the closing share price on 10 April 2017.

Pension and other benefits

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

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

The Executive Board participates in the defined contribution plan of Kendrion. The pension contribution in 2018 was EUR 30,546 (2017: EUR 32,473) for the CEO and EUR 30,546 (2017: EUR 32,515) for the CFO.

Share ownership guideline

Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual gross base salary for the CEO and 50% of the annual gross base salary for the CFO. This shareholding has to be gradually built up with performance shares earned under the long-term incentive, although it is permitted to sell shares to finance taxes due at the date of vesting of the performance shares, and by shares purchased with 20% of the net amount of the payout of the short-term incentive.

Policy in case of change of control

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

Severance payment

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

Pay ratio

The Executive Board to employee pay ratio is approximately 12 (2017: 13). This pay ratio is based on the average of the 2018 Executive Board remuneration including pensions and other expenses and the average wage costs per FTE in 2018 as disclosed on page 47.

Remuneration of the Supervisory Board

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

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

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

The aggregate amount of the remuneration of the Supervisory Board members in 2018 amounts to EUR 172,000. The table below gives a breakdown of the remuneration in 2018 per Supervisory Board member.

Supervisory Board member	2018
H. ten Hove	EUR 50,000
M.J.G. Mestrom	EUR 41,000
J.T.M. van der Meijs	EUR 41,000
T.J. Wünsche	EUR 40,000
Total	EUR 172,000

FINANCIAL STATEMENTS - CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Note	EUR million	2018	2017*	1 Jan. 2017*
	Assets			
	Non-current assets			
1	Property, plant and equipment	113.6	105.6	100.0
2	Intangible assets	116.1	117.9	124.5
3	Other investments, including derivatives	3.1	0.2	0.4
4	Deferred tax assets	13.2	12.5	16.2
5	Contract costs	0.4	0.5	–
	Total non-current assets	**246.4**	**236.7**	**241.1**
	Current assets			
6	Inventories	63.5	57.3	52.6
	Current tax assets	1.0	1.0	1.2
7	Trade and other receivables	54.2	57.6	54.5
8	Cash and cash equivalents	10.2	7.6	12.4
	Total current assets	**128.9**	**123.5**	**120.7**
	Total assets	**375.3**	**360.2**	**361.8**

Note	EUR million	2018	2017*	1 Jan. 2017*
	Equity and liabilities			
9, 10	**Equity**			
	Share capital	27.1	27.0	26.8
	Share premium	39.8	49.6	56.4
	Reserves	101.4	83.5	79.3
	Retained earnings	13.8	19.5	14.9
	Total equity	**182.1**	**179.6**	**177.4**
	Liabilities			
11	Loans and borrowings	78.5	63.4	76.2
12	Employee benefits	19.2	19.1	21.4
4	Deferred tax liabilities	10.2	8.8	10.9
	Total non-current liabilities	**107.9**	**91.3**	**108.5**
8	Bank overdraft	9.3	11.7	2.7
11	Loans and borrowings	2.9	3.1	2.9
14	Provisions	4.1	0.8	1.2
	Current tax liabilities	1.6	1.4	0.7
15	Contract liabilities	8.2	8.5	5.8
16	Trade and other payables	59.2	63.8	62.6
	Total current liabilities	**85.3**	**89.3**	**75.9**
	Total liabilities	**193.2**	**180.6**	**184.4**
	Total equity and liabilities	**375.3**	**360.2**	**361.8**

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	EUR million	2018	2017*
20	Revenue	448.6	461.8
22	Other income	0.1	0.0
	Total revenue and other income	**448.7**	**461.8**
	Changes in inventories of finished goods and work in progress	(0.2)	(1.8)
	Raw materials and subcontracted work	237.0	242.9
23	Staff costs	134.3	134.2
2	Depreciation and amortisation	25.4	25.7
24	Other operating expenses	27.9	31.6
	Result before net finance costs	**24.3**	**29.2**
25	Finance income	0.2	0.1
25	Finance expense	(3.3)	(3.5)
	Share profit or loss of an associate	(0.1)	–
	Profit before income tax	**21.1**	**25.8**
26, 27	Income tax expense	(7.3)	(6.3)
	Profit for the period	**13.8**	**19.5**

Note	EUR million	2018	2017*
	Other comprehensive income		
	Remeasurements of defined benefit plans**	(0.4)	0.6
	Foreign currency translation differences for foreign operations***	2.1	(7.6)
	Net change in fair value of cash flow hedges, net of income tax***	(0.7)	0.6
	Other comprehensive income for the period, net of income tax	**1.0**	**(6.4)**
	Total comprehensive income for the period	**14.8**	**13.1**
10	Basic earnings per share (EUR), based on weighted average	1.03	1.45
10	Basic earnings per share (EUR), based on weighted average (diluted)	1.03	1.44

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.
** 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*

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2017, as previously reported	**26.8**	**56.4**	**11.6**	**(0.3)**	**–**	**68.7**	**14.9**	**178.1**
a	Impact of change in accounting policy	–	–	–	–	–	(0.7)	–	(0.7)
	Restated balance at 1 January 2017	**26.8**	**56.4**	**11.6**	**(0.3)**	**–**	**68.0**	**14.9**	**177.4**
	Restated total comprehensive income for the period								
	Restated profit or loss	–	–	–	–	–	–	19.5	19.5
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	0.6	–	0.6
	Foreign currency translation differences for foreign operations	–	–	(7.6)	–	–	–	–	(7.6)
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.6	–	–	–	0.6
	Other comprehensive income for the period, net of income tax	–	–	(7.6)	0.6	–	0.6	–	(6.4)
	Restated total comprehensive income for the period	**–**	**–**	**(7.6)**	**0.6**	**–**	**0.6**	**19.5**	**13.1**
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	0.2	3.5	–	–	–	–	–	3.7
	Own shares repurchased	–	–	–	–	(4.5)	–	–	(4.5)
	Share-based payment transactions	0.0	0.2	–	–	–	0.2	–	0.4
9	Dividends to equity holders	–	(10.5)	–	–	–	–	–	(10.5)
9	Appropriation of retained earnings	–	–	–	–	–	14.9	(14.9)	–
	Restated balance at 31 December 2017	**27.0**	**49.6**	**4.0**	**0.3**	**(4.5)**	**83.7**	**19.5**	**179.6**

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)*

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2018	**27.0**	**49.6**	**4.0**	**0.3**	**(4.5)**	**83.7**	**19.5**	**179.6**
	Total comprehensive income for the period								
	Profit or loss	–	–	–	–	–	–	13.8	13.8
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	(0.4)	–	(0.4)
	Foreign currency translation differences for foreign operations	–	–	2.1	–	–	–	–	2.1
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.7)	–	–	–	(0.7)
	Other comprehensive income for the period, net of income tax	–	–	2.1	(0.7)	–	(0.4)	–	1.0
	Total comprehensive income for the period	**–**	**–**	**2.1**	**(0.7)**	**–**	**(0.4)**	**13.8**	**14.8**
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	0.1	1.6	–	–	–	–	–	1.7
	Own shares sold	–	–	–	–	4.5	(0.5)	–	4.0
	Own shares repurchased	–	–	–	–	(6.6)	–	–	(6.6)
	Share-based payment transactions	0.0	0.2	–	–	–	0.0	–	0.2
9	Dividends to equity holders	–	(11.6)	–	–	–	–	–	(11.6)
9	Appropriation of retained earnings	–	–	–	–	–	19.5	(19.5)	–
	Balance at 31 December 2018	**27.1**	**39.8**	**6.1**	**(0.4)**	**(6.6)**	**102.3**	**13.8**	**182.1**

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	EUR million	2018	2017*
	Cash flows from operating activities		
	Profit for the period	13.8	19.5
	Adjustments for:		
25	Net finance costs	3.1	3.4
	Share profit or loss of an associate	0.1	–
	Income tax expense	7.3	6.3
1, 2	Depreciation of property, plant and equipment and software	23.1	22.5
2	Amortisation of other intangible assets	2.3	3.2
1, 2	Impairment of fixed assets	0.7	1.0
	Share-based payments	0.2	0.3
		50.6	56.2
	Change in trade and other receivables	3.6	(4.9)
	Change in inventories	(6.0)	(6.0)
	Change in trade and other payables	(5.6)	2.0
	Change in provisions	0.8	(2.1)
	Change in contract liabilities	(0.3)	2.7
		43.1	47.9
	Interest paid	(2.4)	(2.7)
	Interest received	0.2	0.1
	Tax paid	(4.2)	(3.8)
	Net cash flows from operating activities	**36.7**	**41.5**

Note	EUR million	2018	2017*
	Cash flows from investing activities		
3	Acquisition of equity-accounted investee	(2.6)	–
1	Investments in property, plant and equipment	(28.1)	(24.6)
1	Disinvestments of property, plant and equipment	0.7	0.6
2	Investments in intangible fixed assets	(3.3)	(4.5)
2	Disinvestments of intangible fixed assets	0.0	0.2
	(Dis)investments of other investments	(0.7)	(0.0)
	Net cash from investing activities	**(34.0)**	**(28.3)**
	Free cash flow	**2.7**	**13.2**
	Cash flows from financing activities		
11	Payment of lease liabilities	(2.1)	(2.2)
11	Proceeds from borrowings (non current)	17.0	–
11	Repayment of borrowings (non current)	–	(13.3)
11	Proceeds from borrowings (current)	0.0	0.0
9	Proceeds from the issue of share capital	0.0	0.0
9	Own shares bought	(6.6)	(4.5)
	Dividends paid	(5.8)	(6.6)
	Net cash from financing activities	**2.5**	**(26.6)**
	Change in cash and cash equivalents	5.2	(13.4)
	Cash and cash equivalents at 1 January	(4.1)	9.7
	Effect of exchange rate fluctuations on cash held	(0.2)	(0.4)
8	Cash and cash equivalents at 31 December	**0.9**	**(4.1)**

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

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 2018 comprise the Company and its subsidiaries (together also referred to as the 'Group'). The Group is involved in the design, manufacture and sale of high-quality electromagnetic systems and components.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements as of 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards published by the International Accounting Standards Board (IASB) as adopted by the European Union (hereinafter referred to as EU-IFRS). The Company financial statements are integrated part of the 2018 financial statements of Kendrion N.V.

The financial statements were authorised for issue by the Executive Board on 18 February 2019.

Application of new and revised EU-IFRS

In the current year, the Group has applied a number of new EU-IFRS standards (IFRS 9, 15 and 16) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union with permission to early adopt those standards. The Group decided to adopt those new standards as per 1 January 2018 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Financial instruments (IFRS 9)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial instruments: Recognition and Measurement*. Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The transition to IFRS 9 had no impact on the opening balance of reserves and retained earnings. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets, financial liabilities and derivative financial instruments.
For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note (e).

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in no additional allowance for impairment.
The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables and sales. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity. Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ('forward points') was recognized immediately in profit or loss. However, under IFRS 9 the forward points are separately accounted for as a cost of hedging. For an explanation of how the Group applies hedge accounting under IFRS 9, see note (e).

Revenue (IFRS 15)
The details of the changes in accounting policies are disclosed below and will replace accounting policy as per note (k)(i) of the Group's 2017 consolidated financial statements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.
Costs of obtaining a contract: Under IAS 18 capitalised costs of obtaining a contract were part of trade and other receivables. Under IFRS 15 these assets are presented separately on the balance sheet. The impact of this change is a decrease in trade and other receivables and a new contract asset.
Contract liabilities: Under IAS 18 contract liabilities were part of trade and other payables. Under IFRS 15 these liabilities are presented separately on the balance sheet. The impact of this change is a decrease in trade and other payables and a new contract liability.

The Group recognises 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. This involves five steps for recognition of revenue:

I. Identification of the contract with the customer (I);
II. Identification of performance obligations (II);
III. Determination of transaction price;
IV. Allocation of transaction prices to performance obligations; and
V. Recognition revenue over time or at one point in time 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.

The Group applied IFRS 15 as per 1 January 2018 using the retrospective approach applying two practical expedients. This means that the Group does not restate revenue for completed contracts that begin and end within the same reporting period or are completed contracts at the beginning of the earliest period presented.

Leases (IFRS 16)

The details of the changes in accounting policies are disclosed below and will replace accounting policy as per note (c)(ii) of the Group's 2017 consolidated financial statements. As per 1 January 2018 the Group assesses whether a contract is or contains a lease based on the definition of a lease as explained in note (c)(ii). Under IFRIC 4, the Group assessed a lease based on the assessment whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset(s); and
  - The arrangement had conveyed the right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output; or
  - The purchaser had the ability or right to control the physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2018.

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases:

- ‘Right-of-use of assets’ are part of financial statement caption ‘Property, plant and equipment’. Depreciation and impairment is similar to measurement of owned assets; and
- ‘Lease liabilities’ are part of financial statement captions non-current ‘Loans and borrowings’ and current ‘Loans and borrowings’. Interest is part of financial statement caption ‘Finance expense’.

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

The Group elects not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease component as a single lease component for only the following class of underlying asset: plant and equipment, other fixed assets.

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

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

The Group decided to apply the recognition exemptions to short-term leases and low-value lease assets.

- Short-term lease exemption will be assessed and applied on individual lease asset basis if the lease term (non-cancellable period plus reasonably certain lease term modifications) is equal to or less than 12 months and the lease arrangement does not contain a purchase option; and
- Individual lease assets with a new value of EUR 5,000 or less (or any other foreign exchange equivalent) are considered to be low value assets. Therefore these assets are not recognised on-balance. Accordingly, the Group shall recognise lease payments associated with those leases as an expense.

Under IFRS 16, the Group continues to account for the sale-and-leaseback transactions occurred for properties in Prostejov (Czech Republic) and Engelswies (Germany). The Group recognised a right-of-use asset and a lease liability for the leaseback in the same way as for the other right-of-use assets and lease liabilities.
The Group applied IFRS 16 using full retrospective approach. Financial statements are drafted as if IFRS 16 had always been applied. This means that the Group applies the standard to all leases in which it is a lessee and restates its comparative information.

Restated consolidated financial statements
For the purpose of comparison the tables on the next pages show the line items affected on the Group's consolidated financial statements as of 31 December 2017 by adopting IFRS 9 (retrospective), IFRS 15 (modified retrospective) and IFRS 16 (fully retrospective) as per 1 January 2018. Adoption of IFRS 9 had no material impact. All adjustments as presented below refer to adoption of IFRS 16 except for those on financial statement captions contract costs and contract liabilties due to adoption of IFRS 15.

Consolidated statement of financial position

Impact of changes in accounting policies

	1 January 2017			31 December 2017		
EUR million	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Property, plant and equipment	85.5	14.5	100.0	90.4	15.2	105.6
Deferred tax assets	16.0	0.2	16.2	12.3	0.2	12.5
Contract costs	–	–	–	–	0.5	0.5
Trade and other receivables	54.5	–	54.5	58.1	(0.5)	57.6
Other	191.1	–	191.1	184.0	–	184.0
Total assets	**347.1**	**14.7**	**361.8**	**344.8**	**15.4**	**360.2**
Retained earnings	14.9	0.0	14.9	19.5	0.0	19.5
Other	163.2	(0.7)	162.5	160.8	(0.7)	160.1
Total equity	**178.1**	**(0.7)**	**177.4**	**180.3**	**(0.7)**	**179.6**
Loans and borrowings	63.7	15.4	79.1	50.4	16.1	66.5
Deferred tax liabilities	10.9	0.0	10.9	8.8	0.0	8.8
Contract liabilities	–	5.8	5.8	–	8.5	8.5
Trade and other payables	68.4	(5.8)	62.6	72.3	(8.5)	63.8
Other	26.0	–	26.0	33.0	–	33.0
Total liabilities	**169.0**	**15.4**	**184.4**	**164.5**	**16.1**	**180.6**
Total equity and liabilities	**347.1**	**14.7**	**361.8**	**344.8**	**15.4**	**360.2**

The adjustments regarding 'Contract costs', 'Trade and other receivables', 'Contract liabilities' and 'Trade and other payables' all relate to IFRS 15 Revenue. All other changes relate to IFRS 16 Leases. As of 31 December 2018 the amounts accounted for as a result of the implementation of IFRS 16 are EUR 13.1 million lease assets and EUR 14.0 million lease liabilities.

Consolidated statement of comprehensive income

Impact of changes in accounting policies for the year ended 31 December 2017

EUR million	As previously reported	Adjustments	As restated
Revenue	461.8	–	461.8
Other income	0.0	–	0.0
Total revenue and other income	**461.8**	**–**	**461.8**
Changes in inventories of finished goods and work in progress	(1.8)	–	(1.8)
Raw materials and subcontracted work	242.9	–	242.9
Staff costs	134.2	–	134.2
Depreciation and amortisation	23.5	2.2	25.7
Other operating expenses	34.3	(2.7)	31.6
Result before net finance costs	**28.7**	**0.5**	**29.2**
Finance income	0.1	–	0.1
Finance expense	(3.0)	(0.5)	(3.5)
Profit before income tax	**25.8**	**–**	**25.8**
Income tax expense	(6.3)	0.0	(6.3)
Profit for the period	**19.5**	**0.0**	**19.5**
Other comprehensive income for the period, net of income tax	(6.4)	(0.0)	(6.4)
Total comprehensive income for the period	**13.1**	**0.0**	**13.1**

All these changes relate to IFRS 16. There is no material impact on the Group's basic or diluted earnings per share for the year ended 31 December 2017. In 2018 the amounts accounted for as a result of the implementation of IFRS 16 are EUR 2.3 million depreciation and EUR 0.6 million finance expense.

Consolidated statement of cash flows

Impact of changes in accounting policies for the year ended 31 December 2017

EUR million	As previously reported	Adjustments	As restated
Profit for the period	19.5	0.0	19.5
Adjustments for:			
Net finance costs	2.9	0.5	3.4
Income tax expense	6.3	(0.0)	6.3
Depreciation of property, plant and equipment and software	20.3	2.2	22.5
Other	4.5	–	4.5
Changes in working capital excluding cash and debt	(8.3)	–	(8.3)
Interest paid	(2.2)	(0.5)	(2.7)
Interest received	0.1	–	0.1
Tax paid	(3.8)	0.0	(3.8)
Net cash flows from operating activities	**39.3**	**2.2**	**41.5**
Net cash from investing activities	**(28.3)**	**–**	**(28.3)**
Free cash flow	**11.0**	**2.2**	**13.2**
Payment of lease liabilities	–	(2.2)	(2.2)
Other	(24.4)	–	(24.4)
Net cash from financing activities	**(24.4)**	**(2.2)**	**(26.6)**
Change in cash and cash equivalents	(13.4)	–	(13.4)
Cash and cash equivalents at 1 January	9.7	–	9.7
Effect of exchange rate fluctuations on cash held	(0.4)	–	(0.4)
Cash and cash equivalents at 31 December	(4.1)	–	(4.1)

All these changes relate to IFRS 16.

(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.

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.

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

- note 4 – tax losses not recognised
- note 12 – measurement of defined benefit obligations
- note 19 – contingent assets and liabilities
- note 20 – applying aggregation criteria with reference to operating segments

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

- note 1 – assessment of useful life and residual value of assets with a definite useful life
- note 2 – assessment of useful life and residual value of assets with a definite useful life
- note 2 – management forecast and growth rate of each cash-generating unit to determine whether goodwill is impaired
- note 4 – utilisation of tax losses
- note 6 – valuation of inventories
- note 12 – salary and pension growth of defined benefit obligations
- note 14 – provisions
- note 17 – valuation of financial instruments

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

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

On 4 October 2018, the Group reached an agreement to sell all shares in Kendrion Mechatronics Center GmbH to management of Kendrion Mechatronics Center GmbH for an amount of EUR 1.00. From that date on, the financial statements of Kendrion Mechatronics Center GmbH have been deconsolidated by the Group.

(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) Lease

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

- the contract involves the use of an identified asset, either implicitly or explicitly specified in a contract. A capacity or other portion of an asset that is not physically distinct is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the right to obtain substantially all of the economic benefits from use of the asset. If the supplier has a substantive substation right, then the asset is not identified.

- the Group has the right to obtain substantially all of the economic benefits from use of the asset through the period of use; and
- the Group has the right to direct the use of the asset as the Group has the right to direct how and for what purpose the asset is used throughout the period of use; or relevant decisions about how and for what purpose the asset is used are predetermined. Predetermination means that the Group has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or the Group designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

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

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

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

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

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

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

Lease liability might include:

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

The lease liability is initially measured at amortised cost using the effective interest method representing the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate at inception date of the contract. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or in the Group's assessment of exercising a purchase, extension or termination option.

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

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

(v) Recognition of transaction results

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

(d) Intangible assets

(i) Goodwill

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

Financial instuments

Non-derivative financial instuments

Recognition and initial measurement

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

Classification and subsequent measurement

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

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

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

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

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

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

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

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

Financial liabilities

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

Offsetting

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

Other investments

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

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

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

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

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

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

Derivative financial instruments, including hedge accounting
The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. At 31 December 2018, no embedded derivatives existed.

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

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

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve.

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

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

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

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

(f) Inventories

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

(g) Impairment

(i) Financial assets

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

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance to the contract and the cash flows that the Group expects to receive.

The expected credit losses for significant financial assets are determined on an individual basis. The remaining financial assets are assessed collectively in groups of assets that have similar credit risk characteristics.

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

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

(ii) Non-financial assets

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

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

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

(iii) Reversal of impairment losses

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

(iv) Calculation of recoverable amount

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

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

(h) Share capital

(i) Ordinary shares

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

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

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

(iii) Dividends

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

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(iii) Other long-term service benefits

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

(iv) Share-based payment transactions

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

(v) Short-term employee benefits

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

(vi) Termination benefits

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

(j) Provisions

A provision is recognised in the statement of financial position if the Group has a present legal or constructive obligation as a result of a past event, that can be 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) Revenue from contracts with customers

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

Sale of goods and services

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

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration (e.g. early payment discount, volume rebates), the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and or volume rebates and or early payment discount. These conditions might give rise to variable consideration.

Certain contracts provide a customer the right to apply an early payment discount when the consideration to which the Group is entitled is transferred to the Group before the contractual agreed credit terms. Those rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future early payment rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the payment behaviour in the past and or any agreement with the customer when the consideration will be transferred.

Revenue from services is recognised over time based on the cost-to-cost method. The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities.

Contract costs

The Group recognises incremental costs of obtaining a contract and certain costs to fulfil a contract as an asset if the Group expects to recover those costs. Any capitalised contract costs assets must be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(ii) Government grants

Grants are initially recognised at fair value in statement of financial position as deferred income. Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as operating income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

(l) Expenses

(i) Lease expenses

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease terms of 12 months or less and lease of low-value assets. Individual lease assets with a new value of EUR 5,000 or less (or any other foreign exchange equivalent) are considered to be low value assets. The Group recognises the lease payments associated with these leases as an expense on straight-line basis over the lease term.

(ii) Net finance costs

Finance income comprises interest income on funds invested, and financial assets held to maturity. Interest income is recognised in profit or loss as it accrues, using the effective interest method.
Finance expense comprises interest expense on borrowings, commitment fees, accrued interest on provisions, interest on pension liabilities, impairment losses recognised on financial assets and losses on interest rate hedge instruments to the extent they are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

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

(m) Income tax

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

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 8.12, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. In accordance with IFRS 8, the Company also discloses general and entity-wide information, including information about geographical areas and major customers of the Group as a whole. More information on the reportable segments is provided in note 20.

(p) New standards and interpretations

A number of 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 2018 and therefore apply to the year ended 31 December 2018:

- **IFRS 15: Revenue from contracts with Customers**
- **IFRS 9: Financial instruments**

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 2018 however are early adopted as per 1 January 2018 are as follows:

- **IFRS 16 Leases:** The European Union has endorsed on 31 October 2017 a new accounting standard, IFRS 16 Leases. This standard eliminates the current accounting model for lessees under IAS 17: on-balance sheet finance leases and off-balance sheet operating leases. This standard applies to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The Group decided to adopt full retrospective IFRS 16 as per 1 January 2018.

The following standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are not effective at 31 December 2018 and are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRIC 23 Uncertainty over Tax Treatments (current accounting for tax treatments is in accordance with IFRIC 23)
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts

(q) Fair values

(i) Measurement of fair value

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

(ii) Property, plant and equipment

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

(iii) Intangible assets

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

(iv) Lease liabilities

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

(v) Inventories

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

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

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

(vii) Interest-bearing loans

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

(viii) Derivatives

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

(ix) Non-derivative financial liabilities

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

(x) Contingent consideration

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

(r) Financial risk management

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

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

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

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

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

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

(i) Credit risk

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

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

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

(ii) Credit risk concentration

The customer with the largest receivable outstanding accounted for 7% of the trade and other receivables at 31 December 2018. In 2017, the largest customer outstanding at 31 December 2017 accounted for 6% of total trade and other receivables. Other customers individually accounted for 6% or less of the trade and other receivables at 31 December 2018. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players, this reduces the Group's dependency on the German market.

(iii) Investments and financial instruments

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

(iv) Liquidity risk

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

A summary of the credit lines available to the Group is disclosed in note 11 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of HSBC, Deutsche Bank and ING Bank on an equal basis. The Group had approximately EUR 76 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 55 million in order to reduce interest rate risk exposure to increasing market rates. EUR 20 million matures in 2020, EUR 15 million in 2021 and EUR 20 million matures in 2022.

(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 for the Group.

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

The Group is also exposed to risks associated with rare earth metals such as neodymium, a component of permanent magnets, which are used in some of the Group's products. Prices of these commodities have shown significant volatility in the past. The Group closely monitors developments in this market and has increased stock levels and the number of supply sources for these permanent magnets.

Furthermore, agreements have been made with customers representing the majority of the sales volume in this context, to link sales prices to movements in permanent magnet prices.

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

Raw materials are purchased separately by each business unit, but in accordance with the group policy reviewed periodically with the objective of further increasing and sharing knowledge on commodities and commodity markets between business units, reducing risks and/or prices.

(ix) Capital management

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

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

Kendrion intends to distribute an annual dividend of between 35% and 50% of the net profit, taking into consideration the amount of net profit to be retained to support the medium and long-term strategic plans of the company and to maintain a minimum solvency of 35%.

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

1 Property, plant and equipment

	2018	2017*
Property, plant and equipment owned	100.5	90.4
Property, plant and equipment right-of-use assets	13.1	15.2
Total	113.6	105.6

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2017	49.8	116.2	46.9	8.2	221.1
Acquired, other	3.1	11.2	5.9	11.1	31.3
Disposals	(0.6)	(3.3)	(2.1)	(6.7)	(12.7)
Currency translation differences	(0.4)	(0.6)	(0.1)	(0.2)	(1.3)
Balance as at 31 December 2017	51.9	123.5	50.6	12.4	238.4
Balance as at 1 January 2018	51.9	123.5	50.6	12.4	238.4
Acquired, other	4.0	14.1	5.7	10.7	34.5
Disposals	(0.0)	(3.0)	(2.2)	(6.8)	(12.0)
Currency translation differences	0.1	0.1	0.0	0.0	0.2
Balance as at 31 December 2018	56.0	134.7	54.1	16.3	261.1

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Depreciation and impairment losses					
Balance as at 1 January 2017	23.3	76.9	35.3	0.1	135.6
Depreciation for the year	1.9	10.4	4.5	0.0	16.8
Impairment	0.1	0.9	0.0	0.0	1.0
Disposals	(0.5)	(2.9)	(2.0)	–	(5.4)
Balance as at 31 December 2017	24.8	85.3	37.8	0.1	148.0
Balance as at 1 January 2018	24.8	85.3	37.8	0.1	148.0
Depreciation for the year	2.1	10.0	4.9	–	17.0
Impairment	–	0.2	0.1	–	0.3
Disposals	(0.0)	(2.7)	(2.0)	–	(4.7)
Balance as at 31 December 2018	26.9	92.8	40.8	0.1	160.6
Carrying amounts					
As at 1 January 2017	26.5	39.3	11.6	8.1	85.5
As at 31 December 2017	27.1	38.2	12.8	12.3	90.4
As at 1 January 2018	27.1	38.2	12.8	12.3	90.4
As at 31 December 2018	29.1	41.9	13.3	16.2	100.5

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2017	13.0	0.1	1.4	–	14.5
Acquired, other	2.4	0.1	0.4	–	2.9
Disposals	–	–	–	–	–
Currency translation differences	–	–	–	–	–
Balance as at 31 December 2017	15.4	0.2	1.8	–	17.4
Balance as at 1 January 2018	15.4	0.2	1.8	–	17.4
Acquired, other	–	0.0	0.4	–	0.4
Disposals	(0.1)	(0.1)	(0.0)	–	(0.2)
Currency translation differences	(0.0)	(0.0)	(0.0)	–	(0.0)
Balance as at 31 December 2018	15.3	0.1	2.2	–	17.6
Depreciation and impairment losses					
Balance as at 1 January 2017	–	–	–	–	–
Depreciation for the year	1.5	0.1	0.6	–	2.2
Impairment	–	–	–	–	–
Disposals	–	–	–	–	–
Balance as at 31 December 2017	1.5	0.1	0.6	–	2.2
Balance as at 1 January 2018	1.5	0.1	0.6	–	2.2
Depreciation for the year	1.6	0.0	0.7	–	2.3
Impairment	–	–	–	–	–
Disposals	–	–	–	–	–
Balance as at 31 December 2018	3.1	0.1	1.3	–	4.5
Carrying amounts					
As at 1 January 2017	13.0	0.1	1.4	–	14.5
As at 31 December 2017	13.9	0.1	1.2	–	15.2
As at 1 January 2018	13.9	0.1	1.2	–	15.2
As at 31 December 2018	12.2	0.0	0.9	–	13.1

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

The Executive Board reviews at each reporting period the estimated useful lives of each asset with a definite useful life. During the current year, the Executive Board determined that the useful lives do not require to be revised.

2 Intangible assets

EUR million	Goodwill	Development costs	Software	Other	Total
Cost					
Balance as at 1 January 2017	94.3	1.7	19.0	41.0	156.0
Acquired. other	–	1.6	2.9	–	4.5
Disposals	–	(0.2)	(0.0)	(0.0)	(0.2)
Currency translation differences	(3.4)	(0.0)	(0.0)	(0.8)	(4.2)
Balance as at 31 December 2017	90.9	3.1	21.9	40.2	156.1
Balance as at 1 January 2018	90.9	3.1	21.9	40.2	156.1
Acquired. other	–	1.8	1.5	–	3.3
Disposals	–	–	–	(0.0)	(0.0)
Currency translation differences	1.2	0.0	0.0	0.2	1.4
Balance as at 31 December 2018	92.1	4.9	23.4	40.4	160.8

EUR million	Goodwill	Development costs	Software	Other	Total
Amortisation and impairment losses					
Balance as at 1 January 2017	–	0.1	10.1	21.3	31.5
Amortisation for the year	–	0.3	3.2	3.2	6.7
Disposals	–	–	(0.0)	–	(0.0)
Balance as at 31 December 2017	–	0.4	13.3	24.5	38.2
Balance as at 1 January 2018	–	0.4	13.3	24.5	38.2
Amortisation for the year	–	0.3	3.5	2.3	6.1
Impairment	–	–	0.0	0.4	0.4
Disposals	–	–	–	–	–
Balance as at 31 December 2018	–	0.7	16.8	27.2	44.7
Carrying amounts					
At 1 January 2017	94.3	1.6	8.9	19.7	124.5
At 31 December 2017	90.9	2.7	8.6	15.7	117.9
At 1 January 2018	90.9	2.7	8.6	15.7	117.9
At 31 December 2018	92.1	4.2	6.6	13.2	116.1

Goodwill has an indefinite estimated useful life. The investments in software during 2018 of EUR 1.5 million (2017: EUR 2.9 million), mainly relate to upgrades of the ERP system. The other intangible assets comprise the carrying amount of customer relationships amounting to EUR 12.8 million (2017: EUR 15.2 million). These customer relationships were acquired through business combinations.

Depreciation and amortisation

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

EUR million	2018	2017*
Depreciation and amortisation	25.4	25.7

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. The Executive Board reviews at each reporting period the estimated useful lives of each intangible asset with a definite useful life.

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Impairment testing for cash-generating units containing goodwill

As part of the strategy announced on 3 May 2016 'Simplify, Focus, Grow' Kendrion eliminated the divisional management layer and reduced the number of business units from seven to five. Managements' approach to manage the company from a business unit perspective has been further enforced and became fully effective as from 1 January 2017. Goodwill as recognised on the balance sheet as on 1 January 2017 is reallocated to the five business units applying the relative value approach (IAS 36.87).

Goodwill EUR million	2018	2017
Business Unit - Industrial Magnetic Systems	6.7	6.4
Business Unit - Industrial Control Systems	17.7	17.1
Business Unit - Industrial Drive Systems	7.1	7.1
Business Unit - Passenger Cars	25.0	24.5
Business Unit - Commercial Vehicles	35.6	35.2

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 goodwill allocated to each individual cash-generating unit. This test was carried out by discounting future cash flows ('value in use') to be generated from the continuing use of the cash-generating unit to which the goodwill applies and on the assumption of an indefinite life. The cash flows for the next five years were based on mid-term plans and budgets drawn up by the local management and approved by the Executive Board. The Group did not recognise any impairment of goodwill in this reporting period.

For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a terminal growth rate of 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 in the residual value. The expected growth in cash flows as a result of these expansion investments was also excluded. Key assumptions used in the calculation of recoverable amounts concern discount rates, terminal value growth rates and EBITA growth. Key assumptions are based on past experience and source from external sources.

Discounted cash flow projections

	Discount rate		Terminal value growth rate	
	2018	2017	2018	2017
Business Unit - Industrial Magnetic Systems	7.3%	7.4%	2.0%	2.0%
Business Unit - Industrial Control Systems	7.0%	7.1%	2.0%	2.0%
Business Unit - Industrial Drive Systems	7.3%	7.0%	2.0%	2.0%
Business Unit - Passenger Cars	7.3%	7.3%	2.0%	2.0%
Business Unit - Commercial Vehicles	8.1%	8.1%	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 20%. All the post-tax weighted average cost of capital rates of cash generating units approximated 5.7% to 6.4%, and these rates were used for calculating the post-tax cash flows.

Terminal value growth rate
All cash generating units with goodwill have five years of cash flows included in their discounted cash flow models. A long-term growth rate in perpetuity has been 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 percentage by which either discount rate (post tax) or forecasted EBITA would need to change for the estimated recoverable amount to equal the carrying amount:

Change required for recoverable amount to equal carrying amount	Discount rate (post tax)		Forecasted EBITA	
	2018	2017	2018	2017
Business Unit - Industrial Magnetic Systems	20.7%	24.7%	(82%)	(83%)
Business Unit - Industrial Control Systems	18.0%	17.6%	(83%)	(82%)
Business Unit - Industrial Drive Systems	21.9%	19.1%	(82%)	(80%)
Business Unit - Passenger Cars	9.8%	21.3%	(71%)	(87%)
Business Unit - Commercial Vehicles	5.2%	6.7%	(55%)	(60%)

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, including derivatives
On 3 August 2018 Kendrion Holding USA Inc. acquired 30% of all issued shares in Newton CFV, Inc. for an amount of USD 3,000,000. Newton CFV is a US based company for flow control valves for the food and beverage industry. This minority share of 30% enables the Group to enter a strategic partnership for the development and manufacturing of innovative constant flow valves for the food and beverages industry. All acquired shares are preferred shares whereas Kendrion Holding USA Inc. is entitled to receive dividend in preference to holders of ordinary shares. The proportion voting rights held by Kendrion Holding USA Inc. is 30%. Kendrion Holding USA Inc. is entitled to convert the preferred shares into ordinary shares at an agreed upon conversion rate.

Other investments in 2018 include financial derivatives and recognised upfront and legal fees related to the facility agreement (see note 11). Kendrion amortises these costs over the remaining maturity of the facility. As these costs relate to the facility agreement as a whole and not to individual loans, these costs are not part of the effective interest rate of outstanding loans.

4 Deferred tax assets and liabilities

The Group has recognised deferred tax assets for tax loss carry-forwards in the following jurisdictions:

Germany

Tax assessments have been submitted for the German companies up to and including 2016. In 2017 tax audits started with regard to the assessment periods 2012-2014 with reference to our Northern Germany operating companies (years up to and 2011 are final) and assessment periods 2010-2014 with respect to our Southern Germany operating companies (years up to and 2009 are final). Only the tax audit of the assessment period 2010-2014 at Kendrion Markdorf is closed. Our operating company in Central Germany, Kendrion Aerzen, has been audited up to and including 2008 and the tax audit started in 2017 relates to assessment periods 2009-2014.

At 31 December 2018 tax loss carry forwards amounted to EUR 9.5 million ('Gewerbesteuer') and EUR 14.9 million ('Körperschaftsteuer'). These are recognised in full, resulting in deferred tax assets of EUR 3.1 million (2017: EUR 3.5 million).

United States of America

Tax assessments have been submitted up to and including 2017. The years 2015 up to 2017 are open for tax audits. At 31 December 2018 the tax loss carry forwards amounted to EUR 2.6 million (2017: EUR 2.7 million). These are recognised in full, resulting in deferred tax assets of EUR 0.5 million (2017: EUR 0.6 million).

The Netherlands

Tax assessments have been submitted up to and including 2016. The years 2012 up to 2018 are still open for potential tax audits.
At 31 December 2018 the tax loss carry-forwards amounted to EUR 1.6 million (2017: EUR 3.4 million). These are recognised in full, resulting in deferred tax assets of EUR 0.4 million (2017: EUR 0.8 million). These tax loss carry-forwards originated in 2012. The Dutch corporate income tax rate will decrease from 25% in 2018 to 24.3% in 2019, 23.9% in 2020 and 22.25% in 2021. This new legislation means that deferred tax positons as per 31 December 2018 are revalued and had a negative impact of EUR 0.5 million on net deferred taxes as per 31 December 2018.

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	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	1.8	0.3	5.0	3.1	(3.2)	(2.8)
Intangible assets	3.1	3.6	4.8	5.2	(1.7)	(1.6)
Inventories	0.3	0.2	0.2	0.2	0.1	(0.0)
Employee benefits	1.6	1.6	0.0	–	1.6	1.6
Provisions	0.3	0.2	0.1	0.2	0.2	(0.0)
Other items	2.1	1.7	0.1	0.1	2.0	1.6
Tax value of recognised loss carry-forwards	4.0	4.9	–	–	4.0	4.9
Deferred tax assets/liabilities	13.2	12.5	10.2	8.8	3.0	3.7

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

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be set off. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed if the probability of future taxable profits improves.
Tax loss carry forward limitation rules apply in certain jurisdictions in which Kendrion has carry forward tax losses. These rules might under certain circumstances lead to a (proportional) forfeiture of recognised and unrecognised carry forward tax losses in case of a direct or indirect change in ownership.

The tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position are reviewed each reporting date. These tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position amount to EUR 2.7 million (expires in period 2024-2029).

Movement in temporary differences during the financial year

Net, EUR million				2018
	At 1 January	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(2.8)	(0.4)	–	(3.2)
Intangible assets	(1.6)	(0.1)	–	(1.7)
Inventories	(0.0)	0.1	–	0.1
Employee benefits	1.6	(0.1)	0.1	1.6
Provisions	(0.0)	0.2	–	0.2
Other items	1.6	0.4	–	2.0
Tax value of loss carry-forwards used	4.9	(0.9)	–	4.0
	3.7	(0.8)	0.1	3.0

Net, EUR million				2017
	At 1 January	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(3.3)	0.5	–	(2.8)
Intangible assets	(2.5)	0.9	–	(1.6)
Inventories	0.2	(0.2)	–	(0.0)
Employee benefits	2.2	(0.4)	(0.2)	1.6
Provisions	(0.1)	0.1	–	(0.0)
Other items	1.8	(0.2)	–	1.6
Tax value of loss carry-forwards used	7.0	(2.1)	–	4.9
	5.3	(1.4)	(0.2)	3.7

In 2018, the net amount from the movement in deferred tax assets and liabilities, presented as tax in the statement of comprehensive income, is negative EUR 0.8 million (2017: negative EUR 1.4 million).

5 Contract costs

EUR million	2018	2017
Balance at 1 January	0.5	–
Costs to obtain a contract with customers	–	0.5
Amortisation	0.1	–
Other changes	–	–
Balance at 31 December	0.4	0.5

In 2017 the Group acquired a contract with a customer for which costs are made to acquire this contract. Those costs are recognised as contracts costs. Contract costs are amortised on a systematic basis that is consistent with the Group's transfer of the related goods to the customer.

6 Inventories

EUR million	2018	2017
Raw materials, consumables, technical materials and packing materials	34.9	31.3
Work in progress	12.4	11.4
Finished goods	13.0	12.2
Goods for resale	3.2	2.4
	63.5	57.3

The inventories are presented after accounting for a provision of EUR 8.2 million (2017: EUR 8.2 million) for obsolescence. In 2018, the amount of the write-down to net realisable value of the inventories was EUR 1.7 million (2017: EUR 1.4 million). The write-down and reversals are included in cost of sales.

7 Trade and other receivables

EUR million	2018	2017*
Trade receivables	48.0	50.2
Other taxes and social security	2.1	2.2
Other receivables	2.1	2.3
Derivatives used for hedging	0.1	0.4
Prepayments	1.9	2.5
	54.2	57.6

The credit and currency risks associated with trade and other receivables are disclosed in note 17, and in the financial risk management paragraph of note r.

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

8 Cash and cash equivalents

EUR million	2018	2017
Bank balances	10.2	7.6
Bank overdrafts	(9.3)	(11.7)
Cash and cash equivalents in the statement of cash flows	0.9	(4.1)

The bank balances include EUR 1.0 million (2017: EUR 1.1 million) of cash that is held in countries where the Group faces cross-border foreign exchange controls and/or other legal restrictions that inhibit the Groups ability to make these balances available for general use by the Group. The other bank balances are freely available. The interest rate risk for the Group and a sensitivity analysis for financial assets and liabilities are disclosed in notes 17 and r.

9 Capital and reserves

Capital and share premium

	Shares entitled to dividend		Shares owned by Kendrion		Total number of issued shares	
	2018	2017	2018	2017	2018	2017
At 1 January	13,396,034	13,396,034	121,586	–	13,517,620	13,396,034
Issued shares (share dividend)	168,298	115,157	(117,567)	–	50,731	115,157
Issued registered shares (share plan)	6,514	6,429	–	–	6,514	6,429
Delivered shares	4,019	1,843	(4,019)	(1,843)	–	–
Repurchased shares	(178,852)	(123,429)	178,852	123,429	–	–
At 31 December	13,396,013	13,396,034	178,852	121,586	13,574,865	13,517,620

Issuance of ordinary shares

In 2018, in total 50,731 new shares were issued as share dividend (2017: 115,157). During 2018, the Company delivered 10,533 shares to the Executive Board and senior management as part of its share plan and remuneration packages (2017: 8,272). The Company purchased 178,852 of its own shares in 2018 (2017: 123,429).

Ordinary shares

The authorised share capital consists of:

EUR million	2018	2017
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2018: 13,517,620 ordinary shares (2017: 13,396,034)	27.0	26.8
Balance at 31 December 2018: 13,574,865 ordinary shares (2017: 13,517,620)	27.1	27.0

Share premium

EUR million	2018	2017
Balance as at 1 January	49.6	56.4
Dividend payment	(11.6)	(10.5)
Share premium on issued shares	1.8	3.7
Balance as at 31 December	39.8	49.6

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 0.7 million negative (2017: EUR 0.6 million, positive). The hedge reserve increased by EUR 0.1 million due to the realisation of hedged transactions (2017: EUR 0.4 million increase). The hedge reserve decreased by EUR 0.8 million due to valuation effects (2017: EUR 0.2 million increase). There was no hedge ineffectiveness in 2018 (2017: 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 issueance of share dividend and the remuneration packages for the Executive Board. At 31 December 2018, the Company held 178,852 of its own shares (2017: 121,586).

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 2018, the result for 2017 was fully transferred to other reserves. Retained earnings in the 2018 financial statements consequently consist solely of the result for 2018.

10 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2018 is based on the profit for the period of EUR 13.8 million (2017: EUR 19.5 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2018: 13,396,000 (2017: 13,446,000).

EUR million	2018	2017
Net profit attributable to ordinary shareholders	13.8	19.5

Weighted average number of ordinary shares

In thousands of shares	2018	2017
Issued ordinary shares at 1 January	13,518	13,396
Effect of shares issued as share dividend	51	115
Effect of shares issued as share plan	7	6
Effect of own shares delivered and repurchased	–	–
Ordinary shares outstanding at 31 December	13,575	13,518
Weighted average number of ordinary shares entitled to dividend	13,396	13,446
Basic earnings per share (EUR), based on ordinary shares outstanding at 31 December	1.02	1.44
Basic earnings per share (EUR), based on weighted average shares entitled to dividend	1.03	1.45

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2018 is based on the profit of EUR 13.8 million (2017: EUR 19.5 million) attributable to the holders of ordinary shares and the weighted average numbers of shares during the year after adjustment for the effects of all dilutive potential ordinary shares of 13,407,000 (2017: 13,488,000).

EUR million	2018	2017
Net profit attributable to ordinary shareholders	13.8	19.5
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	13.8	19.5

Weighted average number of ordinary shares (diluted)

In thousands of shares	2018	2017
Weighted average number of ordinary shares entitled to dividend	13,396	13,446
Weighted average numbers of ordinary shares (diluted)	13,407	13,488
Basic earnings per share (EUR), based on weighted average (diluted)	1.03	1.44

11 Loans and borrowings

These notes contain information on the contractual provisions of the Group's interest-bearing loans and borrowings, which are carried at amortised cost price. For further information on the interest rates, and the currency and liquidity risks borne by the Group, see note 17 and accounting policy r.

EUR million	2018	2017*
Non-current liabilities		
Bank syndicate loans	64.0	46.0
Lease liabilities	11.9	13.8
Mortgage loans	2.3	3.0
Other loans	0.3	0.6
	78.5	63.4

EUR million	2018	2017*
Current liabilities		
Current portion lease liabilities	2.1	2.4
Current portion loans	0.8	0.7
	2.9	3.1

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

At 31 December 2018, the Group had the following credit lines available:

- EUR 150 million revolving Credit Facility with a syndicate of three banks consisting of HSBC, Deutsche Bank and ING Bank. The Credit Facility is committed until 27 July 2023 and includes an option (accordion option) to increase the facility by a maximum of EUR 75.0 million and the possibility to attract additional alternative sources of debt funding;
- EUR 14.0 million in leases for buildings, various equipment and vehicles;
- EUR 3.1 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 0.3 million in subsidised term loans with final maturity in 2019;
- EUR 1.0 million in other overdraft facilities.

At 31 December 2018, the total unutilised amount of the facilities was approximately EUR 76 million.

Banking syndicate credit facility

Pursuant to the terms of the credit facility with the banking syndicate, the Group has agreed to a financial covenant relating to the leverage ratio (interest bearing debt / EBITDA). In accordance with this covenant, the leverage ratio should remain below 3.0, which can under certain circumstances be temporarily increased to a maximum of 3.5. This covenant is tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 1.1 (2017: 1.0).

Security provided

The Group has provided a mortgage on its premises in Malente, Germany for a EUR 3.1 million loan. No security is provided in relation to the EUR 150 million revolving Credit Facility.

Interest-rate sensitivity

Interest on the EUR 3.4 million other loans is based on fixed-term interest rates. Interest amounts payable on the EUR 150 million revolving Credit Facility are based on short-term interest rate (mainly three months). See note 17 and accounting policy r for further details.

Lease liabilities

The lease liabilities are payable as follows:

EUR million	2018	2017*
‹ 1 year	2.1	2.4
1 – 5 years	7.9	9.1
› 5 years	4.0	4.7
	14.0	16.2

The lease liabilities mostly relate to leases for various buildings, vehicles and equipment.

For the right-of-use lease assets see note 1. For short-term leases and leases of low-value see note 24. For interest expenses related to lease liabilities see note 25.

Buildings

The Group leases properties for its offices and manufacturing facilities. Some lease arrangements contain conditions to revise the rentals based on changes of indices. The leases run for a period between 3 and 15 years. Majority of the leases include an option to renew the lease for an additional period after the contract term. Key assumption as applied by the Group is that all renewal options, which can be exercised within the mid-term plan period of five years and very likely to be exercised, are taken into consideration on top of the non-cancellable period of the lease.

Vehicles and equipment

The Group leases equipment with terms of two to five years. Based on experience the likelyhood that these lease arrangements are extended for a substantial period (> three months) is remote. Due to this no periods after the non-cancellable period of the lease are taken into consideration.

12 Employee benefits

EUR million	2018	2017
Present value of unfunded obligations	14.5	14.6
Present value of funded obligations	1.4	1.5
Fair value of plan assets	(0.9)	(0.9)
Recognised net liability for defined benefit obligations	15.0	15.2
Liability for long-service leave and anniversaries	4.2	3.9
Total employee benefits	19.2	19.1

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

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

EUR million	2018	2017
Recognised net liability for defined benefit obligations at 1 January	15.2	18.2
Expense recognised in the consolidated statement of comprehensive income	0.3	(1.0)
Benefits paid	(1.0)	(1.0)
Other movements (including currency differences and employer contributions paid)	–	(0.2)
Actuarial (gains) losses in other comprehensive income	0.5	(0.8)
Recognised net liability for defined benefit obligations at 31 December	15.0	15.2

Movement in plan assets

EUR million	2018	2017
Fair value of plan assets at 1 January	0.9	4.4
Contributions paid employer	–	0.1
Contributions paid participants	–	0.0
Benefits paid	(0.0)	(0.1)
Assets distributed on settlements and curtailments	–	(3.5)
Return on plan assets	0.0	0.0
Actuarial gains (losses) in other comprehensive income	(0.0)	0.0
Fair value of plan assets at 31 December	0.9	0.9

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

EUR million	2018	2017
Current service costs	0.1	0.2
Past service costs including losses/(gains) on settlements and curtailments	–	(1.4)
Net interest	0.2	0.2
	0.3	(1.0)
Effective return on plan assets	0.0	0.0

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

EUR million	2018	2017
Staff costs	0.1	(1.2)
Net finance costs	0.2	0.2
	0.3	(1.0)

Principal actuarial assumptions (expressed as weighted averages)

	2018	2017
Discount rate at 31 December	1.5%	1.5%
Future salary increases	0.1%	0.2%
Future pension increases	1.7%	1.7%

Historical information

EUR million	2018	2017	2016	2015	2014
Net liability for defined benefit obligations	15.9	16.1	22.6	22.9	22.3
Fair value of plan assets	0.9	0.9	4.4	5.6	5.0
Deficit in plan	15.0	15.2	18.2	17.3	17.3

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	2018	2017
Bonds	0.8	0.8
Equity	0.0	0.0
Real estate	0.0	0.0
Government loans	0.1	0.1
Other	0.0	0.0
Total	0.9	0.9

Sensitivity analysis

	Defined benefit obligation	
EUR million	0.5 percent point increase	0.5 percent point decrease
Discount rate	(0.8)	0.9
Future salary growth	0.1	(0.1)
Future pension	0.6	(0.6)

Liabilities arising from employee benefits

The pension plans included defined contribution plans as well as defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Calculations are made by qualified actuaries. The pension liability shown in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate methodology for accounting long-term employee benefits in accordance with IAS 19 is determined by the Executive Board. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The discount rate used to calculate the defined benefit obligation is based on the yield on AA-rated high-quality corporate bonds issued in Euros.

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

The greater part of the defined benefit obligation at year-end 2018 relates to post employment arrangements in Germany. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group companies is reinsured. All pension arrangements accounted for as defined benefit obligations are not open for new participants (< 15% active participants) except for the pension arrangement of Kendrion Switzerland. This pension arrangement is a contribution-based plan and pension premiums paid to the multi-employer fund are vested rights for plan participants. Kendrion Switzerland is liable for any shortfall (if any) of the multi-employer fund in which Kendrion Switzerland participates. In 2016 the Group decided to close the manufacturing facility in Switzerland. In 2017 the pension arrangement of Kendrion Switzerland is settled and resulted in a settlement gain of EUR 1.4 million. This settlement gain is recognised as service cost credit in 2017, see also note 23.

Liabilities arising from employee benefits also include liabilities relating to long-service, early retirement and service anniversaries of EUR 4.2 million (2017: EUR 3.9 million) in Germany and Austria.

13 Share-based payments

At 31 December 2018, the Group had the following share-based payment arrangements.

Share plan for the Executive Board (equity settled)

Details of the remuneration of the Executive Board are provided in note 28.

Loyalty bonus (equity settled)
The Group had a share incentive programme, which entitled certain 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 2,160 shares was issued in 2018, resulting from shares granted in 2015. Expenses recognised in profit or loss for the shares amount to EUR 0.2 million (2017: EUR 0.2 million).

Terms & conditions of the share programme (loyalty bonus)

Grant date	Number of instruments	Vesting conditions
Shares granted to management in 2016	1,817	3 years of service
Shares granted to management in 2017	2,687	3 years of service
Shares granted to management in 2018	4,003	3 years of service
Total shares	8,507	

14 Provisions

EUR million	2018	2017
Balance at 1 January	0.8	1.2
Provisions made during the period	6.8	0.6
Provisions transferred/used during the period	(3.5)	(1.0)
Provisions released during the period	–	–
Balance at 31 December	4.1	0.8
Non-current portion	–	–

The provisions formed during the year under review consist of a restructuring provision of EUR 4.5 million and a provision for the impact of tax audits of EUR 2.3 million.

The remainder of the restructuring provision is expected to be used in the course of 2019, however the exact timing is not known yet. The amounts and timing of the outflows related to the tax audits are expected to be finalised in 2019 however they are still uncertain.

The provisions used during the period include the usage of restructuring provisions of EUR 3.3 million and the usage of other provisions of EUR 0.2 million.

15 Contract liabilities

EUR million	2018	2017
Balance at 1 January	8.5	5.8
Consideration received	–	2.7
Recognised as revenue in the period	0.3	–
Other changes	–	–
Balance at 31 December	8.2	8.5

The contract liabilities relate to long-term advance consideration received from customers for investments made in equipment in order to fulfil the obligations according to the contract. Considerations are received and based on a mark-up on top of contractual agreed piece price during a certain period of time. Recognition is consistent with the Group's transfer of the related goods to the customer and released to profit or loss on a systematic basis that is consistent with depreciation and amortisation of related equipment.

16 Trade and other payables

EUR million	2018	2017*
Trade payables	41.7	43.8
Other taxes and social security contributions	0.9	0.9
Derivatives used for hedging	0.5	0.1
Non-trade payables and accrued expenses	16.1	19.0
	59.2	63.8

17 Financial instruments

Credit risk

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

EUR million	2018	2017
Cash and cash equivalents	10.2	7.6
Other long term investments	3.1	0.2
Current income tax	1.0	1.0
Trade and other receivables	54.2	57.6
Total	68.5	66.4

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Impairment losses

Aging analysis of the trade and other receivables

EUR million	2018		2017	
	Gross	Provision	Gross	Provision
Within the term of payment	39.4	–	45.3	–
0 – 30 days due	10.6	–	8.9	–
31 – 60 days due	1.9	–	1.5	–
> 60 days due	2.8	(0.5)	2.2	(0.3)
Total trade and other receivables	54.7	(0.5)	57.9	(0.3)

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 2018 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 2018 are collectible. EUR 4.7 million of trade receivables are 30 days overdue, of which EUR 0.5 million is provided for. The Group has written off less than EUR 0.1 million receivables in 2018 (2017: 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 accounted for 7% of the trade and other receivables at 31 December 2018. At 31 December 2017 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.

Credit risk rating grades

The credit quality of the Group's financial assets, contract assets and financial guarantee contracts, as well as the Group's maximum exposure to credit risk by credit riks rating grades on the reporting date was as follows:

31 December 2018							2017
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk - Doubtful	Lifetime ECL	48.5	(0.5)	48.0
Contract costs	5	N/A	Low risk	Lifetime ECL	0.4	–	0.4
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	2.6	–	2.6
Other investments	3	N/A	Low risk	Lifetime ECL	0.7	–	0.7
					52.2	(0.5)	51.7

Liquidity risk

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

31 December 2018 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	64.0	(66.4)	(0.3)	(0.3)	(0.5)	(65.3)	–
Lease liabilities	14.0	(16.3)	(1.3)	(1.3)	(2.4)	(7.1)	(4.2)
Bank overdrafts	9.3	(9.3)	(9.3)	–	–	–	–
Other loans and borrowings	3.4	(3.6)	(0.6)	(0.6)	(0.8)	(1.6)	–
Trade and other payables	67.4	(67.4)	(67.4)	–	–	–	–
Tax liabilities	1.6	(1.6)	(1.6)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.3	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	–
Forward exchange contracts	0.3	(0.3)	(0.2)	(0.1)	–	–	–
Total	160.3	(165.3)	(80.8)	(2.4)	(3.8)	(74.1)	(4.2)

31 December 2017 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	46.0	(47.2)	(0.3)	(0.3)	(46.6)	–	–
Lease liabilities*	16.2	(19.0)	(1.4)	(1.4)	(2.8)	(6.0)	(7.4)
Bank overdrafts	11.7	(11.7)	(11.7)	–	–	–	–
Other loans and borrowings	4.3	(4.9)	(0.6)	(0.6)	(1.2)	(2.5)	–
Trade and other payables	72.3	(72.3)	(72.3)	–	–	–	–
Tax liabilities	1.4	(1.4)	(1.4)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.1	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	152.0	(156.6)	(87.7)	(2.3)	(50.7)	(8.5)	(7.4)

* Prior year (2017) restated due to adoption of IFRS 16 as per 1 January 2018.

It is not expected that the cash flows included in the maturity analysis should occur significantly earlier, or at significantly different amounts. Within the scope of the Group's risk management the Group has hedged the currency and interest risks with derivatives, whereby the hedges have been designated as cash flow hedges.

Cash flow hedges (in statement of cash flows)

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

2018 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)	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	–
Forward exchange contracts							
Assets	0.1	0.1	0.0	0.1	–	–	–
Liabilities	(0.3)	(0.3)	(0.2)	(0.1)	–	–	–
Total	(0.5)	(0.6)	(0.3)	(0.1)	(0.1)	(0.1)	–

2017 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	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.4	0.0	–	–	–
Liabilities	–	–	–	–	–	–	–
Total	0.3	0.3	0.4	0.0	(0.1)	(0.0)	–

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.

2018 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)	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	–
Forward exchange contracts							
Assets	0.1	0.1	0.0	0.1	–	–	–
Liabilities	(0.3)	(0.3)	(0.2)	(0.1)	–	–	–
Total	(0.5)	(0.6)	(0.3)	(0.1)	(0.1)	(0.1)	–

2017 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	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.4	0.0	–	–	–
Liabilities	–	–	–	–	–	–	–
Total	0.3	0.3	0.4	0.0	(0.1)	(0.0)	–

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 55 million. The aggregate fair value of the outstanding interest rate swaps at 31 December 2018 was EUR 0.3 million negative (2017: EUR 0.1 million negative).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. The majority of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalise the nominal interest rate. The EUR 3.1 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.

				2018		2017*	
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	IBOR + 0.8%	2023	64.0	64.0	46.0	46.0
Mortgage loan	EUR	6.4%	2022	3.2	3.1	3.9	3.7
Other loans	EUR	3.5%	2019	0.3	0.3	0.6	0.6
Bank overdrafts	Various	IBOR + 0.8%	2019	9.3	9.3	11.7	11.7
Lease liabilities*	Various	2.0% - 7.8%	Various	14.0	14.0	16.2	16.2
Total interest-bearing debt				90.8	90.7	78.4	78.2

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

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 2018 would not have had a material effect on the 2018 profit for the period.

The Group has hedged a considerable part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps and the loans with a fixed rate, in total EUR 58.3 million of the EUR 76.7 million long-term and short-term loans, excluding lease liabilities, at financial year-end have an interest rate which is fixed for one year or longer. Based on the interest bearing debt levels at year-end and expected cash flow development, a 1% point increase in the interest rate across the yield curve as from 1 January 2019, will have an increasing effect on interest expenses in 2019 of maximum EUR 0.2 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was negative EUR 0.2 million at 31 December 2018 (2017: positive EUR 0.4 million).

A 10% point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2018 and the result for 2018 by the amounts shown in the following table. A 10% point depreciation of the listed currencies against the euro would have had the opposite effect. The same test was done for the profit or loss, where the sensitivities for a 10% appreciation or depreciation on 31 December would have had an impact as is shown below.

31 December 2018	Equity	Result
US dollar	5.0	0.0
Czech koruna	0.5	(0.1)
Chinese yuan	1.7	0.3
Romanian lei	1.0	0.3

31 December 2017	Equity	Result
US dollar	4.7	(0.0)
Czech koruna	0.2	(0.2)
Chinese yuan	0.4	0.1
Romanian lei	1.2	0.5

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2018	At 31 December 2017	Average over 2018
Pound sterling	0.8945	0.8872	0.8858
Czech koruna	25.7241	25.5350	25.6581
Chinese yuan	7.8751	7.8044	7.8148
US dollar	1.1450	1.1993	1.1803
Romanian lei	4.6635	4.6585	4.6556
Swedish krona	10.2548	9.8438	10.2541

Fair values of financial instruments

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

EUR million	2018		2017*	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Receivables (including current tax assets)	55.2	55.2	58.6	58.6
Cash and cash equivalents	10.2	10.2	7.6	7.6
Held to maturity investments	3.1	3.1	0.2	0.2
	68.5	68.5	66.4	66.4
Liabilities carried at amortised costs				
Banking syndicate loans	(64.0)	(64.0)	(46.0)	(46.0)
Mortgage loan	(3.1)	(3.2)	(3.7)	(3.9)
Other loans	(0.3)	(0.3)	(0.6)	(0.6)
Lease liabilities	(14.0)	(14.0)	(16.2)	(16.2)
Bank overdraft	(9.3)	(9.3)	(11.7)	(11.7)
Trade and other payables (including current tax liabilities)	(69.0)	(69.0)	(73.7)	(73.7)
	(159.7)	(159.8)	(151.9)	(152.1)
Liabilities carried at fair value				
Interest derivatives	(0.3)	(0.3)	(0.1)	(0.1)
Forward exchange contracts	(0.2)	(0.2)	0.4	0.4
	(0.5)	(0.5)	0.3	0.3

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

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

Interest rate used in measuring fair value

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

	2018	2017
Derivatives	0.0%	0.0%
Leases	0.8%	1.4%
Banking syndicate loans	0.8%	1.4%
Mortgage loans	1.1%	1.8%
Other loans	1.1%	1.8%

Fair value hierarchy

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The fair value calculation method of all assets and liabilities carried at amortised costs is categorised in level 2 of the fair value hierarchy. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2018				
Derivative contracts used for hedging	–	(0.5)	–	(0.5)
Total	–	(0.5)	–	(0.5)
31 December 2017				
Derivative contracts used for hedging	–	0.3	–	0.3
Total	–	0.3	–	0.3

Master netting

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

18 Capital commitments

As at 31 December 2018 the Group had capital commitments totalling to EUR 5.0 million (2017: EUR 7.4 million).

19 Contingent assets and liabilities

A component supplier initiated legal proceedings against a Kendrion subsidiary. Kendrion denies all claims and has issued a counterclaim. The facts and circumstances known to date do not justify that a provision is taken.

Contingent liabilties

The Group had guarantees in particular with regard to rentals, financing facilties and post employee benefits totalling to EUR 1.5 million (2017: EUR 1.5 million).

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

20 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	
	2018	2017*	2018	2017*	2018	2017*
Revenue from transactions with third parties	251.9	275.2	116.7	103.5	20.9	21.1
Other non-current assets	167.7	170.0	35.4	29.6	7.1	4.6
Deferred tax assets	7.9	6.6	3.2	4.3	0.0	0.0
Net liability for defined benefit obligations	14.2	14.4	0.8	0.8	–	–

EUR million	The Americas		Consolidated	
	2018	2017*	2018	2017*
Revenue from transactions with third parties	59.2	62.0	448.6	461.8
Other non-current assets	23.0	20.0	233.2	224.2
Deferred tax assets	2.1	1.6	13.2	12.5
Net liability for defined benefit obligations	–	–	15.0	15.2

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Revenue segmented by customer location

EUR million	2018	2017
Germany	214.9	231.9
Other European countries	118.8	112.1
Asia	36.9	39.4
The Americas	75.3	76.4
Other countries	2.7	2.0
Total	448.6	461.8

Information about reportable segments

Kendrion has split all activities over two segments: Automotive and Industrial. Based on the structure of the Group and the criteria of IFRS 8 - Operating segments, Kendrion has concluded that within this structure the Kendrion business units are the operating segments within the Group. Based on the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. The automotive activities of the business units Passenger Cars and Commercial Vehicles focus on developing and manufacturing innovative high-quality electromagnetic components, solutions and applications for customers in the automotive industry. These business units have similar economic characteristics and display a number of similarities with respect to their technology, production processes, equipment and customers. The industrial activities of the business units Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems focus on developing and manufacturing electromagnetic systems and components for industrial applications. These business units also have similar economic characteristics and display a number of similarities with respect to their technology, production processes, equipment and customers.

EUR million	Industrial		Automotive		Corporate activities		Consolidated	
	2018	2017*	2018	2017*	2018	2017*	2018	2017*
Revenue from transactions with third parties	164.7	162.5	283.9	299.3	–	–	448.6	461.8
Inter-segment revenue	0.1	0.1	0.6	0.5	–	–	0.7	0.6
EBITA	20.1	16.1	6.3	16.9	0.2	(0.6)	26.6	32.4
EBITA margin	12.2%	9.9%	2.2%	5.6%	–	–	5.9%	7.0%
EBITA**	20.5	17.1	14.7	21.0	0.2	(0.6)	35.4	37.5
EBITA margin**	12.5%	10.5%	5.2%	7.0%	–	–	7.9%	8.1%
Reportable segment assets	134.9	125.1	225.5	220.6	14.9	14.5	375.3	360.2
Reportable segment employees (FTE)	922	903	1,505	1,703	38	39	2,465	2,645

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

** Normalised for non-recurring restructuring costs of EUR 8.8 million for FY 2018 and of EUR 5.1 million for FY 2017.

Major customers

Two customers (Volkswagen and ThyssenKrupp Bilstein) individually account for more than 5% of the company's total revenue.

21 Business combinations and acquisitions of non-controlling interests

On 3 August 2018 Kendrion Holding USA Inc. acquired 30% of all issued shares in Newton CFV, Inc. enabling the Group to enter a strategic partnership for the development and manufacturing of innovative constant flow valves for the food and beverages industry. All acquired shares are preferred shares whereas Kendrion Holding USA Inc. is entitled to receive dividend in preference to holders of ordinary shares and preferred shares can be converted into ordinary shares at an agreed upon conversion rate. The proportion voting rights held by Kendrion Holding USA Inc. is 30%.

On 4 October 2018, the Group reached an agreement to sell all shares in Kendrion Mechatronics Center GmbH to management of Kendrion Mechatronics Center GmbH for an amount of EUR 1.00. From that date on, the financial statements of Kendrion Mechatronics Center GmbH have been deconsolidated by the Group. After the loss of control all assets and liabilities were derecognised and the loss of EUR 0.5 million resulting from this derecognition was charged to the profit or loss in the other operating expenses.

22 Other income

EUR million	2018	2017
Net gain on disposal of property, plant and equipment	0.1	0.0
Other	0.0	0.0
	0.1	0.0

The other income 2018 include EUR 0.1 million one-off income related to the simplification measures.

23 Staff costs

EUR million	2018	2017
Wages and salaries	107.8	107.5
Social security charges	18.5	19.5
Temporary personnel	4.1	4.7
Contributions to defined contribution plans	0.4	0.4
Expenses related to defined benefit plans	0.1	(1.2)
Increase in liability for long-service leave	0.2	0.1
Other costs of personnel	3.2	3.2
	134.3	134.2
Total number of employees and temporary workers at 31 December (FTE)	2,465	2,645

The number of employees and temporary workers at 31 December 2018 working in the Netherlands is 10 (2017: 11).
The staff costs 2018 include EUR 6.4 million one-off costs related to the simplification measures (2017: EUR 3.2 million).

24 Other operating expenses

EUR million	2018	2017*
Lease expenses	0.3	0.4
Increase in provision for doubtful debts	0.1	0.1
Premises costs	5.5	6.9
Maintenance expenses	6.3	6.5
Transport expenses	1.4	1.7
Consultancy expenses	5.0	5.6
Sales and promotion expenses	1.4	1.9
Car, travel and representation costs	3.0	3.3
Other	4.9	5.2
	27.9	31.6

Lease expenses represent expenses as incurred for short-term leases that have a lease term of twelve months or less and leases of low-value assets (EUR 5,000 or less). The other operating expenses 2018 include EUR 1.7 million costs related to the simplification measures (2017: EUR 1.7 million).

25 Net finance costs

EUR million	2018	2017*
Interest income	0.2	0.1
Net exchange gain	–	–
Finance income	0.2	0.1
Interest expenses	(2.2)	(2.2)
Interest expenses related to lease liabilities	(0.6)	(0.5)
Interest expenses related to employee benefits	(0.2)	(0.2)
Net exchange loss	(0.3)	(0.6)
Finance expense	(3.3)	(3.5)
Net financing costs	(3.1)	(3.4)

The interest expenses 2018 include EUR 0.3 million one-off costs related to the impact of tax audits.

* Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

26 Income tax

EUR million	2018	2017
Current tax charge on year under review	(7.3)	(6.3)
Total corporation tax expenses in the income statement	(7.3)	(6.3)

The income tax 2018 include EUR 0.2 million one-off costs related to the impact of tax audits.

27 Reconciliation of effective tax rate

	Reconciliation effective tax rate		Reconciliation in EUR million	
	2018	2017	2018	2017
Profit before income tax			21.1	25.8
Income tax expense at local corporation tax rate	25.0%	25.0%	5.3	6.5
Non-deductible expenses	1.8%	1.1%	0.4	0.3
Effect of tax rates in foreign jurisdictions	(1.4)%	(0.8)%	(0.3)	(0.2)
Tax exempt income	(2.6)%	(2.9)%	(0.5)	(0.8)
Changes in estimates related to prior years	10.0%	0.2%	2.1	0.1
Utilisation of previously unrecognised tax losses	(0.3)%	(0.8)%	(0.1)	(0.2)
Current-year losses for which no deferred tax asset is recognised	1.7%	1.3%	0.3	0.3
Other movements	0.4%	1.3%	0.1	0.3
	34.6%	24.4%	7.3	6.3

The changes in estimates related to prior years mainly relate to the provision for the impact of tax audits.

28 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 177 and 178.

* Restated to correctly reflect for all pension and other expenses.

Compensations of key management personnel
The remuneration of the Executive Board and Supervisory Board is as follows:

EUR thousand	2018	2017*
Short-term benefits	1,218.0	1,128.0
Post-employment benefits	155.6	154.9
Other long-term benefits	–	–
Share-based payments	1.0	423.6
Termination benefits	–	–
	1,374.6	1,706.5

The total remuneration is included in staff costs (see note 23). For a description of the remuneration policy of the members of the Executive Board, see pages 73 to 79.

The achievement of the performance criteria set for 2018 was 60% for the CEO (2017: 90%). CEO will, based on this performance, receive a variable remuneration of 24% of his gross fixed remuneration. The CEO's gross variable remuneration amounts to EUR 117,816 (2017: EUR 170,748) which will be paid in cash. Members of the Executive Board have to invest at least 20% of the net amount of the payout of the short-term incentive earned until the required ownership level has been reached as prescribed under Kendrion's 'Share ownership guideline'.

The achievement of the performance criteria set for 2018 was 40% for the CFO (2017: 90%). CFO will, based on this performance, receive a variable remuneration of 14% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 47.035 (2017: EUR 102,251) which will be paid in cash.
The CFO resigned voluntarily as per 1 January 2019. Within the framework of the applicable remuneration policy, the shares granted to the CFO under the short-term variable remuneration in 2016 and 2017, being 4,403 shares, become unconditional as per 1 January 2019 in line with the then applicable remuneration policy. Based on actual performance for the periods 2016-2018 (40%) and 2017-2019 (40% time pro-rated), CFO receives 3,057 shares as long-term variable remuneration. These share grants will be paid out in cash against the average share price in the fourth quarter up to and including 4 December 2018. This results in a cash settlement amount of EUR 189,931.
The amount charged to the profit or loss regarding the long-term variable remuneration policy was EUR 1,018 (2017: EUR 241,570).

Any applicable holding period for shares held by the CFO expires per 1 January 2019 as a consequence of his resignation per the same date. The vesting and holding periods for shares awarded to the CEO are specified as follows:

Description	Number of shares	Vesting period	Holding period
Shares granted to the CEO (variable remuneration 2016)	3,970	End of 2019	End of 2021
Shares granted to the CEO (variable remuneration 2017)	3,383	End of 2020	End of 2022

Pensions

The Executive Board participates in the defined contribution plan of the Company. For 2018, the contribution was EUR 30,546 (2017: EUR 32,473) for the CEO and EUR 30,546 (2017: EUR 32,515) for the CFO.

Transactions with shareholders

There were no transactions with shareholders.

29 Other notes

The subsidiary Kendrion Holding Germany GmbH, Villingen-Schwenningen, Germany included in these consolidated financial statements makes use of § 264(3) HGB (German Commercial Code). In accordance with that rule, the consolidated financial statements of Kendrion Holding Germany GmbH as of 31 December 2018 were not published. A complete list of all subsidiaries is available from the Amtsgericht in Freiburg im Breisgau (number HRB 704749) and from the Company offices. The following German legal entities are consolidated in these consolidated financial statements: Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH, Kendrion (Markdorf) GmbH, Kendrion (Aerzen) GmbH, Kendrion Kuhnke GmbH, Kendrion Kuhnke Automation GmbH, Kendrion Kuhnke Automotive GmbH, Kendrion FAS Controls Holding GmbH and Ochrea Grundstücksverwaltungsgesellschaft mbh & Co Vermietungs KG.

The subsidiary Kendrion (UK) Ltd. (registration number 1124810), Bradford, United Kingdom included in these consolidated financial statements is exempt from the requirements of section 479A (audit of accounts) of the Companies Act 2006.

COMPANY BALANCE SHEET AT 31 DECEMBER

(before profit appropriation)

Note	EUR million	2018	2017*
	Fixed assets		
	Property, plant and equipment	0.1	0.2
	Intangible assets	–	–
	Other investments, including derivatives	0.4	0.1
1.3	Financial fixed assets	224.1	210.8
	Total non-current assets	**224.6**	**211.1**
	Current assets		
1.4	Receivables	1.0	0.6
	Cash and cash equivalents	0.0	0.0
	Total current assets	**1.0**	**0.6**
	Total assets	**225.6**	**211.7**
1.5	**Equity**		
	Share capital	27.1	27.0
	Share premium	39.8	49.6
	Legal reserves	9.9	7.0
	Other reserves	91.5	76.5
	Retained earnings	13.8	19.5
	Total equity	**182.1**	**179.6**
1.6	**Current liabilities**		
	Loans and borrowings	42.1	30.1
	Payables	1.4	2.0
	Total current liabilities	**43.5**	**32.1**
	Total equity and liabilities	**225.6**	**211.7**

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

COMPANY INCOME STATEMENT

Note	EUR million	2018	2017*
	Revenue	–	–
1.8	Other income	4.1	4.2
	Total revenue and other income	**4.1**	**4.2**
1.9	Staff costs	2.6	3.0
	Depreciation and amortisation	0.1	0.1
	Other operating expenses	1.5	1.6
	Result before net finance costs	**(0.1)**	**(0.5)**
	Finance income	0.6	0.1
	Finance expense	(1.2)	(1.1)
	Profit before income tax	**(0.7)**	**(1.5)**
	Income tax expense	(0.5)	(0.3)
	Profit for the period	**(1.2)**	**(1.8)**
	Share in results of Group companies after tax	15.0	21.3
1.10	**Net profit**	**13.8**	**19.5**

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

1 Notes to the company financial statements

1.1 General

The Company financial statements are part of the 2018 financial statements of Kendrion N.V. (the 'Company'). The Company is registered at the Chamber of Commerce in The Netherlands under number: 30113646.

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

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

1.3 Financial fixed assets

EUR million	Interest in Group companies	Loans to Group companies	Deferred tax	Total 2018	Total 2017*
Carrying amount at 1 January	207.8	2.1	0.9	210.8	210.7
Impact of change in accounting policy	–	–	–	–	(0.6)
Results of Group companies	15.0	–	–	15.0	21.3
Movements in loans and borrowings	–	(2.1)	–	(2.1)	(13.9)
Movements in deferred tax assets	–	–	(0.5)	(0.5)	(0.2)
Other movements	0.9	–	–	0.9	(6.5)
Carrying amount at 31 December	223.7	0.0	0.4	224.1	210.8

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 159 and 160 of the Annual Report.

* Prior year (2017) restated due to adoption of IFRS 16 as per 1 January 2018.

1.4 Receivables

EUR million	2018	2017
Receivables from Group companies	0.8	0.4
Prepayments and accrued income	0.2	0.2
	1.0	0.6

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 2018	Total 2017*
Restated balance at 1 January 2017	27.0	49.6	4.0	0.3	2.7	(4.5)	81.6	19.5	180.2	178.1
Impact of change in accounting policy	–	–	–	–	–	–	–	–	–	(0.7)
Appropriation of retained earnings	–	–	–	–	–	–	19.5	(19.5)	–	–
Foreign currency translation differences for foreign operations	–	–	2.1	–	–	–	–	–	2.1	(7.6)
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.7)	–	–	–	–	(0.7)	0.6
Issue of ordinary shares	0.1	1.6	–	–	–	–	–	–	1.7	3.7
Own shares sold	–	–	–	–	–	4.5	(0.5)	–	4.0	–
Own shares repurchased	–	–	–	–	–	(6.6)	–	–	(6.6)	(4.5)
Share-based payment transactions	0.0	0.2	–	–	–	–	0.0	–	0.2	0.4
Dividend payment	–	(11.6)	–	–	–	–	–	–	(11.6)	(10.5)
Other	–	–	–	–	1.5	–	(2.5)	–	(1.0)	0.6
Total recognised income and expenses	–	–	–	–	–	–	–	13.8	13.8	19.5
Balance at 31 December	27.1	39.8	6.1	(0.4)	4.2	(6.6)	98.1	13.8	182.1	179.6

1.5.1 Share capital

The authorised capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 13,574,865 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.

* Prior year (2017) restated due to adoption of IFRS 16 as per 1 January 2018.

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 2018, the Company held 178,852 of its own shares (2017: 121,586).

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 2018, the full result for 2017 was included in other reserves. Retained earnings consequently consist solely of the result for 2018.

1.6 Current liabilities

EUR million	2018	2017*
Debts to Group companies	42.0	29.8
Lease liability	0.1	0.3
Trade payables	0.2	0.6
Other payables and accrued expenses	1.2	1.4
	43.5	32.1

* Restated due to adoption of IFRS 9, IFRS 15, IFRS 16 as per 1 January 2018.

1.7 Financial instruments

See note 17 to the consolidated financial statements for details on financial instruments.

1.8 Other income

EUR million	2018	2017
Management fee	4.1	4.2
Other	–	–
	4.1	4.2

1.9 Staff costs

EUR million	2018	2017
Wages and salaries	2.0	2.4
Social security charge	0.1	0.1
Pension costs	0.3	0.3
Other costs of personnel	0.2	0.2
	2.6	3.0
Total number of employees and temporary workers at 31 December (FTE)	10	11

The average number of FTEs during the year was 10 (2017: 11). The Company has only defined contribution plans for its employees.

1.10 Profit appropriation

Appropriation of net profit

EUR million	2018	2017
Net profit	13.8	19.5

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 13.8 million will be added to the other reserves.

Commitments not appearing on the balance sheet

1.11.1 Joint and several liability and guarantees

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

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

1.11.2 Fiscal unity

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

1.12 Post balance sheet events

There were no post-balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2018.

1.13 Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by Deloitte Accountants B.V. and its member firms and affiliates in 2018 and 2017 to the Company, its subsidiaries and other consolidated entities:

EUR thousand			2018			2017
	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte
Audit of financial statements	187.3	248.2	435.5	161.1	266.3	427.4
Other assurance services	29.5	–	29.5	32.5	–	32.5
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	–	–	–
Total	216.8	248.2	465.0	193.6	266.3	459.9

1.14 Remuneration of and share ownership by the Executive Board and Supervisory Board

Remuneration of the Executive Board

The remuneration of current Executive Board members charged to the Company and Group companies, including pension expenses as referred to in Section 383, subsection 1, of Book 2 of the Netherlands Civil Code, amounted to EUR 1,202,600 (2017: EUR 1,520,500). This remuneration is as follows:

EUR thousand	2018			2017*		
	J.A.J. van Beurden	F.J. Sonnemans	Total	J.A.J. van Beurden	F.J. Sonnemans	Total
Fixed remuneration	490.9	336.0	826.9	474.3	324.6	798.9
Short-term variable remuneration	117,8	47.0	164.8	170.7	102.3	273.0
Long-term variable remuneration	81.3	(80.3)	1.0	35.7	205.9	241.6
Total remuneration	690.0	302.7	992.7	680.7	632.8	1.313.5
Pension and other expenses	93.8	116.1	209.9	92.7	114.3	207.0
	783.8	418.7	1,202.6	773.4	747.1	1.520.5

The 2018 short-term variable remuneration will be paid in cash after income tax.

For more information on the long-term variable remuneration see pages 153 and 154.

* Restated to correctly reflect for all pension and other expenses.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2018 amounts to EUR 172,000 (2017: EUR 186,000). This remuneration is as follows:

EUR thousand	2018	2017
H. ten Hove	50	50
M.J.G. Mestrom	41	41
J.T.M. van der Meijs	41	41
T.J. Wunsche	40	40
Remuneration member who resigned as from 10 April 2017	–	14
	172	186

No loans, advances or related guarantees have been given to the Executive Board or Supervisory Board members.

Share ownership by the Executive Board and the Supervisory Board

		31 December 2018	31 December 2017
Executive Board	J.A.J. van Beurden	21,780	21,233
	F.J. Sonnemans	7,104	2,995
Supervisory Board		–	–

Zeist, 18 February 2019

Executive Board
J.A.J. van Beurden

Supervisory Board
H. ten Hove
M.J.G. Mestrom
J.T.M. van der Meijs
T.J. Wünsche

Provisions in the Articles of Association governing the appropriation of profit

Under article 35.1 and 35.2 of the Articles of Association of the Company, the Executive Board shall, with the approval of the Supervisory Board, determine which part of the profits is added to the reserves. The profit remaining after transfer to the reserves is available to the General Meeting of Shareholders. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by the Executive Board at the date of each dividend payment.

To the Shareholders and the Supervisory Board of Kendrion N.V.

Independent auditor's report

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the accompanying financial statements 2018 of Kendrion N.V., based in Zeist. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:
- The accompanying consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at December 31, 2018, and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at December 31, 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
- The consolidated statement of financial position as at December 31, 2018.
- The following statements for 2018: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:
- The company balance sheet as at December 31, 2018.
- The company profit and loss account for 2018.
- The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Kendrion N.V. in accordance with the EU Regulation on specific requirements regarding the statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit Firms Supervision Act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 1,900,000 (2017: EUR 1,400,000). The materiality is based on 7.5% of the 2017 profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material to the users of the financial statements for qualitative reasons.

Based on the actual 2018 profit before tax, which was 18% lower than in 2017, we have reassessed our materiality level considering several factors including the range of the benchmark and alternative bases such as EBITDA (reported and normalized) and the effect of non-recurring gains and losses. We also considered the component materiality applied on audit procedures performed at component level, which does not exceed 60% of group materiality. We concluded that the materiality is appropriate.

We agreed with the Supervisory Board that misstatements in excess of EUR 95 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Kendrion N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Kendrion N.V..

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit had to be carried out on the complete set of financial information or specific items.

Kendrion N.V. is divided into two reportable segments, as disclosed in note 20 of the consolidated financial statements. These two reportable segments encompass 35 reporting entities (‘components’). The most significant components are Kendrion (Eibiswald) GmbH, Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH, Kendrion Kuhnke Automotive GmbH and Kendrion (Shelby) Inc. which on a combined basis contribute approximately 61% of the consolidated revenue.

Our group audit mainly focused on significant components in terms of size and financial interest or where significant risks or complex activities were present, leading to full scope audits performed for 13 components.

At group level, we have performed audit procedures regarding the corporate entities and we also performed full scope audit procedures on Kendrion (Shelby) Inc. Furthermore, we performed audit procedures at group level in areas such as consolidation, reporting, goodwill and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.

For all relevant foreign components, the group audit team provided detailed written instructions, which – in addition to communicating the requirements of component audit teams – detailed significant audit areas and information obtained centrally relevant to the audit of individual components including awareness of risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included procedures such as visiting components and/or component teams in Germany and the United States, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed. For smaller components we have performed review procedures or specific audit procedures.

Considering their share in consolidated revenue, 96% of the components is subject to audit procedures. Analytical review procedures have been performed in respect of the components that have not been audited.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior years, we included the decentralization of the Group as a separate key audit matter. In 2018, we continue to consider audit attention areas relating to the decentralized group and our group audit, which we describe in the "Scope of our group audit" paragraph. As such, we do not consider it necessary to include a separate key audit matter.

Key audit matter – Valuation of goodwill

Goodwill represents 25% of the balance sheet and 51% of total equity. In accordance with IFRS management is required to perform a yearly impairment test to ensure that Kendrion's goodwill is not carried at a value exceeding its recoverable amount. The audit procedures carried out on the valuation of goodwill are regarded as a key audit matter due to the deteriorated financial performance of the Group in Q4 of 2018. In addition, the valuation of goodwill is susceptible to management judgment and estimates and is based on assumptions that are affected by future market and economic conditions.

How the key audit matter was addressed in the audit

We have addressed the goodwill valuation by testing the assumptions, discount rates, methodologies and financial data used. Considering the degree of judgment and management estimate incorporated in the valuation of goodwill, we have involved a valuation specialist to assist us. Specific focus was given to the sensitivity in the available headroom of cash-generating units (CGUs) where a reasonably possible change in the underlying assumption could cause the carrying amount to exceed its recoverable amount. This specifically concerned the CGUs that operate within the automotive segment. We have also assessed management's internal controls with regard to budgeting given the recent financial performance of the Company.

Observation

The company has disclosed the key assumptions, sensitivities and conclusions from the impairment test in note 2. Our procedures did not result in reportable findings.

Key audit matter – IFRS 16 Leases	How the key audit matter was addressed in the audit
IFRS 16 replaces the existing standard IAS 17 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Executive Board of Kendrion has decided to early adopt IFRS 16 Leases effective January 1, 2018. The implementation of IFRS 16 is considered a key audit matter due to the judgments needed in establishing the underlying key assumptions.	We have evaluated the application of IFRS 16 and tested the resulting impact on the balance sheet and income statement. We have assessed whether the accounting regarding leases is consistent with the definitions of IFRS 16 including factors such as lease term, discount rate and measurement principles. Furthermore, we have assessed the retrospective application and verified whether this is consistent with the definition and expedients of IFRS 16. Due to the degree of management judgment in establishing the underlying assumptions we have involved a valuation specialist in assessing the appropriateness of the discount rates used in the IFRS 16 calculations. The Company disclosed its adoption of IFRS 16 including key assumptions in the notes to the consolidated financial statements. **Observation** Based on our procedures performed and our assessment of the disclosures made, we have not identified any reportable matters.

Key audit matter – General IT controls	How the key audit matter was addressed in the audit
Kendrion has operations in different countries that use one groupwide IT platform, which is located and maintained in Villingen, Germany. In the last couple of years, management has been in the process of establishing a formal IT control framework and further enhancing the overall IT environment. We consider Kendrion's IT landscape and general IT controls over financial reporting as basis for designing audit procedures that are appropriate for our audit. We have included general IT controls as a key audit matter because effective 2018, the responsibility of the IT audit work was transferred to the Dutch group engagement team.	We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes. IT audit specialists have been deployed to assist us with testing the group's general IT controls. **Observation** We have shared our observations and recommendations in relation to general IT controls with management. We will follow up on these observations as part of our 2019 audit. In 2018, we were not able to rely on the general IT controls for our audit approach. Alternatively, we gained the required level of assurance from additional substantive audit procedures. Based on our audit procedures performed, we concluded that the risks of material misstatement are sufficiently addressed.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the Executive Board;
- Report of the Supervisory Board;
- Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- Other Information included in the Annual Report.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were appointed during the Annual General Meeting as auditor of Kendrion N.V. on April 13, 2015, for the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding the Financial Statements

Responsibilities of management and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as management deems 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 frameworks mentioned, the Executive Board should prepare the financial statements using

the going concern basis of accounting unless the Executive Board 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Executive Board and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, February 18, 2019

Deloitte Accountants B.V.

B.E. Savert

To: the Shareholders and Supervisory Board of Kendrion N.V.

Assurance report of the independent auditor with respect to the 2018 Sustainability Information of Kendrion N.V.

Our conclusion

We have reviewed the Sustainability Information in the 2018 Annual Report of Kendrion N.V. at Zeist. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed nothing has come to our attention that causes us to believe that the sustainability information does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year 2018 in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) 'Core' option and the applied supplemental reporting criteria as disclosed in the chapter 'About the CSR review' of the 2018 Annual Report.

The sustainability information consists of performance information regarding Energy consumption, Absolute- and Relative CO_2-emissions, Accidents and Lost Time Injuries, Acceptance of Supplier Code of Conduct and Number of Supplier audits in the sections 'Facts and Figures' on page 9 and 'Sustainability' on page 33 – 46 of the 2018 Annual Report (hereafter: "the KPIs").

Basis for our conclusion

We have performed our review on the sustainability information in accordance with Dutch law, including Dutch Standard 3810N 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements relating to sustainability reports) which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This assurance engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of our report.

We are independent of Kendrion N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. Kendrion NV is solely responsible for selecting and applying these reporting criteria, taking into account applicable laws and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in the chapter 'About the CSR review' of the 2018 Annual Report.

Responsibilities of the Management Board and the Supervisory Board for the sustainability information
The Management Board is responsible for the preparation of the sustainability information in accordance with the GRI Standards 'Core' option and the applied supplemental reporting criteria as disclosed in the chapter 'About the CSR review' of the 2018 Annual Report, including the identification of stakeholders and the definition of material matters. The choices made by the Management Board regarding the scope of the sustainability information and the reporting policy are summarized in the chapter 'About the CSR review' of the 2018 Annual Report.

The Management Board is also responsible for such internal controls as the Management Board deems necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.
The Supervisory Board is responsible for overseeing the reporting process of Kendrion N.V.

Our responsibilities for the review of the sustainability information
Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information, and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in assurance engagements with a limited level of assurance is therefore substantially less than the assurance obtained in an audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' (Regulations for professional accountants practices on assurance engagements) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgment and have maintained professional skepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our review engagement included:

- Performing an analysis and obtaining insight into relevant environmental and social themes and issues, and the characteristics of the organization.
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialog and the reasonableness of management's estimates.
- Evaluating the design and implementation of the reporting systems and processes related to the information in the report.
- Reviewing internal and external documentation to determine whether the information as included in the KPIs, including the presentation and assertions made in the report, is adequately supported.
- Interviewing management and relevant staff at group level responsible for the sustainability strategy and policy.
- Interviewing relevant staff responsible for providing the information in the report, carrying out internal control procedures on the data and consolidating the data in the report.
- An analytical review of the data and trends submitted for consolidation at corporate level.
- Assessing whether the report has been prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) 'Core' option.

We communicate with the Supervisory Board regarding, among other matters, the planned scope, timing and outcome of the review.

Amsterdam, February 18, 2019

Deloitte Accountants B.V.

B. E. Savert

1 2016 excluding one-off costs relating to simplifying measures of EUR 5.7 million (after tax EUR 4.7 million), 2017 excluding one-off costs relating to simplifying measures of EUR 5.1 million (after tax EUR 3.8 million) and 2018 excluding one-off costs relating to simplifying measures of EUR 8.8 million (after tax EUR 6.5 million), EUR 0,3 million finance expenses and EUR 2,0 million tax expenses.

2 2016, 2017 and 2018 excluding accruals and provisions related to the simplifying measures. In 2018 excluding provision for tax audit.

3 Excluding cash flows relating to acquisitions and disposals (2014 excluding EC fine payment and 2016, 2017 and 2018 excluding one-off costs relating to simplifying measures).

4 The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities, the amortisation of upfront and legal fees and the interest on lease liabilities.

5 Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

EUR million, unless otherwise stated	2018	2017[5]	2016	2015	2014
Kendrion N.V. consolidated					
Statement of normalised comprehensive income					
Revenue	448.6	461.8	443.4	442.1	428.9
Organic growth	(2.9)%	4.2%	0.3%	3.1%	8.2%
Operating result before amortisation (EBITA)[1]	35.4	37.5	31.1	25.8	32.9
Depreciation of property, plant, equipment and software	23.1	22.5	20.3	19.4	16.4
Operating result before depreciation and amortisation (EBITDA)[1]	58.5	60.0	51.4	45.2	49.3
Net profit for the period[1]	22.6	23.3	19.6	16.8	20.2
Statement of financial position at 31 December conform financial statements					
Total assets	375.3	360.2	347.1	340.9	333.5
Total equity	182.1	179.6	178.1	169.9	153.2
Net interest-bearing debt	80.5	70.6	54.0	69.1	83.0
Working capital[2]	51.4	45.1	41.3	43.4	44.9
Invested capital[2]	285.3	270.3	252.3	254.3	253.1
Statement of normalised cash flows[3]					
Net cash from operating activities	41.9	44.7	45.3	40.9	37.9
Net investments	30.7	28.3	22.9	19.8	20.0
Free cash flow	10.5	16.4	22.3	21.2	17.1
Ratios					
Return on Sales (ROS)[1]	7.9%	8.1%	7.0%	5.8%	7.7%
Solvency	48.5%	49.8%	51.3%	49.8%	46.0%
Net interest-bearing debt / EBITDA[1] (debt cover)	1.4	1.2	1.1	1.5	1.7
Net interest-bearing debt / equity (gearing)	0.4	0.4	0.3	0.4	0.5
EBITDA[1] / net finance costs (interest cover)[4]	36.6	35.6	24.5	20.1	13.9
Return on Investment (ROI)[1, 2]	12.4%	13.9%	12.4%	10.2%	13.0%
Working capital[2] in % of revenue	11.5%	9.8%	9.3%	9.8%	10.5%
Dividend payout ratio of net profit	52%	50%	53%	61%	50%
Market capitalisation as at 31 December	283.7	542.9	358.3	319.7	281.7
Net interest-bearing debt as at 31 December	80.5	70.6	54.0	69.1	83.0
Theoretic value of the organisation (Enterprise value)	364.2	613.5	412.3	388.8	364.7
Number of employees at 31 December (FTE)	2,465	2,645	2,578	2,658	2,713

PRINCIPAL SUBSIDIARIES

At 31 December 2018

Industrial

Industrial Magnetic Systems (Norman Graf)

Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany	Norman Graf
Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany	Alfons Mattes
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania	Mihai Petculescu
Kendrion (Linz) GmbH, Linz, Austria	Erich Holzinger
Kendrion (Italy) S.r.l., Torino, Italy	Vincenzo Leo

Industrial Control Systems (Robert Lewin)

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 (Ralf Wieland)

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion (UK) Ltd., Bradford, United Kingdom	Peter McShane
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion (Aerzen) GmbH, Aerzen, Germany	Gregor Langer
Kendrion (Italy) S.r.l., Torino, Italy	Vincenzo Leo

Automotive

Passenger Cars (Joep van Beurden)

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Joep van Beurden
Kendrion Kuhnke Automotive GmbH, Malente, Germany	Joep van Beurden
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Tomas Soldan
Kendrion (Eibiswald) GmbH, Eibiswald, Austria	Martin Kollmann
Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania	Andra Boboc
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Ludger Reckmann
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo

Commercial Vehicles (Manfred Schlett)

Kendrion (Markdorf) GmbH, Markdorf, Germany	Manfred Schlett
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Tomas Soldan
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Ludger Reckmann

A complete list of all subsidiaries is available from the Chamber of Commerce in Utrecht (number 30113646) and from the Company offices.

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, production, sales, logistics 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 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.

This 2018 Annual Integrated Report (reporting period 1 January 2018 – 31 December 2018) in conjunction with the website of Kendrion, has been prepared in accordance with the GRI Standards: core option. The GRI Content Index can be found on pages 182-188 of this Annual Integrated Report.

In order to determine which topics should be included in our Annual Integrated Report, we have conducted a materiality analysis for our 2015-2017 CSR strategy. We have strengthened this analysis in 2018 also by using the input from our stakeholders. Our materiality analysis has been described on page 36 and determined the report content.

The targets in the area of energy consumption, absolute and relative & CO_2 emissions, accidents, lost time injury, illness, supply chain management as described in the Sustainability chapter on pages 33-46, have been subjected to a review by the external auditor Deloitte Accountants B.V. The auditor's report with limited assurance on selected targets and the statement in accordance with the guidelines of the Global Reporting Initiative GRI Standards 'core level' is included on pages 173-175.

This eighth CSR Review covers all of Kendrion's operating companies in 2018 as listed on pages 177 and 178, unless explicitly stated otherwise.

For the quantitative information on targets associated with economic performance, anti-corruption, energy efficiency, emissions to air, occupational safety and health, training and education, non-discrimination and equal opportunities, and diversity, Kendrion used the GRI Standards Specific Disclosures 201-1, 205-3, 302-1, 305-1, 305-2, 403-2 and 405-1 respectively as further described in the GRI Content Index on pages 182-188. We report on the same indicators as in previous years and there are no material restatements on the information accordingly presented in previous years.

Kendrion has not selected underlying performance indicators or GRI indicators for the following topics: 'non-discrimination and equal opportunities', 'market presence', 'responsible material consumption', 'environmental & energy management', 'human rights', 'effluents and waste management', 'customer privacy and data security', 'anti-competitive behaviour', 'biodiversity', 'responsible local citizenship', 'innovation', 'customer relationship and satisfaction', 'remuneration policy' and 'business ethics'. Following further engagement with Kendrion's stakeholders in the course of 2019, Kendrion will consider to what extent these material themes continue to be relevant to stakeholders and whether indicators on these topics should be developed.

The information on energy consumption (302-1) is based on the consumption of Kendrion's production facilities (electricity, natural gas, fuel oil) in Germany, the Czech Republic, Austria, the USA, Suzhou (China) and Romania. For greenhouse gas emissions (305-1 and 305-2), Kendrion applies the same reporting scope as for energy consumption, only operational control. In our calculations we only included CO_2 emissions, other emissions like CH_4, N_2O, HFCs, PFCs, SF6 and NF3 are not material for us and therefor not included. Internal and external transport under Kendrion's control is limited, therefore transport emissions are excluded.

The relative energy consumption and CO_2 emissions are based on the added value of the relevant production facilities. The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus raw materials.

The absolute and relative energy consumption and CO_2 emissions are reported during the period from 1 December up to and including 30 November of the relevant calendar year under review. This means that in this CSR Review, the reporting period for absolute and relative energy consumption and CO_2 emissions is 1 December 2017 up to and including 30 November 2018, and for comparison reasons 1 December 2016 to 30 November 2017 is provided.

Calculation of the CO_2 emissions is based on the following conversion factors:

- Electricity generated from renewable sources: 0.017 kg/kWh
- Electricity generated from non-renewable sources (average): 0.578 kg/kWh
- Renewable gas for German plants: 0
- Natural gas for other plants: 0.200 kg/kWh
- Fuel oil(average): 0.200 kg/kWh

Kendrion reports the total number of work-related accidents during working time or on the way to or from work for its own employees and independent contractors under supervision of Kendrion. Only the accidents that the group entity had to report to an external institution are reported. As of 2017, Kendrion reports accidents from all group entities that caused an absence of more than three calendar days, not including the day of the accident. This definition is based on regulations applicable in Germany.

In addition, Kendrion reports the absence resulting from work-related accidents. The Lost Time Injury (LTI) is time ('scheduled working days') that could not be worked (and is thus 'lost') as a consequence of an employee being unable to perform the usual work due to an occupational accident ('at work accident' as well as 'way-to-work accident') or disease. There is no difference in whether the salaries or wages were paid by Kendrion or by an external institution during that time.

A return to limited duty or alternative work for the same organisation does not count as 'lost days'. Counting of 'lost days' begins with the first scheduled working day of full absence (e.g. the day after the accident). A lost day counts as one full day regardless of whether the employee has a part-time or a full-time contract. Kendrion does not specify LTI data per region, worker type or gender as Kendrion considers this information not relevant to its current operations. Kendrion evaluated the definition of the LTI rate to enable better benchmarking.

For reporting on the number of signed Supplier Codes of Conduct documents and the number of supplier implementation audits, Kendrion makes use of its own indicator. The supplier implementation audits are internal audits by Kendrion employees based on standardised questionnaires. For more information about the Supplier Code of Conduct, Kendrion refers to its website.
The percentage of top 30 suppliers that signed the Supplier Code of Conduct is based on the most significant suppliers in terms of procurement value (in euros) in 2018.

During 2018, the internal management information system and internal controls for CSR reporting were further improved. They are designed to facilitate the collection and consolidation of relevant CSR information from all Kendrion's operating facilities. This is required for the preparation of reliable periodic internal and external reports. Kendrion realises that the figures and data presented in this CSR Review are not always fully comparable with those of other companies. There are two main reasons for this. Firstly, companies do not always select the same targets or apply different definitions. Secondly, due to the nature and spread of Kendrion's activities it is not easy to make one-on-one comparisons with other industrial companies. Other information used in this CSR Review was collected from the existing management and reporting systems. Any estimates or forecasts included are explicitly referred to as such.
No significant changes with regard to our own operation locations and/or suppliers have taken place in 2018.

GRI 102: GENERAL DISCLOSURES 2016		
SRS	**Disclosure**	**Reference**
Organizational profile		
102-1	Name of the organization	Cover page Back cover
102-2	Activities, brands, products, and services	Profile: 5 Organisation: 6
102-3	Location of the organization's headquarters	Profile: 5 Corporate governance: 60 Back cover
102-4	Number of countries operating	World map: 17 Industrial activities: 21 - 23 Automotive activities: 24 - 26 Principal subsidiaries: 177, 178
102-5	Nature of ownership and legal form	Corporate governance: 60
102-6	Markets served	Industrial activities: 21 - 23 Automotive activities: 24 - 26 Principal subsidiaries: 177, 178 We have a worldwide sales and distribution network.
102-7	Scale of the reporting organization	Facts and figures: 8, 9 World map: 17 Industrial activities: 21 Automotive activities: 24 Financial review: 27 Principal subsidiaries: 177, 178
102-8	Information on employees and other workers	World map: 17 People & Culture: 47 We only report information regarding the total Kendrion group. We do not report the distinction between permanent/temporary and full-time/part-time on regional and gender level.
102-9	Supply chain	Industrial activities: 21 - 23 Automotive activities: 24 - 26 Responsible business conduct: 43

GRI 102: GENERAL DISCLOSURES 2016

SRS	Disclosure	Reference
102-10	Significant changes to the organization and its supply chain	Share and shareholder information: 18 Industrial activities: 21 - 23 Automotive activities: 24 - 26 No significant changes regarding our own operation locations and suppliers.
102-11	Precautionary Principle or approach	Sustainability: 33 Natural Capital: 38, 39 Risk management: 51 - 59
102-12	External initiatives	UN Global Compact OECD Guidelines for Multinational Enterprises
102-13	Memberships of associations	NIVE, NGB, VEUO, UN Global Compact, GRI
Strategy		
102-14	Statement from senior decision-maker	Preface: 7 Action on sustainability: 33 Report of the Supervisory Board: 65
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	Company culture and ethical behaviour: 42
Governance		
102-18	Governance structure	Corporate governance: 60
Stakeholder engagement		
102-40	List of stakeholder groups	Stakeholders: 33 - 35
102-41	Collective bargaining agreements	Employee representation: 49 The majority of our employees work in Germany and Austria, therefor we only report on the coverage of these employees.
102-42	Identifying and selecting stakeholders	Stakeholders: 33 - 35
102-43	Approach to stakeholder engagement	Stakeholders: 33 - 35
102-44	Key topics and concerns raised	Stakeholders: 33 - 35

GRI 102: GENERAL DISCLOSURES 2016

SRS	Disclosure	Reference
Reporting practice		
102-45	Entities included in the consolidated financial statements	Principal subsidiaries: 177, 178 About the CSR review: 180, 181
102-46	Defining report content and topic boundaries	Materiality analysis: 36 About the CSR Review: 180, 181
102-47	List of material topics	Materiality analysis: 36 About the CSR Review: 180, 181
102-48	Restatements of information	About the CSR Review: 180, 181
102-49	Changes in reporting	Materiality analysis: 36 In 2017 we had 25 material topics and we downsized this in 2018 to 22 topics by merging some topics and deleting/adding others. Compared to last year we deleted the following topics: - Employee satisfaction - Involvement of supply chain in CSR issues - Freedom of association and collective bargaining - Transport - Forced and compulsory labour - Renewable energy - Public policy We added the following topics: - Innovation - Customer relationship and satisfaction - Business ethics - Human rights
102-50	Reporting period	1 January 2018 to 31 December 2018 About the CSR review: 180, 181
102-51	Date of most recent report	20 February 2018
102-52	Reporting cycle	Annual (Cover page)
102-53	Contact point for questions regarding the report	Back cover
102-54	Claims of reporting in accordance with the GRI Standards	About the CSR Review: 180, 181
102-55	GRI content index	GRI Content Index: 182 - 188
102-56	External assurance	Assurance report: 173 - 175

GRI 103: MANAGEMENT APPROACH 2016

Topic Specific Standards

SRS	Disclosure	Reference	Omissions
GRI 201: ECONOMIC			
GRI 201: ECONOMIC PERFORMANCE 2016			
Material aspect: Economic performance			
201	Management approach disclosures	Financial review: 27 - 32	
201-1	Direct economic value generated or distributed	Financial review: 27 - 32	**Omission:** Payments to government by country **Reason for omission:** Information unavailable **Next steps:** The information regarding the payments to governement by country is not measured within the organisation, will will evaluate when developing the new CSR strategy 2019 - 2023. We hope to provide insight in this indicator in the next reporting year.
GRI 205: ANTI-CORRUPTION 2016			
Material aspect: Anti-corruption			
205	Management approach disclosures	Responsible business conduct: 43 Social and human capital: 42 Risk management: 53 Corporate governance: 63, 64	
205-3	Confirmed incidents of corruption and actions taken	Responsible business conduct: 43 One employee was dismissed due to the employee's involvement in the misrepresentation of the number of good parts produced. Furthermore no cases of corruption were reported.	

GRI 103: MANAGEMENT APPROACH 2016

Topic Specific Standards

SRS	Disclosure	Reference	Omissions
GRI 301: ENVIRONMENTAL SERIES			
GRI 302: ENERGY 2016			
Material aspect: Energy efficiency			
302	Management approach disclosures	About the CSR review: 180, 181 Natural capital: 38, 39 About the CSR review: 180, 181	
302-1	Energy consumption within the organization	Natural capital: 38, 39 About the CSR review: 180, 181	**Omission:** Data regarding renewable resources and sold energy. **Reason for omission:** Information unavailable. **Next steps:** The information regarding renewable energy and sold energy is not measured within the organisation, will will evaluate when developing the new CSR strategy 2019 - 2023. We hope to provide insight in this indicator in the next reporting year.
GRI 305: EMISSIONS 2016			
Material aspect: Emissions to air			
305	Management approach disclosures	About the CSR review: 180, 181 Natural capital: 38, 39 About the CSR review: 180, 181	
305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	Natural capital: 38, 39 About the CSR review: 180, 181	**Omission:** Biogenic CO_2 emissions, Global Warming Potential data **Reason for omission:** Not applicable **Explanation for omission:** We only report the amount of CO_2. This is also the most material part of our emissions.
305-2	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Natural capital: 38,39 About the CSR review: 180, 181	**Omission:** Gross market-based energy, Global Warming Potential data **Reason for omission:** Not applicable **Explanation for omission:** We only report the amount of CO_2. This is also the most material part of our emissions.

GRI 103: MANAGEMENT APPROACH 2016

Topic Specific Standards

SRS	Disclosure	Reference	Omissions
GRI 401: SOCIAL SERIES			
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016			
Material aspect: Occupational safety and health			
403	Management approach disclosures	About the CSR review: 180, 181 Social and human capital: 41 Social and human capital: 41	
403-2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	Value creation model: 46	**Omission:** Types of injuries, occupational diseases, lost day rate and work-related fatalities with a breakdown for region and gender. **Reason for omission:** Not applicable. **Explanation for omission:** The number of accidents, LTIs and sick leave indicators are material for us and is used by us to steer on. Other indicators are therefor not reported on.
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016			
Material aspect: Diversity			
405	Management approach disclosures	Social and human capital: 42 People & Culture: 49 Corporate Governance: 62 Social and human capital: 42 People & Culture: 49 Corporate Governance: 62 Social and human capital: 42 People & Culture: 49 Corporate Governance: 62	
405-1	Diversity of governance bodies and employees	World map: 17 Members of Executive Board: 20 People & Culture: 47 - 49 Corporate Governance: 62	**Omission:** Information per age group and other indicators of diversity. **Reason for omission:** The information is not available **Next steps:** The information regarding age groups and other indicators of diveristy are not measured within the organisation, will will evaluate when developing the new CSR strategy 2019 - 2023. We hope to provide insight in this indicator in the next reporting year.

GRI 103: MANAGEMENT APPROACH 2016

Topic Specific Standards

SRS	Disclosure	Reference	Omissions
Material aspect: Responsible procurement practices			
Management approach		Responsible business conduct: 43	
Own indicator: Percentage of top 30 based on spent that have signed the supplier code of conduct		Key figures: 9 Responsible business conduct: 43 In 2019 we will discuss how we can change the indicator so it directly links to one of the GRI indicators regarding supplier assessments.	
Material aspect: Training and education			
Management approach		People & Culture: 47 - 49	
Own indicator: Training costs (as a % of wage costs)		People & Culture: 47 In 2019 we will discuss how we can change the indicator so it directly links to one of the GRI indicators regarding training.	

Contact information

Any questions or comments about this Annual Report
or Kendrion's activities can be raised with:

Mrs Wilma Stuiver
Utrechtseweg 33
3704 HA Zeist, the Netherlands
P.O. Box 931
3700 AX Zeist, the Netherlands
Telephone: + 31 (0) 30 699 72 50
Fax: +31 (0) 30 695 11 65
Email: ir@kendrion.com
www.kendrion.com

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