KENDRION

PRECISION. SAFETY. MOTION.

Annual Integrated Report 2021

Growing opportunities

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

Ensuring optimal use of wind energy
Integrated into the azimuth drive of a wind turbine, our electromagnetic brakes hold the nacelle into the wind, optimizing energy capture.

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

Safe material transport even with heavy loads
Our electromagnetic brakes stop electric-driven warehouse vehicles promptly in emergency situations, keeping staff safe and material in pristine condition.

Holding robotics arms in a precise position
In the medical industry, our brakes prevent robotics arms from straying, ensuring patient safety during surgery.

Supporting a comfortable dentist appointment
Our solutions for dental applications allow dentists to deliver patients the best possible experience, using low-noise instruments and pneumatic chairs.

Keeping road users safe with a vehicle alert system
Our E/E architecture-ready components and sound systems enable manufacturers to create a unique alert sound identity for their vehicles.

Optimizing passenger and freight safety
Providing locking with signal feedback, our strongest solenoids help optimize safety in tough transport environments, such as intelligent freight wagons.

Ensuring turnstile safety in the event of a power failure
In the event of a power failure, our brakes release locking in automated turnstile entry systems, allowing turnstile arms to be pushed aside.

Securing safety in demanding applications
With a 1,600+ N holding force and a shock resistance up to 100 g, our solenoid door locks provide optimal safety in extreme applications, such as laboratory centrifuges.

Supporting emission-free industrial heating processes
Our inductive heating systems provide manufacturers a precise, green, and future-proof solution for a wide variety of industrial heating processes.

Continuously monitoring the AGV’s position and speed
Our safety controllers for AGV trigger an emergency stop when an object enters the AGV environment safely reducing or increasing its speed again.

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This document is the PDF version of the 2021 Annual Integrated Report of Kendrion N.V. and has been prepared for ease of use. The European Single Electronic Format (ESEF) reporting package is available on the company's website at www.kendrion.com. In case of discrepancies or ambiguities between this PDF version and the ESEF reporting package, the latter prevails.

Precision. Safety. Motion.

Enabling energy transition

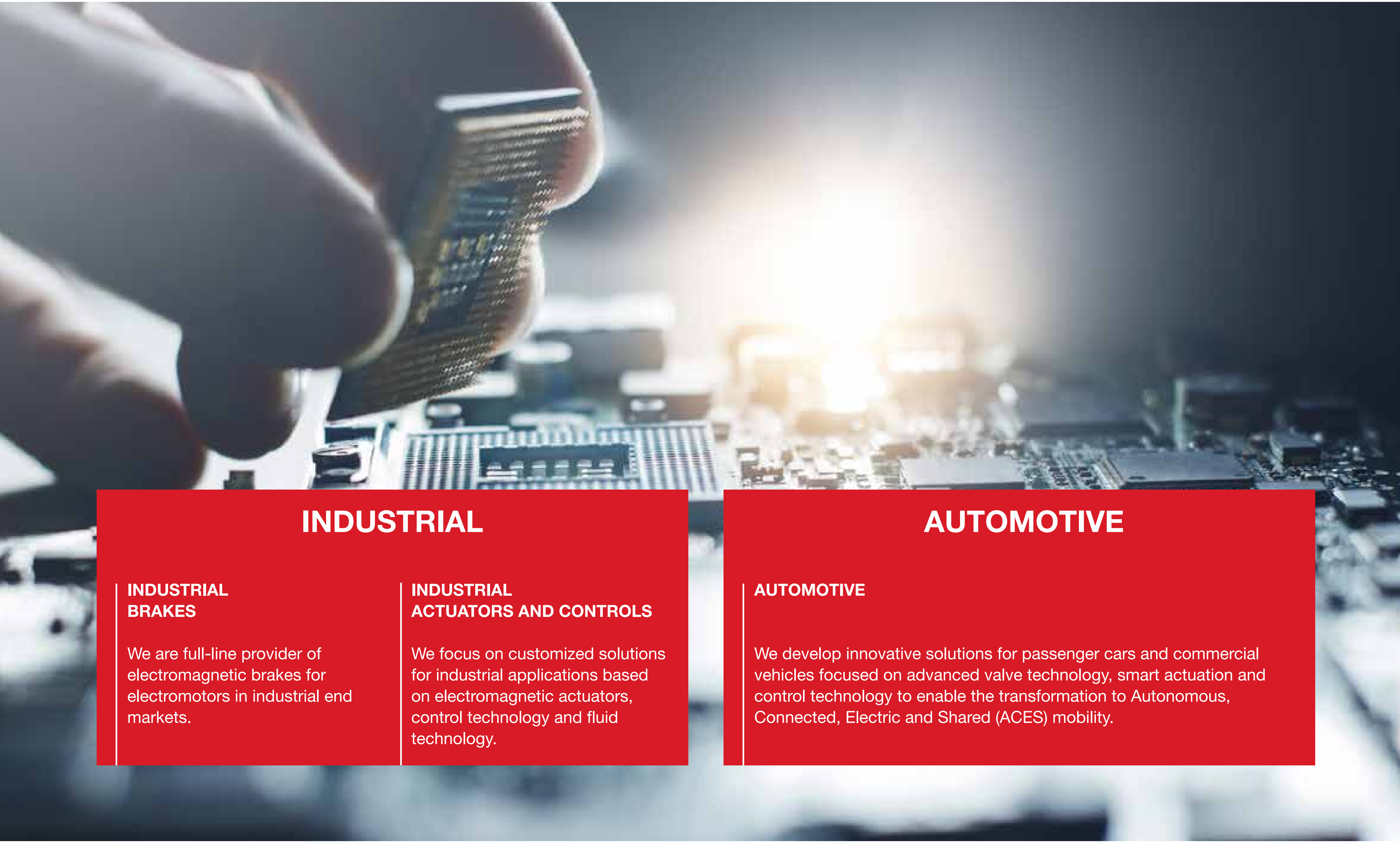
Kendrion designs, manufacturers and delivers intelligent actuators that help advance the global push towards electrification and sustainable energy.

Today, these compact and connected actuators can be found in wind power, robots, factory automation, electric vehicles, energy distribution and industrial heating processes and industrial heating processes, where they support our OEM customers around the world to transition to safer and cleaner forms of energy.

As a technology pioneer and innovator, building on a foundation of over 100 years of experience, we are driven by a desire to explore creative solutions for the engineering challenges of tomorrow. Our modular product design approach and agile way of working enable us to create complex products and customized systems that save our customers time and costs. This has made Kendrion the trusted partner of some of the world's market leaders in the automotive and industrial segments.

We take broad responsibility for how we source, manufacture, and conduct business. Sustainable business practices are integrated in our processes and embedded in our culture.

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



INDUSTRIAL

INDUSTRIAL BRAKES

We are full-line provider of electromagnetic brakes for electromotors in industrial end markets.

INDUSTRIAL ACTUATORS AND CONTROLS

We focus on customized solutions for industrial applications based on electromagnetic actuators, control technology and fluid technology.

AUTOMOTIVE

AUTOMOTIVE

We develop innovative solutions for passenger cars and commercial vehicles focused on advanced valve technology, smart actuation and control technology to enable the transformation to Autonomous, Connected, Electric and Shared (ACES) mobility.

Strong performance in an unpredictable environment

Joep van Beurden
CEO

Standing tall amidst global supply chain disruption

The business climate in 2021 was tough, but for different reasons than in 2020 when the COVID pandemic first struck. In short, we moved from a crisis of demand to a crisis of supply. Shortages in many of our raw materials such as semiconductors, steel, certain plastics and even labor put serious pressure on our customers, our production flexibility, and our people. Nevertheless, we can close the year with positive results thanks to the hard work of our entire global team. We look forward with confidence as a financially sound and innovative actuator company with a keen focus on actuators that help enable the global energy transition.

Fostering the broad energy transition

As a global actuator company, all our Business Groups focus on delivering smart actuator products that support the broad energy transition away from oil, natural gas, and coal, towards cleaner forms of energy. Pursuing a leading role in this global transition provides us with a strong proposition today and for the future.

Our industrial brakes are used in applications such as robotics, wind power, intra-logistics solutions (such as AGVs and electric forklift trucks), and more. For instance, our Industrial Actuators and Controls (IAC) Business Group produces modular, electrified induction heating systems that aim to deliver similar benefits on an industrial scale to those you see in home appliances. In Automotive, our smart actuators for ACES (Autonomous, Connected, Electric and Shared) vehicles help enable electrified and autonomous driving.

The challenge of 2021: From ‘demand’ to ‘supply’ crisis

In many ways, the business climate in 2021 was even tougher than in 2020, especially in Automotive. In 2020, we faced a ‘demand’ crisis: during COVID lockdown, consumers were hesitant to spend money on items like a new car, and corporations kept investment low. Car sales and industrial demand dropped sharply. Despite the sharp drop, demand patterns remained somewhat predictable, and governments supported companies with measures such as flexible working hours and grants.

In 2021, on the other hand, demand returned. In fact, as lockdowns lifted, it skyrocketed. But this sudden change drove us from one crisis into another: this time based on supply chain-related issues. Unlike the demand crisis, the supply chain crisis is highly unpredictable. Despite full order books we cannot rely on timely delivery of raw materials such as semiconductors, steel, plastic, gas, and even labor.

Impressive results despite unpredictability

In this business environment we delivered good results.
I am proud of what we have achieved as a team in these extraordinary and unpredictable circumstances.

As a group, we increased our revenue by 17% to EUR 464 million compared to 2020. Our normalized EBITDA grew by 25% to EUR 55.8 million and our normalized net profit before amortization increased by 76% to EUR 20.6 million.

In Industrial, we grew by a strong 22% as the demand for actuators for electrification applications in almost all the markets we are active in accelerated. Industrial revenue is now more than 9% higher than in 2019, with INTORQ and 3T pro-forma included. I am excited about our prospects in Industrial, as we are only at the start of what is a broad energy transition away from fossil fuels to cleaner forms of energy.

In Automotive, we grew by 13%. This means we are still some 10% behind the pre-COVID revenue of 2019 but given a contraction in the global passenger cars production of around 15%, we did benefit from our strong pipeline as the high nominated business wins over the past years started to generate revenue. Here too, our prospects are good, as the level of nominations related to ACES continues to grow. In 2021 we added EUR 305 million in nominations; a book-to-bill ratio of 1.32. This means a positive book-to-bill for the fourth consecutive year, adding to our already healthy order pipeline.

Growth strategy continues

We continued to drive our growth strategy with the acquisition of 3T, a leading electronics and embedded systems developer in the Netherlands. 3T offers us significant strategic and operational benefits in three areas. Firstly, it supports our drive to help enable the global energy transition with our actuator expertise. Merging 3T into the control business segment of our Industrial Actuators and Controls Business Group substantially increases our footprint in this growth segment. Secondly, 3T's more than 40 years of experience in highly reliable, high-quality hardware and software systems will enable us to strengthen our product offering in Automotive, where the need for electronics and smart solutions as part of our automotive actuators is increasing. And finally, 3T's locations in Enschede and Eindhoven bring us closer to leading technical universities and institutions of higher technical education. This will give us access to talented software and electronics engineers we need to support our long-term sustainable growth.

Long-term financial targets

In 2020, we set ourselves an ambitious growth target of 5% per year between 2019-2025, with 2019 as reference year, including INTORQ pro forma. Achieving this means reaching well over EUR 600 million in revenue in 2025. We also committed to an EBITDA margin of at least 15% and a ROIC of at least 25% by 2025. Now, two tough COVID-disrupted years later, we are well on our way to achieving our goals.

I would like to thank our customers for their trust, our suppliers, and our shareholders for their support in tough times and specifically highlight the unyielding efforts and support of everyone within Kendrion. And even though 2022 will no doubt be still influenced by the global pandemic, I am confident that we will realize our financial goals as set in the fall of 2020.

Revenue[1] (EUR million)	EBITA[1] (EUR million)	Net profit before amortization[1] (EUR million)	EBITDA margin[1]	ROI[1,2] (in %)	Free cash flow[1] (EUR million)	Solvency	Net debt / EBITDA[1]
↑17%	↑69%	↑76%	↑0.7%	↑4.8%	↓89%	↓2.0%	0%
463.6	**31.9**	**20.6**	**12.0%**	**15.6%**	**3.5**	**45.4%**	**2.3**
2020 **396.4**	2020 **18.9**	2020 **11.7**	2020 **11.3%**	2020 **10.8%**	2020 **31.5**	2020 **47.4%**	2020 **2.3**

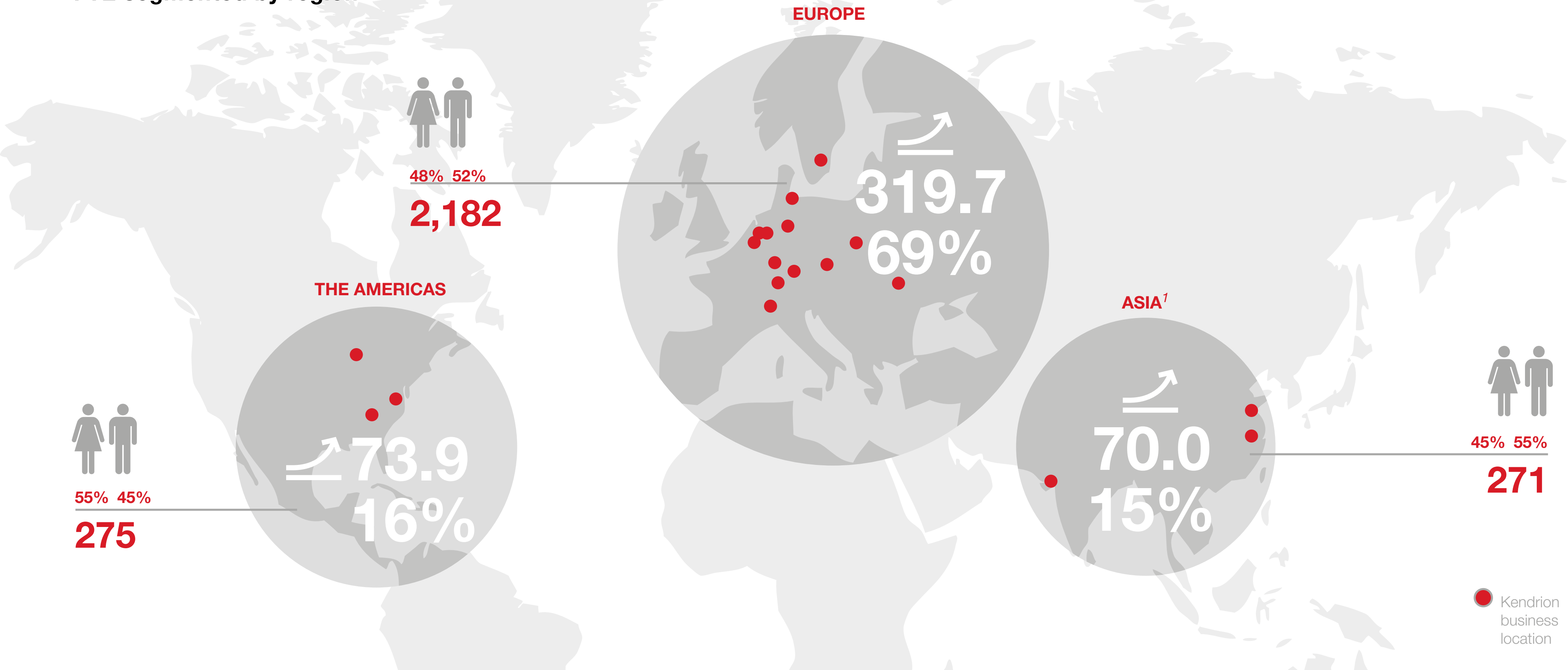
1 Normalized for one-off costs and benefits. The bridge from reported to normalized figures can be found on page 38.
2 Invested capital excluding intangibles arising from acquisitions.

Total number of employees (FTE) (at 31 December)	Total number of employees by gender (in % F vs M)	Illness rate (in %)	Accidents (per 1,000 FTE)	Lost Time Injuries (in days)	Relative energy consumption (in tonnes kWh/million added value)	Relative CO_2 emission (in tonnes kWh/ million added value)	Number of CSR supplier audits
↑11.1%		↑0.3%	↑73.6%	↑32.6%	↓8.0%	↓17.8%	↓7.1%
2,728	**48/52**	**4.7%**	**9.2**	**509**	**173.5**	**28.8**	**26**
2020 **2,456**	2020 **50/50**	2020 **4.4%**	2020 **5.3**	2020 **384**	2020[1] **188.5**	2020[1] **35.1**	2020 **28**

Please refer to the section 'About the sustainability report' on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

1 2020 energy consumption figures restated.

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



FINANCIAL RESULTS

EUR million

Revenue[2]	EBITA[2]	Net profit before amortization[2]	EBITDA[2] %	ROI[2, 3]	Total FTE
463.6	31.9	20.6	12.0%	15.6%	2,728

1 Including other countries with revenue of EUR 2.3 million.

2 Normalized for one-off costs and benefits. The bridge from reported to normalized figures can be found on page 38.

3 Invested capital excluding intangibles arising from acquisitions.

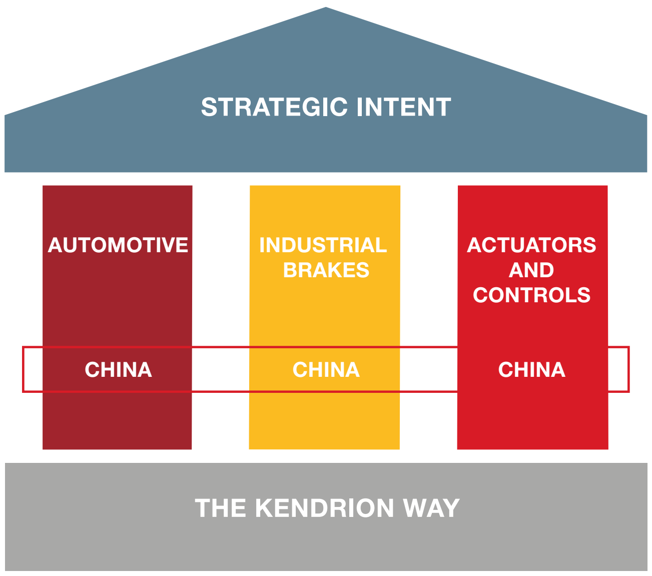
Progress in an unpredictable environment

As the global pandemic endures, Kendrion continues its focus on realizing sustainable growth driven by the broad and accelerating energy transition towards electrification and other forms of clean energy. We significantly simplified our organization, focused our investments, and strengthened our product portfolio through the acquisitions of INTORQ in 2020 and 3T in 2021. This has resulted in a solid financial performance, and a firm step forward towards our 2025 financial targets, despite the unpredictable economic environment.

Our strategy

Kendrion focuses its resources and capital on areas that are driven by the powerful and accelerating global push towards clean energy that offer the biggest opportunities for sustainable profitable growth. These include:

- Industrial Brakes: wind power, robotics & automation, and intra-logistics;
- Industrial Actuators and Controls: electricity distribution, control technology, industrial locks, nuclear power, and inductive heating technology;
- Automotive: actuators such as sound, suspension and sensor cleaning systems that help enable Autonomous, Connected, Electric and Shared mobility, also known as 'ACES';
- China: Kendrion has identified significant opportunities for its technologies in a range of industrial and automotive applications, also focused on enabling the energy transition.

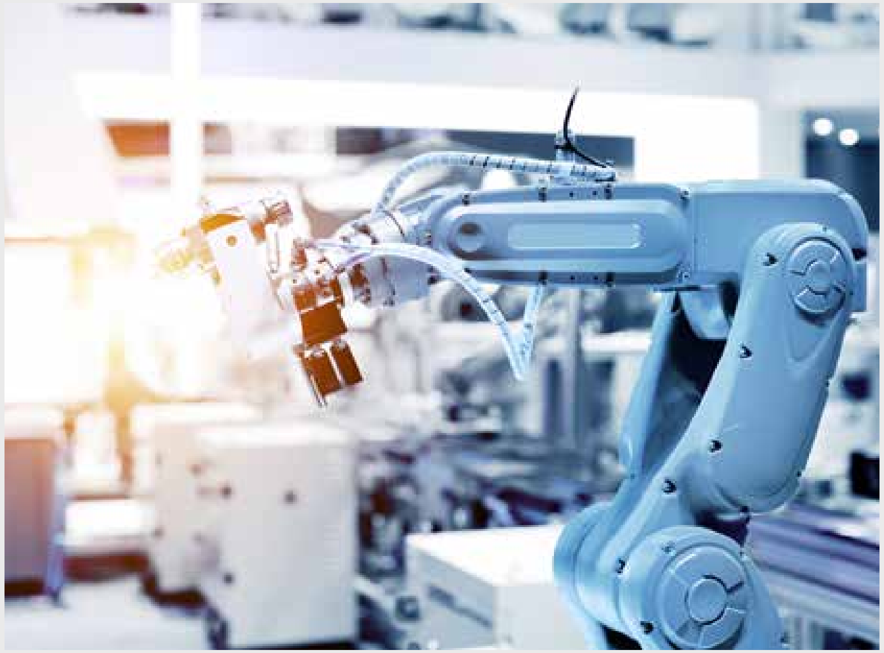


We are confident we can meet our financial target of 5% organic growth per year between 2019 and 2025 with an EBITDA of at least 15% and an ROIC of at least 25%, based on the progress we made in 2021, and the product pipeline development in all growth areas.

Industrial Brakes

Kendrion is a leading player in the markets for permanent magnet brakes and spring-applied brakes. As the brakes from both technology types are closely integrated with an electromotor, the accelerating transition towards electrification offers Industrial Brakes a sizeable opportunity in a fast-growing market. Industrial Brakes' full range of high-quality products is sold across the globe, from Europe to China, the US, and India.

In 2021, we realized strong growth in almost all the segments Industrial Brakes serves. Firstly, the ongoing automation of global industrial manufacturing processes is advancing the adoption of industrial and collaborative robots across industries. Secondly, in brakes for wind turbines, where investments in green energy are accelerating across the world. And finally, in the internal logistics sector where, for example, automated guided vehicles (AGVs) and electric forklift trucks proliferate in increasingly automated warehouses for e-commerce and other delivery services.



Industrial Actuators and Controls

The priority of Industrial Actuators and Controls (IAC) continues to be to realize profitability and cash flow, enabling us to invest in selected sustainable growth opportunities.
The broad, global transition towards cleaner forms of energy provides many opportunities for IAC products such as our inductive heating system for industrial processes, safety valves for nuclear power plants, and solenoids for high voltage circuit breakers and industrial locks. Consistent with Group strategy, IAC is investing in these opportunities. Kendrion expects IAC to generate sustainable, above average.

In September 2021, we announced the acquisition of 3T, a leading electronics and embedded systems developer in the Netherlands, which was merged into IAC.
In combination with the control technology activities of IAC, we expect the acquisition to offer significant growth potential. 3T also strengthens our software and electronics development capabilities, benefiting our Automotive Group, specifically the development of our sensor cleaning and sound actuation platforms. Finally, 3T's locations in Enschede and Eindhoven bring us closer to leading technical universities and institutions of higher technical education. This will give us access to talented software and electronics engineers we need to support our long-term growth.

Automotive

The automotive industry is going through a fundamental disruption driven by four mutually reinforcing trends: Autonomous driving, Connected vehicles, Electrification of the powertrain and Shared mobility, also known as 'ACES'. Kendrion expects that, on aggregate, ACES will increase the actuator content per car and drive above-average growth. We believe that, thanks to our long experience in developing smart actuation technology, we are well positioned to benefit from these trends.

Our innovative product platforms are specifically targeted at ACES. They include systems and components for active suspension, Acoustic Vehicle Alerting Systems (AVAS) for electric vehicles, and a turnkey sensor cleaning solution, developed in a close and exclusive partnership with a leading Tier 1 automotive supplier. As the transition to electrified and smarter vehicles accelerates, we will further increase our focus on these projects.

China

Over the past few years, Kendrion has significantly increased its revenue in China and is confident that the Chinese market offers a great opportunity for future sustainable growth. To accommodate this growth, we are building a new 28,000m^2 production facility at the renowned Suzhou Industrial Park (SIP), allowing us to more than double our production capacity. Our Suzhou and Shanghai operations will be integrated in the new building.

The sustainable growth opportunities in China are similar to those in Europe and the US, as the energy transition is a global phenomenon. In 2021, Kendrion China again generated a lot of new business, especially in Industrial Brakes, and the plant's pipeline is expected to drive the continuation of above average growth in the coming years.

Financial targets

In 2021, demand for our products increased significantly in all Business Groups. At the same time, the COVID-19 pandemic continued, and the second half of the year we experienced significant disruption of global supply chains in all segments. The automotive passenger car market specifically was hit hard by semiconductor and other material shortages. Despite all this, 2021 normalized revenue increased by 17% from EUR 396.4 million in 2020 to EUR 463.6 million in 2021. We increased our EBITDA margin by 70 basis points to 12.0% (2020: 11.3%). Return on investment came to 15.6% (2020: 10.8%).

Against the backdrop of the impact of the COVID-19 pandemic on end-markets and economies in general, we outlined four ambitious medium-term financial objectives for 2025 at Capital Markets Day on 10 September 2020:

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

In 2021, we made good progress on our strategy. We are confident that we will be able to meet our 2025 targets.

Average organic growth

TARGET 2019-2025: 5%
ACTUAL: **16%**

Return on investment[1, 2]

TARGET 2025: 25%
ACTUAL: **15.6%**

EBITDA margin[2]

TARGET 2025: 15%
ACTUAL: **12%**

Dividend pay-out

TARGET: 35-50%
ACTUAL: **50%**

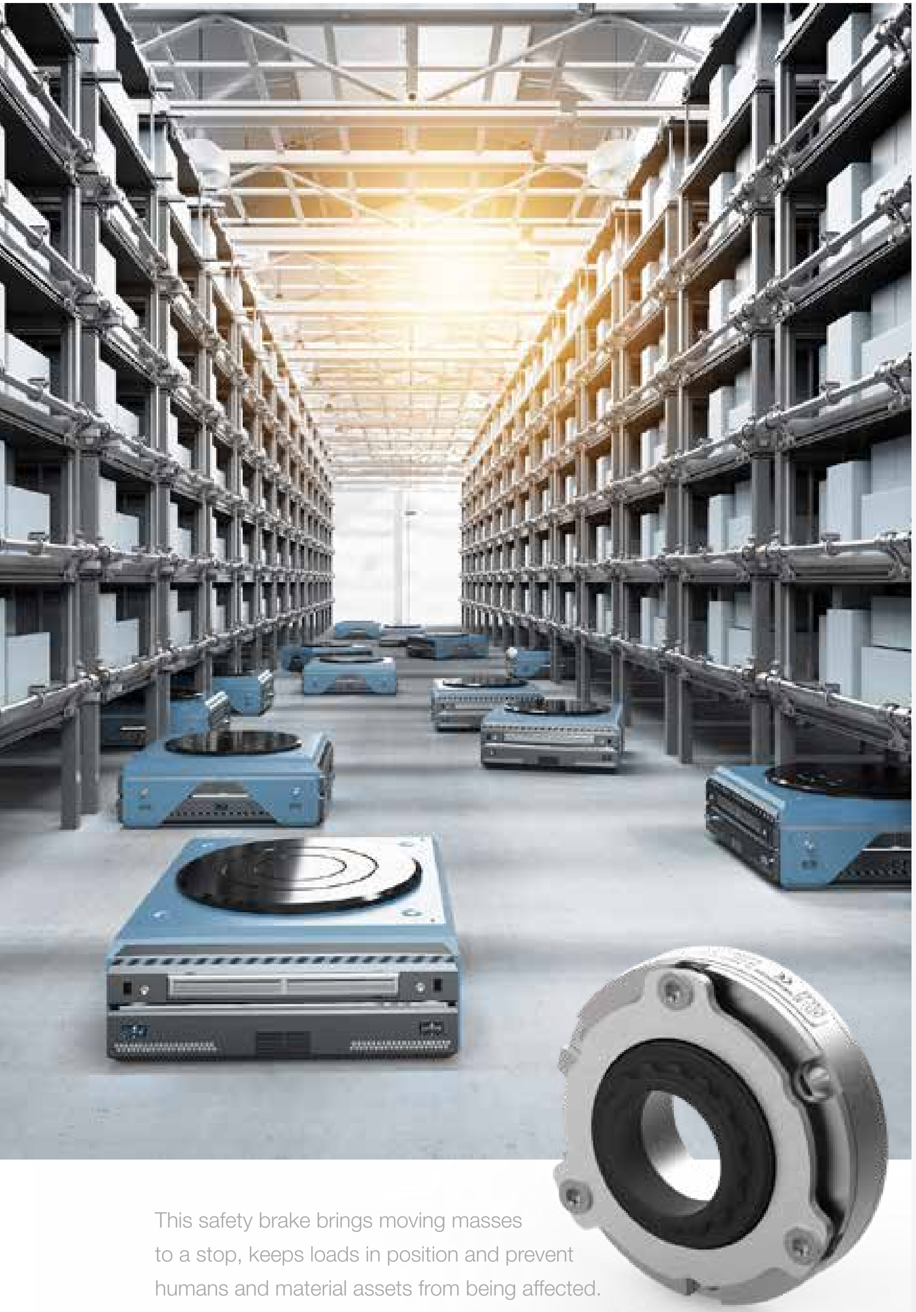
1 Invested capital excluding intangibles arising from acquisitions.
2 Normalized for one-off cost, benefits and balance sheet items. The bridge from reported to normalized figures can be found on page 38.

Products that help drive the energy transition

Kendrion focuses on sustainable growth, by developing intelligent actuators that help drive the global transition towards electrification and other forms of clean energy. Whether for wind power, autonomous vehicles, supporting factory process efficiencies, or optimizing industrial heating processes, our smart, compact, and connected actuators are helping our customers to migrate to safer and cleaner forms of energy.

In 2021, we continued to push the boundaries of the possible by focusing investment on six cutting-edge products to help advance the next-generation of Autonomous, Connected, Electrified and Shared (ACES) vehicles, robotics, and industrial manufacturing.

Our modular R&D approach gives us a great competitive advantage. We create customized products quickly and in high volumes – without recurring R&D investments – and we also respond quickly to changing demands and product opportunities.



This safety brake brings moving masses to a stop, keeps loads in position and prevent humans and material assets from being affected.

Diverse brake portfolio meets the needs of emerging AGV market

Autonomous logistics technologies – from warehouse automation to augmented reality and automated guided vehicles (AGVs) – are revolutionizing how manufacturers move goods, increase efficiency and safety while reducing environmental footprints. While initially developed to increase operational efficiency and safety in warehouse logistics, next-generation AGVs are finding new roles in more sectors, including e-commerce, automotive, agriculture, and semiconductors.

Kendrion offers a perfect blend of brakes including the necessary integration experience that can help both starting and more established AGV manufacturers succeed in this emerging market.

A braking solution for every application

Our portfolio of highly customizable electromagnetic brakes meets all the needs of this up-and-coming industry. Built into the AGV's drive unit, they enable safe stopping and holding of the vehicle. Our brakes have already proven themselves in numerous AGV applications worldwide, including warehouse and airport operations.

In fact, we have a braking solution for all electric-powered vehicles on the market, from small AGVs, through heavy load forklifts, to huge transport systems for containers and special applications.

Conquering the compact AGV market

In warehouses, compact AGVs help companies optimize their warehouse logistics. For this application, where every square meter counts, Kendrion offers special small or flat brakes for drive trains in all torque ranges.

The global AGV market is expected to reach USD 3.72 billion by 2028, increasing at a Compound Annual Growth Rate (CAGR) of 9.3%.* By taking the experience we have built up by working with major brands in the industrial truck industry and with innovative start-ups developing new generation AGVs, we are confident we can capture major opportunities in this emerging and growing market.

* Source: www.fortunebusinessinsights.com/press-release/automated-guided-vehicle-agv-market-9525

Robotics brakes for intelligent, safe automation in healthcare

In manufacturing processes, robots represent a great opportunity for improving efficiency of existing manufacturing processes. In the medical industry, they have a big impact as they optimize patient comfort and surgeon time. For critical applications such as robot-assisted surgery, the robot's performance also directly impacts the patient's safety. Kendrion's approach gives start-ups and established manufacturers in this sector all they need to design high-precision and safe robots – and get them to market quickly.

Safe, precise, and flexible
Designing robots for medical applications is exceptionally challenging: engineers need to ensure precise positioning, consistent holding in a specific position, low-noise operation, and high-power density.

Kendrion's all-round expertise provides the experience, flexibility, and products that robot manufacturers need to market precise and safe medical robots. Our products meet the highest standards and demands of the medical industry. Their modular design, in combination with our agile way of working enable us to tailor our brakes to any medical application, supporting both start-ups and mature designers to explore new applications.

Medical miniaturization trend
As surgical robots evolve, they become ever more compact, precise, and manoeuvrable. Kendrion has the right technologies to support this. Flatter and lighter than comparable brakes on the market, they are also highly customizable. The large inner diameter is a unique design feature which ensures that the cables of the application are comfortably run through the center of the application – improving the overall aesthetic. In 2021, Industrial Brakes developed a customized Slim Line emergency brake for a start up's new surgical robot.

For more than a decade, Kendrion has successfully supplied electromagnetic brakes for the global medical industry. Thanks to the growing scope of applications, and the platform approach, it is expected this will continue in 2022.

Brakes used in the robot joints offer high reliability, have a compact design, allow highly accurate positioning, and operate without wear.

Our customized induction heating systems are designed precisely to specific heating requirements.

Inductive heating systems help drive greener manufacturing processes

Induction heating is an increasingly popular alternative to gas and oil and Kendrion is keen to help drive this green change. Our brand-new induction system development platform allows us to explore new horizons in this emerging area, with manufacturers of smaller industrial equipment. We can provide them with a more sustainable and efficient alternative for their manufacturing processes, while contributing to a greener economy.

The technology itself – i.e., the process of heating electrically conductive materials like metals by electromagnetic induction – is not new. In fact, Kendrion has successfully developed inductive heating systems, consisting of an induction generator and coil, for 20 years. Today, more than 70,000 Kendrion heating systems are driving textile, food preparation and printing processes globally.

However, with our product development platform, we can make an even bigger impact in more industries. Built on years of experience in the field, it gives us the flexibility and ability to reconfigure our products to specific needs without significant investments, lead times or production line changes.

Our customer successes in 2021

In 2021, we began working with a new customer for a novel application: a waffle baking machine. The customer has put in an additional order for its largest machine, for delivery in 2023. We also won the contract for a customized heating system for an automotive battery manufacturing machine.

Our focus for 2022

In early 2022, we aim to deliver the initial batch of samples for the first waffle baking machine and ship the first delivery of the automotive battery manufacturing machine system.

Thanks to the growing scope of applications, we are confident that the ROI of our new platform will be substantial.

Sensor cleaning distribution system drives safety in eco-friendly autonomous vehicles

Sensor cleaning distribution system drives safety in eco-friendly autonomous vehicles. Autonomous vehicles are driving the need for advanced sensor cleaning systems with ever-greater urgency. In 2021, we introduced an intelligent sensor cleaning distribution system delivering a single, easy-to-integrate cleaning strategy for vehicles. Comprehensive, compact, and flexible, the system helps OEMs market safe, eco-friendly vehicles quickly and without major R&D efforts.

The automotive revolution: perspective towards 2030
The automotive industry transformation is speeding up. By 2030, its revenue could increase to $6.7 trillion, driven by four technology-driven trends: diverse mobility, electrification, connectivity, and autonomous driving (ACES). As sensor cleaning is a safety-critical feature in autonomous cars, designing a comprehensive cleaning system has been a key priority for us.

Comprehensive, compact cleaning intelligence
To build a unique, intelligent system, we partnered with cleaning technology experts Kautex. The resulting system combines the best of their expertise and ours: smart actuation and systems technology.

Functioning as the brain behind the car's automated sensor cleaning strategy, the system distributes cleaning fluid and air to all optical sensors, including LiDAR, and cameras. Integrated electronics enable intelligent features for position detection, selection of operation modes, and status reporting.

Key components include hardware and software, a valve block, a connector, and input and output nozzles. Featuring just one connector, integrating it in a compact design is easy and cost effective.

Limitless application flexibility
Our modular design offers limitless application flexibility. We can add connectors and outlets and adjust valve types and the interface to meet individual needs. OEMs that are new to sensor cleaning get everything they need in a single solution, while those familiar with the technology can 'take what they require'.

In 2022, we will deliver the first samples to key customers for testing in self-driving vehicle designs.

By distributing cleaning fluid to all relevant systems, the sensor cleaning keeps the vehicle on the move, in all weather conditions.

Kendrion's one-box AVAS solution can be easily programmed and built into different vehicle designs.

Phantone Sound Platform increasing electric vehicle safety, inside and out

In hybrid and battery-electric vehicles (BEVs), internal and external noise are a major concern for vehicle OEMs. Sound regulations are strict, and passengers' expectations high.

Our Phantone Sound Platform enables OEMs to make their BEV vehicles safer and more marketable. By using our comprehensive, ready-to-use and customizable products they can meet external sound regulations (AVAS), while offering passengers the ultimate 'soundscape' experience.

Interior sound enhancement

Paradoxically, the lack of combustion engine in electric cars has exposed certain undesirable sounds previously masked by the engine's noise. According to drivers, it has also reduced their sense of speed, safety, and control. This has kicked off a new trend: 'soundscaping'; the auditory experience of the 21st century. Intelligent sound systems combine noise cancellation techniques with acoustic modifications to create an emotionally appealing, multi-sensory experience.

Our Phantone Sound Platform offers OEMs all they need to build an intelligent sound system, from a complete AVAS solution, to speakers, a sound control unit, sound designer software, and engineering support. This is ideal for both more mature OEMs – who can take what they require –, and OEMs new to the technology.

What we did in 2021

Throughout 2021, we redefined the Phantone roadmap to better match customer feedback. This included delivering a new sound control unit with our SoundDesigner software to a starting US car brand, and a leading US car manufacturer for the Chinese market.

Our focus for 2022

In 2022, we will create a roadmap for US and Asian customers. Further ahead, we will explore more intelligent sound distribution; for example, emitting sound only where needed.

By 2027, 12.5 million AVAS sound systems are expected to be on the road worldwide. We are confident that our flexible platform and upcoming innovations will help shape the future of soundscapes in electric vehicles.

Active damping valves: driving dynamics for tomorrow's vehicles

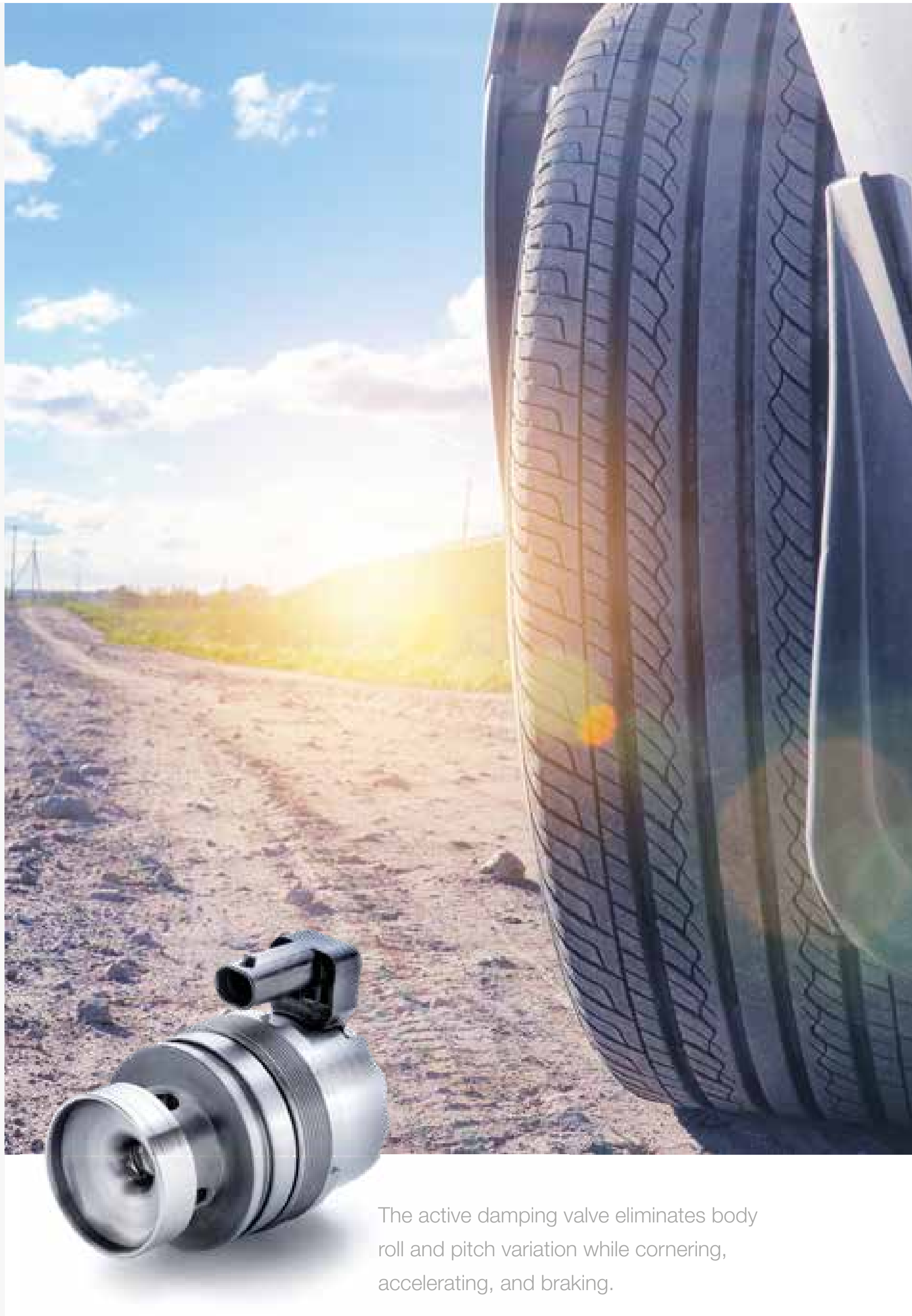
While autonomous and conventional vehicles may differ in power source, sound and looks, they share a feature that is gaining in popularity: active suspension. In fact, the push for increased vehicle comfort and safety in both types of vehicles is expected to drive demand for active suspension systems. Our brand-new product platform for external continuous damping valves (eCDVs) gives vehicle OEMs and systems designers a ready-made solution for their vehicles of today and tomorrow.

Active suspension systems improve a vehicle's comfort, safety and driving dynamics. While they are now mainly found in premium car models, their increasing use in mid-range cars and in particular battery electric car platforms support increased growth over the next five years. The longer-term is also bright: active chassis will be key for autonomous vehicles, as drivers will no longer be continuously looking at the road.

With our eCDV platform, we are ready for today, tomorrow and the future. We can produce multiple variants and higher volumes, more quickly and with less R&D resources.

What we did in 2021
In 2021, we delivered B samples of our eCDVs including a patented failsafe option to various customers. Working closely with key automotive customers on the platform in both Europe and China, we laid the foundation for future nominations.

Our focus for 2022
In 2022 we look forward to seeing those nominations come in. We expect to start C sample production and will prepare serial production for all customers. Our new factory in Suzhou, China will be up and running, ready to meet the anticipated growing demand there. And we will explore further development of internal continuous damping valves (iCDV) for limited space and more compact vehicles.



The active damping valve eliminates body roll and pitch variation while cornering, accelerating, and braking.

Movements in the number of outstanding shares	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2021	14,766,481	167,503	14,933,984
Issued shares (share dividend)	69,634	(68,883)	751
Issued registered shares (share plan)	3,913	(3,913)	–
Delivered shares	1,044	(1,044)	–
At 31 December 2021	14,841,072	93,663	14,934,735

Other information

EUR, unless otherwise stated	2021	2020	2019[3]
Number of shares x 1,000 at 31 December	14,935	14,934	14,934
Market capitalization at 31 December (EUR million)	314.4	247.9	312.9
Enterprise value (EV) (EUR million)	445.0	351.1	360.3
Highest share price in the financial year	24.65	21.35	23.60
Lowest share price in the financial year	16.90	8.63	15.62
Share price on 31 December	21.05	16.60	20.95
Average daily ordinary share volume	14,129	24,203	15,959
EBITDA multiple (EV / EBITDA)[1]	7.97	7.86	8.22
Result per share	0.97	0.29	0.61
Normalized result per share[2]	1.39	0.79	0.94
Share price earnings ratio[2]	15.13	21.01	22.29

Major shareholders as at 31 December 2021[4]	Interest in %	Date of report
Teslin Participaties Coöperatief U.A.	15.14	At 14 June 2019
Kempen Capital Management N.V.	10.07	At 26 May 2020
Cross Options Beheer B.V.	5.37	At 8 May 2017
T. Rowe Price Group, Inc.	4.97	At 5 May 2017
FIL Limited	6.84	At 18 May 2021
Invesco Limited	5.42	At 15 May 2020
Midlin N.V.	3.08	At 11 December 2020
Total	59.01%	

1 Normalized for one-off costs and benefits. The bridge from reported to normalized figures can be found on page 38.

2 Normalized for one-off costs, benefits and amortization of intangibles arising from acquisitions.

3 Restated for retrospective correction of inventory.

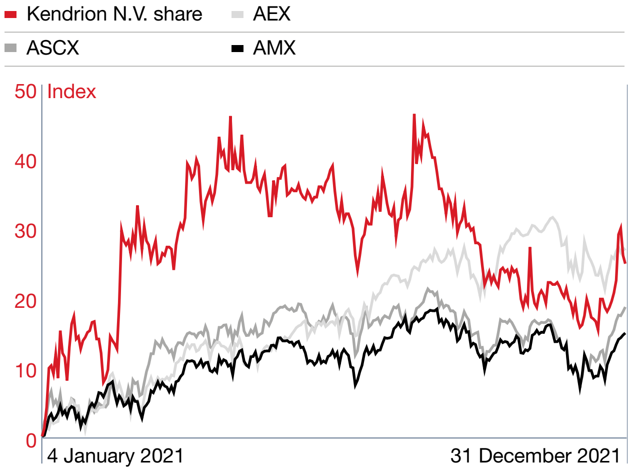
4 On the basis of the information in the register of the AFM and listed on the website at www.afm.nl.

Share capital

The authorized share capital of Kendrion N.V. as at 31 December 2021 amounts to EUR 80,000,000 and is divided into 40,000,000 ordinary shares with a nominal value of EUR 2.00 each. At year-end 2021, the total number of ordinary shares issued was 14,934,735. There is one class of ordinary shares and no depositary receipts for shares have been issued. Kendrion's ordinary shares are listed on NYSE Euronext Amsterdam Small Cap Index (AScX).

Movements in the share price

from 4 January 2021 to 31 December 2021



Treasury shares
As at 31 December 2021, Kendrion N.V. holds 93,663 ordinary shares in its own capital, representing 0.6 % of the total issued share capital. The ordinary shares held by Kendrion N.V. in its own capital are non-voting, do not have any dividend entitlement, and are held in treasury for payment of future stock dividends and share-based incentive plans. This means that as per year-end 2021, 14,841,072 ordinary shares hold voting rights and dividend entitlement.

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

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 0.69 per share, representing a payment of dividend of 50% of normalized net profit before amortization for 2021 at the Annual General Meeting of Shareholders on 11 April 2022.

The total amount of dividend is EUR 10.3 million. It will be proposed that payment of the dividend be made in cash, or at the option of shareholders, in the form of ordinary shares charged to the share premium reserve with any remaining fraction being settled in cash.

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

Participation
Kendrion maintains a share-based incentive plan for its senior management and certain key employees. Up to 2018, senior management and certain key employees were eligible to apply for the conversion of a maximum of half of the cash amount of their annual net cash bonus into Kendrion shares. Under this share-based incentive plan, Kendrion offered to double the number of shares after three years, provided the participant concerned is still employed by Kendrion and still holds the shares purchased. Pursuant to this share-based incentive plan, a total of 3,913 ordinary shares were allocated to employees from the balance of treasury shares in 2021.

On 8 September 2022, Kendrion will hold a Capital Markets Day for the analysts, investors and shareholders communities.

Effective as of 2019, members of the Management Team are eligible for a grant of conditional performance shares and effective as of 2021 participation in the share based incentive program has been extended to members of Kendrion's senior leadership team. In 2021, 78,212 conditional performance shares were granted to the Management Team and the leadership team under the applicable long-term incentive plans. The conditional performance shares granted will vest upon achievement of performance measured over a three-year period. The actual number of shares that will be allocated upon expiry of the three-year vesting period is subject to the realization of predefined performance criteria. Under the 2019 long-term incentive plan for the Management Team (i.e. performance period 2019 through 2021), 14,177 conditional performance were granted. Of the 14,177 conditional performance shares granted to the Management Team, a total of 2,835 shares have vested.

In 2021, conditional performance shares have been granted to the members of the Executive Board pursuant to the Executive Board long-term incentive plan. More information about (conditional performance) shares granted to the members of the Executive Board is set out on page 165. A comprehensive description of the long-term incentive plan is included in the 'Remuneration Report' section on pages 91-106.

Analysts

The following stock exchange analysts actively monitor the Kendrion share:

Berenberg	Axel Stasse
Degroof Petercam	Frank Claassen
ING Bank N.V.	Tijs Hollestelle
The Idea-Driven Equities Analyses Company	Maarten Verbeek
Edison Group	Johan van den Hooven

Financial calendar

Friday, 25 February 2022	Publication annual results 2021
Monday, 14 March 2022	Record date General Meeting of Shareholders
Monday, 11 April 2022	General Meeting of Shareholders
Wednesday, 13 April 2022	Ex-dividend date
Thursday, 14 April 2022	Dividend record date
Friday, 15 April – Monday, 2 May 2022, 3 pm	Dividend election period (stock and/or cash)
Tuesday, 3 May 2022	Determination stock dividend exchange ratio
Tuesday, 3 May 2022	Publication first quarter results 2022
Thursday, 5 May 2022	Cash dividend made payable and delivery stock dividend
Wednesday, 24 August 2022	Publication half-year results 2022
Thursday, 8 September 2022	Capital Markets Day
Tuesday, 8 November 2022	Publication third quarter results 2022

Regulations to prevent insider trading

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

Investor relations

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

J. H. Hemmen

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

J.A.J. van Beurden

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

INDUSTRIAL ACTUATORS AND CONTROLS
Customized solutions for industrial applications based on electromagnetic actuators, control technology and fluid technology.

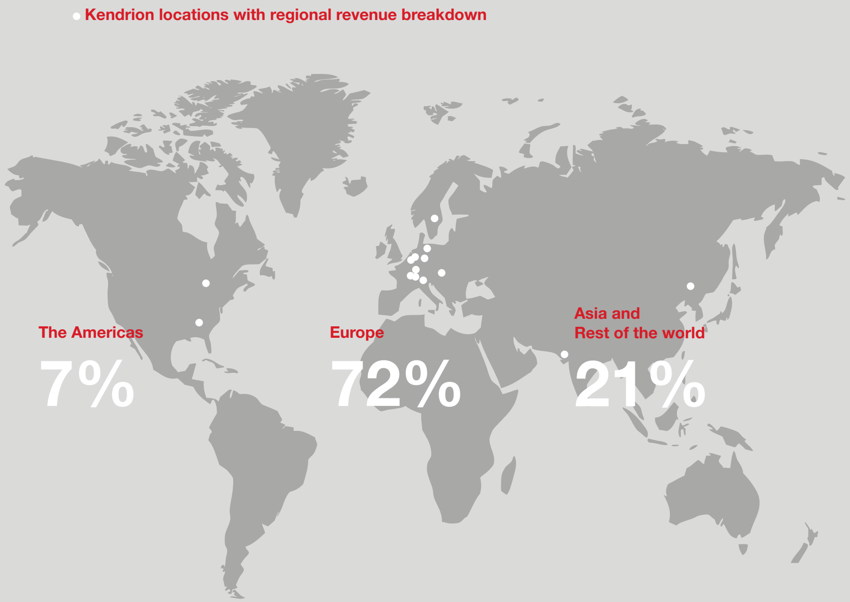
INDUSTRIAL BRAKES
Full-line provider of electromagnetic brakes for electromotors in industrial end markets.

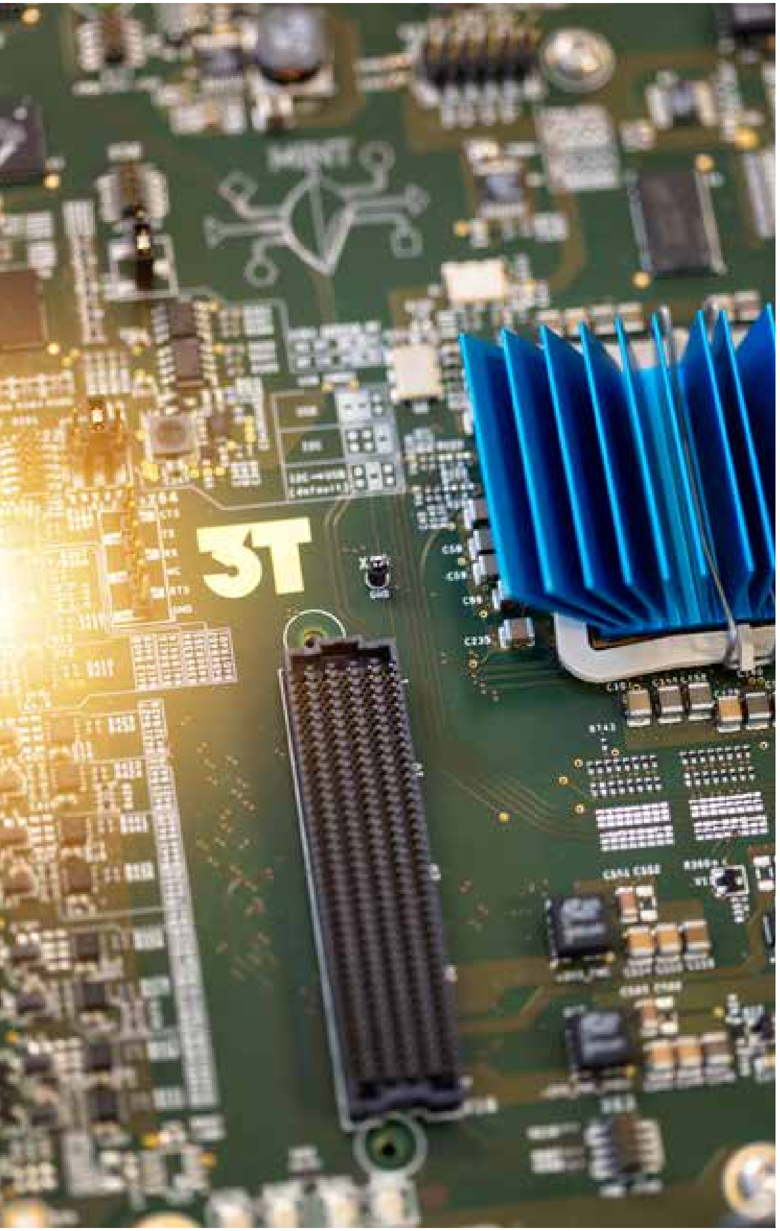
OUR PRODUCTS ARE USED IN
Energy generation and distribution
Food and beverage machinery
Industrial automation
Intralogistics
Medical equipment
Robotics
Textile machinery
Wind power

OUR CUSTOMERS INCLUDE
ASML
Collins Aerospace
Eaton Corporation
Euchner
Fresenius
Lenze
Oerlikon
Schindler
Siemens
ST Drives

TOTAL INDUSTRIAL REVENUE
(in EUR)

231.5 million
2020 **190.3 million**





Growth through sustainability opportunities

Profile

Kendrion's industrial activities focus on developing and manufacturing electromagnetic brakes, actuators and control units for a wide range of industrial applications including industrial automation, robotics, wind power, intralogistics, energy distribution, medical equipment, aerospace, and inductive heating.

These activities are carried out in two Business Groups: Industrial Brakes (IB) and Industrial Actuators and Controls (IAC). Industrial Brakes specializes in the development and manufacture of electromagnetic brakes for electromotors used in various industrial end markets. Industrial Actuators and Controls focuses on the development and production of customized electromagnetic actuator technology, gas and fluid control valves, and control technology.

Application expertise and engineering skills are our main differentiators; they enable us to design high-performance products of unparalleled quality. The Industrial activities have research & development centres and production facilities in Germany, Romania, China, the US and India. Products are marketed via an own sales organization in Germany, Austria, Sweden, China and the US. A worldwide sales distribution network is dedicated to standard and application-specific components. Industrial employs 1,261 FTE of which 107 in research & development.

Market and market position

IB serves a number of global markets we expect will continue to offer above average opportunities for growth, including industrial automation, robotics, wind power, and intralogistics. These growth opportunities are driven by the industry-wide energy transformation that will increase demand for electromotors for which IB offers a wide range of braking solutions. Kendrion is one of the leaders in the global industrial brake market and the only industrial brake company that has a leading position in both spring-applied and permanent magnet brake technology.

IAC serves a large number of industrial end markets including aerospace, railway, energy generation and distribution, medical equipment, industrial appliances, logistics, access control, food & beverage machinery and textile machinery. As with IB, IAC is active in niches that offer significant growth opportunities driven by the global energy transformation, such as inductive heating of industrial appliances and machinery, energy distribution, and valves for nuclear power plants. IAC generally prioritizes profitability and cash flow over growth by selectively choosing niches in which it can earn above average returns.

Our Industrial Business Groups compete in a market with many small and mid-sized producers predominantly with a regional focus. The main market for our Industrial activities continues to be Germany, with its advanced and globally leading mechanical engineering and automation industries, followed by China. Other key markets are the US, the Benelux, Switzerland, Austria, Italy, France, and Sweden.

Developments in 2021

Kendrion's combined Industrial activities generated a revenue of EUR 231.5 million in 2021 (2020: EUR 190.3 million). After the revenue decrease in FY 2020 caused by the COVID-19 pandemic, we saw a powerful and industry-wide demand rebound in 2021. Both Industrial groups recorded revenue levels that significantly exceeded those of 2019 before the pandemic. Global supply chain shortages and raw material price increases affected both IB and IAC, but by showing great flexibility and agility both groups were able to fully capitalize on the positive demand development.

Throughout the year, IB added a number of new large clients to its customer portfolio and benefitted from an increase in applications for its brakes, including collaborative robots, surgical robots, and automated guided vehicles (AGVs). To further benefit from the sizeable growth opportunities in China, IB continued to invest in the localization of production lines and research & development capabilities in its facilities in Suzhou and Shanghai. IB also closed its small sales and service office in the UK and integrated its activities into its existing operation in Germany.

In September 2021, Kendrion acquired the embedded software and electronics developer 3T. 3T employs around 80 FTE, generates around EUR 12 million in annual revenue and has development locations in Enschede and Eindhoven in the Netherlands. 3T has been integrated in IAC and offers a strong strategic fit with its control technology activities. 3T's highly skilled employees and proximity to leading technical universities and other institutions of higher education enhance Kendrion's ability to further build and manage a talented team of software and electronics developers. The acquisition became effective on 21 September. Already, 3T has contributed EUR 3.4 million in revenue to the Industrial Group in 2021. IAC divested its 30% share in Newton CFV, a company specialized in the development and marketing of dispensing valves, resulting in a EUR 0.6 million book profit. As part of the agreement, Kendrion retained an exclusive manufacturing agreement for production of valves in its Mishawaka, Indiana plant.

> The acquisition of 3T enhances Kendrion's ability to further build a talented team of software and electronics developers.

Innovative solutions for passenger cars and commercial vehicles focused on advanced valve technology, smart actuation and control technology to enable the transformation to Autonomous, Connected, Electric and Shared (ACES) mobility.

OUR PRODUCTS ARE USED IN

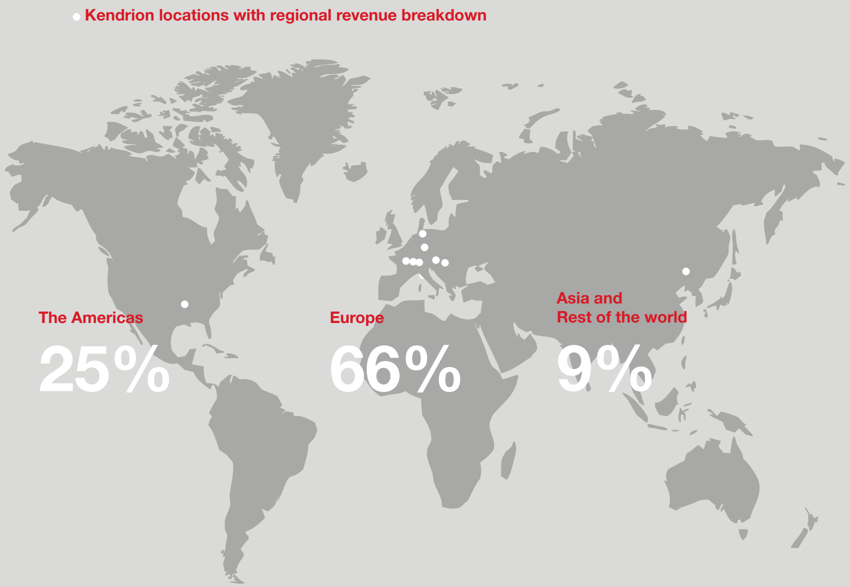
Active suspension systems
Fuel systems
Mobile hydraulics
Acoustic vehicle alerting systems
Thermal management
Sensor cleaning systems
Transmission systems

OUR CUSTOMERS INCLUDE

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

TOTAL AUTOMOTIVE REVENUE
(in EUR)

232.1 million
2020 **206.1 million**



Accelerated transformation

Profile

The Kendrion Automotive Group (KAG) develops, manufactures, and markets innovative, high-quality electromagnetic actuators and control units for customers in the automotive industry worldwide. Customers include major OEMs and Tier 1 suppliers in the global markets for passenger cars, commercial vehicles, and off-highway vehicles.

KAG focuses on advanced valve technology, smart actuation, and control technology specifically designed to enable the transformation towards Autonomous, Connected, Electric and Shared mobility, known as “ACES”. Applications enabling this transformation include sound systems (AVAS), active suspension valves, and sensor cleaning valve blocks. These currently make up some one third of the KAG revenue and Kendrion expects this percentage to grow significantly over the next few years. Other KAG applications include transmission systems and fuel systems for passenger cars, hydraulic solenoids for agricultural equipment, and thermal management systems for commercial vehicles.

KAG has a global presence with research & development centres and manufacturing facilities in Germany, Rumania, Czech Republic, Austria, the US, and China. Products are developed and designed to meet customers’ specific needs, placing great emphasis on performance, quality, and reliability. KAG employs 1,467 FTE of which 142 FTE in R&D.

Market and market position

The accelerating electrification in automotive, and the rise of electric and autonomous vehicles, are expected to significantly transform the overall automotive market. By 2025, 40% of cars sold are expected to by either fully electric or hybrid, and 90% of cars are expected to be equipped with level 3 autonomous driving technology. The market for Kendrion’s sound system (AVAS) platform will grow as legislation across the globe requires electric cars to emit a sound below a certain speed. The market for active suspension is expected to continue its fast-paced growth as more heavy electric vehicles are being equipped with active suspension systems. Sensor cleaning applications will become more common as cars are expected to become increasingly more autonomous and dependent on sensors in the near future.

The KAG competes in a market with a number of mid-sized competitors, mainly based in Germany. Europe continues to be Kendrion’s largest automotive market, with Germany being the largest buyer. Kendrion’s market position in China has further improved thanks to Kendrion China winning several new projects over the last few years.

Developments in 2021

Revenue for the KAG amounted to EUR 231.1 million in 2021 (2020: EUR 206.1 million). As the automotive industry gradually recovered from the COVID-19 pandemic-induced demand fallout in 2020, it was affected in 2021 by significant supply chain shortages and sharply increasing material prices. Shortages occurred in all areas, including steel, copper, and plastics, but the industry was mostly impacted by shortages in semi-conductors. KAG revenue was indirectly affected by these significant semi-conductor shortages which analysts have assessed to have reduced global car production by around 10 million cars in 2021.

While global car production showed a modest 2% growth, KAG was able to grow its revenue by 13% as recent projects ramped up or entered the production phase in 2021.
KAG added a further EUR 305 million (2020: EUR 350 million) in lifetime revenue to its long-term order book, indicating a positive book-to-bill of 1,32 times 2021 revenue. More than 60% of the projects relate to suspension or sound applications with start of production planned between 2021 and 2024.

In September 2021, Kendrion acquired software and electronics development company 3T. While 3T has been integrated in Industrial Actuators and Controls, its extensive experience in software and electronics development is expected to also be of strategic importance to the KAG, where the increasing content of leading-edge electronic components in passenger cars and commercial vehicles offers a significant growth opportunity.

As KAG continues to streamline its operations, it has initiated closure of the manufacturing facility in Eibiswald, Austria by mid-2022. In 2021, various production lines have been relocated to facilities in Rumania and Germany with the remaining transfer of production lines planned for the first half of 2022. The Eibiswald facility employed 75 FTE as per the end of 2021.

The transformation towards ACES is expected to increase Kendrion's content per car.

Key figures

In millions of EUR unless otherwise stated	2021	2020
Revenue	464.0	396.4
Organic growth	16%	(17%)
Added value	225.8	191.0
as a % of production value	48.3%	48.5%
EBITDA	51.7	40.2
as a % of revenue	11.1%	10.1%
EBITA	27.8	14.5
as a % of revenue	6.0%	3.7%
Net profit	14.4	4.3
Normalized revenue [1]	463.6	396.4
Normalized added value [1]	225.8	191.0
as a % of production value	48.3%	48.5%
Normalized operating expenses [1]	170.0	146.4
as a % of revenue	36.7%	36.9%
Normalized EBITDA [1]	55.8	44.6
as a % of revenue	12.0%	11.3%
EBITA [1]	31.9	18.9
as a % of revenue	6.9%	4.8%
Earnings per share (in EUR)	0.97	0.29
Normalized earnings per share (in EUR) [1,2]	1.39	0.79
Dividend per share (in EUR) [3]	0.69	0.40
Invested capital [1]	205.2	174.4
Return on invested capital [1,4]	15.6%	10.8%
Shareholders equity	223.0	203.4
Net debt	130.6	103.2
Working capital [1]	64.9	41.4
Normalized free cash flow [1]	3.5	31.5
as a % of EBITA	11%	167%

1 For a reconciliation to the most comparable IFRS financial measure see the table reconciliation of non IFRS financial measures.

2 Earnings per share before amortization of intangibles arising from acquisitions.

3 The 2021 dividend per share will be to the Annual General Meeting of Shareholders on 11 April 2022.

4 Invested capital excluding goodwill and other intangibles arising from acquisitions.

Group performance

In 2021, we experienced a strong recovery in demand across our Business Groups, after the economic slowdown in 2020 as a result of the COVID-19 pandemic. Although the pandemic loosened its grip, new challenges emerged; as demand increased, so did supply chain shortages, increasing raw material prices and demand volatility. Our Business Groups successfully navigated these challenges, which resulted in an organic revenue increase of 16% with a normalized group revenue of EUR 463.6 million. Our normalized EBITDA increased by 25% to EUR 55.8 million, our EBITDA margin improved with 70 basis points to 12.0%, and our net profit before acquisition-related amortization charges increased by 76% to EUR 20.6 million. Normalized free cash flow came in at EUR 3.5 million.

Revenue growth on a nominal basis was 17%, including 1% growth following the acquisition of 3T. Currency effects had a negligible effect on group revenue. All three Business Groups contributed to the organic revenue growth. Revenue in Industrial Brakes (IB) increased by 21% to EUR 127.5 million, driven by a strong increase in demand for electromagnetic brakes for electromotors in end markets such as intralogistics, warehouse automation, and robotics. The broad trend towards electrification and automation of industrial processes, combined with IB's unique product range enabled us to fully capitalize on the many growth opportunities. Organic IB revenue exceeded 2019, pre-pandemic levels by 15%. Industrial Actuators and Controls (IAC) revenue increased by 18%, arriving at EUR 104.0 million, thanks to strong demand for IAC's products in electrical automation and energy generation and distribution. IAC revenue exceeded 2019, pre-pandemic levels by 3%. The Automotive Group (KAG) revenue increased by 13% to EUR 232.1 million, despite the modest 2% increase in global car production caused by significant shortages in semiconductors. A significant number of project nominations won in recent years started, or ramped up, production in 2021, resulting in higher revenue from especially interior sound solutions and suspension systems. The persistent semiconductor shortages increased demand volatility. This impacted KAG revenue indirectly, as customers were forced to temporarily shut down production facilities or cancel orders. Europe continues to be our most important market with EUR 319.7 million (2020: 273.3 million) revenue, followed by the Americas with EUR 73.9 million (2020: EUR 58.0 million) and Asia with EUR 70.0 million (2020: EUR 65.1 million).

Despite the significant increase in input prices, our added value as a percentage of the production value remained relatively stable at 48.3%, 20 basis points lower than in the previous year. An increase in average sales prices and a positive sales mix effect almost offset the negative impact from increasing raw material prices. Normalized operating expenses increased by 15% compared with the previous year, excluding the acquisition of 3T. Total operating expenses amounted to EUR 170.0 million and is broken down into EUR 51.7 million (2020: EUR 41.3 million) staff costs for direct labor, EUR 85.0 million (2020: EUR 76.7 million) staff costs for indirect labor and EUR 33.3 million (2020: EUR 28.4 million) for other operating expenses. Previous year's staff costs were significantly reduced through temporary COVID-19-related cost measures, including short-time work in our manufacturing locations and a voluntary salary reduction of 15% by senior management. These temporary cost measures were gradually abolished towards the end of 2020, as customer demand in all Business Groups started to recover. Total staff cost as a percentage of revenue decreased by 30 basis points to 29.5%. Staff costs for direct labor were negatively affected by the high demand volatility, especially in Automotive, and increased by 70 basis points to 11.1% of our revenue. Indirect staff costs benefited from operational leverage and fell by 110 basis points to 18.3% of our revenue. Other operating expenses as a percentage of revenue were stable at to 7.1%.

Positive operational leverage in most other operating cost items was offset by increased costs for legal and professional services and repair and maintenance. Costs for legal and professional services included increased outsourcing of research and development in Automotive to increase development capacity for software and electronics.
The increase in costs for repair and maintenance was caused by a number of factors, including outsourcing basic IT services, and a gradual transition from capitalized on-premise software to cloud-based software applications.

In 2021, normalized EBITDA came in at EUR 55.8 million (2020: EUR 44.6 million). EBITDA as a percentage of revenue increased by 70 basis points to 12.0% (2020: 11.3%), a positive step up towards our long-term financial target of 15.0% by 2025. Depreciation charges as a percentage of revenue fell by 130 basis points to 5.2% (2020: 6.5%). This was caused by operational leverage from the higher revenue level, the relatively low investment program in 2020, and the transition from on-premise capitalized software to cloud-based software applications as mentioned above. As a result, our EBITA increased by 69% to EUR 31.9 million (2020: EUR 18.9 million). Return on sales increased by 210 basis points to 6.9%.

Amortization of acquisition-related intangibles dropped to EUR 3.9 million (2020: EUR 4.4 million). The completion of the acquisition of 3T on 21 September 2021 added EUR 0.3 million amortization charges, which was more than offset by the end of the economic lifetime of certain capitalized intangibles from previous acquisitions. Normalized net financing costs increased by EUR 0.2 million compared with the previous year to EUR 3.7 million due to a higher average debt level and credit markup. The normalized effective tax rate was 26.8 % (2020: 22.0%); primarily a reflection of the average statutory rates in the jurisdictions of our operations.

Normalized free cash flow before acquisitions came in at EUR 3.5 million (2020: EUR 31.5 million). EUR 57.2 million cash generation from EBITDA and share based payments was partially offset by EUR 17.5 million investments in working capital (2020: EUR 7.3 million reduction), EUR 7.2 million interest and tax payments (2020: EUR 4.4 million) and EUR 28.9 million investments (2020: EUR 16.5 million).
The increased working capital was triggered by the higher revenue levels as well as by a higher necessity for buffer stocks caused by material shortages and increased demand volatility. The build-up of buffer stock to enable the transfer of production lines related to the planned closure of the Automotive manufacturing facility in Eibiswald, Austria – resulted in a temporary increase of EUR 2.0 million in stocks. Normalized working capital as a percentage of revenue was 14.0% (2020: 10.4%). Capital expenditure included EUR 5.9 million investments for the construction of a new 28.000 m^2 production facility in Suzhou, China. We expect the existing operations in Suzhou and Shanghai to relocate to the new facility in the second half of 2022.

Total net debt increased by EUR 27.4 million to EUR 130.6 million. Normalized cash flow of EUR 3.5 million, EUR 3.3 million proceeds for the sale of the 30% interest in Newton CFV, and EUR 1.1 million positive currency results on cash were offset by EUR 23.2 million payments for the acquisition of 3T, EUR 4.3 million cash dividend, EUR 3.9 million payments for cost items normalized in the results, EUR 3.4 million lease payments, and a EUR 0.5 million increase in lease liabilities. The leverage ratio per 31 December 2021 was 2.3 (2020: 2.3) and we continued to operate well within the 3.25 financial covenant level as agreed in the groups' main credit facility. Solvency as per the end of 2021 stood at 45.4% (2020: 47.4%).

Total invested capital per 31 December 2021 was EUR 367.9 million (2020: EUR 320.5 million), of which EUR 171.2 million (2020: EUR 150.4 million) related to goodwill and other intangibles arising from acquisitions. Invested capital adjusted for normalized balance sheet items was EUR 205.2 million (2020: EUR 174.4 million). Return on invested capital, defined as EBITA divided by the invested capital excluding goodwill and other intangibles arising from acquisitions, was 15.6% (2020: 10.8%), a good step towards our long-term target of 25% by 2025.

Earnings per share and dividend

Normalized net profit before the amortization of acquisition-related intangibles increased by 76% to EUR 20.6 million (2020: EUR 11.7 million). Normalized earnings per share arrived at EUR 1.39 (2020: EUR 0.79). Reported net profit increased to EUR 14.4 million (2020: EUR 4.3 million) with basic earnings per share of EUR 0.97 (2020: EUR 0.29). We will propose a dividend of EUR 0.69 per share (2020: EUR 0.40), representing a pay-out of 50% of the normalized net profit before amortization, at the Annual General Meeting of Shareholders on 11 April 2022. 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. The total proposed dividend amounts to EUR 10.3 million (2020: EUR 5.9 million).

Alternative performance measures – adjustments to profit

In this Annual Integrated Report we present certain financial measures that are not measures of financial performance under IFRS. These non-IFRS measures (also known as non-GAAP or alternative performance measures) are presented because management considers them to be important supplemental measures of our performance and believes that they are widely used as a means of evaluating a company's operating performance. These measures include normalized revenue, normalized EBIT(D)A, normalized net profit before amortization of acquisition-related intangibles, and normalized free cash flow. Normalized revenue and EBIT(D)A exclude certain items of a non-recurring nature, including restructuring costs, impairment charges and costs related to M&A activities. Normalized free cash excludes cash flows related to cost and revenue items that have been normalized in EBIT(D)A and net profit.

A detailed bridge between normalized and reported figures is provided in the table "reconciliation of non IFRS financial measures" on page 38 of this annual report. In 2021, normalized EBIT(D)A exceeded reported EBIT(D)A by EUR 4.1 million (2020: EUR 4.4 million). The net of tax normalized amount was EUR 3.3 million (2020: EUR 4.1 million). Normalized cost items included EUR 1.5 million restructuring costs, a EUR 3.4 million impairment of fixed assets, EUR 0.2 million acquisition related costs and EUR 0.4 million inventory write off.

Normalized benefits include EUR 0.8 million (customer) compensation payments and the EUR 0.6 million book profit on the Newton CFV sale. Restructuring costs related primarily to the planned closure of the Automotive facility in Eibiswald, Austria, the closure of a small sales office in Bradford, UK, and the integration of our Industrial Magnetic Systems and Industrial Control Systems business units into the Industrial Actuators and Controls (IAC) business group. The impairment charges relate to the cancellation of an automotive project. Discussions for compensation are continuing and part of an agreed compensation includes the nomination of a new project that will start production in 2024.

Liquidity position

Kendrion's liquidity position exists of freely available cash balances and undrawn facilities. Cash balances on 31 December 2021 amounted to EUR 18.6 million (2020: EUR 13.0 million). In addition, Kendrion had EUR 39.8 million (2020: EUR 65.2 million) available under undrawn credit facilities. Kendrion's main credit facility is the EUR 162.5 million facility agreement with a banking syndicate consisting of HSBC Bank, ING Bank, and Deutsche Bank. The facility agreement runs until 27 July 2023. Certain covenants apply including a maximum leverage ratio of 3.25, with a possible temporary spike up to 3.75 under certain conditions.

Research & Development

EUR 32.6 million (2020: EUR 28.9 million) costs for R&D are included in the operating expenses, of which EUR 20.9 million (2020: EUR 18.6 million) staff costs. An amount of EUR 1.1 million in R&D expenses (2020: EUR 0.7 million) has been capitalized as R&D on the balance sheet. Costs for R&D as a percentage of revenue were 7.0% (2020: 7.3%). 3T's R&D costs are excluded as these relate to services that directly generate external revenue. Kendrion Group employed 249 FTE R&D employees. R&D activities primarily focused on: modifying existing electromagnetic brake technology for growth markets such as AGVs and surgical robots; developing safety control units for collaborative robots and AGVs, inductive heating technology for industrial processes, the AVAS sound platform and customer specific applications, a smart valve block platform for sensor cleaning, and a new generation suspension valve platform.

Acquisitions and divestments

On 21 September 2021 Kendrion completed the acquisition of 3T, a developer of electronics and embedded software in the Netherlands. 3T has been integrated in the Business Group Industrial Actuators and Controls (IAC). 3T has added EUR 3.4 million revenue and EUR 0.5 million to the 2021 operating result. The acquisition price of EUR 23.2 million was funded entirely from existing debt facilities and in addition has led to EUR 1.9 million additional IFRS 16 lease liabilities. The opening balance sheet of 3T further included EUR 2.3 million fixed assets, EUR 2.0 million net working capital and EUR 8.4 million allocated intangibles according to the purchase price allocation. Residual goodwill amounts to EUR 14.8 million.

In November 2021, Kendrion disposed of its 30% interest in Newton CFV, a company operating from Florida, USA. Newton CFV develops and markets valve technology designed specifically for the beverage dispensing market. Kendrion acquired the 30% share in 2018 and the company was part of the IAC business group. The divestment has led to EUR 3.3 million cash proceeds and a reported book profit of EUR 0.6 million. Kendrion has retained an exclusive manufacturing agreement for production of Newton CFV valves from the IAC facility in Mishawaka, Indiana.

Developments per segment

Industrial

Key figures Industrial

In millions of EUR unless otherwise stated	2021	2020
Revenue from third parties	231.5	190.3
Organic growth	20%	(11%)
EBITDA	37.4	26.3
as a % of revenue	16.2%	13.8%
EBITA	29.2	17.8
as a % of revenue	12.6%	9.3%
Normalized EBITDA	39.0	29.1
as a % of revenue	16.8%	15.3%
Normalized EBITA	30.8	20.7
as a % of revenue	13.3%	10.9%
Capital investments	5.1	4.6
Total assets	267.3	219.6
Number of employees (in FTE)	1,261	1,058

Our Industrial activities generated EUR 231.5 million (2020: EUR 190.3 million) of revenue in 2021, 50% of the group's revenue. Normalized EBITDA increased by 34% to EUR 39.0 million (2020: EUR 29.1 million) and EBITDA as a percentage of revenue improved by 150 basis points to 16.8%. Normalized EBITA increased by 49% to EUR 30.8 million (2020: EUR 20.7 million). The acquisition of 3T added EUR 3.4 million revenue and EUR 0.6 million EBITDA.

Industrial revenue increased by 20% on an organic basis and nominal revenue increased by 22%. The activity level in Industrial continued to increase throughout the year causing revenue levels to increase quarter over quarter. The industrial Business Groups faced supply chain shortages during most of the year, but not as severe as the automotive sector.

Although the order backlog at year end was somewhat higher than usual, both industrial Business Groups were able to largely fulfil the increased customer demand. Overall, Industrial Brakes (IB) benefited from the general demand recovery in industrial end markets, as well as from the broad energy transformation which involves increasingly electrified and automated industrial processes. Industrial Actuators and Controls (IAC) saw revenue increases in most customer segments, with strong demand in electrical automation and the energy generation and distribution segments.

The Industrial Business Groups have increased their average sales prices to offset the increasing raw material prices, but some delay in passing on the higher input prices did negatively affect the Industrial added value margin in 2021. Operating costs as a percentage of revenue fell by 230 basis points to 37.8%. Operational leverage from higher revenues, and the additional EUR 2.3 million impact from cost synergies related to the acquisition of INTORQ and the integration of IAC realized in the previous year, also contributed to the increase in profitability.

Non-recurring cost items that have been normalized in the Industrial results amounted to EUR 1.6 million in 2021 (2020: EUR 2.9 million). Normalizations mainly relate to restructuring costs incurred for the integration of the IAC business group and the closure of a small Industrial Brakes sales office in Bradford, UK. The sales activities of the UK office have been integrated in the IB facility in Villingen, Germany.

Industrial cash investments amounted to EUR 5.1 million (2020: EUR 4.6 million), below the depreciation level of EUR 8.2 million. The majority of these investments covered increasing production capacity and enhancing testing capabilities in IB.

Automotive

Key figures Automotive

In milllions of EUR unless otherwise stated	2021	2020
Revenue from third parties	232.1	206.1
Organic growth	13%	(20%)
EBITDA	14.3	13.9
as a % of revenue	6.1%	6.7%
EBITA	(1.4)	(3.3)
as a % of revenue	(0.6%)	(1.6%)
Normalized EBITDA	16.8	15.5
as a % of revenue	7.2%	7.5%
Normalized EBITA	1.1	(1.8)
as a % of revenue	0.5%	(0.8%)
Capital investments	23.2	11.0
Total assets	223.5	209.5
Number of employees (in FTE)	1,467	1,398

The Kendrion Automotive Group (KAG) realized 13% organic growth, resulting in its revenue increasing to EUR 232.1 million (2020: EUR 206.1 million). This accounts for 50% of group revenue. Normalized EBITDA amounted to EUR 16.8 million (2020: EUR 15.5 million) and EBITDA as a percentage of revenue was 7.2% (2020: 7.5%). Normalized EBITA increased to EUR 1.1 million (2020: negative EUR 1.8 million).

KAG started the year well, but revenue came increasingly under pressure in the second half of the year due to supply chain shortages. In particular shortage in semi-conductors had a significant negative impact on global production levels of passenger cars as many car manufacturers had to shut down or significantly reduce production during 2021. Because of semiconductor shortages, global car production only increased moderately compared with the 75 million cars produced in 2020, when car production halted during large parts of the year due to the COVID-19 pandemic induced lockdowns.
The revenue increase in KAG was mainly driven by the start, or ramp up, of production of customer projects – especially suspension valves and interior sound systems – won in previous years.

Despite significantly increased input prices, KAG realized a slightly improved added value margin in 2021 due to increased average sales prices and customer contributions for engineering activities. Operating costs as a percentage of revenue increased by 110 basis points to 35.6%. The supply chain shortages and consequent increases in customer order volatility had a negative effect on the operating efficiency within KAG. Operating costs were also impacted by increased costs for research and development in 2021. The increased R&D activities mainly involved the development of product platforms and application engineering for exterior AVAS sound systems and suspension valves.

Cash investments in KAG amounted to EUR 23.2 million (2020: EUR 11.0 million), compared to a depreciation level of EUR 15.7 million. The construction of new production facilities in Suzhou, China is recorded in the Automotive Group and added EUR 5.9 million to the total investments. The majority of the investments related to newly won project nominations, such as equipment and production lines for suspension valves and AVAS sound systems.

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 2021 and the developments during the financial year of Kendrion N.V. and its group companies included in the consolidated financial statements; and (iii) the Annual Integrated Report describes the main risks Kendrion is facing.

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

Reconciliation of non IFRS financial measures

EUR million	2021	2020
Reported result before net finance costs	23.9	10.1
Reported amortization	3.9	4.4
Reported operating result before amortization (EBITA)	**27.8**	**14.5**
One-off costs related to restructuring measures in staff costs	1.4	1.5
One-off costs related to restructuring measures in other operating expenses	0.1	0.7
One-off costs related to acquisition costs in other operating expenses	0.2	0.6
One-off costs related to impairment capitalized R&D	3.4	1.6
One-off costs related to revised calculation inventories	0.4	–
One-off benefits related to tax claim receipt	(0.4)	–
One-off benefits related to compensation costs prior years	(0.4)	–
One-off benefits related to sale of non consolidated investment	(0.6)	–
Normalized EBITA	**31.9**	**18.9**
Reported amortization	(3.9)	(4.4)
Reported net finance costs	(3.7)	(4.1)
One-off costs related to tax audits in finance expense	(0.0)	0.6
One-off costs related to acquisition costs in finance expense	–	0.0
Reported share profit or loss of an associate	(0.1)	(0.3)
Normalized profit before income tax	**24.2**	**10.7**
Reported income tax expense	(5.7)	(1.4)
One-off costs related to tax audits in income tax expense	0.4	–
One-off costs related to simplifying measures in income tax expenses	–	0.2
Impact one-off costs and benefits on income tax expense	(1.2)	(1.1)
Amortization after tax	2.9	3.3
Normalized net profit for the period before amortization	**20.6**	**11.7**

EUR million	2021	2020
Reported free cash flow	(21.0)	(52.4)
Acquisitions of subsidiaries	23.2	77.7
Proceeds from disposal of associate	(3.3)	–
Non-recurring items net of tax paid	4.6	6.2
Normalized free cash flow	**3.5**	**31.5**

Invested capital at 31 December

EUR million	2021	2020
Property, plant and equipment	121.9	118.7
Intangible assets[1]	183.4	159.1
Net working capital	61.7	39.1
Other fixed assets	0.9	3.6
Invested capital	**367.9**	**320.5**
Goodwill and other intangibles related to acquisitions[1]	171.2	150.4
Operating invested capital	**196.7**	**170.1**
Impact one-off costs and benefits on invested capital	8.5	4.3
Normalized invested capital	**205.2**	**174.4**

1 Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

Net working capital at 31 December

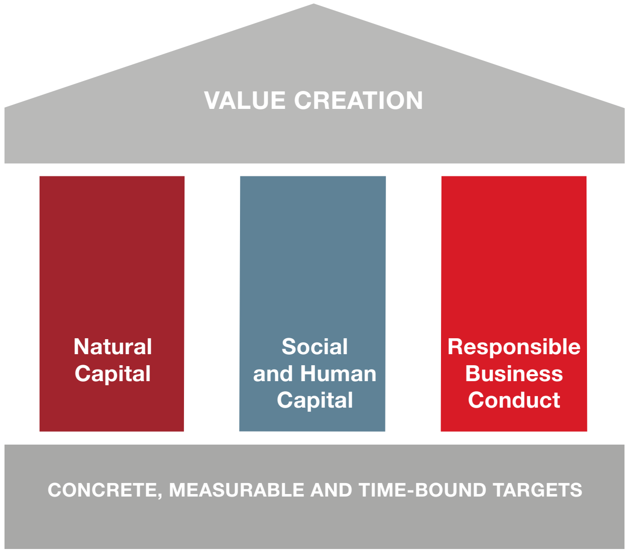
EUR million	2021	2020
Inventories	79.7	61.7
Trade and other receivables, tax receivable	68.0	54.8
Less: Trade and other payables, tax payables, current provisions	86.0	77,4
Net working capital	**61.7**	**39.1**
Impact one-off costs and benefits on working capital	3.2	2.3
Normalized working capital	**64.9**	**41.4**
As % of revenue	14.0%	10.4%

Sustainable contributions

Climate change is one of the greatest social challenges of our time. We are committed to taking action to reduce the negative impact of climate change and to address other sustainability and social issues. By increasing energy efficiency and use of renewable energy, reducing emissions, providing healthy, safe, and high-quality workplaces, and by ensuring our suppliers and other business relations uphold our environmental and social standards, we are striving to contribute to a more sustainable future. Adequate transparency about our sustainability, strategy and objectives and the progress made, are key to determining environmental performance and translating such performance into our business and product strategies.

Introduction

Our global sustainability program reflects Kendrion's mission and commitment to contribute to fighting climate change and other sustainability and social issues. Our leadership team puts sustainable development to the forefront in addressing, monitoring, and managing sustainability themes. We believe that innovation and technological developments can drive sustainable growth opportunities. Our teams are dedicated to further transition our product portfolio and expand our contribution to the accelerating trend of electrification and renewable energy.



The adverse effects of climate change also drive our commitment to reduce the impact of our operations by increasing energy efficiency and use of renewable energy for our manufacturing processes and facilities. We have reduced the relative CO_2 emissions from energy by our production facilities by 54% compared with 2015 and are finding ways to further replace fossil fuels with renewable energy sources. In China, for example, we started building a new sustainable manufacturing facility at the renowned Suzhou Industrial Park (abbreviated as SIP). Solar panels will be installed on the 28,000m^2 manufacturing facility in Suzhou, which will significantly reduce our CO_2 emissions. We preserve a high-quality, safe, and inclusive work environment for our employees. In our supply chain we maintain transparency and our suppliers and other business partners must commit to our environmental and social standards. We will also continue to engage with our stakeholders to gain a better understanding of their expectations relevant to the environment in which we operate, including market developments and cultural dynamics.

Kendrion's global sustainability program forms an integral part of our strategic plan and objectives. In addition to financial and economic considerations, our strategic decisions take account of a range of non-financial considerations such as environmental and social aspects. We constantly seek to strike the right balance between long-term value creation and playing a meaningful role in addressing climate change threats and other key social issues. This means that sustainability objectives are cascaded to our Business Groups and made an explicit component of Kendrion's performance-based remuneration schemes. Personal targets set for senior management include sustainability criteria. The short-term variable remuneration and the long-term variable remuneration of the Executive Board also include sustainability performance criteria (e.g., energy efficiency and reduction of CO_2 emissions) and social performance criteria (e.g., diversity, company culture, leadership development). Reference is made to the Remuneration Report on pages 91-92. for detailed information about the application of the Remuneration Policy for the Executive Board and the actual performance in 2021 against the predefined performance criteria.

Stakeholder dialogue

Our business operations and products have an impact on the environment and influence the interests of our stakeholders. The actions and expectations of our stakeholders influence the way in which we develop, implement, and execute our strategy to realize long-term value. We therefore seek to engage in an open and ongoing dialogue with our stakeholders about sustainability themes to deepen our insights into the needs and expectations of our stakeholders. This regular engagement helps us to continue advancing and innovating our global sustainability program, not only in design but also in management and execution. In engaging with our stakeholders, we aim to build trust, exchange positions, identify trends and address critical issues, including the implications of climate change for our business operations and products as well as the impact of our operations on the environment and society. The dialogue with our stakeholders is advantageous to assessing our environmental risk profile and establishing what mitigation plans are required or expected of Kendrion to make a meaningful contribution to a sustainable future. Moreover, by engaging in a dialogue, we provide transparency about our plans and actions to reduce the negative impact of climate change and to address other social issues. Input from our stakeholders is always considered when developing strategies and mitigation plans.

To facilitate the interactions with our different stakeholder groups, communication resources and channels are consistently determined. Systematic identification and prioritization of relevant stakeholder groups and their respective themes of interest are furthermore key to ensuring an effective and open dialogue. Our key stakeholder groups include: customers, suppliers, employees, shareholders, local communities and technical universities and institutions of higher technical education. For each group, Kendrion's stakeholder engagement varies and includes formal and informal channels that are applied with varying degrees of regularity. The key stakeholder groups are described on pages 56-57 of this Annual Integrated Report. Key themes addressed during our stakeholder dialogues in 2021 include:

- **climate change**, decarbonization and energy efficiency and renewables;
- **supply chain management**, raw material sourcing and ensuring respect for human rights and environmental standards in the supply chain;
- **sustainable production and product portfolio**, contributing to climate mitigation objectives.

Although our stakeholder dialogue continues as part of regular engagement and communications with our customers, suppliers, shareholders, and employees, Kendrion is committed to conducting a structured in-depth stakeholder engagement process every two years. Kendrion previously conducted in-depth stakeholder engagement processes in 2018 and in 2020. These stakeholder engagement processes included a structured sustainability survey among internal and external stakeholders and separate sustainability sessions with certain stakeholder groups. In addition to the regular and ongoing dialogues, we plan to perform a structured stakeholder engagement process in 2022 consistent with our established formats with a view to meeting stakeholders' reasonable needs to discuss topical themes relevant to various aspects of sustainability.

Materiality analysis and materiality matrix

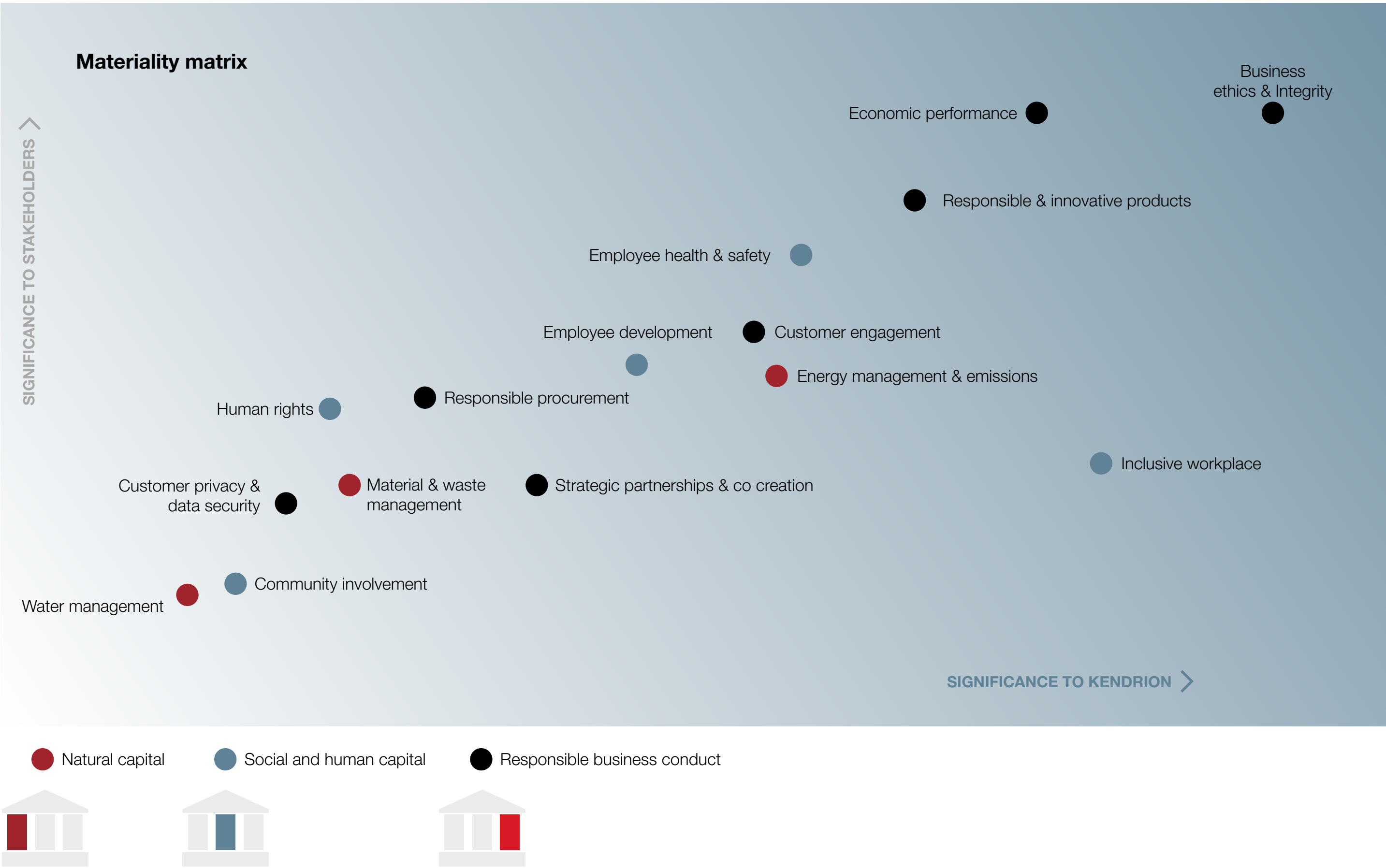
For a focused strategic approach, aimed at a healthy balance between stakeholder expectations and business aspirations, we identify and assess the material topics that are most relevant to Kendrion's activities. To this end, Kendrion uses a materiality analysis to gain insight into the relevance and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

In furtherance of the materiality analysis carried out in 2018, Kendrion commissioned and completed the performance of a subsequent materiality assessment in 2020. Together with a specialized consultancy firm, a tailored approach was developed to assess materiality and the results of the internal and external stakeholder consultation.

Compared with the materiality assessment performed in 2018, the 2020 assessment did not reveal significant movements in the ranking of individual themes. The outcome of the assessments is a refined number of material themes structured in a materiality matrix around Kendrion's three pillars of value creation that form the basis of the global sustainability program: Natural Capital, Social and Human Capital and Responsible Business Conduct.

The materiality matrix shows an enhanced classification and organization of material themes with a view to maintaining continued focus on those themes where Kendrion can have the most impact.

Kendrion's materiality matrix shows the material topics along two axes: significance to stakeholders and significance to Kendrion.



The outcome of the 2018 and 2020 materiality analysis both formed an important input for Kendrion's sustainability program and the 2019-2023 target framework as well as the further development and execution thereof. In support of the development of a sustainability target framework for the period beyond 2023, a new materiality assessment will be prepared.

While this Annual Integrated Report generally covers topics in the above materiality matrix, Kendrion has not set measurable sustainability targets for each material topic.

Kendrion reports against the 2019-2023 target framework and related commitments.

Kendrion reports only on the most relevant material topics. The most relevant material topics are: economic performance, anti-corruption, energy efficiency, carbon emissions, occupational health and safety, training and education, non-discrimination, and equal opportunities. Kendrion reports according to the GRI reference claims, which are described on pages 206 and 207 in the section 'About the Sustainability Report'.

2019-2023 TARGET FRAMEWORK

Natural Capital	**15%** **Relative reduction of energy consumption**	**15%** **Relative reduction of CO_2 emission**	**Implementation of the waste management hierarchy** in global waste management practices
Social and Human Capital	**Recurring annual improvement of health & safety figures** number of accidents per 1,000 FTE, lost time injury rate per 1,000 FTE, group-wide illness rate	**The establishment of a Global Diversity Committee,** responsible for advancing diversity **The implementation of a global company culture campaign**	**Rewarding 10 community investment initiatives per year** through Together@Kendrion
Responsible Business Conduct	**Maintain a responsible product portfolio** Products that Keep you Safe, Products that Reduce Climate Impact and Products that Improve Health	**Sustainable sourcing** Sourcing only from approved suppliers and conducting at least 25 implementation audits annually	**Continuous improvement and strengthening of the Global Legal Compliance and Governance Framework** to secure responsible business conduct

Please refer to the section 'About the sustainability report' on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

NATURAL CAPITAL

The Natural Capital pillar focuses on reducing the negative impacts of climate change by increasing energy efficiency and use of renewable energy, reducing CO_2 emissions and strengthening waste management practices.

Energy efficiency, renewable energy and CO_2 emission

Sustainability objective 2019-2023 target framework: 15% relative reduction of energy consumption and CO_2 emission by the end of 2023

Climate change imposes a fundamental threat to the world. We are therefore committed to reducing the impact of our business operations on the environment and consistently strive to increase energy efficiency and use of renewable energy and reduce emissions of CO_2 in the development and manufacture of our products. Reducing our environmental impact is a key objective and we encourage our employees to be actively engaged in pursuing this objective.

Strategically relevant and sustainable opportunities

We respond to the increasing environmental awareness of society and our stakeholders by focusing our resources on the development of sustainable products. With our product portfolio we contribute to creating a sustainable future as we are being part of the increasing demand for clean energy and the accelerating development of electrification of industrial processes and mobility. These key trends in electrification particularly drive the demand for our products in wind power, automated warehouses, inductive heating technology and electric vehicles that support the transition from fossil fuel enabled processes to electrical solutions.

Our Business Groups Industrial Brakes and Industrial Actuators and Controls are expected to benefit from these developments and their strategic plans are accordingly directed at these sustainable segments. The acquisition of INTORQ in 2020 has

2019-2023 TARGET FRAMEWORK

Relative reduction of energy consumption

TARGET 2023
15%

2021 ACTUAL
↓8%

Relative reduction of CO_2 emission

TARGET 2023
15%

2021 ACTUAL
↓17.9%

REALIZED IN 2021

- Enhanced focus on the development of sustainable products and expansion of relevant capabilities
- Reduction relative CO_2 emissions from energy by production plants by 54% compared to 2015
- Completed review on decarbonization strategies and mitigation plans

Waste management

REALIZED

- 5.5% reduction total waste
- Recycling rate increased from 82% to 83%
- Distribution hazardous waste (9%) and non-hazardous waste (91%)

Please refer to the section 'About the sustainability report' on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

strengthened the market position of Industrial Brakes and allows us to better pursue sizeable and fast-growing sustainable opportunities. The recent acquisition of 3T – a Dutch based developer of electronics and embedded systems – offers great potential for the control technology activities of our Business Group Industrial Actuators and Controls.

Decarbonization and digitalization are both topical themes in the public and political debate. These themes coincide to a certain extent as technologies offer opportunities to make mobility more efficient and thereby less intrusive to the environment. Also encouraged by the political debate and the increased environmental awareness of society, the disruption of the automotive industry continues at an accelerating pace. With our smart actuation technology, we are helping to take mobility into the sustainable dimension of Autonomous, Connected, Electric and Shared driving (abbreviated as 'ACES'). These developments come with an increasing demand for software and electronics that control our actuators and the safety and comfort of electric vehicles. The acquisition of 3T adds important software and electronics development capabilities. This enables the Automotive Group to enhance its focus on products that benefit from the transition to ACES and pursue these strategically relevant and sustainable growth opportunities.

Energy and Emissions[1]

Energy consumption		2021	2020[2]	Δ % 2021 / 2020
Power	kWh	24,610,300	22,283,253	10.4%
Fuel oil	kWh	614,130	452,370	35.8%
Natural gas	kWh	13,132,173	12,325,417	6.5%
		38,356,603	**35,061,040**	9.4%

Energy consumption per EUR million added value		2021	2020	Δ % 2021 / 2020
Power	kWh	111,344	119,829	-7.1%
Fuel oil	kWh	2,778	2,433	14.2%
Natural gas	kWh	59,414	66,280	-10.4%
		173,536	**188,541**	-8.0%

Energy consumption	2021	2020	Δ % 2021 / 2020
Absolute consumption, kWh	38,356,603	35,061,040	9.4%
Relative consumption, kWh / million EUR added value	173,536	188,541	-8.0%

CO_2 emissions[3]	2021	2020	Δ % 2021 / 2020
Absolute emissions, tonnes	6,368	6,529	-2.5%
Relative emissions, tonnes / million EUR added value	28.8	35.1	-17.9%

1 Please refer to the section 'About the sustainability report' on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.
2 2020 energy consumption figures restated.
3 Scope 1 and 2 of the Greenhouse Gas Protocol.

INDUSTRIAL BRAKES
INDUSTRIAL ACTUATORS AND CONTROLS
AUTOMOTIVE

Products that keep you safe • Products that keep you healthy • Products that reduce climate impact

RESPONSIBLE PRODUCT PORTFOLIO

PRODUCTS THAT KEEP YOU SAFE

PRODUCTS THAT KEEP YOU HEALTHY

PRODUCTS THAT REDUCE CLIMATE IMPACT



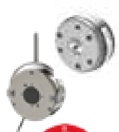
ENVIRONMENTALLY SUSTAINABLE ECONOMIC ACTIVITIES

WINDPOWER AND AUTOMATED WAREHOUSES

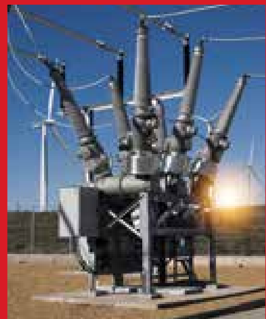
INDUCTIVE HEATING AND ENERGY DISTRIBUTION

ELECTRIC VEHICLES



KENDRION


KENDRION




KENDRION

EU Taxonomy

As we recognize that climate change is one of the most pressing global challenges, Kendrion is committed to taking responsibility to help decarbonization and put in place mitigation plans conducive to the key objectives of the Paris Climate Agreement and the European green deal. The adoption of new laws and regulations, such as the classification system establishing a list of environmentally sustainable economic activities introduced under the EU taxonomy, make an important contribution towards combating climate change by imposing disclosure requirements on the proportion of environmentally sustainable economic activities. The basis for the EU taxonomy is recorded in the Taxonomy Regulation.[1]

Eligibility of economic activities under the EU taxonomy is an indication that the activity makes a substantial contribution to the environmental objectives of the EU taxonomy[2]. EU taxonomy alignment implies that an economic activity complies with the technical criteria and other requirements described specifically for the activity under the so-called delegated acts supplementing the EU taxonomy.

1 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

2 The six environmental objectives of the EU taxonomy: (i) climate change mitigation, (ii) climate change adaptation, (iii) sustainable use and protection of water and marine resources, (iv) the transition to a circular economy, (v) pollution prevention and control, (vi) protection and restoration of biodiversity and ecosystems.

3 Commission Delegated Regulations on climate change mitigation and climate change adaptation adopted by the European Commission on 4 June 2021 for review by co-legislators.

For the assessment of Kendrion's taxonomy eligible activities, relevant key performance indicators are the proportion of Kendrion's taxonomy eligible economic activities as a percentage of group revenue, total capital expenditure and a subset of the group's operational expenditures. Informative climate reporting requires a transformation of internal reporting systems and data collection. The assessment and determination of Kendrion's taxonomy eligible activities is based on current insights and best judgement in the absence of certain data that is not yet in full obtainable through existing reporting systems. The implementation of certain changes to existing reporting systems are anticipated with a view to continue meeting applicable statutory disclosure requirements.

	Total (mEUR)	Taxonomy eligible	Taxonomy non-eligible
Revenue	464.0	6%	94%
Capital expenditure	28.9	37%	63%
Operating expenses	42.5	15%	85%

Revenue KPI
We have assessed the relevant taxonomy-eligible economic activities based on the activities of our Industrial Business Groups and the Automotive Group and have subsequently assigned them to taxonomy eligible economic activities in line with the EU Taxonomy Climate Delegated Acts covering climate change mitigation and climate change adaptation[3]. Based on the assessment we have included electromagnetics brakes for wind power turbines, components and subsystems for electric vehicles, components and subsystems for inductive heating and components for nuclear power plants as taxonomy-eligible economic activities. The table below gives a breakdown of the economic activities mentioned above and the applicable EU taxonomy reference.

Eligible activity		Description
3.1	Manufacture of renewable energy technology	Electromagnetic Brakes for windpower turbines
3.3	Manufacture of low carbon technologies for transport	Components and subsystems for electric vehicles
3.6	Manufacture of other low carbon technologies	Components and subsystems for inductive heating
3.6	Manufacture of other low carbon technologies	Components for nuclear power plants

Consistent with current guidance, where eligible economic activities could cover both the 'climate change mitigation' and the 'climate change adaptation' environmental objective of the EU taxonomy, economic activities have been allocated to the EU taxonomy environmental objective 'climate change mitigation' as the contribution to 'climate change adaptation' is considered less significant, and double-counting is not permitted under the EU taxonomy. Our consolidated net turnover can be reconciled to our consolidated financial statements, cf. income statement on page 109 of this Annual Integrated Report.

Capital expenditure KPI
Total capital expenditure consists of all additions to tangible and intangible fixed assets during the financial year, before depreciation, amortization, and any other re-measurements. Additions resulting from business combinations are also included, with the exception of goodwill. Taxonomy-eligible capital expenditure includes capital expenditure directly related to the taxonomy-eligible economic activities as well as certain individual measures that enable activities to become low carbon or lead to greenhouse gas reductions, such as energy efficient buildings (e.g. investments relevant to the new 28,000m^2 facility in China) and the installation of energy efficiency equipment.

Our total capital expenditure can be reconciled to our consolidated financial statements, notes 1-3 of the financial statements in this Annual Integrated Report.

Operational expenditures KPI
Total operational expenditures consists of direct non capitalized costs that related to research and development, building renovation measures, repair and maintenance and any other direct expenditure relating to the day-to-day servicing of assets of property, plant and equipment. This includes research and development expenditure recognized as an expense during the reporting period in our income statement, as referred to in note 25 of the financial statements in this Annual Integrated Report. Maintenance and repair and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment were determined based on expenses that are recorded as repair and maintenance and housing costs, including in different line items as other operating expenses in note 25 of the financial statements in this Annual Integrated Report. For the taxonomy-eligible operational expenditures we refer to the statements made with respect to capital expenditure.

Consistent with the statutory requirements to increase transparency and report about the extent to which our activities are associated with economic activities that qualify as environmentally sustainable under the EU taxonomy, we have intensified our focus on the expansion of our responsible product portfolio, which includes the category ‘Products that reduce climate impact’. We systematically take account of the different aspects of sustainable product development with a view to enhancing Kendrion’s environmentally sustainable economic activities, whilst recognizing that we are part of a larger chain of links that make the supply chain of the industries in which we operate. Our responsible product portfolio also covers the categories: ‘Products that keep you safe’ and ‘Products that improve health’.

The product roadmaps of our Business Groups are directed at all three categories of the responsible product portfolio.

The visual on page 45 provides a summary overview of the products of which we consider the development, manufacturing, and marketing to qualify as environmentally sustainable economic activities. The visual on page 45 and the table on page 46 have been prepared based on our current insights relevant to the EU taxonomy and does not purport to give an indication as to the extent to which the products are associated with economic activities that meet or are likely to meet the technical screening criteria and other requirements described in the EU Taxonomy Climate Delegated Acts covering climate change mitigation and climate change adaptation[3]. The latter also in view of the current formal status of the EU Taxonomy Climate Delegated Acts covering climate change mitigation and climate change adaptation, and the absence of EU Taxonomy Delegated Acts covering the other four environmental objectives of the EU taxonomy[2]. Aside from the technical statutory requirements, our strategy is directed at the consistent intensification of our focus on the accelerated expansion of our responsible product portfolio, specifically on those categories of products that contribute to the energy transition.

The current proportion of our activities that are associated with economic activities that qualify as environmentally sustainable comprises close to 6% of total revenue in 2021.

We anticipate the development of strategies aimed at the increase of the proportion of environmentally sustainable economic activities on the share of our economic activities that are not conducive to one or more of the environmental objectives of the EU taxonomy. This is also exemplified by the acquisition of 3T, which significantly increased our software and electronics capabilities enabling us to intensify our resources on products that contribute to the transition to sustainable mobility.

Decarbonization strategies and mitigation plans

Under our 2019-2023 sustainability target framework we committed to realizing a 15% relative reduction of energy consumption and CO_2 emissions by the end of 2023. In 2019 we developed a five-year roadmap including energy efficiency and emission mitigation measures. The degree of realizing meaningful reductions was pushed to the forefront in the original design of the five-year energy and CO_2 reduction roadmap. The roadmap has subsequently been subject to annual reviews to ensure continued effectiveness of measures implemented and to allow for possible adjustments to the initial approach as the public and political debate about climate change progressed. In 2021, a consultancy firm was retained to perform a comprehensive assessment and provide us with an outside-in perspective on decarbonization strategies and plans. Following through on the recommendations made by the consultancy firm, concrete and validated decarbonization propositions have been developed which will be implemented in support of the realization of our 2019-2023 sustainability target framework and the subsequent development of an ambitious sustainability target framework for the period beyond 2023. The in-depth review that is required for the development of a sustainability target framework for the period beyond 2023 that is consistent with the reasonable expectations of our stakeholders and the increased environmental awareness of society will continue, and it is anticipated to make an announcement in 2023 about our revised decarbonization strategy and mitigation plans.

Our initiatives to improve energy efficiency and the use of renewable energy include energy modelling during the design phase of new manufacturing facilities or the renovation of existing manufacturing facilities. In Suzhou, China we started the development of a new sustainable manufacturing facility at the renowned Suzhou Industrial Park. Solar panels will be installed on the 28,000m^2 manufacturing facility, which will significantly reduce our CO_2 emissions. The procurement of renewable energy from energy providers has been a consistent practice for most of our European manufacturing facilities. It is anticipated to expand the procurement of renewable energy beyond Europe and to those European manufacturing facilities that currently do not already procure renewable energy.

Environmental reporting system and certification

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

Waste management: waste disposal and recycling

We consistently undertake action to improve our management practices by focusing on the development and implementation of waste reduction and utilization strategies. Our efforts are structured along the long-recognized hierarchy of management of waste, in order of the following preference: prevention, reuse, recycling, other recovery and (landfill) disposal.

TAKING RESPONSIBILITY

WASTE MANAGEMENT HIERARCHY

Kendrion's ISO 14001 certified manufacturing facilities maintain effective records of their production and processing of all waste and work with certified waste processing companies when this is required by local regulation. New waste reduction measures must be implemented each year as part of the ISO 14001 certification process.

The collection of waste data has been centralized, and the data collection process has been strengthened with the introduction of uniform waste data collection sheets and waste registers using consistent waste definitions. The standardization of internal reporting and control processes enable comprehensive reviews of the different categories of waste generated by the Kendrion manufacturing facilities as well as differences is local waste management practices that are driven by – for example – variances in production processes or regulatory requirements.

The outcome of the most recent waste data analysis shows a 5.5% reduction of total waste compared to the prior year and the overall recycling rate increased from 82% to 83%. The distribution of hazardous waste (9%, prior year 8%) and non-hazardous waste (91%, prior year 92%) slightly shifted, indicating that the reduction in overall waste was predominantly realized in the non-hazardous waste category. Likewise, the top-three of hazardous and non-hazardous materials remained unchanged, with cooling fluid, solvent, old oil, and packaging of hazardous substances comprising the top-three of hazardous materials and iron and steel, commercial waste and cardboard dominating the top-three of non-hazardous materials.

A consultancy firm was retained with a view to expand our horizon with respect to the present-day landscape and scope of waste management. A comprehensive analysis was carried out covering a review of key characteristics of our manufacturing processes that vary among the different production facilities and the various categories of waste reported through the uniform data collection sheets and waste register. Our enhanced insight into waste management and waste reporting standards form the solid foundation for the further development of indicators and monitoring parameters that are supportive to our long-term objectives. By reference to the recommendations issued by the consultancy firm retained, our dedicated waste management task force including waste management and quality professionals of all Business Groups commenced a further analysis to establish the feasibility of indicators and monitoring parameters in the following areas: zero landfill waste; recycling, specifically recycling of critical raw materials (i.e. the so-called CRMs) and waste per unit sale (kg). It is contemplated that qualitative and quantitative waste indicators will become part of the sustainability target framework for the period beyond 2023, about which we intend to make an announcement in 2023.

SOCIAL AND HUMAN CAPITAL

The Social and Human Capital pillar concerns the preservation of the health and safety of our employees by providing a high-quality work environment and maintaining a culture consistent with the norms and values underlying The Kendrion Way and our Code of Conduct. Fair labor practices and recognition of human rights are other material themes of the Social and Human Capital pillar.

Sustainability objective 2019-2023 target framework:
recurring annual improvement of health and safety figures

Health and Safety

To preserve the health and safety and the performance of our employees, we provide a high-quality work environment where the norms and values underlying The Kendrion Way and our Code of Conduct are acknowledged and respected. Health and safety are always given the highest priority in every aspect of Kendrion's operations. We apply 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 our business and are in the best interest of all our stakeholders.

The Kendrion Health Task Force monitors our global health and safety figures and coordinates the implementation of structural improvement measures in all our facilities.

Day-to-day responsibility for health and safety is concentrated within the Business Groups in which health and safety are managed systematically and in a standardized manner with clear rules and procedures based on recognized industry standards and best practices that are laid down in Health, Safety & Environmental (HSE) policies. Each production plant further implements initiatives to enhance its HSE standards depending on plant-specific needs, production lines and technologies. HSE audits are performed to assess, implementation and compliance with HSE policies at regular intervals. All employees are required to adhere to local health and safety procedures and practices, which include the participation in training programs. Specific and measurable performance targets for Kendrion's business units and local

Accidents
(per 1,000 FTE)

2021 TARGET
5.3

2021 ACTUAL
9.2

Lost Time Injuries
(in days)

2021 TARGET
384

2021 ACTUAL
509

Illness rate

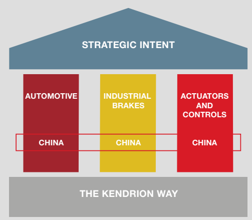
2021 TARGET
4.4%

2021 ACTUAL
4.7%

Diversity@Kendrion

39 nationalities,
10 countries,
48% female workforce

A culture in line with the norms and values of our Code of Conduct and The Kendrion Way



Please refer to the section 'About the sustainability report' on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

management include health and safety metrics, which are determined by the number of accidents per 1,000 FTE, Lost Time Injury (LTI) rates and illness rates.

The COVID pandemic continued to impact the lives of people around the world. Protecting our employees and their families against the risks of infection remained a priority during 2021. With the persistent application of hygiene protocols and strict

operating procedures, we have been able to continue production in a safe and responsible manner and in line with applicable measures imposed by the authorities, including compliance with mandatory entry requirements to facilities and offices. Remote or hybrid working models have become a new reality for many of our employees and the necessary adjustments facilitating this reality have been made as and where appropriate. Certain of our manufacturing facilities experienced an increased number of reported COVID infections and precautionary self-isolations. No noticeable divergent trend in the number of reported COVID infections within our organization has been observed compared to the general COVID trend within the regions concerned.

5S methodology

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

We undertake to consistently comply with the applicable occupational health and safety regulations at all our locations and in addition set own standards for improving occupational safety. Our health and safety procedures contribute to the advancement of selected UN Sustainable Development Goals (SDGs), towards SDG 3 (Good health and well-being) and 8 (Decent work and economic growth).

Promoting and maintaining a culture consistent with the norms and values underlying The Kendrion Way and our Code of Conduct are key to enabling long-term employment. The Kendrion Way forms the solid foundation of our strategy that is symbolically captured in a strategic house. Our culture and the underlying values underpin all the work we do and contribute to creating an open and inclusive atmosphere. Our Code of Conduct provides further guidance about our cultural norms and values, particularly the value integrity. Reference is made to pages 61-62 (People and Culture) for more information about The Kendrion Way and our Code of Conduct.

Fair labor practices and human rights

Preserving the health and safety of our employees coincides with our acknowledgement and endorsement of fair labor practices and human rights as described in the Ten Principles of the United Nations Global Compact. Acknowledging and respecting fair labor practices and human rights are an essential component of conveying and practicing sustainable business standards. We do not tolerate any form of forced or involuntary labor and respect children's rights to education and development. We consider ourselves a responsible corporate citizen and take responsibility for the living conditions and career opportunities at our locations and maintain strong ties to the communities in which we operate. Intercultural understanding and respect, fair working conditions, career development, (gender) diversity and employee representation are some of the focal points of our corporate citizenship initiatives. These are also areas in which we aim to contribute to the advancement of selected UN Sustainable Development Goals (SDGs), towards SDG 5 (Gender equality) and 8 (Decent work and economic growth).

With an international workforce and facilities across three continents, we take a specific interest in promoting respect and tolerance for different cultures, beliefs, and other characteristics such as religion and gender. We have recorded the value of equal opportunities and equal treatment in our Code of Conduct. Our larger locations develop education projects that facilitate young people's first acquaintance with the labor market and career development. These projects also aim to encourage young talented (female) students to take an interest in Science, Technology, Engineering and Mathematics (STEM) related studies, as for Kendrion the demand for technical and STEM skills is high.

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 sustainable sourcing and ethical behavior.

Sustainable sourcing

We are consistently looking for ways to increase efficiency and transparency in our supply chain and to ensure we source our materials in an environmentally friendly and socially viable manner. Our understanding of sustainability and our pursuit of long-term sustainability goals are not limited to our gaining of energy efficiencies and reducing our carbon footprint. Our sustainability commitments and efforts are directed at other parts of the value chain as well. In our supply chain we do our utmost to maintain a high level of transparency, and we are dedicated to further enhance the current level of transparency. At Kendrion, sustainable sourcing represents our ambition to work with suppliers that act responsibly and with integrity.

Kendrion selects suppliers based on various sustainability criteria and requires suppliers to sign and adhere to the Kendrion Supplier Code of Conduct. Our Supplier Code of Conduct includes specific requirements relevant to the recognition of human rights, commitments to a safe working environment, environmental protection, and responsible business practices.

Kendrion operates as part of a supply chain with a central focus on product development and manufacturing 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. Kendrion intends to play a meaningful role in the supply chain in which it is active. To achieve meaningful results, it is of great importance that Kendrion continues to engage in dialogue with its suppliers and continues to consider performance with respect to sustainability in its supplier selection and assessment.

The sourcing of certain minerals such as tantalum, tin, tungsten, and gold (i.e. so-called conflict minerals) has been linked to human rights abuses or widespread violence. We perform an inquiry into our supply chain to confirm that materials supplied are conflict-free and that suppliers are not aware of non-compliance in their supplier base. We do not source any tantalum, tin, tungsten, or gold. We request our suppliers to complete a conflict mineral reporting template or similar material statement to evidence compliance. We also expect our suppliers to adhere to the principles and standards included in our Supplier Code of Conduct, which also contains restrictions on the use of conflict minerals.

Permanent magnets are used in some of Kendrion's products. The volumes of these magnets used by Kendrion are limited, but Kendrion cannot avoid the use of permanent magnets altogether, as the use of permanent magnets in products increases their functionality and certain product specifications, such as the torque for industrial brakes. A category of permanent magnets contains several rare earth metals. The mining and of refining of rare earth metals is energy intensive. Kendrion strives to use as little of these permanent magnets.

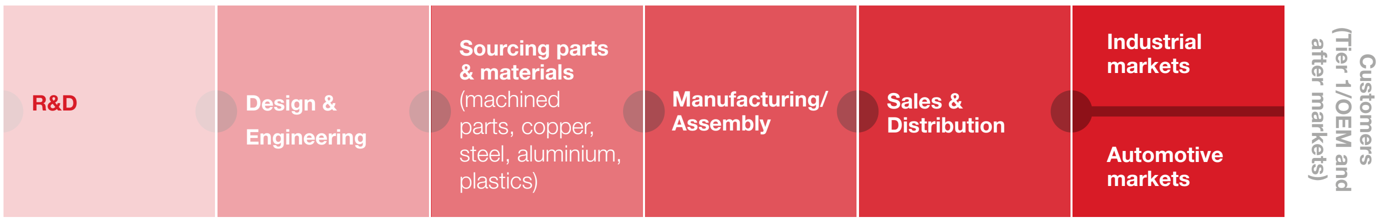
Our facilities are supported by an extensive supplier network. Frequently used materials are steel, aluminum, copper, and plastics. In many cases, semi-finished products are purchased based on specifications of Kendrion's customers. Kendrion used 1,761 tons of copper (best estimate) in the manufacture of its products in 2021 (2020: 1,428).

Supplier Code of Conduct and audits

We are committed to ensuring that our responsible sourcing standards, compliance with laws and regulations as well as environmental and social standards are maintained along our supply chain. To minimize compliance, environmental and social risks in our supply chain, we apply a standardized due diligence process, including completion of (material) compliance statements and use of other checks and validations. All new suppliers are also required to adhere to the principles and standards of our Supplier Code of Conduct, which explicitly includes the right for Kendrion to carry out an audit at the supplier's site to verify compliance with the standards and principles of our Supplier Code of Conduct.

Kendrion regularly conducts audits to review whether suppliers comply with the standards and principles of the Supplier Code of Conduct. The supplier audits are internal audits by Kendrion employees based on an internal procedure that prescribes the collection of CR documentation of the relevant supplier in the case the supplier is ISO certified and the use of standardized self-assessment questionnaires in the case the supplier is not ISO certified. Audits that reveal that a supplier does not meet the requirements of the Supplier Code of Conduct are followed by a meeting to ask the supplier to prepare a remediation plan.

Simplified supply chain overview Kendrion:



Failure to adequately follow up the remediation plan may result in the termination of the relationship with the relevant supplier. The results of the 26 (2020: 28) supplier audits conducted in 2021 have been encouraging, like in 2020 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.

Ethical behavior

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 behaviors are the standard. Shared norms, ethical values and expected behaviors are laid down in a set of internal policies and procedures. In addition to setting norms, values and expected behaviors, Kendrion's policies and procedures are aimed at ensuring compliance with applicable laws and regulations.

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

Our Code of Conduct builds upon the values of The Kendrion Way, particularly the value integrity. The Code of Conduct is about bringing together over 2,700 people with 39 different nationalities from multiple Kendrion locations around the globe that operate under The Kendrion Way and together form the Kendrion brand. The Code of Conduct provides unity and sets guidance for business decisions and principles of ethical behavior. It is about consciousness and taking the right decisions in our everyday business lives. We expect all our employees to do what is ethically right and legal, and to not only live by and respect the principles set forth in the Code of Conduct, but to also convey the message underlying the Code of Conduct. Education, training and providing concrete examples of expected behaviors, dilemmas and actions are key to ensuring continued compliance with our values.

Kendrion does not tolerate bribery or any form of corruption. Bribery may involve the offering, promising, or giving of payments or other benefits to any person (including government officials or public officials) to improperly influence a business outcome, but it also means accepting payment or benefits offered to improperly influence a business outcome.

The Code of Conduct is about bringing together over 2,700 people with 39 different nationalities from multiple Kendrion locations around the globe that operate under The Kendrion Way and together form the Kendrion brand.

Integrity of financial reporting is also a key principle. The Kendrion Anti-Bribery and Anti-Corruption Policy specifically addresses these matters.

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

Taxes

Our tax policy is based on the core values embedded in the Code of Conduct and aligned with our strategy and the notion of responsible business conduct.

Taxable profits are recognized in jurisdictions in which value is created, in accordance with the applicable tax regulations and standards, including the OECD Guidelines for Multinational Enterprises and local transfer-pricing and other applicable tax regulations. Kendrion does not seek to establish aggressive tax driven structures that are not compliant with the letter and spirit of applicable tax regulations. This means that Kendrion does not pursue any aggressive tax planning or establishment of entities in tax haven jurisdictions solely for tax optimization purposes and without commercial substance. Reference is made to pages 79-80 (Corporate Governance Report) for more information about our tax policy.

Sustainable development goals

Kendrion aims to contribute to the advancement of several selected SDGs.

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

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

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

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

SDG 13 – Climate action
Kendrion has established strategies and plans to increase energy efficiency and use of renewable energy and reduce CO_2 emission. Concrete and measurable targets support the strategies and plans. To mitigate the effects of climate change, Kendrion focusses resources on the development of sustainable products and the improvement of manufacturing processes. With a diverse product portfolio Kendrion contributes to creating a sustainable future as it is part of the increasing demand for clean energy and the accelerating development of electrification of industrial processes. These key trends in electrification particularly drive the demand for Kendrion's products in wind power, automated warehouses, and inductive heating technology that support the transition for certain oil and/or gas enabled industrial processes to electrical solutions. Kendrion's smart actuation technology, supports the transition to sustainable mobility (i.e. Autonomous, Connected, Electric and Shared driving). Kendrion's largest production plants maintain energy management systems in accordance with ISO 50001.

Reporting principles and external verification

Being transparent and accountable is fundamental to the way in which Kendrion operates. Our approach to reporting enhances discipline to our sustainability and responsible business practices. It ensures that we are aligning our activities with our strategic objectives and business values. Our sustainability reporting shows whether our activities and initiatives meet our 2019-2023 sustainability target framework. The scope of Kendrion's non-financial reporting is based on the information requirements of our key stakeholder groups. To ensure that Kendrion meets its information requirements towards its stakeholders, Kendrion performs materiality analyses at regular intervals. The most recent materiality analysis was carried out in 2020 as further described on page 41 of this Annual Integrated Report.

Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework to safeguard the quality and accuracy of the non-financial data collected. Selected sustainability performance targets are subject to a limited assurance review by Deloitte Accountants B.V. Please refer to pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

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

> Our approach to reporting enhances discipline to our sustainability and responsible business practices.

Stakeholders

Customers

Kendrion's customer base comprises industrial companies that use our components to manufacture a range of industrial applications as well as Tier 1 suppliers and OEMs in the automotive sector. Kendrion's customers are increasingly implementing sustainability requirements for their suppliers. Kendrion focuses on consistent compliance with these requirements.

Suppliers

Kendrion is consistently looking for ways to increase transparency in the supply chain and expects its suppliers to adhere to the standards of the Kendrion Supplier Code of Conduct and follows a consistent approach towards the performance of supplier audits to verify compliance. These efforts contribute to a continuous improvement in compliance with the Supplier Code of Conduct.

Employees

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

Shareholders

The endorsement of sustainable development and addressing environmental, social and governance (ESG) related issues is becoming increasingly important for Kendrion's shareholders. Kendrion engages with its major shareholders and financiers, not only concerning Kendrion's global sustainability program and its material topics and objectives, but also with respect to the ESG policies and activities of its major shareholders and financiers. Kendrion provides adequate transparency towards its shareholders and financiers about climate change and reducing the negative impact of climate change and addressing other social issues, strategy and financial performance.

Local communities

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 communities and authorities.

Technical universities and institutions of higher technical education

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, including our ambition to encourage young talented female students to take an interest in Science, Technology, Engineering and Mathematics (STEM) related studies. These dialogues also raise awareness among students about sustainability and its importance.

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

Customers

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

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

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

Suppliers

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

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

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

Employees

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

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

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

Shareholders

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

Topics discussed
Kendrion's global sustainability program and objectives

Relevance to Kendrion's global sustainability program
Obtain views and observations concerning sustainability from the investor's perspective (incl. climate change and reducing the negative impact of climate change and addressing other social issues), further insight into shareholders needs and expectations, sharing experiences and best practices, continuous improvement, and development of sustainability contributions

Local communities

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

Topics discussed
Communities' participations and investments

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

Technical universities and institutions of higher technical education

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

Topics discussed
Kendrion's global sustainability program and objectives (incl. advancement of gender diversity), also with a view to creating awareness and stressing the importance and relevance of sustainability

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

Value creation model

INPUT

Financial capital[1]

Free cashflow	€	3.5 mln
Net working capital	€	64.9 mln
Invested capital[2]	€	205.2 mln

Natural capital

Power	24,610,300 kWh
Fuel oil	614,130 kWh
Natural gas	13,132,173 kWh
Copper	1,761 tons

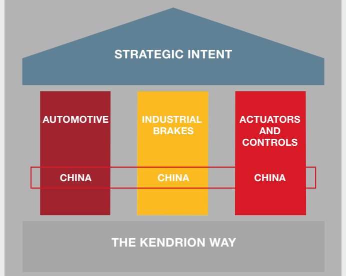
Human capital

2,728
FTEs

Manufactured capital

> 10,000
Solutions and products

ADDED VALUE



ENTERPRISE RISK MANAGEMENT

GLOBAL LEGAL COMPLIANCE AND GOVERNANCE FRAMEWORK

OUTPUT

Business output[1]

Revenue	€	463.6 mln
EBITA	€	31.9 mln
Net profit before amortization	€	20.6 mln

Natural Capital

17.9% Relative decrease of CO_2 emissions compared to 2020

8.0% Relative decrease of energy consumption compared to 2020

Social and Human Capital

Accidents
9.2 accidents per 1,000 FTE
509 LTI (days)

Illness rate
4.7%

Responsible Business Conduct

26 Number of CSR supplier audits

OUTCOME

REDUCED CLIMATE IMPACT

INCREASED SAFETY AND MOBILITY

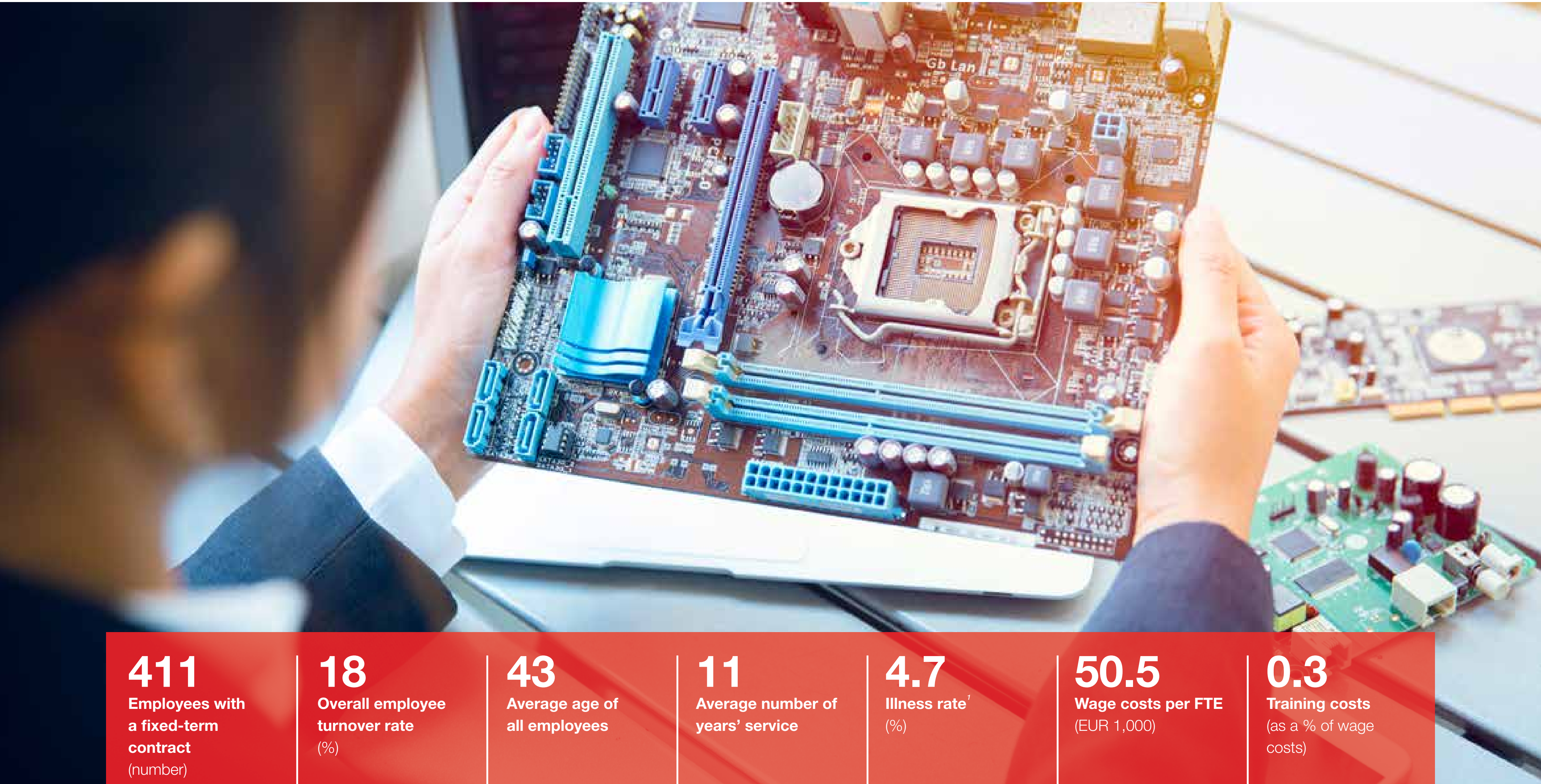
INCREASED COMFORT

INCREASED HEALTH

[1] Normalized for one-off costs and benefits. The bridge from reported to normalized figures can be found on page 38.
[2] Invested capital excluding intangibles arising from acquisitions.

2,728	1,385	1,127	216	2,659	1,267	1,392
Total number of employees in FTEs at 31 December (number FTE)	**Direct employees** (number FTE)	**Indirect employees** (number FTE)	**Temporary employees** (number FTE)	**Total number of employees** at 31 December	**Women employed** (number)	**Men employed** (number)
2020 **2,456**	2020 **1,214**	2020 **1,100**	2020 **142**	2020 **2,468**	2020 **1,220**	2020 **1,248**

Please refer to the section ‘About the sustainability report’ on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.



2021	Measure	2020
411	**Employees with a fixed-term contract** (number)	2020 **322**
18	**Overall employee turnover rate** (%)	2020 **17**
43	**Average age of all employees**	2020 **43**
11	**Average number of years' service**	2020 **12**
4.7	**Illness rate**[1] (%)	2020 **4.4**
50.5	**Wage costs per FTE** (EUR 1,000)	2020 **46.9**
0.3	**Training costs** (as a % of wage costs)	2020 **0.3**

[1] Please refer to the section 'About the sustainability report' on pages 206 and 207 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

We are Kendrion

Our people and culture

At Kendrion, we maintain a culture and environment that empowers everyone to reach their full potential. Focussing on human capital drives our performance and influences the sustainability of our operations. We empower our people to put their ideas into practice and to increase their engagement and performance. The continued development of our employees is an integral factor in creating long-term value for our customers and other stakeholders. We are committed to becoming the industry's employer of choice. To achieve that we preserve a culture of sustainable high performance and foster an open and inclusive atmosphere to attract, select, recruit, develop, motivate, and retain a talented and diverse workforce that reflects the communities in which we operate. We provide our people ample opportunities for career development and personal growth in a safe and high-quality work environment. In this context, we focus on the following areas:

- Promoting and maintaining a culture consistent with the norms and values underlying The Kendrion Way and our Code of Conduct;
- Developing leadership talents and capabilities;
- Advancing diversity;
- Fair labour practices and human rights.

The Kendrion Way and Code of Conduct

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

Our Code of Conduct is intended to further develop and implement our cultural norms and values, particularly the value integrity. The Code of Conduct sets guidance for our business decisions and provides principles of ethical business behaviour. The Code of Conduct contains obvious and universal standards and expected behaviours for all employees. The Code of Conduct can be found on the corporate website at www.kendrion.com.

Increasing awareness, education, training, and providing concrete examples of expected behaviours, dilemmas and actions are key to promoting and preserving our culture. Dedicated value teams have been set-up to increase awareness and to support employees in their value journey and to help understand what each value means to them and the organization. A mix of interactive trainings and learning

Attracting and retaining talent
We constantly do our utmost to attract, select, recruit, develop and retain the right talent. Our diverse talent recruitment initiatives focus on recruiting, hiring, and promoting candidates with a diverse range of relevant competences and skills and a healthy mix of backgrounds, nationalities, ethnicities, religion, ages, and gender. We provide for transparent recruitment processes with clear and consistent communication to all candidates. Kendrion acknowledges and respects the principle of equal opportunity, regardless of a candidate's gender, age, religion, ethnicity, nationality or background. No form of discrimination is tolerated.

platforms is available to help our employees live and breathe the values of The Kendrion Way and the Code of Conduct.

Talent and succession management

A diverse, talented and ambitious workforce is key to the successful execution of our strategy. Our talent and succession management strategy focuses on the following key areas: attracting, selecting, recruiting, and retaining talent, engaging employees, enabling career development and providing competitive compensation and benefits schemes.

High-quality training and career development form an integral part of our talent and succession management strategy. We provide a broad spectrum of learning and development tools and opportunities and we foster a culture of trust and recognition as reflected in The Kendrion Way and our Code of Conduct. In 2021, we expanded our learning and development tools with the e-learning platform of Goodhabitz. Goodhabitz provides an online training platform that is easily accessible for our employees. The e-learning platform of Goodhabitz offers a wide variety of courses on topics from personal strength to inspirational leadership, health, and well-being.

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

Our talent management and succession planning tool has a global reach and the number of employees monitored and reviewed through the tool has increased consistently since its introduction. To date approximately 270 employees are included in the tool and this number is expected to continue to increase.

New employees are recruited through various channels, including employee referrals, online platforms such as LinkedIn and other specialized job boards and external recruitment agencies. If a vacancy arises, Kendrion will continue to identify and look for internal and external candidates with a diverse range of relevant competences and skills and from a variety of backgrounds, nationalities, ethnicities, religion, ages and gender. If external recruitment consultants are engaged, Kendrion provides search instructions in line with the diversity principles it endorses.

Our annual employee turnover rate was 18% (2020: 17%). Our annual employee turnover rate is calculated by dividing the number of employees who left Kendrion during the year by the average number of employees during the year.

Engaging employees
An engaged and committed workforce is key to achieving our ambitions. We aspire to preserving an inspiring and high-quality work environment for our employees. This becomes ever more important in a market where it is challenging to attract certain specialists, such as in software and electronics, and where remote or hybrid working models imposed as a result of the COVID-19 pandemic, have become a new reality.

We are committed to offering opportunities to our employees to work on exciting tasks and projects in an engaging work environment. Another essential component of Kendrion's efforts to maintain an engaged and committed workforce is the offering of a wide range of measures and tools aimed at nurturing a healthy, safe and sustainable workplace culture, including the organization of annual 'Health Days', medical check-ups and COVID-19 vaccination and testing facilities, sports opportunities and other events. A prudent work-life balance is also important to creating and maintaining employee satisfaction and engagement. We support employees to balance their personal lives with Kendrion's dynamic and performance driven work environment. Establishing a prudent work-life balance and continue paying sufficient attention to our employees' mental health has increased in relevance due to the continuing COVID-19 pandemic and the related restrictive measures impacting the lives of all our employees.

Offering the opportunity to give and receive feedback is imperative for maintaining an engaged and committed workforce. This is also why we conduct a Kendrion-wide employee satisfaction and culture survey at regular intervals. The most recent employee satisfaction and culture survey was conducted end of 2018 and completed early 2019. The survey revealed – amongst others – the strong connection employees feel towards Kendrion as employer. The preparations for a subsequent Kendrion-wide employee satisfaction and culture survey have commenced and the survey results will become available early 2022.

Enabling career development
We acknowledge and respect the principle of equality of opportunity for career development, regardless of background, nationality, ethnicity, religion, age or gender. To maximise the potential of our employees and to meet their development needs, we advocate the principle of internal mobility and aim to fill vacancies with internal candidates. Internal moves are considered beneficial to the development of our people by providing them with new and challenging opportunities and experiences, while at the same time retaining knowledge within the organization. Moreover, our culture in which the sharing of ideas, knowledge and expertise and training on the job are encouraged, contributes positively to the development of our employees. In addition to new tools such as the e-learning platform of Goodhabitz, our 'Learn and Share' The Kendrion Way team is responsible for a variety of learning and development programs targeted to advance skill sets and leadership capabilities.

We encourage the advancement of young talent to management roles in our business. The Kendrion High Potential program is our global learning and development program and provides our young talents with the potential for management roles access to various modules. The High Potential program offers development opportunities that match business and individual needs such as strengthening personal competencies. Standard modules of the High Potential program are: individual personality and development, teamwork dynamics, finance, conflict management and people management. Additional modules are added as deemed appropriate, e.g., diversity and inclusion, strategy and conceptual skills. In 2021 a new group of talented and ambitious employees has been selected to participate in the new edition of the High Potential program.

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

Compensation and benefits
Kendrion strives to have compensation and benefits schemes that are in line with industry standards and local practice to attract, select, recruit, and retain talent. Our compensation and benefits schemes are designed to create transparency and fairness in the structure of both fixed and variable remuneration, while offering a competitive package with appropriate upside potential, linked to performance. Kendrion's compensation schemes include performance-based compensation and share-based compensation for eligible employees. These programs aim to ensure fair and attractive compensation and to encourage employees to work for Kendrion's long-term benefit.

The 'fingerprint tree' logo, which was chosen by all employees to represent diversity within Kendrion, embodies a tree that can only keep growing and gaining strength if it's fed by the talent, creativity, commitment, and unique qualities of each employee. Having the right mix of people with the right capabilities in the right positions encourages better decision-making and helps us grow our business.

Diversity

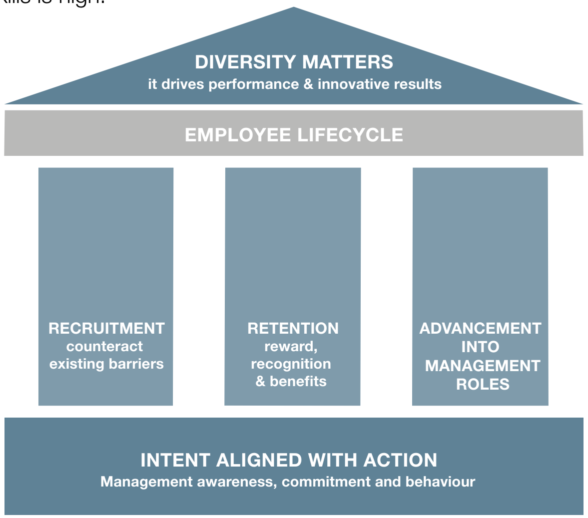
We believe that diverse and inclusive organizations drive performance and innovative results. They also become more attractive employers and thereby increase their ability to attract and retain talent. Talent, ambition, and commitment are key to realising our growth strategy. We want to provide an environment where all employees have the equal opportunity to develop and contribute to the realization of our strategy, regardless of their age, background, gender, nationality, ethnicity, religion or any other (protected) characteristic.

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

As part of the Social and Human Capital value creation pillar of our global sustainability program, we are committed to creating an environment that is rich in diversity and that empowers all employees. To fuel our ambitions we established a diversity task force in 2020 consisting of participants of the High Potential program. The diversity task force carried out a comprehensive review structured along the following themes:

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

The outcome of the diversity review has been presented to the Executive Board and the Supervisory Board and has served as the basis for the development of a new strategic diversity framework, which was launched in 2021. Our updated strategic diversity framework is linked to the employee lifecycle through which various aspects of diversity are encountered. The employee lifecycle is used to unravel and address these aspects and the complexity around (gender) diversity, especially for a company like Kendrion where the demand for technical and Science, Technology, Engineering and Mathematics (STEM) skills is high.



Key priorities of our strategic diversity framework include:

- **Recruitment of diverse employees** – ensuring that our recruitment process is free of bias, and clearly signals our interest in a diverse group of candidates and support the application from a diverse group of candidates, and accordingly place expectations on our recruitment team;
- **Developing and maintaining a solid pipeline of a diverse group of talents;**
- **Retention and promotion of talents of diverse backgrounds, nationalities, gender etc.** – covering various aspects from reward, recognition to benefits, but also work allocation, performance management and career development;
- **Advancement into management roles** – preserving an environment that allows for a diverse group of talents to grow into management roles, technical roles, and other leadership roles.

While our focus remains on a broad definition of diversity, our strategic approach is directed at the improvement of gender balance specifically in management roles, technical roles, and other leadership position. Though building engagement around gender equality amongst managers and other (senior) employees and the development of concrete actions and initiatives and by providing insight into possible barriers, we aim to increase gender diversity across the organization until it is sustainably gender balanced. Moreover, consistent communication and promotion of gender diversity, as well as prioritising diversity in our strategy are essential to advancing diversity within our organization.

In 2021, a global and comprehensive diversity data analysis has been carried out, providing a detailed breakdown by Business Group and different senior management levels and leadership roles. The outcome of the data analysis will serve as a basis for the development of tailored diversity target-setting in the following categories:

- Female percentage in new hires and promotions;
- Female percentage per function group (e.g. STEM and other function groups).

Kendrion's workforce comprised 39 nationalities (2020: 40) employed in 10 countries (2020: 11) in 2021. 48% of our workforce is female. We have a healthy balance of backgrounds, nationalities, and gender across the organization as a whole.

Fair labour practices and human rights

Respecting human rights is fundamental to a sustainable society and an essential component of promoting sustainable business practices across our organization and in our dealings with our customers, suppliers, and other business partners. Kendrion acknowledges and endorses the human rights of all people as described in the Ten Principles of the United Nations Global Compact. We acknowledge and respect children's rights to education and development and the applicable minimum employment age and related conditions consistent with applicable statutory requirements. Kendrion does not tolerate any form of forced or involuntary labour. No material human rights or labour issues were raised in relation to our activities in 2021.

Kendrion does not accept any action, conduct or behaviour which is disrespectful, humiliating, intimidating or in any other way hostile or inappropriate. Actions, words, jokes or comments based on a person's background, belief or any other characteristic such as gender, age or religion are not tolerated.

We expect our suppliers to recognize human rights and to ensure that they are not involved in human rights violation or abuses. Our suppliers are required to confirm and acknowledge their compliance with the standards and principles of sustainable sourcing – which include the recognition of human rights – by signing the Kendrion Code of Conduct for Suppliers. The Kendrion Code of Conduct for Suppliers can be found on the corporate website at www.kendrion.com.

Employee representation

Kendrion respects freedom of association and the right to collective bargaining. Works councils and employee representatives have been appointed at Kendrion's largest operating companies in Germany as well as Kendrion's operating companies in the Netherlands, Romania and Austria. The respective works councils and employee representatives are involved in a wide range of employment, health & safety and social issues, in accordance with local labour legislation. Approximately 72.4% (2020: 62%), this includes 3T, the Dutch electronics and embedded systems developer that was acquired in September 2021 of all Kendrion employees are represented by these works councils and employee representatives. Approximately 68.9% (2020: 67%) 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.

Growing opportunities

The COVID-19 pandemic dominated our operational and business decisions throughout 2021, as it did in 2020. The initial optimism that worldwide vaccination programs would bring the pandemic under control over the course of the year, turned out to be premature. The year started with a sharp recovery of global demand. In the second half however, it became clear that the sudden increase in demand had stretched global supply chains, in some cases beyond breaking point. So, in 2021, we traded the demand crisis from 2020 for a supply chain crisis.

When COVID caused most of the world to lock down in 2020, we were faced with a demand crisis. Economic activity was low, and revenue dropped. This drop in demand was somewhat predictable, allowing governments across the globe to take mitigating measures and companies to plan and focus on cash preservation, cost, and cashflow. In 2021, economic activity recovered, and consequently, so did demand. In fact, demand rocketed, causing shortages of all kinds of products – from semiconductors to steel, plastics, building materials, shipping containers, oil, natural gas, even labour. This supply crisis disrupted the entire economy. Less predictable and more volatile than the 2020 demand crisis, it put upward pressure on raw materials, compressing gross margins. It also affected working capital as customers across the supply chain expected rapid delivery, forcing companies to keep stock of raw materials that are not supply-constrained. In summary, the market environment in 2021 was more volatile and in some ways more difficult than that of 2020.

Against this backdrop, Kendrion had a good year, navigating the unpredictable markets well. Kendrion is an actuator company with products that help advance the global push towards electrification and clean energy. Our balanced, diverse product portfolio supports this transition, without being overly dependent on any specific vertical or market segment. Our products include brakes for wind power, robotics, automated warehouses; sound actuators for electrical vehicles; and inductive heating technology that supports the switch from oil and gas to electrical solutions in industrial applications. In all our Business Groups, and in China, the broad push towards electrification has determined our product development decisions over the past couple of years and will continue to do so.

This focus on energy transition also informs our M&A decisions. The acquisition of INTORQ in 2020 has substantially strengthened our position in the industrial brakes market. As our industrial brakes are generally sold in tandem with an electromotor, the accelerating energy transition towards electrification provides us with considerable opportunities in a fast-growing market. The acquisition of Dutch electronics and embedded systems developer 3T in September 2021, offers significant growth potential for our Industrial business. 3T's expertise perfectly complements the control technology activities of our Business Group Industrial Actuators and Controls (IAC). 3T also strengthens our software and electronics development capabilities, which will benefit our Automotive Group, and more specifically the development of our sensor cleaning and sound actuation platforms. Integration of 3T has started; we already see a positive impact on the Group profitability.

3T

The acquisition of Dutch electronics and embedded systems developer 3T in September 2021, offers significant growth potential for our Industrial business.

We are well positioned to continue the growth shown in 2021. To accommodate anticipated growth in China, we started the construction of a 28,000 m^2 manufacturing facility at Suzhou's Industrial Park, a premier location for technology and advanced manufacturing companies. Kendrion's operations in Suzhou and Shanghai will be integrated in the new building.
We have also made significant progress upgrading our IT infrastructure and continued to build our culture of global, seamless cooperation: 'The Kendrion Way'.

As we enter 2022, in Industrial Brakes, we expect to benefit from the global push towards electrification, driving demand for our products in wind power, robotics & automation, forklift trucks, AGVs and more. We have leading positions in all these segments and expect to benefit from strong and long-lasting underlying growth trends. In China, our new manufacturing facility will accommodate our large and growing project pipeline. IAC will continue to focus on strong cash generation and on investing in a growing list of opportunities in segments like inductive heating for industrial processes, energy distribution, control technology, nuclear power, and industrial locks.

The broad disruption of the automotive industry continues. The proliferation of Autonomous, Connected, Electric, and Shared mobility (ACES), in combination with the ongoing push for greater safety and comfort, presents the automotive industry and Kendrion with substantial opportunities.

Kendrion Automotive Group, with significant commercial and technical momentum, will put even more focus on products that benefit from these changes, such as its AVAS sound system for electric cars, valves for smart active damping systems, and a turnkey sensor cleaning solution in a close and exclusive partnership with a leading Tier 1 automotive supplier.

The economic outlook for 2022 remains uncertain as the COVID-19 pandemic continues to have a significant impact on global economic activity including supply chains. We expect the unpredictability of our markets in 2022 to remain. Looking beyond that volatility, the accelerating global transition towards cleaner forms of energy such as electrical power, fuel cells and nuclear power presents Kendrion with a growing list of opportunities. We are confident that our strong position in the growth markets of Industrial Brakes, selected segments of IAC, Automotive and China will help deliver our medium-term financial targets of 5% organic growth between 2019 and 2025, an EBITDA of at least 15% in 2025 and a ROIC of at least 25% in 2025.

The accelerating global transition towards cleaner forms of energy such as electrical power, fuel cells and nuclear power presents Kendrion with a growing list of opportunities.

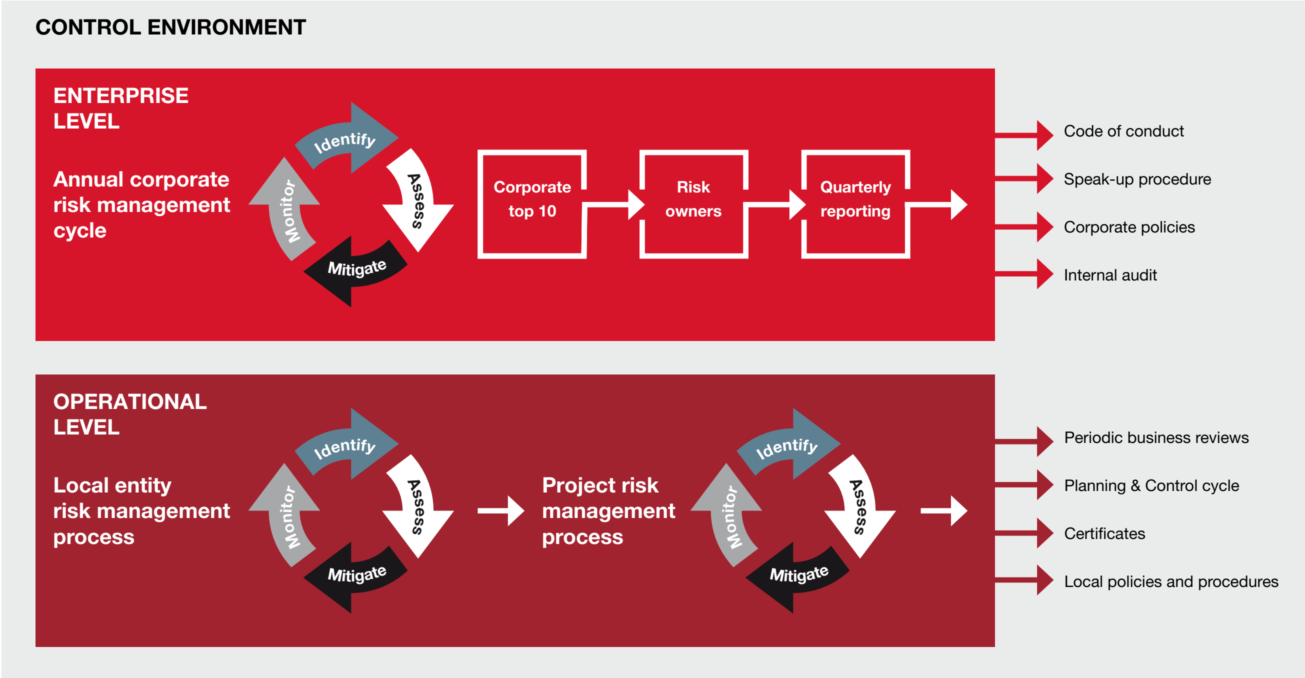
The Kendrion Way for risk management

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

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

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

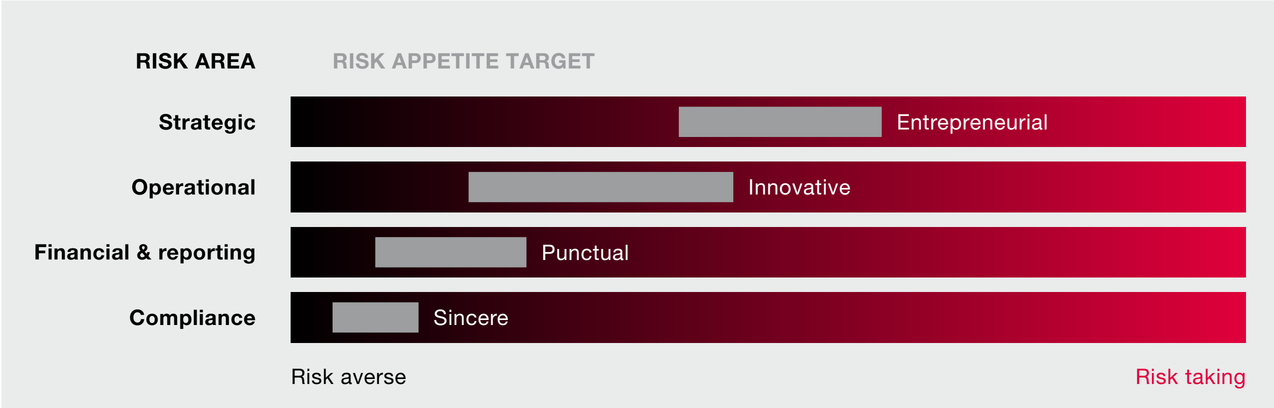
Kendrion's risk management function, headed by the Internal Audit and Risk Manager, provides guidance and support to the Executive Board. This includes driving risk awareness across the Kendrion organisation and leading reviews of operational processes and effectiveness of the risk management and control system. In 2021, the risk management function has



sustained its contribution to the organisation through the facilitation of risk management activities and by proactively supporting the identification, evaluation and mitigation of risks.

The Executive Board conducts an annual risk assessment and considers if adjustments to the risk management and internal control system are required, as conditions and market circumstances may change. In 2021 it was decided to shift the timing of the corporate risk assessment from Q4 to Q2 of the next year to enable the Executive Board to leverage outcomes and insights from local risk assessments for their annual risk assessment. The result of the annual risk assessment is discussed within Kendrion's Management Team and also shared and discussed with the Supervisory Board. In order to strengthen risk management and oversight, risk owners are assigned to the top-10 risks identified, and each risk owner is responsible for preparing and updating mitigation plans. On a quarterly basis, risk owners report to the Executive Board on mitigation progress and risk development. This report is also shared and discussed with the Audit Committee.

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



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

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

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

Risk overview

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

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

Strategic risks

Market disruption/decline (especially automotive)
Kendrion operates in a competitive market that is exposed to economic changes, geopolitical developments, societal changes as well as industry disruption, including the accelerating transformation of the automobile from a product that is mainly a hardware based, to a software centric electronic device on wheels. Market disruption, saturation (possible Peak Car in EU and USA) or decline, especially in the automotive sector, could pressure Kendrion's financial results and the company's ability to achieve its strategic goals. We will continue our research and development efforts with a view to increase potential revenue content per car and by focussing our resources on developing product platforms that will benefit from an increased application uptake, such as active suspension, exterior AVAS sound systems and sensor cleaning systems. We maintain a lean and flexible organisation that can swiftly adjust to the economic tides and market trends. This flexibility not only relates to working with temporary staff and focusing on the reduction of variable operating expenses, but also includes the ability to communicate up-to-date financial information efficiently to decision-makers throughout the organisation, make justifiable insourcing and outsourcing decisions, adjust

supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and use opportunities to reduce working hours in specific countries. The composition of the group with about 50% automotive activities and 50% industrial activities reduces Kendrion's exposure to a market disruption or decline in one of the markets.

Prolonged global pandemic

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

Unsuccessful expansion in China

Kendrion has significantly increased its revenue in China in recent years and continues to pursue its growth strategy and related expansion of activities by increasing local production, supply chain and development capabilities. Difficulties in the execution of these expansion activities could result in unanticipated delays and increased costs. Delays in the expansion activities may also result in delayed or missed opportunities and related revenues. Over the past years Kendrion China has recruited additional talented and ambitious employees in the areas of development, industrial engineering, quality, and supply chain. Going forward Kendrion continues to invest in the Chinese workforce to accommodate its growing revenue pipeline. Exchange programs between the Kendrion development centres in Germany and China to share knowledge have been replaced by online training platforms as COVID-19 continues to impose travel restrictions. The execution of the China growth strategy is closely monitored to limit risk of delayed detection of deviations from expected activities or outcomes. In 2021, Kendrion started with the construction of a new 28,000m^2 factory to enable future growth. The factory is built in the Suzhou Industrial Park area, which is a prime location for technologically advanced businesses.

Insufficient new project nominations

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

Operational risks

Supply chain disruption

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

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

Order volatility
Mainly driven by the recent economic conditions, customers experience significant shortages in the supply of raw materials. There is an increased risk that customer orders are adjusted when insufficient components can be sourced, resulting in ad-hoc and unpredictable adjustments to order levels. This may result in significant and short-term fluctuations in demand, requiring short-term plant capacity adjustments.
In turn, this may result in additional costs for underutilised plant capacity or in an increase in production backlog due to insufficient production capacity. Order volatility can also result in increased inventory levels either because orders are cancelled, or to ensure that increased demand can be fulfilled. Kendrion focusses on strengthening relationships with key customers and is in constant contact with customers to actively monitor developments and changes to order volumes and timing where possible.

Kendrion continuously adapts its production and supply chain planning to movements in day-to-day orders and the roll-out of predictive planning tools have enabled an increased flexibility in production while maintaining a high level of efficiency.

IT systems and security
Kendrion recognises that more and more of its own activities and customer demands are becoming data driven. This requires existing infrastructure and/or software to be updated, or new IT infrastructure and/or software to be implemented, in order to facilitate the required changes in the organisation. With this also comes an increased dependency on IT systems and an increased exposure to cyber-attacks. Kendrion has ensured redundancy in network and uninterrupted power supply and critical software runs on high availability infrastructure with disaster recovery in place. Kendrion is in the process of further streamlining its IT systems and support on a global level, increasing scalability, while also increasing the level of security by leveraging the capabilities of our IT services providers.

IT security is also strengthened by awareness campaigns on IT security topics such as password security and phishing, targeting all employees, quarterly security reviews and maintaining a security calendar with key security activities. There is an ambitious IT strategy that will continue to be rolled out in the next year to both increase uniformity within the company and strengthen IT systems further and explore how their value can be increased for both Kendrion and its customers.

Financial & reporting risks

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

It is critical that all operating entities report to the same standards and deliver the same quality of reporting, in line with applicable accounting and reporting principles. There are local planning and control cycles that provide financial and non-financial information to the group based on standardised reporting formats on a weekly, monthly, or annual basis, based on a group reporting manual (last updated in 2021).

In order to safeguard the integrity of reported information without having to rely on manual controls, it is important that effective general IT controls are in place, such as proper segregation of duties, access control for important systems, and source data protection through proportionate change control procedures for all accounting and reporting systems and their key infrastructure. Where Kendrion would mitigate sub-optimal general IT controls in previous years by performing additional manual controls, in recent years these manual controls have gradually shifted to (automated) IT controls through continuous improvement actions, also based on recommendations by the external auditor over the past years. In 2021, Kendrion completed the last actions of an improvement plan that is expected to allow the external auditor to rely on the accounting and reporting systems for their audit approach. Kendrion will continue to improve its general IT controls, with a focus on increased control automation, while balancing available resources against improvement benefits.

On a quarterly basis, all responsible officers provide a letter of representation confirming the correct and complete reporting of financial and non-financial information and the absence of material violations of applicable laws, rules, and regulations, along with internal policies such as the Kendrion Code of Conduct. This also includes continuous monitoring of upcoming changes in accounting and/or reporting standards, laws and regulations, and periodic discussions with responsible finance leaders and senior management within the business units.

Apart from the key financial & reporting risk mentioned above, Kendrion also recognizes financial & reporting risks related to debt financing, credit exposure and interest and exchange rate fluctuations (refer to pages 151-159 and following of the financial statements for an outline of Kendrion's financial market risks and the policy for mitigating those risks or their impact). Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

Pressure from large customers
Customers in all segments of the company are experiencing the effects of the COVID-19 pandemic and its economic consequences, including the impact of restrictive measures imposed by governments. Key and other customers that represent a significant part of Kendrion's revenue may demand more favourable terms for their business. This may manifest itself in the form of re-negotiations on price or other adverse changes to contractual conditions, such as shortening of payment terms. This may have an impact on margins and/or cash flow. Kendrion aims to maintain and protect its contractual position and reject unreasonable changes to existing terms, while valuing and preserving business relations. By consistently delivering qualitative products according to customer expectations against a competitive proposition, Kendrion aims to satisfy its customers while also remaining profitable.

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

Compliance risks

Kendrion commits to conducting business in accordance with its Code of Conduct and the values underlying the Code of Conduct, laws and regulations, including employment laws, data protection laws and regulations, accounting standards, tax laws, health and safety regulations as well as governance and statutory filing requirements, applicable in the countries in which it operates. Senior management is responsible for raising awareness of, and applying, applicable laws and regulations.

Global and local policies are developed and maintained to support compliance. Kendrion's global policies include a range of procedures and policies that always need to be applied when conducting business such as a Code of Conduct, Insider Trading Code, Speak-up procedure, etc. Kendrion's Code of Conduct builds on the values of The Kendrion Way, an inspiring motto at the heart of the Kendrion organisation. The Code of Conduct provides a set of principles and expectations that guide the behaviour of all those who belong to Kendrion. Guidance and training are provided to Kendrion employees on recognizing compliance dilemmas and on raising actual or suspected misconduct or irregularities under Kendrion's Speak-up procedure.

For more information about The Kendrion Way see pages 61-62 of this Annual Integrated Report.

Compliance with Kendrion's internal policies and procedures, and with local laws and regulations is also reviewed by Kendrion's internal audit function. The Global Internal Audit and Risk Manager is responsible for the design and execution of the annual audit plan in order to assess the adequacy of Kendrion's internal control systems. The Global Internal Audit and Risk Manager reports to the Executive Board with direct and independent access to the Audit Committee and external auditor. Audit results are reported to the Executive Board and the essence of the results are reported to, and discussed with, the Audit Committee and external auditors on a regular basis. The results of the audits conducted in 2021 were discussed with local management and any control deficiencies have been addressed. This conclusion is in line with the Management Letter, in which the external auditors reported a limited number of findings and no findings that qualified as significant.

Tax compliance risks

In line with the overall risk averse appetite for compliance risks, Kendrion also specifically reiterates this risk averse appetite for tax compliance and associated risks. Administrative processes are designed to capture and store required information and report this within the respective jurisdictions on required intervals. Given the international nature of Kendrion's operations, there is an exposure to transfer pricing and local compliance risks because the plethora of local, regional and global regulations are not always in agreement, leaving room for different interpretations. Kendrion seeks to reduce this risk by involving reputable external tax advisors when specialist knowledge is required and (local) authorities when interpretations of tax requirements will have an evident impact. However, because audits by the tax authorities are usually only conducted several years after the activities have taken place, there is always a risk that these audits will result in the identification of dispositions that the authorities do not agree with. This may result in financial impacts in the form of tax adjustments, accrued interest, fines, litigation against Kendrion's management, and also damaging Kendrion's reputation with the (local) authorities and it's stakeholders.

Climate change

Society, shareholders and other stakeholders have increasing environmental awareness and demands towards combatting climate change and the delivery of sustainable solutions and products. The socioeconomic impact of climate change and the adoption of new regulations and the enforcement of initiatives to reduce global warming and other impacts of climate change, provide Kendrion with challenges and opportunities when viewing its existing and future product portfolio. In addition, a higher frequency of extreme weather conditions increases the likelihood of natural disasters, which may, from time to time, disrupt supply chains, production, delivery times and the availability of raw materials. Significant material price increases caused by persistent material shortages and implementation of government actions to mitigate climate change, such as a carbon tax, will negatively affect future operating costs.

The product portfolio of Kendrion's Industrial Business Groups is expected to benefit from the global trend towards electrification of industrial processes that decrease the use of fossil fuels and greenhouse gas emissions. The automotive industry is transforming based on four reinforcing trends towards Autonomous, Connected, Electric and Shared (the so-called ACES) mobility, leading to cleaner, safer and more comfortable forms of transportation. To advance these trends, the automotive industry requires new actuator technologies that will replace existing technologies developed for internal combustion engines of passenger cars and commercial vehicles. Kendrion has been transitioning and will continue to transition its product portfolio towards these new technologies, and on balance we expect our Automotive revenue to benefit from this transformation.

Kendrion is committed to reducing its contribution to climate change by reducing the carbon footprint of its operations, via the use of renewable energy, decreasing energy consumption, decreasing waste from production and increased recycling rates of materials. Kendrion is equally committed to continuing to invest in the responsible product portfolio by developing products that help advancing our industrial and automotive customers in their objectives and ambitions to reduce emissions and climate impact.

In control statement

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

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

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

Kendrion's governance framework is based on the statutory requirements applicable to public limited liability companies in the Netherlands, including the principles of the Dutch Corporate Governance Code (the 'Code')* and Kendrion's articles of association as lastly amended 25 June 2020. The core topics of the Code are addressed in the various sections of this Annual Integrated Report. For example, diversity in the Supervisory Board, the Executive Board and the Management Team is addressed in this Corporate Governance Report on pages 77-78 'The Kendrion Way' is described in the section 'Sustainability' on pages 52-53 and in the section 'People & Culture' on pages 61-62. The articles of association together with ancillary policies such as the Supervisory Board regulations and the Supervisory Board committee regulations provide a framework for the affairs and governance of Kendrion, including a sound and transparent system of checks and balances. For the articles of association, the Supervisory Board regulations, the Supervisory Board committee regulations and additional information about Corporate Governance at Kendrion, please visit the corporate website at www.kendrion.com.

Kendrion N.V.
Kendrion N.V. is a public limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Amsterdam, the Netherlands. For details regarding Kendrion N.V.'s share capital, reference is made to section 'Share and shareholder information' on pages 23-25.

Kendrion N.V., as the ultimate parent company, holds all the shares of Kendrion Finance B.V., a private limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Zeist, the Netherlands.
Kendrion Finance B.V., directly or indirectly, holds the shares in all of Kendrion's operating companies. All operating companies are, directly or indirectly, wholly owned subsidiaries. Kendrion N.V. is not subject to the large company structure regime and no works council having jurisdiction over Kendrion N.V. has been established nor is there a statutory requirement to establish such a works council. Reference is made to section People & Culture on page 65 for information about works councils and employee representation established at certain of Kendrion's operating companies.

Two-tier governance structure

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

Executive Board

The Executive Board is responsible for the management and the continuity of Kendrion and Kendrion's long-term value creation strategy, objectives, results, and policy, including the responsibility for defining strategies and plans conducive to the realization of key aspects of the Paris Agreement.

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

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

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

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

The composition of the Executive Board and information about its members is provided on page 26.

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

A member of the Executive Board does not participate in the deliberation and decision-making process concerning any subject in which a member of the Executive Board has a personal interest that conflicts with the interests of Kendrion.

A member of the Executive Board shall immediately report a conflict of interest to the Chairman of the Supervisory Board. Decisions to enter into transactions in which there are conflicts of interest with a member of the Executive Board require the approval of the Supervisory Board. There were no transactions in which there was a conflict of interest with a member of the Executive Board in 2021. Kendrion does not grant loans or guarantees to Executive Board members.

Management Team

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

The Management Team meets frequently and those members of the Management Team who are not also members of the Executive Board are regularly invited to attend Supervisory Board meetings.

The members of the Executive Board, together with the other members of the Management Team, conducted an online annual review of their individual performance and the performance of the Management Team as a collective, including the dynamics of and the relationship among the members of the Management Team and the Executive Board as well as the interaction with the Supervisory Board. Special consideration was given to the 2021 strategic and operational spearheads, including the intensification of establishing strategies and action plans to help enabling the global push towards electrification and clean energy, further strengthening of the Automotive R&D organization conducive to the global and accelerating proliferation of Autonomous, Connected, Electric, and Shared mobility, developing the new manufacturing facility in Suzhou's Industrial Park, scaling up of the China organization, enhancing strategies of Industrial Brakes to capitalize on identified opportunities especially in wind power and robotics and automation, driving efficiency and effectiveness of the Industrial Actuators and Controls organization towards further profitability and cash generation, progressing the upgrade of the IT infrastructure with special focus on digitalization and standardization. In addition to reviewing past performance, the Management Team considered the 2022 strategic and operational spearheads. In its annual review meeting, the Management Team furthermore reflected on the need to enhance the existing roadmap aimed at the reduction of Kendrion's energy consumption and CO_2 emissions and the extension of environmentally sustainable activities, also in light of the EU regulatory framework on sustainability. Outside the presence of the other members of the Management Team, the Executive Board evaluates the functioning of the Management Team and its members and discusses the conclusions that must be attached to the evaluation, also in view of succession planning and the composition of the Management Team taken as a whole. Having regard to the feedback and recommendations of the Executive Board, the Supervisory Board considers the functioning of the Management Team and its members.

Supervisory Board

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

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

The Supervisory Board consists of four members. All members of the Supervisory Board are independent within the meaning of the Code. The members of the Supervisory Board satisfy the statutory requirements concerning the number of supervisory or non-executive functions that they can have with large enterprises. The composition of the Supervisory Board is consistent with the statutory requirements pursuant to the Dutch Gender Balance Act which entered into force on 1 January 2022.

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

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

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

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

The Supervisory Board has established two committees: the Audit Committee and the HR Committee (combining remuneration committee and selection and appointment committee). The committees of the Supervisory Board are responsible for preparing the decision-making of the Supervisory Board. The tasks and procedures of the committees of the Supervisory Board are set out in their regulations, which can be found on the corporate website at www.kendrion.com. The composition of the Supervisory Board, its committees and information about the Supervisory Board members is provided on pages 81-82 of this Annual Integrated Report.

The Supervisory Board annually evaluates its own functioning, the functioning of the Supervisory Board committees, and that of the individual Supervisory Board members. The outcome of the evaluation is discussed among the members of the Supervisory Board and the Chairman subsequently informs the Executive Board as appropriate. For further information regarding the annual evaluation of the Supervisory Board, reference is made to the Report of the Supervisory Board on pages 84-90 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 2021.

Diversity within the Executive Board, Management Team and Supervisory Board

Kendrion values a diverse workforce both across the Kendrion organization as a whole and at the level of the Executive Board, the Management Team and the Supervisory Board. Under the value creation pillar 'Social and Human Capital' that forms part of Kendrion's sustainability program, the further advancement of diversity across the organization is a priority. In 2021, Kendrion developed and launched a new strategic diversity framework which forms the foundation for the development of diversity target setting for the entire Kendrion organization. The outlines of Kendrion's new strategic diversity framework are described in the section 'People & Culture' on pages 64-65.

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 long-term value creation. Kendrion considers diversity aspects of gender, nationality and background (education, (work) experience) most relevant for Kendrion and its business. On the basis of the diversity aspects considered, Kendrion is also committed to further progress its approach to diversity in the Executive Board, the Management Team and the Supervisory Board.

Pursuant to Kendrion's existing diversity policy for the Supervisory Board, Executive Board and Management Team, at least 30% of the Supervisory Board shall consist of female members. The Supervisory Board consists of two female members and two male members, and with this the current composition is in line with the 30% gender diversity target. For the Executive Board and the Management Team, the current gender diversity objective is to achieve gradual improvement. Taking account of the most recent additions to the Management Team, the gender diversity objective is achieved for the Management Team.

Kendrion is globally active and has therefore also determined targets in terms of nationality. The diversity policy determines that in the Management Team at least two regions where Kendrion is active shall be represented. Kendrion meets this nationality diversity objective for the Management Team. For the Supervisory Board and the Executive Board, maintaining appropriate nationality diversity is the objective. In the Supervisory Board one member has the German nationality, i.e. the jurisdiction where Kendrion maintains an important part of its operations.

Moreover, Kendrion's diversity policy includes a background diversity objective. Pursuant to the abovementioned policy, at least one member of the Executive Board and at least three members of the Management Team shall have experience in international industrial or automotive business or an industry adjacent thereto. For the background diversity objective for the Supervisory Board reference is made to the Supervisory Board 'Profile outline' that is published on Kendrion's corporate website. The composition of the Executive Board, the Management Team and the Supervisory Board meet the respective background diversity objectives.

The composition of the Supervisory Board is diverse, experienced, and knowledgeable and reflects a balanced participation of two female members and two male members. The Executive Board comprises qualified, knowledgeable, and experienced members, albeit that it consists of two male members. The Management Team comprises a healthy mix of skills, nationalities, ages, backgrounds, and other relevant factors.

The diversity objectives as described in Kendrion's diversity policy will be explicitly considered – in addition to functional requirements, quality, expertise, and experience – when selecting persons for (re)appointment as member of the Supervisory Board and Executive Board and filling vacancies within the Management Team, respectively. If external recruitment consultants are engaged, Kendrion provides search instructions in line with the diversity principles underlying the diversity policy. Kendrion's diversity policy can be found on the corporate website at www.kendrion.com.

General Meeting of Shareholders

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

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

Shareholders representing 70.12% (2020: 67.95%) of the total number of shares entitled to vote were represented at the online General Meeting of Shareholders held on 12 April 2021.

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

Special provisions relating to shares

Unless indicated otherwise, there are no restrictions on the transfer of shares, the exercise of voting rights or the term for exercising those rights, and there are no special controlling rights attached to shares. On 12 April 2021, the General Meeting of Shareholders granted the Executive Board the authority to: (i) issue shares or grant rights to acquire shares and restrict or exclude pre-emptive rights in relation to the issue of shares or the granting of rights to acquire shares; and (ii) acquire shares in Kendrion N.V. within the limits prescribed by the articles of association and the applicable statutory provisions, in each case for a period of 18 months from the date of the General Meeting of Shareholders (i.e. until 12 October 2022) and subject to the prior approval of the Supervisory Board.

Auditor

Before being presented to the General Meeting of Shareholders for adoption, the annual financial statements as prepared by the Executive Board must be audited by an external certified public auditor. The General Meeting of Shareholders has the authority to appoint the auditor. On 12 April 2021, the General Meeting of Shareholders reappointed Deloitte Accountants B.V. for a third and final period of four years (i.e. for the 2021 to 2024 financial years). The General Meeting of Shareholders may put questions to the external auditor with respect to the external auditor's opinion on the financial statements. The external auditor shall therefore attend and be entitled to address the General Meeting of Shareholders.

Kendrion has an internal audit function that operates under the responsibility of the Executive Board, with reporting lines to the CFO and the Audit Committee of the Supervisory Board.

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

For the management statement of the Executive Board which is required pursuant to article 5:25c of the Financial Supervision Act *(Wet op het Financieel Toezicht)*, reference is made to the 'Report of the Executive Board' on page 37.

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

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

Corporate Governance statement

This Corporate Governance Report and the section 'Share and shareholder information' on pages 23-25 include the information referred to in the Decree for the implementation of article 10 of the Takeover Directive. In addition, this Corporate Governance Report in combination with the section 'Risk management' on pages 68-74 and Report of the Supervisory Board on pages 84-90 should be regarded as the Corporate Governance Statement required pursuant to the Decree on the contents of the management report *(Besluit inhoud bestuursverslag).*

Relevant documents on corporate website

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

Taxes

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

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

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

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

The effective tax rate of Kendrion or any of its affiliates is not a key performance indicator for Kendrion's finance and tax department nor do individual bonus schemes contain effective tax rate performance targets. The effective tax rate for 2021 of 28.3% underlines Kendrion's responsibility to society with regard to taxation. Information about the reconciliation of the effective tax rate can be found on page 168 of this Annual Integrated Report.

F.J. van Hout (Chairman), male, 1960

J.T.M. van der Meijs, female, 1966

	F.J. van Hout	J.T.M. van der Meijs
Nationality	Dutch	Dutch
International expertise	Yes	Yes
Date of first appointment	12 April 2021	31 October 2016
Term of office	2021-2025	2019-2023 (2nd term)
Current number of SB positions	4	3
Shares in Kendrion	No	No
Professional experience	Semiconductors	Finance
Additional positions	Vice-Chairman of the Supervisory Board, Aixtron SE; Member of the Supervisory Board, Bambi Belt Holding BV; Member of the Supervisory Board, Stichting PhotonDelta; Member of the Supervisory Board, Smart Photonics BV	Non-executive Director & Chair of People and Remuneration Committee, Koole Terminals Holding BV; Non-executive Director, Chair of Corporate Governance Committee and member of Audit Committee, Pharming Group NV; Non-executive Director & Chair of Audit Committee, member of M&A and HR Committees, Grundfos Holding A/S (Denmark); Non-executive Director & Member of the Audit Committee, The Centre for Human Drug Research (CHDR)
Former positions	Executive Vice President and Member of the Board of Management, ASML; Chief Strategy Officer, Chief Program Officer, Chief Marketing Officer and other various functions in management, ASML; CEO, Beyeler Group; Chief Technology Officer, Datacolor	Treasurer and Board Member, NDL (Nederland Distributieland); CFO, Royal Schiphol Group; Non-executive Director, Groupe AdP (Aéroports de Paris); Non-executive Director, Brisbane Airport Corporation PtY Ltd; VP Finance Global Capital Projects and other international senior management functions, Royal Dutch Shell

		
	M.J.G. Mestrom, female, 1961	**E. Doll**, male, 1959
Nationality	Dutch	German
International expertise	Yes	Yes
Date of first appointment	11 April 2016	24 June 2020
Term of office	2020-2024 (2nd term)	2020-2024
Current number of SB positions	1	1
Shares in Kendrion	No	No
Professional experience	HR/organizational design/transformation	Automotive
Additional positions	Chief Human Resources Officer at Brenntag AG	Non-Executive Member of the Board of Directors, Aeristech Ltd.; Member of the Supervisory Board, WITTE Automotive
Former positions	Head of Global Human Resources, at Siegwerk Druckfarben Group; Senior Global Human Resources positions	President & CEO, Röchling Automotive SE; Vice Chairman of the Executive Board, Röchling Group; Vice President, Plastic Omnium SA; Managing Director, PO GmbH; General Manager, Johnson Controls; Business Manager, BAS

Managing through tough times with determination

Frits van Hout
Chairman of the Supervisory Board

Resilience and flexibility: the keys to 2021 and future success

Despite the continuing effects of the pandemic and broad supply chain disruptions that impacted the 2021 business climate, Kendrion's management and their teams delivered good results. During 2021, the priority of the Supervisory Board and Executive Management was to build and expand the resilience and flexibility needed to effectively deal with such disruptions, now and in the future. We are strongly supported in this by strategic initiatives such as the acquisitions of INTORQ and 3T, which strengthen our ability to capture opportunities in changing markets. The substantial growth of our business enabling the transition in the energy sector is a result of this strategy.

As the recently appointed Chairman of the Supervisory Board, I am grateful to Henk ten Hove for leaving me a great team of dedicated and committed professionals. Just six months into my role, my first impression of Kendrion is of a close-knit community with a strong management team and very committed employees.

Strong performance despite uncertainty

The business climate in 2021 was tough, with many unexpected developments. In the Supervisory Board, we worked closely with management to build the resilience and flexibility that are necessary to navigate the current business challenges and ensure a solid position for the future.

Our Automotive business especially suffered from significant shortages in the supply chain. While demand for our products increased, raw material shortages disrupted production.

I am impressed with how well management and employees handled these challenges, delivering good results through solid execution.

Continuing our growth strategy

Our Industrial business remains a key strategic growth area for Kendrion, with many opportunities. The energy transition is a key driver but is certainly not the only prospective area we are developing. With the acquisition of INTORQ, we have significantly enhanced our market position as a full-service supplier in the industrial brakes market. Recently acquired 3T brings software and electronics development capabilities that allow us to tap into new industrial markets and attract new customers.

3T also strengthens our Automotive ACES (Autonomous, Connected, Electric and Shared vehicles) offering. Electronics play a key role in ACES and with 3T's expertise in-house, we are uniquely placed to deliver high-quality, smart actuators for autonomous vehicles. In addition we are less dependent on electronics suppliers.

In conclusion

On behalf of the Supervisory Board, let me express our profound appreciation to all Kendrion employees. The COVID pandemic not only disrupted the business, but also personal lives. I'm truly impressed with how everyone remained confident, upbeat, and flexible, rallying together to take on this period of uncertainty as a true team. Thanks to their unwavering commitment, we can wrap up this year with good results and look to 2022 with confidence.

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

This Report of the Supervisory Board sets out the way in which the Supervisory Board fulfilled its duties and responsibilities in 2021.

Performance in 2021

The COVID pandemic continued to impact the lives of people around the world and global industries faced another challenge with significant disruptions in the supply chain.

With the persistent application of hygiene protocols and strict operating procedures, management protected the health and safety of our employees and safeguarded the continuation of production in a safe and responsible manner. Certain of our manufacturing facilities experienced an increased number of reported COVID infections and precautionary self-isolations. No noticeable divergent trend in the number of reported COVID infections within our organization has been observed compared to the general COVID trend within the regions where we operate.

The pressure on the supply chain caused by the raw material and other shortages imposed operational disturbances and volatility in many manufacturing sectors. The immediate impacts of a stressed and stretched supply chain were particularly felt by the automotive industry, where at times manufacturers were forced to shut down their facilities completely or significantly reduce production volumes at short notice. In turn, the reduced production volumes of automotive manufacturing facilities and the related volatility in order patterns, have triggered sequential financial problems of component suppliers in the automotive industry. Management gave adequate and consistent priority to managing supply chain risks and rapidly adjusted practices in response to the changing landscape, whilst at the same time developing and implementing longer-term strategies to increase business resilience against supply chain disruption.

Despite this period of volatility, management continued to invest in opportunities for sustainable growth. The transition towards clean energy offers significant growth opportunities for our Business Groups. Our Business Groups Industrial Brakes and Industrial Actuators and Controls take advantage of the energy transition by the increasing demand for products in wind power, automated warehouses, factory automation and inductive heating technology. The Automotive Group contributes to the advancement of sustainable mobility solutions through its smart actuation technology that enable Autonomous, Connected, Electric, and Shared (the so-called ACES) driving. The acquisition of 3T added strategically relevant capabilities in software and electronics, enabling the development of products that contribute to the energy transition.

The development of a 28,000m^2 manufacturing facility at the Suzhou Industrial Park to facilitate the anticipated growth in China is well on track. This new manufacturing facility also supports the 2019-2023 sustainability target framework, particularly the reduction of CO_2 emissions.

Based on the outcome of the extensive diversity analysis carried out by the participants of Kendrion's High Potential Program in 2020, an update to the strategic diversity framework has been developed and introduced. The newly launched diversity framework focuses on the entire employee lifecycle and lays the foundation for the development of tailored target-setting aimed at the increase of the percentage of female hires and the percentage of female representation per function group, specifically the Science, Technology, Engineering and Mathematics (STEM) related function groups.

Focus in 2021

In coordination with the Executive Board, the Supervisory Board previously determined certain focus areas for the year 2021. The Supervisory Board placed special emphasis on the following predetermined subjects in 2021:

Contingency plans in addressing COVID-19 and safeguarding the continuity of Kendrion
Notwithstanding the development of several effective vaccines and the increased responsiveness and awareness about the risks and effects of COVID, COVID-19 continued to dominate global health and economies in 2021. Although always a priority, health and safety has taken on a different significance since the start of the COVID pandemic. COVID has brought about additional challenges, especially for industries such as manufacturing where physical interaction among production staff is usually needed. Shift planning and workforce management have been asked to adjust their established approaches and implement new strategies to secure the health of our staff in order to continue production in a safe and responsible manner and with minimal disturbances. The persistent application of hygiene protocols and strict operating procedures are among the measures that have been followed consistently and that are likely to become the standard operating procedure for occupational health and safety protection even after the pandemic.

Furthermore, remote and hybrid working models have become a new reality. Apart from making the required technical adjustments facilitating remote working – which were implemented rather swiftly after the outbreak of the pandemic in 2020 – more structured approaches are needed to accommodate new sustainable ways of working whilst preserving effective and efficient collaboration among teams and departments. Maintaining an open, diverse, and inclusive environment and committing to the values underlying The Kendrion Way and the Code of Conduct have been central to the collaborative mindset and flexibility needed to maintain Kendrion’s culture of sustainable high performance when faced with a new reality that has transformed our thinking about managing workplaces and maintaining an engaged and committed workforce. We also have increased our focus on mental health awareness as extended periods of isolation and the reduced in-person interaction with colleagues may lead to new forms of stress or pressure.

Despite the strict measures and the constant monitoring and evaluation of health and safety performance, certain of our manufacturing facilities experienced an increased number of reported COVID infections and precautionary self-isolations. No noticeable divergent trend in the number of reported COVID infections within our organization has been observed compared to the general COVID trend within the regions concerned.

COVID did not only continue to impact global health, but it also changed the economic landscape. Although initially manufacturing sectors were expected to rebound in 2021, lasting raw material shortages increased risks of delivery failures and extended delivery times. Moreover, the continued shortages caused material prices to rise noticeably and have led to higher risks of production downtime as well as challenges around material planning and inventory management. Persistent shortages were experienced in semiconductors, steel, and certain plastics. The pressure on the supply chain caused operational disturbances in many manufacturing sectors. The immediate impacts of a volatile supply chain were particularly felt by the automotive industry, where at times manufacturers were forced to decrease production volumes or shut down their facilities. In turn, the reduced production volumes, and related volatility in order patterns, have triggered sequential financial problems of component suppliers in the automotive industry. Management gave adequate and consistent priority to managing supply chain risks and rapidly adjusted practices in response to the changing landscape, whilst at the same time developing and implementing longer-term measures to better anticipate supply chain disruption.

In response to the outbreak of the pandemic back in 2020, several scenario assessments were carried out to estimate the financial impact of COVID, and the then existing contingency plans were adjusted as needed and extraordinary measures, including cost control measures, were implemented with a view to safeguarding the continuity of Kendrion and its affiliated enterprise. Different options were considered and in 2020 agreement was reached with Kendrion’s banking syndicate to increase the leverage covenant for the quarters up to December 2021. During 2021, management continued monitoring compliance with financial covenants and in particular the leverage ratio. With the acquisition of 3T, investments for the new manufacturing facility in China, and increased inventory levels predominantly caused by the disruption of the supply chain and related order volatility, the net debt position increased, however, Kendrion continued to stay well within its financial covenants.

Continued investment in China
Following a detailed review carried out by management, in 2020 the Supervisory Board confirmed its approval for the development of a new 28,000m^2 manufacturing facility at the Suzhou Industrial Park in China to accommodate the ambitious growth plans for China. The approved design for the manufacturing facility allows for automated manufacturing and warehouse processes. Digitalization and automation are expected to contribute to productivity gains and will further increase product quality and workplace safety. The efficiency gains and benefits resulting from the application of modern

technologies are also conducive to the objectives underlying the 2019-2023 sustainability target framework and our commitment to contribute to fighting climate change. Solar panels will be installed on the 28,000m^2 manufacturing facility, which increases our use of renewable energy and reduces our CO_2 emissions significantly.

After the necessary approvals of the Chinese authorities, construction activities for the new manufacturing facility commenced and are proceeding in accordance with the agreed development plan. It is contemplated to put the new facility into operation before the end of 2022.

The construction of a new manufacturing facility has not distracted management from its focus on enhancing operational effectiveness and production quality and continuing to invest in sustainable growth opportunities. Advancing the localization of the R&D organization in China, consistently pursuing a local supply chain strategy, and increasingly applying global standardized process engineering and quality systems have contributed to the enhancement of operational effectiveness and product quality. The contemplated infrastructure investments by the Chinese government – including investments in renewable energy – offer sustainable growth opportunities for both our Industrial Business Groups as well as the Automotive Group.

Optimization European manufacturing footprint Automotive Group

Building upon the initiatives that commenced in 2020, management continued its review of the set-up of our Automotive Group that has manufacturing facilities across three continents: US, Europe, and Asia. With a view to enhancing effectiveness and to further increasing our ability to respond to disruptive trends and market developments, the review focused predominantly on combining and enforcing the strengths of our European manufacturing facilities without prejudicing the benefits of a global Automotive Group. One of the outcomes of this review has been the planned shutdown of the manufacturing facility in Eibiswald, Austria. The decision to close the Eibiswald facility impacts our stakeholders, especially our Eibiswald employees. Other obvious stakeholders that are affected by the shutdown include our customers and suppliers. The Supervisory Board therefore considered that the closure of the Eibiswald facility required close monitoring and accordingly identified the shutdown as a 2021 focus item. The constant pressure on the supply chain and – in many ways – the resulting unpredictability, necessitated flexibility as to the timing of the execution of the closure activities. With the appropriate notification, consultation and involvement of the relevant stakeholder groups, the closure of the Eibiswald facility has been initiated and is underway. Finalization of the shutdown is anticipated for 2022.

Advancing IT strategy

Digitalization is transforming the manufacturing industry as it enhances efficiency and productivity through smart technology and data analytics. Demands of the present time include the ability to swiftly respond to rapidly changing market conditions and customer demands. The increasing demand for clean energy and the accelerating development of electrification are among the trends that require the ability to change fast. Advancing Kendrion's IT strategy and the execution thereof – particularly in the manufacturing and development space – are essential to long-term value creation and building an agile organization and business model. This has made the IT function and IT expertise increasingly strategically relevant.

Kendrion's IT strategy is fully aligned to its business strategy. Relevant IT expertise is increasingly embedded in product development and manufacturing processes. The IT function is a primary stakeholder for important projects and initiatives, such as the construction of the new 28,000m^2 manufacturing facility in China and the further harmonization and standardization of the functional organizational set-up and key processes of the Automotive Group.

In 2021 significant progress has been made with the execution of the IT strategy. Key initiatives that were executed include the outsourcing of the IT helpdesk and infrastructure. The outsourcing of standard IT services facilitated the enhanced focus and involvement on strategically relevant projects.
The foundation for digitalized manufacturing and product development has been built with the start of the implementation of a new global Product Lifecycle Management (PLM) system. Completion of the implementation of the PLM system is anticipated for 2022. Digitalization requires adjusted and newly developed capabilities and in 2021 important data science capabilities were developed which increased the efficient use of Business Intelligence software and tools. The IT strategy is designed to accelerate as needed in order to continue advancing Kendrion's digitalization footprint.

Focus items 2022

The Supervisory Board has defined the following attention points for 2022:

- Advancing the development of a sustainability target framework for the period beyond 2023, including the development of concrete ambitions to reduce environmental impact.
- Accelerating the transition to a future proof organization increasing organizational agility and resilience and integrating digital technologies in all relevant business processes.
- Progress on the achievement of the medium to long-term financial objectives for 2025 (i.e., average organic growth of 5% between 2019-2025, ROI of at least 25% and EBITDA margin of at least 15% by 2025).

Meetings and attendance

The Supervisory Board held thirteen meetings in 2021, eight of which were regular scheduled meetings. One extraordinary meeting was convened to discuss the final proposal regarding the development of the new manufacturing facility in China. In addition, four extraordinary meetings were held to discuss the acquisition of 3T, a Dutch based developer of electronics and embedded systems.

The discussions with the Executive Board about the acquisition of 3T involved amongst others: strategic rationale, business case and valuation, financing, key due diligence findings, post-acquisition integration outlook, including envisaged organizational set-up and related matters. The Supervisory Board unanimously supported the acquisition of 3T and is convinced that 3T offers great potential for the control activities of Industrial Actuators and Controls. Moreover, with the acquisition of 3T, Kendrion gets access to important software and electronics development capabilities that enable the pursuit of strategically relevant and sustainable growth opportunities especially in Automotive.

In 2021 special consideration was given to Kendrion's sustainability program and the efforts undertaken by management to reduce the impact of Kendrion's business on the environment. In addition to monitoring progress against the 2019-2023 sustainability target framework, the Supervisory Board called attention to the increasing environmental awareness of society and Kendrion's stakeholders. The Supervisory Board feels strong about further increasing Kendrion's contribution to fighting climate change. In line with the expectations of Kendrion's stakeholders, the Supervisory Board expects management to not only assess and manage the impact of Kendrion's business operations on the environment and society, but to also consider and address the implications of climate change for Kendrion's business model and product portfolio. The increased focus of Kendrion's resources on the development of sustainable products is an important development that is fully supported by the Supervisory Board. The increasing demand for clean energy and accelerating electrification provide substantial growth opportunities for both the Industrial Business Groups and the Automotive Group.

Reducing the negative impacts of climate change has been identified as one of the 2022 focus items and will be closely monitored by the Supervisory Board.

Furthermore, the Supervisory Board gave special consideration to Kendrion's newly launched strategic diversity framework that is linked to the employee lifecycle through which various aspects of diversity are identified.

All meetings of the Supervisory Board were attended by the Executive Board, and at times by members of the Management Team. In addition, meetings were held without the Executive Board and without the Management Team. The attendance percentage for regular scheduled Supervisory Board meetings in 2021 was 100% (2020: 100%).

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

The agenda for the Supervisory Board meetings covered the 2021 focus items described on pages 85-86 and other recurring topics that are annually addressed, such as: operational and financial performance, progress against the strategic plan and the principal risks associated with the operation, progress, and the achievement of milestones of special projects, fraud and risk management and internal control system, governance and compliance and the General Meeting of Shareholders.

The external auditor attended the meeting of the Supervisory Board in February 2021 during which the full-year figures for 2020 and the auditor's report were discussed.

Evaluation

The Supervisory Board continued to invest in its own training during the year and received updates on governance and compliance. Once a year the Supervisory Board carries out a self-assessment, including an assessment of the Supervisory Board committees and the individual Supervisory Board members. During a Supervisory Board meeting without the Executive Board members present, the Supervisory Board deliberated about its own performance. Aspects considered included team dynamics, competences, and market knowledge. In addition, performance was assessed based on a structured questionnaire that was filled in by the members of the Supervisory Board and the Executive Board. The questionnaire addressed items such as: composition and expertise of the Supervisory Board, dynamics within and functioning of the Supervisory Board and its committees, functioning of individual members of the Supervisory Board, dynamics between the Supervisory Board and the Executive Board and tasks and responsibilities of the Supervisory Board. The Supervisory Board intends to perform the annual self-assessment with the support of an external consultant once every three years. Although the most recent external self-assessment dates back to 2018, the Supervisory Board resolved to defer the external self-assessment to 2022 in view of the recent changes in the composition of the Supervisory Board, including the change of the chairmanship in 2021 and the replacement of the Supervisory Board's industry expert in 2020.

The outcome of the evaluation confirmed a good and constructive relationship between the Supervisory Board and the Executive Board. The Supervisory Board members take appropriate responsibility and are valued for their dedication, expertise, and ongoing commitment. The Supervisory Board members are aware of the different roles and responsibilities between the Supervisory Board and the Executive Board and are keen to secure them.

In Supervisory Board-only meeting(s), the members assess the functioning of the Executive Board and the individual members. With the CEO and the CFO, the Supervisory Board discussed performance and last year's KPIs, strategic and operational spearheads for 2022 and personal development.

Composition

The Supervisory Board consists of four members: Henk ten Hove (Chairman until the end of his term and subsequent resignation on 12 April 2021), Frits van Hout (Chairman as of his appointment on 12 April 2021), Jabine van der Meijs (Chair of the Audit Committee), Marion Mestrom (Chair of the HR Committee) and Erwin Doll.

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

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

Committees of the Supervisory Board

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

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

The Audit Committee consists of Jabine van der Meijs (Chair) and Erwin Doll.

The Audit Committee held four meetings in 2021. Attendance during 2021 was 100% (2020: 100%). The CFO, the Internal Audit and Risk Manager and the Group Controller attended all meetings. The external auditor Deloitte Accountants B.V. attended the meetings of the Audit Committee during which the full-year financial statements for 2020, the half-year financial statements for 2021 and the management letter were discussed. The Audit Committee met with the external auditor without the CFO.

In line with the increasing environmental awareness of society and the progressing political debate, new laws and regulations have been enacted that aim to contribute to the reduction of the negative impacts of climate change. The EU taxonomy introduces a classification system establishing a list of environmentally sustainable economic activities and related disclosure requirements. In addition, existing non-financial reporting standards will be revised. Accurate and informative sustainability reporting requires changes to existing reporting processes and data collection. The Audit Committee informed itself of relevant developments and in addition to regular updates provided by management during the Audit Committee meetings, the members of the Audit Committee attended a specially convened expert session about ESG reporting developments.

The Audit Committee monitored and reviewed regular topics such as: the quarterly financial results, the half-year and full-year financial statements, the auditor's report, maintenance and effectiveness of risk management framework and internal control system, the internal audit plan and key findings of internal audits performed, the external audit plan, transfer pricing, tax policy, treasury policy, the group insurance program, the speak-up procedure, legal and compliance, the annual evaluation of external auditor and the annual evaluation of the approach and operation of the internal audit function and the internal audit program.

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

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

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

Deloitte Accountants B.V. was reappointed as external auditor by the General Meeting of Shareholders on 12 April 2021 for a final term of four years up to and including the financial year 2024. 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 2021 external audit plan, including scope and materiality applied. Reviews and discussions were held on the findings of the external auditor in its management letter and the actions taken to address the recommendations and observations made by the external auditor. Also based on the outcome of the assessment of Deloitte's performance as well as the advice of the Executive Board, the Audit Committee advised the Supervisory Board regarding the reappointment of Deloitte as external auditor.

HR Committee

The HR Committee consists of Marion Mestrom (Chair) and Henk ten Hove (until resignation on 12 April 2021) and Frits van Hout (as of appointment on 12 April 2021). The HR Committee held two meetings, with an attendance rate of 100% (2020: 100%). The CEO attended both meetings.
In addition to the scheduled meetings, the HR Committee had several informal meetings with and without the members of the Executive Board being present.

Succession planning

In view of the expiry of the second term of Henk ten Hove in 2021, the Chair of the HR Committee timely commenced the search to find a new Chairman for the Supervisory Board. Taking account of the Supervisory Board profile and the diversity objectives described in the Diversity Policy for the Supervisory Board, the HR Committee recommended the nomination of Frits van Hout. The Supervisory Board unanimously resolved to nominate Frits van Hout for appointment as Chairman to Kendrion's Supervisory Board for a four-year term and Van Hout was subsequently appointed by the Annual General Meeting of Shareholders on 12 April 2021. The Supervisory Board and the Executive Board express their deep appreciation to Henk ten Hove for his significant and invaluable contribution to Kendrion as he provided thoughtful guidance and oversight throughout his membership and chairmanship.

Performance management

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

Variable remuneration

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

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

Financial statements and auditor's opinion

The 2021 financial statements included in this Annual Integrated Report have been audited and Deloitte Accountants B.V. has issued an unqualified opinion. They were discussed with the Supervisory Board, the Audit Committee in the presence of the external auditor, and the Executive Board.

The Supervisory Board is of the opinion that the 2021 financial statements meet all requirements for transparency and correctness. Therefore, the Supervisory Board recommends that the General Meeting of Shareholders to be held on 11 April 2022 adopt the 2021 financial statements and the appropriation of net income.

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

Profit appropriation

Kendrion realized net profit of EUR 14.4 million in 2021. Normalized net profit before amortization of intangibles arising from acquisitions amounted to EUR 20.6 million.

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

The members of the Supervisory Board have signed the 2021 financial statements to comply with their statutory obligation pursuant to article 2:101, paragraph 2, of the Dutch Civil Code.

Concluding remarks

The Supervisory Board is satisfied with the increased focus on business resilience and flexibility and is confident about the organization's ability to respond to changing market conditions and customer demands going forward. We thank the Executive Board, the Management Team and the entire Kendrion staff for their flexibility, loyalty, and commitment to perform throughout the year. The Supervisory Board is also pleased that the dialogue with our customers about new business continued and has been successful. Last but not least we want to thank our shareholders for their continuous trust and support.

Supervisory Board

Frits van Hout, Chairman
Jabine van der Meijs
Marion Mestrom
Erwin Doll

25 February 2022

Introduction
This Remuneration Report describes the application of the Remuneration Policy for the Executive Board and the actual performance in 2021 against the predefined performance criteria. In addition, the Remuneration report provides an overview of the remuneration of the Supervisory Board in 2021.

Performance in 2021
Where COVID continued to dominate global health and economies in 2021, Kendrion has demonstrated to be resilient and delivered strong performance supportive to the realization of its long-term value creation strategy. The impact of COVID extended beyond the protection of the health and safety of our employees and their families, as global supply chains faced continued pressure from COVID-prompted disruptions such as the persistent raw material shortages which led to price increases and volatility in many manufacturing sectors. The measures initiated at the beginning of the pandemic allowed us to continue production in a safe and responsible manner whilst prioritizing adequate management of supply chain risks and the development of longer-term strategies to increase business resilience against the extraordinary shift in market circumstances.

The consistent pursuit of sustainable growth opportunities – despite the unpredictable business environment which is characterized by a stressed and stretched supply chain – has been advantageous to our Business Groups, particularly the Industrial Business Groups which showed strong growth due to the increasing demand for clean energy and the accelerating development of electrification of industrial processes. These key trends in electrification particularly drive the demand for the products of Industrial Brakes and Industrial Actuators and Controls, respectively, in wind power, factory automation, automated warehouses, nuclear power and inductive heating technology. The acquisition of INTORQ in 2020 and the acquisition of 3T in 2021 allow us to better pursue sizeable and fast-growing sustainable opportunities. Hence, the prospects for our Industrial Business Groups are beyond encouraging as the transition to clean energy and the accelerating trend of electrification of industrial processes is evolving at a rapid pace. The Industrial Business Groups realized convincing organic growth of 20% and achieved revenues that were as well 9% higher than the pre-pandemic level of 2019.

Although the impacts of the volatile supply chain were particularly felt by our Automotive Group, where at times OEMs and Tier 1 suppliers were forced to significantly decrease production volumes or even shut down their facilities, the Automotive Group demonstrated organizational resilience and flexibility needed to manage volatility in order patterns and supply chain risks and swiftly adjusted practices to uphold the commercial feasibility of its projects in a changing landscape. More importantly, the prospects for the Automotive Group are good as it also benefits from the transition to sustainable mobility. The Automotive Group contributes to the advancement of sustainable mobility solutions through its smart actuation technology that enables the ACES. The software and electronics development capabilities of 3T fuel the enhanced development of the Automotive Group's products that contribute to the energy transition. The Automotive Group grew by 13% compared to 2020. In 2021, EUR 305 million was added in new project nominations, which is a solid addition to the already healthy order pipeline and a book-to-bill of 1.32 times the 2021 Automotive Group revenue.

In addition to Kendrion's contribution to the creation of a sustainable future through its product portfolio and its consistent investment in sustainable growth opportunities, Kendrion is committed to reduce the impact of its operations by increasing energy efficiency and use of renewable energy for our manufacturing processes and facilities. The relative CO_2 emissions from energy by Kendrion's production facilities has been reduced by 54% compared to 2015, and Kendrion is developing and implementing additional measures to further replace fossil fuels with renewable energy sources. Consistent progress has been made under the 2019-2023 sustainability framework whilst further action has been taken to continue the development of ambitious decarbonization strategies and mitigation plans conducive to the key objectives of the Paris Climate Agreement and the European green deal. It is imperative to continue the development of sustainable strategies that are consistent with the reasonable expectations of our stakeholders and the increased environmental awareness of society. Kendrion anticipates making an announcement in 2023 about its updated decarbonisation strategy and mitigation plans for the period beyond 2023.

Remuneration Policy Executive Board

The Remuneration Policy for the Executive Board has been developed by the Supervisory Board and adopted by the General Meeting of Shareholders in June 2020.

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

Remuneration in line with median level relative to reference group

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

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

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

Temporary deviations

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

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

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

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

The Supervisory Board did not decide upon a temporary deviation from the Remuneration Policy for the members of the Executive Board in 2021.

Remuneration components

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

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

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

Base salary

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

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

Following the annual performance review of the CFO Jeroen Hemmen in January 2021, the Supervisory Board resolved to increase the annual fixed base salary of the CFO with 15% effective as of 1 January 2021. The Supervisory Board – upon the recommendation of the HR Committee – considered the salary increase justified and appropriate by reference to the CFO's performance and the commitments made relevant to the gradual increase of the annual fixed base salary upon the CFO's appointment in 2019. With the 15% increase, the 2021 annual fixed base salary of CFO Jeroen Hemmen remained below the relevant market median consistent with the applicable Remuneration Policy.

	2021 annual gross base salary
CEO (J.A.J. van Beurden)	EUR 550,000
CFO (J.H. Hemmen)	EUR 310,788

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

	2021 annual gross base salary	2020 annual gross base salary	2019 annual gross base salary	2018 annual gross base salary	2017 annual gross base salary	2016 annual gross base salary
CEO (J.A.J. van Beurden)	EUR 550,000	EUR 550,000	EUR 504,645[1] EUR 550,000[2]	EUR 490,900	EUR 474,300	EUR 465,000
Actual		EUR 517,916.67 (actual)[4]	EUR 508,424.58 (actual)[3]			
CFO (J.H. Hemmen)	EUR 310,788	EUR 270,250	EUR 235,000[5]			
Actual		EUR 254,485.41 (actual)[4]	EUR 117,500 (actual)			

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

1 Effective until 1 December 2019.
2 Effective as of 1 December 2019 (i.e. the commencement date of the CEO's second term).
3 The sum of EUR 462,591.25 (i.e. 11/12th of EUR 504,645) and EUR 45,833.33 (i.e. 1/12th of EUR 550,000).
4 Voluntary salary reduction of 15% during April through July 2020 inclusive and voluntary salary reduction of 10% for the month August 2020 in view of COVID-19 prompted cost measures.
5 Effective as of 1 July 2019 (i.e. the effective date of appointment to the Executive Board).

Short-term variable remuneration

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

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

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

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

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

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

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

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

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

2021 short-term variable remuneration
Within the framework of the Executive Board Remuneration Policy, the Supervisory Board takes an informed decision relevant to the variable remuneration of the members of the Executive Board. For the determination of the financial and non-financial performance criteria of the 2021 short-term incentive, the Supervisory Board considered – amongst others – the 2021 focus items as previously defined by the Supervisory Board upon expiry of the financial year 2020; increasing environmental awareness and demands of society and our stakeholders to reducing the negative impact of climate change, the volatile economic climate and trading environment prompted by the COVID-pandemic and disruptive market trends ; and the importance of long-term value creation through continued investments in sustainable growth areas. The 2021 focus items of the Supervisory Board included preservation of contingency plans in addressing COVID and safeguarding the continuity of Kendrion, continued investment in China in support of its ambitious growth plans, optimization of the European manufacturing footprint of the Automotive Group and the advancement of the IT strategy with a focus on digital transformation in the manufacturing and development space. The Supervisory Board reported on the progress made and the key points of attention relevant to the 2021 focus items in the Report of the Supervisory Board that can be found on pages 84-90 of this Annual Integrated Report.

For the 2021 short-term variable remuneration, the Supervisory Board followed the recommendations of the HR Committee and selected four financial performance criteria, a non-financial performance criterion in the area of sustainability and other non-financial performance criteria that are linked to the Supervisory Board's 2021 focus items and Kendrion's strategic plan and operational spearheads, including the sustainable growth areas identified therein. Although no distinction is made between the CEO and the CFO for the financial performance criteria, within the non-financial performance criteria the Supervisory Board decided to distinguish between the CEO and CFO to ensure appropriate alignment with individual responsibilities, without compromising the collective responsibility of the Executive Board.

In 2021, the following short-term incentive target amounts applied to the members of the Executive Board:

	2021 short-term incentive target amount
CEO (J.A.J. van Beurden)	EUR 330,000 (i.e. 60% of the annual gross base salary of EUR 550,000)
CFO (J.H. Hemmen)	EUR 108,776 (i.e. 35% of the annual gross base salary of EUR 310,788)

For the performance year 2021, the short-term incentive performance criteria are allocated as follows:

				Short-term remuneration as percentage of annual gross base salary in 2021	
Performance criterion	Weight	Minimum		At target	Maximum
Financial performance criteria (60%)					
ROI	15%	0	CEO	9%	13.5%
			CFO	5.25%	7.88%
ROS	15%	0	CEO	9%	13.5%
			CFO	5.25%	7.88%
EBITDA	10%	0	CEO	6%	9%
			CFO	3.5%	5.25%
Free cash flow	20%	0	CEO	12%	18%
			CFO	7%	10.5%
Non-financial performance criteria (40%)					
		0	CEO	24%	36%
			CFO	14%	21%
TOTAL	**100%**	**0**	**CEO**	**60%**	**90%**
			CFO	**35%**	**52.5%**

2021 short-term financial performance criteria

In 2021, the actual performance against the financial performance criteria was as follows:

2021 short-term incentive performance on financial performance criteria

Financial performance criterion	Pay-out as % of short-term incentive target amount	Pay-out as % of annual gross base salary		Pay-out in EUR (gross)			
		CEO (J.A.J. van Beurden)	CFO (J.H. Hemmen)	CEO (J.A.J. van Beurden)		CFO (J.H. Hemmen)	
ROI	150%	13.5%	7.88%	EUR	74,250	EUR	24,474.60
ROS	150%	13.5%	7.88%	EUR	74,250	EUR	24,474.60
EBITDA	150%	9%	5.25%	EUR	49,500	EUR	16,316.40
Free cash flow	150%	18%	10.5%	EUR	99,000	EUR	32,632.80
TOTAL		**54%**	**31.51%**	**EUR**	**297,000**	**EUR**	**97,898.40**

2021 short-term non-financial performance criteria

The non-financial performance criteria for the 2021 short-term incentive recognize the collective responsibility of the Executive Board as they are closely aligned to the Supervisory Board's 2021 focus items and Kendrion's strategic and operational spearheads. Nevertheless, without prejudicing the collective responsibility, the non-financial performance criteria also distinguish individual responsibilities of the members of the Executive Board. The table below provides a summarized description of the non-financial performance criteria.

Summarized description 2021 non-financial performance criteria		
Executive Board	Diversity	Launch updated strategic diversity framework aimed at the improvement of gender diversity and related target-setting
Executive Board	China	Development of 28,000m^2 of manufacturing facility at the Suzhou Industrial Park in line with agreed development plan
CEO	Shelby (US)	Enhancement operational performance and effectiveness
CEO	Automotive	Investment Automotive R&D organization, incl. shift in capabilities in support of transition to sustainable mobility (i.e. capabilities in software and electronics)
CFO	Automotive	Further harmonization functional organizational set-up Automotive and standardization of key processes
CFO	IT	Increase digitalization footprint

Consistent with the Remuneration Policy, achievement of an individual non-financial performance criterion will be measured by applying a binary scoring model where a non-financial performance criterion can either be achieved or not achieved. The amount of the pay-out for the non-performance criteria depends on the number of non-financial performance criteria achieved. The following step curve is applicable for the 2021 non-financial performance criteria.

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

Throughout the year, the Supervisory Board reviewed progress against the non-financial performance criteria and received detailed updates about relevant developments and actions taken. During the December 2021 Supervisory Board meeting, the Executive Board provided a comprehensive overview of the progress made and achievements realized under the 2021 strategic and operational spearheads. The organization's ability to respond to changing market conditions and customer demands, and the increasing environmental awareness of society and other stakeholders have been important themes considered and discussed extensively among the Supervisory Board and Executive Board. With the rapid adjustment of standing practices and the development of longer-term measures in response to the changing economic landscape, Kendrion convincingly demonstrated its organizational agility and resilience. The achievements realized with the consistent focus on reducing the impact of climate change through the continued investment in the development and expansion of Kendrion's responsible and sustainable product portfolio and the advancement of decarbonization strategies and mitigation plans have been encouraging. The Supervisory Board will continue monitoring progress in the above-mentioned areas. Reference is made to the Report of the Supervisory Board on pages 85-86 that further substantiates performance and achievements realized in 2021 and the focus areas for 2022.

During the annual performance reviews, specific attention was paid to the individual performance and development of the members of the Executive Board against the non-financial performance criteria as well as key competencies such as (change) leadership and organizational alignment and strategic business orientation.

Through targeted actions and measures, processes and operations of the manufacturing facility in Shelby improved. The degree of operational improvement realized is, however, insufficient to conclude achievement of this non-financial performance criterion. Although certain organizational structures within the Automotive Group have been harmonized and certain key processes standardized, the extent to which harmonization and standardization have been achieved are insufficient to meet this non-financial performance criterion. Without taking the position that no progress was made relevant to these two non-financial performance criteria, the Supervisory Board considers that the accomplishments that have been realized in 2021, do not justify 'achievement' within the binary scoring model where a non-financial criterion can either be achieved or not achieved (i.e. no linear scoring applies).

Based on the comprehensive review of the performance of the members of the Executive Board, the Supervisory Board resolved that the CEO and the CFO each realized three out of the four non-financial performance criteria.

The score on the non-financial performance criteria results in a pay-out of 100% of the short-term target amount representing: 24% of the CEO's annual gross base salary of EUR 550,000 and 14% of the CFO's annual gross base salary of EUR 310,788. This resulted in a pay-out of EUR 132,000 for the CEO and EUR 43,510.40 for the CFO.

2021 pay-out short term incentive

Overall performance resulted in the following pay-out of the short-term incentive in 2021:

	Total pay-out 2021 short-term incentive	Pay-out as % of annual gross base salary
CEO (J.A.J. van Beurden)	EUR 429,000 (gross)	78% of the gross annual base salary of EUR 550,000
CFO (J.H. Hemmen)	EUR 141,408.80 (gross)	45.5% of the gross annual base salary of EUR 310,788

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

Short-term incentive	2020	2019	2018	2017[1]	2016[1]
CEO (J.A.J. van Beurden)	EUR 358,600 (gross)	EUR 191,282.90 (gross)	EUR 117,816 (gross)	EUR 170,748 (gross) based on 90% achievement of 2017 performance criteria, representing 36% of gross annual base salary (i.e. 36% of EUR 474,300), one-third paid in cash and two-thirds awarded conditionally in shares.	EUR 180,420 (gross) based on 97% achievement of 2016 performance criteria, representing 38.80% of the gross annual base salary (i.e. 38.80% of EUR 465,000), one-third paid in cash and two-thirds awarded conditionally in shares.
CFO (J.H. Hemmen)	EUR 102,965 (gross)	EUR 37,012.50 (gross)	Not applicable – effective date of appointment to the Executive Board 1 July 2019		

[1] The short-term incentive scheme for the years 2016 and 2017 is subject to the terms of the then applicable remuneration policy.

Long-term variable remuneration

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

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

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

The target value at grant date is as follows:

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

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

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

Performance measure

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

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

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

TSR Performance Peer Group

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

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

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

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

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

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

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

	< Threshold	Target	Maximum
EPS	0	100%	150%

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

Sustainability
The Supervisory Board will annually set a sustainability target that is aligned with Kendrion's sustainability ambitions as reflected in the sustainability target framework.

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

	< Threshold	Target	Maximum
Sustainability	0	100%	150%

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

2021 long-term variable remuneration
Consistent with the applicable Remuneration Policy as adopted by the General Meeting Shareholders, the members of the Executive Board were granted conditional performance shares as described in the table below.

	2021 annual gross base salary	Target amount	Average share price Q4 2020	Conditional performance shares	Expiry vesting period	Expiry holding period
CEO (J.A.J. van Beurden)	EUR 550,000	EUR 330,000 (i.e. 60% of EUR 550,000)	EUR 16.30	20,245	Expiry performance period 2021-2023	End of 2025
CFO (J.H. Hemmen)	EUR 310,788	EUR 155,394 (i.e. 50% of EUR 310,788)	EUR 16.30	9,533	Expiry performance period 2021-2023	End of 2025

In accordance with the applicable Remuneration Policy, the vesting percentage of the performance shares is conditional upon the achievement of performance measured as relative TSR, EPS and a non-financial measure in the area of sustainability. The sustainability performance criterion for the 2021 long-term incentive is related to the achievement of the energy efficiency and CO_2 reduction targets as per the 2019-2023 target framework and the implementation of the related measures.

2019 long-term variable remuneration
Pursuant to the 2019 long-term incentive scheme, 11,559 conditional performance shares have been granted to Joep van Beurden and 2,409 conditional performance shares have been granted to Jeroen Hemmen. The number of conditional performance shares has been calculated as follows:

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

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

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

Consistent with the applicable Remuneration Policy, the vesting percentage of the performance shares is conditional upon the achievement (during the performance period 2019-2021) of performance measured as:

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

A summary description of the performance measure in the area of sustainability for the performance period 2019-2021 has been included in the table below.

Summary description sustainability performance measure – 2019-2021

Achievement of measures in line with five-year roadmap containing energy efficiency and emission mitigation measures as part of the 2019-2023 sustainability target framework	■ On target performance (i.e. 100% vesting): achievement 3/5th of five-year roadmap ■ Max. performance (i.e. 150% vesting): achievement of five-year roadmap ■ Min. threshold performance (i.e. 0% vesting): achievement less than 3/5th of five-year roadmap

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

TSR and EPS

When measuring the relative TSR (i.e. share price movements, including dividends assuming dividends are reinvested), the position of Kendrion in the predefined TSR performance peer group is 9. The ninth position results in below threshold performance. Based on the EPS performance incentive zones determined by the Supervisory Board by reference to the mid-term plan presented in 2019, the 2021 EPS falls below the threshold performance.

Sustainability – five-year energy and CO_2 roadmap

The five-year roadmap containing energy efficiency and emission mitigation measures that has been developed as part of the 2019-2023 sustainability target framework aims to achieve a 15% relative reduction of energy consumption and CO_2 emission by the end of 2023. The five-year roadmap was designed in 2019 after extensive review and recommendations by different specialists. The roadmap contains a significant number of measures that particularly enable the manufacturing facilities to realize energy efficiencies and CO_2 reductions. Based on the most recent estimates, the measures included in the five-year roadmap together would lead to 2.4 MwH lower energy consumption from electricity and natural gas by the end of 2023. The fast majority of the measures has been fully implemented and result in a 2.2 MwH lower energy consumption from electricity and natural gas. A handful of remaining included in the five-year roadmap and newly developed measures will be implemented in the course of 2022/2023 and contribute to the further realization of the 2023 targets.

With reference to the effectivity review of the five-year roadmap, certain measures have been cancelled, including the measures for the manufacturing facility in Eibiswald which will be closed in 2022. The initial five-year roadmap has been subject to certain additions which are prompted by technological developments and other subsequent developments, such as the construction of a new manufacturing facility in Suzhou. Solar panels will be installed at the roof of the 28,000m^2 facility in Suzhou.

The reduction in energy consumption per million EUR added value between 2018 and 2021 was 2% and negatively impacted by an organic reduction in added value compared to 2018. Relative carbon emissions decreased 19% over the same period. Based on the identified measures and expected added value development in 2022 and 2023, Kendrion expects to realize the targeted 15% reduction in both carbon emissions and energy consumption.

As a result, under the 2019 long-term incentive scheme on target performance has been realized with the sustainability performance measure resulting in 100% vesting of 20% of the target-value. This means that a total number of 2,311 shares have vested for Joep van Beurden and a total number of 481 shares have vested for Jeroen Hemmen. The vested shares remain subject to a holding period until the end of 2023.

In accordance with the long-term incentive plan, Joep van Beurden and Jeroen Hemmen will be entitled to accrued dividend for each of the 2,311 and 481, respectively, vested shares. Accrued dividend will – in accordance with the long-term incentive plan – be paid in cash.

Development long-term incentive

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

Long-term incentive	2020 number of shares	Expiry holding period	2019 number of shares	Expiry vesting period	Expiry holding period	2018 number of shares	Expiry vesting period	Expiry holding period	2017 number of shares*	Expiry vesting period	Expiry holding period	2016 number of shares*	Expiry vesting period	Expiry holding period
CEO (J.A.J. van Beurden)	16,533	End of 2022	11,559	End of 2021	End of 2023	6,960	End of 2020	End of 2022	3,383	End of 2019	End of 2021	3,970	End of 2018	End of 2020
CFO (J.H. Hemmen)	6,769	End of 2022	2,409	End of 2021	End 2023	Not applicable – effective date of appointment to the Executive Board 1 July 2019								

* The long-term incentive scheme for the years 2016 and 2017 is subject to the terms of the then applicable remuneration policy.

Agreed upon procedures Deloitte Accountants B.V.

Kendrion's external auditor Deloitte Accountants B.V. performed agreed-upon procedures regarding the calculation of the fixed base salary and the variable remuneration of the Executive Board for the financial year ending 31 December 2021. The procedures have been separately agreed upon between Kendrion and Deloitte Accountants B.V. and do not constitute an audit or review, or any other assurance engagement conducted in accordance with the Dutch Standards on Auditing or other Dutch Standards and, consequently, no assurance has been provided by Deloitte Accountants B.V. This means that Deloitte Accountants B.V. has not provided any assurance as to the fair presentation of the financial data and notes thereto as included in the fixed base salary and the variable remuneration of the Executive Board. The agreed upon procedures have been agreed with the intended users, being the Supervisory Board.

Pension arrangement and other benefits

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

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

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

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

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

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

The Executive Board participates in the defined contribution plan of Kendrion. The pension contribution in 2021 was EUR 75,000 (2020: EUR 52,585.96) for the CEO and EUR 65,972 (2020: EUR 34,046.17) for the CFO. In 2021 Kendrion provided the CFO with a car allowance in the monthly gross amount of EUR 2,000.

Share ownership guideline

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

Policy in case of change of control

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

Adjustment and claw back

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

Other key elements

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

Termination fee
In the event of termination of the management agreement on Kendrion's initiative, the termination fee for members of the Executive Board shall not exceed 100% of the annual fixed gross base salary (i.e. excluding short-term and long-term incentive and other elements such as pension contributions). The members of the Executive Board are not entitled to a termination fee if the contract is terminated for cause (i.e. seriously culpable or negligent behavior 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 15 (2020: 18). This pay ratio is based on the average of the 2021 Executive Board remuneration including pensions and other expenses and the average wage costs per FTE in 2021 as disclosed on pages 59-60 of this Annual Integrated Report.

Remuneration Policy Supervisory Board

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

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

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

Remuneration benchmark review

The base fee and committee fees in the table above have been subject to a benchmark review by reference to the median remuneration levels of a peer group of comparable companies. At the Annual General Meeting of Shareholders on 11 April 2022, Kendrion will propose an adjustment to the base fee and committee fee levels described in the table above to bring the Supervisory Board remuneration to the median level.

Expenses

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

Benefits and loans

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

The aggregate amount of the remuneration of the Supervisory Board members in 2021 EUR 172,000 (2020: EUR 170,470). The table below gives a breakdown of the remuneration in 2021 per Supervisory Board member.

Supervisory Board member		2021
H. ten Hove (stepped down April 2021)	EUR	12,500
F.J. van Hout (appointed April 2021)	EUR	37,500
M.J.G. Mestrom	EUR	41,000
J.T.M. van der Meijs	EUR	41,000
E.M. Doll	EUR	40,000
Total	**EUR**	**172,000**

Advisory vote remuneration report 2020

The remuneration report 2020 has been discussed with the shareholders and put to the General Meeting of Shareholders for an advisory vote during the annual General Meeting of Shareholders held on 12 April 2021. Almost 94% of the votes were cast in favor of the 2020 remuneration report. Supported by this advisory vote, the Executive Board and the Supervisory Board considered that no substantive changes are needed relevant to the application of the Remuneration Policy.
The voting results of the General Meeting of Shareholders held on 12 April 2021 can be found on the corporate website at www.kendrion.com.

Taking account of the content of this 2021 Remuneration Report, it is determined that the aggregate amount of remuneration awarded is in line with the Remuneration Policy and contributes to the performance of Kendrion and the execution of its long-term value creation strategy.

This 2021 Remuneration Report will be discussed with shareholders and put to the General Meeting of Shareholders for an advisory vote during the upcoming annual General Meeting of Shareholders to be held on 11 April 2022.

Remuneration components 2021

	CEO	%	CFO	%
Base salary	550,000	49%	310,788	55%
Short term incentive	429,000	38%	141,409	25%
Long term incentive	48,647	4%	10,125	2%
Pension contribution	75,000	7%	65,972	12%
Other	15,358	1%	37,558	7%
Total compensation	**1,118,005**	**100%**	**565,852**	**100%**

Executive Board remuneration comparative[1]

EUR Thousand	2021	2020	2019	2018	2017	2016
J.A.J. van Beurden, CEO	1,118.0	984.2	853.5[2]	768.4[2]	737.8	645.4
J.H. Hemmen, CFO	565.8	450.4	189.4			
Remuneration of former Executive Board members						
F.J. Sonnemans, CFO				689.0	662.6	533.3
Pay ratio	15	18	14	12	13	13
Company performance						
Normalized Revenue (EUR million)[3]	463.6	396.4	412.4	448.6	461.8	443.4
Normalized EBITA (EUR million)[3]	31.9	18.9	19.8	35.4	37.5	31.1
Normalized EBITA margin[3]	6.9%	4.8%	4.8%	7.9%	8.1%	7.0%

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

2 Restated to include 2016 long-term incentive.

3 Normalized for one off items. For a reconciliation to the most comparable IFRS performance measure, see page 38 of this Annual Integrated Report.

Supervisory Board remuneration comparative

	2021	2020 (exl. fee reduction)	2019	2018	2017	2016
Base fee						
Chairman Supervisory Board	EUR 45,000	EUR 45,000	EUR 45,000	EUR 45,000	EUR 45,000	EUR 40,000
Member Supervisory Board	EUR 35,000	EUR 35,000	EUR 35,000	EUR 35,000	EUR 35,000	EUR 30,000
Committee fee						
Chair Committee	EUR 6,000	EUR 6,000	EUR 6,000	EUR 6,000	EUR 6,000	EUR 5,000
Member Committee	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000
Total Supervisory Board remuneration	EUR 172,000	EUR 172,000	EUR 172,000	EUR 172,000	EUR 172,000	EUR 150,000

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Note	EUR million	2021	2020
	Assets		
	Non-current assets		
1	Property, plant and equipment	121.9	118.7
2	Intangible assets[1]	183.4	159.1
3	Other investments, including derivatives	0.4	3.0
4	Deferred tax assets[1]	18.3	18.2
5	Contract costs	0.5	0.6
	Total non-current assets	**324.5**	**299.6**
	Current assets		
6	Inventories	79.7	61.7
	Current tax assets	2.7	1.4
7	Trade and other receivables	65.3	53.4
8	Cash and cash equivalents	18.6	13.0
	Total current assets	**166.3**	**129.5**
	Total assets	**490.8**	**429.1**

Note	EUR million	2021	2020
	Equity and liabilities		
9, 10	**Equity**		
	Share capital	29.9	29.9
	Share premium	45.8	51.7
	Reserves	132.9	117.5
	Retained earnings	14.4	4.3
	Total equity[2]	**223.0**	**203.4**
	Liabilities		
11	Loans and borrowings	136.4	104.2
12	Employee benefits	14.0	15.5
4	Deferred tax liabilities	17.7	15.9
14	Provisions	0.9	0.7
	Total non-current liabilities	**169.0**	**136.3**
8	Bank overdraft	6.1	4.5
11	Loans and borrowings	6.7	7.5
14	Provisions	1.2	1.5
	Current tax liabilities	6.0	5.2
15	Contract liabilities	4.5	5.5
16	Trade and other payables	74.3	65.2
	Total current liabilities	**98.8**	**89.4**
	Total liabilities	**267.8**	**225.7**
	Total equity and liabilities	**490.8**	**429.1**

[1] Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.
[2] Equity is attributable to owners of the company as non-controlling interests are not applicable.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Note	EUR million	2021	2020
21	Revenue	464.0	396.4
23	Other income	0.2	0.3
	Total revenue and other income	**464.2**	**396.7**
	Changes in inventories of finished goods and work in progress	(3.5)	2.5
	Raw materials and subcontracted work	241.9	203.2
24	Staff costs	138.1	119.5
	Depreciation and amortization	27.8	30.1
25	Other operating expenses	36.0	31.3
	Result before net finance costs	**23.9**	**10.1**
26	Finance income	0.0	0.0
26	Finance expense	(3.7)	(4.1)
	Share profit or loss of an associate	(0.1)	(0.3)
	Profit before income tax	**20.1**	**5.7**
27, 28	Income tax expense	(5.7)	(1.4)
	Profit for the period	**14.4**	**4.3**

Note	EUR million	2021	2020
	Other comprehensive income		
4	Remeasurements of defined benefit plans[1]	0.5	1.6
	Foreign currency translation differences for foreign operations[2]	7.8	(5.5)
17	Net change in fair value of cash flow hedges, net of income tax[2]	0.1	0.2
	Other comprehensive income for the period, net of income tax	**8.4**	**(3.7)**
	Total comprehensive income for the period[3]	**22.8**	**0.6**
10	Basic earnings per share (EUR), based on weighted average[3]	0.97	0.29
10	Basic earnings per share (EUR), based on weighted average (diluted)[3]	0.97	0.29

1 This item will never be reclassified to profit or loss.
2 These items may be reclassified to profit or loss.
3 All profits are attributable to owners of the company as non-controlling interests are not applicable.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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 2021	**29.9**	**51.7**	**(0.2)**	**0.1**	**(3.4)**	**121.0**	**4.3**	**203.4**
	Total comprehensive income for the period								
	Profit or loss	–	–	–	–	–	–	14.4	14.4
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	0.5	–	0.5
	Foreign currency translation differences for foreign operations	–	–	7.8	–	–	–	–	7.8
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.1	–	–	–	0.1
	Other comprehensive income for the period, net of income tax	–	–	7.8	0.1	–	0.5	–	8.4
	Total comprehensive income for the period	**–**	**–**	**7.8**	**0.1**	**–**	**0.5**	**14.4**	**22.8**
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	0.0	0.0	–	–	–	–	–	0.0
	Own shares sold	–	–	–	–	1.4	0.2	–	1.6
	Share-based payment transactions	–	–	–	–	0.1	1.0	–	1.1
9	Dividends to equity holders	–	(5.9)	–	–	–	–	–	(5.9)
9	Appropriation of retained earnings	–	–	–	–	–	4.3	(4.3)	–
	Balance at 31 December 2021	**29.9**	**45.8**	**7.6**	**0.2**	**(1.9)**	**127.0**	**14.4**	**223.0**

Note	EUR million	2021	2020
	Cash flows from operating activities		
	Profit for the period	14.4	4.3
	Adjustments for:		
26	Net finance costs	3.7	4.1
	Share profit or loss of an associate	0.1	0.3
27	Income tax expense	5.7	1.4
1, 2	Depreciation of property, plant and equipment and software	23.9	25.7
2	Amortization of other intangible assets	3.9	4.4
1, 2	Impairment of fixed assets	3.5	2.4
3	Profit on disposal of associate	(0.6)	–
	Share-based payments	1.2	0.0
		55.8	42.6
	Change in trade and other receivables	(7.1)	(0.2)
	Change in inventories	(15.2)	6.9
	Change in trade and other payables	5.9	(0.2)
	Change in provisions	(1.2)	(2.0)
	Change in contract liabilities	(1.0)	(1.1)
		37.2	46.0
	Interest paid	(3.2)	(2.9)
	Interest received	0.0	0.0
	Tax paid	(6.2)	(1.3)
	Net cash flows from operating activities	**27.8**	**41.8**

Note	EUR million	2021	2020
	Cash flows from investing activities		
2	Acquisition of subsidiaries	(23.2)	(77.7)
3	Proceeds from disposal of associate	3.3	–
1	Investments in property, plant and equipment	(23.7)	(12.9)
1	Disinvestments of property, plant and equipment	0.7	0.4
2	Investments in intangible fixed assets	(6.3)	(3.1)
2	Disinvestments of intangible fixed assets	0.2	0.0
3	(Dis)investments of other investments	0.2	(0.9)
	Net cash from investing activities	**(48.8)**	**(94.2)**
	Free cash flow	**(21.0)**	**(52.4)**
	Cash flows from financing activities		
11	Payment of lease liabilities	(3.4)	(2.9)
11	Proceeds from borrowings (non current)	32.4	59.4
11	Proceeds from borrowings (current)	–	0.2
11	Repayment of borrowings (current)	(0.8)	–
9	Dividends paid	(4.3)	–
	Net cash from financing activities	**23.9**	**56.7**
	Change in cash and cash equivalents	2.9	4.3
8	Cash and cash equivalents at 1 January	8.5	4.6
	Effect of exchange rate fluctuations on cash held	1.1	(0.4)
8	Cash and cash equivalents at 31 December	**12.5**	**8.5**

Reporting entity

Kendrion N.V. (the 'Company') is domiciled in the Netherlands. The Company's registered office is at Herikerbergweg 213, 1101 CN Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2021 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 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS IC interpretations (IFRIC), published by the International Accounting Standards Board (IASB) as adopted by the European Union (hereinafter referred to as EU-IFRS) and in accordance with the legal requirements of Part 9, Book 2 of the Dutch Civil Code. The Company financial statements are integrated part of the 2021 financial statements of Kendrion N.V.

The financial statements were authorised for issue by the Executive Board on 25 February 2022.

(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;
- the defined benefit liability is recognised as net total of plan assets and present value of the defined benefit obligations;
- the contingent consideration is stated at fair value.

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

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

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

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

- note 2 – goodwill impairment testing;
- note 6 – inventories.

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

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

In 2021 the Group was affected by supply chain constraints triggered by a strong recovery of demand after the Covid-19 crisis in 2020. In particular the prevailing shortage of semi-conductors in the Automotive industry indirectly impacted group revenue with customers having to reduce their production volumes. For the goodwill impairment testing calculations the group has considered these supply chain contrains when preparing its budgets. For other steps taken by the Executive Board to make judgements, estimates and assumptions, reference is made to the notes as included above.

Correction of misstatements

The group has opted to restate the statement of financial position retrospectively due to a reassessment of the tax position related to the acquisition of INTORQ GmbH & Co KG on 8 January 2020. Based on the reassessment of the tax position the group has determined that it had overstated the deferred tax asset and current tax liability and as a result understated the amount of goodwill in the 2020 statement of financial position. Because the measurement period for the business combination ended on 8 January 2021 and therefore the one-year window for adjustments to the PPA does no longer apply, the group has opted to restate the statements retrospectively in accordance with IFRS 3.50. The following table summarizes the impact on the groups's consolidated financial statements.

	31-12-2020 Restated	31-12-2020
Consolidated Statement of Financial Position at 31 December		
Intangible assets	159.1	158.1
Deferred tax assets	18.2	19.2
Total assets	429.1	429.1
Current tax liability	5.2	5.2
Total equity and liabilities	429.1	429.1

	31-12-2020 Restated	31-12-2020
Basic earnings per share (EUR), based on weighted average	0.29	0.29
Basic earnings per share (EUR), based on weighted average (diluted)	0.29	0.29

The adjustment to the current tax liabilities rounds to EUR 0.0 million, therefore it does not show in above schedule as a change.

Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

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

If the excess is negative, a bargain purchase gain is recognised immediately in comprehensive income (hereafter also referred to as ‘profit or loss’). The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.
Transactions costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.
Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Translation of foreign currency financial statements

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

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

(c) Property, plant and equipment

(i) Owned assets

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

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

(ii) Lease

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

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

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

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

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

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

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

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

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

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

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

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

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.
When there is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease, this is a lease modification and can result in a separate lease or a change in an existing lease.

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

(v) Recognition of transaction results

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

(d) Intangible assets

(i) Goodwill

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

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

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

(ii) Research and development

Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing.

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

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

Capitalised development expenditure is measured at cost less accumulated amortization 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 amortization (see next page) and accumulated impairment losses (see note g). Based on the purchase price allocation of acquisitions, intangible assets that are part of the other intangible assets and relate to, for example, valued customer relations, trade names and technologies are also recognised.

(iv) Subsequent expenditure

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

(v) Amortization

Amortization 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. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Financial instruments and other investments

Financial instruments

Non-derivative financial instruments

Recognition and initial measurement

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

Classification and subsequent measurement

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.
The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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

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

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

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

interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

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

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

Offsetting

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

Other investments

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

Trade and other receivables

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

Recognised interest-bearing loans and borrowings

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

Trade and other payables

Trade and other payables are carried at amortised cost.

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

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

Derivative financial instruments, including hedge accounting
The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. At 31 December 2021, 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. The Group measures loss allowances at an amount equal to the lifetime expected credit losses.

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

All impairment losses are recognised in the consolidated statement of comprehensive income.
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.
For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets

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

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

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

(iii) Reversal of impairment losses

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 amortization, 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 Corporate 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 corporate bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) Share-based payment transactions

As only equity settled share-based payments are applicable only the accounting policy for these transactions has been included.

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

(v) Short-term employee benefits

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

(vi) Termination benefits

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

(j) Provisions

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

Restructuring provisions

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

(k) Revenue

Revenue from contracts with customers

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

Sale of goods

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.

The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities.

Services

Apart from sales of goods the Group provides limited services such as repairs and engineering/development services. Revenues from services are recognised in proportion to the services rendered, based on the cost incurred in respect of the services performed up to balance sheet date, in proportion to the estimated costs of the aggregate services to be performed. The cost price of these services is allocated to the same period.

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

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

(l) Expenses

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

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

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

(m) Income tax
Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss unless it relates to items recognised directly in equity, in which case it is recognised in equity. The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or

received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.
Current tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assetsagainst current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity; or on different tax entities, but the intention is to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be applied. Deferred tax assets are reduced if it is no longer probable that the related tax benefit will be realised.

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

Uncertain tax items for which a provision is made relate principally to the interpretation of tax legislation regarding arrangements entered into by the Group. Due to the uncertainty associated with such tax items, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly.

(n) Earnings per share

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

(o) Segment reporting

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

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

However, and on the basis of the aggregation criteria of IFRS 8.12, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. In accordance with IFRS 8, the Company also discloses general and entity-wide information, including information about geographical areas and major customers of the Group as a whole. More information on the reportable segments is provided in note 21.

(p) New standards and interpretations

A number of amendments to standards are effective, and have been endorsed by the European Union, for annual periods beginning on or after 1 January 2021 and therefore apply to the year ended 31 December 2021:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Interest Rate Benchmark Reform, amendments to IFRS 9, IAS 39 and IFRS 7.

The amendments do not have a significant impact on the Group's consolidated financial statements.

The following standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are not effective at 31 December 2021 and are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS 17 Insurance Contracts (2023).
- Classification of liabilities as current or non-current (amendments to IAS 1) (2023).
- Disclosure of Accounting Policy (amendments to IAS 1 and IFRS Practice Statement 2) (2023).
- Definition of Accounting Estimate (amendments to IAS 8) (2023).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (expected year unknown).

(q) Fair values

(i) Measurement of fair value

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

(ii) Property, plant and equipment

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

(iii) Intangible assets

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

(iv) Lease liabilities

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

(v) Inventories

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

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

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

(vii) Interest-bearing loans

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

(viii) Derivatives

The fair value of derivatives 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 2021 (2020: 4%). Other customers individually accounted for 6% or less of the trade and other receivables at 31 December 2021 (2020: 4%). The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players, this reduces the Group's dependency on the German market.

(iii) Investments and financial instruments

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

(iv) Liquidity risk

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

A summary of the credit lines available to the Group is disclosed in note 11 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of HSBC, Deutsche Bank and ING Bank on an equal basis. The Group had approximately EUR 40 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 60 million in order to reduce interest rate risk exposure to increasing market rates. EUR 20 million matures in 2022 and EUR 40 million in 2023.

(vii) Currency risk

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

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

The Group also actively hedges intercompany loans in foreign currencies with currency forwards, swaps or back-to-back loans in the same foreign currency.
Pursuant to the Group's policy for other monetary assets and liabilities denominated in a foreign currency, net exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates as required to correct short-term imbalances.

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

(viii) Other price risks

Steel, copper and rare earth metals used in permanent magnets are the most important commodities for the Group.

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

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

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

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

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

(ix) Capital management

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

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

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

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

(s) Government Grants

Grants that compensate the Group for expenses incurred are recognised in profit or loss as deduction on the related expense on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

1 Property, plant and equipment

EUR million	2021	2020
Property, plant and equipment owned	107.5	104.4
Property, plant and equipment right-of-use assets	14.4	14.3
Total	**121.9**	**118.7**

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 2020	57.1	145.6	56.4	12.4	271.5
Acquired through business combinations	8.4	3.3	1.8	1.6	15.1
Acquired, other	2.1	10.9	4.1	7.5	24.6
Disposals	(0.2)	(1.7)	(1.7)	(11.7)	(15.3)
Currency translation differences	(0.2)	(0.6)	(0.0)	(0.3)	(1.1)
Balance as at 31 December 2020	67.2	157.5	60.6	9.5	294.8
Balance as at 1 January 2021	67.2	157.5	60.6	9.5	294.8
Acquired through business combinations	–	–	0.4	–	0.4
Acquired, other	0.9	7.1	3.2	15.8	27.0
Disposals	(0.3)	(3.1)	(1.2)	(3.3)	(7.9)
Currency translation differences	0.3	0.7	0.0	0.5	1.5
Balance as at 31 December 2021	68.1	162.2	63.0	22.5	315.8
Depreciation and impairment losses					
Balance as at 1 January 2020	29.2	100.8	43.8	0.1	173.9
Depreciation for the year	2.8	11.8	4.7	0.0	19.3
Impairment	–	(0.0)	0.0	0.4	0.4
Disposals	(0.2)	(1.8)	(1.2)	–	(3.2)
Balance as at 31 December 2020	31.8	110.8	47.3	0.5	190.4
Balance as at 1 January 2021	31.8	110.8	47.3	0.5	190.4
Depreciation for the year	2.4	11.4	4.5	–	18.3
Impairment	–	0.2	0.0	3.3	3.5
Disposals	–	(2.7)	(1.2)	–	(3.9)
Balance as at 31 December 2021	34.2	119.7	50.6	3.8	208.3

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Carrying amounts					
As at 1 January 2020	27.9	44.8	12.6	12.3	97.6
As at 31 December 2020	35.4	46.7	13.3	9.0	104.4
As at 1 January 2021	35.4	46.7	13.3	9.0	104.4
As at 31 December 2021	33.9	42.5	12.4	18.7	107.5

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2020	17.5	0.2	3.0	–	20.7
Acquired through business combinations	0.8	–	0.0	–	0.8
Acquired, other	2.3	–	0.5	–	2.8
Disposals	(0.4)	(0.0)	(0.0)	–	(0.4)
Currency translation differences	(0.2)	(0.0)	(0.0)	–	(0.2)
Balance as at 31 December 2020	20.0	0.2	3.5	–	23.7
Balance as at 1 January 2021	20.0	0.2	3.5	–	23.7
Acquired through business combinations	1.9	–	–	–	1.9
Acquired, other	2.0	–	0.3	–	2.3
Disposals	(1.8)	–	(0.0)	–	(1.8)
Currency translation differences	0.4	0.0	0.0	–	0.4
Balance as at 31 December 2021	22.5	0.2	3.8	–	26.5
Depreciation and impairment losses					
Balance as at 1 January 2020	4.8	0.1	2.0	–	6.9
Depreciation for the year	1.9	0.0	0.6	–	2.5
Balance as at 31 December 2020	6.7	0.1	2.6	–	9.4

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Balance as at 1 January 2021	6.7	0.1	2.6	–	9.4
Depreciation for the year	2.1	0.1	0.5	–	2.7
Balance as at 31 December 2021	8.8	0.2	3.1	–	12.1
Carrying amounts					
As at 1 January 2020	12.7	0.1	1.0	–	13.8
As at 31 December 2020	13.3	0.1	0.9	–	14.3
As at 1 January 2021	13.3	0.1	0.9	–	14.3
As at 31 December 2021	13.7	0.0	0.7	–	14.4

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

The estimated useful lives of the property, plant and equipment are as follows:

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

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

2 Intangible assets

EUR million	Goodwill[1]	Development costs	Software	Concessions	Other	Total
Cost						
Balance as at 1 January 2020	92.6	7.9	24.8	–	40.6	165.9
Acquired through business combinations	26.7	–	0.5	–	26.3	53.5
Acquired, other	–	0.9	1.5	–	0.7	3.1
Disposals	–	–	0.0	–	–	0.0
Currency translation differences	(2.3)	(0.0)	(0.0)	–	(0.4)	(2.7)
Balance as at 31 December 2020	117.0	8.8	26.8	–	67.2	219.8

[1] Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

EUR million	Goodwill[1]	Development costs	Software	Concessions	Other	Total
Balance as at 1 January 2021	117.0	8.8	26.8	–	67.2	219.8
Acquired through business combinations	14.8	–	–	–	8.4	23.2
Acquired, other	–	1.7	3.5	1.1	–	6.3
Disposals	–	(0.1)	(0.1)	–	(0.8)	(1.0)
Currency translation differences	1.9	0.2	0.1	–	0.3	2.5
Balance as at 31 December 2021	133.7	10.6	30.3	1.1	75.1	250.8
Amortization and impairment losses						
Balance as at 1 January 2020	–	1.0	20.0	–	29.4	50.4
Amortization for the year	–	0.7	3.2	–	4.4	8.3
Impairment	–	1.9	0.1	–	–	2.0
Disposals	–	–	–	–	–	–
Balance as at 31 December 2020	–	3.6	23.3	–	33.8	60.7
Balance as at 1 January 2021	–	3.6	23.3	–	33.8	60.7
Amortization for the year	–	1.2	1.7	0.0	3.9	6.8
Impairment	–	–	–	–	–	–
Disposals	–	–	(0.0)	–	(0.1)	(0.1)
Balance as at 31 December 2021	–	4.8	25.0	0.0	37.6	67.4
Carrying amounts						
At 1 January 2020	92.6	6.9	4.8	–	11.2	115.5
At 31 December 2020	117.0	5.2	3.5	–	33.4	159.1
At 1 January 2021	117.0	5.2	3.5	–	33.4	159.1
At 31 December 2021	133.7	5.8	5.3	1.1	37.5	183.4

Goodwill has an indefinite estimated useful life. The investments in software during 2021 of EUR 3.5 million (2020: EUR 1.5 million) mainly relates to various software upgrades, including a new global PLM system. The other intangible assets mainly comprise the carrying amount of customer relationships (EUR 36.3 million). These customer relationships were acquired through business combinations. Note that for Cash Flow Statement purposes the amortization of software is added to the line 'Depreciation of property, plant and equipment and software'.

[1] Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

Depreciation and amortization

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

EUR million	2021	2020
Depreciation and amortization	27.8	30.1

The estimated useful life of software is between three and eight years. The estimated useful life of other intangible assets is approximately between eight and nineteen years. The Executive Board reviews at each reporting period the estimated useful lives of each intangible asset with a definite useful life.

Impairment testing for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the Group´s CGUs as follows.

Goodwill EUR million	2021	2020[1]
Business Group - Industrial Actuators and Controls	39.2	23.9
Business Group - Industrial Brakes	33.8	33.8
Business Group - Kendrion Automotive Group	60.7	59.3
	133.7	117.0

Key assumptions and method of quantification

Pursuant to IAS 36, the Group has performed an impairment test with reference to the goodwill allocated to each individual cash-generating unit. This test was carried out by discounting future cash flows (‘value in use’) to be generated from the continuing use of the cash-generating unit to which the goodwill applies and on the assumption of an indefinite life. The Group did not recognise any impairment of goodwill in this reporting period.

The cash flows for the first five years were based on budgets and mid-term plans drawn up by the local management and approved by the Executive Board. For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a terminal growth rate of 1,5% taken into account. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model was also pre-tax. Expansion investments were excluded from the calculations in the residual value. The expected growth in cash flows as a result of these expansion investments was also excluded.

1 Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

Key assumptions used in the calculation of recoverable amounts concern discount rates, terminal value growth rates, EBITDA margin growth and revenue growth. Key assumptions are based on past experience, management assessment of revenue and external sources.

Key assumptions	Pre-tax discount rate		Terminal value growth rate	
	2021	2020	2021	2020
Business Group - Industrial Actuators and Controls	11.0%	10.1%	1.5%	1.5%
Business Group - Industrial Brakes	10.5%	10.1%	1.5%	1.5%
Business Group - Kendrion Automotive Group	10.3%	9.9%	1.5%	1.5%

Discount rate

In determining the pre-tax discount rate, first the post-tax average costs of capital were calculated for all cash generating units containing goodwill. The post-tax rate is based on debt leveraging compared to the market value of equity of 24%. All the post-tax weighted average cost of capital rates of cash generating units amount to approximated 8.3%, and these rates were used for calculating the post-tax cash flows.

Terminal value growth rate

All cash generating units with goodwill have five years of cash flows included in their discounted cash flow models. A long-term growth rate in perpetuity has been assumed on the basis of a growth rate of 1.5%.

Revenue and EBITDA margin

The revenue and EBITDA margin development of the cash generating units are based on the financial budgets for 2022 and the strategic business plans for the 4 years thereafter. The growth rates are based on the expectation of market developments and management's assessment of the project pipeline of the cash generating units. The average annual growth rates in the first 5 years range between 4% and 10% and the development of the EBITDA margin is in line with the long-term group target of at least 15% by 2025. For the period after 2025 a growth rate equal to the expected long-term inflation is taken into account for revenue and EBITDA.

Sensitivity to changes in assumptions

The recoverable amounts of all cash-generating units with goodwill exceed their carrying amounts. Management has carried out an analysis of sensitivity to changes in the key assumptions. Sensitivity analyses are performed based on a change in an assumption while holding other assumptions constant. The following changes in assumptions are assessed:

- Increase of the discount rate (post-tax) by 2.0%;
- Decrease of terminal value growth rate by 1.0%;
- Decrease of average revenues growth by 3.0%;
- Decrease of average EBITDA growth by 10.0%.

Based on the sensitivity analyses performed it is concluded that any reasonable changes in the key assumptions would not require an impairment.

3 Other investments, including derivatives

EUR million	2021	2020
Equity-accounted investee	0.0	2.2
Other	0.4	0.8
	0.4	3.0

The equity-accounted investee related to Kendrion Holding USA Inc.'s share in Newton CFV, Inc. On 3 August 2018 Kendrion Holding USA Inc. acquired 30% of all issued shares in Newton CFV, Inc. The 30% of all issues shares in Newton CFV, Inc. were sold on 17 November 2021 for an amount of EUR 3.3m.

Other investments in 2021 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 2019. In 2020 tax audits started with regard to the assessment periods 2015-2018 with reference to our Northern Germany operating companies (tax assessment up to and 2014 are final) and assessment periods 2015-2018 with respect to our Southern Germany operating companies (tax assessments up to and 2014 are final, which are disputed by the tax authorities).

At 31 December 2021, the tax loss carry forwards amounted to EUR 2.0 million (2020: EUR 3.8 million) (Trade Tax). These are recognised in full, resulting in deferred tax assets of EUR 0.2 million (2020: EUR 0.5 million).

United States of America

Tax assessments have been submitted up to and including 2020. The years 2018 up to 2020 are open for tax audits. At 31 December 2021, the tax loss carry forwards amounted to EUR 9.9 million (2020: EUR 7.9 million) (Corporate Income Tax) and EUR 5.4 million (2020: EUR 4.2 million) (State Tax). These are recognised in full, resulting in deferred tax assets of EUR 2.2 million (2020: EUR 1.7 million).

The Netherlands

Tax assessments have been submitted up to and including 2019. The years 2014 up to 2021 are still open for potential tax audits. At 31 December 2021, the tax loss carry-forwards amounted to EUR 0.9 million (2020: EUR 2.5 million). These are recognised in full, resulting in deferred tax assets of EUR 0.2 million (2020: EUR 0.6 million). These tax loss carry-forwards originated in 2019.

The Dutch corporate income tax rate will change in the near future from 25% to 25,8%. This means that deferred tax positions as per 31 December 2021 are revalued and had a positive impact of EUR 0.0 million on net deferred taxes as per 31 December 2021.

Uncertainty over income tax treatments

In 2016 a tax audit started for the years 2010-2014 for a German fiscal unity. For the outcome of this tax audit a liability was accounted for, amounting to EUR 1.2 million (2020: 4.9 milion), which includes the estimated impact on subsequent years as well as estimated interest expenses. The decrease is partly due to a voluntary payment to limit any subsequent interest charges. The total tax audit liability is compensated by assets totalling to EUR 2.2 million for Mutual Agreement Procedures in the Netherlands, UK and Czech Republic (2020: 2.4 million), effectively leading to a net position of EUR 1.0 million positive (2020: 2.5 million negative), again including the estimated interest expenses.
The best estimate of the impact of the tax audit is based on input received from our tax advisor, the tax audit reports and the most recent case law on the relevant topics

Deferred tax assets and liabilities included in the financial position

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

	Assets[1]		Liabilities		Net	
EUR million	2021	2020	2021	2020	2021	2020
Property, plant and equipment	1.4	1.3	3.3	4.1	(1.9)	(2.8)
Intangible assets	4.8	5.6	13.7	11.2	(8.9)	(5.6)
Inventories	0.2	0.1	0.1	0.3	0.1	(0.2)
Employee benefits	1.4	1.8	0.0	–	1.4	1.8
Provisions	0.0	–	0.0	–	0.0	–
Other items	3.3	2.6	0.6	0.3	2.7	2.3
Tax value of recognised loss carry-forwards	7.2	6.8	–	–	7.2	6.8
Deferred tax assets/liabilities	18.3	18.2	17.7	15.9	0.6	2.3

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.

1 Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

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 zero (2020: EUR 0.1 million).

Movement in temporary differences during the financial year

				2021
Net, EUR million	At 1 January	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(2.8)	0.9	–	(1.9)
Intangible assets	(5.6)	(3.3)	–	(8.9)
Inventories	(0.2)	0.3	–	0.1
Employee benefits	1.8	(0.2)	(0.2)	1.4
Provisions	–	0.0	–	0.0
Other items	2.3	0.4	–	2.7
Tax value of loss carry-forwards used	6.8	0.4	–	7.2
	2.3	(1.5)	(0.2)	0.6

				2020
Net, EUR million	At 1 January	Recognised in profit or loss[1]	Recognised in other comprehensive income	At 31 December[1]
Property, plant and equipment	(3.5)	0.7	–	(2.8)
Intangible assets	(1.9)	(3.7)	–	(5.6)
Inventories	0.0	(0.2)	–	(0.2)
Employee benefits	1.8	0.6	(0.6)	1.8
Provisions	0.4	(0.4)	–	–
Other items	2.9	(0.6)	–	2.3
Tax value of loss carry-forwards used	4.2	2.6	–	6.8
	3.9	(1.0)	(0.6)	2.3

1 Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

5 Contract costs

EUR million	2021	2020
Balance at 1 January	0.6	0.7
Amortization	(0.1)	(0.1)
Balance at 31 December	0.5	0.6

From time to time, the Group acquires contracts with customers, for which costs are made to acquire these contracts. Those costs are recognised as contracts costs. Contract costs are amortised on a systematic basis that is consistent with the Group's transfer of the related goods to the customer.

6 Inventories

EUR million	2021	2020
Raw materials, consumables, technical materials and packing materials	49.4	38.8
Work in progress	15.4	10.9
Finished goods	13.5	10.0
Goods for resale	1.4	2.0
	79.7	61.7

The value of inventory recorded as an expense in 2021 amounts to EUR 230.0m. The inventories are presented after accounting for a provision of EUR 8.6 million (2020: EUR 9.0 million) for obsolescence. In 2021, the release of the write-down to net realisable value of the inventories in earlier years was EUR 1.7 million (2020: EUR 1.7 million write-down). The write-down and reversals are included in Raw material and subcontracted work.

7 Trade and other receivables

EUR million	2021	2020
Trade receivables	56.8	47.2
Other taxes and social security	2.8	2.4
Other receivables	3.7	1.9
Derivatives used for hedging	0.3	0.6
Prepayments	1.7	1.3
	65.3	53.4

The credit and currency risks associated with trade and other receivables are disclosed in note 17, and in the financial risk management paragraph of note r. The provision for doubtful debts amounts to EUR 0.4 million (2020: EUR 0.7 million).

8 Cash and cash equivalents

EUR million	2021	2020
Bank balances	18.6	13.0
Bank overdrafts	(6,1)	(4.5)
Cash and cash equivalents in the statement of cash flows	12.5	8.5

The bank balances include EUR 0.8 million (2020: EUR 0.7 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	
	2021	2020	2021	2020	2021	2020
At 1 January	14,766,481	14,753,533	167,503	180,451	14,933,984	14,933,984
Issued shares (share dividend)	69,634	–	(68,883)	–	751	–
Issued registered shares (share plan)	3,913	2,654	(3,913)	(2,654)	–	–
Delivered shares	1,044	10,294	(1,044)	(10,294)	–	–
At 31 December	14,841,072	14,766,481	93.663	167,503	14,934 735	14,933,984

Issuance of ordinary shares

In 2021, in total 73,547 new shares were issued (2020: 2,654). During 2021, the Company delivered 4,957 shares to the Executive Board and senior management as part of its share plan and remuneration packages (2020: 12,848).

Ordinary shares

The authorised share capital consists of:

EUR million	2021	2020
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2021: 14,933,984 ordinary shares (2020: 14,933,984)	29.9	29.9
Balance at 31 December 2021: 14,934,735 ordinary shares (2020: 14,933,984)	29.9	29.9

Share premium

EUR million	2021	2020
Balance as at 1 January	51.7	51.7
Dividend payment	(5.9)	–
Share premium on issued shares	0.0	–
Balance as at 31 December	45.8	51.7

Translation reserve

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

Hedge reserve

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

The hedge reserve increased by EUR 0.1 million due to the realisation of hedged transactions (2020: EUR 0.2 million increase). The hedge reserve increased by EUR 0.0 million due to valuation effects (2020: EUR 0.0 million increase). There was no hedge ineffectiveness in 2021 (2020: no hedge ineffectiveness).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for issuance of share dividend and the remuneration packages for the Executive Board. On 31 December 2021, the Company held 93,663 of its own shares (2020: 167,503).

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 2021, the result for 2020 was fully transferred to other reserves. Retained earnings in the 2021 financial statements consequently consist solely of the result for 2021.

Dividends

The following dividends were and paid by the Company for the year:

EUR million	2021	2020
0.40 cents per qualifying ordinary share (2020: -)	5.9	-

After the reporting date, the following dividends were proposed by the Executive Board. The dividends have not been recognised as liabilities and there are no tax consequences.

EUR million	2021	2020
0.69 cents per qualifying ordinary share (2020: 0.40 cents)	10.3	5.9

10 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2021 is based on the profit for the period of EUR 14.4 million (2020: EUR 4.3 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2021: 14.816.000 (2020: 14.764.000).

EUR million	2021	2020
Net profit attributable to ordinary shareholders	14.4	4.3

Weighted average number of ordinary shares

In thousands of shares	2021	2020
Issued ordinary shares at 1 January	14,934	14,934
Effect of shares issued as share dividend	1	–
Ordinary shares outstanding at 31 December	14,935	14,934
Weighted average number of ordinary shares entitled to dividend	14,816	14,764
Basic earnings per share (EUR), based on ordinary shares outstanding at 31 December	0,96	0.29
Basic earnings per share (EUR), based on weighted average	0,97	0.29

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2021 is based on the profit of EUR 14.4 million (2020: EUR 4.3 million) attributable to the holders of ordinary shares and the weighted average numbers of shares during the year after adjustment for the effects of all dilutive potential ordinary shares of 14,819,000 (2020: 14,765,000).

EUR million	2021	2020
Net profit attributable to ordinary shareholders	14.4	4.3
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	14.4	4.3

Weighted average number of ordinary shares (diluted)

In thousands of shares	2021	2020
Weighted average number of ordinary shares entitled to dividend	14,816	14,764
Weighted average numbers of ordinary shares (diluted)	14,819	14,765
Basic earnings per share (EUR), based on weighted average (diluted)	0.97	0.29

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	2021	2020
Non-current liabilities		
Bank syndicate loans	120 0	85.0
Lease liabilities	12.5	12.9
Mortgage loans	0.0	0.8
Other loans	3.9	5.5
	136.4	104.2

EUR million	2021	2020
Current liabilities		
Current portion lease liabilities	2.7	2.5
Current portion mortage loans	0.8	0.8
Current portion loans	3.2	4.2
	6.7	7.5

At 31 December 2021, the Group had the following credit lines available:

- EUR 162.5 million revolving Credit Facility with a syndicate of three banks consisting of HSBC, Deutsche Bank and ING Bank. The Credit Facility is committed until 24 July 2023 and includes an option (accordion option) to increase the facility by a maximum of EUR 62.5 million and the possibility to attract additional alternative sources of debt funding;
- EUR 15.2 million in leases for buildings, various equipment and vehicles;
- EUR 7.1 million other loans acquired through business combinations in 2020, with maturities in 2022 – 2026;
- EUR 0.8 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 4.6 million in other overdraft facilities.

At 31 December 2021, the total unutilised amount of the facilities was approximately EUR 40 million.

Banking syndicate credit facility

Pursuant to the terms of the credit facility and the agreed covenant relief with the banking syndicate, the Group has agreed to a financial covenant relating to the leverage ratio (interest bearing debt / EBITDA). In accordance with this covenant, the leverage ratio should remain below 3.25, which can under certain circumstances be temporarily increased to a maximum of 3.75. This covenant is tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 2.3 (2020: 2.3).

Security provided

The Group has provided a mortgage on its premises in Malente, Germany for a EUR 0.8 million loan. A positive pledge is relevant in relation to the EUR 162.5 million revolving Credit Facility.

Interest-rate sensitivity

Interest on the EUR 0.8 million mortgage loan is based on fixed-term interest rates. Interest amounts payable on the EUR 162.5 million revolving Credit Facility are based on short-term interest rate (mainly three months). The other loans of EUR 7.1 million and leases of EUR 15.2 million both have fixed interest rates. See note 17 and accounting policy r for further details.

Lease liabilities

The lease liabilities are payable as follows:

EUR million	2021	2020
< 1 year	2.7	2.5
1 - 5 years	10.7	10.9
> 5 years	1.8	2.0
	15.2	15.4

The lease liabilities mostly relate to leases for various buildings & vehicles.

Buildings

The Group leases properties for its offices and manufacturing facilities. Some lease arrangements contain conditions to revise the rentals based on changes of indices. The leases run for a period between 3 and 15 years. Majority of the leases include an option to renew the lease for an additional period after the contract term. Key assumption as applied by the Group is that all renewal options, which can be exercised within the mid-term plan period of five years and very likely to be exercised, are taken into consideration on top of the non-cancellable period of the lease.

Vehicles and equipment

The Group leases equipment with terms of two to five years. Based on experience the likelihood that these lease arrangements are extended for a substantial period (> three months) is remote. Due to this no periods after the non-cancellable period of the lease are taken into consideration.

12 Employee benefits

EUR million	2021	2020
Present value of unfunded obligations	11.2	12.5
Present value of funded obligations	1.3	1.3
Fair value of plan assets	(0.9)	(0.9)
Recognised net liability for defined benefit obligations	11.6	12.9
Liability for long-service leave and anniversaries	2.4	2.6
Total employee benefits	14.0	15.5

The table shows a reconciliation from the opening to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
EUR million	2021	2020	2021	2020	2021	2020
Balance at 1 January	13.8	17.1	0.9	0.9	12.9	16,2
Included in statement of comprehensive income						
Current service cost	0.1	0.1	–	–	0.1	0.1
Past service cost	–	–	–	–	–	–
Interest cost (income)	0.0	0.1	0.0	0.0	0.0	0.1
	0.1	0.2	0.0	0.0	0.1	0.2
Included in OCI						
Remeasurement loss (gain):						
- Actuarial loss (gain) arising from:						
- Demographic assumptions	0.0	0.0	0.0	0.0	0.0	0.0
- Financial assumptions	(0.4)	0.2	–	–	(0.4)	0.2
- Experience adjustment	(0.2)	(2.5)	–	–	(0.2)	(2.5)
- Return on plan assets excluding interest income	–	–	–	–	–	–
Effect of movements in exchange rates	–	–	–	–	–	–
	(0.6)	(2.3)	0.0	0.0	(0.6)	(2.3)
Other						
Contributions paid by the employer	–	–	–	–	–	–
Benefits paid	(0.8)	(1.2)	(0.0)	(0.0)	(0.8)	(1.2)
	(0.8)	(1.2)	(0.0)	(0.0)	(0.8)	(1.2)
Balance at 31 December	12.5	13.8	0.9	0.9	11.6	12.9

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

The Group contributes to the following post-employment defined benefits plans in several countries, mainly in Germany. Below the characteristics of the major plans are included.

- A direct commitment in the form of capital has been agreed upon with the employees, who directly receive this commitment as an one-off payment upon retirement. An alternative version is a plan where the employees receive monthly payments instead of an one-off payment. The plans are reviewed on periodic basis.
- The DB plan entitles a retired employee to receive a monthly pension payment. The amount of these payments is based on individual contracts with the respective employee. The person has to be employed for a certain time. Each further year of employment the employee receives an amount in addition to the contractual fixed amount.

The defined benefit plans are administered by multiple pension funds which are legally separated from the Group. The board of the pension fund is required to act in the best interest of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk.

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

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

EUR million	2021	2020
Staff costs	0.1	0.1
Net finance costs	0.0	0.1
	0.1	0.2

Principal actuarial assumptions (expressed as weighted averages)

	2021	2020
Discount rate at 31 December	0.7%	0.4%
Future salary increases	1.0%	1.9%
Future pension increases	1.6%	1.6%

Composition plan assets

EUR million	2021	2020
Bonds	0.8	0.8
Equity	0.0	0.0
Real estate	0.0	0.0
Government loans	0.1	0.1
Other	0.0	0.0
Total	0.9	0.9

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Sensitivity analysis

	Defined benefit obligation	
EUR million	Increase	Decrease
Discount rate (0.5 percent)	(0.5)	0.6
Future salary growth (1.0 percent)	0.2	(0.6)
Future pension (1.0 percent)	1.0	(0.8)
Future mortality (1.0 percent)	(0.1)	0.1

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown. The method for preparing the sensitivity analyses did not changed from prior year.

Assumptions regarding future longevity have been based on published statistics and mortality tables.

At 31 December 2021, the weighted-average duration of the defined benefit obligation was 9.1 years (2020: 9.5 years). The expected payment for 2022 amounts to EUR 1.8 million (2020: EUR 1.2 million).

Liabilities arising from employee benefits

The pension plans included defined contribution plans as well as defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Calculations are made by qualified actuaries. The pension liability shown in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate methodology for accounting long-term employee benefits in accordance with IAS 19 is determined by the Executive Board. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The discount rate used to calculate the defined benefit obligation is based on the yield on 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 2021 relates to post employment arrangements in Germany, with a small part in Austria. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group companies is reinsured. All pension arrangements accounted for as defined benefit obligations are not open for new participants (< 15% active participants).

Liabilities arising from employee benefits also include liabilities relating to long-service, early retirement and service anniversaries of EUR 2.4 million (2020: EUR 2.6 million) in Germany and Austria.

13 Share-based payments

At 31 December 2021, the Group had the following share-based payment arrangements.

Share plan for the Executive Board (equity settled)

Details of the remuneration of the Executive Board are provided in note 29.

Share plan for the Management and Leadership Team (equity settled)

In 2021, 36,036 conditional performance shares were granted to the Management Team (2020: 28,380). In 2021 a new share plan was introduced under which 42,176 conditional performance shares were granted to the Leadership Team. The conditional performance shares granted in 2021 to the Management Team and Leadership Team will vest upon achievement of performance measured over a three-year period (2021-2023). The number of conditional shares granted is calculated on the basis of the average share price during Q4 2020, which amounts to EUR 16.30.

Loyalty bonus (equity settled)

Until 2018, the Company maintained a share incentive scheme. This plan was discontinued. Expenses recognized in proft or loss for this plan amount to EUR 0.0 million (2020: EUR 0.1 million).

14 Provisions

EUR million	2021	2020
Balance at 1 January	2.2	1.4
Provisions made during the period	0.5	2.2
Provisions transferred/used during the period	(0.6)	(1.4)
Provisions released during the period	(0.0)	(0.0)
Balance at 31 December	2.1	2.2
Non-current portion	0.9	0.7

The provisions consist of a restructuring provision of EUR 0.5 million (2020: EUR 0.5 million) and a provision for the interest portion of the tax audits of EUR 0.7 million (2020: EUR 0.8 million). The remainder of the restructuring provision is expected to be used in the course of 2022, however the exact timing is not known yet. The amounts and timing of the outflows related to the tax audits are still uncertain.

15 Contract liabilities

EUR million	2021	2020
Balance at 1 January	5.5	6.6
Consideration received	–	–
Recognised as revenue in the period	(1.0)	(1.1)
Other changes	–	–
Balance at 31 December	4.5	5.5

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 amortization of related equipment.

16 Trade and other payables

EUR million	2021	2020
Trade payables	51.6	44.0
Other taxes and social security contributions	1.5	2.8
Derivatives used for hedging	0.1	0.2
Non-trade payables	6.5	5.6
Accrued expenses	14.6	12.6
	74.3	65.2

Accrued expenses relate to numerous other liabilities such as personnel-related liabilities (holiday allowance, bonus accruals, vacation days), prepayments and other invoices that are expected but not yet received. Non-trade payables relate to all other payables.

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	2021	2020
Cash and cash equivalents	18.6	13.0
Other long-term investments	0.4	3.0
Current income tax	2.7	1.4
Trade and other receivables	65.3	53.4
Total	87.0	70.8

Impairment losses

Aging analysis of the trade and other receivables

	2021		2020	
EUR million	Gross	Provision	Gross	Provision
Within the term of payment	56.2	–	41.5	–
0 – 30 days due	6.5	–	8.0	–
31 – 60 days due	1.7	–	1.8	–
> 60 days due	1.3	(0.4)	2.8	(0.7)
Total trade and other receivables	65.7	(0.4)	54.1	(0.7)

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 2021 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 2021 are collectible. This system is in line with the cash shortfall model as described in IFRS 9. EUR 3.0 million of trade receivables are more as 30 days overdue, of which EUR 0.4 million is provided for. The Group has written off EUR 0.2 million receivables in 2021 (2020: EUR 0.3 million), which are recognised under other operating expenses in the statement of comprehensive income.

The customer with the largest trade receivables outstanding accounted for 7% of the trade and other receivables at 31 December 2021 (2020: 4%). The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

Credit risk rating grades

The credit quality of the Group's financial assets, contract assets and financial guarantee contracts, as well as the Group's maximum exposure to credit risk by credit risk rating grades on the reporting date was as follows:

31 December 2021							2021
	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[1]	Lifetime ECL	57.2	(0.4)	56.8
Contract costs	5	N/A	Low risk	Lifetime ECL	0.5	–	0.5
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	–	–	–
Other investments	3	N/A	Low risk	Lifetime ECL	0.4	–	0.4
					58.1	(0.4)	57.7

31 December 2020							2020
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk[1]	Lifetime ECL	47.9	(0.7)	47.2
Contract costs	5	N/A	Low risk	Lifetime ECL	0.6	–	0.6
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	2.3	–	2.3
Other investments	3	N/A	Low risk	Lifetime ECL	0.8	–	0.8
					51.6	(0.7)	50.9

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.

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

1 Amongst the trade receivables there are a number of items that are considered doubtful

31 December 2021 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	120.0	(123.0)	(1.0)	(1.0)	(121.0)	–	–
Lease liabilities	15.2	(17.1)	(1.6)	(1.4)	(4.7)	(5.9)	(3.5)
Bank overdrafts	6.1	(6.1)	(6.1)	–	–	–	–
Other loans and borrowings	7.9	(8.1)	(1.3)	(1.3)	(3.1)	(2.4)	–
Trade and other payables	78.8	(78.8)	(78.8)	–	–	–	–
Tax liabilities	6.0	(6.0)	(6.0)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.1	(0.1)	(0.1)	(0.0)	(0.0)	–	–
Forward exchange contracts	0.1	(0.1)	(0.1)	(0.0)	–	–	–
Total	234.2	(239.3)	(95.0)	(3.7)	(128.8)	(8.3)	(3.5)

31 December 2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Non-derivative financial liabilities							
Bank syndicate loans	85.0	(88.5)	(0.7)	(0.7)	(1.4)	(85.7)	–
Lease liabilities	15.4	(17.3)	(1.4)	(1.4)	(2.8)	(8.2)	(3.5)
Bank overdrafts	4.5	(4.5)	(4.5)	–	–	–	–
Other loans and borrowings	11.3	(11.6)	(3.8)	(1.3)	(2.5)	(3.4)	(0.6)
Trade and other payables	70.7	(70.7)	(70.7)	–	–	–	–
Tax liabilities	5.2	(5.2)	(5.2)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.2	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	192.3	(198.1)	(86.4)	(3.5)	(6.8)	(97.3)	(4.1)

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.

2021 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)	(0.1)	(0.0)	(0.0)	–	–
Forward exchange contracts							
Assets	0.3	0.3	0.2	0.1	–	–	–
Liabilities	(0.1)	(0.1)	(0.1)	(0.0)	–	–	–
Total	0.1	0.1	0.0	0.1	(0.0)	–	–

2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.3	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	–	–	–	–
Total	0.2	0.1	0.2	–	(0.1)	(0.0)	–

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.

2021 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)	(0.1)	(0.0)	(0.0)	–	–
Forward exchange contracts							
Assets	0.3	0.3	0.2	0.1	–	–	–
Liabilities	(0.1)	(0.1)	(0.1)	(0.0)	–	–	–
Total	0.1	0.1	0.0	0.1	(0.0)	–	–

2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.3	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	–	–	–	–
Total	0.2	0.1	0.2	–	(0.1)	(0.0)	–

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 60 million (2020: EUR 75 million). The aggregate fair value of the outstanding interest rate swaps at 31 December 2021 was EUR 0.1 million negative (2020: EUR 0.2 million negative).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. The majority of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalises the nominal interest rate. The EUR 0.8 million mortgage loan was acquired through business combinations in 2013 and initially recorded at fair value. The effective interest rate of the loan is 3.7%. Other loans are not provided at an upcount or discount and no incremental transaction costs were incurred when the loans were drawn.

The other loans were acquired through business combinations in 2020 and initially recorded at fair value.

				2021		2020	
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	IBOR + 1.6%	2023	120.0	120	85.0	85.0
Mortgage loan	EUR	6.4%	2022	0.8	0.8	1.6	1.6
Other loans	EUR	1.4-1.8%	2022-2026	7.1	7.1	9.7	9.7
Bank overdrafts China	CNY	PBOC +1.0%	2022	2.2	2.2	2.1	2.1
Bank overdrafts - other	Various	IBOR + 0.8-1.6%	2022	3.9	3.9	2.3	2.4
Lease liabilities	Various	2.0% - 7.8%	Various	15.2	15.2	15.5	15.4
Total interest-bearing debt				149.2	149.2	116.2	116.2

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 2021 would not have had a material effect on the 2021 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 67.9 million of the EUR 134.0 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 2022, will have an increasing effect on interest expenses in 2022 of maximum EUR 0.7 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was EUR 0.2 million positive at 31 December 2021 (2020: positive EUR 0.4 million).
A 10%-point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2021 and the result for 2021 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 2021	Equity	Result
US dollar	4.8	0.3
Czech koruna	0.9	(0.1)
Chinese yuan	3.8	(0.0)
Romanian lei	1.5	(0.1)
Indian rupee	0.4	0.2

31 December 2020	Equity	Result
US dollar	4.3	0.3
Czech koruna	0.9	(0.2)
Chinese yuan	2.9	0.7
Romanian lei	1.5	0.1
Indian rupee	0.4	0.1

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2021	At 31 December 2020	Average over 2021
Pound sterling	0,8403	0.8990	0,8613
Czech koruna	24,8583	26.2419	25,6885
Chinese yuan	7,1947	8.0225	7,6318
US dollar	1,1326	1.2271	1,1843
Romanian lei	4,9490	4.8683	4,9206
Swedish krona	10,2503	10.0343	10,1461
Indian rupee	84,2318	89,6620	87,4585

Fair values of financial instruments

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

	2021		2020	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Receivables (including current tax assets)	68.0	68.0	54.8	54.8
Cash and cash equivalents	18.6	18.6	13.0	13.0
Held to maturity investments	0.4	0.4	3.0	3.0
	87.0	87.0	70.8	70.8

EUR million	2021 Carrying amount	2021 Fair value	2020 Carrying amount	2020 Fair value
Liabilities carried at amortised costs				
Banking syndicate loans	(120.0)	(120.0)	(85.0)	(85.0)
Mortgage loan	(0.8)	(0.8)	(1.6)	(1.6)
Other loans	(7.1)	(7.1)	(9.7)	(9.7)
Lease liabilities	(15.2)	(15.2)	(15.4)	(15.4)
Bank overdraft	(6.1)	(6.1)	(4.5)	(4.5)
Trade and other payables (including current tax liabilities)	(84.8)	(84.8)	(75.9)	(75.9)
	(234.0)	(234.0)	(193.6)	(193.6)
Liabilities carried at fair value				
Interest derivatives	(0.1)	(0.1)	(0.2)	(0.2)
Forward exchange contracts	–	–	–	–
	(0.1)	(0.1)	(0.2)	(0.2)

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

Interest rate used in measuring fair value

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

	2021	2020
Derivatives	0.0%	0.0%
Leases	1.6%	1.7%
Banking syndicate loans	1.6%	1.7%
Mortgage loans	1.6%	1.2%
Other loans	1.6%	1.2%

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 2021				
Derivative contracts used for hedging	–	0,1	–	0,1
Total	–	0,1	–	0,1
31 December 2020				
Derivative contracts used for hedging	–	0.2	–	0.2
Total	–	0.2	–	0.2

Master netting

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

18 Leases

The group leases buildings, cars, office equipment and forklifts. The lease term varies between 3 to 15 years. For buildings an option to renew the lease after the lease period is customary. Information about leases for which the Group is a lessee is presented on several places throughout the financial statement:

- total cash outflow for leases is included in the consolidated statement of cash flows for repayments of lease liabilities (EUR 3.4 million (2020: EUR 2.9 million)) and in note 26 for interest (EUR 0.7 million (2020: EUR 0.6 million));
- the carrying amount of right-of-use assets at the end of the reporting period by class of underlying assets, addition to these assets and
- the depreciation charge for these assets are included in note 1;
- interest expense on lease liabilities are included in note 25;
- expenses relating to short-term leases or low-value assets amount to EUR 0.3 million (2020: 0.2 million).

19 Capital commitments

As at 31 December 2021 the Group had capital commitments totalling to EUR 7.5 million (2020: EUR 5.4 million).

20 Contingent assets and liabilities

Contingent liabilties

The Group had guarantees in particular with regard to rentals, financing facilities and post employee benefits totalling to EUR 1.1 million (2020: EUR 1.6 million).

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

21 Operating segments

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

Geographical segments based on physical location of the Group operating companies

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

	Germany		Other European countries		Asia[1]	
EUR million	2021	2020[2]	2021	2020	2021	2020
Revenue from transactions with third parties	262.8	219.4	107.9	90.3	49.4	46.8
Other non-current assets [2]	206.8	210.9	60.9	33.9	19.6	16.4
Deferred tax assets [2]	5.8	8.3	4.6	4.7	4.1	2.1
Net liability for defined benefit obligations	10.9	12.2	0.7	0.7	–	–

	The Americas		Consolidated	
EUR million	2021	2020	2021	2020[2]
Revenue from transactions with third parties	43.9	39.9	464.0	396.4
Other non-current assets	18.9	20.2	306.2	281.4
Deferred tax assets	3.8	3.1	18.3	18.2
Net liability for defined benefit obligations	–	–	11.6	12.9

[1] Mainly related to China

[2] Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

Revenue segmented by customer location

EUR million	2021	2020
Germany	181.2	155.7
Other European countries	138.9	117.6
Asia	67.7	63.0
The Americas	73.9	58.0
Other countries	2.3	2.1
Total	464.0	396.4

Information about reportable segments

Kendrion has split all activities over two segments: Automotive and Industrial. Based on the structure of the Group and the criteria of IFRS 8 – Operating segments, Kendrion has concluded that within this structure the Kendrion business units are the operating segments within the Group. Based on the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. The automotive activities focus on developing and manufacturing innovative high-quality electromagnetic components, solutions and applications for customers in the automotive industry. The industrial activities of the business units Industrial Brakes and Industrial Actuators and Controls focus on developing and manufacturing electromagnetic systems and components for industrial applications. These business units also have similar economic characteristics and display a number of similarities with respect to their technology, production processes, equipment and customers.

	Industrial		Automotive		Consolidated	
EUR million	2021	2020	2021	2020	2021	2020
Revenue from transactions with third parties	231.5	190.3	232.5	206.1	464.0	396.4
Inter-segment revenue	0.1	0.0	0.1	0.1	0.2	0.1
EBITDA	37.4	26.3	14.3	13.9	51.7	40.2
EBITDA as a % of revenue	16.2%	13.8%	6.1%	6.7%	11,1%	10.1%
EBITDA[1]	39.0	29.1	16.8	15.5	55.8	44.6
EBITDA as a % of revenue[1]	16.8%	15.3%	7.2%	7.5%	12.0%	11.3%
Reportable segment assets	267.3	219.6	223.5	209.5	490.8	429.1
Reportable segment employees (FTE)	1,261	1,058	1,467	1,398	2,728	2,456

1 Normalized for non-recurring costs of EUR 4.1 million for FY 2021 and of EUR 4.4 million for FY 2020. Refer to page 38 for a reconciliation of the non-IFRS financial measures..

Disaggregation revenue

EUR million	2021	2020
Serial revenue	453.7	391.1
Revenue from engineering and samples	10.3	5.3
Total	464.0	396.4

Major customers

Three customers (Volkswagen and ThyssenKrupp Bilstein in Automotive and Siemens in Industrial) individually account for more than 5% of the company's total revenue.

22 Business combinations and acquisitions of non-controlling interests

2021

Business combinations

On 21 September 2021 Kendrion announced that it has entered into a definitive agreement to acquire 100% of the shares of Twente Technology Solutions BV (TTS), who is the 100% shareholder of 3T BV (3T). The transaction was successfully completed on that same day, which also marks the date that Kendrion got control over TTS. From that date onwards the financial statements of TTS and 3T are consolidated by Kendrion and reporting in the Industrial segment. TTS/3T were included in the Business Group Industrial Actuators and Controls (IAC).

3T is an established, specialist developer, manufacturer, distributor, and provider of lifecycle management services for client-specific electronics and embedded systems. With facilities in Enschede and Eindhoven, 3T employs some 80 FTE, and realizes around EUR 12 million in annual profitable revenues. It offers a strong strategic fit with the control technology activities of Kendrion's Business Group Industrial Actuators and Controls.

In addition, 3T's extensive experience in software and electronics development is expected to be strategically important for Kendrion's Automotive Group, where the increasing content of leading-edge electronic components in passenger cars and commercial vehicles, offers a significant growth opportunity.

3T's highly skilled employees and proximity to leading technical universities and other institutions of higher technical education, enhance Kendrion's ability to further build and manage a talented team of software and electronics developers.

From 21 September 2021, TTS/3T contributed revenue of EUR 3.4 million to the Group's results. Its contribution to net profit during this period amounted to EUR 0.2 million after deduction of the charges relating to the purchase price allocation.

Consideration transferred

The total consideration transferred amounted to EUR 23.2 million.

Identifiable assets acquired and liabilities assumed
The table on the next page shows the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amount	Fair value adjustments	Recognised value
Intangible fixed assets	–	8.4	8.4
Property, plant and equipment	2.3	–	2.3
Inventories and Work-in-progress	1.4	–	1.4
Trade and other receivables	2.3	–	2.3
Cash and cash equivalents	0.5	–	0.5
Deferred tax liabilities	–	(2.1)	(2.1)
Provisions	(0.2)	–	(0.2)
Loans and borrowings	(2.5)	–	(2.5)
Trade and other payables	(1.7)	–	(1.7)
Total identifiable net assets	2.1	6.3	8.3

Goodwill
Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	23.2
Fair value of identifiable net assets	(8.3)
Goodwill	14.8

The goodwill is mainly attributable to the assembled workforce, synergies expected to be achieved from the strong strategic fit with control technology activities of IAC and increased access to software and electronics competence relevant for the Kendrion Automotive Group and the value attributable to future customers.

Acquisition related costs
The group incurred acquisition-related costs of EUR 0.2 million related to advisory fees, legal fees and due diligence costs. The costs have been included in other operating expenses in the statement of comprehensive income.

2020

On 5 November 2019 Kendrion announced that it entered into a definitive agreement to acquire 100% of the shares of the company INTORQ GmbH & Co. KG (hereinafter: INTORQ). This transaction was successfully completed on 8 January 2020, which also marks the date that Kendrion obtained control over INTORQ. From that date onwards the financial statements of INTORQ and its subsidiaries are consolidated by Kendrion and reporting in the Industrial segment. And as from 1 April onwards, INTORQ and IDS were included in a newly formed business unit Industrial Brakes (IB).

INTORQ manufactures spring-applied brakes and electromagnetic brakes and clutches for electrical drive technologies. INTORQ products are used in a diverse range of applications, including geared and servomotors, electric forklifts, wind turbines, cranes, hoists, elevators and escalators. INTORQ has production sites in Aerzen (Germany), Shanghai (China), Atlanta (the U.S.) and Pune (India) and produces approximately 1 million brakes and clutches per year. In 2019, INTORQ had annual revenues of around EUR 55 million and nearly 300 employees.
With its strong position in and deep knowledge of the spring-applied brake technology, proven product portfolio and successful and sizeable presence in Shanghai and Aerzen, INTORQ complements Kendrion's business unit Industrial Drive Systems (IDS) that has a strong position and broad product portfolio in permanent magnet brake technology. Both INTORQ and Kendrion are well-positioned to profit from growing end markets. The combination with INTORQ, creates a leading industrial brake company with a full range of high-quality industrial brakes in an expanded number of growth markets in Europe, China, the U.S. and India. Specific shared end-markets include electric motors, wind power and elevators. Complimentary markets include geared motors, forklifts, cranes and hoists.

From 8 January 2020, INTORQ contributed revenue of EUR 54 million to the Group's results. Its contribution to net profit during this period amounted to EUR 3.2 million after deduction of the charges relating to the purchase price allocation. Management considers the revenue and contribution to net profit in the period 1 January 2020 until 8 January 2020 neglectable.

Consideration transferred

The total consideration transferred amounted to EUR 64.8 million. This includes an amount of EUR 0.4 million which is payable as per 31 December 2021.

Identifiable assets acquired and liabilities assumed

The table on the next page shows the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amount	Fair value adjustments[1]	Recognised value[1]
Intangible fixed assets	0.5	26.3	26.8
Property, plant and equipment	15.9	–	15.9
Deferred tax assets	0.3	3.5	3.8
Inventories	14.4	–	14.4
Trade and other receivables	7.3	–	7.3
Cash and cash equivalents	4.3	–	4.3
Deferred tax liabilities	(0.6)	(7.4)	(8.0)
Provisions	(0.1)	–	(0.1)
Loans and borrowings	(18.5)	–	(18.5)
Trade and other payables	(7.8)	–	(7.8)
Total identifiable net assets	15.7	22.4	38.1

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	64.8
Fair value of identifiable net assets[1]	(38.1)
Goodwill	26.7

The goodwill is mainly attributable to the assembled workforce, synergies expected to be achieved from tangible and well-identified cost savings including the integration of selected manufacturing sites in Europe, China and the U.S. and the value attributable to future customers.

Acquisition related costs

The group incurred acquisition-related costs of EUR 1.8 million related to advisory fees, legal fees and due diligence costs. Of these costs, EUR 1.2 million were recognised in 2019 and EUR 0.6 million in 2020. The costs have been included in other operating expenses in the statement of comprehensive income.

1 Restated 2020 due to retrospective correction of tax positions related to acquisition of INTORQ GmbH & Co KG.

Post acquisition

On 4 September 2020, Kendrion (Aerzen) GmbH merged with INTORQ GmbH & Co. KG (now Kendrion INTORQ GmbH) via a legal merger. Kendrion (Aerzen) GmbH was part of the business unit Industrial Brakes and was situated in Aerzen, Germaby. The merger was part of the INTORQ integration plan. As a result of the merger Kendrion (Aerzen) GmbH seized to exist.

23 Other income

EUR million	2021	2020
Net gain on disposal of property, plant and equipment	0.0	0.0
Other	0.2	0.3
	0.2	0.3

24 Staff costs

EUR million	2021	2020
Wages and salaries	107.3	96.4
Social security charges	18.9	17.7
Temporary personnel	8.2	2.2
Contributions to defined contribution plans	0.6	0.5
Expenses related to defined benefit plans	0.1	0.1
Increase in liability for long-service leave	0.1	0.1
Other costs of personnel	2.9	2.5
	138.1	119.5
Total number of employees and temporary workers at 31 December (FTE)	2,728	2,456

The number of employees and temporary workers at 31 December 2021 (FTE) working in the Netherlands is 92 (2020: 15). The staff costs 2021 include EUR 1.4 million one-off costs related to the restructuring measures (2020: EUR 1.5 million). The staff costs 2021 included EUR - short-time work compensation for social security charges, from Governments in multiple countries (2020: EUR 1.1 million).

25 Other operating expenses

EUR million	2021	2020
Increase in provision for doubtful debts	0.2	0.3
Premises costs	6.1	5.6
Maintenance expenses	9.4	6.1
Transport expenses	2.1	2.0
Consultancy expenses	8.3	6.9
Sales and promotion expenses	0.9	0.9
Car, travel and representation costs	1.7	1.4
Insurance	2.1	2.3
Impairment of fixed assets	3.5	2.4
Other	1.7	3.4
	36.0	31.3

The other operating expenses 2021 include EUR 2.7 million related to one-off costs (2020: EUR 2.9 million). Furthermore, the other operating expenses includes an amount of EUR 1.1 million relating to a previous year adjustment. Finally, the impairment of machinery and equipment related to the cancellation of an automotive project. Technical analysis of the equipment has revealed limited re-use for the group. Discussions with the customer for compensation are continuing. The impairment charge is recorded as part of the other operating expenses.
Research & Development expenses (including staff and other operating expenses) for 2021 totalled EUR 32.6 million (2020: EUR 28.9 million) of which EUR 1.1 million is capitalised (2020: EUR 0.7 million).

26 Net finance costs

EUR million	2021	2020
Interest income	0.0	0.0
Net exchange gain	–	–
Finance income	0.0	0.0
Interest expenses	(2.9)	(2.8)
Interest expenses related to lease liabilities	(0.7)	(0.6)
Interest expenses related to employee benefits	(0.0)	(0.1)
Net exchange loss	(0.1)	(0.6)
Finance expense	(3.7)	(4.1)
Net financing costs	(3.7)	(4.1)

The interest expenses 2021 include EUR (0.0) million one-off costs related to the impact of tax audits (2020: EUR 0.6 million).

27 Income tax

EUR million	2021	2020
Current tax charge on year under review	(5.7)	(1.4)
Total corporation tax expenses in the income statement	(5.7)	(1.4)

The current year tax expense includes an amount of EUR 0.4 million relating to a previous year adjustment.

28 Reconciliation of effective tax rate

	Reconciliation effective tax rate		Reconciliation in EUR million	
	2021	2020	2021	2020
Profit before income tax			20.1	5.7
Income tax expense at local corporation tax rate	25.0%	25.0%	5.0	1.4
Non-deductible expenses	2.1%	16.0%	0.4	0.9
Effect of tax rates in foreign jurisdictions	0.6%	(3.9)%	0.1	(0.2)
Tax exempt income	(0.7)%	(0.3)%	(0.1)	(0.0)
Changes in estimates related to prior years	2.7%	(18.4)%	0.6	(1.0)
Current-year losses for which no deferred tax asset is recognised	–	–	–	–
Additional deductible items	(0.5)%	1.4%	(0.1)	0.1
Other movements	(0.9)%	4.8%	(0.2)	0.2
	28.3%	24.6%	5.7	1.4

29 Related parties

Identity of related parties

A related-party relationship exists between the Company and its subsidiaries, their managers and executives. The Company has a number of agreements with its subsidiaries relating to the charging of central costs to and from the business units, including management, development, information technology and marketing costs, as well as agreements in respect of Group financing and use of intellectual property. Internal supplies are also obtained within the business units. Intercompany transactions are effectuated at arm's length market prices. As all subsidiaries are fully consolidated and reflected in these financial statements, the amounts of these transactions are not further specified. For a list of the subsidiaries, see pages 202-203.

Compensations of key management personnel

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

EUR thousand	2021	2020
Short-term benefits	1,656.1	1,453.7
Post-employment benefits	141.0	133.8
Other long-term benefits	–	–
Share-based payments	272.2	120.7
Termination benefits	–	–
	2,069.3	1,708.2

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 91-106.

The CEO will, based on this performance, receive a variable remuneration of 78% of his gross fixed remuneration. The CEO's gross variable remuneration amounts to EUR 429,000 (2020: EUR 358,600) which will be paid in cash.
The CFO will, based on this performance, receive a variable remuneration of 45.5% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 141,409 (2020: EUR 102,965) which will be paid in cash.

Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual fixed gross base salary for the CEO and 50% of the annual fixed gross salary of the CFO. This shareholding has to be gradually built up with performance shares earned under the long-term share incentive, subject to the sell-to-cover concept as prescribed by the 'Share ownership guideline'.

The amount charged to the profit or loss regarding the long-term variable remuneration policy was EUR 272,200 (2020: EUR 120,780).

The vesting and holding periods for (conditional) shares awarded to the CEO are specified as follows:

CEO (J.A.J. van Beurden)	Number of shares	Expiry vesting period	Expiry holding period
2021	20,245	Expiry performance period 2021-2023	End of 2025
2020	16,533	Expiry performance period 2020-2022	End of 2024
2019	11,559	Expiry performance period 2019-2021	End of 2023
2018	6,960	Expiry performance period 2018-2020	End of 2022
2017[1]	3,383	End of 2019	End of 2021
2016[1]	3,970	End of 2018	End of 2020

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

CFO (J.H. Hemmen)	Number of shares	Expiry vesting period	Expiry holding period
2021	9.533	Expiry performance period 2021-2023	End of 2025
2020	6,769	Expiry performance period 2020-2022	End of 2024
2019	2,409	Expiry performance period 2019-2021	End of 2023
2018			
2017	Not applicable – effective date of appointment to the Executive Board 1 July 2019		
2016			

Pensions

The Executive Board participates in the defined contribution plan of the Company. For 2021, the contribution to the pension insurer was EUR 36,226 (2020: EUR 31,949) for the CEO and EUR 26,364 (2020: EUR 25,905) for the CFO.

Transactions with shareholders

There were no transactions with shareholders.

Other related party transactions

As part of the INTORQ acquisition Kendrion also acquired a Related Party loan. The loan originally amounted to EUR 0.4 million, runs until June 2027 and has an interest percentage of 2%. As per 31 December 2021 the remaining outstanding amount is EUR 0.2 million (2020: 0.2 million). The loan is not secured.

30 Other notes

The subsidiary Kendrion Holding Germany GmbH, Markdorf, 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 2020 were not published. A complete list of all subsidiaries is available from the Amtsgericht in Freiburg im Breisgau (number HRB 704749) and from the Company offices. The following German legal entities are consolidated in these consolidated financial statements: Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH, Kendrion (Markdorf) GmbH, Kendrion (Aerzen) GmbH, Kendrion Kuhnke GmbH, Kendrion Kuhnke Automation GmbH, Kendrion Kuhnke Automotive GmbH, Kendrion FAS Controls Holding GmbH, Kendrion INTORQ GmbH, INTORQ Beteiligungs-GmbH, Kendrion IP Management GmbH and Ochrea Grundstücksverwaltungsgesellschaft mbh & Co Vermietungs KG.
The subsidiary Kendrion (UK) Ltd. (registration number 1124810), Bradford, United Kingdom included in these consolidated financial statements is exempt from the requirements of section 479A (audit of accounts) of the Companies Act 2006.

31 Post-balance sheet events

There were no post/balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2021.

COMPANY BALANCE SHEET AT 31 DECEMBER

(before profit appropriation)

Note	EUR million	2021	2020
	Fixed assets		
	Property, plant and equipment	0.7	0.8
	Intangible assets	0.1	0.0
	Other investments, including derivatives	0.3	0.7
1.3	Financial fixed assets	259.5	234.9
	Total non-current assets	**260.6**	**236.4**
	Current assets		
1.4	Receivables	0.5	1.0
	Cash and cash equivalents	0.0	0.0
	Total current assets	**0.5**	**1.0**
	Total assets	**261.1**	**237.4**
1.5	**Equity**		
	Share capital	29.9	29.9
	Share premium	45.8	51.7
	Legal reserves	13.6	5.1
	Other reserves	119.3	112.4
	Retained earnings	14.4	4.3
	Total equity	**223.0**	**203.4**
1.6	**Current liabilities**		
	Loans and borrowings	36.3	32.0
	Payables	1.8	2.0
	Total current liabilities	**38.1**	**34.0**
	Total equity and liabilities	**261.1**	**237.4**

COMPANY INCOME STATEMENT

Note	EUR million	2021	2020
	Revenue	–	–
1.8	Other income	5.4	3.8
	Total revenue and other income	**5.4**	**3.8**
1.9	Staff costs	4.6	3.4
	Depreciation and amortization	0.1	0.1
	Other operating expenses	1.3	1.2
	Result before net finance costs	**(0.6)**	**(0.9)**
	Finance income	0.1	0.1
	Finance expense	(1.4)	(1.0)
	Profit before income tax	**(1.9)**	**(1.8)**
	Income tax expense	0.1	1.6
	Profit for the period	**(1.8)**	**(0.2)**
1.10	Share in results of Group companies after tax	16.2	4.5
1.11	**Net profit**	**14.4**	**4.3**

1 Notes to the company financial statements

1.1 General

The Company financial statements are part of the 2021 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 2021	Total 2020
Carrying amount at 1 January	232.8	–	2.1	234.9	232.4
Results of Group companies	16.2	–	–	16.2	4.5
Movements in loans and borrowings	–	–	–	–	–
Movements in deferred tax assets	–	–	0.0	0.0	1.6
Foreign currency translation differences for foreign operations	7.8	–	–	7.8	(5.5)
Other movements	0.6	–	–	0.6	1.9
Carrying amount at 31 December	257.4	–	2.1	259.5	234.9

1.4 Receivables

EUR million	2021	2020
Receivables from Group companies	0.2	0.4
Prepayments and accrued income	0.3	0.6
	0.5	1.0

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 2021	Total 2020
Restated balance at 1 January	29.9	51.7	(0.2)	0.1	5.2	(3.4)	115.8	4.3	203.4	202.6
Appropriation of retained earnings	–	–	–	–	–	–	4.3	(4.3)	–	–
Foreign currency translation differences for foreign operations	–	–	7.8	–	–	–	–	–	7.8	(5.5)
Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.1	–	–	–	–	0.1	0.2
Issue of ordinary shares	0.0	0.0	–	–	–	–	–	–	0.0	–
Own shares sold	–	–	–	–	–	1.4	0.2	–	1.6	–
Share-based payment transactions	–	–	–	–	–	0.1	1.0	–	1.1	0.2
Dividends to equity holders	–	(5.9)	–	–	–	–	–	–	(5.9)	–
Other	–	–	–	–	0.6	–	(0.1)	–	0.5	1.6
Total recognised income and expenses	–	–	–	–	–	–	–	14.4	14.4	4.3
Balance at 31 December	29.9	45.8	7.6	0.2	5.8	(1.9)	121.2	14.4	223.0	203.4

1.5.1 Share capital

The authorised capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 14,934,735 ordinary shares have been issued (2020: 14,933,984).

1.5.2 Share premium

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

1.5.3 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries 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 2021, the Company held 93,663 of its own shares (2020: 167,503).

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 2021, the full result for 2020 was included in other reserves. Retained earnings consequently consist solely of the result for 2021.

1.6 Current liabilities

EUR million	2021	2020
Debts to Group companies	35.7	31.3
Lease liability	0.6	0.7
Trade payables	0.5	0.3
Other payables and accrued expenses	1.3	1.7
	38.1	34.0

1.7 Financial instruments

See note 17 to the consolidated financial statements for details on financial instruments.

1.8 Other income

EUR million	2021	2020
Management fee	5.4	3.8
Other	–	–
	5.4	3.8

1.9 Staff costs

EUR million	2021	2020
Wages and salaries	3.8	2.8
Social security charge	0.2	0.1
Pension costs	0.4	0.4
Other costs of personnel	0.2	0.1
	4.6	3.4
Total number of employees and temporary workers at 31 December (FTE)	16	15

The Company has only defined contribution plans for its employees.

1.10 Share in results of Group companies after tax

EUR 1.5M of costs are included in this year's result of group companies related to prior years.

1.11 Profit appropriation

Appropriation of net profit

EUR million	2021	2020
Net profit	14.4	4.3

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 14.4 million will be added to the other reserves.

1.12 Commitments not appearing on the balance sheet

1.12.1 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;
- Twente Technology Solutions B.V., Enschede;
- 3T B.V., Enschede.

Kendrion NV has a guarantee which relates to the rent of the office in Amsterdam totalling to EUR 0.0 million.

1.12.2 Fiscal unity

The Company and its Dutch subsidiaries excluding Landfort II B.V., Kendrion Marketing B.V., Twente Technology B.V. and 3T 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.

1.13 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 2021.

1.14 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 2021 and 2020 to the Company, its subsidiaries and other consolidated entities:

EUR thousand	2021 Deloitte Accountants B.V.	2021 Other Deloitte member firms and affiliates	2021 Total Deloitte	2020 Deloitte Accountants B.V.	2020 Other Deloitte member firms and affiliates	2020 Total Deloitte
Audit of financial statements	300.3	342.0	642.3	256.8	347.3	604.1
Other assurance services	33.2	–	33.2	30.1	–	30.1
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	–	–	–
Total	333.5	342.0	675.5	286.9	347.3	634.2

1.15 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 1,897,300 (2020: EUR 1,538,300). This remuneration is as follows:

EUR thousand	2021 J.A.J. van Beurden	2021 J. H. Hemmen	2021 Total	2020 J.A.J. van Beurden	2020 J. H. Hemmen	2020 Total
Fixed remuneration	550.0	310.8	860.8	517.9	254.5	772.4
Short-term variable remuneration	429.0	141.4	570.4	358.7	102.8	461.5
Long-term variable remuneration	190.9	81.3	272.2	86.7	34.0	120.7
Total remuneration	1,169.9	533.5	1,703.4	963.3	391.3	1,354.6
Pension and other expenses	90.4	103.5	193.9	90.3	93.1	183.7
	1,260.3	637.0	1,897.3	1,053.9	484.4	1,538.3

The 2021 short-term variable remuneration will be paid in cash after income tax.

For more information on the long-term variable remuneration see pages 176-177.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2021 amounts to EUR 172,000 (2020: EUR 170,000). This remuneration is as follows:

EUR thousand	2021	2020
F. van Hout (appointed as from 1 April 2021)	38	–
H. ten Hove (stepped down as from 1 April 2021)	12	47
M.J.G. Mestrom	41	38
J.T.M. van der Meijs	41	38
E.M. Doll (appointed as of 24 June 2020)	40	28
T.J. Wünsche (stepped down as from 30 April 2020)	–	19
	172	170

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 2021	31 December 2020
Executive Board	J.A.J. van Beurden	J.A.J. van Beurden	34,556	32,941
	J.H. Hemmen	J.H. Hemmen	3,609	2,241
Supervisory Board			–	–

Amsterdam, 25 February 2022

Executive Board
J.A.J. van Beurden
J.H. Hemmen

Supervisory Board
F. van Hout
M.J.G. Mestrom
J.T.M. van der Meijs
E.M. Doll

Provisions in the Articles of Association governing the appropriation of profit

Under article 35.1 and 35.2 of the Articles of Association of the Company, the Executive Board shall, with the approval of the Supervisory Board, determine which part of the profits is added to the reserves. The profit remaining after transfer to the reserves is available to the General Meeting of Shareholders. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by the Executive Board at the date of each dividend payment.

To the shareholders and the Supervisory Board of Kendrion N.V.

Independent auditor's report

Report on the audit of the financial statements 2021 included in the annual report

Our opinion

We have audited the financial statements 2021 of Kendrion N.V., based in Amsterdam. The financial statements comprise the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2021, and of its result and its cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2021, and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2021.
2. The following statements for 2021: the consolidated statement of financial position, the consolidated statements of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2021.
2. The company profit and loss account for 2021.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Kendrion N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the 2021 financial statements as a whole at EUR 1,500,000 (2020: EUR 1,200,000). The materiality for this year is based on 7.5% of profit before tax. For 2020, due to the effect of COVID-19 on the company's Profit Before Tax, we deemed this to be a less appropriate benchmark for the audit and as such we therefor utilized net assets and revenue in determining materiality in 2020. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Component audits are performed using materiality levels determined by the judgement of the group audit team, considering materiality for the consolidated financial statements as a whole and the reporting structure of the group. Component materiality did not exceed EUR 675,000.
We agreed with the Supervisory Board that misstatements in excess of EUR 75,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Kendrion N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Kendrion N.V.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by the auditors of the components. We directed and supervised the work of our component auditors as part of the group audit. Our group audit mainly focused on significant group entities in terms of size and financial interest, significant risks or where complex activities are present.

By performing the procedures mentioned above at component entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Due to COVID-19 and related travel restrictions we were only able to visit Kendrion (Shelby) Inc. and we were unable to visits other components during our 2021 audit. To overcome this limitation, we have had extensive contact with our component teams throughout the year and attended meetings with local management.

Audit coverage	
Audit coverage of consolidated revenues	92%
Audit coverage of consolidated assets	91%

For the other group companies, we have performed remote review procedures or have component auditors instructed to perform specific audit procedures at other components.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the entity and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as among others the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation of internal controls designed to mitigate fraud risks.
As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present. We performed these procedures in close co-operation with our forensic specialists.

We performed, amongst others, the following specific procedures together with our component auditors:

- We incorporated elements of unpredictability in our audit. We also considered the outcome of our audit procedures and evaluated whether any findings were indicative of fraud or noncompliance;
- We considered available information and made enquiries with management, those charged with governance and with others within the Company, including but not limited to, e.g. General Counsel, Global Internal Audit & Risk Manager, Compliance Officer and Controllers;
- We organized, together with our Forensic Specialists, a Global Audit Planning meeting with our component auditors during which we also held a Fraud Risk brainstorm session;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Our Forensic Specialists were involved in the oversight of several components and were present during a number of file reviews, which are selected based on complexity, risk and/or size;
- We evaluated whether the selection and application of accounting policies by the group, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting;
- We evaluated whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Management insights, estimates and assumptions that might have a major impact on the financial statements are disclosed in the notes to the consolidated financial statements. We performed a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in prior year financial statements;
- For significant transactions such as the 3T acquisition we evaluated whether the business rationale of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

This did not lead to indications for fraud potentially resulting in material misstatements.

Audit approach compliance with laws and regulations

We assessed the laws and regulations relevant to the Company through discussion with relevant employees (like Chief Financial Officer, General and Legal Counsel and Global Internal Audit & Risk Manager), discussion with component teams, reading minutes of relevant meetings and reports of internal audit and obtained lawyers letters. Our forensic specialists were also involved in this evaluation.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could vary considerably, we considered the following laws and regulations: adherence to (corporate) tax law and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, the Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation. Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements.

Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to Kendrion N.V.'s ability to continue its business, or to avoid material penalties (e.g., compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have an indirect material effect on the financial statements. Our responsibility with these risks is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that indirectly may have a material effect on the financial statements. Our procedures on these risks are limited to (i) inquiry of management, the Supervisory Board, the Executive Board and others within the Company as to whether Kendrion N.V. is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Audit approach going concern

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future, defined as until December 31, 2022. The Executive Board is of the opinion that, based on the current state of affairs, it is justified that the financial statements are prepared on a going concern basis.

We have evaluated management's assessment of the Company's ability to continue as a going concern. In evaluating management's assessment, we considered whether management's assessment includes all relevant information of which we are aware as a result of the audit.

We have evaluated the Company's going concern assessment and performed (amongst others) the following procedures:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management;
- Analyzing and discussing the entity's latest available internal reportings;
- Reading the terms of debt covenants and determining whether any have been breached;

- Reading minutes of those charged with governance and relevant committees for reference to financing difficulties;
- Inquiring of the entity's Legal Counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications;
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern;
- Obtaining and reviewing reports of regulatory actions;
- Determining the adequacy of support for any planned disposals of assets in so for relevant for the going concern;
- Discussion with component auditors about facts and circumstances which might be relevant for the going concern assessment at group level.
- Analyzing the Company's assessment on the impact of the current market developments (i.e. supply chain constraints, semiconductor shortages, demand volatility and increasing raw material prices)

Based on the procedure performed we concur with management's evaluation.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior year, we included the valuation of goodwill and the general IT controls as separate key audit matters. These are also included in our 2021 report.

Compared to last year we did not include a key audit matter for the purchase price allocation of the INTORQ acquisition and the bank covenants. The purchase price allocation has been completed in 2020 and is therefore no longer a key audit matter.

The banking covenants is also no longer included as the Company issued an early waiver termination request to its banking syndicate effectively cancelling the covenant relief and the associated EUR 25 million minimum liquidity covenant, restrictions and information undertakings on 27 July 2021. Based on the performance in 2021, the company is well within the maximum leverage ratio of 3.25.

For our 2021 report there are two new key audit matters, being the purchase price accounting for the 3T acquisition and the group audit.

1. General IT controls

Description

Kendrion has operations in different countries that use one groupwide Financial IT platform (excl. INTORQ and the newly acquired 3T entities), which is located and maintained in Villingen, Germany. In the last couple of years, management has been in the process of establishing a formal IT control framework and further enhancing the internal controls surrounding the overall IT environment. We consider Kendrion's IT landscape and general IT controls over financial reporting as our basis for designing audit procedures that are appropriate for our audit. We have included general IT controls as a key audit matter because the importance of these controls on the group's control environment.

How the key audit matter was addressed in the audit

We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes.

IT audit specialists have been deployed to assist us with testing the group's general IT controls.

Observation

We have shared our observations and recommendations in relation to general IT controls with management. Although significant improvements have been made in 2021, consistent with 2020, we were not able to rely on the general IT controls for our audit. Alternatively, we gained the required level of assurance from additional substantive audit procedures. In 2022 we will verify whether the improvements make it possible to rely upon the General IT Controls.

2. Goodwill impairment – Cash Generation Unit Kendrion Automotive Group

Description

Goodwill represents 27% of the balance sheet and 60% of total equity. The goodwill related to the Cash Generation Unit ("CGU") Kendrion Automotive Group is 45% of the total goodwill.

The audit procedures carried out on the valuation of goodwill are regarded as a key audit matter due to the relative significance of the account as well as the challenging climate of the Kendrion Automotive Group industry. As a result of financial performance over the last years and the challenging climate, the relative headroom (difference between the expected value of the future cash flows and the carrying amount) compared to the other two CGU's is lower and a number of assumptions are sensitive. Reason for us to mark the valuation of the goodwill within Kendrion Automotive Group as a key audit matter in our audit. Within the other CGU's significant headroom exists.

In addition, the valuation of goodwill is susceptible to management judgment and estimates and is based on assumptions that are affected by future market and economic conditions.

The assumptions in relation to the expected future cash flows are predominantly based on the approved budget for 2022. For the period thereafter (2023-2026) the company prepared a midterm business plan. The results of the impairment analysis are most sensitive to:

- Revenue growth;
- EBITDA margin development; and
- WACC

How the key audit matter was addressed in the audit

Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the impairment analysis in relation to the valuation of the goodwill of the Kendrion Automotive Group CGU.
Our audit procedures have mainly focused on:

- Testing design and implementation of management's process and control around the impairment analysis;
- Evaluating the impairment model used by the Company and verifying the mathematical accuracy of this model;
- Obtaining and evaluating independent market research reports and compared the general growth data to Kendrion's expectations;
- Obtaining and evaluating the budget of 2022 and the midterm plan that are approved by the Supervisory Board;
- Assessment of the key assumptions in the impairment model and discuss the results thereof with the Business Group management, Executive Board and the Supervisory Board;
- Assessment of the management estimate in relation to the budget of prior years based on the actual financial results (back-testing);
- Assessment of the methodologies, calculated WACC and the long-term growth percentage, using internal valuation experts;
- Reconcile the already contracted revenue to underlying source documents (like signed contracts) and evaluated the expected pipeline;
- The accuracy and completeness of the related disclosures in the annual report;
- Performing sensitivity analysis based upon different scenarios with respect to the revenue growth, gross margin and WACC.

We have mainly adopted a substantive audit approach and did not rely on internal controls.

Observation

No impairment has been recognized in the annual report. Based on our procedures performed, we are of the opinion that the anticipated growth in revenue and EBITDA development is ambitious, but in alignment with the strategic goals of Kendrion. Not realizing the target impacts the sensitivity as further analyzed and disclosed by Kendrion as part of disclosure note [2] in the annual report.

The WACC used by Kendrion is within the WACC range as determined by our internal valuation specialists. Based on the procedures performed, we are of the opinion that the assumptions used by Kendrion in the calculations are acceptable at this point in time and deem the related disclosures in the annual report sufficiently.

3. Purchase Price Allocation 3T acquisition

Description

On 21 September, Kendrion announced the acquisition of the Dutch electronics and embedded systems developer 3T.

The total Purchase Price of 3T was EUR 23.2 million of which EUR 14.8 million was allocated to Goodwill. Due to its significance we have reported this as a key audit matter.

The acquisition has a number of implications for our audit. Firstly, auditing the determination of the purchase price, and the necessary "Purchase Price Allocation". In addition to auditing the transaction itself, we had to plan the nature, timing and extent of the audit of the 3T activities.

How the key audit matter was addressed in the audit

Based on the requirements of IFRS 3, we audited the recognition of the acquisition for which we used a substantive approach. We inspected the Share Purchase Agreement and validated that the purchase price is paid to the seller. An important element in the "Purchase Price Allocation" is the identification and valuation of the acquired (intangible) assets and liabilities. We audited the identification of (intangible) assets and liabilities, including the underlying business assumptions, based on our knowledge of the operational activities of 3T and the reasons for the acquisition and used internal valuation experts to validate the valuation based on general accepted valuation models. We recalculated the amount of goodwill to be recognized and assessed the allocation to cash-generating units. We also validated the sufficiency of the disclosures in the annual accounts in relation to the acquisition.

We further gained insights in the activities and business processes of 3T to enable detailed risk analyses. The audit procedures in relation to those risks are mainly performed on a substantive basis by the Group engagement Team.

Observation

Based on our materiality and procedures performed, we are of the opinion that the recognition of the acquisition of 3T is in line with the requirements of IFRS 3 and that the acquisition is adequately disclosed in the 2021 annual accounts.

4. Group audit

Description

Kendrion is a global organization which operates in 9 countries and has 20 different locations in Europe, the Americas and Asia. They also acquired companies with complementary technologies like INTORQ in 2020 and 3T in 2021. Almost all revenue and result before net finance costs are generated outside the Netherlands.

Within this group, the consistent application of the group accounting principles (in particular the estimates) and the complete and accurate elimination of all intercompany related transactions is an important element in our audit.

How the key audit matter was addressed in the audit

We have performed the following audit procedures:

- We performed audit procedures at group level in areas such as consolidation, reporting, accounting for the 3T acquisition, goodwill impairment testing and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.
- At group level, we have performed audit procedures regarding the corporate entities and we also performed full scope audit procedures on Kendrion (Shelby) Inc.
- For all other relevant foreign components, the group audit team provided detailed written instructions. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included conference calls with component during all stages of the audit whereby fraud specialists accompanied the group engagement team at several preselected components, performing remote file reviews, attending client meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed.
- As part of the interaction with the components we paid specific attention to the consistent application of the group accounting policies.
- As part of our audit of the consolidation, we tested the relevant controls around the elimination of all intercompany transactions and positions and performed detailed substantive procedures.

Observation

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.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, The annual report contain other information that consists of:

- Report of the Executive Board
- Report of the Supervisory Board
- Remuneration report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Other information as included in the annual report

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Executive Board.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Kendrion N.V. on April 13, 2015, as of the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest

European Single Electronic Reporting Format (ESEF)

Kendrion N.V. has prepared its annual report in ESEF. The requirements for this are set out in the Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in XHTML format, including the partially marked-up consolidated financial statements, as included in the reporting package by Kendrion N.V., complies in all material respects with the RTS on ESEF.

Management is responsible for preparing the annual report including the financial statements in accordance with RTS on ESEF, whereby management combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the company's financial reporting process, including the preparation of the reporting package;
- obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance and the XBRL extension taxonomy files has been prepared in accordance with the technical specifications as included in the RTS on ESEF;
- examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities regarding the Financial Statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- 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 a 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 the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, February 25, 2022

Deloitte Accountants B.V. Initial for identification purposes:

B. Beemer

To the Shareholders and Supervisory Board of Kendrion N.V.

Assurance report of the independent auditor with respect to the 2021 Sustainability Information of Kendrion N.V.

Our conclusion
We have reviewed the sustainability information in the accompanying annual report for the year 2021 of Kendrion N.V. based in Amsterdam. A review is aimed at obtaining a limited level of assurance.

Based on our review 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 2021 in accordance with the reporting criteria as included in the section ‘reporting criteria’.

The sustainability information consists of performance information regarding Energy consumption and CO_2-emission, Accidents and Lost Time Injuries, Illness rate and Number of Supplier audits in the sections ‘Facts and Figures’ on page 10 and ‘Sustainability’ on pages 39 – 58 of the 2021 Annual Report (hereafter: “the KPIs”).

Our limited assurance scope excludes the EU Taxonomy disclosures included in chapter ‘Sustainability’ in the 2021 Annual Report (pages 46-47).

Basis for our conclusion
We have conducted our review of the sustainability information in accordance with Dutch law, including Dutch Standard 3000A ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’. 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 N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are disclosed in the chapter 'About the Sustainability Report' of the 2021 Annual Report.

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Responsibilities of the Executive Board and the Supervisory Board for the sustainability information
The Executive Board is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in the section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the sustainability information and the reporting policy are summarised in the chapter 'About the Sustainability Report' of the annual report.

Furthermore, the Executive Board is responsible for such internal control as it determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the reporting process of Kendrion N.V.

Our responsibilities for the review of the sustainability information
Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review is therefore substantially less than the assurance obtained in an audit.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our review included among others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company;
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Executive board;
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review;
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or error. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management (and/or relevant staff) at corporate (and business/division/cluster/local) level responsible for the sustainability strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information;
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company;
  - Reviewing, on a limited test basis, relevant internal and external documentation;
  - Performing an analytical review of the data and trends.
- Evaluating the presentation, structure and content of the sustainability information;
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Eindhoven, 25 February 2022

Deloitte Accountants B.V.

B. Beemer

EUR million, unless otherwise stated	2021	2020	2019 [6]	2018	2017 [7]
Statement of normalized comprehensive income [1]					
Revenue	463.6	396.4	412.4	448.6	461.8
Organic growth	16.1%	(16.7%)	(8.1%)	(2.9%)	4.2%
Operating result before depreciation and amortization (EBITDA)	55.8	44.6	43.8	58.5	60.0
Depreciation of property, plant, equipment and software	23.9	25.7	24.0	23.1	22.5
Operating result before amortization (EBITA)	31.9	18.9	19.8	35.4	37.5
Net profit for the period before amortization	20.6	11.7	12.6	24.3	25.7
Statement of financial position at 31 December conform financial statements					
Total assets	490.8	429.1	357.1	375.3	360.2
Total equity	223.0	203.4	202.6	182.1	179.6
Net interest-bearing debt	130.6	103.2	47.4	80.5	70.6
Working capital [2]	64.9	41.4	42.9	51.4	45.1
Invested capital [2, 3]	205.2	174.4	169.6	179.6	163.7
Statement of normalized cash flows [4]					
Net cash from operating activities	32.4	47.9	45.4	41.9	44.7
Net cash from investing activities	28.9	16.4	19.9	31.4	28.3
Free cash flow	3.5	31.5	25.5	10.5	16.4
Ratios					
EBITDA margin [1]	12.0%	11.3%	10.6%	13.0%	13.0%
Solvency	45.4%	47.4%	56.7%	48.5%	49.8%
Net interest-bearing debt / EBITDA [1] (debt cover)	2.3	2.3	1.1	1.4	1.2
Net interest-bearing debt / equity (gearing)	0.6	0.5	0.2	0.4	0.4
EBITDA [1] / net finance costs (interest cover) [5]	23.8	17.0	29.9	36.6	35.6
Return on Investment (ROI) [1, 2, 3]	15.6%	10.8%	11.7%	19.7%	22.9%
Working capital [2] in % of revenue [1]	14.0%	10.4%	10.4%	11.5%	9.8%
Dividend payout ratio of net profit [1]	50%	50%	0%	52%	50%
Market capitalisation as at 31 December	314.4	247.9	312.9	283.7	542.9
Net interest-bearing debt as at 31 December	130.6	103.2	47.4	80.5	70.6
Theoretic value of the organisation (Enterprise value)	445.0	351.1	360.3	364.2	613.5
Number of employees at 31 December (FTE)	2,728	2,456	2,316	2,465	2,645

1 2017 excluding one-off costs relating to simplifying measures of EUR 5.1 million (after tax EUR 3.8 million), 2018 excluding one-off costs relating to simplifying measures of EUR 8.8 million (after tax EUR 6.5 million), EUR 0.3 million finance expenses and EUR 2.0 million tax expenses for tax audit, 2019 excluding one-off costs relating to simplifying measures of EUR 2.9 million (after tax EUR 2.1 million), EUR 1,6 million claim settlement (after tax EUR 1.2 million), EUR 1.2 million acquisition costs (after tax 0.9 million), EUR 2.0 million positive release from currency translation reserve, EUR 0.1 million finance expenses and EUR 0.4 million tax expenses for tax audit, 2020 excluding one-off costs relating to simplifying measures of EUR 3.8 million (after tax EUR 2.9 million), EUR 0.6 million acquisition costs (after tax 0.4 million), EUR 0.6 finance expenses for tax audit and EUR 0.2 million tax expenses relating to simplifying measures and 2021 excluding one-off costs relating to simplifying measures of EUR 3.9 million (after tax EUR 2.8 million), EUR 0.2 million acquisition costs (after tax 0.1 million), EUR (0,0) finance expenses for tax audit and EUR 0.4 million tax expenses for tax audit.

2 Excluding accruals and provisions related to one-off costs.

3 Invested capital is property, plant and equipment, intangible assets, other investments and net working capital less goodwill and other intangibles related to acquisitions.

4 Excluding cash flows relating to acquisitions and disposals and excluding payments and receipts relating to one-off costs.

5 The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities, the amortization of upfront and legal fees and the interest on lease liabilities.

6 Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies as per 1 January 2020.

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

PRINCIPAL SUBSIDIARIES

At 31 December 2021

Industrial

Industrial Actuators and Controls (Robert Lewin)	Managing Director
Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany	Robert Lewin
Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany	Alfons Mattes
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania	Mihai Petculescu
Kendrion (Linz) GmbH, Linz, Austria	Christian Edelmaier
Kendrion Kuhnke Automation GmbH, Malente, Germany	Robert Lewin
Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden	Ronnie Jennerheim
3T B.V., Enschede, the Netherlands	Richard Mijnheer/Norbert Beltman

Industrial Brakes (Andreas Laschet)	Managing Director
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion (UK) Ltd., Bradford, United Kingdom	Peter McShane
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion INTORQ GmbH, Aerzen, Germany	Lars Knoke
INTORQ (Shanghai) Co. Ltd, Shanghai, China	Telly Kuo
INTORQ US Inc., Atlanta, US	Olaf Detlef
INTORQ India Private Limited, Pune, India	Aniket Gujrathi

Automotive (Ralf Wieland / Manfred Schlett)	Managing Director
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion Kuhnke Automotive GmbH, Malente, Germany	Olaf Klinghagen
Kendrion (Markdorf) GmbH, Markdorf, Germany	Manfred Schlett
Kendrion (Eibiswald) GmbH, Eibiswald, Austria	Klaus Pichler
Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania	Andra Boboc
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Tomas Soldan
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Rhett Cathcart
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo

Kendrion N.V. has, directly or indirectly, a 100% interest in all subsidiaries.

OTHER HOLDING AND DORMANT ENTITIES

At 31 December 2021

Blasio Grundstückverwaltungsgesellschaft mbh & Co Vermietungs KG, Mainz, Germany
Combattant Holding B.V., De Bilt, the Netherlands
INTORQ Beteiligungs GmbH, Aerzen, Germany
Kendrion FAS Controls Holding GmbH, Villingen-Schwenningen, Germany
Kendrion Finance B.V., Zeist, the Netherlands
Kendrion Holding Germany GmbH, Markdorf, Germany
Kendrion Holding USA Inc., Indianapolis, USA
Kendrion IP Management GmbH, Malente, Germany
Kendrion Kuhnke GmbH, Malente, Germany
Kendrion Marketing B.V., Zeist, the Netherlands
Kendrion (Pune) Private Limited, Maharashtra, India
Kendrion (Switzerland) AG, Hausen am Albis, Switzerland
Kendrion Toluca, SA de CV, Mexicaltzingo, Mexico
Landfort I B.V., Zeist, the Netherlands
Landfort II B.V., Zeist, the Netherlands
Ochrea Grundstücksverwaltungsgesellschaft mbh & Co Vermietungs KG, Mainz, Germany
Twente Technology Solutions B.V., Enschede, the Netherlands

Kendrion N.V. has, directly or indirectly, a 100% interest in all subsidiaries.

The scope of Kendrion's sustainability or non-financial reporting is based on the information requirements of our key stakeholder groups.

In order to ensure that Kendrion meets its information requirements towards its stakeholders, Kendrion performs a materiality analysis at regular intervals. In furtherance of the materiality analysis carried out in 2018, Kendrion commissioned and completed the performance of a subsequent materiality assessment in 2020. Together with a specialised consultancy firm, a tailored approach was developed to assess materiality and the results of the internal and external stakeholder consultation. The outcome of the 2018 and 2020 materiality analysis both formed an important input for Kendrion's sustainability program and the 2019-2023 target framework as well as the further development and execution thereof. In support of the development of a sustainability target framework for the period beyond 2023, a new materiality assessment will be prepared. Kendrion selected relevant material themes and topics derived from Kendrion's strategic plan, its activities and applicable laws and regulations. For a description of our materiality analysis, please refer to pages 41-42 of this Annual Integrated Report.

Kendrion makes use of the Global Reporting Initiative (GRI) reference claims for most of the general information and material topics, including: economic performance, anti-corruption, energy efficiency, emissions to air, occupational safety and health and non-discrimination and equal opportunities. This Annual Integrated Report references Disclosure 201-1 (a) from GRI 201: Economic performance 2016, Disclosure 205-3 from GRI 205: Anti-corruption 2016, Disclosure 302-1 (a, c, e-g) from GRI 302: Energy 2016, Disclosure 305-1 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 305-2 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 403-9 (a, d-g) from GRI 403: Occupational Health and Safety 2018, Disclosure 405-1 (a-i, b-i) from GRI 405: Diversity and Equal Opportunities 2016. For the material themes 'responsible procurement practices' and 'training and education', Kendrion has developed its own indicators,

Kendrion's non-financial reporting includes only data from entities that are – directly or indirectly – wholly owned by Kendrion N.V., unless explicitly stated otherwise. Acquisitions are reported as from the effective date ownership is acquired.

Being transparent and accountable is fundamental to the way in which Kendrion operates. Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework in order to safeguard the quality and accuracy of data collected. With a view to maintain the quality and consistency of the data reported, the reporting process and applicable definitions relevant to all non-financial data collected and subsequently consolidated, are recorded in an internal reporting manual which is regularly reviewed and evaluated. Internal control procedures safeguarding the quality and accuracy of non-financial data collected are part of Kendrion's Risk Management Framework. Compliance with the internal reporting manual and the internal control procedures are reviewed by the Global Internal Audit and Risk Manager.

The sustainability figures and data presented in this Annual Integrated Report are not always fully comparable with those of other companies. This may be caused by differences in targets and definitions applied and the nature and spread of Kendrion's activities making comparison with other industrial companies difficult. Information used was collected from the existing management and reporting systems. Any estimates or forecasts included are explicitly referred to as such.
No significant changes with regard to our own operation locations and/or suppliers have taken place in 2021.

The non-financial information reported faithfully represents the outcome of systematic data collection and review.

The reported numbers for energy consumption, absolute and relative & CO_2 emissions, accidents, lost time injury, illness, supply chain management as described in the section 'Sustainability' on pages 40-58, have been subjected to a review by the external auditor Deloitte Accountants B.V.
The auditor's report with limited assurance on selected targets is included on pages 200-202.

For the reported numbers associated with relative energy consumption, relative CO_2 emission, accidents per 1,000 FTE, Lost Time Injuries (LTI) and illness rate, Kendrion used the GRI Standards Specific Disclosures 302-1, 305-1, 305-2 and 403-2 respectively as described in the GRI referenced claim mentioned above. We report on the same indicators as in previous years and there are no material restatements on the information accordingly presented in previous years.

Definitions, reporting period and scope

Energy consumption and CO_2 emission

The information on energy consumption is based on the consumption of Kendrion's production facilities (electricity, natural gas, fuel oil) in Germany, the Czech Republic, Austria, the USA, China, India and Romania. For greenhouse gas emissions, Kendrion applies the same reporting scope as for energy consumption, only operational control. In our calculations we only included CO_2 emissions, other emissions like CH4, N2O, HFCs, PFCs, SF6 and NF3 are not material for us and therefore not included. Internal and external transport under Kendrion's control is limited, therefore transport emissions are excluded.

The relative energy consumption and CO_2 emissions are based on the added value of the relevant production facilities. The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus raw materials and subcontracted work.

The absolute and relative energy consumption and CO_2 emissions are reported for a 12-month period from 1 January 2021 up to and including 31 December 2021. Until 2021, the absolute and relative energy consumption and CO_2 emissions were reported for the period from 1 December up to and including 30 November of the following year. Because of the change in reporting period comparative absolute and relative energy consumption and CO_2 emission figures for 2020 have been restated according to an identical timeframe of 1 January 2020 up to and including 31 December 2020.

Calculation of the CO_2 emissions is based on the following conversion factors:
Electricity generated from renewable sources: 0
Electricity generated from non-renewable sources (average): 0.416 kg/kWh (2020: 0.443 kg/kWh)
Renewable gas for plants with carbon neutral contracts: 0
Natural gas for other plants (average): 0.105] kg/kWh (2020: 0.145 kg/kWh)
Fuel oil (average): 0.204 kg/kWh (2020: 0.267 kg/kWh)

Accidents and LTI
Kendrion reports the total number of work-related accidents during working time or on the way to or from work for its own employees. Only the accidents that the group entity had to report to an external institution, and which caused an absence of more than three calendar days (not including the day of the accident) are reported. This definition is based on regulations applicable in Germany. Before 2021, Kendrion also included accidents during working time or on the way to or from work for independent contractors under supervision of Kendrion in the reported figures. These have been removed from the reported figure because eligibility for reporting based on the absence of more than three calendar days (not including the day of the accident) cannot be determined based on information available to Kendrion.

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. Before 2021 several locations did not record LTI if there is no longer a wage continuation obligation for the employer pursuant to local regulation. Since 2021 Kendrion aligned the LTI reporting across all locations so the reported figure is not influenced by whether the salaries or wages were paid by Kendrion or by an external institution during that time.

A return to limited duty or alternative work for the same organisation does not count as 'lost days'. Counting of 'lost days' begins with the first scheduled working day of full absence (e.g. the day after the accident). A lost day counts as one full day regardless of whether the employee has a part-time or a full-time contract. Kendrion does not specify LTI data per region, worker type or gender as Kendrion considers this information not relevant to its current operations.

Illness rate
The reported illness rate is based on the total illness hours. The locations in Shelby and Atlanta report 0% illness on a yearly basis since no registration of illness takes place. However, because of specific COVID-19 regulations in the USA during 2021, COVID-19 related illness hours have been registered in Shelby during 2021. These hours have been included in the illness rate calculation. The illness rate is calculated by combining the total illness hours with and without wage continuation and divide the result by the total timetable hours.

Supplier audits
As mentioned above, for reporting on the number of supplier audits (i.e. 'responsible procurement practices') Kendrion makes use of its own indicator. The supplier audits are internal audits by Kendrion employees based on an internal procedure that prescribes the collection of CR documentation (e.g. Code of Conduct, ABC Policy, Whistle-blower procedure) of the relevant supplier in the case the supplier is ISO certified and the use of standardized self-assessment questionnaires in the case the supplier is not ISO certified.

Kendrion has not selected underlying performance indicators or GRI indicators for the following topics: 'non-discrimination and equal opportunities', 'market presence', 'responsible material consumption', 'environmental & energy management', 'human rights', 'effluents and waste management', 'customer privacy and data security', 'anti-competitive behaviour', 'biodiversity', 'responsible local citizenship', 'innovation', 'customer relationship and satisfaction', 'remuneration policy' and 'business ethics'. Following further engagement with Kendrion's stakeholders in the course of 2022, Kendrion will consider to what extent these material themes continue to be relevant to stakeholders and whether indicators on these topics should be developed.

Contact information

Any questions or comments about this Annual Integrated Report or Kendrion's activities can be raised with:

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