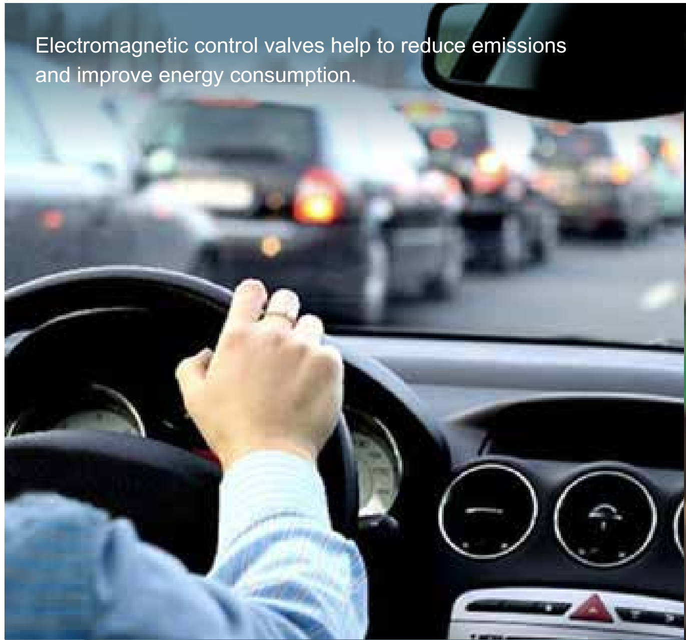
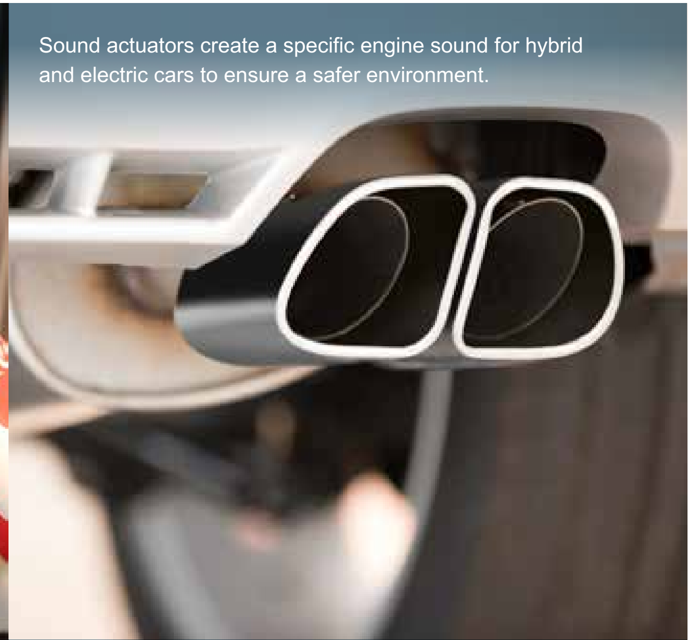
KENDRION

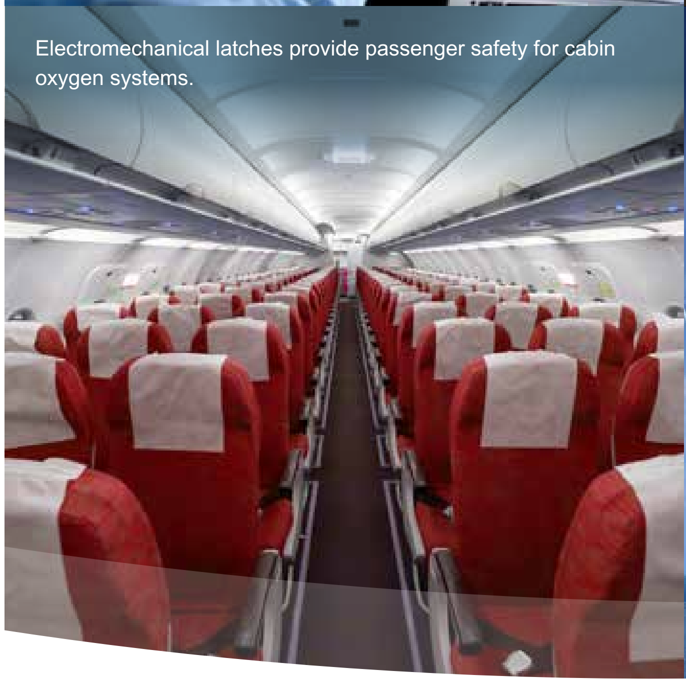
WE MAGNETISE THE WORLD

ANNUAL REPORT 2016


Electromagnetic control valves help to reduce emissions and improve energy consumption.

Our coils and valves ensure the perfect flavour/water ratio to make your beverage taste great – every time.


Sound actuators create a specific engine sound for hybrid and electric cars to ensure a safer environment.


Electromechanical latches provide passenger safety for cabin oxygen systems.

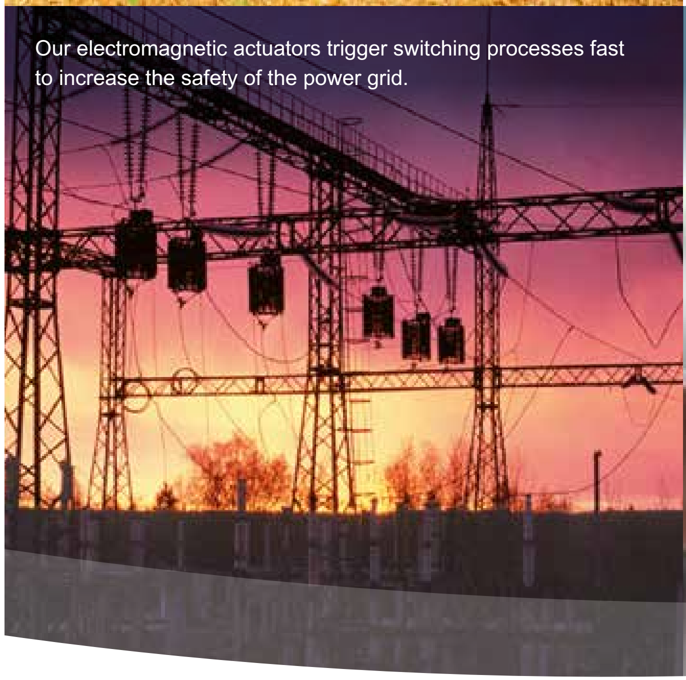

Kendrion high torque brakes are used in wind turbines to adjust and hold the rotor blades in the right position. This ensures a continuous energy yield throughout the day.


Smart electromagnetic systems and components for commercial vehicles to increase mileage and reduce Total Cost of Ownership (TCO).

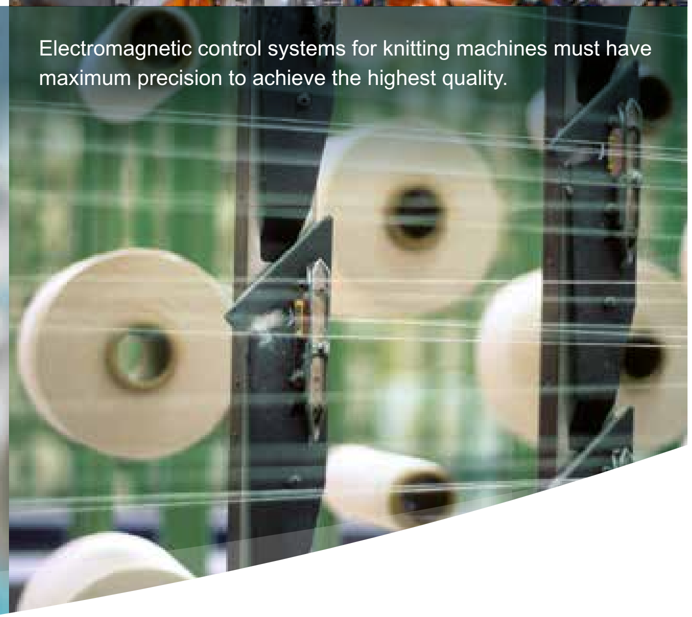

Customised solenoids for construction and agricultural vehicles for precise and reliable control of hydraulic circuits.


Pneumatic seat valves for massage ensure comfortable driving for drivers and passengers on long journeys.


Longer service life, higher safety and no maintenance due to permanent magnet brakes in robot applications.


Our electromagnetic actuators trigger switching processes fast to increase the safety of the power grid.


Solutions for reliable and safe clamping units with low energy consumption.


Electromagnetic control systems for knitting machines must have maximum precision to achieve the highest quality.

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A digital version of this Report is available on the website (www.kendrion.com) along with other publications such as press releases.

PROFILE

Kendrion develops, manufactures and markets high-quality electromagnetic systems and components for industrial and automotive applications. For over a century, we have been engineering precision parts for the world's leading innovators in passenger cars, commercial vehicles and industrial applications. As a leading technology pioneer, Kendrion invents, designs and manufactures complex components and customised systems as well as local solutions on demand.

We are committed to the engineering challenges of tomorrow, and taking responsibility for how we source, manufacture and conduct business is embedded into our culture of innovation. Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, Kendrion's expertise extends across Europe to the Americas and Asia. Created with passion and engineered with precision.
Kendrion – we magnetise the world.

ORGANISATION

KENDRION N.V.

INDUSTRIAL

INDUSTRIAL MAGNETIC SYSTEMS

Electromagnetic components and solutions for advanced technologies

INDUSTRIAL CONTROL SYSTEMS

Industrial automation, modular, safety, locking and fluid control systems

INDUSTRIAL DRIVE SYSTEMS

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

AUTOMOTIVE

PASSENGER CARS

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

COMMERCIAL VEHICLES

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

CEO
Joep van Beurden

Strategy in progress
Simplify first, then focus and grow

Famous Dutch football player Johan Cruyff once said, 'Playing football is simple, but there is nothing more difficult than playing simple football'. Kendrion CEO Joep van Beurden and CFO Frank Sonnemans agree and are therefore pleased to witness that Kendrion's 'Simplify, Focus and Grow' strategy, which they introduced in May 2016, is beginning to take effect.

Over and over again and in all kinds of organisations, implementing change appears to be a long and troublesome journey. Bringing about change in a market environment which attaches great importance to reliability and quality makes such implementation even more critical. 'All the more reason to be satisfied with the results so far,' say Joep van Beurden and Frank Sonnemans. 'We are impressed with the flexibility, manoeuvrability and speed with which the company has embraced, adopted and implemented the reforms and changes. Everybody involved deserves a huge compliment.'

STRONG FINANCIAL POSITION

The biggest organisational changes have been elimination of the division management layer and a reduction in the number of business units from seven to five. Restructuring the organisation in this way has considerably reduced complexity and ensures that top-level management is much closer to the business and the other way around. Frank Sonnemans: 'We are working through the long list of additional measures we have drawn up at a faster pace than expected. This has inevitably led to higher one-off costs but also to substantially greater savings this year. All in all, we can close 2016 with a good step forward in profitability. We are heading towards our strategic target of a 10% EBITA margin with solid cash flow generation in spite of significant investments in new projects, well above depreciation levels. This further enhanced our strong financial position in support of our expectation of an average organic growth of 5% per year.'

CFO
Frank Sonnemans

FAVOURABLE MARKET CONDITIONS

Joep van Beurden: 'In our business, results like these contribute to our reputation and credibility and therefore to our market position, which in turn supports our development and future growth. From this perspective, we see favourable market circumstances and promising trends and developments. Two of our five business units focus on the Automotive segment and three on serving customers in the Industrial markets. Take Passenger Cars. We see three important trends here: alternative engines, safety & comfort and optimisation of the existing internal combustion technology. We are involved in all three and are optimistic about the role we can play here. Commercial Vehicles is a different market with its own dynamics and here too we see further opportunity for differentiation and growth.'

POTENTIAL FOR GROWTH

'Our industrial markets are more diverse,' adds Frank Sonnemans. 'Many are local and fragmented. There is definitely potential for growth but scale and pace depend on where you are geographically and in what segments. For Kendrion, developments such as robotisation (holding magnets, brakes and sensors) and urbanisation (safety and lifts, for instance) are promising. In both Automotive and Industrial we have a market share of approximately 15% of our focus markets. That makes us one of the leading companies in the segments we are active in.' Joep van Beurden concludes, 'By further focusing on the markets with the biggest growth potential and by differentiating our approach to the opportunities that occur, we make sure every single Kendrion location worldwide contributes to the overall result, each in its own optimised way. This is the crucial step towards realising our two main mid-term strategic, transparent targets: expected 5% organic revenue growth per year and a 10% EBITA margin as of the end of 2018.

Equally, Kendrion's commitment to sustainability and corporate social responsibility is important to us. Our first integrated annual report is testimony to the efforts we are making to fully integrate our corporate social responsibility into all aspects of our business.'

443.4 ↑ 0.3%
Revenue
(EUR million)
2015 **442.1**

31.1 ↑ 21%
EBITA[1]
(EUR million)
2015 **25.8**

19.6 ↑ 17%
Net profit[1]
(EUR million)
2015 **16.8**

22.3 ↑ 5%
Free cash flow[1]
(EUR million)
2015 **21.2**

9.3% ↓ 0.5%
Working capital[1]
(as % of revenue)
2015 **9.8%**

12.4% ↑ 2.2%
ROI[1,2]
(in %)
2015 **10.2%**

51.3% ↑ 1.5%
Solvency
2015 **49.8%**

1.1 ↓ 31%
Net debt / EBITDA[1]
2015 **1.5**

[1] Excluding one-off costs relating to simplifying measures. The bridge from reported to normalised figures can be found on page 35.
[2] Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash and non-interest bearing debts.

2,578 ↓ -3.0%

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

2015 **2,658**

50% / 50%

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

2015 **51% / 49%**

2.6%

Illness rate
(in %)

2015 **2.5%**

37 **418**

Accidents

Lost Time Injuries
(in days)

2015 **41** 2015 **863**

190.1 ↓ 5.7%

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

2015 **201.6**

36.0 ↓ 42.3%

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

2015 **62.4**

669

Number of accepted Supplier Codes of Conduct

2015 **368**

37

Number of CSR supplier audits

2015 **36**

See for reporting periods, definitions, scope and external assurance pages 166 and 167 of this report.

Kendrion develops, manufactures, markets and sells high-quality electromagnetic systems and components for industrial and automotive applications. The company utilises its know-how, track record in innovation capacity, global footprint and strong commercial relationships to offer solutions to a wide range of customers.
The company expects to achieve organic growth in revenue averaging 5% per annum in the three year period ending 2018 and aspires to accelerate this growth in the years thereafter. Kendrion has committed to deliver an EBITA margin of 10% as from the end of 2018.

Kendrion aims to deliver these targets by simplifying the way it does business and by focussing investments in innovation in areas in which Kendrion sees the greatest opportunity for growth. Kendrion is committed to being a transparent company that is aware of the importance of sustainability and its social responsibility.

SIMPLIFY, FOCUS, GROW

Kendrion announced its updated strategy on 3 May 2016. It is founded on three pillars: Simplify, Focus, Grow.

SIMPLIFY

Kendrion has decided it needs to simplify the way it does business. Complexity drives cost and slows down decision-making and Kendrion is reducing costs in order to improve operating margin and profitability.

THREE YEAR PLAN – SPECIFIC FOCUS

- **Cost reduction**
- **Organisational structure**
  Industrial Magnetic Systems
  Industrial Control Systems
  Industrial Drive Systems
  Passenger Cars
  Commercial Vehicles

FOCUS

Kendrion will focus its resources and capital on those areas which have the most opportunities for profitable growth.

THREE YEAR PLAN – SPECIFIC FOCUS

- **China**
- **Passenger Cars**
- **Capital allocation**

GROW

The clarity Kendrion will gain through the first two pillars of the plan is intended to allow growth in revenue in a way which will ultimately provide the opportunity to grow faster than the historical average of 5%. Due to the project lead time in Kendrion's business, Kendrion expects organic growth to accelerate in the years beyond 2018.

THREE YEAR PLAN – SPECIFIC FOCUS

- **Automotive market**
  Fuel systems, engine management, sound systems, fuel cell valves, chassis suspension, seat comfort, haptic pedals
- **Industrial market**
  Drive systems, conveyor systems, energy generation and distribution, elevator systems, door access and control for machinery, oxygen systems

Targeted add-on acquisitions

Kendrion has a strong financial position and has delivered excellent rates of cash conversion which have contributed to a healthy balance sheet. Kendrion endeavours to acquire companies that enhance the company's leading position in its automotive and industrial markets. Acquisition targets need to offer good returns in terms of their EBIT and ROI, preferably at levels similar to or above Kendrion's returns and that leads to an improvement in earnings per share.

Corporate Social Responsibility (CSR) and sustainability

Pursuant to Kendrion's mission, CSR and sustainability are intrinsic and integral elements of the company's culture and operations. Sustainability is at the core of many of the company's products. Kendrion intends to contribute actively to a sustainable and 'green' environment for the communities in which the company is active. Kendrion strives to integrate its CSR efforts into all elements of its value chain and this is reflected clearly in this integrated annual report. Kendrion's product portfolios include many products that meet customer requirements for energy savings, lower emissions and safety. They can in the longer term make an essential contribution to creating value for all Kendrion's stakeholders and attracting motivated employees.

Strategic financial targets

Expected average organic growth
per annum until 2018

Average last 3 years
3.7%

Target
5%

EBITA margin
as from the end of 2018

Actual
7.0%

Target
10%

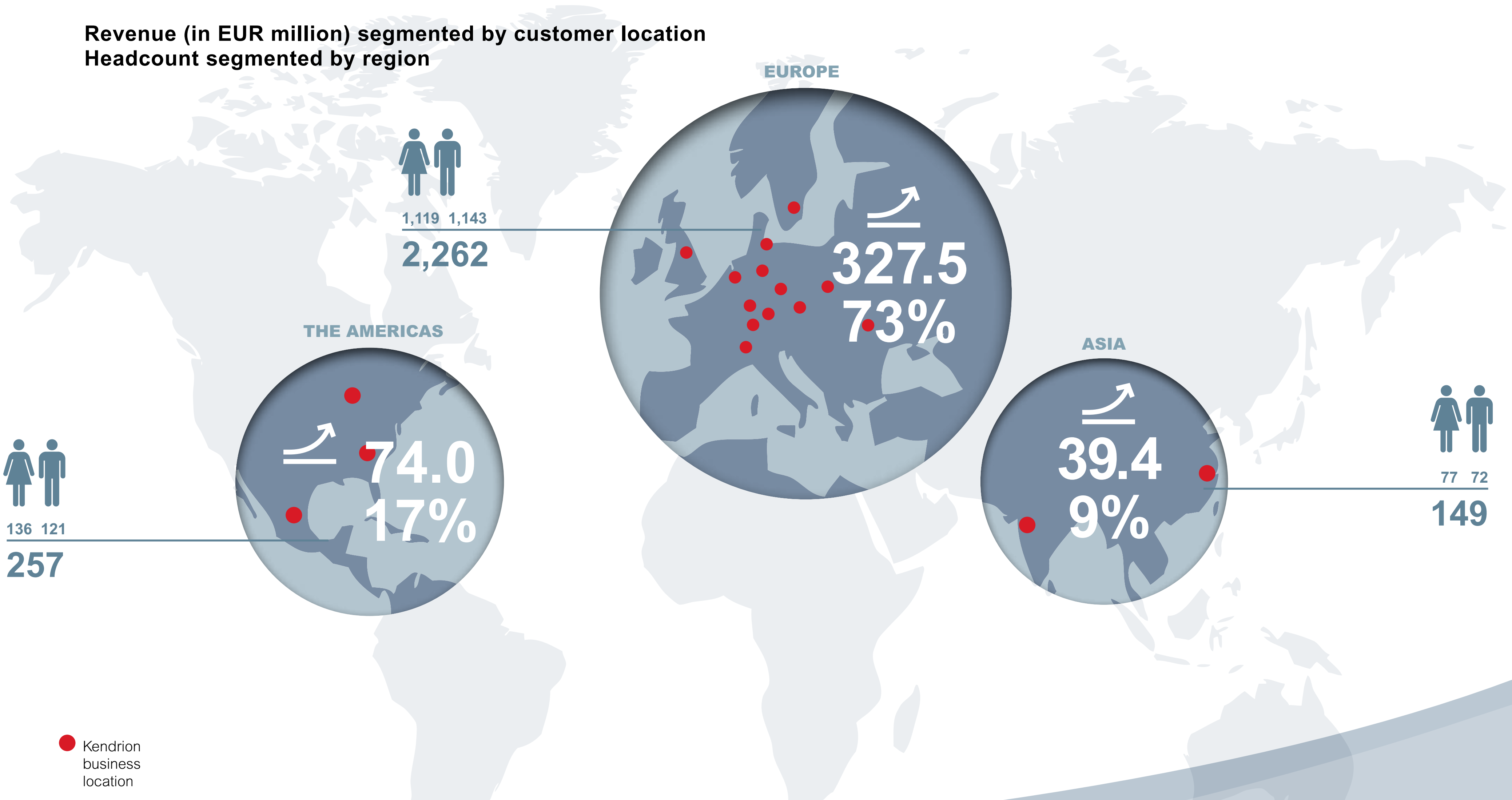
Dividend policy
pay out ratio of the net profit

Actual
53%

Target
35 to 50%

Kendrion stated its medium-term financial objectives on 3 May 2016. The three-year targets are to deliver an EBITA margin of 10% as from the end of 2018, to grow organically until 2018 broadly in line with Kendrion's average historical organic growth of an average of 5% per annum and to maintain the dividend policy of paying out 35 to 50% of the net profit.

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



FINANCIAL RESULTS

EUR million

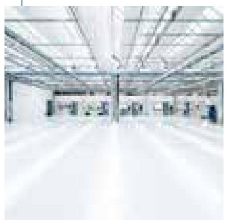
Revenue	EBITA*	Net profit*	EBITA %*	ROI*	Total FTE
443.4	31.1	19.6	7.0%	12.4%	2,578

* Before one-off costs for simplifying measures.

JANUARY

KENDRION ENTERS CHINESE SKIES

In 2016 Kendrion Industrial Control Systems started series deliveries of latches used for the first passenger jet built in China.



NEW ORGANISATION SHOP FLOOR

The renovation of the shop floor of Passenger Cars in Villingen-Schwenningen, Germany enables the optimisation of the production facilities and logistics, and a further increase of the efficiency and capacity.

FEBRUARY

KENDRION ON RADIO AND TV

German radio station and television channel NDR published news on a new law requiring electric and hybrid cars to generate exterior sound and on Kendrion Kuhnke's sound systems for this purpose.

MARCH

SIMPLIFIED ORGANISATION

Kendrion has removed the divisional management layer and has reduced the number of business units from seven to five. In 2016 two new Business Unit Managers were appointed: Ralf Wieland (IDS) and Manfred Schlett (CV).

ESTABLISHMENT OF NEW MANAGEMENT TEAM

The Executive Board introduced the new Management Team, sharing responsibility for the company's overall performance.

APRIL

NEW DAMPING BUSINESS

Kendrion Passenger Cars started the ramp-up of a major order for new damping business in 2016. Kendrion Eibiswald produced and delivered the first valves and will more than double production in 2017. In the context of this order Kendrion Eibiswald passed an important external audit and received the Achievement Award, covering areas such as labour conditions, health and safety, management system and environmental impact.

MAY

OM654 RAMP-UP PASSENGER CARS

Automation of the assembly line for the OM654 oil-cooling valve in Villingen-Schwenningen, Germany supports the ramp-up to a capacity of 800,000 pieces per year.

STRATEGY UPDATE: SIMPLIFY, FOCUS, GROW

At the Press and Analysts' meeting CEO Joep van Beurden and CFO Frank Sonnemans introduced Kendrion's strategic update: Simplify, Focus, Grow.

JUNE

NEW PRODUCTION HALL IN ENGELSWIES

Kendrion Industrial Magnetic Systems opened its newly-built production facility and administration building in Engelswies, Germany.

TOP 100 INNOVATOR AWARD

In June 2016 Kendrion received a TOP 100 Award from German-based Compamedia for special innovation power and above-average innovation results.

AUGUST

NEW PRESIDENT FOR KENDRION ASIA
Kendrion appointed Telly Kuo as the President of Kendrion Asia. The Executive Board sees the building of a local team, led by Telly Kuo, as the key to the development of Kendrion's Chinese operation to its full potential.

ENTERING MEDICAL TECHNOLOGY MARKET IN THE USA
Based on its fluid and solenoid applications for the medical market, Kendrion Industrial Control Systems entered into a successful relationship in the USA with 12th Man Technologies for pressure regulators and small pneumatic valves for oxygen use in an electronic blender application.

SEPTEMBER

ISO 50001 IN ENERGY MANAGEMENT
The energy-conscious commitment of Kendrion Kuhnke in Malente, Germany is underpinned by an energy management system, certified to the ISO 50001 standard.

ISO 50001

LONG-TERM BUSINESS AWARD MOOG INDIA
At its annual supplier meeting Indian servomotor manufacturer Moog presented Kendrion Industrial Drive Systems with a special award, celebrating the long-term business relationship and close cooperation with Kendrion.

MORE THAN 100 MILLION SOLENOIDS!
Since 1995 Kendrion Passenger Cars produced and sold over 70 million of the NAG1+EUV solenoids; all other types and versions of solenoids included, Kendrion produced over 100 million pieces in Villingen-Schwenningen, Germany.

OCTOBER

MSCI

ESG (ENVIRONMENT, SOCIAL AND GOVERNANCE) RATING A
Kendrion received an A rating for ESG (Environmental, Social and Governance) by MSCI. The rating is driven by Kendrion's improved efforts to implement comprehensive programmes and policies in these areas.

NOVEMBER

START OF WATER VALVE LINE IN SIBIU, ROMANIA
Start of the production (SOP) of the new water valve line at the Kendrion location in Sibiu, Romania which is a multi-location project between Germany (Malente) and Romania (Sibiu).

DECEMBER

KENDRION'S EXECUTIVE PROGRAMME
The sixth and final module of the Kendrion Executive Programme took place at the Rotterdam School of Management in the Netherlands and 13 employees graduated. The third module of the High Potential Programme also took place in 2016.

JANUARY 2017

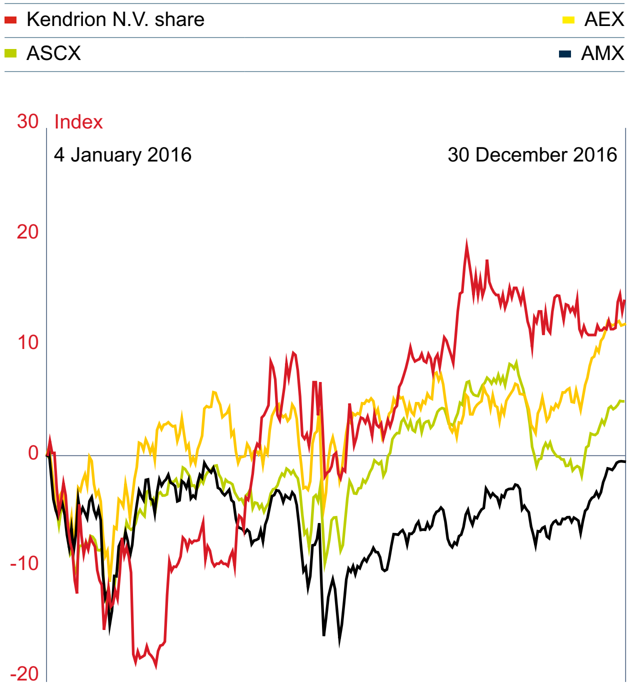
IR AWARD FOR BEST COMPANY
In January 2017 Kendrion won the NEVIR (the Netherlands Association for Investor Relations) IR Award for Best Company AscX/Local in 2016.

Share capital

The authorised share capital amounts to EUR 80,000,000 and is comprised of 40,000,000 ordinary shares with a nominal value of EUR 2.00. On 31 December 2016, 13,396,034 shares had been issued. On the balance sheet date the company owned no shares in its own capital. Kendrion's shares are listed on Euronext's Amsterdam market.

Movements in the share price

from 4 January 2016 to 30 December 2016



Movements in the number of outstanding shares

	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2016	13,188,154	–	13,188,154
Issued shares (share dividend)	199,706	–	199,706
Issued registered shares (share plan)	8,174	–	8,174
Delivered shares	1,044	(1,044)	–
Repurchased shares	(1,044)	1,044	–
At 31 December 2016	13,396,034	–	13,396,034

Other information

EUR, unless otherwise stated	2016	2015	2014
Number of shares x 1,000 at 31 December	13,396	13,188	13,031
Market capitalisation at 31 December (EUR million)	358.3	319.7	281.7
Enterprise value (EV) (EUR million)	412.3	388.8	364.7
Highest share price in the financial year	27.87	30.39	26.22
Lowest share price in the financial year	19.00	19.18	19.00
Share price on 31 December	26.75	24.24	21.62
Average daily ordinary share volume	13,352	37,123	21,704
EBITDA multiple (over EV)[1]	8.02	8.59	7.40
Result per share	1.13	1.28	1.56
Normalised result per share[1]	1.47	1.28	1.56
Share price earnings ratio[1]	18.18	19.01	13.86

Major shareholders

	Interest in %	Date of AFM report
Delta Lloyd Deelnemingen Fonds N.V.	9.89%	11 May 2016
Kempen Capital Management N.V.	5.98%	23 November 2015
Janivo Beleggingen B.V.	5.88%	4 October 2011
Darlin N.V.	5.09%	1 November 2006
T. Rowe Price Associates, Inc.	5.04%	29 June 2015
Total	31.88%	

[1] Excluding one-off costs relating to simplifying measures. The bridge from reported to normalised figures can be found on page 35.

(Former) major shareholders

Kendrion is aware, on the basis of the information in the registers of the Netherlands Authority for the Financial Markets (AFM), that the shareholders as shown in the table on page 15, possessed an interest of more than 3% on 31 December 2016.

Other movements in the size of the interests of Kendrion's major shareholders may have taken place during the course of 2016 or in previous years. These changes fall within the disclosure thresholds as stipulated in the Financial Supervision Act and, consequently, do not need to be disclosed by the major shareholders.

Dividend

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

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

The Executive Board, with the approval of the Supervisory Board, will submit a proposal to the shareholders for the payment of a dividend of 53% of the net profit of 2016. The dividend is equivalent to an amount of EUR 10.4 million. The number of outstanding shares entitled to dividend at 31 December 2016 was 13,396,034 and, consequently, the dividend amounts to EUR 0.78 per ordinary share.

A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 10 April 2017 for the payment of the dividend, at the shareholder's discretion, in cash and/or in ordinary shares, charged to the share premium reserve. The share dividend will be set on 3 May 2017 (before start of trading), on the basis of the volume-weighted average price of all ordinary shares in Kendrion traded on 25, 26, 27 and 28 April and 2 May 2017, at a level whereby the value of the dividend in shares is virtually equal to the cash dividend. The dividend will be made available on 5 May 2017.

Share buyback programme

With the approval of the Supervisory Board, the Executive Board intends to launch a programme for buying back shares that are necessary for distributing stock dividends and for the share plan for management. This programme will commence after the distribution of dividend in 2017. The details will be published later in the prescribed press releases and updates via the website.

Participation

The share plan for the top management provided for the issue of shares in Kendrion as payment in kind. After the General Meeting of Shareholders each year the number of shares to be awarded to the top management of Kendrion in that year was determined by the Supervisory Board on the basis of the Executive Board's recommendations. The plan did not extend to the Executive Board. In addition, the Business Unit Managers and a number of other officers were offered an opportunity to apply for the conversion of a maximum of half of their annual net cash bonus into shares. Kendrion doubled the number of shares after three years when officers are still employed by Kendrion and still possess the shares. Pursuant to these share plans a total of 8,174 shares were issued in 2016. For central administration and handling purposes it has been decided to issue new – registered – shares. Kendrion is considering the introduction of a revised share plan for the senior management (excluding the Executive Board) as of 2017.

A bonus scheme in shares was granted to the members of the Executive Board for 2016. More information about the shares granted to the members of the Executive Board is enclosed on pages 138-140 and 149. A comprehensive description of the bonus scheme is included in the remuneration policy section on pages 75-77.

Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading and to comply with the new rules of the Market Abuse Directive and related regulation. These internal regulations govern the Supervisory Board, Executive Board, the Leadership Team and a number of other employees and officers. Kendrion's Compliance Officer is entrusted with the supervision of compliance with the regulations.

Investor relations

Kendrion attaches great importance to appropriate communications with financial stakeholders and other interested parties such as investors, capital providers and analysts to provide them with a good insight into the developments at Kendrion. Price-sensitive information is disclosed in public announcements. Transparency should lead to healthy pricing, and must support sufficient liquidity.

Liquidity providing

In 2016, SNS Securities N.V. acted as a liquidity provider for Kendrion N.V. As such, SNS Securities acts as the counterparty for buy or sell orders of which the bid and ask prices are set within a range around the last executed price. Relatively small (retail) buy and sell orders can then be conducted via the liquidity provider, which results in a fairer and more orderly market.

Analysts

The following stock exchange analysts actively monitor the Kendrion share:

ABN AMRO Bank N.V.	Maarten Bakker
ING Bank N.V.	Tijs Hollestelle
Kepler Cheuvreux	Guido Nunes
NIBC Markets N.V.	Johan van den Hooven
The Idea-Driven Equities Analyses company	Maarten Verbeek
Theodoor Gilissen Bankiers N.V.	Joost van Beek

Financial calendar

Wednesday, 22 February 2017	Publication of the 2016 full-year figures
Monday, 13 March 2017	Record date General Meeting of Shareholders
Monday, 10 April 2017	General Meeting of Shareholders
Wednesday, 12 April 2017	Ex-dividend date
Thursday, 13 April 2017	Dividend record date
Friday, 14 April – Tuesday, 2 May 2017, 3 pm	Dividend election period (stock and/or cash)
Wednesday, 3 May 2017	Determination stock dividend exchange ratio
Wednesday, 3 May 2017	Publication of the results for the first quarter of 2017
Friday, 5 May 2017	Cash dividend made payable and delivery stock dividend
Wednesday, 16 August 2017	Publication of the results for the first six months of 2017
Wednesday, 8 November 2017	Publication of the results for the third quarter of 2017
Wednesday, 21 February 2018	Publication of the 2017 full-year figures
Monday, 9 April 2018	General Meeting of Shareholders

Teaming up globally to benefit Schindler

A growing number of OEMs recognise the importance of the international presence of their main suppliers. With fully equipped, state-of-the-art R&D and production facilities close to the major global markets, Kendrion serves customers where they are needed the most. Take for example the recent developments within Kendrion's business unit Industrial Magnetic Systems (IMS), whose R&D and production specialists worked closely together in developing two successful brake solenoid projects for Schindler, a global player in elevators and escalators. Physical distance and geographical determinacy are no longer limiting factors. Design, technicalities and electronic schematics were worked out in Germany, while selection and quality assessment of suppliers, industrialisation and realisation were the responsibility of Kendrion. Close collaboration between the two teams ensured a smooth, efficient and cost-effective transition from the development to the production phase. 'Teaming up globally, deploying our strengths worldwide and applying best practices for Schindler exemplify our strategic approach and form a sound basis for more successful projects,' say IMS R&D Manager Gerald Puchner and Project Leader Sabine Krause.

SIMPLIFY Modern means of communication, which Kendrion uses extensively in its international project management, facilitate and enable smooth cooperation between R&D and production teams.

FOCUS Emphasis on the interests of Schindler and anticipating and adapting to this customer's needs and demands contribute to long-term mutually beneficial relationships.

GROW Steady and sustainable growth is enhanced both by knowledge, facilities, competences and abilities and especially by successful global cooperation projects with customers such as Schindler.

T.J. Wünsche R.L. de Bakker M.J.G. Mestrom J.T.M. van der Meijs H. ten Hove

H. ten Hove (64)

Mr Ten Hove was appointed Chairman of the Supervisory Board as of December 2013. The Extraordinary General Meeting of Shareholders appointed Mr Ten Hove as a member of the Supervisory Board for a four-year term from 19 August 2013 until 2017. Mr Ten Hove is a member of the Remuneration Committee of Kendrion N.V. He was an acting member of the Audit Committee during 2016. The Supervisory Board recommends that the General Meeting of Shareholders to be held on 10 April 2017 reappoint Mr Ten Hove for a further four-year term.
Mr Ten Hove is a member of the Supervisory Board of SPG Prints B.V. and a member of the Supervisory Board of Unica Groep B.V. He is Chairman of the Economic Board of the Zwolle region and Chairman of the foundation which owns the shares of BDR Thermea. He is the former CEO of Wavin N.V.
Mr Ten Hove is a Dutch national. He does not possess any shares in Kendrion.

R.L. de Bakker (66)

Mr De Bakker was appointed a member of the Supervisory Board during the Extraordinary General Meeting of Shareholders held in June 2005. He was reappointed in 2015 for a period of two years until 2017. He is Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Kendrion. Mr De Bakker will step down as a member of the Supervisory Board during the General Meeting of Shareholders to be held on 10 April 2017.
Mr De Bakker is Chairman of the Supervisory Board of WCC B.V. and Chairman of the Supervisory Board of Bergman Clinics B.V. He is also a member of the Board of a number of investment companies based in the Netherlands, a member of the Board of the Tom-Tom Continuity Foundation, Chairman of the Supervisory Board of the Florence Zorg Foundation and Vice-Chairman of the Board of the Save the Children Nederland Foundation. He was formerly CFO and member of the Executive Board of ASM International N.V.
Mr De Bakker is a Dutch national. He does not possess any shares in Kendrion.

M.J.G. Mestrom (55)

Mrs Mestrom was appointed a member of the Supervisory Board for a term of four years during the General Meeting of Shareholders held on 16 April 2016. She is Chair of the Remuneration Committee of Kendrion N.V.

Mrs Mestrom has broad experience in global senior HR roles and is currently Head of global Human Resources at Brenntag AG, a German listed company. She previously headed global Human Resources for the Siegwerk Druckfarben Group also located in Germany. Before joining Siegwerk, she held several global Human Resources positions within Royal Philips and was also based in Asia for almost five years.

Mrs Mestrom is a Dutch national. She does not possess any shares in Kendrion.

J.T.M. van der Meijs (51)

Mrs Van der Meijs was appointed a member of the Supervisory Board for a term of three years during the Extraordinary General Meeting of Shareholders held on 31 October 2016. She is a member of the Audit Committee of Kendrion N.V. When Mr De Bakker steps down as a member of the Supervisory Board during the General Meeting of Shareholders to be held on 10 April 2017, Mrs Van der Meijs will become the Chair of the Audit Committee.

Mrs Van der Meijs has broad experience in international senior finance roles. In the period from 2009 to October 2016, she was Vice-President Finance (Capital Projects) at Shell Global Solutions in Rijswijk, the Netherlands. She previously served as Finance Director at Shell Australia from 2007 to 2009 and as Financial Controller/Deputy Finance Director at the Brunei Shell Companies from 2002 to 2007. She is also a member of the Supervisory Board of Koole Terminals.

Mrs Van der Meijs is a Dutch national. She does not possess any shares in Kendrion.

T.J. Wünsche (53)

Mr Wünsche was appointed a member of the Supervisory Board for a term of four years during the Extraordinary General Meeting of Shareholders held on 31 October 2016. He is also a member of the Audit Committee of Kendrion N.V.

Mr Wünsche has more than twenty years' automotive experience, including more than ten years' experience in North America. He is Global CEO of the Chassis Brakes International Group in Amsterdam, the Netherlands. He previously served as CEO of Benteler Automotive from 2012 to 2014 and as CEO of Eberspächer Exhaust Technology from 2006 to 2012. Mr Wünsche is also a member of the Supervisory Board of the Altenloh, Brinck & Co. Group, based in Germany.

Mr Wünsche is a German national. He does not possess any shares in Kendrion.

In accordance with the schedule of rotation, Mrs Sanders retired as a member of the Supervisory Board during the General Meeting of Shareholders held on 11 April 2016. Mr Kayser decided to step down as a member of the Supervisory Board with effect from 7 January 2016.

Introduction

In May 2016, our Executive Board presented an update of Kendrion's strategy entitled: 'Simplify, Focus and Grow'. The plan must ensure that the revenue growth delivered over the last few years will be sufficiently translated to the bottom line. In line with the announced strategy, the focus in 2016 has been on complexity reduction and cost efficiency. The first results are clearly visible in the 2016 figures. Parallel to this, Kendrion experienced the successful ramp-up in the production of damper valves for Bilstein which we expect to be a significant driver of the revenue line for the Passenger Cars business unit.

In 2017, we expect further benefits from simplification and focus activities which will drive growth over the coming years. The overall goal of this process is an ambitious growth path for Kendrion beyond 2018.

Name	1st appointment	Year of reappointment	Final term expiration [1]	Current number of SB positions [2]
R.L. de Bakker	2005	2017	2017	3 (2 Chair)
H. ten Hove (Chairman)	2013	2017	2021/2025	3 (1 Chair)
M.J.G. Mestrom	2016	2020	2024/2028	1
J.T.M. van der Meijs	2016	2019	2023/2028	2
T.J. Wünsche	2016	2020	2024/2028	1

Name	Year of birth	Nationality	International business expertise	Specific experience	Gender
R.L. de Bakker	1950	Dutch	Yes	Finance	Male
H. ten Hove (Chairman)	1952	Dutch	Yes	Manufacturing/industry	Male
M.J.G. Mestrom	1961	Dutch	Yes	HR/org.design	Female
J.T.M. van der Meijs	1966	Dutch	Yes	Finance	Female
T.J. Wünsche	1964	German	Yes	Automotive	Male

Composition of the Supervisory Board

In 2016, the Supervisory Board was almost completely renewed as we welcomed three new members. Mrs Maja Sanders stepped down in April after being a member for more than eleven years. She had been part of Kendrion's transition from a diversified into a more focused company. In the last two years she had been instrumental in the search process for a new CEO and the new Supervisory Board members. We are grateful for her collaboration and contribution. Mrs Marion Mestrom was appointed as her successor at the General Meeting of Shareholders of 11 April 2016. She has a wealth of international business experience and special expertise in Human Resource management, organisational design and change management. She is also appointed as Chair of the Remuneration Committee.

Later in the year Mr Thomas Wünsche succeeded Mr Horst Kayser who, for agenda-related reasons, stepped down in January 2016. He is the CEO of a large international company which produces brakes for the automotive industry. In addition to strategic management and experience in the USA and Asia, he brings with him significant expertise in the automotive sector. He also joined the Audit Committee.

The final term of Mr Robert de Bakker, our esteemed Chairman of the Audit Committee, will expire in April 2017. We therefore started the search for his successor in 2016. We are happy that we were able to interest Mrs Jabine van der Meijs for this position. She has a very broad international experience mainly at Shell, where she held various senior financial management positions. As such her special expertise is in the financial area.

1 According to the revised Netherlands Corporate Governance Code which stipulates a maximum term of eight years that can be prolonged twice for a period of two years.

2 'Supervisory Board positions' means the positions that qualify for calculation of the maximum number of positions according to the Netherlands Management and Supervision Act.

The nomination of Thomas Wünsche and the nomination of Jabine van der Meijs were approved during the Extraordinary General Meeting of Shareholders held on 31 October 2016. We were supported by two prominent executive search companies in the search process.

All members of the Supervisory Board comply with the independence requirements, the conflict of interest rules and the rules with regard to the maximum number of positions laid down in the Netherlands Corporate Governance Code and Dutch law.

In 2017, the first term for both our CFO, Mr Frank Sonnemans, and our Chairman of the Supervisory Board, Mr Henk ten Hove, will expire. They are both available for reappointment. After careful consideration by the Remuneration Committee and the Supervisory Board, at the General Meeting of Shareholders to be held on 10 April 2017 the Supervisory Board will propose the reappointment of both for a period of four years.

The composition of the Supervisory Board is in line with the partly renewed profile of the Supervisory Board, which profile is available on the company's website.

Evaluations, self-assessment and training

In 2016, the new Supervisory Board members went through an internal introduction programme, addressing corporate governance issues and introduction to the business in a number of Kendrion locations in Germany.

The Supervisory Board also did an internal self-assessment of the Supervisory Board, its committees and its individual members using a written individual questionnaire which covered issues such as team effectiveness, interaction, transparency, composition and profile, competences, effectiveness of individual members, quality of information, relationship with the Executive Board and relationship with other stakeholders. The main conclusion was that most of the items were assessed positively, taking into account that it is early days for some of the new members. We will organise a special training session for the full Supervisory Board in the first half of 2017 with a view to working continually towards the board's further professionalisation. In addition to compliance and governance issues, the training will also address roles and responsibilities as well as ways of working together. We will ensure that we utilise the special expertise of the new board members, whilst maintaining a proper balance between distance and involvement.

The Supervisory Board also met to discuss the performance of the Executive Board and its members. The Executive Board did not attend this meeting.

Supervisory Board activities

The Supervisory Board met with the Executive Board seven times face to face. Every meeting started with a session without the Executive Board to discuss specific Supervisory Board issues.

The agenda for the meetings included a number of standard issues, such as financial and operational performance, governance and progress of implementation of the key plans and targets. At each meeting we also discussed one or two specific topics in the presence of the responsible manager. We covered the following specifics in 2016: Corporate Social Responsibility, cybersecurity/IT, risk management, management development and the China and US strategy. Normally, at least once a year, one or more of the Business Unit Managers are invited to report on the progress and performance of their business units. In 2016, we chose to combine this in a two-day strategic session in June, where we discussed trends in the market, Kendrion's market position and risks, as well as the Mid-Term Plan jointly with the Management Team, consisting of the Executive Board, the Business Unit Managers and a number of senior corporate officers.

Besides the Supervisory Board meetings, the Chairman of the Supervisory Board had monthly meetings with the CEO and sometimes the CFO. The main conclusions were shared with the other Supervisory Board members. The Chairman of the Supervisory Board also meets with other members of the Management Team from time to time. The Chair of the Remuneration Committee meets the Group HR Director at least once a year. The Chairman of the Audit Committee maintains informal contact with the CFO and speaks with other financial officers in or outside the Audit Committee meetings.

The Chairman and other members of the Supervisory Board also visited a number of larger shareholders, partly to introduce the new members.

The Supervisory Board earmarked a number of points of attention in 2016:

- *Review of the Mid-Term Plan with more emphasis on profitability*
  The Mid-Term Plan 2016-2018 has been discussed extensively with specific emphasis on the 2018 targets for growth and profitability. The updated strategy, as presented in May 2016, has the full support of the Supervisory Board and has and will continue to reduce complexity and enhance cost effectiveness, leading to a significant improvement in profitability. It is expected to focus investments and resources to enable further revenue growth, taking into account the regular project lead time of around three years between the start of a customer project and revenue generation.
- *Growth outside Europe*
  In 2016, Kendrion's China strategy and organisation was revised and translated into a plan with promising prospects. We are hopeful that after a slow start in Asia, Kendrion will accelerate in this important region.
  The USA has shown good growth over the past few years but revenue development in 2016 was held back by a weak heavy truck market. We will continue to push hard to continue growth in 2017 and beyond.
- *Management development programme*
  Further progress is expected to be made in 2017, based on a new concept that has been introduced for management/succession reviews. See also page 58 of this Report.
- *Post-acquisition evaluation Kuhnke*
  The Executive Board made a detailed review of the acquisition of Kuhnke in May 2013 which was discussed extensively at the meeting of the Supervisory Board in August. The overall conclusion is that the acquisition went well in terms of the acquisition process and organisational and cultural integration. The agreed structure was implemented and the planned cost savings were higher than anticipated and delivered ahead of schedule. Less positive was the fact that the commercial pipeline was more vulnerable than anticipated, leading to a lower level of revenues especially in 2015 and 2016. Consequential actions for further cost measures were partially taken in 2015, with further measures being initiated as part of Kendrion's simplification programme.

The Supervisory Board recognises the importance of Kendrion's corporate social responsibility. It advocates focusing strongly on the company's social and environmental standards with regard to its processes and on the relationship between the overall strategy and sustainability. The Supervisory Board is pleased that this year an Integrated Annual Report, covering both financial, environmental and social issues, has been published for the first time. The Supervisory Board reviewed the achievements of 2015 and endorsed the CSR plan 'Taking Responsibility' which covers the years 2015 to 2017. More information about Kendrion's CSR activities can be found on pages 43-60 of this Report.

The Supervisory Board receives regular updates on the latest developments concerning relevant legislation and corporate governance regulations.

The special topics the Supervisory Board earmarked for 2017 are as follows:

- Revenue growth beyond 2018;
- The introduction of the revised Netherlands Corporate Governance Code and its focus on long-term value creation, risk management, culture and remuneration;
- The new long-term Corporate Social Responsibility programme for beyond 2017, also taking into account the effects relating to the Paris Agreement on climate change;
- Management development and succession planning; and
- Team effectiveness of the Supervisory Board in its new composition.

Committees

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

Audit Committee

In 2016, the Audit Committee was comprised of Robert de Bakker (Chairman and financial expert as defined by the Netherlands Corporate Governance Code) and Henk ten Hove as acting member during 2016. Jabine van der Meijs and Thomas Wünsche were also appointed as members of the Audit Committee and will participate in its meetings as of 2017. Jabine van der Meijs will take over the role of Chair when Robert de Bakker steps down at the General Meeting of Shareholders on 10 April 2017.

The Audit Committee held four meetings with the CFO and his staff during the year. The issues that were discussed included the development of the results, the control environment, the tax strategy and position, transfer pricing, risk management, IT/cyber security, contingency planning, compliance, treasury activities, the dividend policy, the ERP environment, hedging, goodwill impairment evaluation and insurances. The Audit Committee devoted extensive attention to the Management Letter and internal audit findings and also to the way in which the limited number of small issues can be solved. The external auditor joined the meetings at which the full-year figures for 2015 and the half-yearly figures for 2016 were discussed. At this meeting, the auditor's report (including among others the key findings regarding goodwill, the tax position, internal control and the draft auditor opinion) was discussed extensively. The members of the Committee attended all meetings.

The Audit Committee once again reviewed the need for a separate internal audit department. The Supervisory Board recommends that the Executive Board maintains the current situation in line with the Audit Committee's proposal. The Supervisory Board is of the opinion that the internal control procedures described in more detail on pages 64 and following of this Annual Report fulfil Kendrion's needs, without internal audit department.

The Audit Committee and the Supervisory Board devoted comprehensive attention to the organisation's internal risk management and control systems. The auditor's overview of internal control issues was discussed together with the status of the internal tests on the financial reporting systems. The external auditor also attended the meeting of the Supervisory Board at which the Management Letter was discussed. The Supervisory Board expressed its satisfaction that the Management Letter of the company's auditor once again revealed only a limited number of findings and no findings which qualified as significant. The Supervisory Board closely monitors follow-up actions regarding any issues that are reported. More information on this is contained in the risk management section on pages 62-70 of this Annual Report.

Remuneration Committee

Until April 2016, the Remuneration Committee was comprised of Mrs Sanders (Chair) and Mr Ten Hove. After Mrs Sanders stepped down at the General Meeting of Shareholders on 11 April 2016, Mrs Mestrom took over the position of Chair.

The Remuneration Committee held two meetings. All meetings were attended by the CEO. The bonus systems were discussed as well as the expected outcome of the variable remuneration for 2015 and the target setting for 2016. The Remuneration Committee also discussed the organisational changes and the need for a more explicit performance culture, including reinforcement of the management teams in some of the business units.
The Remuneration Committee set some milestones for further implementation of the management development policy and tools. The Remuneration Committee held performance meetings with the CEO and the CFO.

The Committee took the lead and was extensively involved in the search for the succession for retiring members of the Supervisory Board in 2016 and 2017. The members of the Committee attended all meetings.
The Remuneration Committee benchmarked the remuneration for the members of the Supervisory Board and developed a proposal for adoption by the Annual General Meeting of Shareholders to be held on 10 April 2017. See also page 77 for more information in this respect.

The Remuneration Committee furthermore initiated the discussions relating to and, after careful consideration, the proposals for the respective reappointment of the Chairman of the Supervisory Board Mr Ten Hove and of the CFO Mr Sonnemans at the General Meeting of Shareholders on 10 April 2017.

The Remuneration Committee will be renamed HR Committee as of 2017.

Remuneration policy

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

The policy is also designed to be sufficiently challenging to motivate managers and, if they perform well, to retain them in the longer term. The composition of the remuneration package supports Kendrion's short and long-term objectives. The package is performance oriented in design, the results being used to determine a variable income which is of a challenging level but not excessive.

The Supervisory Board adopted the remuneration package after taking account of the movement in results, movement in the share price and non-financial indicators also relevant to the long-term creation of company value.

Consideration was also given to the effect of the total remuneration of the Executive Board on the overall remuneration rates within the company. The Supervisory Board has analysed the potential outcomes of the proposed variable remuneration components of the policy.

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

Further explanation of the remuneration policy is provided on pages 75-77 and can also be found in the Remuneration Report of the Supervisory Board published on Kendrion's website.

Remuneration of the Executive Board

The Supervisory Board determined the remuneration for the individual members of the Executive Board in accordance with the remuneration policy approved by the General Meeting of Shareholders.

A specification for the remuneration of the Executive Board and the Supervisory Board is enclosed in the notes to the financial statements (pages 138-140 and 149).

The Supervisory Board has received confirmation from the auditor that the figures on which the 2016 bonus for the Executive Board is based, are derived from the audited financial statements and that the calculation of the bonus has been checked.

Financial statements and auditor's opinions

The financial statements 2016 included in this Annual Report have been audited and provided with the unqualified opinion of Deloitte Accountants B.V. They were extensively discussed with the Supervisory Board, the Audit Committee in the presence of the external auditor, CEO and CFO.
The Supervisory Board is of the opinion that the financial statements meet all requirements for transparency and correctness. As such the Supervisory Board recommends the General Meeting of Shareholders to be held on 10 April 2017 to adopt the financial statements and the appropriation of net income.

This Annual Report furthermore contains a limited assurance report of Deloitte Accountants B.V. on the defined Key Performance Indicators of our Corporate Social Responsibility Programme 'Taking Responsibility'.

Profit appropriation

Kendrion realised a net profit of EUR 14.9 million in 2016. Normalised net profit, which is profit before the one-off costs for the simplification programme, amounted to EUR 19.6 million.

The Supervisory Board approved the proposal of the Executive Board to pay out 53% of normalised net profit as dividend. We also support the proposal to buy back shares required to pay dividend in stocks.

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

In summary

2016 has been a year with many changes on the back of an ambitious strategic plan presented in May of 2016. Kendrion simplified its organisation, abandoned its divisional structure, closed several smaller manufacturing facilities and made changes in three of its five business unit management teams. Going forward, much work lies ahead. The Supervisory Board supports the strategic plan and the management who have committed to deliver it.

We would like to thank our business partners for their often long-standing business relationship, our shareholders for their trust and our employees for their flexibility, dedication and contribution.

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

Zeist, 21 February 2017

SLM at the heart of 3D metal printing

3D printing is hot and ignites the imagination. Developments are staggering and contain the promise of completely blowing apart our traditional concepts of production and supply chains.
Take the huge progress in 3D metal printing, which has become increasingly popular in recent years. SLM Solutions Group AG from Lübeck, Germany, is a leading provider of metal-based additive manufacturing technology and specialises in selective laser melting. In traditional manufacturing, making metal and plastic objects can be a wasteful process. In some cases more than 90% of the material is cut away. Printing metal parts in 3D uses less energy and reduces waste to a minimum. A finished 3D printed product can be up to 60% lighter when compared to the machined part. 3D printed parts are already just as good, if not better, as those manufactured in a traditional way. Kendrion supports the future of 3D printing and supplies Panel PLCs and modular FIO I/O systems for controlling the machinery part of SLM's metal 3D laser machines. 'SLM's selective laser melting systems are very innovative, high-performance devices,' says Kendrion ICS Sales Manager Jörg Pöhls. 'This is, last but not least, thanks to Kendrion ICS control technology.'

SIMPLIFY 3D printing technology will disrupt and confuse existing structures, but will also open up huge new opportunities and markets.

FOCUS Kendrion's focus is on supporting its customers in the field of 3D printing, contributing specific know-how and experience and concentrating on aspects such as efficiency and miniaturisation.

GROW Being active in pioneering industrial segments, focusing on developments such as robotics, energy systems and 3D printing will help Kendrion secure a solid position in major growth markets.

F.J. Sonnemans

J.A.J. van Beurden

J.A.J. van Beurden (56)

Position: Chief Executive Officer
Nationality: Dutch
Joined Kendrion: 1 December 2015
Appointment to current position: 1 December 2015
Additional positions: Non-Executive Director Antenna Company, member of the Supervisory Board of Adyen, member of the Supervisory Board of the Twente University

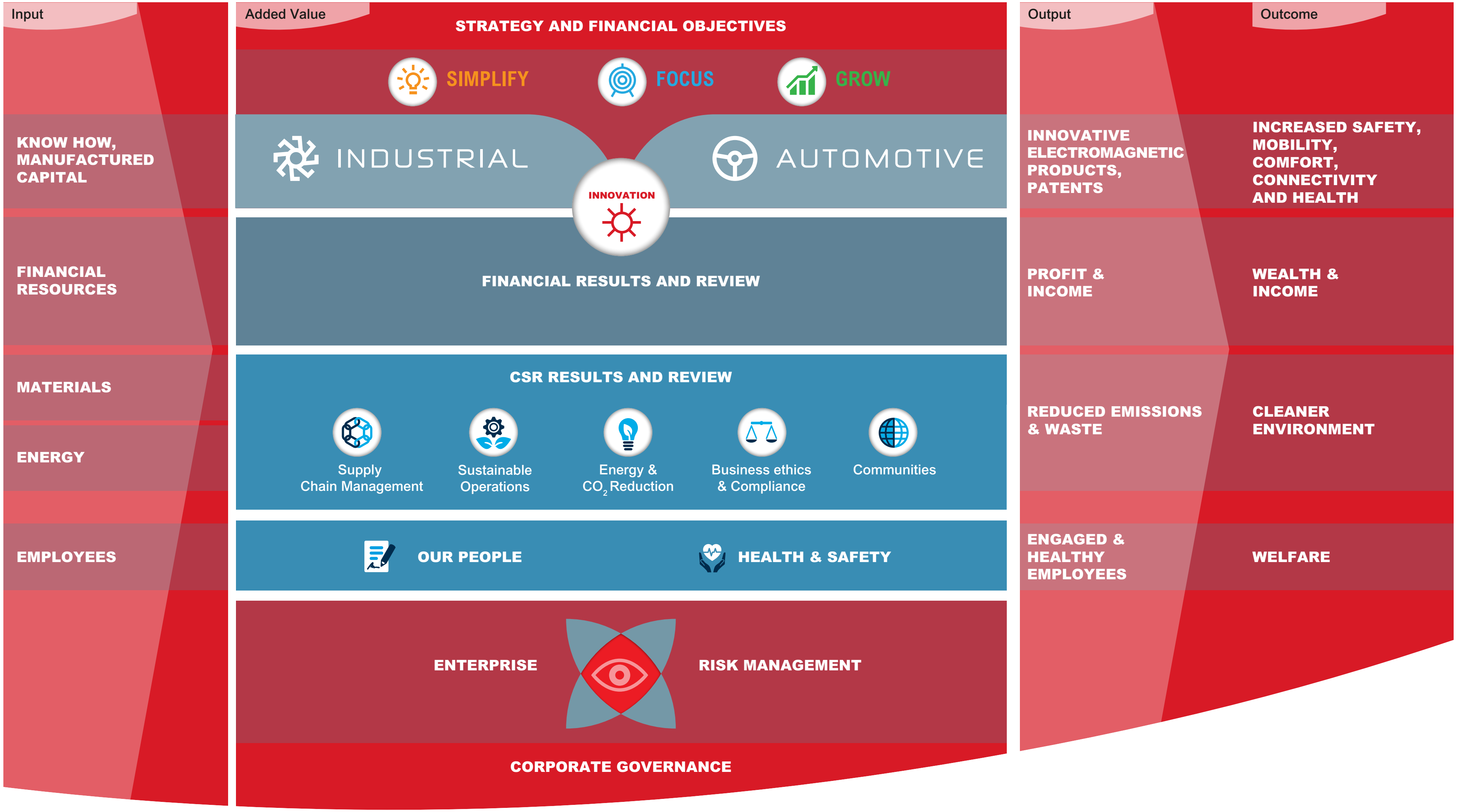
F.J. Sonnemans (55)

Position: Chief Financial Officer
Nationality: Dutch
Joined Kendrion: 15 February 2013
Appointment to current position: 15 April 2013

Integrated reporting framework and added value model

Kendrion approaches the strategic targets, both financial and non-financial, on an integrated basis whenever possible. The environmental, social and other sustainability targets are treated as part of its ordinary business processes.

In the combined integrated reporting framework and value creation model, Kendrion illustrates how and by what means it creates value for its stakeholders, financially and otherwise, including its impact to society.



INDUSTRIAL MAGNETIC SYSTEMS
INDUSTRIAL CONTROL SYSTEMS
INDUSTRIAL DRIVE SYSTEMS

WHAT WE DO

We develop and manufacture innovative, high-quality electromagnetic components and subsystems for industrial markets.

WHERE OUR PRODUCTS ARE USED

Access control systems
Aircraft interiors
Elevator systems
Energy generation and distribution
Industrial appliances
Industrial automation / robotics
Industrial safety systems
Medical equipment
Textile machinery

WHO WE DO IT FOR

B/E Aerospace
Bosch Rexroth
Dräger
Euchner
Fresenius
Schindler
Siemens
Stoll
Oerlikon
Perkin Elmer

Industrial activities

Profile

The Industrial activities focus on the development and manufacturing of electromagnetic systems and components for many industrial applications in markets such as process automation, energy generation and distribution, medical and analytical equipment, transportation and aerospace.

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

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

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

Market and market position

The total market size for electromagnetic systems and components in which the industrial business units operate is estimated at EUR 3 billion fragmented across many different end-markets. Approximately 30% of the end markets are in Europe, 30% in the USA and 40% in Asia and the rest of the world.

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

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

Customer concentration is relatively low, only a few customers represent an annual revenue of several million euros. Large customers include B/E Aerospace, Bosch Rexroth, Dräger, Euchner, Fresenius, Oerlikon, Perkin Elmer, Schindler, Siemens and Stoll.

Developments in 2016

Industrial revenue totalled EUR 152.3 million (2015: EUR 150.8 million).

Several successful product launches in all business units contributed to revenue in 2016, although the revenue contribution from new projects was lower than expected as some customers delayed the launch of their products. Industrial Magnetic Systems successfully further expanded its business in China. Industrial Control Systems saw a slightly lower revenue but a strong increase in profitability with cost measures taking effect and growth in high margin categories. Besides the contribution from new projects, Industrial Drive Systems benefited from demand growth for its electromagnetic brakes (PE brakes) in the OEM servo motor industry and the continuous deployment of robots into further application fields.

Total revenue was adversely impacted by a year of zero market growth in the German machine building sector, caused mainly by lower exports, and the phase-out of a large customer project in Industrial Control Systems.

Industrial Magnetic Systems completed the expansion and improvement of its production facility in Engelswies, Germany in 2016. The closure of the Swiss manufacturing facility was announced, with the majority of production being transferred to Germany in early 2017.

The relocation of production from the Industrial plants in Germany to Sibiu, Romania continued in 2016. This included the selective in-sourcing from coil winding. The use of the Romanian production facilities will be increased further if this is deemed economically and technologically feasible.

Outlook

Several new product launches are planned for 2017 and the business units have a healthy project portfolio with a significant number of promising projects. In addition, the various simplification measurements across all Kendrion's industrial activities will contribute to an increase in profitability.

Industrial Magnetic Systems will start production for a number of new projects mainly in the process automation and locking and safety markets. A significant proportion of the new projects will be in the Chinese operations in Suzhou. The project portfolio furthermore consists of several key projects for the energy distribution markets. Industrial Magnetic Systems will further continue and expand its sales activities in the main markets in Europe, Asia and the USA.

Industrial Control Systems expects to launch new projects in the aircraft industry. A significant proportion of the R&D activities of Industrial Control Systems has been invested in the development of a new integrated safety FIO module (Fast Input Output) for process automation customers and new customers in the control and drive industry. Kendrion expects the FIO product line to contribute to the revenue of Industrial Control Systems in 2017 and beyond.

Industrial Drive Systems anticipates a year with steady demand from existing customers and growth from new customer projects around market trends as increasing automation/robotics, urbanisation and safety. The strongest market will remain the application of electromagnetic brakes in the OEM servo motor industry. The investment in a new production line to meet the increasing demand for PE brakes will decrease complexity and increase production efficiencies.

PASSENGER CARS
COMMERCIAL VEHICLES

WHAT WE DO

We develop and manufacture innovative high-quality electromagnetic components and subsystems for customer-specific applications in the automotive and off-highway vehicle industry.

WHERE OUR PRODUCTS ARE USED

- Belt damping systems
- Chassis suspension
- Engine management
- Fuel systems
- Human machine interface (HMI)
- Hydraulics
- Sound systems
- Thermal management
- Transmission

WHO WE DO IT FOR

- Automotive Lighting
- Continental
- Daimler
- Delphi Europe
- Eaton
- EvoBus
- Fiat Chrysler
- Hyundai KIA
- Navistar
- Stanadyne
- ThyssenKrupp Bilstein
- Volkswagen
- Wabco
- Yutong
- ZF Friedrichshafen

Automotive activities

Profile

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

Kendrion is well-known as a competent development and engineering partner with active project teams, in-depth technical knowledge and access to development, testing and production facilities, with an international network and facilities in Germany, Austria, Romania, the Czech Republic, the USA, Mexico, India and China. All products are developed and designed in accordance with the customer's specific needs, placing great emphasis on performance, quality and reliability. Kendrion has been awarded the ISO/TS 16949 certification and supports environmentally friendly working methods in accordance with ISO 14001 and ISO 50001 for several plants. The Automotive organisation was further streamlined in early 2016 by combining the existing four business units into two new business units: Passenger Cars and Commercial Vehicles.

The automotive activities of the business units Passenger Cars and Commercial Vehicles have similar economic characteristics and display a number of similarities with respect to their products, production processes and customers. Machines, techniques and employees are largely interchangeable between both business units.

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

Commercial Vehicles' main focus is on electromagnetic clutches for front-engine cooling, angle gear box systems for rear engine cooling, clutches for switching auxiliary units, custom control flow valves and coils, vibration absorbers, pressure switches, standard/mobile hydraulics and lighting applications. Intelligent electronic systems and their integration are provided in customer-specific applications. There will be an increasing focus on products for thermal management, decoupling power trains and electrical engines and fluid control for increasing environmental protection.

Market and market position

The total size of the market for electromagnetic systems and components in which the automotive business units operate is estimated to be EUR 9 billion. Approximately 25% of the end markets are in Europe, 25% in the USA and 50% in Asia and the rest of the world.

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

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

Based on a market survey carried out in 2015, Kendrion estimates the accessible size of the chosen focus markets to grow by 4% to EUR 2 billion.

Kendrion's largest automotive market remains Europe and, within that market, Germany, where Kendrion expanded its market position. Passenger Cars' position in the North American and Chinese markets improved as several new projects both for transmission and fuel systems and thermal management applications were won. Kendrion's sound design systems enjoyed strong interest from different customers, which was also supported by anticipated new legal requirements for hybrid and electric cars. Uncertainties in the diesel market remain, but the outlook remains intact mainly due to further valve projects.

Major customers include Automotive Lighting, Continental, Daimler, Delphi Europe, Eaton, EvoBus, Fiat Chrysler, Hyundai KIA, Navistar, Stanadyne, ThyssenKrupp, Volkswagen, WABCO, Yutong and ZF Friedrichshafen.

Developments in 2016

Revenue for the Automotive activities amounted to EUR 291.1 million (2015: EUR 291.3 million).

Passenger Cars further strengthened its position with new business in fuel systems, thermal management, sound systems, electronics and the next generation of the piston cooling valve in 2016. The ramp-up of the new active damping valve continued successfully. The highly automated and complex production lines are running at a high productivity level. New product developments for alternative drive systems such as hybrid and electric cars and thermal management applications were acquired. The business unit intensified its sales activities in China, at local OEMs for fuel systems, engine management, seating comfort and sound system applications.

In the USA, the development of the next generation of the gasoline valves has been finalised and the preparations for serial production have started. The production for the park lock solenoid remained stable throughout the year with strong sales realised for the rear wheel and 4-wheel drive vehicles. The sales team has furthermore extended its activities into Detroit, near to the local OEMs, and has achieved its first successes.

Development focus in 2016 was on fuel efficiency and emission reduction with several applications in both engine and thermal management and hydrogen fuel cell valves. In the field of Human Machine Interfaces, Kendrion succeeded in the further development of active gas pedal actuators and seating comfort valves. The production capacity for higher volumes has now also been put in place.

Kendrion's sound design systems enjoyed strong interest from customers around the world and this was also driven by new legal requirements for hybrid and electric cars that stipulate that these vehicles must emit an external sound at low speeds.

Commercial Vehicles experienced a challenging year in 2016 with a downturn in the North American heavy truck market and a weak local Chinese bus market that placed revenues under pressure. Kendrion's position in Chinese buses for the export market remains strong. In response to the reduction in revenue, the business unit took decisive action to reduce costs. As part of its focus strategy it was decided to close the small facility in Brazil after several years of economic downturn with limited progress. The business in Mexico developed well with several new projects contributing to revenue growth.

Development focus in 2016 was on fuel efficiency and emission reduction with several applications in both engine and thermal management and hydrogen fuel cell valves.

Outlook

Automotive has a healthy project portfolio and will expand its position with further product launches, especially in Passenger Cars.

As the trend towards hybrid and electric vehicles further develops, clear changes in the market will arise in future years. This is why the activities regarding the sales campaigns launched in 2016 will be intensified in 2017. The related focus will be on complex systems or sub-systems that are applied in vehicles, independent from the type of drive train.

Passenger Cars expects a further increase in revenue and efficiency in 2017 due to its strong technical competences in the range of complex and customised product solutions.

Commercial Vehicles is focusing on restoring its performance after a tough 2016. The Nanjing facility will be integrated into the main Kendrion facility in Suzhou, China.
Efforts to modernise the product portfolio and focus on evolving customer needs will be intensified in order to further maintain and initiate new growth. Kendrion expects new projects within fluid controls and thermal management to be initiated in 2017. It also foresees new business opportunities in valve projects.

ARTIFICIAL CAR SOUND

Product: Sound generator for exterior sound systems in electric and hybrid cars.

Customer: OEMs of electric and hybrid vehicles.

Kendrion solution: Our sound system solution consists of our sound actuator including a newly developed membrane that comes in a compact package and provides a voluminous exterior sound. Due to the bending-wave-transducer used, it has a much wider directivity than regular speaker systems. It provides a total sound system solution, including the required electronic control unit and software.

Added value: Our system complies with the Acoustic Vehicle Alerting System (AVAS) regulation issued by the UNECE.
It furthermore contributes to a safer traffic environment, especially where cars and pedestrians meet in traffic.

ACCURACY OF SURGERY IMPROVES THE OUTCOME FOR PATIENTS

Product: Permanent magnet brakes in servomotors for surgical robots.

Customers: Suppliers that specialise in medical equipment in which accurate positioning and fast response times are of the utmost importance.

Kendrion solution: Surgical robots are driving innovation in the non-invasive operation processes in the medical industry. The precise positioning of the operating instruments that follow every movement of the surgeon's hand is key. The instruments must be held precisely in their position during pauses. Kendrion's permanent magnet brakes are positioned along the axes of the operating stative and ensure that the application holds its exact position.

Added value: Allows for precise control in any angular or linear position.

Innovation

One of Kendrion's key strengths is its capacity for innovation. Innovation is at the heart of the many new products Kendrion is developing, in many cases in close cooperation with its customers. As outlined in Kendrion's strategic update released on 3 May 2016, Kendrion is keen to position itself at the forefront of a series of important megatrends that provide substantial opportunities for growth in the coming years.

Kendrion has identified three such trends in Automotive. The first area is driven by the desire for automotive companies to improve the performance and efficiency of traditional combustion engines. With respect to this trend, Kendrion sees its products helping fuel efficiency and engine management systems being fundamental because both help reduce CO_2 emissions. The second area is alternative engines. Kendrion envisions good opportunities through its patented sound actuators. Also its technology in fuel cell valves is equally important to this rapidly evolving market. The third area is safety and comfort in which Kendrion sees its longstanding skills in suspension, seat comfort and haptic gas pedal technology as being highly relevant.

Kendrion also discerns three main themes in Industrial. First, the trend towards increasing automation in industrial applications, for example robotics in factory production lines. Kendrion's expertise in drive and conveyor systems is an important differentiator in relation to this trend. Secondly, the trend of urbanisation. As more and more people move to urban areas, energy generation and power distribution become ever more complex, which in turn drives demand for Kendrion's power switches and best-in-class circuit breakers. More high-rise buildings will create added demand for Kendrion's skills in elevator systems. And finally, safety remains a critical area for the industrial market. This creates opportunities for Kendrion's access and door locking systems.

Further enhancing the innovative capability is an important strategic goal for Kendrion.

Financial review

Normalisation impact

On 3 May 2016 Kendrion announced its updated strategy Simplify, Focus, Grow, which included a simplifying programme that will take place over the period 2016 – 2018. The one-off costs of the programme are significant and have been excluded from the results in order to better show the underlying profit development. In prior years Kendrion has also presented normalised (recurring) results in the annual report when the results were significantly impacted by non-recurring events, for example as a result of acquisitions. In 2014 and 2015 no normalisation adjustments were made in the results. The one-off costs for the simplifying measures already initiated in 2016 amount to EUR 5.7 million (EUR 4.7 million after tax), with corresponding savings on an annualised basis of EUR 7.0 million, of which EUR 3.5 million already contributed to this year's results. Further simplifying measures are expected to be implemented during the remaining part of the programme.

Financial results

2016 was a steady year for Kendrion. Profitability improved significantly as the company's simplifying measures took effect, resulting in a 21% increase in the normalised operating result before amortisation (EBITA) to EUR 31.1 million (2015: EUR 25.8 million). Normalised net profit improved to EUR 19.6 million (2015: EUR 16.8 million).

The normalised operating result before amortisation (EBITA) as a percentage of revenue increased to 7.0% (2015: 5.8%), driven mainly by the company's simplifying measures. Industrial Control Systems and Passenger Cars showed the greatest improvement in profitability.

Normalised financial results

EUR million	2016
Reported operating result before amortisation (EBITA)	**25.4**
One-off costs related to simplifying measures in raw materials	0.6
One-off costs related to simplifying measures in staff costs	3.4
One-off costs related to simplifying measures in other operating expenses	1.7
Normalised EBITA	**31.1**
Reported amortisation	(3.7)
Normalised result before net finance costs	**27.4**
Reported net finance costs	(3.1)
One-off costs related to simplifying measures in finance expense	0.4
Normalised net finance costs	**(2.7)**
Normalised profit before income tax	**24.7**
Reported income tax expense	(3.7)
Impact one-off costs on income tax expense	(1.4)
Normalised profit for the period	**19.6**

Financial results

EUR million	2016 Normalised	2016 Reported	2015 Reported
Revenue	443.4	443.4	442.1
Operating result before amortisation (EBITA)	31.1	25.4	25.8
Return on sales (ROS)	7.0%	5.7%	5.8%
Net profit	19.6	14.9	16.8
Net return as %	4.4%	3.4%	3.8%
EBITA return on investments	12.4%	10.2%	10.2%

Revenue

In 2016, revenue increased by 0.3% from EUR 442.1 million to EUR 443.4 million. At constant rates of exchange, revenue growth was 0.6%.

The Industrial activities achieved organic growth of 1.0% driven mainly by Industrial Magnetic Systems. Revenue in the Automotive activities was flat compared to 2015. The organic growth of Passenger Cars, with a strong contribution from the ramp-up of its project in Austria, was offset by a decline in revenue in Commercial Vehicles, which was impacted by the weak heavy truck market in the USA.

Developments per segment

Industrial

Industrial – which accounts for 34% of Kendrion's total revenue – reported revenue of EUR 152 million, which is a slight increase of 1% compared to last year. The normalised operating result before amortisation increased to EUR 11.6 million, compared to EUR 10.1 million in 2015. This resulted in a normalised EBITA margin of 7.6% (2015: 6.7%).

The main industrial markets were flat. The German machine building market, which is the main indicator for the Industrial activities, remained flat for the whole year.

High demand in Industrial Magnetic Systems, mostly in China and Switzerland, and the successful launch of new projects offset the impact from lower revenues at some industrial customers, leading to a modest revenue increase of 1%.

Despite the modest revenue development and inflationary pressure on staff costs, profitability improved compared to 2015 due to the simplifying measures implemented in 2016, resulting in a decrease in staff costs of EUR 1.3 million. Other operating expenses also decreased as a result of simplifying measures.

Industrial Magnetic Systems started the year slowly. As from the second quarter, sales picked up resulting in an increase of 3% in total revenue for the whole year. Demand in Germany was mixed. Revenue in China increased significantly mainly due to a new customer project that ramped up at the end of 2015. Revenue in Switzerland partly recovered in 2016 from the decline in 2015 when the Swiss industrial market was hurt by the strong Swiss franc. Production in Switzerland ended by the end of the year with most production being moved to Germany. Industrial Magnetic Systems will continue to relocate certain production lines to the plant in Sibiu, Romania. This will improve cost efficiency.

Industrial Control Systems had a mixed year with a revenue decline of 1%. The revenue decline was mainly attributable to the further ramp-down of one of its larger customer projects, which had already started in 2015. Industrial Control Systems did start new customer projects and saw higher demand towards the end of the year. The aerospace market in particular performed well. The business unit was successful in significantly reducing costs in Germany which resulted in improved profitability. The simplifying measures taken in 2016 will further improve profitability in 2017. Industrial Control Systems is continuing to relocate production activities to its plant in Sibiu, Romania, which will help to lower the cost base of the business unit.

Industrial Drive Systems had a steady year with modest organic growth of 1%. The business unit benefited from high demand for its permanent magnet lines and from several new orders offsetting the start of an expected phase-out of a high-volume customer project in Germany. As a result of the simplifying measures taken by the business unit, profitability improved compared to 2015.

Overall, Industrial succeeded in achieving modest growth in a flat German machine-building market, with an increase in momentum towards the end of the year, while improving its profitability as a result of the simplifying measures. The measures taken in 2016 and simplifying measures scheduled for 2017 are expected to have a further positive impact on profitability in future years.

Automotive

Automotive – which accounts for 66% of Kendrion's total revenue – realised revenue of EUR 291 million, in line with last year. The normalised operating result before amortisation increased to EUR 19.9 million, compared to EUR 17.7 million in 2015. This resulted in a normalised EBITA margin of 6.8% (2015: 6.1%).

The Automotive activities show a mixed picture. On the one hand, Passenger Cars achieved substantial organic growth on the back of the further ramp-up of customer projects. On the other hand, Commercial Vehicles recorded a substantial decrease in revenue mostly as a result of the weak heavy truck market in the USA.

The general market circumstances for Automotive are good, although the heavy truck market in the USA is expected to remain weak for some time.

Despite the flat revenue development and inflationary pressure on staff costs, profitability improved compared to 2015 due to the simplifying measures implemented in 2016, resulting in a decrease in staff costs of EUR 1.9 million and a EUR 1.2 million decrease in other operating expenses.

Passenger Cars reported the highest organic growth of all business units, up 4% compared to last year and as much as 9% in the second half year. This growth was mainly attributable to the further ramp-up of the production of solenoid valves for active damping systems in Austria. Revenue for this project is expected to increase further in 2017 and thereafter. The total revenue during this project's lifetime is expected to be at least EUR 300 million with further potential in both Europe and the USA. These projects will support revenue development going forward. Furthermore new projects in the area of sound-design technology have significant potential for future growth. As a result of the simplifying measures taken by the business unit, profitability improved compared to 2015.

Commercial Vehicles had a disappointing year, resulting in a revenue decline of 9% compared to last year.

The revenue decrease is attributable to the weak heavy truck market in the USA, lower sales into the bus market in China. Despite the significant revenue decline, cost reductions helped to mitigate the impact on profitability. The production facilities in Germany, the Czech Republic and Mexico achieved steady revenues and improved profitability. It was a difficult year in the USA, mainly due to lower demand from all the heavy truck customers. In India, operations focus mainly on the production of fan clutches for the local truck market. In 2016 revenues decreased as customers are moving away from electromagnetic clutches towards cheaper but less efficient technologies. In 2017 Kendrion decided to close manufacturing in Pune. The business unit closed its production plant in Brazil before year-end 2016, as scheduled.

The improvement in the normalised operating result before amortisation of Automotive to EUR 19.9 million (2015: EUR 17.7 million) was driven largely by the organic growth in Passenger Cars and the simplifying measures taken during the year. Additional simplifying measures scheduled for 2017 are expected to have a further positive impact on profitability in future years.

The main future growth markets for Automotive are suspension (damper) systems, driver assistance systems, valve and camshaft adjustments, fuel systems, thermal management, sound systems and hydrogen valves. Although uncertainty regarding the longer-term future of combustion engines remains, the current project portfolio, the current new project opportunities and actions taken in 2016 to improve future profitability are reasons for optimism about the prospects for Automotive in the future.

A UNIQUE PNEUMATIC APPLICATION

Product: Engine cooling clutch for the Oshkosh Striker, a specialised aircraft rescue and firefighting (ARFF) vehicle.

Customer: Oshkosh Corporation, Wisconsin, USA.

Kendrion solution: The clutch is a unique pneumatic application and is located at the back of the vehicle where the engine is situated. This clutch drives a 42″ (over 1 metre) fan at up to 2,250 rpm.

Added value: High torque up to 7,000 in/lbs. capability, smooth engagement, increased engagement capability, improved friction surface of 168 cm², rapid heat dissipation and reduced heat sink.

MOVING FORWARD WITH PROSTHETICS

Product: Swing phase control in a prosthetic knee joint.

Customer: Ottobock, a German company that specialises in improving the mobility of people with disabilities through innovative products and advanced orthopaedic technologies.

Kendrion solution: Kendrion uses a throttle valve in a four-axis prosthetic knee joint to control the extension movement of the leg independently of the flexion movement. The extremely small valve has defined stops in both directions, which can be precisely adjusted by the orthopaedic technician. It also provides a guaranteed comfortable terminal impact in the direction of the extension at different walking speeds.

Added value: Improving the mobility of disabled people by providing exact flow control, defined end positions and easy and safe installation and operation.

Added value

In 2016, added value amounted to EUR 212.9 million, which is in line with last year (2015: EUR 214.0 million). Added value as a percentage of revenue remained stable compared to last year at 48%.

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

Staff costs and other operating expenses

Normalised staff costs, including costs for temporary employees, amounted to EUR 129.2 million, compared to EUR 133.1 million in 2015.

The lower staff costs were mainly the result of the simplifying measures taken during 2016, partly offset by the yearly increase in annual salaries, mostly related to the tariff increase in Germany. Consequently, total staff costs as a percentage of revenue decreased by 1.0%. The most significant simplifying measures taken regarding staff costs were the elimination of the divisional management layer, the reduction of the number of business units from seven to five and several efficiency improvement measures taken at the operating company level. The effects of the simplifying measures are also clearly visible in the reduction of the number of FTEs (direct and indirect), which was reduced by 80 FTEs.

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

Staff costs	2016	2015
Staff costs (EUR million)	129.2	133.1
% of revenue	29.1%	30.1%
% of added value	60.5%	62.2%

FTEs (at 31 December)	2016	2015
Direct staff	1,320	1,360
Indirect staff	1,180	1,213
Temporary staff	78	85
Total FTEs	**2,578**	**2,658**

Normalised other operating expenses for 2016 amounted to EUR 32.9 million (2015: EUR 35.7 million). The decrease compared to last year is mainly the result of the simplifying measures taken in 2016. In addition, other operating expenses had been negatively impacted in 2015 by additional warranty expenses of EUR 1.3 million. As a result, the overall ratio of operating expenses as a percentage of revenue decreased to 7.4% (2015: 8.1%).

Total Research & Development expenses (including staff and other operating expenses) for 2016 totalled EUR 27.6 million (2015: EUR 26.4 million).

Net financing costs

Normalised net financing costs decreased to EUR 2.7 million (2015: EUR 3.3 million), in spite of unfavourable currency exchange results of EUR 0.1 million (2015: negative EUR 0.5 million). Excluding currency results, financing costs decreased by EUR 0.2 million compared to 2015 mainly due to the continued reduction in debt levels.

Average (gross) debt levels, before deduction of cash and deposits, amounted to EUR 84 million in 2016. The average interest charge on borrowings in 2016 was 2.0% (2015: 1.9%).

More information on the revolving credit facility, available credit lines and conditions can be found on pages 118-120 of the financial statements.

Income tax

The normalised income tax expense in 2016 amounted to EUR 5.1 million (2015 normalised: EUR 4.7 million). The effective income tax rate for 2016 was 21% (2015 normalised: 24%).

The effective tax rate in 2016 was positively influenced as a result of the country mix, with a lower relative portion of the taxable profit in the USA in particular, which has a relatively high corporate income tax rate (40%). More information on the effective tax rate can be found on page 138 of the financial statements.

Normalised tax paid in 2016 amounted to EUR 5.1 million, which is in line with the normalised income tax expense.

Net income

Normalised net income attributable to equity holders of the company (EUR million)	19.6
Normalised earnings per share (EPS) (EUR)	1.47

Kendrion proposes an optional dividend of 53% of the normalised net result (2015: 61%), equivalent to EUR 0.78 per share entitled to dividend.

Financial position and working capital

Total assets increased to EUR 347.1 million (2015: EUR 340.9 million). Trade and other receivables increased by EUR 5.8 million, mainly as a result of higher revenue in the last two months of the year compared to 2015. Cash and cash equivalents increased by EUR 2.2 million. This was caused mainly by an increase of cash positions in China and India, which are not part of the EUR and USD cash pools.

Net working capital at 31 December

EUR million	2016	2015
Inventories	52.6	52.5
Trade and other receivables, tax receivable	55.7	51.4
Less: Trade and other payables, tax payables, current provisions	70.3	60.5
Net working capital	**38.0**	**43.4**
As % of revenue	8.6%	9.8%

Condensed consolidated statement of financial position

Assets EUR million	31 December 2016	31 December 2015
Property, plant and equipment	85.5	82.7
Intangible assets		
■ Goodwill	94.3	93.4
■ Acquisition related	19.7	23.3
■ Software	8.9	9.9
■ Development costs	1.6	1.0
Other	0.4	0.6
Deferred income tax	16.0	15.9
Non-current assets	**226.4**	**226.8**
Inventories	52.6	52.5
Income tax	1.2	2.7
Trade and other receivables	54.5	48.7
Cash	12.4	10.2
Current assets	**120.7**	**114.1**
Balance sheet total	**347.1**	**340.9**

Working capital

Net working capital as a percentage of revenue improved compared to the previous year to 8.6% of revenue (2015: 9.8%). Excluding the effect of the provisions and payables related to the simplifying measures, net working capital improved to 9.3% of revenue. Receivables and payables both increased as a result of the higher activity level in the last two months compared to 2015. The year-end provision for trade receivables amounted to EUR 0.1 million (2015: EUR 0.4 million).

Intangible assets

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

Intangible assets relating to these acquisitions consisted largely of the calculated fair value of customer relations and technology. The annual amortisation charge relating to these intangibles amounted to EUR 3.7 million in 2016. More information can be found on pages 109-112 and following.

Detailed information regarding the deferred tax positions can be found on pages 112-114 of the financial statements.

Solvency ratio

The year-end solvency ratio increased to 51.3% (year-end 2015: 49.8%), mainly due to the net profit development and a lower debt level.

Net debt

Net debt decreased by EUR 15.1 million during 2016 to EUR 54.0 million. Normalised free cash flow, before payments related to the simplifying measures, amounted to EUR 22.3 million in 2016. This was partly offset by the cash portion of the optional dividend which amounted to EUR 6.1 million (approximately 60% of total dividend). The future activities will be financed via Kendrion's current revolving credit facility (EUR 150.0 million) with a syndicate of three banks and via free cash flow of the Group. A revision of the current financing structure is not foreseen in the near future. Further information is provided in note 10 to the financial statements.

Net interest-bearing debt at 31 December

EUR million	2016	2015
Non-current borrowings	59.3	65.2
Non-current mortgage loan	3.7	4.4
Current borrowings	3.4	9.7
Less: cash and cash equivalents	12.4	10.2
Net bank debt at 31 December	54.0	69.1
12 months EBITDA (normalised)	51.4	45.2
Debt cover	1.05	1.53

Invested capital at 31 December

EUR million	2016	2015
Balance sheet total	347.1	340.9
Less: non-interest bearing debt	70.3	60.5
Less: freely available cash	12.4	10.2
Less: deferred income tax	16.0	15.9
Invested capital	**248.4**	**254.3**

Free cash flow

In 2016, the normalised free cash flow generated, before payments related to the simplifying measures, was again strong at EUR 22.3 million (2015: EUR 21.2 million), compared to EUR 19.6 million normalised net profit. The main reasons for the higher free cash flow compared to normalised net profit were the annual EUR 3.7 million non-cash amortisation charges on the intangibles arising from acquisitions and the improvement in working capital, which were partly offset by the investments exceeding depreciation.

Net investments in property, plant and equipment and software amounted to EUR 22.9 million, which was EUR 2.6 million higher than depreciation. Capital expenditure on plant and equipment relates mostly to investments in production lines for new projects.

Normalised free cash flow

EUR million	2016	2015
Reported free cash flow	21.3	20.2
Simplifying measures (cash out)	1.0	–
Acquisition of subsidiaries	–	1.0
Normalised free cash flow	**22.3**	**21.2**

Contingent liabilities

Information about contingent liabilities is provided on page 133 of the notes to the financial statements.

Directors' declaration

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

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

REPLACING A COMPLICATED SYSTEM

Product: Wrap spring clutch for the agricultural industry.

Customer: Manufacturer that specialises in agricultural and municipal machinery.

Kendrion solution: The wrap spring clutch is a compact electromagnetic system based on a holding magnet and a wrap spring. It has been developed especially for the customer in order to replace a complicated mechanical system. Due to the heavy use in the agricultural market, the solution is fully dust and dirt resistant.

Added value: The wrap spring clutch is used in seed drill machines to ensure efficient and effective tramlining control, which stops seeding in areas where it is not needed.

Revolutionary domestic heating

Reductions in energy consumption and CO_2 emissions are high-priority issues worldwide. Equally widespread is the constant search for environmentally friendly and affordable alternative solutions. One spectacular innovation is the fuel cell system for domestic use developed by Elcore, a German company based in Munich, Bavaria. Elcore develops, manufactures and markets components for revolutionary fuel cell systems and key innovative product solutions for highly efficient energy consumption and CO_2 reduction (an average of 2 tonnes per household!). The company's fuel cell technology replaces conventional heating systems and transforms natural gas into power and heating. The central gas block of Elcore's system is equipped with certified, customised Kendrion valves for gas and water flow regulation. Kendrion's high-precision fluid valves are a major contributor to lowering the energy consumption. Jörg Pöhls, Kendrion ICS Sales Manager, emphasises the specific features of the Kendrion valves: 'We provide Elcore with certified valve technologies, but we have also been selected as their supplier due to our systems know-how.'

SIMPLIFY Simplicity can be highly complex. This is the case with the high-tech Kendrion valves systems for the Elcore fuel cell systems. The major benefits for Elcore system end users are obvious and straightforward.

FOCUS The focus has always been on the most important customer requirements: efficiency resulting in reductions in energy consumption and CO_2 emissions.

GROW The world is ready to embrace alternative solutions for the generation of power and heat. With its specific products and its early adoption of reductions in energy consumption and CO_2 emissions as core activities, Kendrion plays a significant role in this technological turnaround.

TAKING RESPONSIBILITY

Corporate Social Responsibility review

Integrated thinking, integrated reporting

Kendrion approaches the strategic targets, both financial and non-financial, on an integrated basis whenever possible. The environmental, social and other sustainability targets are treated as part of the ordinary business processes. Kendrion is seeing a growing interest among stakeholders in receiving transparent information on social and environmental aspects as well. Kendrion is responding to these developments by publishing this first integrated report, highlighting how Kendrion aims to create long-term value, financially and otherwise, for all its stakeholders.

Taking responsibility

For Kendrion, Corporate Social Responsibility (CSR) means: The responsibility of an organisation for the impact of its decisions and activities on society and the environment, through transparent and ethical behaviour. To us, social responsibility is not a separate pillar in our organisation, but an ambition integrated into our everyday decision-making. At Kendrion, CSR is not just about being responsible; it is about taking responsibility.

CSR programme 2015 – 2017 'Taking Responsibility'

Kendrion adopted a CSR programme entitled 'Taking Responsibility' for the period 2015 – 2017. The programme not only aims to anchor further CSR and sustainability in the company's business processes but also to increase the commitment to more sustainable products and services in line with the way customers respond to so-called 'megatrends'.

Some of the megatrends relevant to Kendrion are:

- A rapid growth of the world population, especially in emerging markets;
- Urbanisation;
- Increased mobility, safety and connectivity needs of people and goods;
- An increasing scarcity of natural resources;
- The transition to more sustainable energy due also to climate change.

Some of these megatrends, such as the scarcity of natural resources and the reduced availability of energy sources, could in the longer term become a threat to the growth of Kendrion's business and therefore need to be addressed in a timely manner. These trends, however, also offer opportunities for Kendrion. Utilising such opportunities and using scarce energy and other natural resources in a responsible way will, in the long run, make an essential contribution to the creation of value for all Kendrion's stakeholders. Therefore, Kendrion has included sustainability and CSR as spearheads in the company's general strategic policy. This report includes several examples of responses to the megatrends referred to earlier.

Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make ongoing organisational and technical improvements to environmental procedures. During the design and technical planning stages, Kendrion takes due account of the consequences for the environment. This not only enables the company to lower harmful emissions and reduce its environmental footprint, but also ensures that it can maintain its good reputation.

Commitment top management

The CSR strategy, key issues and objectives are adopted by the Executive Board and Management Team. The CSR programme, Taking Responsibility, is also discussed during Kendrion's annual Top Management Meeting. Each of the business units is requested to prepare an own CSR plan, closely related to their own business and processes. CSR and sustainability objectives are included in the performance criteria governing the variable remuneration awarded to top management, including the Management Team.

The Supervisory Board recognises the importance of Kendrion's CSR programme and advocates a strong focus on the company's social and environmental standards governing its processes, health & safety and the relationship between the overall strategy and sustainability. The Supervisory Board reviewed the achievements and endorsed the CSR programme.

CSR Board and ambassadors

A CSR Board gives further shape to Kendrion's CSR activities. The Board's members are representatives of the business units and departments and come from Austria, the Czech Republic, Germany and the Netherlands. Board members do their CSR work in addition to their regular Kendrion duties. In addition to the CSR Board, there are 'ambassadors' in all operating companies who support CSR activities locally.

RELIABLE HOSPITAL POWER

Product: Stroke solenoid for automatically moving the lever of the switch in electrical networks.

Customer: Socomec, a French company with Chinese production locations, specialised in the availability, control and safety of low-voltage electrical networks.

Kendrion solution: A fast remote disconnection for on-demand shutdown and de-energisation is placed in the Transfer Switch ATyS M of Socomec. In the event of energy disconnection – in a hospital for instance – the switch transfers to a generator, guaranteeing a safe solution.

Strategic relevance: Series production at Kendrion China will begin in March 2017 based on close co-operation with the customer in combining German R&D and quality assurance and Chinese production facilities.

Beyond 2017

A new long-term CSR strategy will be developed in consultation with relevant stakeholders and management in the course of 2017. There will also be further attention devoted to how Kendrion can contribute to the objectives of the Paris Agreement on Climate Change and the UN Sustainable Development Goals.

Applicable international codes and guidelines; Code of Conduct

Kendrion joined the UN Global Compact in 2009. The UN Global Compact is the world's largest network initiative, bringing together businesses, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices. Kendrion fully endorses these principles. The Kendrion Code of Conduct is based on this. Kendrion also endorses the OECD Guidelines for Multinational Enterprises.

Stakeholders dialogue

General

Kendrion attaches great importance to good relationships with its stakeholders. The selection of relevant stakeholders is based on questions such as who might be positively or negatively affected by the organisation's decisions or activities and who can affect the organisation's ability to meet its responsibilities?

Kendrion's relevant stakeholders are its customers, suppliers, employees, investors and the communities in which Kendrion is active.

Kendrion aspires to engage in transparent communication regarding the manner in which the company carries out its activities to create long-term value.

Customers

A substantial number of Kendrion's customers are major Tier 1 suppliers and OEMs in the automotive sector or other large industrial companies. An increasing number of these customers have implemented CSR and sustainability requirements for suppliers. Kendrion complies with their requirements. Kendrion also provides insight into the company's CSR efforts to its customers. Based on an annual selection, various business units engage in constructive dialogue with important customers. An online CSR survey is also used.

> To us, social responsibility is not a separate pillar in our organisation, but an ambition integrated into our everyday decision-making.

Suppliers

Kendrion has successfully introduced a Supplier Code of Conduct. A substantial number of main suppliers have signed this Code of Conduct in recent years. 37 CSR audits have also been performed. The aim is to continue Kendrion's dialogue with suppliers on their performance in this area with a view to jointly pursuing improvements in the supply chain. In addition, various important suppliers have received an online CSR survey.

Management and employees

Kendrion regards its employees as the company's greatest resource. The support of Kendrion's social policy by the company's employees is of essential importance. In 2016 Kendrion continuously devoted attention to social issues (including health & safety) in the international staff magazine Magnetised and will continue to do so in 2017. To increase awareness and commitment, Kendrion uses poster campaigns and idea boxes. Groups of employees have also been given the opportunity to complete the online CSR survey.

Investors

ESG (Environment, Social and Governance) is becoming an increasingly important issue for Kendrion's investors. Kendrion holds annual personal discussions with some of its major shareholders and banks, in which Kendrion presents its strategy and objectives, and also discusses the investors' ESG and compliance policies within the context of their investments. In various roadshows, management also shows potential investors the relevance of sustainability for Kendrion.

Local communities

Kendrion is active in a number of countries in which, in a general sense, the standard of living, working conditions and human rights have room for improvement. Kendrion endeavours to make a modest contribution to these improvements by including (mostly small-scale) local community investment programmes.

Transparency; Benchmarks

Kendrion won the 2017 Dutch IR Award of The Netherlands Association for Investor Relations (NEVIR). This was awarded to Kendrion for being the 'Best Company in the field of Investor Relations' in the category AScX/other. According to the NEVIR, the company excelled in investor relations and financial communication in 2016.

Kendrion participates in the Dutch Ministry of Economic Affairs, Agriculture and Innovation's Transparency Benchmark which monitors the Netherlands' 500 largest companies. Kendrion has improved its ranking in five out of the last six years. Kendrion is currently ranked number 60.

In 2016, Kendrion was awarded the no. 2 ranking in the Dutch Tax Transparency Benchmark for small cap companies and was ranked no. 7 out of all the 68 listed companies included in the benchmark.

Materiality analysis

This Review focuses as much as possible on the issues which are most important to Kendrion, its employees and stakeholders; the key issues. The selection of these key issues is based on a materiality analysis.

The materiality analysis is partly carried out based on a number of material aspects as described in the G4 Sustainability Reporting Guidelines of the GRI. The pre-selection of these material aspects by the CSR Board has been made with due regard for:

- The *nature* of Kendrion's activities and business processes;
- The demands made on Kendrion and its products by its customers in connection with sustainability in the short and long term (*the urgency*);
- Kendrion's potential *impact* and *influence* in the chain in the short and long term;
- The potential *benefit* for Kendrion;
- The *effort* it takes to implement measures in Kendrion's business processes and activities, with a view to the other strategic spearheads;
- The *relevance* to stakeholders and the possible effect on them.

A list of potential material aspects from the perspective of stakeholders is included in an online survey. The survey has been disseminated to certain groups of employees (including the CSR Ambassadors in each of the operating companies), the CSR Board members and a selection of clients and suppliers. A selection of the key issues for Kendrion has been created on this basis, and on the basis of their relevance for Kendrion's business processes as assessed by the CSR Board and the Management Team. In addition, individual interviews have also been held with a major shareholder and a bank, and the effectiveness of the sustainability programme was discussed at the annual Top Management Meeting in September.

REDUCING CO_2 AND NOX EMISSIONS

Product: Hydrogen valves for innovative fuel cell drive.

Customer: OEMs of fuel cell vehicles.

Kendrion solution: The H2 valves operate in the fuel cell system with different functions. They are partially equipped with electronics to heat and defrost the valves. Due to the gaseous medium, the demand on the denseness of the valves is very high.

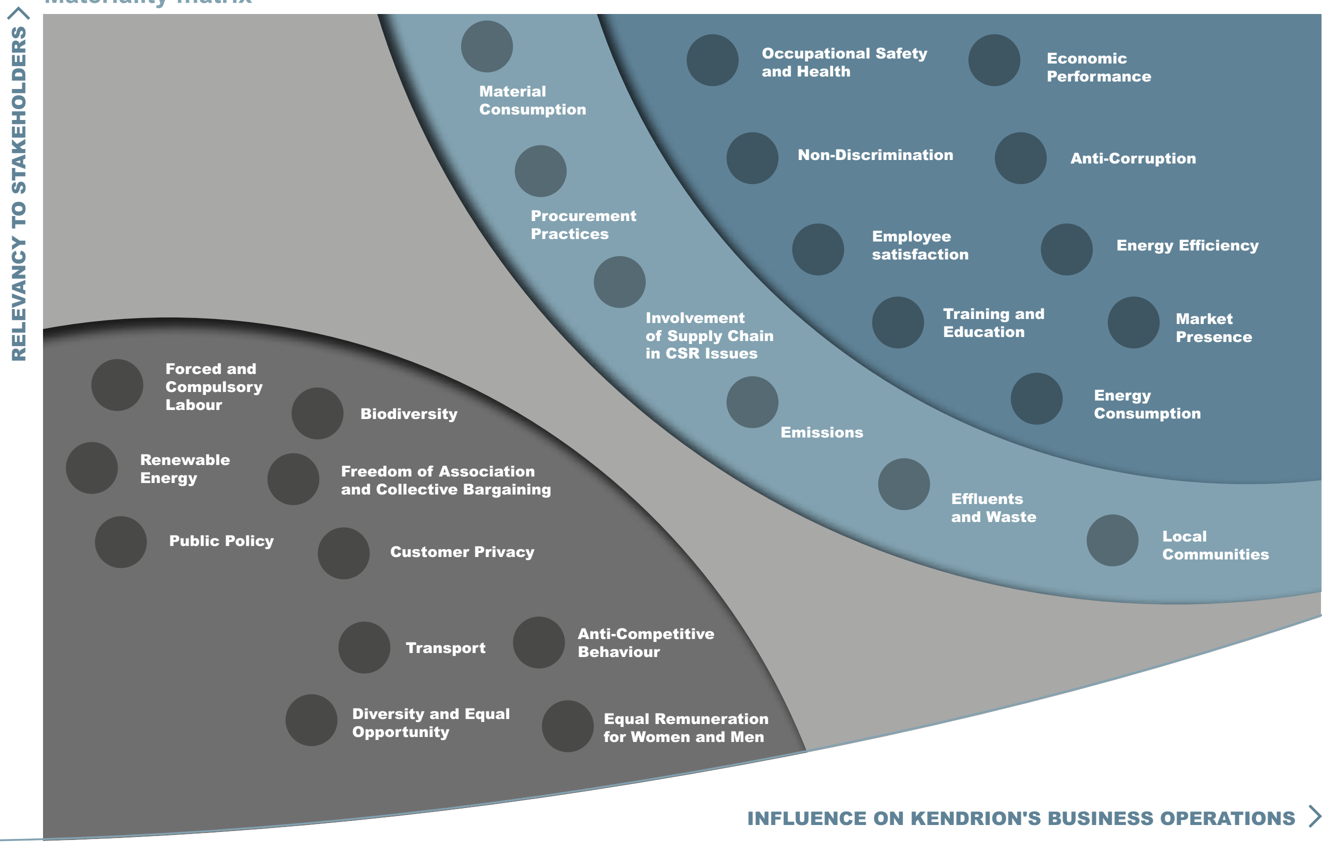
Added value: Different OEMs in Germany will offer fuel cell car models starting in 2018. These models could change the automotive markets. Kendrion supports future technologies for alternative drives to reduce CO_2 and NOx emissions.

The results and the key issues identified were also discussed with and endorsed by the Supervisory Board. Based on the outcome of this process, Kendrion will decide in 2017 to what extent it will adjust the key issues. The materiality analysis will be repeated and evaluated annually on the basis of the results obtained and will be adjusted where necessary.

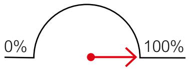
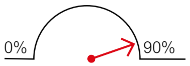
Outcome of the materiality analysis

Specific targets and KPIs and relevant GRI indicators were formulated for most of those key issues. The key issues, KPIs and targets are evaluated annually on the basis of the results achieved and are adjusted where necessary. These evaluations also make use of the feedback Kendrion receives from its stakeholders. The specific targets and KPIs can be found in the various chapters of this Report. Some material aspects have been combined under an overarching key issue. The material aspects mentioned in the GRI G4 guidelines can be found in the GRI Index section at the end of this Report. The materiality analysis has not (only) been carried out on the basis of the material GRI aspects and associated indicators. Accordingly, GRI indicators have not (yet) been selected for all material issues. For further details on indicators and future steps, see pages 166 and 167.

Materiality matrix



Supply chain management

Target 2016	Result	Target 2017
100% of top 20 material suppliers sign Supplier Code of Conduct		100% of top 30 of suppliers sign Supplier Code of Conduct
At least 3 CSR supplier audits per plant with more than 80 employees and at least 1 CSR supplier per each other plant		At least 3 CSR supplier audits per plant with more than 80 employees and at least 1 CSR supplier audit per each other plant

Kendrion's supply chain

The supply chains in which Kendrion is active have an impact on people, the environment and society. In general Kendrion's production processes are not polluting, in the sense that they do not result in large quantities of residual products with a great impact on the environment and which cannot be recycled. Nor do they result in large emissions of substances with an environmental impact.

Supplier Code of Conduct

Kendrion uses a Supplier Code of Conduct. This Code requires suppliers to assume their responsibility for issues including the environment, human rights, working conditions and fair trade. The suppliers are also requested to introduce rules of this nature further in the supply chain. Kendrion has set a target stipulating that the Kendrion Supplier Code of Conduct shall be accepted by all its main materials suppliers in all business units.

Supplier selection and audits

The extent to which a potential supplier addresses environmental and social issues and business ethics plays an important role, in addition to standard criteria such as product quality, in the ultimate selection of suppliers.

Kendrion conducts CSR supplier audits to review whether the suppliers continue to comply with the required standards.

Audits that result in unsatisfactory assessments and that reveal that the relevant supplier does not meet the requirements for compliance with the Supplier Code of Conduct are followed by a meeting to prepare a plan and review means of achieving rapid improvements. Failure to follow up the improvement plan or follow up the plan to an adequate extent can result in the termination of the relationship with the relevant supplier.

For 2016, the aim was to conduct at least three CSR supplier audits for each plant with more than eighty employees and at least one for each other operating company. In total this would lead to 41 audits. The number of audits in 2016 was 37, which means that the target was nearly achieved (90%). The audits outside Gemany were extended, audits took also place in, among others, the USA, India, China, Mexico, the Czech Republic and Austria. The results of supplier CSR audits have in general been positive. Further stress will be laid on the willingness of suppliers to take CSR initiatives in relation to their own suppliers and human rights issues, or to join the UN Global Compact.

Conflict minerals

Kendrion does not add any conflict minerals from the Congo region to its products during its own production process. In the event that it were reported that suppliers of Kendrion use such conflict minerals, Kendrion would undertake commercially reasonable efforts to gradually replace them in the supply chain and would ask its suppliers to do the same.

Signed Supplier Code of Conduct

2014	214
2015	368
2016	↑ 669

Signed Supplier Code of Conduct by supplier top 20

2014	15
2015	14
2016	↑ 20

CSR supplier audits

2014	23
2015	36
2016	↑ 37

Rare earth metals

In some of Kendrion's products, permanent magnets are used. A category of permanent magnets contains a number of rare earth metals, which are also used in products such as mobile telephones, rechargeable batteries and wind turbines. China is currently still the biggest producer of the world's rare earth metals.

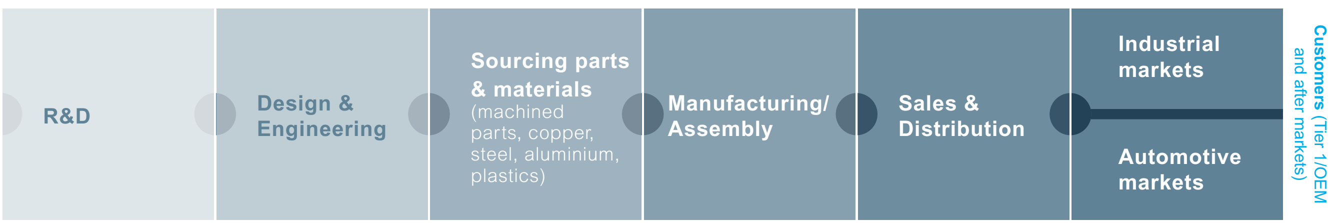
Mining and refining rare earth metals is highly energy-intensive. Moreover, the mining and refining by-products cause environmental pollution. The recycling of rare earth metals is still in its infancy. The use of permanent magnets in products increases their functionality, for example the torque. As a result, less material is required and the product is lighter – which in turn reduces energy consumption and emissions. The volumes of the permanent magnets used by Kendrion are comparatively limited but Kendrion cannot avoid the use of permanent magnets.

Other materials

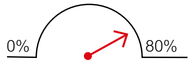
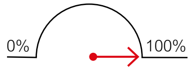
Few critical materials are used other than those referred to in this chapter. A number of ideas were developed on the feasibility of reducing the use of certain potentially critical materials, or materials with a relatively high environmental or health impact. This led to the decision to dismantle a 'plating area' at one of Kendrion's operating companies in 2016.

Kendrion mostly applies a local sourcing strategy. The most frequently-used materials are steel, aluminium, copper and plastics. In many cases, semi-finished products are purchased on the basis of specifications provided by Kendrion or its customers, and only the final assembly takes place in Kendrion's plants.
In 2016, Kendrion used 1,860 tonnes of copper (best estimate) in the manufacture of the company's products (2015: 1,893 tonnes).

Simplified supply chain overview Kendrion



Sustainable operations

Target 2016	Result	Target 2017
Waste data plan and subtargets implemented for major plants		Waste data plan and subtargets implemented for major plants
CSR integrated in major business processes; annual CSR plans on business unit level		CSR is part of all important business processes

A circular economy

Most current business models are based on a linear economy (take-make-dispose). Models involving a circular economy build and retain value because they involve for example refurbishment, remanufacturing or re-use.

The regulations governing the automotive industry mean a large amount of recycling of cars and parts already takes place in the sector. While Kendrion's products only account for a small part of an entire vehicle, they do often form part of a larger (sub)-system and the products themselves are made up of a number of materials. The logistical consequences and costs of retrieving parts are outweighed by the potential advantages. The same applies to a certain extent to products manufactured by the Industrial business units. There are however a couple of instances of circular economy initiatives within Kendrion's business at the moment, but it is not opportune at present to set targets independently in this area.

Kendrion, however, is convinced that circular business models represent a meaningful contribution to creating value and to reducing the production of waste and the exhaustion of natural resources. In this context, Kendrion considers it best to focus on the end product. Kendrion is ready to join its partners in fleshing out this idea and intends to launch suitable pilot projects in this area.

Waste & recycling

Kendrion aims to minimise waste, with a view to its environmental and cost impact. All Kendrion companies which have been awarded ISO 14001 certification keep records of their production and processing of waste. Internal instructions at these companies are issued for the safe use of materials and the separated collection and disposal of waste. The companies work solely with certified waste processers. As part of the certification process, each year new waste reduction measures must be implemented, and measures that reduce the use of dangerous goods are externally audited. Those measures can differ from plant to plant.

Kendrion has worked hard on streamlining the data of waste and hazardous substances in recent years. As a result, the data for most of the largest US and European plants are internally reported on a similar basis. Several sub-targets for plastics, liquids & oil, metals, commercial waste and carton board & paper have been developed and these will be tested in 2017. 80% of the target (best estimate) is achieved.

ISO certification

Within Kendrion, the quality, environmental and safety systems are usually combined in one system that forms the basis for the implementation of many projects. Virtually all of Kendrion's operating companies comply with the most stringent quality and safety requirements.

ISO certification overview

20 production plants (of which 12 automotive)

Plants	ISO 9001	ISO/TS 16949	ISO 14001	ISO 50001
2015	20	11	15	2
2016	20	11	16	7
Planned for 2017	20	12	17	11

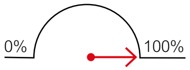
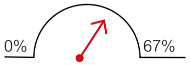
ISO 9001 lays down general requirements for the company's quality management system, while ISO/TS 16949 has been developed specifically for the automotive industry and imposes stringent requirements on suppliers. ISO 14001 is an environmental management system certification.

The ISO 50001 standard is focused on the reduction of organisations' energy consumption on the basis of a detailed insight into their energy consumption and use of energy. Five plants gained the ISO 50001 certificate in 2016 in accordance with the EU Directive on Energy Saving.

Integrated business processes

A number of measures to integrate CSR into daily business processes have been introduced. Requirements in the areas of sustainability, safety and ergonomics being laid down in relation to machines and production equipment ordered by Kendrion. Furthermore, the business units draw up their own CSR plans which will be integrated as much as possible in the regular budget and midterm business plan. A proportion of the variable remuneration of top managers which relates to CSR objectives has been linked to the business units' individual CSR plans. In 2017, the business units will include a description of sustainability and/or CSR consequences when they submit investment proposals to the Executive Board.

Energy & CO_2 reduction

Target 2016	Result	Target 2017
10% reduction of relative CO_2 emission compared to 2014		25% reduction of relative CO_2 emission compared to 2014
10% reduction of relative energy consumption compared to 2014		25% reduction of relative energy consumption compared to 2014

Ambition

Kendrion endeavours to make efficient use of energy and aspires to use less of it in an effort to help combat climate change and the exhaustion of fossil fuels. The measures Kendrion takes also lead to direct financial savings. Energy & CO_2 emission reduction therefore play an important role in Kendrion's sustainability programme. Kendrion has formulated ambitious targets.

Reduction targets

After the realisation of a 15% reduction of the total CO_2 emissions, in both absolute and relative terms, of the largest European plants by the end of 2014 (as compared to 2012), the objective now is to achieve a further 25% reduction by the end of 2017 in both relative energy use and CO_2 emissions compared to the end of 2014. The relative objective is based on the added value. Emissions of various substances besides CO_2 are limited.

Energy consumption

The consumption of power, fuel oil and natural gas of Kendrion's main operational plants in Europe, the USA and China (representing approximately 93% of the group revenue) in recent years can be presented as shown in the tables on page 51.

The tables show that the consumption of power, fuel oil and natural gas, both absolute and relative, decreased substantially due to all the measures and activities described hereinafter. The 10% reduction target compared to 2014 for relative energy consumption was however only partly achieved (for two of the three energy types). There are several reasons for this. Firstly, the winter months were colder by several degrees Celsius in 2016 than in 2014, and more heating was required as a result. In addition, several production lines commenced operations in the past few years that unavoidably consume more energy (cleanrooms) on a comparative basis. A further contributing factor was that the added value in December 2015 was lower than that in December 2016.

Lastly, new more energy-efficient systems in a few plants, for which large investments and extensive preparations are required, will commence operations somewhat later than originally planned. The fact that gas consumption and power consumption are moving in the opposite direction is due to the start-up of a number of heating and power systems that use more gas on a comparative basis.

Emissions

The CO_2 emissions (Scope 1 and 2 of the Greenhouse Gas Protocol) from the company's plants in Germany, Austria, the Czech Republic, Suzhou (China), Sibiu (Romania), Shelby and Mishawaka (USA) can be presented as shown in the table below.

The emission of CO_2 substantially decreased in both absolute and relative terms in 2016 compared with 2015. This was attributable to all activities described hereinafter. In 2016, also new contracts were entered into with gas suppliers that are aimed at ensuring supplies of CO_2-neutral gas.

Activities and investments

Kendrion has invested more than EUR 2.5 million in energy-efficient systems for the largest plants in recent years, most with short payback periods. These investments include the installation of new combined heating and power systems in various plants, compressors and LED light projects. In 2016, Kendrion once again devoted a great deal of effort to the reduction of production-line energy consumption in and around the workplace, for example by a more efficient use of air-conditioning systems. LED lighting projects were also expanded to several more plants.

Plans for further investments have been made in the area of energy efficiency, especially at the Shelby plant in the USA and the Malente plant in Germany. In addition, the roll-out of ISO 50001 certification and the LED projects to other plants over the next few years should result in further improvements. On this basis, Kendrion expects to achieve further substantial reductions in energy consumption and CO_2 emissions in 2017; however, achieving the 3-year target of a relative reduction of 25% compared to 2014 is still quite a challenge.

Alternative energy sources

In Austria, Kendrion's plant in Eibiswald uses a district heating system based on biomass and/or solar heat. Kendrion will look for further opportunities in this area.

Transport

Kendrion has decided to focus in its Taking Responsibility programme on Scope 1 and Scope 2 of the Greenhouse Gas Protocol relating to the direct production process. On the basis of current estimates, this comprises the vast majority of the CO_2 emissions. In preparation for a new programme containing targets for 2018 and beyond, Kendrion will seek to identify and assess emissions connected with travel and transport.

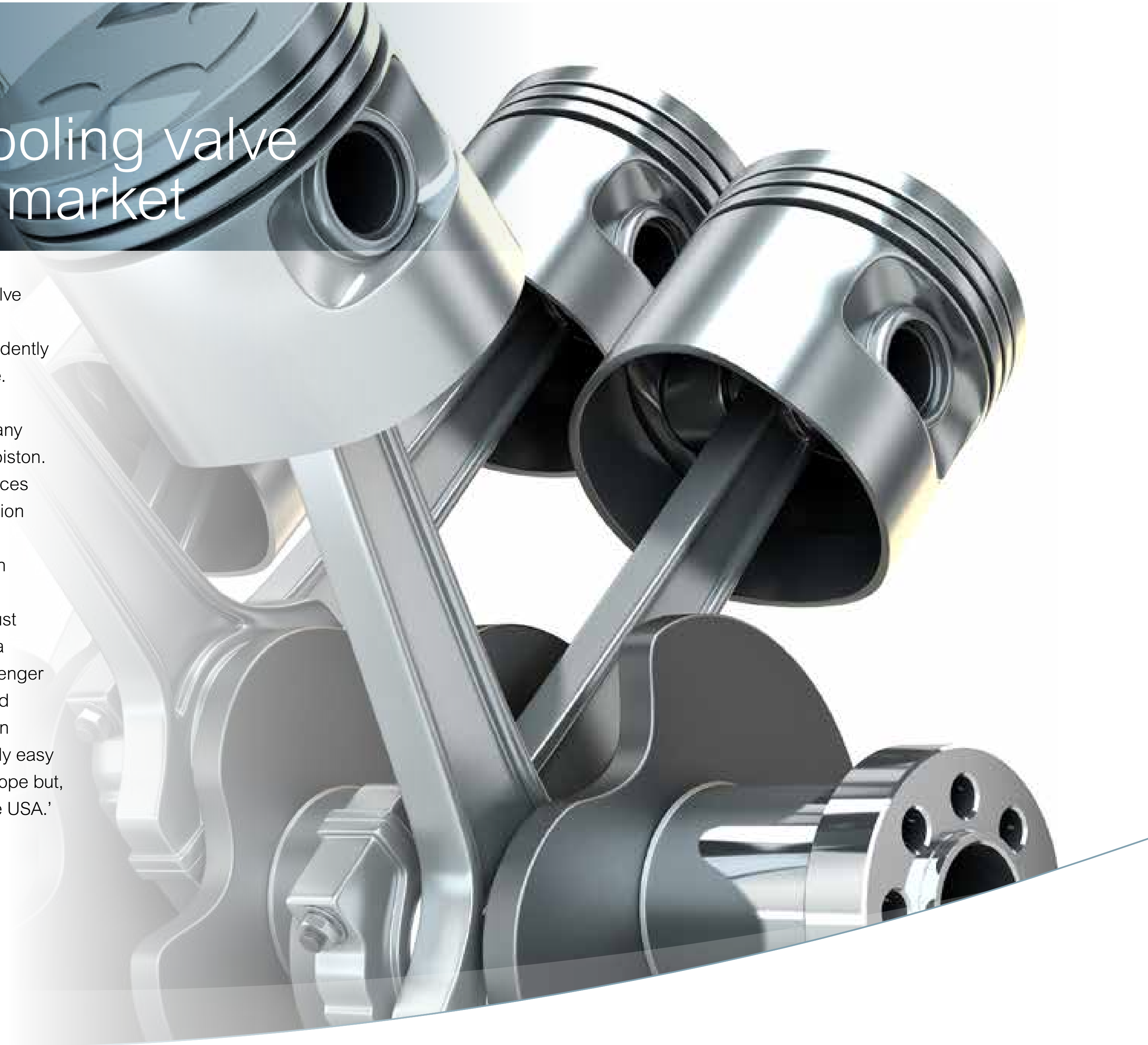
Energy consumption[1]		2016	2015	Δ % (2016/2015)	Δ % (2016/2014)
Power	kWh	25,562,201	27,558,646	(7.2)	(12.8)
Fuel oil	kWh[2]	758,093	888,687	(14.7)	(46.7)
Natural gas	kWh	11,597,007	11,800,635	(1.7)	28.4

Energy consumption per EUR million added value		2016	2015	Δ % (2016/2015)	Δ % (2016/2014)
Power	kWh	128,143	138,045	(7.2)	(14.3)
Fuel oil	kWh	3,800	4,452	(14.6)	(47.6)
Natural gas	kWh	58,135	59,111	(1.7)	26.3

CO_2 emissions	2016	2015	Δ % (2016/2015)	Δ % (2016/2014)
Absolute emissions, tonnes	7,187	12,452	(42.3)	(42.3)
Relative emissions, tonnes / million EUR added value	36.0	62.4	(42.3)	(43.2)

1 See for reporting periods, definitions, conversion factors and scope pages 166 and 167 of this Report.
2 Conversion 1 kWh=0.099 ltr.

Strategic piston-cooling valve for the automotive market



One of Kendrion's flagship products is the piston-cooling valve for the passenger car market. Unlike most of the company's products, Kendrion developed this specific solution independently and can therefore offer it to a range of customers worldwide. The solenoid valve as such is generic and only needs small adaptations for smooth integration within the application of any OEM. Kendrion's valve regulates the oil flow for cooling the piston. By generating the optimum temperature conditions, it enhances efficiency and consequently helps reduce energy consumption and CO_2 emissions and extends the lifespan of the engine. The small outer dimensions of the product are combined with a very high oil flow and minimal pressure losses in the valve. Kendrion's piston-cooling valve is compact and light but robust at the same time. 'We have just acquired another project for a German OEM and many more are in the pipeline,' says Passenger Cars Global Sales Director Thomas Brodbek. 'Our market and product know-how have enabled us to design and develop an innovative and highly cost-effective product, which is relatively easy to assemble. The first valves will be manufactured here in Europe but, depending on demand, can also be produced in China or the USA.'

SIMPLIFY A number of metal parts have been replaced by plastic components in the generic design of the piston-cooling valve, which enhances efficiency and reduces weight and size.

FOCUS By focusing on the piston-cooling valve for the automotive market – a crucial part of the engine – Kendrion strengthens its global market positions and attracts new customers.

GROW The piston-cooling valve is a new and promising product for smooth integration into new types of engines or evolutions of existing types for many OEMs around the world.

Business ethics and compliance

Target 2016	Result	Target 2017
Effective compliance programme implemented (including trainings, third party risk assessment and external speak-up line)	0% 100%	■ Complete and effective compliance programme functioning in each plant ■ Updated privacy and data protection policy adopted

Ethical culture
Kendrion believes it is important that all activities at the company are conducted with integrity and aims to foster and promote a culture in which this is a given. Besides the 'tone at the top', Kendrion has a set of internal policies and procedures in place which contribute to ensuring this ethical culture.

Code of Conduct
Kendrion has implemented a Code of Conduct in its organisation that applies to all Kendrion staff. The principles and best practices established in this Code reflect the main values that need to guide Kendrion's staff. The core themes include market position, authorities, corporate social responsibility, accountability in general, and the obligation for due care regarding safety and health, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by continually bringing the Code to the attention of (new) managers and staff in their own language.

Anti-Bribery & Corruption policy (AB&C)
Kendrion is committed to combating corruption in all forms, including extortion and bribery. Kendrion's Code of Conduct also devotes specific attention to this issue. Corruption obstructs or impedes economic development and results in an unequal distribution of wealth. In addition, involvement in corruption can result in damage to and the loss of the reputation of Kendrion, the management and employees. An AB&C policy was implemented, as well as further measures including the performance of risk analyses and due diligence on new business partners.

Competition compliance policy
Infringement of competition regulations is detrimental to the operation of the market and can lead to damage or losses for Kendrion and its employees. Kendrion introduced a competition compliance policy in 2015. It is aimed at making employees aware of restrictions with a view to competition when dealing with suppliers, competitors and customers.

Training and awareness
Online compliance training courses for AB&C and competition compliance are offered. Several hundred employees followed the course in recent years. From time to time, Kendrion organises additional workshops for management to discuss developments or dilemmas.

Other internal regulations
Kendrion has implemented internal regulations to prevent insider trading which were updated as a consequence of the introduction of the Market Abuse Directive mid 2016. In 2016, Kendrion further introduced a data protection and privacy policy in Germany. In the light of new regulations in various jurisdictions, Kendrion will also review the need to introduce such internal regulations in other parts of the group in 2017.

'CELEBRATING A LONG-TERM BUSINESS RELATIONSHIP WITH KENDRION INDUSTRIAL DRIVE SYSTEMS'

Moog India and Kendrion:

Mr Kunder Janardhana (Senior Manager Supply Chain): 'Our company - Moog in Bangalore, India - is an international producer of servomotors for wind energy systems. At our recent annual supplier meeting we honoured and celebrated the long-term partnership and close cooperation between Kendrion and our company. With our unique high torque brake motors we are one of the world's leading suppliers in our field and continuously set new standards in servomotors, servo controllers and backup systems. Kendrion produces our high torque brakes and has been involved in thousands of our wind energy installations in cold climate and offshore areas. Kendrion, with its specialised skills and expertise, is an essential part of our success and contributes to a more sustainable society.'

SAFE WORKPLACES

Best practice in Health & Safety (Passenger Cars, Austria)

Safety audits: New employees starting work are instructed on safety and are tested on all safety aspects. A safety audit is carried out every month. An external auditor comes in and checks all safety-related aspects on the basis of company-wide checklists. Adjustments and improvements are made when necessary.
Once a year we carry out safety evaluations and run checks on ergonomics, handling, the use and positioning of robots, etc. All results are monitored on a big display chart in the plant, indicating the number of days without accidents or incidents.

Added value: Status as per 31 December 2016: 972 days without accidents or injuries.

Reporting mechanisms; speak-up

None of the measures provide any guarantee that no cases of fraud or corruption will arise. If there is any case, or any suspicion, then Kendrion will respond appropriately via the investigation protocol the company has developed for this purpose.

Employees who observe a (suspected) irregularity are encouraged to enter into discussions with those directly involved or with their supervisor. When this is not feasible or fails to achieve results, then they may make use of the procedure laid down in the Speak-Up Procedure. This procedure offers Kendrion's employees an opportunity to report irregularities or suspicions without jeopardising their (legal) position. Any such report gives rise to an internal investigation. In 2016, an external hotline was introduced. This will give employees an additional means of submitting such reports in their own language by phone or via a computer. Kendrion has also appointed Confidential Counsellors whom employees can contact to make confidential reports of (suspicions of) irregularities. No irregularities were reported in 2016.

Communities

Strong communities

Kendrion intends to engage in community investment initiatives. The right approach to community investment can contribute to long-term improvements in the quality of life of local communities in a way that is both sustainable and supportive of the company's business objectives. Kendrion is convinced that economic activity especially can contribute greatly to such improvement.

Charitable donations

Kendrion was responsible for more than 30 sponsoring activities and donations to charitable funds in 2016, including local Red Cross organisations, support for a number of scientific activities and education for children.

Corporate Community Investment Project India

In 2012 Kendrion launched a project to enable deprived young people in India to follow a technical education together with the College of Engineering in Pune, the city where the Kendrion plant is located. Since then, eight scholarships have been awarded to students of technical faculties in need of financial support. At least half of the selected students are female, as girls and women are at an even bigger structural disadvantage.

Kendrion Foundation

In 2017 Kendrion expects to incorporate the Kendrion Foundation. The Kendrion Foundation will reward community investment initiatives by the operating companies in the form of practical and financial support based on specific criteria.

Our People

Kendrion staff worldwide

Kendrion's employees are the company's most valuable resource. It is essential for Kendrion to attract and retain the right people. The company aims to provide a motivating, safe and attractive working environment for employees. This leads to improved performance and stability for Kendrion. It offers employees a good income, a productive occupation and well-being.

The HR activities can be summarised as shown in the diagram below.

Competitive and engaged workforce

It is of key importance to find the right people with the right capabilities. Further, Kendrion firmly believes that diversity improves the quality of collaboration and decision-making.

Recruiting process

Kendrion operates in markets where there is a shortage of skilled engineers and other specialists. Kendrion's operating companies intensified their presence and marketing in schools, universities and HR fairs and increased their PR activities. A new career opportunities website and an application tool were implemented. This was aimed at increasing the recognition of Kendrion's employer brand.

Flexibility of staffing

Kendrion is convinced that companies which are most successful in adapting to rapidly changing circumstances have the best prospects for the future. This is why Kendrion devotes a great deal of effort to incorporating flexibility in its staffing and staffing costs, which may include fixed-term contracts, temps, part-time solutions and shift models. Kendrion works closely with its works councils to discover new ways to keep costs as flexible as possible. The company actively monitors the flexibility of each business unit.

QUICK AND RELIABLE ALCOHOL LIMITS

Product: Miniaturised solenoid for an alcohol detector which quickly and reliably determines whether alcohol limits have been exceeded.

Customer: Dräger, a leading international company in the fields of medical and safety technology.

Kendrion solution: Human breath blown into the alcohol detector enters a magnetically operated bellows from where a small amount is transported into a special chamber. A special sensor in the chamber determines the ethanol (alcohol) content of the air. The bellows are actuated by a miniaturised solenoid which is extremely durable and optimised to allow efficient battery operation.

Added value: High switching cycles, plunger with optimised geometry matching the bellows, extended temperature range –45°C up to +80°C.

AAAAA AWARD CHINA

Award: AAAAA status credible employer certification

Company: Kendrion (Suzhou) Co. Ltd, China

Background: In 2015 the Chinese Suzhou Labour Security Bureau awarded Kendrion in Suzhou, China the AAAA level credible employer certification. Only a few companies in Suzhou (which has more than 10 million inhabitants) have received this certification. In 2016, the Suzhou plant was able to further improve and was awarded one more 'A', receiving the AAAAA status.

Strategic relevance: The company received this standard for being a harmonious and social company without employee complaints, no labour issues and positive employee survey results. The competitive advantage gained from this certification makes it possible for Kendrion to become an employer of choice and attract the best people.

Diversity

Kendrion attaches importance to achieving diversity in various ways, for example with respect to nationalities, cultures and gender. This diversity promotes better decision-making and the exchange of intercultural experience and ideas. In 2016, Kendrion had employees of at least 40 nationalities. 50% of all Kendrion's employees are women. The percentage of women in key management positions in Kendrion's operating companies is still relatively low. Kendrion advocates the appointment of more highly qualified women to company management positions. When recruiting staff for management positions, Kendrion expressly endeavours to search for highly qualified women by means which include intensive contact with universities. However, the number of women who are following or have followed a technical education and are available for management positions in the company is low.

In the Netherlands, legislation is in force to provide for the balanced participation of men and women in the management and supervision of 'large' public and private limited liability companies. Balanced participation is deemed to exist when at least 30% of the seats are held by men and at least 30% by women. Kendrion's Supervisory Board reflects this gender balance; its Executive Board does not. The imbalance in the Executive Board is partly due to the limited number of members. In accordance with the Netherlands Corporate Governance Code 2016, Kendrion will implement a diversity policy that includes the Management Team.

Kendrion does not tolerate discrimination by gender, race, religious denomination, remuneration or any other means when hiring new staff or in dealings with staff in positions of equal importance. Kendrion promotes the formation of a workforce and management that reflects the composition of the local population as closely as possible. The company's home market, Germany, and also the USA, have, in particular, implemented detailed and stringent anti-discrimination legislation. Anti-discrimination officers have been appointed where necessary. No reports of incidents of discrimination were made in 2016.

Attraction & Satisfaction

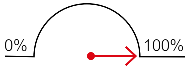
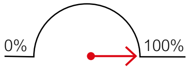
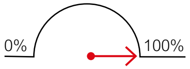
Motivated and satisfied employees are essential to ensure future success. That is why Kendrion focuses on competitive remuneration, good labour conditions and staff satisfaction. Kendrion expects this will also help to attract new employees and students to work for Kendrion.

Remuneration

Kendrion offers its employees attractive remuneration packages that are in line with the local market and based on job-specific requirements, without applying any differentiation between men and women. A bonus scheme has been implemented for top management that is based on the company's performance and on individual performance targets. These also include CSR targets. Kendrion has also implemented a share scheme for senior management.

Staff satisfaction

Kendrion has implemented a variety of staff loyalty measures at all its plants worldwide. These measures range from individual support to specific programmes and opportunities to the benefit of all Kendrion employees.

Target 2016	Result	Target 2017
Staff satisfaction survey in at least 3 more major plants		Staff satisfaction survey introduced in all plants (except for small locations)
At least 70% score of survey for each plant		At least 75% score of survey for each plant
Review diversity policy		Effective diversity policy implemented

In order to measure the company's staff satisfaction properly, Kendrion launched a group-wide employee satisfaction survey for the next few years. In recent years, at least 80% of the total workforce participated in staff satisfaction surveys. The aim for 2017 is a further increase in the number of participating group companies and to reach at least a 75% group-wide satisfaction score. The three-year Taking Responsibility plan aims at involving all operating companies in the process and this will also create good benchmark opportunities. Appropriate action will be taken based on the outcome of the surveys.

Family and career

Kendrion continually strives to improve the compatibility of its employees' work and family commitments. The company has, for example, introduced flexible working hours for employees who need to care for family members. As far as possible, Kendrion offers individualised work schedule solutions to certain employees with young children who need day care.

Kendrion is endeavouring to ensure that employees do not need to choose between 'family or Kendrion' but rather can focus on 'family and Kendrion'.

Employee representation

Works councils or employee representatives that have been installed at Kendrion's largest operating companies in Germany, Romania and Austria are, in accordance with the local labour legislation, involved in a wide range of employment, health & safety and social issues. About 60% of all Kendrion employees are represented by these works councils and employee representatives. Approximately 1,400 of the contracts of employment in Germany and Austria are governed by or follow the collective bargaining agreements for the metal industry in the respective countries. In general, Kendrion has a good relationship with the works councils and the trade unions.

'A GREAT EXPERIENCE, PERSONALLY AND PROFESSIONALLY'

Mats-Ole Hansing, trainee at Kendrion Kuhnke Automotive:

'I am a trainee at Kendrion Kuhnke in Malente, Northern Germany. In an exciting cross-regional trainee exchange, I spent some time working at Kendrion Markdorf in the South of the country. It was a great experience during which I could expand my expertise, especially in the field of mechanics. One of my jobs was to dismantle and refurbish angular gearboxes to make them fully functional again. My traineeship at Kendrion, both in Malente and in Markdorf, has helped me to grow as a person and as a professional. And as far as I am concerned, the exchange programme is both a privilege and a really great opportunity for young people.'

Ready for the future

Management development

Kendrion assigns high priority to management development. The corporate management development programme is supported by the Kendrion Executive Programme, a customised, international, modular programme in which the company collaborates with the Rotterdam School of Management. Two three-day modules are organised each year. The subjects covered by the programme are communication and leadership, sales and marketing, strategy, production and logistics, HR and project management. The programme also constitutes an important platform for exchanges of experience between the (senior) management and for the further expansion of collaboration between the various operating companies.

It is also important for Kendrion to develop talented employees for future management roles. This is why the company implemented the 'Kendrion High Potential Programme' in 2012. This is a modular training programme covering a period of three years. The first group of fifteen selected high-potential employees graduated in 2015. The second group will finish their training programme at the end of 2017.

Almost every year a group of non-financial officers follows a course in finance. This course, which is customised, covers issues that are important to Kendrion, such as risk management, investment decisions, working capital management and planning and control. In addition, the various business units have implemented training programmes at all levels in the organisation. The average hours of training per employee was 20 in 2016.

The development of managers is supported by various processes including annual performance appraisal interviews in which the managers' targets and duties are reviewed and they receive feedback on their performance. In addition, managers participate in an individual development assessment.

Kendrion has implemented a web-based tool that will support top management succession planning. It includes, among other things, a global database of the top 50 managers and the High Potential participants and describes personal development topics and needs.

Professional HR organisation

Kendrion's HR organisation is decentralised and local management bears the responsibility for the local HR activities within specified guidelines. A number of duties are coordinated on a central level by the international HR department which is located in Villingen, Germany. These duties relate primarily to the (development of) senior management, succession planning and the improvement of opportunities for recruitment.

The international HR department monitors developments in trends and regulations and tries to translate these into policies and tools for the organisation as well as further training for the HR officers in the operating companies.

Personnel: key figures	2016	2015
Total number of employees at 31 December	2,668	2,730
Number of women in permanent employment	1,154	1,192
Number of men in permanent employment	1,199	1,239
Number of employees with a fixed-term contract	315	299
Number of permanent and temporary employees at 31 December (FTE)	2,578	2,658
Number of direct employees (FTE)	1,320	1,360
Number of indirect employees (FTE)	1,180	1,213
Number of temporary employees (FTE)	78	85
Average age of all employees	41.9	41.8
Average number of years' service	11.1	10.8
Average rate of absenteeism per employee (%)	2.6%	2.5%
Influx percentage (%)	15%	12%
Departure percentage (%)	17%	15%
Wage costs per FTE (EUR)	47,552	47,440
Training costs (as a % of wage costs)	0.7%	0.8%

More and more web-based tools are used to collect data and to measure improvements.

The HR department also focuses on closer cooperation between the operating companies to improve exchanges and enable colleagues to benefit from each other's knowledge and skills.

Kendrion devotes a great deal of attention to internal communication of its strategy, corresponding plans of action and progress towards strategic goals. Kendrion's corporate magazine 'Magnetised' is published for all staff three times a year.

The progress of the CSR targets is monitored by the (HR representative in the) CSR Board together with the international HR department.

The importance Kendrion attaches to a good social policy is also demonstrated by the company's accession to the UN Global Compact that includes labour principles relating to the working conditions of employees. Labour standards, including health & safety promotion, education, absenteeism and staff satisfaction, are also key elements of the Corporate Social Responsibility programme 2015 - 2017 'Taking Responsibility'.

Health & safety

Target 2016	Result	Target 2017
Less accidents compared to 2015	0% 100%	10 per 1,000 FTE
Absenteeism rate on comparable level and not above 4% in each plant	0% 90%	Absenteeism on comparable level and not above 4% in each plant

Kendrion's approach

Kendrion regards a healthy and safe working environment as one of the basic rights of its employees. Virtually all of Kendrion's operating companies comply with the most stringent quality and safety requirements. The requirements include the appointment of safety officers, the periodic training of employees in health & safety issues and the conduct of safety audits.

Due to Kendrion's decentralised organisation, responsibility for health & safety is directly at company level, except for a few centrally-coordinated procedures. In addition, best practices are shared, for instance through workshops. The CSR Board provides further support to the companies.

Accidents and absenteeism are monitored daily on a local level and centrally on a monthly basis.

Accidents/Lost Time Injuries

Kendrion's continuous attention to the safety of the production processes has enabled the company to limit the number of accidents in recent years. The total number of accidents and Lost Time Injuries (LTI) at Kendrion in recent years is shown in the table on page 60.

The total number of accidents was 37, which is a decrease of four accidents compared to the number in 2015 which was 41. Currently, Kendrion's number of accidents is below the relevant German industry benchmarks. There have been no fatal accidents at work in recent years. Kendrion, however, will maintain safety as a priority and will continue to pay considerable attention to reducing this figure.

Total number of accidents*

	Total	At work	On way to work
2014	50	42	8
2015	41	29	12
2016	↓ 37	30	7

Lost Time Injury*
(Days)

2014	506
2015	863
2016	↓ 418

Absenteeism rate
(in %)

2013	2.8
2014	2.3
2015	2.5
2016	↑ 2.6

Analysis of the nature and circumstances of the accidents shows no indications of systemic shortcomings in the employees' safety or working conditions. Kendrion's objective is to further reduce the total number of accidents at its plants to 10 per 1,000 FTE in 2017, ultimately bringing it down to zero as a mindset.

Achievement of this objective is measured on a monthly basis and is followed by an evaluation of the cause of every accident to review the feasibility of implementing improvements in safety procedures, working methods and production lines. The work has included the implementation of the 5S philosophy whose objective is clean and safely organised workplaces in substantially all plants, except for some smaller sales entities.

The LTI (Lost Time Injury rate), which is time lost due to accidents, was substantially lower than in 2015.

Absenteeism
Kendrion's overall absenteeism rate was 2.6% in 2016, which is relatively low for the company's type of industrial operations and geographical spread, and comparable to last year. The objective is to retain the rate at approximately the same level in future years, whereby the rate should not be above 4% for each individual plant. This target was achieved in 2016 in almost all plants. A low absenteeism rate is indicative of healthier employees and an agreeable working environment.

A lower rate also results in less stress for the colleagues of employees on sick leave and lower costs for the company.

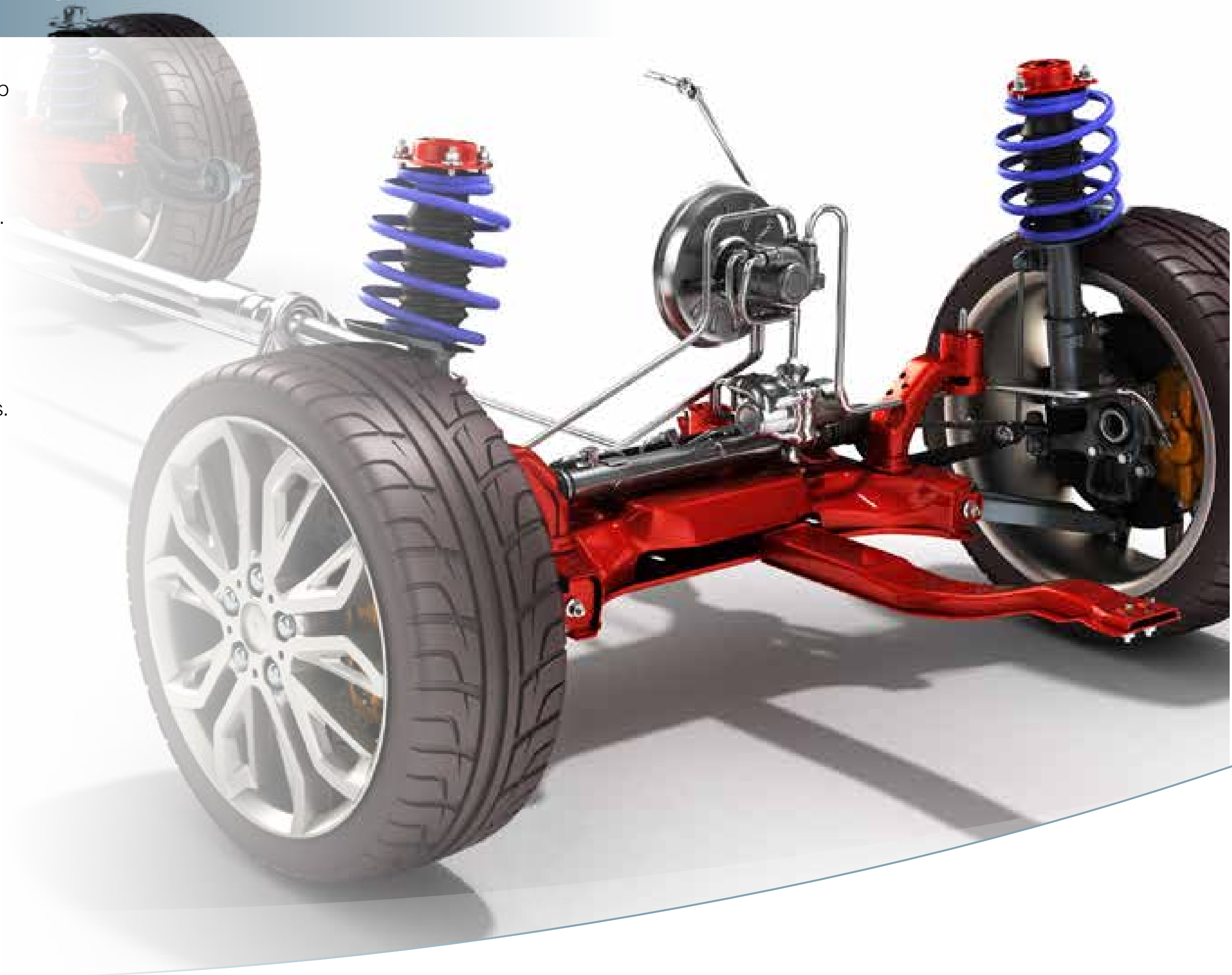
Kendrion will also endeavour to achieve this objective by adopting an individual approach. When the absenteeism rate of specific departments or employees is relatively high, Kendrion will conduct individual discussions with those directly involved and implement measures designed to ensure that the employees recover as quickly as possible and return to work. The outcome of employee satisfaction surveys of companies and their departments are also compared with the absenteeism rates in order to discover patterns that need to be addressed.

Health programmes
Many Kendrion companies have implemented programmes to promote their employees' health. Examples of this are the availability of fresh fruit and mineral water and free 'stop smoking' courses. Kendrion promotes the roll-out of this to other plants in the coming years. This is also the case with an initiative in which employees are offered an opportunity to receive an influenza vaccination during working hours.

In 2016, employees at various plants were able to participate in an annual health day that offered them a general health check (blood pressure, diabetes, etc.). Other examples of measures include training courses designed to avoid back complaints, ergonomic advice and grants to attend a gym at various locations. In addition to the aforementioned initiatives, Kendrion also frequently organises social events such as sports activities designed to strengthen the relationships with and between its employees. These programmes will be continued and extended where needed in 2017.

* See for definitions and external assurance pages 166 and 167 of this Report.

Damper systems Kendrion's cornerstone for sustainable growth



Kendrion developed its first damper systems for ThyssenKrupp Bilstein in 2002 in Villingen (Germany) and started manufacturing in Prostějov (Czech Republic) in 2003. Now, almost 15 years later, the strategic decision to go ahead with the damper business proves to have been an excellent choice. With production locations in Prostějov and since last year in Eibiswald, Kendrion's innovative and powertrain-independent damper products have become a major cornerstone of the company's success. In the case of petrol and diesel cars, the active damping system helps reduce CO_2 emissions because of continuous, driving-behaviour-related damping adjustments. In this way Kendrion's damper solutions contribute to attaining ever-stricter government-issued CO_2 targets and maximising comfort and safety. The Kendrion plants already produce millions of damper systems for a growing number of global premium customers and the future looks bright. The local teams are preparing to raise the line capacity and to launch new damper projects in 2017 and 2018. Investments will be made to enhance automation and production process robustness to meet growing customer expectations.

SIMPLIFY Kendrion's damper systems are manufactured at two locations. Growing volumes make this an attractive product for other plants too. Kendrion Prostějov and Eibiswald have built up important assets for the further growth of this promising business.

FOCUS Valuable engineering know-how, flexibility, deep product knowledge, a proven track record and constant focus on customer benefits secure a strong market position for Kendrion's damper products.

GROW Damper systems are needed in every car, whether it is diesel, petrol, electric, hybrid or fuel cell. Active damper technology helps reduce CO_2 emissions and is therefore an important growth market for Kendrion.

Risks and risk management

Background

Kendrion promotes local entrepreneurship at its companies and, consequently, offers scope to the management to exercise the associated discretionary powers. Kendrion actively conveys the essential need to maintain a healthy equilibrium between entrepreneurial spirit and the extent to which risks are accepted. Adequate risk management is an integral element of good business practice. When risks are made visible Kendrion's managers can implement adequate measures in their everyday management that offer them optimum control of the risks. Kendrion's risk management is not intended to eliminate all risks entirely: seeking business opportunities is not without risks. Kendrion's objective is to adopt an approach to business risks that minimises surprises and the impact of any surprises that nevertheless occur, while always taking into account the necessary balance between risk exposure and costs. Kendrion's risk-reward appetite is periodically evaluated by the Executive Board and shared and discussed with the Supervisory Board, the Executive Board and the Management Team. The Executive Board balances business opportunities with the expectations of shareholders, employees, regulators and other stakeholders.

The risk-reward appetite can be specified in the following terms:

Risk category	Kendrion's risk-reward appetite
Strategic risks	**Moderate:** strike appropriate balance between risk and reward
Operational risks	**Moderate:** align targets and the related costs, focus on sustainable profit maximisation
Financial reporting risks	**Low:** full compliance with financial reporting rules and regulations, transparency
Compliance and fraud risks	**Low:** full compliance with the relevant legislation and regulations

Kendrion has a responsibility to put internal controls and procedures into place and test them to verify their adequate performance. Local management is expected to be fully aware of the operating risks and the necessity for internal control procedures. Kendrion has devoted structural attention to the optimisation of the risk management and control system as part of the everyday decision-making. The Executive Board wishes to emphasise that risk management and control systems – no matter how professional they may be – can neither offer absolute guarantees that the company's objectives shall be achieved nor entirely prevent material errors, loss, fraud, or violations of laws or regulations.

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

Enterprise Risk Management

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

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

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

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

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

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

Control environment

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

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

Code of Conduct

Kendrion has implemented a Code of Conduct in its organisation that applies to all Kendrion staff, including the Supervisory Board. The principles and best practices established in this Code reflect the main values that need to guide Kendrion's staff in the performance of their duties. The core themes include market position, authorities, gifts, anti-bribery, corporate social responsibility, accountability in general, and the obligation for due care regarding safety and health, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by continually bringing the Code to the attention of (new) managers and staff. Kendrion also has a Supplier Code of Conduct in place to address the above themes in the supply chain.

Speak-Up Procedure

Kendrion offers employees an opportunity to report irregularities or suspicions without jeopardising their (legal) position. Any such report gives cause to an internal investigation. In 2016, an external hotline was introduced. This gives employees an additional means of submitting such reports in their own language by phone or via a computer in a confidential manner if they so choose. Kendrion also appointed Confidential Counsellors whom employees can contact if they wish to make confidential reports about (suspicions of) irregularities. No irregularities were reported in 2016.

Regulations to prevent insider trading

Kendrion has implemented regulations to prevent insider trading which were updated as a consequence of the introduction of the Market Abuse Directive in the summer of 2016. These regulations include a prohibition on dealing in Kendrion's shares in the period prior to the publication of the quarterly, half-yearly and annual figures.

Rules and Regulations and Letters of Representation

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

Group Reporting Manual

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

Planning and control cycle

Insight into Kendrion's performance is obtained from the monthly reports of the current figures submitted by all the operating companies, weekly cash forecasts and daily consolidated revenue reports. In the summer of each year, Kendrion starts preparing a Mid-term Plan which is finalised in the fourth quarter. In 2016 the planning horizon of the Mid-term Plan was extended from three to five years. This plan provides insight into the strategic course of the companies and business units.

The Mid-term Plan is accompanied by a more detailed annual budget to provide a precise management tool. A complete forecast prepared each quarter offers insight into financial expectations until the end of the year, and updates the expected performance against the budget. Assessment and follow-up on the progress, development of key performance indicators and deviations from short- and long-term targets are held at various levels in the organisation. Kendrion has implemented a capital expenditure procedure which makes use of standard investment request forms. Executive Board approval is required for new projects with planned annual revenue in excess of EUR 1 million to test return on investment, payback period and cash flows. Executive Board approval is also required for capital investments in excess of EUR 100,000.

Periodic reports and meetings

Regular discussions in weekly conference calls between the Executive Board, the Management Team and similar reviews within the business units address the risks and internal risk management system. Each business unit submits a comprehensive written report at least once a quarter which provides details about the financial and operational situation (to which CSR has been added in 2016) and the status of any current claims and proceedings, where relevant.

Strategic and business risk management

In 2016, the Executive Board together with the senior management of the holding, business units and operating companies conducted a risk survey which reviewed over forty potential risks that Kendrion might be confronted with in relation to the company's strategic objectives. All participants were also requested to add additional potential risks based on their own experience and expertise. Each risk was scored on perceived likelihood, impact and vulnerability. Based on a multiplication of the scores and an evaluation per risk, a top ten of risks per participant was calculated. This initial result of the survey was discussed with business unit Management Teams based on their experience and professional judgment in order to establish the main risks for Kendrion. The final results were extensively discussed with the Supervisory Board. During this discussion the Supervisory Board gave its view and input on the potential risks and the final results of the risk management survey. The risk assessment is evaluated at periodic intervals in terms of relevance and mitigating actions.

Operational risk management

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

Financial reporting risk management

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

Compliance & regulation

Kendrion must comply with the local legislation and regulations in all countries in which the company is active. The responsibility for compliance rests with the local management. Kendrion introduced a Legal & Compliance framework in 2015. Transactions and affairs that could be of influence on the legal structure of the Kendrion group companies and material claims should be addressed at corporate level. Strict rules for the legal and insurance review of material contracts are prescribed. Kendrion obtains advice from external legal experts to acquire timely information about the latest developments in the legislation and regulations. Kendrion has also arranged for liability insurance at corporate level to protect the companies and their Managing Directors from possible claims. The Legal & Compliance framework includes internal legal & compliance audits conducted from time to time at the operating companies to investigate issues including compliance with local legislation and regulations.

Kendrion has also adopted an Anti-Bribery and Corruption (AB&C) policy. This policy encompasses issues including the periodic performance of risk assessments, due diligence, communication and training. Kendrion has introduced an online compliance training, which is compulsory for all staff working in purchasing, sales, management and for some other specific officers. An additional policy for competition law compliance, including online training for relevant staff, was introduced in 2016. Several sales teams within the Kendrion Group had contract training during 2016.

Strategic and business risks

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

1. Increased competition;
2. Technological substitution;
3. Pressure from large customers and customer dependency;
4. Non-performing Information Systems and data security;
5. Volatile economic conditions;
6. Attraction and retention of qualified staff.

Increased competition and technological substitution

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

The company carries out innovative projects in close consultation with its customers, an approach which Kendrion also perceives as contributing to the company's provision of added value. However, new technologies and innovations in the market environment could result in the imposition of changed requirements on Kendrion's products and operations. Although this would offer the company opportunities it could also result in the risk of being unable to meet the requirements or lagging in developing new solutions. Kendrion uses a number of tools to strengthen innovative development in its operations.
Kendrion's strategy to localise production as much as is feasible reduces its vulnerability to risks from competitive shifts resulting from exchange rate movements and changes in export or import restrictions. Although Kendrion's main focus is on technological leadership, it also actively manages the cost price by exploiting low-cost production opportunities within the group as well as exploring alternative use of materials and sources.

Pressure from large customers and customer dependency

Kendrion has a wide range of customers in various markets and, consequently, the company's dependency on a small number of large customers is relatively low. The customer concentration in Automotive is higher than in Industrial. Losing one of the large customers in Automotive would have a high impact and, in the absence of compensatory measures, would be detrimental to Kendrion's growth objective and profitability. The likelihood of this happening is however low to moderate as Kendrion is a technologically advanced player which offers tailor-made customer solutions whose development times and costs are usually high. Kendrion endeavours to minimise its vulnerability by ensuring that single customers do not normally generate more than 5% of Kendrion's total revenues. Three customers (Volkswagen Group, Thyssenkrupp Bilstein and Daimler) each generate more than 5% of the consolidated revenues. Apart from the risks related to large customer accounts, large customers provide opportunities for accelerating (international) growth. It is also easier to justify R&D efforts and investments for larger projects.

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

	Expected organic growth 5%	EBITA margin 10% as from end 2018	Dividend 35-50% of net profit	Accelerate growth after 2018
Increased competition	•	•		•
Technological substitution	•	•		•
Pressure from large customers and customer dependency	•	•		•
Information Systems and data security	•	•		
Volatile economic conditions	•	•	•	•
Attraction and retention of qualified staff	•	•		

Kendrion's main response to this risk is to actively pursue the reduction of single customer dependency by securing projects from other large customers. Kendrion has been successful in this respect during recent years which is evidenced by the changes in the company's large customers' share in consolidated revenue.

Non-performing Information Systems (IS) and data security
Inadequate IS (including the infrastructure) could have a big impact on the company's business processes and, consequently, the results. The likelihood and vulnerability are low to moderate as an adequate range of mitigating actions has been taken.

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

- The arrangements for IS decision-making and the decisions that can be made at each level (central or local);
- IT governance for system and data responsibility (master data management);
- The arrangements for sourcing IS products and services for operating companies;
- The requirements to be met by the IS organisation in serving the users as internal customers;
- The performance of external information security audits;
- The measures that need to be implemented to mitigate risks, such as access security programmes, equipment backup and recovery, change management procedures, etc.;
- The development of solutions for customer requirements (such as EDI) and the integration of suppliers in the supply chain for Kendrion's processes (supplier portals).

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

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

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

Software application portfolio – Most operating companies use a standardised ERP system, Microsoft Operating Systems (OS) and applications and software for specific applications such as project management. The software is stable and Kendrion has the knowledge required for user support. In 2016, Kendrion's Executive Board decided to implement an upgrade of the standardised ERP system. The migration to this upgrade is scheduled for the end of the first quarter of 2017.

ERP implementations and upgrades are accompanied by high risks of business interruption. Kendrion has implemented measures to minimise these risks by strict and high-level governance that also extends to adequate project management.

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

Kendrion periodically carries out sensitivity analyses to review the relationship between the decrease in revenue and the operating result.

These analyses are performed on the basis of a 'top-down' approach with input from the business units.

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

Attraction and retention of qualified staff
People are Kendrion's most important resource. A lack of skilled staff could have a high impact on most of the strategic objectives. The likelihood and vulnerability are moderate to high and, consequently, this is an important area for attention. Electromagnetic know-how is highly specific and requires on-the-job-training.

Kendrion is making great efforts to mitigate this risk by taking actions including the following:

- The Kendrion Executive Programme for senior management at the Rotterdam School of Management, which provides high-quality management training;
- The HIPO programme for high potentials (see page 58);
- Apprentice programmes at several companies;
- Maintenance of good contacts with education institutes;
- Various in house training programmes;
- Health & safety programmes, good labour conditions and staff satisfaction surveys, which are also part of the CSR Programme 'Taking Responsibility'.

Kendrion has additionally launched the implementation of a Succession Planning tool for Kendrion's top management. The implementation of this tool will be finalised in the course of 2017.

Other important risks

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

Strategic risks

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

Customers request the company to develop products complying with specific functional requirements that can, on occasion, come close to the limits of the technologically achievable. Project teams and the requisite disciplines assess the feasibility, since an incorrect estimation of the technical feasibility can result in the (potential) customer's loss of confidence. For this reason the company is also confronted with the risk that Kendrion's engineers succeed in developing a technologically acceptable solution, but that the customer nevertheless decides not to proceed with Kendrion. In order to avoid such circumstances, Kendrion is continually aiming for sole suppliership. In general, the majority of the development costs are borne by the customer, either in instalments during the development phase or as part of the selling price per unit. However, in spite of the compensation for the costs incurred, there is a risk that engineering hours allocated to a customer do not generate new revenue when the customer ultimately decides not to select Kendrion's product.

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

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

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

Operational risks

Commodity markets

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

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

Product liability

Claims under product liability can be detrimental to Kendrion's operations and operating results due to the resultant damage to the company's reputation. In addition to all quality requirements and procedures, Kendrion has taken out liability insurance at group level for its operating companies to reduce the financial risks arising from possible claims under product liability. The amount and scope of the cover are comparable to those of other companies in Kendrion's sectors: the cover is benchmarked periodically. Kendrion also aims to limit the group's liability exposure by employing up-to-date general terms and conditions and mandatory reviews of material or long-term contracts by legal advisors.

Environmental liabilities

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

Financial risks

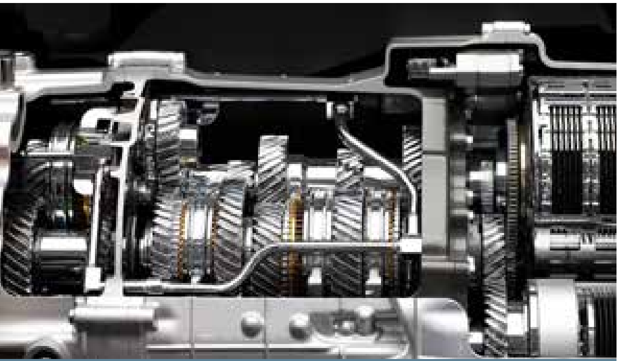
Treasury

Please refer to pages 125 and following of the financial statements for an outline of Kendrion's financial market risks and the policy to mitigate these risks or their impact.

Tax

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

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



PARKING SAFETY FEATURE

Product: Gear box and parking lock solenoid.

Customer: OEMs and tier-1 suppliers for automatic and shift-by-wire transmissions.

Kendrion solution: The parking lock solenoids prevent cars from moving while they are in parking position. These solenoids can be mounted directly onto the automated transmission case or outside the gear box. Kendrion's engineers developed this innovation specifically to replace less advanced mechanical systems.

Added value: Increasing the safety feature through an independent system from the gear shifter with short response time.

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

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

Group companies were visited in 2016 to determine compliance with Kendrion's control framework. All internal audits are supervised by the Group Controllers in Zeist, the Netherlands, to guarantee the independence of the audits conducted. The internal audit programme and audit scope are reviewed at periodic intervals and improved on the basis of recent developments and new requirements.

In 2016, the internal audits encompassed more than 90% of the value of the relevant reporting cycles. The overall results of the audits conducted in 2016 were again satisfactory. The limited number of control deficiencies revealed by the 2015 audits had been addressed, with remediation completed or in progress. This conclusion is in line with the Management Letter, in which the external auditors reported a limited number of findings and no findings which qualified as significant.

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

Corporate governance

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

Kendrion prides itself on its transparent and efficient corporate governance structure that lays down the relationship between the shareholders, Supervisory Board, its Committees, and Executive Board.

Corporate governance structure

Kendrion N.V. is a public limited liability company under Netherlands law, with its registered offices in Zeist, the Netherlands. The company's authorised share capital is divided into 40,000,000 ordinary shares with a nominal value of EUR 2.00. At year-end 2016 13,396,034 ordinary shares had been issued. Kendrion's shares are listed on Euronext's Amsterdam market. Kendrion N.V. does not have a works council.

Articles of Association

A resolution to amend the Articles of Association can be passed by the General Meeting of Shareholders solely on the proposal of the Executive Board as approved by the Supervisory Board. Resolutions of this nature can be passed by an absolute majority of the votes cast at the General Meeting of Shareholders. The Articles of Association have been published on Kendrion's website.

General Meeting of Shareholders

A notice convening a General Meeting of Shareholders shall be issued on behalf of the Executive Board or the Supervisory Board by no later than the 42nd day prior to the day of the meeting. Parties who have the right to vote and attend the meeting and who are registered as such in a designated (sub)register on the 28th day prior to the day of the meeting (registratiedatum) will be entitled to attend the meeting and vote, irrespective of the identity of the entitled party with respect to those shares at the time of the meeting.

Votes representing shares can be cast at the General Meeting of Shareholders either personally or by proxy. Each share grants an entitlement to one vote. All resolutions adopted by the General Meeting of Shareholders are passed by an absolute majority of the votes cast, unless the law or the Articles of Association prescribe a larger majority. The shareholders possess the rights conferred by Kendrion's Articles of Association and by law.

Shareholders individually or jointly representing at least 3% of the issued share capital are entitled to submit a request to the Executive Board or Supervisory Board for the inclusion of items on the agenda of the General Meeting of Shareholders. A request to include items on the agenda shall be granted provided that the motivated request is submitted in writing to the CEO or the Chairman of the Supervisory Board at least 60 days before the date of the General Meeting of Shareholders. Resolutions relating to items placed on the agenda at the request of shareholders can be passed by an absolute majority of the votes cast that represents at least one third of the issued share capital.

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

Shareholders representing 52.1% of the total issued share capital attended or were represented at the General Meeting of Shareholders held in the year under review on 11 April 2016. Shareholders representing 46.7% of the total issued share capital attended or were represented at the Extraordinary General Meeting of Shareholders held on 31 October 2016.

STANDSTILL WITHIN A SPLIT SECOND

Product: Spring-applied brakes for conveyor belts.

Customer: A globally active producer of conveyor technology.

Kendrion solution: An innovative brake with an emergency stop function integrated into a roller within an installation space that is less than 50 mm in diameter, which generates high torques. In the event of a power cut, the braking performance of the conveyor roller should bring capacity loads of up to 100 kilos to a standstill within a split second.

Added value: The energy consumption of the brake is reduced by 50% through a special electronic control module, which realises substantial energy savings.

Executive Board

In 2016, Kendrion was managed by an Executive Board with two members (the CEO and CFO) and was supervised by the Supervisory Board. The General Meeting of Shareholders on 15 April 2013 appointed Mr Sonnemans as CFO for a period of four years. A proposal to reappoint Mr Sonnemans for a period of four years will be submitted to the shareholders at the General Meeting of Shareholders to be held on 10 April 2017. Mr Van Beurden was appointed as CEO as of 1 December 2015 by the Extraordinary General Meeting of Shareholders held on 4 November 2015. He was appointed for a period of four years.

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

The Executive Board has adopted regulations governing the Executive Board's procedures and decision-making. These regulations have been approved by the Supervisory Board. The members of the Executive Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. Each member of the Executive Board can be dismissed by the General Meeting of Shareholders at any time.

The Executive Board is currently supplemented by a Management Team, which is not mandated under the Articles of Association, comprised of the Executive Board, the Business Unit Managers, the General Counsel, the Group HR Director and the Director Strategic Initiatives. The Management Team is a consultative body and the Executive Board always has the deciding vote. Important resolutions of the Executive Board require the approval of the Supervisory Board. The resolutions governed by this stipulation are specified in Kendrion's Articles of Association.

The Executive Board has the authority, with the approval of the Supervisory Board, to decide to issue shares and to limit or exclude pre-emptive rights of existing shareholders in the period until 11 October 2017. This authority relates to a maximum of 10% of the issued share capital at the time of the General Meeting of Shareholders of 11 April 2016, augmented by the number of shares to be issued on the basis of the existing share plan for key management.

In addition, the Executive Board has the authority to arrange for the company to acquire shares in its capital. This authority relates to a maximum of 10% of the issued share capital, and runs until 11 October 2017. Each year, the Executive Board places a request to be granted the authority for the issue and purchase of shares referred to above on the agenda of the General Meeting of Shareholders.

Supervisory Board

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

The Supervisory Board consists of five members. Dr Kayser decided to step down from the Board with effect from 7 January 2016. Mrs Sanders stepped down with effect from the date of the General Meeting of Shareholders of 11 April 2016. Mrs Mestrom is appointed as a member of the Supervisory Board for a period of four years on 11 April 2016. Both Dr Wünsche and Mrs Van der Meijs were appointed as a member at the Extraordinary General Meeting of Shareholders held on 31 October 2016 for a period of four years and three years respectively.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board has adopted regulations and a profile of the Supervisory Board. The Supervisory Board elects a Chairman from amongst its members. The members of the Supervisory Board step down by rotation pursuant to a schedule adopted by the Supervisory Board. Members of the Supervisory Board who step down can be reappointed. These reappointments take account of the manner in which the candidate performed his or her duties as a member of the Supervisory Board. Each member of the Supervisory Board can be dismissed by the General Meeting of Shareholders.

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

Corporate governance structure in light of the Netherlands Corporate Governance Code

The provisions of the Netherlands Corporate Governance Code 2008 were applicable to Kendrion until the end of 2016. Kendrion has applied virtually all the principles and best practice provisions – to the extent that they are applicable – laid down in the Code.

The company reserves, however, the right, both now and in the future, not to apply best practice on occasion, whereby the company shall always comply with the principle formulated in the Netherlands Corporate Governance Code that the company shall explain why it has not applied the best practice provision in question. The provision of the Netherlands Corporate Governance Code 2008 that have not been applied are listed below.

II.2 Remuneration of the Executive Board. Kendrion has applied or will apply virtually all best practice provisions. The precise criteria for the variable remuneration are not disclosed, since the company is of the opinion that the disclosure of the (relevant) performance criteria is undesirable from the perspective of the competitive and market positioning of the company.

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

The credit facility of Kendrion N.V. incorporates what is referred to as a 'change of control' provision. Once a party acquires more than half the company's issued share capital or voting rights then the company is governed by a repayment commitment.

Revised Netherlands Corporate Governance Code 2016

The revised provisions of the Netherlands Corporate Governance Code 2016 were published on 8 December 2016. The revised Code focusses among others on long-term value creation, the interest of all stakeholders, strengthening risk management, enhancing more effective management and supervision, culture and remuneration issues. The Executive Board and Supervisory Board will carefully review the provisions of the revised Code during 2017 and will incorporate any changes that are required or that Kendrion considers useful. The shareholders will be informed or, if needed, further involved in these changes in a timely manner.

Taxes

Kendrion strongly believes that pursuing a transparent and honest tax policy is a part of doing business. This is in line with the group's Code of Conduct. In addition, there is a need to balance the interests of all relevant stakeholders – including customers, local communities, governmental institutions, shareholders – with this.

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

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

DRIVING MASSAGE

Product: Seating comfort system SiKom for pneumatic massage and lumbar support in vehicles.

Customer: Seat manufacturers for passenger cars and commercial vehicles.

Kendrion solution: A ready-to-install complete massage system (valves, electronics, cushions and pump) in a compact design, including fully pneumatic massage, flexible control software and stabilisation functions. It allows configurations between one and twenty massage valves. Lumbar support is also available as an additional option.

Added value: The seating comfort and ergonomic seating position of drivers and passengers increases tremendously thanks to this system. The integrated electronics provide the possibility to adjust the comfort system completely according to the driver's needs.

Another important aspect of Kendrion's tax policy is to effectively manage risk and to comply with all applicable tax laws, rules, regulations and disclosure requirements. The aim is to comply with the letter as well as the spirit of the law. Kendrion makes use of the services of accredited tax advisers at both local and group levels and has included tax compliance in its internal audit programme. It goes without saying that in cases where (the interpretation of) the tax law is unclear, the optimal and most legally defensible position is taken. If necessary and feasible, tax authorities will be consulted in advance for additional certainty. Kendrion's aim in this is to be open and transparent towards all authorities and to act with total integrity. Compliance with all anti-bribery legislation is safeguarded and is part of internal trainings. Kendrion's tax policy is discussed with the Audit Committee of the Supervisory Board from time to time.

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

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

In 2017, Kendrion will review its existing tax policy and tax compliance and control framework again and will update it if necessary. In this respect, Kendrion will also use any relevant feedback received during its existing stakeholder dialogue.

More information about taxes can be found on pages 39, 112-114, 137 and 138 of this Report.

In 2016, Kendrion was given the no. 2 ranking in the Dutch Tax Transparency benchmark for small cap companies and ranked no. 7 among all 68 listed companies included in the benchmark.

Remuneration policy

General

Kendrion's current remuneration policy for the Executive Board was discussed by and adopted at the Extraordinary General Meeting of Shareholders held on 4 November 2015. The remuneration report, which is published on the company's website, explains the policy for the remuneration of the Executive Board and the Supervisory Board. The remuneration report also provides information about the remuneration that was actually paid over 2016. Information about the remuneration received by the individual members of the Executive Board and the Supervisory Board is also enclosed in the financial statements (pages 138-140 and 149).

The policy for the remuneration of the members of the Executive Board is based on the allocation of remuneration of an amount and structure such that qualified and expert executives can be recruited. The policy is also challenging to such an extent that it motivates the members of the Executive Board and, when they exhibit an appropriate performance, ensures they can be retained in the longer term. The composition of the remuneration package promotes the achievement of Kendrion's short and long-term objectives.

The Supervisory Board possesses discretionary powers for the downward or upward adjustment of the total remuneration should the variable remuneration system result in unreasonable and inequitable remuneration. In addition, when so requested by the Supervisory Board, the variable component of the remuneration adopted in the past two years must be repaid in part or in full should it transpire that this was unjustifiably awarded on the basis of incorrect (financial) information. The Supervisory Board periodically tests the package to verify that it is in line with the company's objectives and the market on the basis of information supplied by external experts. The current remuneration policy provides for a fixed component and a variable component, as well as a pension scheme and a number of additional benefits.

Fixed remuneration

The fixed remuneration is in line with the aforementioned policy. At the beginning of 2016, the fixed component for the CFO was only adjusted pursuant to the indexation provision of the remuneration policy. The fixed remuneration of the CEO, who started in December 2015, was not adjusted at the beginning of 2016.

Variable remuneration

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

A variable bonus for the Executive Board members shall be awarded each year that promotes the achievement of Kendrion's short and long-term objectives. The annual variable remuneration for an at-target performance will amount to 40% of the gross fixed remuneration of the CEO and 35% of the gross fixed remuneration of the CFO, with a maximum of 60% of the gross fixed remuneration for the CEO and 50% of the gross fixed remuneration for the CFO. 60% of the bonus criteria will be comprised of financial performance criteria (net profit, ROS, ROI, organic growth and free cash flow) and 40% will be comprised of individual (non-financial) performance criteria.

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

Once the award of the shares has become unconditional after the expiry of the vesting period they must be retained for a minimum of two years (the holding period) unless the relevant member of the Executive Board terminates his/her term of office or the term of office is terminated during this period. The members of the Executive Board may sell such a portion of the shares as it is needed to pay the personal income taxes as a consequence of the unconditional award of shares ('sell to cover') within the holding period.

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

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

The relative TSR performance criterion for the share match is achieved when Kendrion's TSR score is higher than the average of the AScX and the German Small Cap Index, the SDAX. The absolute TSR criterion will be achieved if the increase in the share price together with the dividends in the three-year period concerned, taking account of all circumstances, is reasonable in the Supervisory Board's judgment. The sustainability criteria are (i) energy/CO_2 reduction, (ii) waste & recycling (sustainable business processes), (iii) employee satisfaction and (iv) management development / succession planning. Each of these sustainability criteria is assigned an equal weighting.

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

Pensions and risk premium

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

Sundry

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

Severance pay

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

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

Remuneration of the Supervisory Board

The remuneration received by the members of the Supervisory Board is comprised of a fixed remuneration that is independent of the results, whereby a distinction is made between the remuneration received by the Chairman and the other members of the Supervisory Board. Pursuant to this distinction the remuneration received by the Chairman is about one third higher than the remuneration received by the other members. The General Meeting of Shareholders held on 16 April 2012 resolved that the fixed remuneration of the Chairman of the Supervisory Board amounts to EUR 40,000 and each of the other members EUR 30,000, besides the remuneration of EUR 5,000 for the membership of one of the Committees of the Supervisory Board. In addition to this fixed remuneration, the members also receive a contribution towards their expenses.

In 2016, the Supervisory Board benchmarked the remuneration of its Chairman and its other members as adopted in 2012 with the assistance of a reputable HR consultancy firm. The outcome was that, compared to a Dutch cross-industry reference group of 16 companies, the remuneration is, generally speaking, in the 25th percentile.

The Supervisory Board therefore proposes at the General Meeting of Shareholders to be held on 10 April 2017 to raise the remuneration of the Chairman from EUR 40,000 to EUR 45,000 on an annual basis and to raise the remuneration of the other members from EUR 30,000 to EUR 35,000 on an annual basis, both as of 1 January 2017. It is further proposed to increase the remuneration of the chairpersons of the Audit Committee and the Remuneration Committee respectively from EUR 5,000 to EUR 6,000 on an annual basis. The remuneration for the other members of both Committees will remain at EUR 5,000 on an annual basis. As a result, the remuneration will be in line with the median of the peer group. The fixed cost allowance will be replaced as of 1 January 2017. The out-of-pocket costs of the Supervisory Board members will be reimbursed based on actual expenses.

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

HOW TO SEPARATE CHEMICALS

Product: Solenoid valve for gas chromatograph.

Customer: GERSTEL, a German company that focuses on developing and producing systems and solutions for chemical analysis, including automated sample preparation for gas chromatography.

Kendrion solution: Gas chromatography is an analytical method whereby a gaseous sample mixture is separated into individual chemical compounds for analysis of the composition. The Kendrion solenoid valve makes it possible to determine precisely the flow paths of the gaseous sample inside the injector. Due to its high tightness and very low dead space, it is perfectly suited to analytic purposes.

Added value: Extremely reliable laboratory technology with high cleanliness standard.

Outlook

Kendrion has worked diligently and consistently over the past years focusing entirely on the market of electromagnetic actuators for automotive and industrial applications. This has resulted in Kendrion's leading position as a technologically advanced and innovative company that has an excellent reputation for quality and reliability in Europe, the USA and Asia.

Sustainability and Corporate Social Responsibility are important to Kendrion. This is reflected in the 2015 – 2017 'Taking Responsibility' programme that focused on topics including environmental protection and the responsible use of resources in the supply chain. A new long-term programme will be developed in 2017 that will continue to concentrate on long-term value creation for all our stakeholders, closely aligned to the day-to-day operations.

The economic outlook for 2017 is mixed. Kendrion's most important home market of Germany is expected to achieve slight economic growth. The Chairman of the German Machine Building Association (VDMA) called 2016 'the year of zero'. His outlook for 2017 is slightly better at 1% growth. The rest of the world remains highly uncertain, with continued low interest rates, a slow recovery in Europe, Brexit and the new US presidency all contributing to this.

Taking limited overall global economic growth as a starting point, Kendrion expects its revenue to increase in 2017, driven mostly by growth in the Passenger Cars business unit. Kendrion expects that investments in 2017 will be in excess of depreciation charges. Most of these investments relate to new projects.

Simplify, Focus, Grow

Kendrion announced its midterm strategic plan entitled 'Simplify, Focus, Grow' in May 2016. Kendrion is in the process of simplifying the way it does business. This will reduce costs and improve the decision-making speed, which is in turn expected to improve the operating margin and profitability.

Kendrion will focus its resources and capital on those areas in which it feels it can have the most opportunities for profitable growth, rather than spreading its efforts equally across its five business units.

The clarity Kendrion is gaining through simplifying and focussing its business is intended to allow organic growth of the top line in a way that will ultimately enable growth at a faster pace than Kendrion's historical average of 5%. Due to the long project lead times in Kendrion's business, the company expects organic growth to accelerate in the years beyond 2018.

Kendrion has set three clear, simple and ambitious financial goals. Kendrion aims to deliver an EBITA margin of 10% as from the end of 2018, with organic growth expected to remain broadly in line with the average historical organic growth of 5% per annum until 2018 and a dividend policy of paying out 35 to 50% of the net profit. Kendrion has taken a meaningful step towards this target in 2016 and is committed to doing the same in 2017.

FINANCIAL STATEMENTS - CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Note	EUR million	2016	2015
	Assets		
	Non-current assets		
1	Property, plant and equipment	85.5	82.7
2	Intangible assets	124.5	127.6
3	Other investments, including derivatives	0.4	0.6
4	Deferred tax assets	16.0	15.9
	Total non-current assets	**226.4**	**226.8**
	Current assets		
5	Inventories	52.6	52.5
	Current tax assets	1.2	2.7
6	Trade and other receivables	54.5	48.7
7	Cash and cash equivalents	12.4	10.2
	Total current assets	**120.7**	**114.1**
	Total assets	**347.1**	**340.9**

Note	EUR million	2016	2015
	Equity and liabilities		
8, 9	**Equity**		
	Share capital	26.8	26.4
	Share premium	56.4	62.7
	Reserves	80.0	64.0
	Retained earnings	14.9	16.8
	Total equity	**178.1**	**169.9**
	Liabilities		
10	Loans and borrowings	63.0	69.6
11	Employee benefits	21.4	19.8
4	Deferred tax liabilities	10.9	11.4
	Total non-current liabilities	**95.3**	**100.8**
7	Bank overdraft	2.7	9.0
10	Loans and borrowings	0.7	0.7
13	Provisions	1.2	0.8
	Current tax liabilities	0.7	1.8
14	Trade and other payables	68.4	57.9
	Total current liabilities	**73.7**	**70.2**
	Total liabilities	**169.0**	**171.0**
	Total equity and liabilities	**347.1**	**340.9**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	EUR million	2016	2015
19	Revenue	443.4	442.1
21	Other income	0.1	0.1
	Total revenue and other income	**443.5**	**442.2**
	Changes in inventories of finished goods and work in progress	0.5	(0.2)
	Raw materials and subcontracted work	230.0	228.4
22	Staff costs	132.6	133.1
	Depreciation and amortisation	24.0	23.2
16, 23	Other operating expenses	34.7	35.7
	Result before net finance costs	**21.7**	**22.0**
	Finance income	0.1	0.2
	Finance expense	(3.2)	(3.5)
24	**Net finance costs**	**(3.1)**	**(3.3)**
	Profit before income tax	**18.6**	**18.7**
25, 26	Income tax expense	(3.7)	(1.9)
	Profit for the period	**14.9**	**16.8**

Note	EUR million	2016	2015
	Other comprehensive income		
	Remeasurements of defined benefit plans*	(1.9)	(0.3)
	Foreign currency translation differences for foreign operations**	1.3	5.6
	Net change in fair value of cash flow hedges, net of income tax**	(0.2)	0.3
	Other comprehensive income for the period, net of income tax	(0.8)	5.6
	Total comprehensive income for the period	**14.1**	**22.4**
9	Basic earnings per share (EUR)	1.12	1.28
9	Diluted earnings per share (EUR)	1.12	1.28

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
Balance at 1 January 2016	26.4	62.7	10.3	(0.1)	–	53.8	16.8	169.9
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	14.9	14.9
Other comprehensive income								
Remeasurements of defined benefit plans	–	–	–	–	–	(1.9)	–	(1.9)
Foreign currency translation differences for foreign operations	–	–	1.3	–	–	–	–	1.3
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.2)	–	–	–	(0.2)
Total other comprehensive income for the period	–	–	1.3	(0.2)	–	(1.9)	–	(0.8)
Total comprehensive income for the period	–	–	1.3	(0.2)	–	(1.9)	14.9	14.1
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares	0.4	3.8	–	–	–	–	–	4.2
Share-based payment transactions	0.0	0.2	–	–	–	0.0	–	0.2
Dividends to equity holders	–	(10.3)	–	–	–	–	–	(10.3)
Appropriation of retained earnings	–	–	–	–	–	16.8	(16.8)	–
Balance at 31 December 2016	26.8	56.4	11.6	(0.3)	–	68.7	14.9	178.1

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	EUR million	2016	2015
	Cash flows from operating activities		
	Profit for the period	14.9	16.8
	Adjustments for:		
	Net finance costs	3.1	3.3
	Income tax expense	3.7	1.9
	Depreciation of property, plant and equipment and software	20.3	19.4
	Amortisation of other intangible assets	3.7	3.8
	Impairment of property, plant and equipment	0.5	0.1
	Share-based payments	0.2	0.4
		46.4	45.7
	Change in trade and other receivables	(5.7)	1.9
	Change in inventories	(0.4)	(2.5)
	Change in trade and other payables	10.2	2.4
	Change in provisions	0.0	0.2
		50.5	47.7
	Interest paid	(2.7)	(3.2)
	Interest received	0.2	0.1
	Tax paid	(3.8)	(3.7)
	Net cash flows from operating activities	**44.2**	**40.9**

Note	EUR million	2016	2015
	Cash flows from investing activities		
20	Acquisition of subsidiary, net of cash received	–	(1.0)
	Investments in property, plant and equipment	(20.9)	(19.5)
	Disinvestments of property, plant and equipment	0.6	2.0
	Investments in intangible fixed assets	(2.9)	(2.8)
	Disinvestments of intangible fixed assets	0.3	0.5
	(Dis)investments of other investments	0.0	0.1
	Net cash from investing activities	**(22.9)**	**(20.7)**
	Free cash flow	**21.3**	**20.2**
	Cash flows from financing activities		
	Repayment of borrowings (non current)	(6.6)	(17.0)
	Proceeds from borrowings (current)	–	0.0
	Repayment of borrowings (current)	(0.0)	-
	Proceeds from the issue of share capital	0.0	0.0
	Dividends paid	(6.1)	(6.1)
	Change in treasury shares	–	0.0
	Net cash from financing activities	**(12.7)**	**(23.1)**
	Change in cash and cash equivalents	8.6	(2.9)
	Cash and cash equivalents at 1 January	1.2	3.1
	Effect of exchange rate fluctuations on cash held	(0.1)	1.0
7	Cash and cash equivalents at 31 December	9.7	1.2

Reporting entity

Kendrion N.V. (the 'Company') is domiciled in the Netherlands. The Company's registered office is at Utrechtseweg 33, 3704 HA Zeist. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 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 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards published by the International Accounting Standards Board (IASB) as adopted by the European Union (hereinafter referred to as EU-IFRS). The Company financial statements are part of the 2016 financial statements of Kendrion N.V.

The financial statements were authorised for issue by the Executive Board on 21 February 2017.

(b) Basis of measurement

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

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

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

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

The preparation of the financial statements in accordance with EU-IFRS requires the Executive Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered reasonable in the circumstances, the results of which form the basis for making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which an estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Changes in estimation methods and the impact of such changes are outlined in the notes to the relevant item.

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

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

Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Subsidiaries

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

(iii) Composition of the Group

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Translation of foreign currency financial statements

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

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

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

(c) Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

(v) Recognition of transaction results

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

(d) Intangible assets

(i) Goodwill

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

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

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

(ii) Research and development

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

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

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

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

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

(e) Financial instruments and other investments

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, recognised interest bearing loans and borrowings, trade and other payables, cash and cash equivalents, and other non-derivative financial instruments. They are recognised as at the respective dates on which they originate.

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

Trade and other receivables

Trade and other receivables are carried at amortised cost, less impairment losses (see note g).

Recognised interest-bearing loans and borrowings

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

Trade and other payables

Trade and other payables are carried at amortised cost.

Cash and cash equivalents

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

Other non-derivative financial instruments

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

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

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

Embedded derivatives are accounted for separately from the host contract. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value in profit or loss. Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss. At 31 December 2016, no embedded derivatives existed.

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

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

If a hedging instrument no longer meets the criteria for a cash flow hedge, expires or is sold, then hedge accounting is discontinued prospectively. The cumulative result previously included in equity is recognised in profit or loss unless it is expected that the original hedged transaction will still take place.

(f) Inventories

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

(g) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

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

(iii) Reversal of impairment losses

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

(iv) Calculation of recoverable amount

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

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

(h) Share capital

(i) Ordinary shares

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

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

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

(iii) Dividends

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

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(iii) Other long-term service benefits

The Group's net obligation in respect of long-term service benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and net of the fair value of any related assets.

The discount rate is the yield at the financial position date on AA-credit rated bonds that have maturity dates approximating the terms of the Group's obligations. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) Share-based payment transactions

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

(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 recongised costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(j) Provisions

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

(k) Revenue

(i) Goods sold and services rendered

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

(ii) Government grants

Unconditional government grants are recognised in profit or loss as operating income when they become receivable.

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

(l) Expenses

(i) Operating lease payments

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

(ii) Financial lease payments

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

(iii) Net finance costs

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

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

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

(m) Income tax

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

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity; or on different tax entities, but the intention is to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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

(n) Earnings per share

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

(o) Segment reporting

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

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

However, and on the basis of the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: 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 19.

(p) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective, and have been endorsed by the European Union, for annual periods beginning on or after 1 January 2016 and therefore apply to the year ended 31 December 2016:

- **IFRS Annual Improvements:** 2012–2014. The standards IFRS 5, IFRS 7, IAS 19 and IAS 34 were amended as part of the Annual Improvements project. The amendments address details of changes in methods of disposals (IFRS 5), servicing contracts and offsetting (IFRS 7), disount rate (IAS 19) and interim financial reporting diclosures references (IAS 34). These changes have no material impact on the consolidated financial statements.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are not effective at 31 December 2016 but may be relevant are as follows:

- **IFRS 9:** Financial instruments. IFRS 9, endorsed by the European Union on 22 November 2016, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 contains new guidance on:
  - Classification and measurement of financial instruments. For financial liabilities designated as accounted for at fair value through profit or loss (FVTPL) using the fair value option (FVO), the amount of the change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in other comprehensive income (OCI). The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 requirements for financial liabilities have been carried forward into IFRS 9;
  - Key change in terms of recognition and measurement of impairment losses on financial assets. IAS 39 only allows impairment losses based on losses already incurred. Whereas the IFRS 9 model is based on an expected credit loss model for calculating impairment on financial assets. For certain financial instruments such as trade accounts receivable, simplifications for recognising impairment losses apply; and
  - New general hedge accounting requirements that aim for a closer alignment of hedge accounting with the entity's risk management strategy.

IFRS 9 applies to annual reporting periods beginning on or after 1 January 2018 (early application is permitted). The impact on the consolidated financial statements of the Group will be analysed and the standard will be adopted for the fiscal year beginning as of 1 January 2018.

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

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

In November 2016 the European Union has endorsed this standard for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The standard will be adopted for the fiscal year beginning 1 January 2018 applying the modified retrospective approach meaning that the impact on the profit for the period 2017 will be adjusted in equity on 1 January 2018. The timing and amount of revenue that the Group recognises under IFRS 15 may be affacted compared to Kendrion's current accounting policy. Certain type of contracts with customers contain variable considerations as e.g discounts for early payments. These variable considerations will have an impact on the transaction price to be allocated to the performance obligation(s). However the majority of our contracts with customers will be accounted for at a 'point in time'. IFRS 15 also gives more guidance on how to account for contract modifications than current revenue standard IAS 18. For contract modifications it needs to be assessed whether the change must be accounted for either as a retrospective change, prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts. Currently it is expected that changes in the total amount of revenue to be recognised for a customer contract will be very limited and this standard has no significant impact on the consolidated financial statements of the Group. The corresponding positions in the Statement of Financial Position will change accordingly (e.g. receivables from contracts with customer, contract assets and contract liabilities (if any)) and disclosures will be amended.

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

  This standard applies to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. Endorsement by the European Union is still pending, but is expected to be given in the course of 2017. Transition options to apply are either a full retrospective approach or a modified retrospective approach. The transition option is to be decided by the Group. The impact on the consolidated financial statements of the Group is to be analysed in the near future.

(q) Fair values

(i) Measurement of fair value

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

(ii) Property, plant and equipment

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

(iii) Intangible assets

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

(iv) Financial lease liabilities

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

(v) Inventories

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

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

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

(vii) Interest-bearing loans

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

(viii) Derivatives

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

(ix) Non-derivative financial liabilities

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

(x) Contingent consideration

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

(r) Financial risk management

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

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

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

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

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

For a more detailed description of risk management and the position of financial risk management in the Group's framework, see 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 2016. In 2015, the largest customer outstanding at 31 December 2015 accounted for 7% of total trade and other receivables. Other customers individually accounted for 5% or less of the trade and other receivables at 31 December 2016. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players, this reduces the Group's dependency on the German market.

(iii) Investments and financial instruments

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

(iv) Liquidity risk

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

A summary of the credit lines available to the Group is disclosed in note 10 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of BNP Paribas, Deutsche Bank and ING Bank on an equal basis. The Group had approximately EUR 89 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 50 million in order to reduce interest rate risk exposure to increasing market rates. EUR 20 million matures in the third quarter of 2017 and EUR 30 million matures in 2018.

(vii) **Currency risk**

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

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

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

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

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

(viii) **Other price risks**

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

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

The Group is also exposed to risks associated with rare earth metals such as neodymium, a component of permanent magnets, which are used in some of the Group's products. Prices of these commodities have shown significant volatility 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.

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

(ix) Capital management

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

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

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

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

1 Property, plant and equipment

EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2015	48.6	96.8	40.1	5.5	191.0
Acquired, other	1.8	5.3	4.6	7.5	19.2
Disposals	(2.5)	(2.8)	(3.0)	(2.0)	(10.3)
Currency translation differences	0.3	0.8	0.1	0.1	1.3
Balance as at 31 December 2015	48.2	100.1	41.8	11.1	201.2
Balance as at 1 January 2016	48.2	100.1	41.8	11.1	201.2
Acquired, other	1.9	16.5	5.4	7.1	30.9
Disposals	(0.4)	(0.5)	(0.3)	(10.0)	(11.2)
Currency translation differences	0.1	0.1	0.0	0.0	0.2
Balance as at 31 December 2016	49.8	116.2	46.9	8.2	221.1

EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Depreciation and impairment losses					
Balance as at 1 January 2015	20.4	58.2	29.2	0.1	107.9
Depreciation for the year	1.9	10.6	4.3	–	16.8
Impairment	–	–	–	0.1	0.1
Disposals	(1.0)	(2.5)	(2.7)	(0.1)	(6.3)
Balance as at 31 December 2015	21.3	66.3	30.8	0.1	118.5
Balance as at 1 January 2016	21.3	66.3	30.8	0.1	118.5
Depreciation for the year	2.0	10.8	4.4	–	17.2
Impairment	–	0.2	0.3	–	0.5
Disposals	–	(0.4)	(0.2)	–	(0.6)
Balance as at 31 December 2016	23.3	76.9	35.3	0.1	135.6
Carrying amounts					
As at 1 January 2015	28.2	38.6	10.9	5.4	83.1
As at 31 December 2015	26.9	33.8	11.0	11.0	82.7
As at 1 January 2016	26.9	33.8	11.0	11.0	82.7
As at 31 December 2016	26.5	39.3	11.6	8.1	85.5

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

The estimated useful lives are as follows:

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

2 Intangible assets

EUR million	Goodwill	Development costs	Software	Other	Total
Cost					
Balance as at 1 January 2015	90.5	0.8	13.5	38.6	143.4
Acquired through business combinations	–	–	0.0	1.5	1.5
Acquired, other	–	0.8	4.3	0.0	5.1
Disposals	–	(0.6)	(0.8)	–	(1.4)
Currency translation differences	2.9	0.0	0.0	0.8	3.7
Balance as at 31 December 2015	93.4	1.0	17.0	40.9	152.3
Balance as at 1 January 2016	93.4	1.0	17.0	40.9	152.3
Acquired, other	–	0.9	2.0	–	2.9
Disposals	–	(0.2)	(0.0)	(0.1)	(0.3)
Currency translation differences	0.9	0.0	0.0	0.2	1.1
Balance as at 31 December 2016	94.3	1.7	19.0	41.0	156.0
Amortisation and impairment losses					
Balance as at 1 January 2015	–	0.0	5.4	13.8	19.2
Amortisation for the year	–	0.0	2.6	3.8	6.4
Disposals	–	–	(0.9)	–	(0.9)
Balance as at 31 December 2015	–	0.0	7.1	17.6	24.7
Balance as at 1 January 2016	–	0.0	7.1	17.6	24.7
Amortisation for the year	–	0.1	3.0	3.7	6.8
Disposals	–	–	(0.0)	(0.0)	(0.0)
Balance as at 31 December 2016	–	0.1	10.1	21.3	31.5

EUR million	Goodwill	Development costs	Software	Other	Total
Carrying amounts					
At 1 January 2015	90.5	0.8	8.1	24.8	124.2
At 31 December 2015	93.4	1.0	9.9	23.3	127.6
At 1 January 2016	93.4	1.0	9.9	23.3	127.6
At 31 December 2016	94.3	1.6	8.9	19.7	124.5

The other intangible assets comprise the carrying amount of customer relationships amounting to EUR 18.4 million (2015: EUR 22.5 million). These customer relationships were acquired through business combinations. The addition in other intangible assets in 2015 mainly relates to the acquisition of Steinbeis Mechatronik GmbH.

Depreciation and amortisation

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

EUR million	2016	2015
Depreciation and amortisation	24.0	23.2

The estimated useful life of software is between three and eight years. The estimated useful life of other intangible assets is approximately between eight and fifteen years. Goodwill has an indefinite estimated useful life. The investments in software during 2016 of EUR 2.0 million (2015: EUR 4.3 million) mainly relate to an upgrade of the ERP system and upgrade of office applications. The depreciation period for the ERP system is eight years based on its expected useful life.

Impairment testing for cash-generating units containing goodwill

Goodwill EUR million	2016	2015
Kendrion Linnig Group	27.6	27.6
Kendrion (Mishawaka) LLC	7.3	7.0
Kendrion (Aerzen) GmbH	7.1	7.1
Kendrion (Shelby) Inc.	21.2	20.6
Kendrion Kuhnke Automation	17.7	17.7
Kendrion Kuhnke Automotive	13.4	13.4
	94.3	93.4

Key assumptions and method of quantification

The Group recognises its intangible assets in accordance with IAS 38 and IFRS 3. Pursuant to IAS 36, the Group has performed an impairment test with reference to the goodwill allocated to each individual cash-generating unit. This test was carried out by discounting future cash flows ('value in use') to be generated from the continuing use of the cash-generating unit to which the goodwill applies and on the assumption of an indefinite life. The cash flows for the next five years were based on mid-term plans and budgets drawn up by the local management and approved by the Executive Board. The horizon of the mid-term plans has been extended to five years (2015: three years). The Group did not recognise any impairment of goodwill in this reporting period.

For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a moderate growth rate of 2% taken into account. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model was also pre-tax. Expansion investments were excluded from the calculations in the residual value. The expected growth in cash flows as a result of these expansion investments was also excluded. Key assumptions used in the calculation of recoverable amounts concern discount rates, terminal value growth rates and EBITA growth. Assumptions are based on past experience and external sources. Key assumptions used in the calculation of recoverable amounts concern discount rates terminal growth rates and EBITA growth.

These assumptions are as follows:

Discounted cash flow projections

	Discount rate		Terminal value growth rate	
	2016	2015	2016	2015
Kendrion Linnig Group	7.3%	8.0%	2.0%	2.0%
Kendrion (Mishawaka) LLC	9.8%	10.5%	2.0%	2.0%
Kendrion (Aerzen) GmbH	7.0%	7.9%	2.0%	2.0%
Kendrion (Shelby) Inc.	9.9%	10.4%	2.0%	2.0%
Kendrion Kuhnke Automation	7.0%	8.0%	2.0%	2.0%
Kendrion Kuhnke Automotive	7.0%	8.1%	2.0%	2.0%

Discount rate

In determining the pre-tax discount rate, first the post-tax average costs of capital were calculated for all cash generating units containing goodwill. The post-tax rate is based on debt leveraging compared to the market value of equity of 22%. All the post-tax weighted average cost of capital rates of cash generating units approximated 5.6% to 7.1%, and these rates were used for calculating the post-tax cash flows.

Terminal value growth rate

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

Sensitivity to changes in assumptions

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

Change required for recoverable amount to equal carrying amount	Discount rate (post tax)		Forecasted EBITA	
	2016	2015	2016	2015
Kendrion Linnig Group	4.4%	13.9%	(45%)	(71%)
Kendrion (Mishawaka) LLC	1.4%	1.4%	(21%)	(20%)
Kendrion (Aerzen) GmbH	3.1%	3.7%	(45%)	(47%)
Kendrion (Shelby) Inc.	5.2%	6.6%	(50%)	(55%)
Kendrion Kuhnke Automation	16.7%	13.2%	(80%)	(72%)
Kendrion Kuhnke Automotive	9.8%	9.0%	(71%)	(56%)

Compared to prior year the percentages are influenced by the change in the discount rate and the expected future cash flows. This table shows that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

3 Other investments, including derivatives

Other investments in 2016 include financial derivatives and recognised upfront and legal fees related to the facility agreement (see note 10). Kendrion amortises these costs over the remaining maturity of the facility. As these costs relate to the facility agreement as a whole and not to individual loans, these costs are not part of the effective interest rate of outstanding loans.

4 Deferred tax assets and liabilities

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

Germany

Tax assessments have been submitted for the German companies up to and including 2014. As from 2010, these years are still open for potential tax audits with the exception of Kendrion Aerzen which has been audited up to and including 2008. For the German operating companies of Kuhnke the years up to and including 2011 have been audited and the tax assessments are final. At 31 December 2016 tax loss carry forwards amounted to about EUR 5.1 million (‘Gewerbesteuer’) and EUR 25.3 million (‘Körperschaftsteuer’). These are recognised in full, resulting in deferred tax assets of EUR 4.6 million (2015: EUR 5.2 million).

United States of America

Tax assessments have been submitted up to and including 2015. The years 2013 up to 2015 are still open for potential tax audits.
At 31 December 2016 the tax loss carry forwards amounted to EUR 3.7 million (2015: EUR 0.5 million). These are recognised in full, resulting in deferred tax assets of EUR 1.3 million (2015: EUR 0.2 million).

The Netherlands

Tax assessments have been submitted up to and including 2014. The years 2010 up to 2014 are still open for potential tax audits.
At 31 December 2016 the tax loss carry-forwards amounted to EUR 4.5 million (2015: EUR 20.8 million). These are recognised in full, resulting in deferred tax assets of EUR 1.1 million (2015: EUR 5.2 million). These tax loss carry-forwards originated in 2012.

Deferred tax assets and liabilities included in the financial position

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

EUR million		Assets		Liabilities		Net
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	0.1	0.2	3.6	3.6	(3.5)	(3.4)
Intangible assets	4.3	0.6	6.8	7.2	(2.5)	(6.6)
Inventories	0.4	0.1	0.2	0.2	0.2	(0.1)
Employee benefits	2.2	1.6	0.0	–	2.2	1.6
Provisions	0.1	0.4	0.2	0.2	(0.1)	0.2
Other items	1.9	2.4	0.1	0.2	1.8	2.2
Tax value of recognised loss carry-forwards	7.0	10.6	–	–	7.0	10.6
Deferred tax assets/liabilities	16.0	15.9	10.9	11.4	5.1	4.5

The tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position amount to EUR 1.4 million. These unrecognised tax losses carry forward will expire mainly in 2019 and in 2020.

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

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

Movement in temporary differences during the financial year

Net, EUR million				2016
	At 1 January	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(3.4)	(0.1)	–	(3.5)
Intangible assets	(6.6)	4.1	–	(2.5)
Inventories	(0.1)	0.3	–	0.2
Employee benefits	1.6	(0.1)	0.7	2.2
Provisions	0.2	(0.3)	–	(0.1)
Other items	2.2	(0.4)	–	1.8
Tax value of loss carry-forwards used	10.6	(3.6)	–	7.0
	4.5	(0.1)	0.7	5.1

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

In 2016, the net amount from the movement in deferred tax assets and liabilities, presented as tax in the statement of comprehensive income, is negative EUR 0.1 million (2015: positive EUR 1.3 million).

5 Inventories

EUR million	2016	2015
Raw materials, consumables, technical materials and packing materials	25.9	25.6
Work in progress	11.5	11.5
Finished goods	11.7	11.9
Goods for resale	3.5	3.5
	52.6	52.5

The inventories are presented after accounting for a provision of EUR 9.0 million (2015: EUR 7.8 million) for obsolescence. In 2015, the amount of the write-down to net realisable value of the inventories was EUR 1.9 million (2015: EUR 1.3 million). The write-down and reversals are included in cost of sales.

6 Trade and other receivables

EUR million	2016	2015
Trade receivables	45.6	43.8
Other taxes and social security	4.8	1.6
Other receivables	2.1	1.9
Derivatives used for hedging	–	0.1
Prepayments	2.0	1.3
	54.5	48.7

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

7 Cash and cash equivalents

EUR million	2016	2015
Bank balances	12.4	10.2
Bank overdrafts	(2.7)	(9.0)
Cash and cash equivalents in the statement of cash flows	9.7	1.2

The bank balances are freely available. The interest rate risk for the Group and a sensitivity analysis for financial assets and liabilities are disclosed in notes 15 and r.

8 Capital and reserves

Capital and share premium

	Shares entitled to dividend		Shares owned by Kendrion		Total number of issued shares	
	2016	2015	2016	2015	2016	2015
At 1 January	13,188,154	13,026,325	–	4,657	13,188,154	13,030,982
Issued shares (share dividend)	199,706	146,148	–	–	199,706	146,148
Issued registered shares (share plan)	8,174	11,024	–	–	8,174	11,024
Delivered shares	1,044	5,985	(1,044)	(5,985)	–	–
Repurchased shares	(1,044)	(1,328)	1,044	1,328	–	–
At 31 December	13,396,034	13,188,154	–	–	13,396,034	13,188,154

Issuance of ordinary shares

In 2016, 199,706 new shares were issued as share dividend (2015: 146,148). During 2016, the Company delivered 9,218 shares to the Executive Board and senior management as part of its share plan and remuneration packages (2015: 17,009). The Company purchased 1,044 of its own shares in 2016 (2015: 1,328).

Ordinary shares

The authorised share capital consists of:

EUR million	2016	2015
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2016: 13,188,154 ordinary shares (2015: 13,030,982)	26.4	26.1
Balance at 31 December 2016: 13,396,034 ordinary shares (2015: 13,188,154)	26.8	26.4

Share premium

EUR million	2016	2015
Balance as at 1 January	62.7	68.8
Dividend payment	(10.3)	(10.2)
Share premium on issued shares	4.0	4.1
Balance as at 31 December	56.4	62.7

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 net movement was EUR 0.2 million (2015: EUR 0.3 million). The hedge reserve increased by EUR 0.0 million due to the realisation of hedged transactions (2015: EUR 0.2 million). The hedge reserve decreased by EUR 0.2 million due to valuation effects (2015: positive EUR 0.3 million). There was no hedge ineffectiveness in 2016 (2015: EUR 0.0 million).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for the remuneration packages for the Executive Board. At 31 December 2016, the Company held none of its own shares (2015: none), see also note 27.

Other reserves

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

Retained earnings

In 2016, the result for 2015 was fully transferred to other reserves. Retained earnings in the 2016 financial statements consequently consist solely of the result for 2016.

9 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2016 is based on the profit for the period of EUR 14.9 million (2015: EUR 16.8 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2016: 13,327,000 (2015: 13,132,000).

EUR million	2016	2015
Net profit attributable to ordinary shareholders	14.9	16.8

Weighted average number of ordinary shares

In thousands of shares	2016	2015
Issued ordinary shares at 1 January	13,188	13,026
Effect of shares issued as share plan	8	11
Effect of own shares delivered and repurchased	–	5
Effect of shares issued as share dividend	200	146
Ordinary shares outstanding at 31 December	13,396	13,188
Weighted average number of ordinary shares	13,327	13,132
Basic earnings per share (EUR)	1.11	1.28
Basic earnings per share (EUR), based on weighted average	1.12	1.28

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2016 is based on the profit of EUR 14.9 million (2015: EUR 16.8 million) attributable to the holders of ordinary shares and the weighted average number of shares in issue during the year, after adjustment for the effects of all dilutive potential ordinary shares amounting to 13,333,000 (2015: 13,139,000).

EUR million	2016	2015
Net profit attributable to ordinary shareholders	14.9	16.8
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	14.9	16.8

Weighted average number of ordinary shares (diluted)

In thousands of shares	2016	2015
Weighted average numbers of ordinary shares at 31 December	13,327	13,132
Weighted average numbers of ordinary shares at 31 December (diluted)	13,333	13,139
Basic earnings per share (EUR), based on weighted average (diluted)	1.12	1.28

10 Loans and borrowings

These notes contain information on the contractual provisions of the Group's interest-bearing loans and borrowings, which are carried at amortised cost price. For further information on the interest rates, and the currency and liquidity risks borne by the Group, see note 15 and accounting policy r.

EUR million	2016	2015
Non-current liabilities		
Bank syndicate loans	58.0	63.5
Mortgage loans	3.7	4.4
Financial lease liabilities	0.3	0.5
Other loans	1.0	1.2
	63.0	69.6

EUR million	2016	2015
Current liabilities		
Current portion loans	0.7	0.7
	0.7	0.7

Financing conditions

At 31 December 2016, the Group had the following credit lines available:

- EUR 150 million revolving Credit Facility with a syndicate of three banks consisting of BNP Paribas, Deutsche Bank and ING Bank. The Credit Facility is committed until 15 August 2019 and includes an option (accordion option) to increase the facility by a maximum of EUR 75.0 million;
- EUR 4.4 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 1.0 million in subsidised term loans with final maturity in 2019;
- EUR 0.3 million in financial leases for various equipment in the Kuhnke facilities in Malente and Sibiu;
- EUR 1.0 million in other overdraft facilities.

At 31 December 2016, the total unutilised amount of the facilities was approximately EUR 89 million.

Banking syndicate credit facility

Pursuant to the terms of the credit facility with the banking syndicate, the Group has agreed to financial covenants relating to the leverage ratio (interest bearing debt / EBITDA) and interest coverage (EBITDA / interest costs). In accordance with these covenants, the leverage ratio should remain below 3.0, which can under certain circumstances be temporarily increased to a maximum of 3.5. The interest coverage should always exceed 4.0. Both covenants are tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 1.1 (2015: 1.5) and the actual interest coverage at year-end was 24.5 (2015: 20.1).

Security provided

The Group has provided a mortgage on its premises in Malente, Germany for a EUR 4.4 million loan. No security is provided in relation to the EUR 150 million revolving Credit Facility.

Interest-rate sensitivity

Interest on the EUR 5.7 million other loans is based on a fixed-term interest rate. Interest amounts payable on the EUR 150 million revolving Credit Facility are based on short-term interest rate (mainly three months). See note 15 and accounting policy r for further details.

Financial lease liabilities

The financial lease liabilities are payable as follows:

EUR million	2016			2015		
	Minimum lease	Interest	Principal	Minimum lease	Interest	Principal
‹ 1 year	0.3	0.0	0.3	0.4	0.0	0.4
1 – 5 years	0.0	0.0	0.0	0.1	0.0	0.1
› 5 years	–	–	–	–	–	–
	0.3	0.0	0.3	0.5	0.0	0.5

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

11 Employee benefits

EUR million	2016	2015
Present value of unfunded obligations	16.0	14.7
Present value of funded obligations	6.6	8.2
Fair value of plan assets	(4.4)	(5.6)
Recognised net liability for defined benefit obligations	18.2	17.3
Liability for long-service leave and anniversaries	3.2	2.5
Total employee benefits	21.4	19.8

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

EUR million	2016	2015
Recognised net liability for defined benefit obligations at 1 January	17.3	17.3
Expense recognised in the consolidated statement of comprehensive income	(0.7)	0.5
Benefits paid	(1.0)	(0.9)
Other movements (including currency differences and employer contributions paid)	(0.1)	0.0
Actuarial (gains) losses in other comprehensive income	2.7	0.4
Recognised net liability for defined benefit obligations at 31 December	18.2	17.3

Movement in plan assets

EUR million	2016	2015
Fair value of plan assets at 1 January	5.6	5.0
Contributions paid employer	0.1	0.1
Contributions paid participants	0.1	0.1
Benefits paid	(0.1)	(0.1)
Assets distributed on curtailments	(1.1)	–
Return on plan assets	0.1	0.1
Actuarial gains (losses) in other comprehensive income	(0.3)	0.4
Fair value of plan assets at 31 December	4.4	5.6

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

EUR million	2016	2015
Current service costs	0.2	0.2
Past service costs including losses/(gains) on curtailments	(1.2)	–
Net interest	0.3	0.3
	(0.7)	0.5
Effective return on plan assets	(0.2)	0.6

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

EUR million	2016	2015
Staff costs	(0.9)	0.2
Net finance costs	0.3	0.3
	(0.6)	0.5

Principal actuarial assumptions (expressed as weighted averages)

	2016	2015
Discount rate at 31 December	0.9%	1.8%
Future salary increases	0.6%	0.7%
Future pension increases	1.7%	1.3%

Historical information

EUR million	2016	2015	2014	2013	2012
Net liability for defined benefit obligations	22.6	22.9	22.3	20.6	9.6
Fair value of plan assets	4.4	5.6	5.0	4.8	4.4
Deficit in plan	18.2	17.3	17.3	15.8	5.2

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

Composition plan assets

EUR million	2016	2015
Bonds	1.8	2.1
Equity	0.9	1.3
Real estate	0.8	1.0
Government loans	0.1	0.0
Other	0.8	1.1
Total	4.4	5.6

Sensitivity analysis

	Defined benefit obligation	
EUR million	0.5 percent point increase	0.5 percent point decrease
Discount rate	(1.3)	2.0
Future salary growth	0.1	(0.1)
Future pension	0.9	(1.0)

Liabilities arising from employee benefits

The pension plans included defined contribution plans as well as defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Calculations are made by qualified actuaries. The pension liability shown in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate used to calculate the defined benefit obligation is based on the yield on AA-rated corporate bonds in Europe.

The greater part of the defined benefit obligation at year-end 2016 relates to pension arrangements in Germany, Austria and Switzerland. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group companies is reinsured. All pension arrangements accounted for as defined benefit obligations are not open for new participants (< 15% active participants) except for the pension arrangement of Kendrion Switzerland. This pension arrangement is a contribution-based plan. Pension premiums paid to the multi-employer fund are vested rights for plan participants. Under EU-IFRS the pension arrangement of Kendrion Switzerland is qualifed as a defined benefit plan as Kendrion Switzerland is liable for any shortfall (if any) of the multi-employer fund in which Kendrion Switzerland participates. In 2016 the Group decided to close the manufacturing facility in Switzerland. Closure of the manufacturing facility and corresponding termination of employment contracts qualifies as a curtailment. The curtailment gain amounted to EUR 1.2 million and is recognised as past service credit.

Liabilities arising from employee benefits also include liabilities relating to long-service, early retirement and service anniversaries of EUR 3.2 million (2015: EUR 2.5 million) in Germany and Austria.

12 Share-based payments

At 31 December 2016, 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 27.

Loyalty bonus (equity settled)

The Group had a share incentive programme, which entitled certain managers to purchase shares in the Company for an amount up to 50% of their respective net cash bonuses. Employees who retain these shares for three years and remain in service for three years become entitled to a number of shares equal to the number of shares they individually purchased. Pursuant to this incentive programme, a total of 1,714 shares was issued in 2016, resulting from shares granted in 2013. Expenses recognised in profit or loss for the shares amount to EUR 0.1 million.

Terms & conditions of the share programme (loyalty bonus)

Grant date	Number of instruments	Vesting conditions
Shares granted to key management in 2014	2,479	3 years of service
Shares granted to key management in 2015	2,259	3 years of service
Shares granted to key management in 2016	1,817	3 years of service
Total shares	6,555	

Awarded shares

Every year, the Company awards a number of its own shares to certain key employees. There are no vesting conditions attached to these shares. Expenses recognised in profit or loss for the shares amount to EUR 0.2 million.

13 Provisions

EUR million	2016	2015
Balance at 1 January	0.8	0.4
Provisions made during the period	0.8	0.8
Provisions transferred/used during the period	(0.4)	(0.4)
Provisions released during the period	–	–
Balance at 31 December	1.2	0.8
Non-current portion	–	–

14 Trade and other payables

EUR million	2016	2015
Trade payables	41.3	39.8
Other taxes and social security contributions	4.7	1.2
Derivatives used for hedging	0.5	0.3
Non-trade payables and accrued expenses	21.9	16.6
	68.4	57.9

15 Financial instruments

Credit risk

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

EUR million	Carrying amount 2016	2015
Cash and cash equivalents	12.4	10.2
Other long term investments	0.4	0.6
Current income tax	1.2	2.7
Trade and other receivables	54.5	48.7
Total	68.5	62.2

Impairment losses

Aging analysis of the trade and other receivables

EUR million	2016		2015	
	Gross	Provision	Gross	Provision
Within the term of payment	47.3	–	41.0	–
0 – 30 days due	5.7	–	6.4	–
31 – 60 days due	0.7	–	0.4	–
> 60 days due	0.9	(0.1)	1.3	(0.4)
Total trade and other receivables	54.6	(0.1)	49.1	(0.4)

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

At 31 December 2016 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 2016 are collectible. EUR 1.6 million of trade receivables are over 30 days overdue, of which EUR 0.1 million is provided for. The Group has written off less than EUR 0.1 million receivables in 2016 (2015: less than EUR 0.2 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 2016. At 31 December 2015 the largest customer accounted for 7% of total receivables. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

Liquidity risk

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

31 December 2016 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	58.0	(60.1)	(0.4)	(0.4)	(0.8)	(58.5)	–
Finance lease liabilities	0.3	(0.3)	(0.2)	(0.1)	–	–	–
Bank overdrafts	2.7	(2.7)	(2.7)	–	–	–	–
Other loans and borrowings	5.4	(6.1)	(0.6)	(0.6)	(1.2)	(2.9)	(0.8)
Trade and other payables	68.4	(68.4)	(68.4)	–	–	–	–
Tax liabilities	0.7	(0.7)	(0.7)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.2	(0.2)	(0.0)	(0.1)	(0.1)	–	–
Forward exchange contracts	0.3	(0.3)	(0.2)	(0.1)	–	–	–
Total	136.0	(138.8)	(73.2)	(1.3)	(2.1)	(61.4)	(0.8)

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

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

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

Cash flow hedges (in statement of cash flows)

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

2016 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)	(0.2)	(0.0)	(0.1)	(0.1)	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.3)	(0.3)	(0.2)	(0.1)	–	–	–
Total	(0.5)	(0.5)	(0.2)	(0.2)	(0.1)	–	–

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

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.

2016 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)	(0.2)	(0.0)	(0.1)	(0.1)	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.3)	(0.3)	(0.2)	(0.1)	–	–	–
Total	(0.5)	(0.5)	(0.2)	(0.2)	(0.1)	–	–

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

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 50 million. The aggregate fair value of the outstanding interest rate swaps at 31 December 2016 was negative EUR 0.2 million (2015: negative EUR 0.3 million).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. The majority of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalise the nominal interest rate. The EUR 4.4 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.

					2016		2015
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	IBOR + 1.5%	2019	58.0	58.0	63.5	63.5
Mortgage loan	EUR	6.4%	2022	4.7	4.4	5.3	5.0
Other loans	EUR	3.5%	2019	1.0	1.0	1.3	1.3
Bank overdrafts	Various	IBOR + 1.5%	2016	2.7	2.7	9.0	9.0
Finance lease liabilities	EUR	3.0% – 6.5%	2017	0.3	0.3	0.5	0.5
Total interest-bearing debt				66.7	66.4	79.6	79.3

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 2016 would not have had a material influence on the 2016 result.

The Group has hedged a considerable part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps and the loans with a fixed rate, in total EUR 55.4 million of the EUR 66.4 million long-term and short-term loans at financial year-end have an interest rate which is fixed for one year or longer. Based on the interest bearing debt levels at year-end and expected cash flow development, a 1% point increase in the interest rate across the yield curve as from 1 January 2017, will have an increasing effect on interest expenses in 2017 of maximum EUR 0.1 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was negative EUR 0.3 million at 31 December 2016 (2015: positive EUR 0.1 million).

A 10% point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2016 and the result for 2016 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 analysis was performed for 2015. 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 2016	Equity	Result
US dollar	5.1	0.0
Czech koruna	0.2	(0.1)
Chinese yuan	1.2	0.1
Rumanian lei	0.7	0.1
Swiss franc	(0.1)	(0.1)

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

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2016	At 31 December 2015	Average over 2016
Pound sterling	0.8562	0.7340	0.8131
Swiss franc	1.0739	1.0835	1.0902
Czech koruna	27.0212	27.0230	27.0409
Chinese yuan	7.3202	7.0608	7.3181
US dollar	1.0541	1.0887	1.1015
Mexican peso	21.7718	18.9145	20.5061
Brazilian real	3.4305	4.3117	3.8285
Romanian lei	4.5390	4.5240	4.4955
Indian rupee	71.5922	72.0215	74.0138
Swedish krona	9.5525	9.1895	9.4449

Fair values of financial instruments

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

EUR million	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Receivables (including current tax assets)	55.7	55.7	51.4	51.4
Cash and cash equivalents	12.4	12.4	10.2	10.2
Held to maturity investments	0.4	0.4	0.6	0.6
	68.5	68.5	62.2	62.2
Liabilities carried at amortised costs				
Banking syndicate loans	(58.0)	(58.0)	(63.5)	(63.5)
Mortage loan	(4.4)	(4.7)	(5.0)	(5.3)
Other loans	(1.0)	(1.0)	(1.3)	(1.3)
Finance lease liabilities	(0.3)	(0.3)	(0.5)	(0.5)
Bank overdraft	(2.7)	(2.7)	(9.0)	(9.0)
Trade and other payables (including current tax liabilities)	(69.1)	(69.1)	(59.7)	(59.7)
	(135.5)	(135.8)	(139.0)	(139.3)
Assets and liabilities carried at fair value				
Interest derivatives	(0.2)	(0.2)	(0.3)	(0.3)
Forward exchange contracts	(0.3)	(0.3)	0.1	0.1
	(0.5)	(0.5)	(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 held-to-maturity investments are included in the other investments, including derivatives in the statement of financial position. The interest derivatives and forward exchange contracts are included in the trade and other payables in the statement of financial position.

Interest rate used in measuring fair value

The interest rate used for discounting estimated cash flows, where applicable, is based on the swap curve at 31 December 2016, augmented by the prevailing credit mark-up, and is as follows:

	2016	2015
Derivatives	0.0%	0.1%
Leases	1.5%	1.5%
Banking syndicate loans	1.5%	1.5%
Mortgage loans	1.8%	2.5%
Other loans	1.8%	2.5%

Fair value hierarchy

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 2016				
Derivative contracts used for hedging	–	(0.5)	–	(0.5)
Total	–	(0.5)	–	(0.5)
31 December 2015				
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.

16 Operating lease agreements

Lease contracts for which the Group acts as lessee

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

EUR million	2016	2015
< 1 year	4.4	3.6
1 – 5 years	6.0	3.3
> 5 years	4.8	1.5
	15.2	8.4

In the 2016 financial year a charge of EUR 0.5 million was recognised in profit or loss in respect of operating leases (2015: EUR 0.5 million). The operating lease agreements mostly relate to buildings.

17 Capital commitments

As at 31 December 2016 the Group had capital commitments totalling to EUR 3.9 million (2015: EUR 3.5 million).

18 Contingent liabilities

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 warrants for potential (tax) claims relating to periods prior to the various divestment dates.

19 Operating segments

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

Geographical segments based on physical location of the Group operating companies

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

EUR million	Germany		Other European countries		Asia	
	2016	2015	2016	2015	2016	2015
Revenue from transactions with third parties	274.8	279.3	84.0	72.7	23.4	24.2
Other non-current assets	164.1	167.0	20.3	17.9	1.8	1.7
Deferred tax assets	8.2	8.6	5.1	5.6	0.0	0.0
Net liability for defined benefit obligations	15.9	14.7	2.3	2.6	0.0	0.0

EUR million	The Americas		Consolidated	
	2016	2015	2016	2015
Revenue from transactions with third parties	61.2	65.9	443.4	442.1
Other non-current assets	24.2	24.3	210.4	210.9
Deferred tax assets	2.7	1.7	16.0	15.9
Net liability for defined benefit obligations	0.0	0.0	18.2	17.3

Revenue segmented by customer location

EUR million	2016	2015
Germany	223.3	215.5
Other European countries	104.2	107.1
Asia	39.4	40.5
The Americas	74.0	76.7
Other countries	2.5	2.3
Total	443.4	442.1

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.

EUR million	Industrial		Automotive		Corporate activities		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenue from transactions with third parties	152.3	150.8	291.1	291.3	–	–	443.4	442.1
Inter-segment revenue	0.1	0.1	0.8	0.4	–	–	0.9	0.5
EBITA	9.8	10.1	16.5	17.7	(0.9)	(2.0)	25.4	25.8
EBITA margin	6.4%	6.7%	5.7%	6.1%	–	–	5.7%	5.8%
EBITA*	11.6	10.1	19.9	17.7	(0.4)	(2.0)	31.1	25.8
EBITA margin*	7.6%	6.7%	6.8%	6.1%	–	–	7.0%	5.8%
Reportable segment assets	113.1	106.0	213.4	206.5	20.6	28.4	347.1	340.9

Major customers

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

20 Business combinations and acquisitions of non-controlling interests

The Company reached an agreement with the owners of Steinbeis Mechatronik GmbH on the acquisition of the company on 23 December 2014. Kendrion obtained control over Steinbeis Mechatronik GmbH on 5 January 2015. From that date on, the financial statements of Steinbeis Mechatronik GmbH have been consolidated by the Group.

21 Other income

EUR million	2016	2015
Net gain on disposal of property, plant and equipment	0.0	–
Other	0.1	0.1
	0.1	0.1

* Excluding one-off costs related to the simplifying measures. The bridge from reported to normalised figures can be found on page 35.

22 Staff costs

EUR million	2016	2015
Wages and salaries	106.5	105.5
Social security charges	19.5	19.5
Temporary personnel	3.6	3.7
Contributions to defined contribution plans	0.4	0.4
Expenses related to defined benefit plans	(0.9)	0.2
Increase in liability for long-service leave	0.1	0.2
Other costs of personnel	3.4	3.6
	132.6	133.1
Total number of employees and temporary workers at 31 December (FTE)	2,578	2,658

The staff costs 2016 include EUR 3.4 million one-off costs related to the simplifying measures.

23 Other operating expenses

EUR million	2016	2015
Lease expenses	0.5	0.5
Increase in provision for doubtful debts	(0.1)	0.2
Premises costs	8.1	8.1
Maintenance expenses	5.7	5.6
Transport expenses	1.7	2.0
Consultancy expenses	5.8	6.4
Sales and promotion expenses	3.2	2.3
Car, travel and representation costs	4.1	4.6
Other	5.7	6.0
	34.7	35.7

The other operating expenses 2016 include EUR 1.7 million one-off costs related to the simplifying measures.

Research & Development expenses (including staff and other operating expenses) for 2016 totalled EUR 27.6 million (2015: EUR 26.4 million).

24 Net finance costs

EUR million	2016	2015
Interest income	0.1	0.2
Net exchange gain	–	–
Finance income	0.1	0.2
Interest expense	(2.5)	(2.7)
Interest expense related to employee benefits	(0.3)	(0.3)
Net exchange loss	(0.4)	(0.5)
Finance expense	(3.2)	(3.5)
Net financing costs	(3.1)	(3.3)

On the closure of our operation in Brazil in 2016, the cumulative amount of translation differences in equity were reclassified from equity to profit or loss. This had a negative impact of EUR 0.4 million on the net exchange loss.

25 Income tax

EUR million	2016	2015
Current tax charge on year under review	(3.7)	(1.9)
Total corporation tax expenses in the income statement	(3.7)	(1.9)

26 Reconciliation of effective tax rate

	Reconciliation effective tax rate		Reconciliation in EUR million	
	2016	2015	2016	2015
Profit before income tax			18.6	18.7
Income tax expense at local corporation tax rate	25.0%	25.0%	4.7	4.7
Non-deductible expenses	1.9%	2.2%	0.3	0.4
Effect of tax rates in foreign jurisdictions	(3.0%)	(0.8%)	(0.6)	(0.2)
Tax exempt income	(4.5%)	1.6%	(0.8)	0.3
Changes in estimates related to prior years	1.4%	(3.2%)	0.3	(0.6)
Recognition of previously unrecognised tax losses*	–	(13.8%)	–	(2.6)
Utilisation of previously unrecognised tax losses	(3.2%)	–	(0.6)	–
Current-year losses for which no deferred tax asset is recognised	1.8%	0.3%	0.3	0.1
Other movements	0.4%	(1.0%)	0.1	(0.2)
	19.8%	10.3%	3.7	1.9

27 Related parties

Identity of related parties

A related-party relationship exists between the Company and its subsidiaries, their managers and executives. The Company has a number of agreements with its subsidiaries relating to the charging of central costs to and from the business units, including management, development, information technology and marketing costs, as well as agreements in respect of Group financing and use of intellectual property. Internal supplies are also obtained within the business units. Intercompany transactions are effected at arm's length market prices. As all subsidiaries are fully consolidated and reflected in these financial statements, the amounts of these transactions are not further specified. For a list of the principal subsidiaries, see pages 163 and 164.

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

Compensations of key management personnel

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

EUR thousand	2016	2015
Short-term benefits	1,098.0	1,120.7
Post-employment benefits	150.0	150.0
Other long-term benefits	–	–
Share-based payments	192.2	133.9
Termination benefits	–	61.1
	1,440.2	1,465.7

The total remuneration is included in staff costs (see note 22). For a description of the remuneration policy of the members of the Executive Board, see pages 75 to 77.

The achievement of the performance criteria set for 2016 was 97% for the CEO (2015: 0%). He will, based on this performance, receive a variable remuneration of 38.80% of his gross fixed remuneration. The CEO's gross variable remuneration amounts to EUR 180,420 of which EUR 60,140 will be paid in cash. An amount of EUR 120,280 is awarded conditionally in shares on the basis of the closing share price on 10 April 2017. The vesting period ends in 2018 and the holding period ends in 2020.

The achievement of the performance criteria set for 2016 was 97% for the CFO (2015: 22%). He will, based on this performance, receive a variable remuneration of 33.95% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 108,042 (2015: EUR 68,250) of which EUR 36,014 (2015: EUR 22,750) will be paid in cash. An amount of EUR 72,028 (2015: EUR 45,500) is awarded conditionally in shares on the basis of the closing share price on 10 April 2017. The vesting period ends in 2018 and the holding period ends in 2020. 2/3 of the gross annual variable remuneration is invested in shares. The number of shares granted to the CFO in 2014 in this respect is 1,044. The variable remuneration is supplemented with a share match. On the basis of the long-term variable remuneration policy applicable in 2014, Kendrion will, depending on the long-term performance criteria, increase the number of shares awarded by 50% net (a matching ratio of 1:2). The Supervisory Board has decided that the CFO achieved 75% of his long-term performance criteria for the period 2014-2016. This means that 392 shares will be matched (1,044 x 0.5 x 75%). The holding period of these shares ends in 2018.

The vesting and holding periods for shares awarded to the CFO are specified as follows:

Description	Number of shares	Vesting period	Holding period
Shares granted to the CFO (variable remuneration 2013)	1,044	–	End of 2017
Shares granted to the CFO (variable remuneration 2014)	1,451	End of 2016	End of 2018
Shares granted to the CFO (variable remuneration 2015)	1,000	End of 2017	End of 2019
Shares granted to the CFO (share match 2014-2016)	392	–	End of 2018

Pensions

The Executive Board participated in the defined contribution plan of the Company in 2016. The contribution was EUR 30,138 for the CEO, Mr Van Beurden and EUR 29,048 for the CFO, Mr Sonnemans.

Transactions with shareholders

There were no transactions with shareholders.

28 Accounting estimates and judgements by management

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

In preparing the financial statements, the management is required under IFRS to make various judgements, estimates and assumptions that affect the implementation of policy and the amounts disclosed in relation to assets, liabilities, income and expenses. The estimates and assumptions are based on experience and factors deemed reasonable in the circumstances. Estimates and assumptions are constantly reappraised.

Changes in the accounting estimates used are reflected in the period in which the estimate is changed if the change affects only that period, or in the period in which the estimate is changed and in future periods if the change affects both the reporting period and future periods.

Estimated impairment of goodwill

The Group tests annually whether goodwill is subject to any impairment, in conformity with the accounting policy disclosed in note g. The impairment model applied is the discounted cash flow method (value in use determined based on the discounted value of the expected cash flows) with a weighted average cost of capital (pre-tax WACC) of 7-10%. The use of estimates is essential for making this calculation. The explicit forecast period contains five planning years. As of year six the residual value is calculated based on the last explicit forecast year (year five). No further growth in earnings is considered, with the exception of an inflation adjustment. The first three years of the explicit forecast period are based on cash flow projections derived from the bottom-up generated mid-term plan (available per company and approved by the Executive Board). The last two years are based on experience or target data for the Group under review. The pre-tax WACC is consistent with external sources of information, past experience and internal assessment of the assumptions used.

Pensions

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

Utilisation of tax losses

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

29 Post-balance sheet events

On 1 February 2017, the General Court of the European Union in Luxembourg delivered its judgment in the case brought by Kendrion N.V. (C-479/14) to claim damages caused by the delay in ruling on an appeal against an EU fine judgment (T-54/06). The Court ruled that the European Union must pay Kendrion compensation of EUR 588,769 for financial damages and EUR 6,000 for non-financial damages. Both parties have the right to appeal. Kendrion will review the full text of the judgment and then decide whether or not to appeal. In accordance with the relevant accounting standard of EU-IFRS, the compensation is not recognised in the consolidated financial statements of the Group as of 31 December 2016.

Kendrion operations in Pune, India focus mainly on the production of fan clutches for the local truck market. Following a decreasing revenue in 2016 as customers are moving away from electromagnetic clutches towards cheaper but less efficient technologies, Kendrion decided in February 2017 to close the facility in Pune.

COMPANY BALANCE SHEET AT 31 DECEMBER

(before profit appropriation)

Note	EUR million	2016	2015
	Non-current assets		
	Property, plant and equipment	0.1	0.1
	Intangible assets	0.0	0.1
	Other investments, including derivatives	0.2	0.3
1.3	Financial assets	210.7	194.9
	Total non-current assets	**211.0**	**195.4**
	Current assets		
1.4	Receivables	0.8	0.9
	Cash and cash equivalents	0.0	0.0
	Total current assets	**0.8**	**0.9**
	Total assets	**211.8**	**196.3**
1.5	**Equity**		
	Share capital	26.8	26.4
	Share premium	56.4	62.7
	Legal reserves	12.9	11.2
	Other reserves	67.1	52.8
	Retained earnings	14.9	16.8
	Total equity	**178.1**	**169.9**
1.6	**Current liabilities**		
	Loans and borrowings	29.1	24.8
	Payables	4.6	1.6
	Total current liabilities	**33.7**	**26.4**
	Total equity and liabilities	**211.8**	**196.3**

COMPANY INCOME STATEMENT

Note	EUR million	2016	2015
	Revenue	–	–
1.8	Other income	22.6	6.8
	Total revenue and other income	**22.6**	**6.8**
1.9	Staff costs	3.6	3.2
	Depreciation and amortisation	0.0	0.1
	Other operating expenses	2.1	2.9
	Result before net finance costs	**16.9**	**0.6**
	Finance income	0.2	0.2
	Finance expense	(1.3)	(0.9)
	Net finance costs	**(1.1)**	**(0.7)**
	Profit before income tax	**15.8**	**(0.1)**
	Income tax expense	(4.1)	0.6
	Profit for the period	**11.7**	**0.5**
	Share in results of Group companies after tax	3.2	16.3
1.10	**Net profit**	**14.9**	**16.8**

1 Notes to the company financial statements

1.1 General

The Company financial statements are part of the 2016 financial statements of Kendrion N.V. (the 'Company'). The Company is registered at the Chamber of Commerce in The Netherlands under number: 30113646.

Until 2015 the Company has made use of Section 402 of Book 2 of the Netherlands Civil Code. Due to changes in the Netherlands Civil Code this option can not be applied by Kendrion N.V. for the year ending 31 December 2016. The condensed Company's Income Statement is changed accordingly and presented on previous page.

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 2016	Total 2015
Carrying amount at 1 January	187.6	2.1	5.2	194.9	173.0
Results of Group companies	3.2	–	–	3.2	16.3
Movements in loans and borrowings	–	13.9	–	13.9	(0.7)
Movements in deferred tax assets	–	–	(4.1)	(4.1)	0.7
Other movements	2.8	–	–	2.8	5.6
Carrying amount at 31 December	193.6	16.0	1.1	210.7	194.9

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

The investments in the principal subsidiaries and associates are disclosed on pages 163 and 164 of the Annual Report.

1.4 Receivables

EUR million	2016	2015
Receivables from Group companies	0.5	0.6
Prepayments and accrued income	0.3	0.3
	0.8	0.9

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 2016	Total 2015
Balance at 1 January	26.4	62.7	10.3	(0.1)	1.0	–	52.8	16.8	169.9	153.2
Appropriation of retained earnings	–	–	–	–	–	–	16.8	(16.8)	–	–
Foreign currency translation differences for foreign operations	–	–	1.3	–	–	–	–	–	1.3	5.6
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.2)	–	–	–	–	(0.2)	0.3
Issue of ordinary shares	0.4	3.8	–	–	–	–	–	–	4.2	4.1
Share-based payment transactions	0.0	0.2	–	–	–	–	0.0	–	0.2	0.4
Dividend payment	–	(10.3)	–	–	–	–	–	–	(10.3)	(10.2)
Other	–	–	–	–	0.6	–	(2.5)	–	(1.9)	(0.3)
Total recognised income and expenses	–	–	–	–	–	–	–	14.9	14.9	16.8
Balance at 31 December	26.8	56.4	11.6	(0.3)	1.6	–	67.1	14.9	178.1	169.9

1.5.1 Share capital

The authorised capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 13,396,034 ordinary shares have been issued.

1.5.2 Share premium

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

1.5.3 Translation reserve

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

1.5.4 Hedge reserve

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

1.5.5 Statutory reserve for participations

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

1.5.6 Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company shares that are held by the Company for the remuneration package for the Executive Board. At 31 December 2016, the Company held none of its own shares (2015: none).

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 2016, the full result for 2015 was included in other reserves. Retained earnings consequently consist solely of the result for 2016.

1.6 Current liabilities

EUR million	2016	2015
Debts to Group companies	29.1	24.8
Trade payables	0.3	0.5
Other payables and accrued expenses	4.3	1.1
	33.7	26.4

1.7 Financial instruments

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

1.8 Other income

EUR million	2016	2015
Management fee	5.4	4.1
Logo fee	2.7	2.7
Other	14.5	–
	22.6	6.8

The amount of EUR 14.5 million refers to the transfer of the Kendrion brand name to Kendrion Marketing B.V.

1.9 Staff costs

EUR million	2016	2015
Wages and salaries	2.9	2.4
Social security charge	0.1	0.1
Pension costs	0.3	0.3
Other costs of personnel	0.3	0.4
	3.6	3.2
Total number of employees and temporary workers at 31 December (FTE)	11	13

The average number of FTEs during the year was 11 (2015: 13). In this financial year 0 FTE (2015: 0.3 FTE) are employed outside The Netherlands. The Company has only defined contribution plans for its employees.

1.10 Profit appropriation

Appropriation of net profit

EUR million	2016	2015
Net profit	14.9	16.8

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 14.9 million will be added to the other reserves.

1.11 Commitments not appearing on the balance sheet

1.11.1 Joint and several liability and guarantees

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

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

1.11.2 Fiscal unity

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

1.12 Post balance sheet events

On 1 February 2017, the General Court of the European Union in Luxembourg delivered its judgment in the case brought by Kendrion N.V. (C-479/14) to claim damages caused by the delay in ruling on an appeal against an EU fine judgment (T-54/06). The Court ruled that the European Union must pay Kendrion compensation of EUR 588,769 for financial damages and EUR 6,000 for non-financial damages. Both parties have the right to appeal. Kendrion will review the full text of the judgment and then decide whether or not to appeal. In accordance with the relevant accounting standard of EU-IFRS, the compensation is not recognised in the consolidated financial statements of the Group as of 31 December 2016.

1.13 Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by Deloitte Accountants B.V. and its member firms and affiliates in 2016 and 2015 to the Company, its subsidiaries and other consolidated entities:

EUR thousand			2016			2015
	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte
Audit of financial statements	163.0	268.8	431.8	98.0	318.0	416.0
Other assurance services	46.5	–	46.5	53.2	–	53.2
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	4.0	4.0	–	–	–
Total	209.5	272.8	482.3	151.2	318.0	469.2

1.14 Remuneration of and share ownership by the Executive Board and Supervisory Board

Remuneration of the Executive Board

The remuneration of current Executive Board members charged to the Company and Group companies, including pension expenses as referred to in Section 383, subsection 1, of Book 2 of the Netherlands Civil Code, amounted to EUR 1,287,200 (2015: EUR 1,315,700). This remuneration is as follows:

EUR thousand	2016			2015			
	J.A.J. van Beurden	F.J. Sonnemans	Total	P. Veenema*	J.A.J. van Beurden**	F.J. Sonnemans	Total
Fixed remuneration	465.0	318.2	783.2	397.8	38.8	312.0	748.6
Variable remuneration	180.4	108.0	288.4	308.7	–	68.3	377.0
Total remuneration	645.4	426.2	1,071.6	706.5	38.8	380.3	1,125.6
Pension and other expenses	130.4	85.2	215.6	87.1	23.8	79.2	190.1
	775.8	511.4	1,287.2	793.6	62.6	459.5	1,315.7

The 2016 variable remuneration will be granted directly after the General Meeting of Shareholders to be held on 10 April 2017. Part (1/3) of the variable remuneration will be paid in cash after income tax and other part (2/3) will be covered conditionally for in shares against the prevailing closing share price of 10 April 2017.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2016 amounts to EUR 153,000 (2015: EUR 150,000). This remuneration is as follows:

EUR thousand	2016	2015
Supervisory Board members:		
H. ten Hove	45	45
R.L. de Bakker	35	35
H.J. Kayser (resigned as from 7 January 2016)	–	35
M.E.P. Sanders (resigned as from 11 April 2016)	9	35
M.J.G. Mestrom (appointed as of 11 April 2016)	35	–
J.T.M. van der Meijs (appointed as of 31 October 2016)	9	–
T.J. Wünsche (appointed as of 31 October 2016, started activities as of 1 June 2016)	20	–
	153	150

* Left on 31 December 2015.

** Appointed as of 1 December 2015.

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 2016	31 December 2015
Executive Board	J.A.J. van Beurden	20,773	20,000*
	F.J. Sonnemans	1,082	–
Supervisory Board		–	–

Zeist, 21 February 2017

Executive Board	**Supervisory Board**
J.A.J. van Beurden	H. ten Hove
F.J. Sonnemans	R.L. de Bakker
	M.J.G. Mestrom
	J.T.M. van der Meijs
	T.J. Wünsche

* Appointed as per 1 December 2015. Purchased shares at his own initiative before this date.

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 Supervisory Board of Kendrion N.V.

Independent auditor's report

Report on the audit of the financial statements 2016

Our opinion

We have audited the financial statements 2016 of Kendrion N.V. ('the Company'), based in Zeist. The financial statements include the consolidated financial statements and the company financial statements as set out on the pages 79 up to and including 150.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2016 and of its result and its cash flows for 2016 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 company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2016 and of its result for the year 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2016;
- The following statements for 2016: the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- The notes to the consolidated financial statements, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company balance sheet as at 31 December 2016;
- The company income statement for 2016; and
- The notes to the company financial statements comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We are independent of Kendrion N.V. in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten’ (‘ViO’) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (‘VGBA’).

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

Materiality

Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extend of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 1.4 million (2015: EUR 2.1 million). The materiality is based on 7.5% of 2015 profit before taxation. We reassessed the group materiality level based on the 2016 actual profit before tax and alternative benchmarks. 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.

Audits of group entities (components) were performed using materiality levels determined by the judgement of the group audit team, having regard to the materiality of the consolidated financial statements as a whole. Component materiality did not exceed 60% of group materiality and for most components, materiality is significantly less than this.

We agreed with the Supervisory Board that misstatements in excess of EUR 70,000, 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.

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 the group entities (components). Decisive were size and/or risk profile of the components. On this basis, we selected components for which an audit or review had to be carried out on the complete set of financial information or specific items.

Kendrion N.V. is divided into two reportable segments, as disclosed in note 19 of the consolidated financial statements. These two reportable segments encompass 29 reporting entities (“components”). The most significant components are Kendrion (Villingen) GmbH, Kendrion Kuhnke Automotive GmbH and Kendrion (Shelby) Inc. which on a combined basis contribute approximately 50% of the consolidated revenue.

Our group audit mainly concentrated on significant components in terms of size and financial interest or where significant risks or complex activities were present, leading to full scope audits performed for 11 components.

We have performed audit procedures ourselves at corporate entities and we have carried out full scope audit procedures on Kendrion (Shelby) Inc. Furthermore, we performed audit procedures at group level on areas such as consolidation, reporting, goodwill and taxation. Specialists were involved amongst others in the areas of information technology, tax, pensions and valuation.

For all relevant foreign components, the group audit team provided detailed written instructions, which, in addition to communicating the requirements of component audit teams, detailed significant audit areas and information obtained centrally relevant to the audit of individual components including awareness for risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included procedures such as visiting components and/or component teams in Germany and the United States, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables to gain sufficient understanding of the work performed. For smaller components we have performed review procedures or specific audit procedures.

Considering their share in consolidated revenue, 89% of the components is subject to audit procedures. Desk-top review procedures have been performed in respect of the components that have not been audited.

By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence on the group’s financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – decentralized operations	How the key audit matter was addressed in the audit
Kendrion is a group with all operating activities taking place outside The Netherlands. These decentralized operations require adequate monitoring activities from an internal control perspective. Also in our role as group auditor it is essential that we obtain an appropriate level of understanding of the components and the component audit work.	We have evaluated the group's internal controls, including centralized monitoring controls that exist at both group and segment level. The group has developed an internal control framework with control activities that are required to be implemented by the components. Compliance with this framework is monitored through Kendrion In Control (KIC) procedures, performed by experienced staff from the finance and control team, notably at head office level. As explained in the 'Risk and risk management' paragraph of the Executive Board report, KIC procedures were performed at several locations with limited control deficiencies revealed. In our audit approach we have specifically focused on risks in relation to decentralized structure and we have been closely involved in the audits performed at the most significant components. Members of the group team performed the audit of Kendrion (Shelby) Inc. and also reviewed reporting deliverables and selected files from the component audit teams. We also performed tests on consolidation adjustments and manual journal entries, both at group and component level to obtain an understanding of significant entries made.

Key audit matter – valuation of goodwill
The group has recorded a significant amount of goodwill that is subject to an annual impairment test. The goodwill is allocated to the cash generating units within the two reportable segments and amounts to EUR 94.3 as at 31 December 2016 (2015: EUR 93.4 million).

An impairment arises when the recoverable amount for a cash generating unit is lower than the carrying amount recorded. Based on the impairment test, no impairment losses have been identified by management. The impairment review is based on valuation models that require the input of estimated future cash flows as well as other key assumptions from management.

How the key audit matter was addressed in the audit
We have reviewed the impairment model and involved valuation experts in understanding the models used and the key assumptions applied.

We have evaluated the internal controls related to the preparation of the impairment model and the review of the forecasted cash flows, growth rates, discount rates and other relevant assumptions. In our audit procedures we also compared actual performance to previous assumptions applied to understand the quality of the estimates and address the risk of bias. Furthermore we compared the input with financial plans, applicable FX rates and other available information.

Finally we have assessed the adequacy of disclosure notes including those relating to the sensitivity of management's assumptions. Reference is made to note 2 of 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, the annual report contains other information that consists of:
- Report of the Executive Board;
- Report of the Supervisory Board;
- Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- Other information included in the Annual Report.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements; and
- 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 less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Engagement

We were appointed by the Annual General Meeting as auditor of Kendrion N.V. on 13 April 2015 for the audit of the years 2015, 2016 and 2017.

Responsibilities of the Executive Board and the Supervisory Board for the Financial Statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

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.

For an overview of our responsibilities we refer to NBA's website www.nba.nl (standard texts auditor's report).

Amsterdam, 21 February 2017

Deloitte Accountants B.V.
B. E. Savert

Assurance report of the independent auditor with respect to the CSR information included in the Integrated Report 2016 of Kendrion N.V.

To: The Shareholders and Supervisory Board of Kendrion N.V.

Our conclusion

Based on our procedures performed, nothing has come to our attention that causes us to believe that the Integrated Report 2016 of Kendrion N.V. (hereafter: 'Report') and the assurance KPIs (as defined in the 'Basis of our conclusion' paragraph) have not been prepared in all material aspects in accordance with the Sustainability Reporting Guidelines (GRI G4 Core option) of the Global Reporting Initiative and the internally applied reporting criteria as disclosed on pages 166 and 167 of the Report.

The Report includes prospective information, such as ambitions, strategy, plans, expectations and estimates. Inherent to this information is that the actual results may differ in the future and are therefore uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Report.

Basis of our conclusion

We have performed our review on the Key Performance Indicators: Energy consumption, Absolute- and Relative CO_2-emissions, Accidents and Lost Time Injuries, Acceptance of Supplier Code of Conduct and Number of Supplier audits in the section 'Corporate Social Responsibility Review' of the Report (hereafter: 'the KPIs'). In accordance with Dutch law, including Dutch Standard 3810N 'Assurance engagements relating to sustainability reports'.

In addition we have reviewed whether the Report has been prepared in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI G4 Core option) with the objective to issue an assurance report that provides limited assurance.

This review engagement is aimed to obtaining limited assurance. Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the Report' section of our report.

We are independent of Kendrion in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Responsibility of the Executive Board
The Executive Board of Kendrion N.V. is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines (GRI G4 Core option) and the internally applied reporting criteria as disclosed on pages 166 and 167 of the Report, including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the Report and the reporting policy are summarized in chapter 'About the CSR review'.

The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or errors.

Our responsibilities for the assurance engagement of the CSR information included in the Report
Our responsibility is to plan and perform the review assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion. We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Report. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

A review is aimed to obtain limited level of assurance. Procedures performed to obtain a limited level of assurance are aimed to determining the plausibility of information and are less extensive than a reasonable assurance engagement. The procedures performed consisted primarily of making inquiries of staff within the entity and applying analytical procedures on the information in the Report. The level of assurance obtained in review engagements are therefore substantially less than the assurance obtained in an audit engagement.

Our assurance engagement included amongst other:
- Performing an external analysis and obtaining insight into relevant environmental and social themes and issues, and the characteristics of the organisation.
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of management's estimates.
- Evaluating the design and implementation of the reporting systems and processes related to the information in the Report.
- Reviewing internal and external documentation to determine whether the information as included in the KPIs, including the presentation and assertions made in the Report, is adequately supported.

- Interviewing management and relevant staff at group level responsible for the sustainability strategy and policy.
- Interviewing relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and consolidating the data in the Report.
- An analytical review of the data and trends submitted for consolidation at corporate level.
- Assessing whether the Report has been prepared in accordance with the Sustainability Reporting Guidelines (GRI G4 Core option) of the Global Reporting Initiative.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Amsterdam, 21 February 2017

Deloitte Accountants B.V.

B. E. Savert

EUR million, unless otherwise stated	2016	2015	2014	2013	2012
Kendrion N.V. consolidated					
Statement of normalised comprehensive income					
Revenue	443.4	442.1	428.9	354.0	284.9
Organic growth	0.3%	3.1%	8.2%	(1.2)%	(4.1)%
Operating result before amortisation (EBITA)[1]	31.1	25.8	32.9	23.9	22.3
Depreciation of property, plant and equipment and software	20.3	19.4	16.4	13.0	10.4
Operating result before depreciation and amortisation (EBITDA)[1]	51.4	45.2	49.3	36.9	32.7
Net profit for the period[1]	19.6	16.8	20.2	14.3	13.6
Statement of financial position at 31 December conform financial statements					
Total assets	347.1	340.9	333.5	334.8	230.1
Total equity	178.1	169.9	153.2	134.1	103.1
Net interest-bearing debt	54.0	69.1	83.0	49.0	21.3
Working capital[2,8]	41.2	43.4	44.9	40.6	33.9
Invested capital[3]	248.4	254.3	253.1	242.5	180.1
Statement of cash flows conform financial statements					
Net cash from operating activities[4]	45.2	40.9	37.9	30.5	28.4
Net investments	22.9	19.8	20.0	18.5	18.7
Free cash flow[4]	22.3	21.2	17.1	11.7	9.7
Ratios					
Return on Sales (ROS)	7.0%	5.8%	7.7%	6.8%	7.8%
Solvency	51.3%	49.8%	46.0%	40.1%	44.8%
Net interest-bearing debt / EBITDA[5] (debt cover)	1.1	1.5	1.7	1.2	0.6
Net interest-bearing debt / equity (gearing)	0.3	0.4	0.5	0.4	0.2
EBITDA[1,5] / net finance costs (interest cover)[6]	24.5	20.1	13.9	11.7	17.7
Working capital[2] in % of revenue[7]	8.6%	9.8%	10.5%	10.2%	11.9%
Dividend payout ratio of net profit	53%	61%	50%	50%	50%
Market capitalisation as at 31 December	358.3	319.7	281.7	309.2	186.5
Net interest-bearing debt as at 31 December	54.0	69.1	83.0	49.0	21.3
Theoretic value of the organisation (Enterprise value)	412.3	388.8	364.7	358.1	207.8
Number of employees at 31 December (FTE)	2,578	2,658	2,713	2,756	1,632

1 2012 excluding earn-out FAS Controls of EUR 4.4 million, 2013 excluding non-recurring costs and earn-out Kunke of EUR 2.4 million after tax and 2016 excluding one-off costs relating to the simplifying measures of EUR 5.7 million (after finance expense and tax EUR 4.7 million).

2 Relates to inventories, receivables minus non-interest bearing debts (2013 is excluding EC fine payable).

3 Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash and non-interest bearing debts (2013 is including EC fine).

4 Before cash flow relating to acquisitions and disposals (2013 excluding acquisition expenses, 2014 excluding EC fine payment and 2016 excluding one-off costs relating to the simplifying measures of.

5 2013 is including full year Kuhnke and 2016 is excluding one-off costs relating to the simplifying measures.

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

7 2013 is including full year Kuhnke.

8 2016 excluding accruals and provisions related to the simplifying measures.

PRINCIPAL SUBSIDIARIES

At 31 December 2016

Industrial

Industrial Magnetic Systems (Norman Graf)

Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany	Norman Graf
Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany	Alfons Mattes
Kendrion (Suzhou) 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 (Switzerland) AG, Hausen am Albis, Switzerland	Edgar Bruhin
Kendrion (Linz) GmbH, Linz, Austria	Erich Holzinger
Kendrion (Italy) S.r.l., Torino, Italy	Vincenzo Leo

Industrial Control Systems (Robert Lewin)

Kendrion Kuhnke Automation GmbH, Malente, Germany	Robert Lewin
Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania	Mihai Petculescu
Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden	Ronnie Jennerheim

Industrial Drive Systems (Ralf Wieland)

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion (UK) Ltd., Bradford, United Kingdom	Peter McShane
Kendrion (Suzhou) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion (Aerzen) GmbH, Aerzen, Germany	Gregor Langer
Kendrion (Italy) S.r.l., Torino, Italy	Vincenzo Leo

Automotive

Passenger Cars (Bernd Gundelsweiler)

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Bernd Gundelsweiler
Kendrion Kuhnke Automotive GmbH, Malente, Germany	Torsten Komischke
Kendrion Mechatronics Center GmbH, Ilmenau, Germany	Jörg Rönnert
Kendrion (Eibiswald) GmbH, Eibiswald, Austria	Martin Kollmann
Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania	Andra Boboc
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Brian Jacobs
Kendrion Drive Tech. (Nanjing) Co., Ltd., Nanjing, P.R. China	Telly Kuo

Commercial Vehicles (Manfred Schlett)

Kendrion (Markdorf) GmbH, Markdorf, Germany	Manfred Schlett
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Václav Dostal
Kendrion Toluca, S.A. de C.V., Mexicaltzingo, Mexico	Alexander Glaser
Kendrion Drive Tech. (Nanjing) Co., Ltd., Nanjing, P.R. China	Telly Kuo
Kendrion (Pune) Private Limited, Pune, India	Sameer Deshmukh
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Brian Jacobs

A complete list of all subsidiaries is available from the Chamber of Commerce in Utrecht (number 30113646) and from the Company offices.

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

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

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

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

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

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

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

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

FTE Full Time Equivalent: equal to the number of total scheduled person hours divided by the number of hours per week which constitute a full-time person (40 hours). FTE may consist of several part-time individuals whose combined work hours in a week equal the full-time person.

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

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

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

Materiality analysis The analysis carried out by Kendrion and stakeholders to select the CSR key issues.

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

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

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

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

Stakeholders dialogue The discussions Kendrion organises with various stakeholders with the aim to receive feedback on the CSR efforts of Kendrion.

Taking Responsibility programme The 3-year CSR programme (2015 - 2017) for the Kendrion Group.

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

TSR Total shareholders return.

UN Global Compact The Global network initiative in support of ten principles encompassing human rights, labour standards, environment and sound business practices.

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Pages 43-60 of this Annual Report 2016 (the 'CSR Review'), in conjunction with the corporate website, have been compiled in accordance with the guidelines of the Global Reporting Initiative GRI G4 'core level'. The GRI index can be found on pages 168-171 of this Report.

The KPIs on energy, carbon emissions, number of accidents, lost time injuries, number of supplier audits and number of signed Supplier Code of Conduct documents have been reviewed by Kendrion's external auditor. The auditor's report with limited assurance on these KPIs and the statement in accordance with GRI's core level is included on pages 159-161.

This sixth CSR Review encompasses all the Kendrion group companies in 2016 as listed on pages 163-164 of this Kendrion 2016 Annual Report. In a number of instances, the information provided in the CSR Review relates solely to part of the operations. When this is the case, it is stated explicitly. This is due either to the operations not being carried out or the reliability of the data not yet matching with Kendrion's requirements. For the first time, the CSR Review is integrated in the Annual Report, showing the maturity of the Kendrion CSR Programme and the related monitoring and reporting.

For the quantitative information on economic performance, energy consumption, absolute and relative CO_2 emissions, accidents, and lost time injuries, training, non-discrimination, anti-corruption, acceptance of Supplier Code of Conduct and number of CSR Supplier audits, Kendrion used the GRI G4 Specific Standard Disclosures G4-EC1, G4-EN3, G4-EN5, G4-EN6, G4-EN15, G4-EN16, G4-LA6, G4-LA9, G4-HR3 and G4-SO5 respectively. Topics were identified in the materiality analysis 2016 on which Kendrion is partially reporting (on a qualitative basis) at present, but for which it has not selected GRI indicators. This concerns "market presence". Kendrion will decide in 2017 how to report on this next year further to the importance that stakeholders attach to this information as well as the significance of Kendrion's impact on it.

The information on accidents, lost time injuries and details of suppliers includes all group entities. The information on energy (G4-EN3 and G4-EN5) is based on the consumption of Kendrion's production facilities (electricity, gas, oil) in Germany, the Czech Republic, Austria, the USA, Suzhou (China) and Romania. For greenhouse gas emissions (G4-EN15 and G4-EN16), Kendrion applies the same reporting scope as for energy. This covers the major operational plants and approximately 93% of Kendrion's revenues and, thus, most of its energy consumption and CO_2 emissions. Internal and external transport under Kendrion's control is very limited; therefore transport emissions are not included.

The relative energy consumption and CO_2 emissions are based on the added value of the relevant locations. The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus the raw materials. The period for which the absolute and relative energy consumption and CO_2 emissions is reported changed from the calendar year to the period from 1 December up to and including 30 November of the next calendar year, as it is not possible to obtain all data regarding energy consumption for the complete calendar year from our suppliers in a timely manner in January. This means that in this CSR Review the period is 1 December 2015 to 30 November 2016, and for comparison reasons 1 December 2014 to 30 November 2015 is provided. The comparison with 2014 is based on the data for the calendar year 2014. In addition, the comparison with 2014 is based on a more limited scope of locations, excluding the USA, Suzhou (China) and Romania. The locations in this limited scope are the locations that were reported on in the baseline year 2014.

Calculation of the CO_2 emissions is based on the following conversion factors:

- Electricity generated from renewable sources 0.017 kg/kWh
- Electricity generated from non-renewable sources (average) 0.355 kg/kWh
- Fuel oil and natural gas (average) 0.200 kg/kWh

Kendrion reports the total number of work-related accidents during working time or on the way to or from work for its own employees and for external employees over which Kendrion has supervision. Only the accidents that the group entity had to report to an external institution are reported. As of 2017, Kendrion will report accidents from all group entities that caused an absence of more than three calendar days, not including the day of the accident. This definition is based on regulations applicable in Germany.

In addition, Kendrion reports the absence resulting from work-related accidents of its own employees. The LTI is time ('scheduled working days') that could not be worked (and is thus 'lost') as a consequence of a worker being unable to perform the usual work due to an occupational accident ('at work accident' as well as 'way-to-work accident') or disease. There is no difference in whether the salaries or wages were paid by Kendrion or by an external institution during that time.

A return to limited duty or alternative work for the same organisation does not count as 'lost days'. Counting of 'lost days' begins with the first scheduled working day of full absence (e.g. the day after the accident). A lost day counts as one full day regardless of whether the employee has a part-time or a full-time contract. Kendrion does not specify LTI data per region, worker type or gender as Kendrion considers this information not relevant to its current operations. Kendrion evaluated the definition of the LTI rate to enable better benchmarking. As of 2017, Kendrion will report the LTI rate per 1,000 employees or per million hours worked.

For reporting on the number of signed Supplier Code of Conduct documents and the number of supplier audits, Kendrion makes use of GRI indicator G4-SO9 in conjunction with the number of suppliers that signed the Supplier Code of Conduct and underwent a supplier audit. The supplier audits are internal audits by Kendrion employees based on interview questionnaires. For more information on the scope of the Code of Conduct and related audits, Kendrion refers to its website (Code of Conduct). The 'percentage of top 20 material suppliers that signed the Supplier Code of Conduct' is based on the 20 biggest suppliers in terms of procurement value (in euros) in the respective calendar year.

During 2016, the internal management information system and internal controls for CSR reporting were further improved. They are designed to facilitate the collection and consolidation of relevant CSR information from all Kendrion's operating facilities. This is required for the preparation of reliable periodic internal and external reports about the KPIs. Kendrion realises that the figures and data presented in this CSR Review are not always fully comparable with those of other companies. There are two reasons for this. Companies do not always select the same KPIs or apply the same definitions for them. Secondly, the nature and spread of Kendrion's activities mean that it is not easy to make one-on-one comparisons with other industrial companies. But, where possible, Kendrion stated its own prior-year figures and data to make internal progress visible. Other information used in this CSR Review was collected from the existing management and financial reporting systems. Any estimates or forecasts included are explicitly referred to as such.

GENERAL STANDARD DISCLOSURES

	Page number (or link)	External Assurance
	Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found.	Indicate if the Standard Disclosure has been externally assured. If yes, include the page reference for the External Assurance Statement in the report.
Strategy and analysis		
G4-1	7 and website: https://www.kendrion.com/group-services/en/csr/csr-reports.html	
Organizational profile		
G4-3	5	
G4-4	cover, 5, 29-33. See also www.kendrion.com for more information about the brands Kuhnke, Linnig and Binder.	
G4-5	Back cover	
G4-6	12, 163-164	
G4-7	15-16	
G4-8	12, 29-34	
G4-9	12, 35-40, 58	
G4-10	55-58	
G4-11	57	
G4-12	47-48	
G4-13	8, 15, 29-33, no significant changes regarding suppliers	
G4-14	49, 62-69	
G4-15	44, UN Global Compact, OECD Guidelines for Multinational Enterprises	
G4-16	n.a.	
Identified material aspects and boundaries		
G4-17	163-164, 166-167 (About the CSR Review)	
G4-18	44-46, 166-167 (About the CSR Review)	
G4-19	46	
G4-20	166-167 (About the CSR Review). The material aspects are material to all group entities, although for Energy and Emissions, the plants described on pages 166-167 are most relevant.	
G4-21	46	
G4-22	166-167 (About the CSR Review)	
G4-23	166-167 (About the CSR Review), change in reporting period for Energy and Emissions	

GENERAL STANDARD DISCLOSURES

	Page number (or link) Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found.	External Assurance Indicate if the Standard Disclosure has been externally assured. If yes, include the page reference for the External Assurance Statement in the report.
Stakeholder engagement		
G4-24	44-45	
G4-25	44	
G4-26	44-46	
G4-27	44-46	
Report profile		
G4-28	Calendar year 2016, 166-167 (About the CSR Review) describes the reporting period for Energy and Emissions.	
G4-29	31 March 2016	
G4-30	Annual	
G4-31	Back cover	
G4-32	166-167 (About the CSR Review), 159-161 (assurance report CSR information)	
G4-33	166-167 (About the CSR Review), 159-161 (assurance report CSR information)	
Governance		
G4-34	21-24, 43, 71-73	
Ethics and integrity		
G4-56	53	

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Page number (or link) Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found.	Identified omission(s) In exceptional cases, if it is not possible to disclose certain required information, identify the information that has been omitted.	Reason(s) for omission(s) In exceptional cases, if it is not possible to disclose certain required information, provide the reason for omission.	Explanation for omission(s) In exceptional cases, if it is not possible to disclose certain required information, explain the reasons why the information has been omitted.	External Assurance Indicate if the Standard Disclosure has been externally assured. If yes, include the page reference for the External Assurance Statement in the report.
CATEGORY: ECONOMIC					
Material aspect: economic performance					
G4-DMA	10-11, website: https://www.kendrion.com/group-services/en/				
G4-EC1	12, 35-40, 54, 73-74	Payments to government by country	The information is currently unavailable	Payments to government by country will be reported if required.	
CATEGORY: ENVIRONMENTAL					
Material aspect: energy					
G4-DMA	website: https://www.kendrion.com/group-services/en/csr/energy-and-co$_2$-reduction.html				
G4-EN3	50-51	Data regarding renewable resources and sold energy	The information is currently unavailable	The underlying data are currently unavailable. It will be considered if and when to report these in the future.	yes, 159-161
G4-EN5	50-51, 166-167 (About the CSR Review), energy used inside organisation				yes, 159-161
G4-EN6	50-51, 166-167 (About the CSR Review)	The amount of energy reduction as a direct result of individual efficiency initiatives is not availble.	The information is currently unavailable	The underlying data are currently not available. It will be considered if and when to report these in the future.	yes, 159-161
Material aspect: emissions					
G4-DMA	website: https://www.kendrion.com/group-services/en/csr/energy-and-co$_2$-reduction.html				
G4-EN15	50-51, 166-167 (About the CSR Review)	GWP data	The information is currently unavailable	The underlying data are currently not available. It will be considered if and when to report these in the future.	yes, 159-161
G4-EN16	50-51, 166-167 (About the CSR Review)	GWP data	The information is currently unavailable	The underlying data are currently not available. It will be considered if and when to report these in the future.	

Contact information

Any questions or comments about this Annual Report or Kendrion's activities can be raised with:

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