KENDRION

PRECISION. SAFETY. MOTION.

Annual Integrated Report 2023

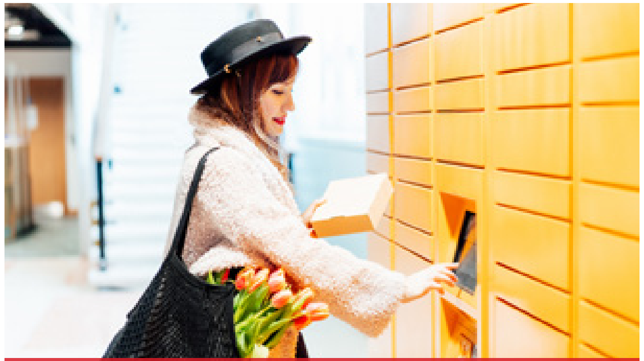
Enabling the shift towards clean energy for a sustainable future

Digitally Integrated Smart Building Management

Our multisensor module for smart buildings measures various physical parameters, enabling data-driven processes for efficient energy management, cost reduction, and minimization of CO_2 emissions.

Reliability and Innovation in Ventilation Technology

For decades, our commitment to patient safety is evident through our high-quality, precise, and safe components, including pressure regulators, valves, and assemblies, designed for anesthesia and respiratory technology.

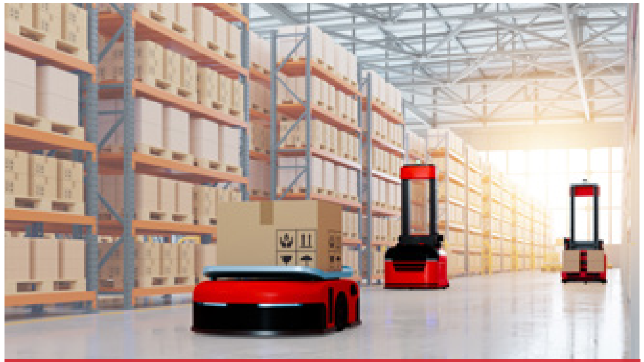


Efficient Security, Global Competitiveness

Our innovative Compact Lock, designed for tight spaces like parcel lockers, offering exceptional impact resistance without compromising security. Its cost efficiency allows it to compete with the Asian market.

Inductive Heating: Sustainable Technology

Boasting speed, accuracy, controllability, repeatability, and cleanliness, Kendrion's Modular Inductive Heating System supports the transition to greener energy in sectors like food processing and printing.



Automated Processes

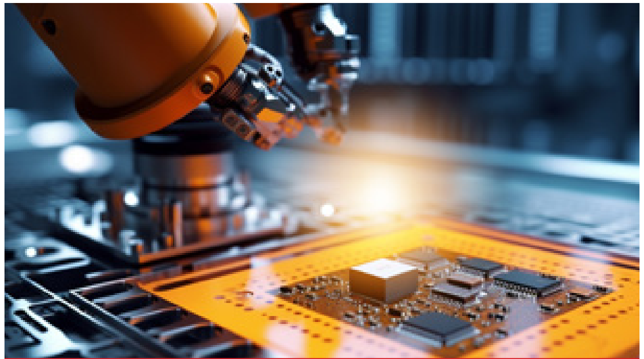
To ensure safety of goods and employees, we offer functional safety solutions to monitor the AGV and its environment as well as holding brakes to stop the vehicle accordingly.

Exact Positioning

In the rapidly evolving world of surgical robotics, precision and patient safety are of utmost importance.
Our brakes play a crucial role, ensuring absolute reliability and precise positioning.

Sustainable Power

Wind turbines generate the electricity needed to keep all operations running smoothly. Kendrion brakes keep the rotor blades in the optimum position even during heavy storms.



Accuracy in Manufacturing

In electronic manufacturing, precision is crucial for flawless assembly. Kendrion brakes are essential for maintaining lightweight robots in the exact position.

Elevating Ride Quality: Valves for Semi-Active-Damping

Our modular valve for semi-active-damping are a game-changer in automotive technology, providing drivers with unparalleled comfort and ride quality. By intelligently adjusting the behaviour of the damper to the road conditions in real time, these valves enhance the driving experience, ensuring a smoother, more controlled journey in various terrains.

Ensuring Clear Vision: Kendrion's Sensor Cleaning Solutions for ADAS

Kendrion's sensor cleaning solutions for Advanced Driver Assistance Systems (ADAS) play a crucial role in maintaining the reliability and effectiveness of safety features in modern vehicles. These distribution systems ensure that sensors remain clean and functional under all conditions, providing drivers with consistent, dependable assistance for a safer driving experience.

Revolutionizing Daily Commutes with Enhanced Vehicle Acoustics

Transform your everyday driving experience with personalized vehicle soundscapes, adjustable in real-time for comfort or excitement, thanks to advanced live parametrization technology. Whether stuck in traffic or cruising on the highway, the tailored audio environment turns every journey into an auditory delight, elevating the mundane to the extraordinary.

Revolutionizing Vehicle Dynamics: Multichamber Air Spring-Rate Valves

Our Multichamber Air Spring-Rate Valves enhance comfort and safety in everyday road traveling by offering additional functionality and versatility to airsprings. This technology enables vehicles to seamlessly adjust to varying driving conditions, leading to an efficient, smoother, and safer ride.

This document is the PDF version of the 2023 Annual Integrated Report of Kendrion N.V. and has been prepared for ease of use. The European Single Electronic Format (ESEF) reporting package is available on the company's website at www.kendrion.com. In case of discrepancies or ambiguities between this PDF version and the ESEF reporting package, the latter prevails.

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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.

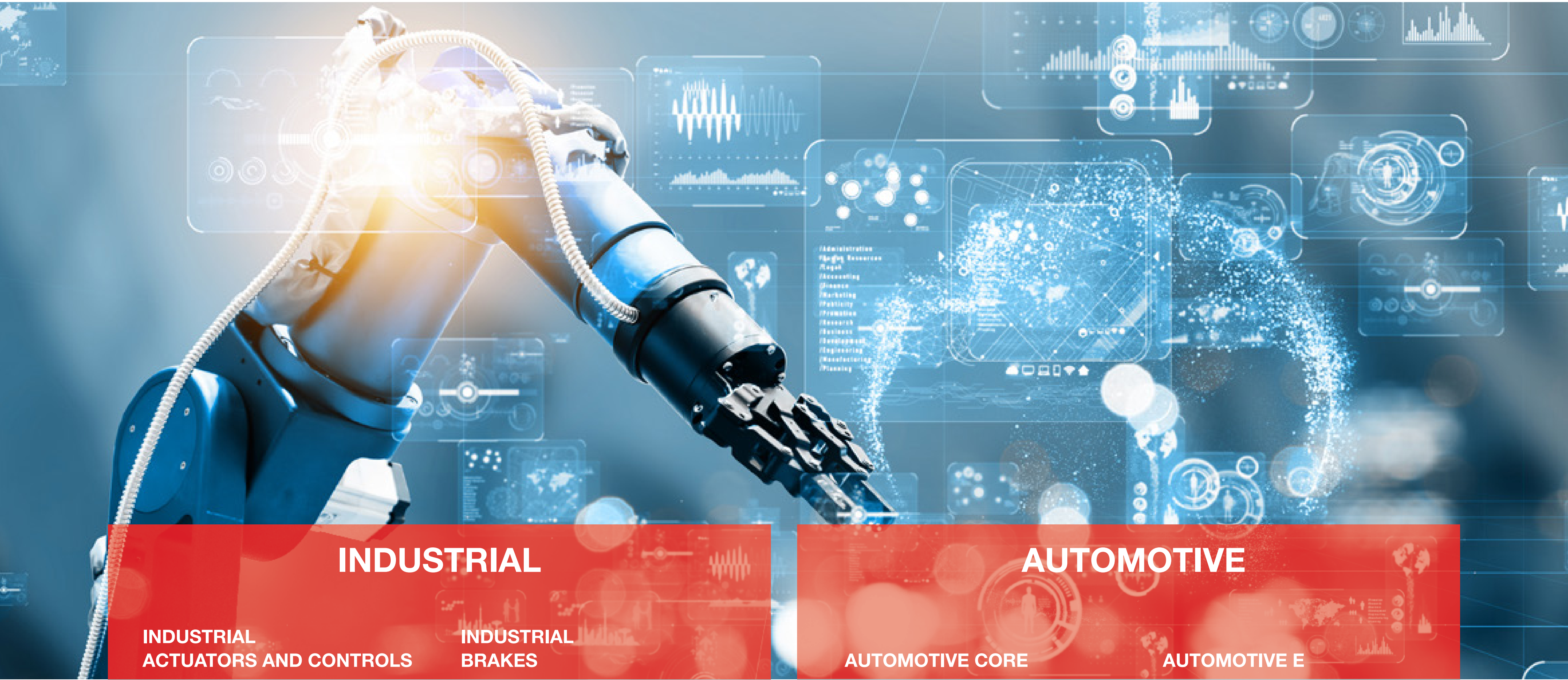
Kendrion designs, manufacturers and delivers intelligent actuators that help advance the global push towards electrification and sustainable energy.

Today, these compact, smart actuators are used in wind turbines, robots, factory automation, electric vehicles, energy distribution, and industrial heating processes, where they support OEM customers around the world to transition to safer and cleaner forms of energy.

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

We actively and consciously source, manufacture, and conduct our business. Sustainable business practices are integrated in our processes and embedded in our culture.

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



INDUSTRIAL

INDUSTRIAL ACTUATORS AND CONTROLS

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

INDUSTRIAL BRAKES

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

AUTOMOTIVE

AUTOMOTIVE CORE

Focus on the production of existing valve, actuation and control technologies for combustion engine commercial and passenger car vehicles.

AUTOMOTIVE E

Focus on the development and marketing of advanced smart actuator and control technologies for electric and autonomous driving vehicles.

Enabling the shift towards clean energy for a sustainable future

Reflecting on 2023, it was another year marked by substantial external challenges. The continued war in Ukraine, economic repercussions from COVID-19 stimulus measures resulting in supply chain disruptions and persistent inflation reverberated across global businesses. This was compounded in the fall by the war between Israel and Hamas in Gaza. Despite this challenging environment we delivered solid results.

We are on the brink of a shift in how we obtain our energy, moving towards clean sources. Kendrion is in a good position to capitalize on the emerging opportunities within our Business Groups and in China. The transition to clean energy has only just begun, and our organization is poised to fully leverage this transformative shift.

I want to express my appreciation to each person at Kendrion for their dedication, pursuit of excellence, and ability to face challenges with a positive outlook. The hard work of our people has had a significant impact as we persist in our efforts to make our company better.

Solid results in a volatile market

We began 2023 with optimism, eager to return to business as usual. However, reality proved different: volatile market conditions continued to impact our operations across all Business Groups and geographical areas. Particularly, the economies of Germany and China, responsible for almost half of our revenue, did not meet expectations.

The resulting slowdown, especially in Industrial Brakes, demanded flexibility in our resource and production planning. In the automotive industry, the number of passenger cars produced increased and fortunately displayed less volatility and, consequently, better predictability in order patterns. During 2023, we successfully increased our Automotive sales prices, leading to improved financial performance, especially in the second half of 2023.

In this difficult business environment, our Group revenue remained flat at EUR 518.5 million compared to EUR 519.3 million in 2022. In Industrial, revenue decreased by 7% from EUR 276.5 million in 2022 to EUR 256.5 million, primarily due to a sharp reduction in demand for industrial brakes, especially in Germany and China. Organic revenue in Industrial remains 17% higher than pre-COVID levels, constituting 49% of the total Group's revenue. In Automotive, revenue grew by 8%, reaching EUR 262.0 million. Automotive Core realized EUR 189.5 million revenue and Automotive E EUR 72.5 million. This growth can be attributed to sales price increases in Automotive Core and the implementation of projects in Automotive E.

Focus on clean energy solutions across Business Groups

All our Business Groups and our operations in China focus on delivering smart actuator products that support the broad energy transition away from oil, natural gas, and coal, towards clean forms of energy.

Joep van Beurden, **CEO**

In Automotive we specialize in actuators for sound, suspension, and smart actuation – three products specifically aimed at Autonomous, Connected, Electrified and Shared vehicles, or ACES. In Industrial Brakes (IB), despite the downcycle in 2023, we benefit from the fast-growing market for electromotors. Since our brakes are sold as part of an electromotor, IB's business is related to the flourishing market for electrified solutions. This includes areas such as intralogistics (AGVs and electric forklift trucks, and more), robotics and wind power. The product portfolio of our Business Group Industrial Actuators and Controls (IAC) includes modular, electrified induction heating systems to replace traditional heating solutions using gas or oil, circuit brakers for electricity distribution systems, and a safety actuator for nuclear power facilities.

Securing profitable growth
In 2023, we implemented two significant strategic changes that reflect our confidence in emerging opportunities: the further advancement of the establishment of the Automotive E organization and the inauguration of our state-of-the-art factory in China.

To sharpen our focus on ACES, on 31 December 2022 we completed the restructuring of the Automotive Group into two units: Automotive Core and Automotive E. While Automotive Core focuses on existing technologies for vehicles with an internal combustion engine (ICE), Automotive E is dedicated to opportunities within the Autonomous, Connected, Electrified and Shared (ACES) mobility transition.

Throughout 2023, we further advanced the new structure which enhanced the efficiency and cash generation of our existing combustion engine business, accelerated our innovation, and facilitated the development of strategically relevant products such as AVAS sound systems, active suspension, and smart actuators for sensor cleaning, seat massage valves and battery cooling. Notably the Automotive E organization contributed around EUR 230 million in won projects to our long term orderbook.

Furthermore, our new 28,000 m² state-of-the-art factory in China, fully operational since May 2023, has improved our ability to serve Chinese customers. As the largest facility in the Kendrion Group, this new factory positions us well to capitalize on our project pipeline and the numerous opportunities we are pursuing in China. We anticipate reaching maximum capacity in 3 to 4 years from now. In the first full year of operation, we expect to ramp up production for six new Automotive E projects. This would not have been possible without the new facility.

Outlook
The outlook for 2024 remains uncertain due to a potential recession in Europe and sustained weakness in the Chinese economy impacting global economic activity. Looking beyond the short term uncertainties, however, the global transition towards clean energy sources – electrical power, green hydrogen, and nuclear power – presents Kendrion with a growing list of opportunities. Positioned strategically, we anticipate substantial business growth in the years to come.

Our focus remains on growth initiatives aligned with the energy transition to achieve our 2025 financial targets: an average organic growth of 5% between 2019 and 2025, an EBITDA of at least 15% in 2025 and an ROI of at least 25% in 2025.

In 2023, we implemented two significant strategic changes that reflect our confidence in emerging opportunities: the further advancement of the establishment of the Automotive E organization and the inauguration of our state-of-the-art factory in China.

Revenue (EUR million)	Profit for the period (EUR million)	Normalized[2] EBITDA (EUR million)	Dividends (proposed) (EUR million)	ROI[2,3] (in %)	Net cash flows from operating activities (EUR million)
0%	NM[1]	↓7%	↓36%	↓13.6%	↓4%
518.5	**9.9**	**53.1**	**6.9**	**13.5%**	**36.4**
2022 **519.3**	2022 **-46.3**	2022 **57.4**	2022 **10.8**	2022 **15.6%**	2022 **37.9**

1 Not meaningful.

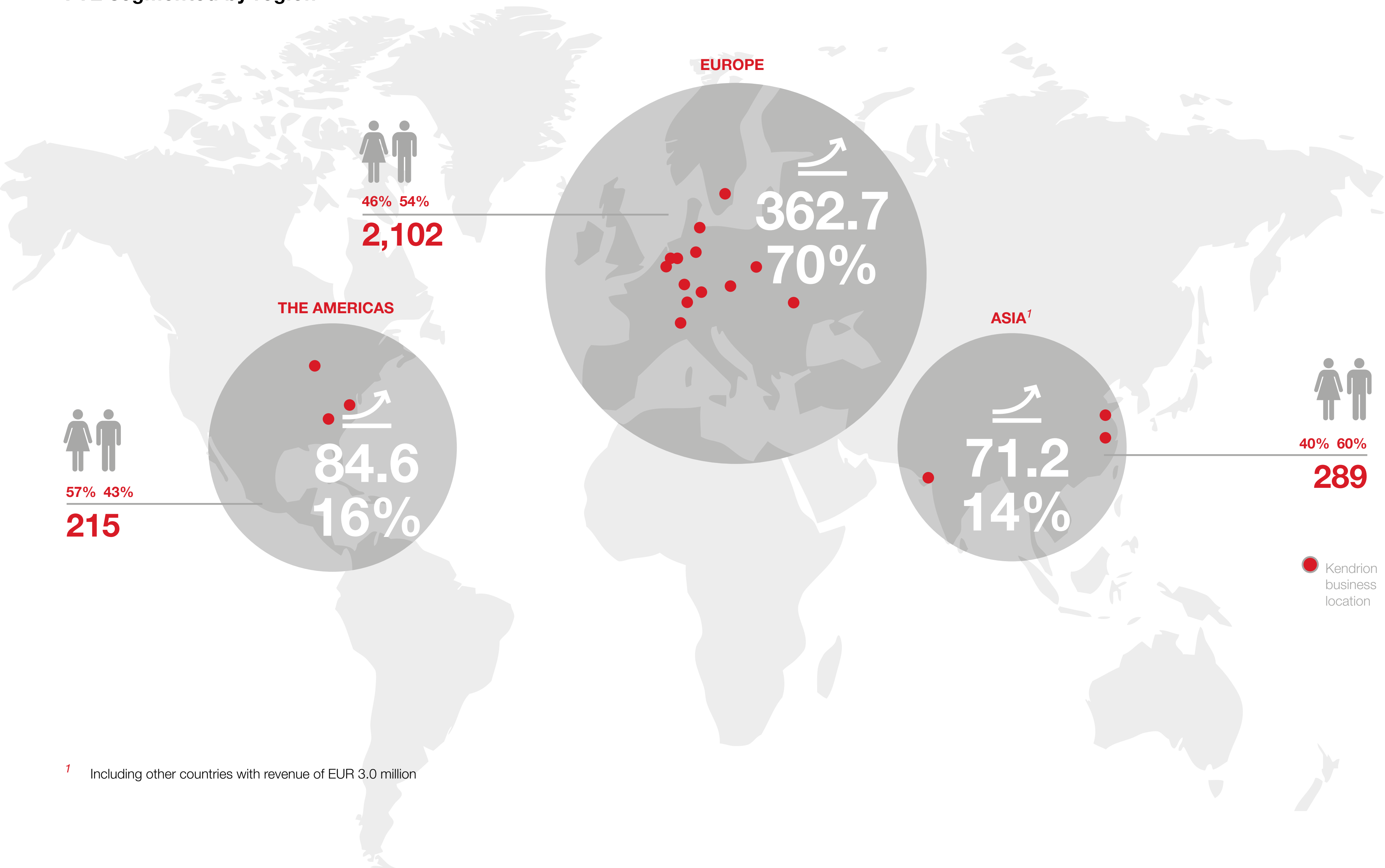
2 Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to reconciliation of non-IFRS information, starting on page 207.

3 Invested capital excluding intangibles arising from acquisitions.

Total number of employees (FTE) (at 31 December)	Total number of employees by gender (in % F vs M)	Illness rate (in %)	Accidents (per 1,000 FTE)	Relative energy consumption (in tonnes kWh/million added value)	Relative CO_2 emission (in tonnes kWh/ million added value)	Number of CSR supplier audits
↓5.3%		↓13%	↑18%	↑1.8%	↑10.1%	↓13.8%
2.606	**46/54**	**4.7%**	**7.7**	**149.9**	**27.3**	**25**
2022 **2.753**	2022 **47/53**	2022 **5.4%**	2022 **6.5**	2022 **147.2**	2022 **24.8**	2022 **29**

Please refer to the section ‘About the sustainability report’ on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

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



[1] Including other countries with revenue of EUR 3.0 million

Enabling the shift towards clean energy for a sustainable future

Amidst geopolitical turbulence, sluggish growth in Europe and China, the conflict in Gaza and inflation impacting businesses globally, Kendrion maintained its commitment to achieving sustainable growth. This commitment is driven by the widespread and accelerating energy transition towards electrification and other clean energy sources. In the short term, the brake market, which experienced organic growth of around 20% in both 2021 and 2022, faced weakness, particularly in the second half of 2023.

In Automotive we successfully increased our margin by passing on price increases to our customers. The completion of our new factory in Suzhou's Industrial Park in China marked a significant milestone. Additionally, we successfully navigated the segregation of our Automotive Group into two units: Automotive Core and Automotive E. This strategic move, prompted by the rapidly evolving automotive market, resulted in heightened focus, transparency and dedicated performance indicators. Consequently, there was an improvement in financial performance throughout the year in Automotive Core and substantial new business wins in Automotive E, amounting to nearly EUR 230 million. Currently, we are actively pursuing opportunities exceeding EUR 1.5 billion.

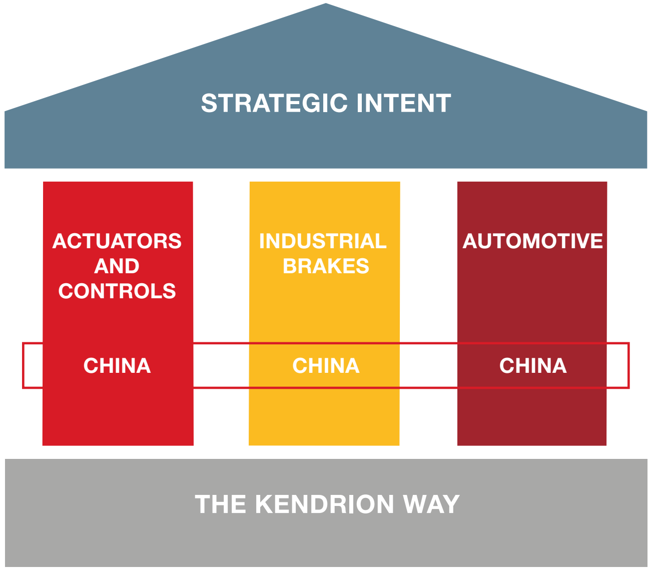
We focus on a highly promising segment within the Kendrion Automotive Group: Autonomous, Connected, Electrified, Shared passenger cars, or ACES, which holds substantial growth potential. The new factory in Suzhou not only provides the capacity to accommodate our existing production but also facilitates the ramping up of six new Automotive E projects. Moreover, this new facility positions us to leverage numerous commercial opportunities we are actively pursuing across Automotive E, Industrial Brakes and Industrial Actuators and Controls.

In 2023, our continued focus on opportunities related to the transition to clean energy yielded a solid financial performance, despite an unpredictable and complex economic and business environment.

Our strategy

Kendrion strategically directs its resources and capital toward areas propelled by the powerful, accelerating global shift towards clean energy. This strategic focus presents opportunities for sustainable and profitable growth, encompassing:

- Industrial Actuators and Controls: electricity distribution, control technology, industrial locks, nuclear power, and inductive heating.
- Industrial Brakes: wind power, robotics & automation, and intra-logistics.
- Automotive E: sound systems, smart suspension valves and smart actuators for sensor cleaning, seat massage valves and battery cooling.
- China: multiple opportunities for our three Business Groups, spanning various industrial and automotive applications, aligned with enabling the energy transition and consistent with the aforementioned market segments.



Provided the current slow economic circumstances clear up during 2024, we are confident in achieving our financial targets – 5% organic growth annually between 2019 and 2025, with an EBITDA of at least 15% and an ROI of at least 25%. This confidence stems from the progress made thus far, and the ongoing development of our product pipeline across all growth areas.

Industrial Actuators and Controls

Industrial Actuators and Controls (IAC) remains committed to achieving profitability and cash flows surpassing the Group average. This enables us to strategically invest in sustainable growth opportunities. With the ongoing, global shift towards clean energy sources, IAC, with products such as our induction heating systems for industrial processes, industrial locks for baking ovens, laboratory equipment and parcel lockers, safety valves for nuclear power plants, and solenoids for high voltage circuit breakers, is well positioned to capitalize on these opportunities. In alignment with the Group strategy, IAC is pro-actively investing in these avenues.

Industrial Brakes

Kendrion stands as a leading player in the markets for both permanent magnet brakes and spring-applied brakes. Given the close integration of these brake technologies with electromotors, the accelerating transition towards electrification presents Industrial Brakes (IB) with substantial opportunities in a fast-growing market. IB's comprehensive range of high-quality products finds global appeal, reaching customers from Europe to China, the US, and India.

In both 2021 and 2022, we achieved robust organic growth of around 20% per year, across nearly all segments served by IB. However, the landscape shifted in 2023. Elevated interest costs, impacting global investments in capital goods such as robots and wind power, coupled with some destocking resulted in a substantial slowdown in the brake market, specifically in the second half of 2023. Looking ahead we maintain a positive outlook for IB, expecting substantial long-term growth. Firstly, the continuous automation of global industrial manufacturing processes is driving the widespread adoption of industrial and collaborative robots across diverse industries. Secondly, worldwide investment in green energy is gaining momentum, fostering an increased demand for wind turbines. And finally, within the internal logistics sector, the shift towards more automation is accelerating, as warehouses for e-commerce and other delivery services progressively adopt automated guided vehicles (AGVs) and electric forklift trucks.

Automotive

The automotive industry is experiencing a significant transformation driven by four interconnected trends: Autonomous driving, Connected vehicles, Electrification of the powertrain and Shared mobility, or the so-called ACES. Kendrion anticipates that, overall, ACES will increase the actuator content per car, contributing to above-average growth. Recent market research projects a 40% annual growth projection for the market of electrified passenger cars in the next five years. We are confident in our strategic positioning to capitalize on this evolving trend.

Our innovative product platforms are precisely tailored for ACES. They include systems and components for active suspension, Acoustic Vehicle Alerting Systems (AVAS) for electric vehicles, and various 'smart' actuators for applications such as sensor cleaning, seat massage functionality and battery cooling. With the rapid evolution to electrified and smarter vehicles we have established a dedicated unit, Automotive E, responsible for developing, marketing, and selling ACES-related products. This strategic move aligns with our focus on products facilitating the shift towards cleaner energy. Automotive E is committed to investing in innovative products, fostering close customer relationships, driving business development, managing programs and ensuring profitable growth.

Automotive Core oversees Kendrion's Automotive business concerning established applications for combustion engine cars and commercial vehicles. It places a strong emphasis on operational excellence, lean production, cost efficiency, as well as maintaining profitability and cashflow.

China

In recent years, Kendrion has witnessed substantial revenue growth in China. The project pipeline supports continued growth, and the Chinese market presents significant additional opportunities for this growth to continue.

To support this, we have established a new 28,000 m^2 production facility at the renowned Suzhou Industrial Park (SIP), doubling our production capacity and thus revenue potential.

With the move completed in the summer of 2023, we are currently ramping six new Automotive E projects, with more in the pipeline. The building is expected to support around EUR 100 million in revenues, a target we aim to reach over the next 3-4 years.As the global shift toward sustainable energy continues, the growth prospects in China align with those in Europe and the US. In 2023, Kendrion China again expanded its project pipeline, despite lower-than-expected economic activity.

Financial targets

In 2023, we witnessed a significant increase in demand for our products in Automotive E, while Industrial Brakes noticed a notable slowdown following two years of robust growth. The challenging economic conditions persisted, especially in Europe and China, which collectively contribute 80% to the Group's revenue. Despite these challenges, our 2023 revenue came in at EUR 518.5 million, flat compared to the EUR 519.3 million of 2022. Our 2023 normalized EBITDA[2] was EUR 53.1 million, marking a 7% decrease compared to 2022 (EUR 57.4 million). The return on investment[1,2] stood at 13.5% (2022: 15.6%).

Considering the opportunities identified, our project pipeline and the robust organic growth observed in 2021 and 2022, and provided the current slow economic environment will improve over 2024, we see a path to meet our four ambitious medium-term financial objectives for 2025:

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

Average organic growth

TARGET 2019-2025: 5%
ACTUAL: 1%

Return on investment[1, 2]

TARGET 2025: 25%
ACTUAL: 14%

EBITDA margin[2]

TARGET 2025: 15%
ACTUAL: 10%

Dividend pay-out

TARGET: 35-50%
ACTUAL: 50%

1 Invested capital excluding intangibles arising from acquisitions.

2 Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measures, refer to reconciliation of non-IFRS information, starting on page 207.

Our cutting-edge and sustainable products

Explore how our cutting-edge and sustainable products, along with our promising technologies, are assisting OEMs worldwide

Power Pinch Valve: A breakthrough in tube clamping

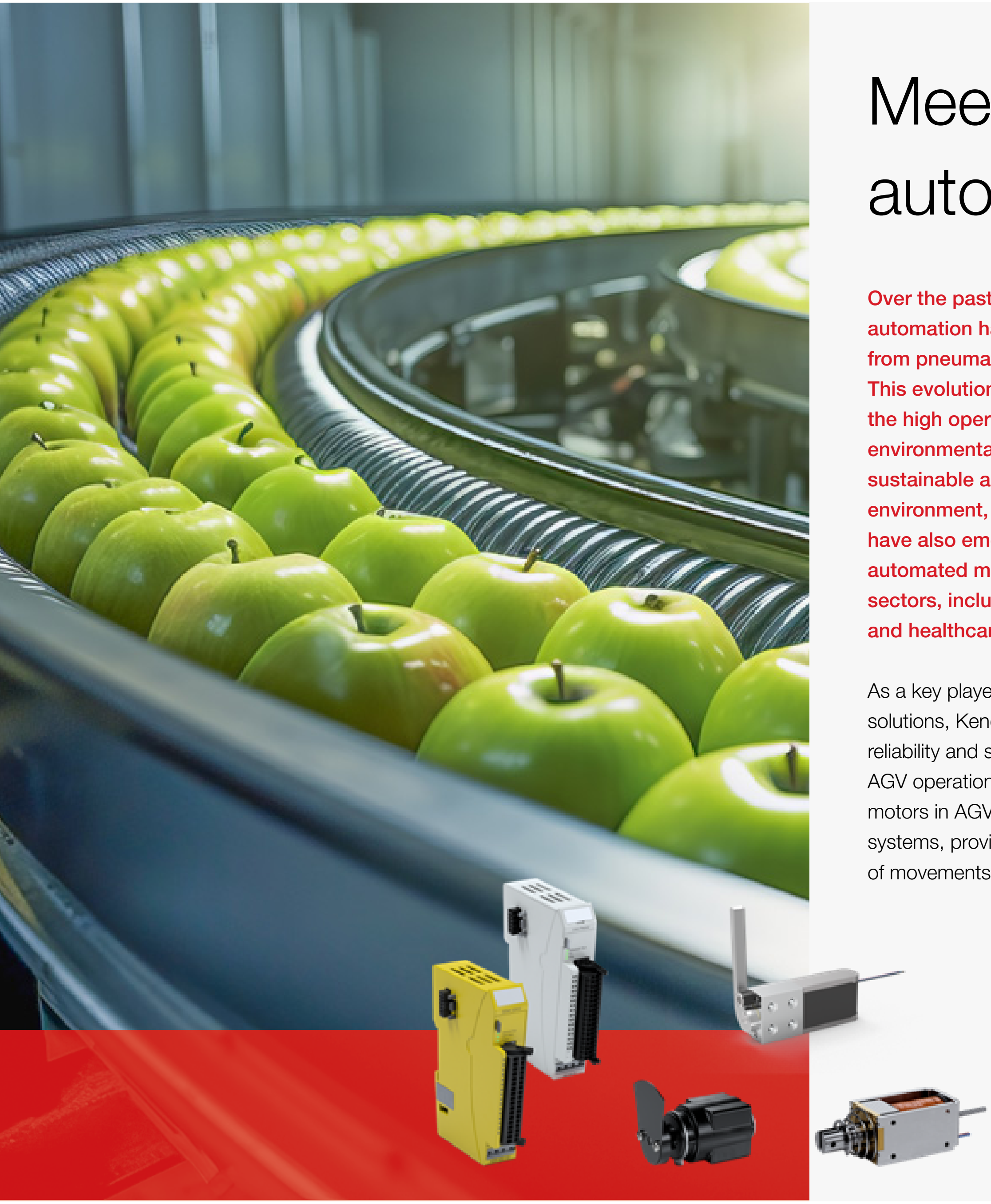
In the dynamic landscape of medical, lab, and analysis technology, Kendrion has identified a crucial market gap concerning the clamping of hard tubes, specifically those made of PVC. Unlike costly motor-actuated alternatives, our innovative Power Pinch Valve provides a cost-effective, competitive solution, filling the market void with ease of control, affordability, and robust clamping force.

Crucial for applications requiring precise media flow regulation, the electromagnetic-actuated Power Pinch Valve is a game-changer in various industries such as dialysis, laboratories, beverage, and agriculture. With compact dimensions (84x53x146mm) and a robust clamping force of 42N, this valve is perfect for applications using PVC and silicone tubes with a hardness of 70-80 Shore.

Powered by the reliable Kendrion HD8 solenoid, the valve features carefully calibrated magnetic and spring forces for precision and durability. Available in NO (Normally Open), NC/MO (Normally Closed with Manual Override), and CR (Cartridge Version) options, it offers versatility and performance across various settings.

In 2023, our focus on partnerships and client acquisition yielded positive results, particularly in the dialysis, diagnostics, pharmacy, chemical, and bio-reactor sectors. Furthermore, we identified agricultural watering systems as a promising market for our Power Pinch Valve. In 2024, we anticipate doubling our turnover from these valves.

Looking ahead, Kendrion is committed to expanding its Power Pinch Valve line to solidify its position in the pinch valve markets. Already in use in the US, China, and Europe, it positions us to meet growing demand and strengthen our leadership in the pinch valve market. Our initial emphasis will be on niche markets for hard tubes, with plans to extend functionality to softer tubes with smaller dimensions. Additionally, we aim to enhance the product's capabilities by integrating position sensors, making our pinch valves indispensable.



Meeting transformative trends in automation, robotics and AGV

Over the past few years, the landscape of industrial automation has gone through a transformative shift from pneumatic to electromechanical actuators. This evolution has been driven by factors such as the high operational cost of pneumatic systems, environmental concerns, and the need for more sustainable and efficient solutions. In this dynamic environment, automated guided vehicles (AGVs) have also emerged as pivotal facilitators of automated material transport across various sectors, including company premises, warehouses, and healthcare.

As a key player in solenoid and control technology solutions, Kendrion plays a crucial role in ensuring the reliability and safety of both industrial automation and AGV operations. Our motion controller for stepper motors in AGVs addresses the complexities of these systems, providing precise control and synchronization of movements. Simultaneously, we offer a full range of electromechanical actuators, including the new AUTOMATION LINE which has bolstered our presence in the industrial automation and AGV markets.

In 2023, we experienced significant success in both markets. Sales of the distributed motion controller for AGVs doubled, and we successfully introduced this product to new clients. We expanded our solenoid component portfolio, including energy-saving products. The cost-effectiveness of our products has strengthened our competitive position in the evolving industrial landscape. Notably, the establishment of potential partnerships, acquisition of new clients, and the development of a pallet stopper for conveyor systems contributed to Kendrion's status as a comprehensive supplier.

Looking ahead, Kendrion is strategically positioned for a targeted sales campaign to acquire new customers in the AGVs, autonomous mobile robots (AMRs), and industrial automation markets.
We direct our efforts towards developing new electromechanical actuators tailored for collaborative robots (cobots). This strategic initiative aligns with the increasing demand for automation solutions and aims to position Kendrion as the preferred supplier of solenoid and control technology solutions for diverse applications.

Ensuring safety and precision in the fast-growing surgical robots market

Surgical robots empower surgeons to perform precise movements for the well-being of the patient, making it evident why this unique partnership between man and machine is gaining ground in medicine. Kendrion positions itself as a leading provider of braking solutions for medical robots, ensuring safety and precision in the fast-growing surgical robots market. This has resulted in consistent demand, underscoring the confidence placed in our expertise.

In 2023, we developed an innovative emergency stop brake for a start-up that was launching a solution for robot-assisted surgery. The brake is characterized by a compact design, a large inner diameter and minimal energy consumption. Based on the Servo Slim Line series, it provides high power density and has been modified for safe operation, with an added advantage of extremely low energy consumption to minimize heat generation in the application. This customized solution underscores our proficiency in developing tailored brakes for demanding applications.

We will continue to focus on exciting and future-orientated projects in medical technology, particularly in the fields of robotics, medical devices, and healthcare applications. We recognize the enormous potential of these industries and strive to be an integral part in their success stories through innovative safety brakes. We see the opportunity to drive the development of medical technology by ensuring safety and precision.

Kendrion's brakes play a pivotal role in enabling medical device manufacturers to develop innovative technologies that enhance people's health and quality of life globally. As a reliable partner, we provide support to both established and emerging companies.

Multi-sensor module elevates building efficiency

In the rapidly evolving landscape of smart buildings, the demand for intelligent building automation and energy efficiency has become paramount for businesses and large property owners. The challenge lies in optimizing data-driven processes not only for comfort and high-quality indoor environments but also for substantial reductions in energy costs and CO_2 emissions of expansive building complexes. The unpredictable nature of factors like remote work further complicates building use, making insights into occupancy crucial for efficient resource management.

Addressing these challenges, Kendrion's electronic and embedded systems arm, 3T, collaborated with building automation specialist Priva to develop the bGrid® Multi-Sensor Module. This innovation aims to measure and capture various physical parameters within smart buildings discreetly. The module, seamlessly integrated into the infrastructure, employs sensors to regulate lighting, blinds, and heating based on real-time data related to factors such as light conditions, air quality, temperature, and movement within the building.

Since its market introduction in 2020, the bGrid® Multi-Sensor Module has gained immense popularity for its efficiency and versatility.

Looking ahead, as a preferred design partner of Priva, Kendrion looks forward to exploring more joint innovations to meet the evolving needs of bGrid's customers. The collaborative efforts of Kendrion, Priva, and bGrid promise a future where smart buildings seamlessly integrate technology for enhanced comfort, energy efficiency, and sustainability.

3T electronics & embedded systems

Innovative damping valves for sustainable driving

The outlook for automotive active suspension systems is promising, fueled by the rise of electric vehicles and the growing demand for a comfortable ride. Kendrion is uniquely positioned to seize emerging opportunities with our cutting-edge solutions that redefine ride quality. Our latest innovation, the external Continuous Damping Valve (eCDV), of which production started in 2023, is already gaining significant traction in the market.

By fine-tuning damper behavior, the eCDV enhances overall vehicle efficiency, safety, and comfort. It dynamically adjusts to road conditions, delivering real-time improvements for a smoother, more responsive ride. Seamlessly integrating into existing vehicle architectures, it stands as the ideal solution for upgrading high-tier vehicles and SUVs to eco-friendly driving without compromising performance or safety.

In 2023, the demand for our valves, notably the eCDV, experienced a significant surge, particularly in China. In addition we secured a nomination from the largest and leading air suspension system manufacturer in China, solidifying a closer partnership.

Additionally, we acquired our first European OEM customer through one of our partners. Our platform approach is proving instrumental in meeting their diverse requirements and scaling effectively.

Looking ahead, our focus remains on expanding the eCDV's potential and ramping up production of our entire product line in our brand-new 28,000m² facility in China. Further into the future, we are developing the next generation of products and proactively targeting the European market. Balancing the demands of mid-range and premium vehicles, we continuously evolve to meet changing requirements, upholding our role as trusted automotive industry partner.

Movements in the number of outstanding shares	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2023	15,026,305	88,316	15,114,621
Issued shares (share dividend)	199,358	(40,038)	159,320
Issued registered shares (share plan)	2,073	–	2,073
Granted shares (share plan)	48,278	(48,278)	–
At 31 December 2023	15,276,014	–	15,276,014

Other information

EUR, unless otherwise stated	2023	2022	2021
Number of shares x 1,000 at 31 December	15,276	15,115	14,935
Market capitalization at 31 December (EUR million)	184.5	234.3	314.4
Highest share price in the financial year	19.60	22.40	24.65
Lowest share price in the financial year	10.82	13.02	16.90
Share price on 31 December	12.08	15.50	21.05
Average daily ordinary share volume	15,260	7,022	14,129
Profit per share	0.65	(3.09)	0.97
Normalized net profit before amortization per share[1]	0.91	1.44	1.39

Major shareholders as at 31 December 2023[2]	Interest in %	Date of report
Teslin Participaties Coöperatief U.A.	21.30	At 23 March 2023
Kempen Capital Management N.V.	15.33	At 11 April 2023
Invesco Limited	4.96	At 14 December 2023
Cross Options Beheer B.V.	5.37	At 8 May 2017
Add Value Fund NV	3.22	At 13 July 2022
Midlin N.V.	3.08	At 11 December 2020
T. Rowe Price Group, Inc.	3.05	At 10 March 2023
Total	56.31	

1 Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measures, refer to reconciliation of non-IFRS information, starting on page 207.

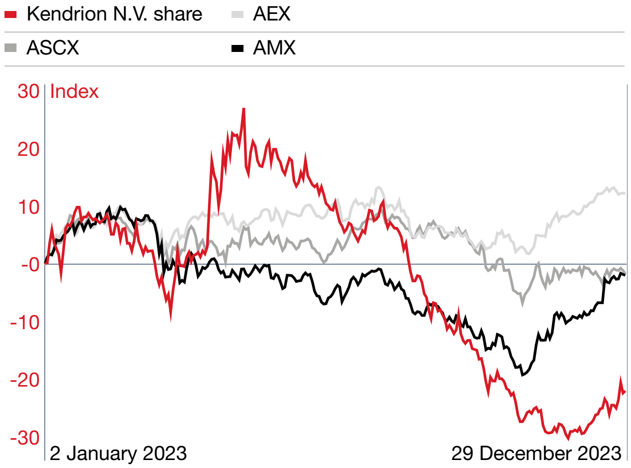
2 On the basis of the information in the register of the AFM and listed on the website at www.afm.nl.

Share capital

The authorized share capital of Kendrion N.V. as at 31 December 2023 amounts to EUR 80,000,000 and is divided into 40,000,000 ordinary shares with a nominal value of EUR 2.00 each. At year-end 2023, the total number of ordinary shares issued was 15,276,014. There is one class of ordinary shares and no depositary receipts for shares have been issued. Kendrion's ordinary shares are listed on NYSE Euronext Amsterdam Small Cap Index (AScX).

Movements in the share price

from 2 January 2023 to 29 December 2023



Treasury shares
As at 31 December 2023, Kendrion N.V. does not hold any shares in its own capital.

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

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

Kendrion will propose a dividend of EUR 0.45 per share, representing a payment of dividend of 50% of normalized net profit before amortization for 2023 at the Annual General Meeting of Shareholders on 15 April 2024. The total amount of dividend is EUR 6.9 million. It will be proposed that payment of the dividend will be made in cash, or at the option of shareholders, in the form of ordinary shares charged to the share premium reserve with any remaining fraction being settled in cash.

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

Participation
Kendrion maintains a share-based incentive plan for its senior management and certain key employees.

Effective as of 2019, members of the Management Team are eligible for a grant of conditional performance shares and effective as of 2021 participation in the share-based incentive program has been extended to selected members of Kendrion's senior leadership team. The conditional performance shares granted will vest upon achievement of performance measured over a three-year period. The actual number of shares that will be allocated upon expiry of the three-year vesting period is subject to the realization of predefined performance criteria. Under the 2021 long-term incentive plan for the Management Team (i.e. performance period 2021 through 2023), 36,036 conditional performance were granted. Of the 36,036 conditional performance shares granted to the Management Team, a total of 5,786 shares have vested.

In 2023, conditional performance shares have been granted to the members of the Executive Board pursuant to the Executive Board long-term incentive plan. More information about (conditional performance) shares granted to the members of the Executive Board is set out on page 107. A comprehensive description of the long-term incentive plan is included in the 'Remuneration Report' section on pages 109.

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

Investor relations
Kendrion attaches great importance to appropriate communications with financial stakeholders such as investors, debt capital providers and analysts, providing them with good insights into recent developments. Transparency is intended to lead to healthy pricing, and to support liquidity.

Analysts
The following stock exchange analysts actively monitor the Kendrion share:

Berenberg	Axel Stasse
Degroof Petercam	Frank Claassen
ING Bank	Tijs Hollestelle
The Idea-Driven Equities Analyses Company	Maarten Verbeek
Edison Group	Johan van den Hooven
Kepler Cheuvreux	Tim Ehlers

Financial calendar

Wednesday, 28 February 2024	Publication annual results 2023
Monday, 18 March 2024	Record date General Meeting of Shareholders
Monday, 15 April 2024	General Meeting of Shareholders
Wednesday, 17 April 2024	Ex-dividend date
Thursday, 18 April 2024	Dividend record date
Friday, 19 April - Monday, 6 May 2024, 3pm	Dividend election period (stock and/or cash)
Tuesday, 7 May 2024	Determination stock dividend exchange ratio
Tuesday, 7 May 2024	Publication first quarter results 2024
Thursday, 9 May 2024	Cash dividend made payable and delivery stock dividend
Wednesday, 21 August 2024	Publication half-year results 2024
Tuesday, 12 November 2024	Publication third quarter results 2024

J.H. Hemmen

Position	Chief Financial Officer
Year of birth	1973
Nationality	Dutch
Joined Kendrion	1 June 2005
Appointment to position	1 July 2019
Second term	1July 2023 – 1 July 2027 (AGM 17 April 2023)

J.A.J. van Beurden

Position	Chief Executive Officer
Year of birth	1960
Nationality	Dutch
Appointment to position	1 December 2015
Third term	1 December 2023 – 1 December 2027 (AGM 17 April 2023)

Member of the Supervisory Board and Chairman of the Nomination and Remuneration Committee of Adyen N.V.
Member of the Supervisory Board and Chairman of the Audit Committee of the University of Twente

INDUSTRIAL ACTUATORS AND CONTROLS

Customized solutions for industrial applications based on electromagnetic actuators, control technology and fluid technology.

INDUSTRIAL BRAKES

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

OUR PRODUCTS ARE USED IN

- Energy generation and distribution
- Food and beverage machinery
- Industrial automation
- Intralogistics
- Medical equipment
- Robotics
- Textile machinery
- Wind power

OUR CUSTOMERS INCLUDE

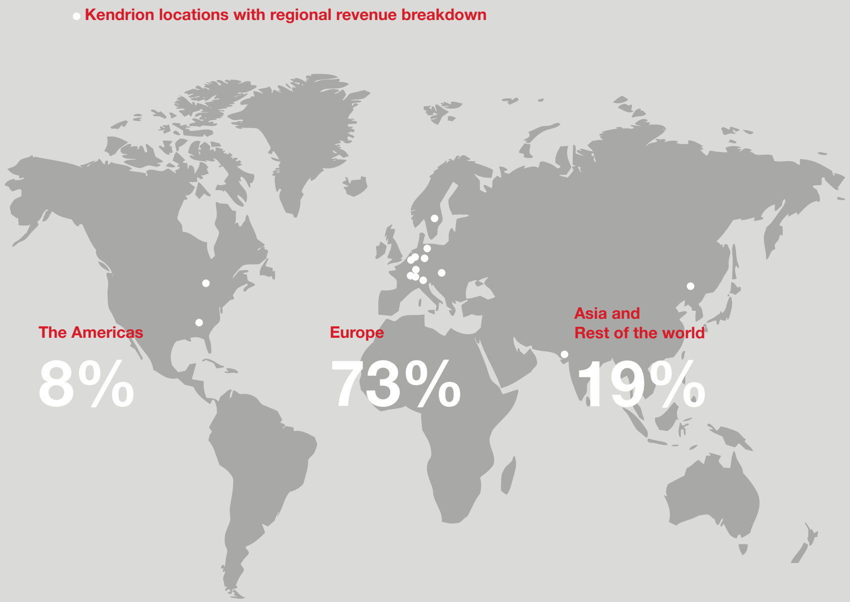
- ABB
- ASML
- Collins Aerospace
- Eaton Corporation
- Euchner
- Fresenius
- Jiangxi Special Motors
- Lancer
- Lenze
- Oerlikon
- Schneider Electric
- Siemens

TOTAL INDUSTRIAL REVENUE

(in EUR)

256.5 million

2022 276.5 million



Enabling the energy transition

Profile

Kendrion's industrial activities focus on developing and manufacturing electromagnetic brakes, actuators, and control units for a wide range of industrial applications, including wind turbines, robots, automated guided vehicles, energy distribution, medical equipment, and inductive heating.

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

Our main differentiators lie in our application expertise and engineering skills, enabling us to design high-performance products of unparalleled quality. Our Industrial Business Groups have R&D centers and production facilities in Germany, Romania, China, the US, and India. Products are marketed via their own sales organization with locations in Germany, Austria, Sweden, China, India, and the US. A worldwide sales distribution network is dedicated to both standard and application-specific components.

Market and market position

IB serves several global markets, anticipating above average growth opportunities in industrial automation, robotics, wind power and intralogistics. The growth opportunities in these markets are driven by the industry-wide energy transformation, which has escalated the global demand for electromotors and IB's extensive range of braking solutions. Kendrion is one of the leaders in the global industrial brake market, uniquely positioned as the sole industrial brake company holding a prominent position in both spring-applied and permanent magnet brake technology.

IAC serves many end markets including machine automation, energy distribution, medical equipment, access control and industrial appliances. Similar to IB, IAC strategically operates in niches offering substantial growth prospects, driven by the global energy transformation. These niches include induction heating of industrial processes, energy distribution, and valves for nuclear power plants.

Our Industrial Business Groups operate in a market predominantly characterized by mid-sized companies with a regional focus. The primary regional market for our Industrial activities remains Germany, renowned for its advanced and globally leading mechanical engineering and automation industries. Following closely is China. Other key strategic markets are the US, the Benelux, Switzerland, Austria, Italy, and Sweden.

Developments in 2023

Kendrion's Industrial activities generated a revenue of EUR 256.5 million in 2023, a decrease from EUR 276.5 million in 2022, primarily due to increased interest rates dampening global demand of capital goods, particularly affecting Industrial Brakes. This slowdown in 2023 stands in stark contrast to the double-digit growth observed in both 2021 and 2022. IAC benefited from a diverse portfolio with higher revenue in aviation, medical and energy more than offsetting a weak capital goods segment. Looking ahead, we anticipate both Industrial groups to benefit from favorable trends towards renewable energy, electrification, and industrial automation. The sharp slowdown did impact profitability, as our efforts to reduce costs only partially compensated for the reduction in revenue.

Throughout the year, IB further expanded its long-term revenue pipeline, engaging with both new and existing customers in the areas of wind power, intralogistics, and robotics. A comprehensive study of IB's most important existing markets and emerging sectors instills confidence that IB is well-positioned to outperform global industrial production. Existing markets encompass electromotors, wind power, robotics, and intralogistics, with rapidly growing markets such as collaborative robots and automated guided vehicles.

In response to the cyclically lower revenue levels of anticipated in the second half of 2023, IB has implemented short-time work in the German facilities in Aerzen and Villingen. This allows for a significant reduction in both direct and indirect labor costs, while retaining the capabilities to swiftly respond to future growth opportunities. Looking forward, IB remains committed to furthering the localization of production and R&D capabilities for both spring-applied and permanent magnet brakes in China.

During 2023, IAC continued to benefit from its strategy to target selective niche markets that offer above-average profitability and growth. IAC secured numerous new projects for its locking and inductive heating technologies for industrial equipment, solenoids, and control technology for intralogistics, along with highly specialized flow control valves for the medical industry. In certain end markets where IAC offers products that support the global energy transition, the business group benefited from a continued strong momentum for existing technologies including safety switches for energy distribution and safety valves for nuclear power plants. Following its acquisition in 2021, 3T had another impressive year, achieving a revenue of EUR 15.0 million, a significant increase from EUR 12.2 million in 2022. Its profitability remains robust. In response to the influx of new customer contracts, 3T will open a third office in the Netherlands in Drachten, situated in the northern part of the country. This expansion is expected to accommodate additional employees and facilitate sustained growth over the coming years.

> Looking ahead, we anticipate both Industrial groups to benefit from favorable trends towards renewable energy, electrification, and industrial automation.

Driving sustainable innovation: Kendrion's focus on promising niche markets

In the dynamic landscape of the global sustainability transformation, niche markets offer opportunities for Kendrion's innovative and high-quality products to play their role in the transition toward clean energy.

Our strategic focus remains on the most promising opportunities that will bolster our market presence and ensure our success as we contribute to a safer and more sustainable future. These include our induction heating, electronic locks, and Power Pinch valves, all of which offer exciting potential across multiple applications.

Induction heating: Redefining efficiency in energy consumption
Induction heating is transforming industries, by offering a greener, cost-effective alternative to traditional methods. Kendrion has been a trusted provider of induction heating systems for over two decades, building on our integrated electromagnetics and electronics development, including our software expertise. Our solutions are used in industries from textile fiber production to food and plastics processing. Flexible and tailored, they meet precise temperature control requirements, limited maintenance costs and emission-free heating.

Renowned for their exceptional efficiency, our systems achieve an impressive 95% heat transfer rate. This allows Original Equipment Manufacturers (OEMs) to create more compact and competitive solutions than when using traditional methods. With a growing emphasis on total cost of ownership (TCO), end customers are increasingly inclined to invest in inductive heating solutions. The potential energy savings can reach up to 50%.

While we originally focused on the German market, our recent expansion into the Netherlands and Belgium signals substantial sales potential. We anticipate doubling our revenue from induction heating systems within the next five years.

Robert Lewin
Managing Director
Industrial Actuators and Controls

> Niche markets offer opportunities for Kendrion's innovative and high-quality products to play their role in the transition toward clean energy.

Electronics locks promise a ‘safe’ return
Increasing demand for security in industrial and commercial sectors will drive robust growth in the electronic locks market over the next few years. Kendrion is well-placed to exploit this potential, with a wide range of door locks designed specifically for industrial applications.

Our solenoid locks are used in an extensive array of applications, including commercial washing machines – where we are the market leader – supermarket baking ovens, laboratory equipment, and the most recent one: parcel lockers. With the growing popularity of these parcel lockers, we expect appetite for our locks to grow exponentially.

Power Pinch Valve: Revolutionizing safety in critical applications
Pinch valves play a crucial role in applications requiring precise and controlled flow regulation of fluids. Kendrion continues to be a pioneer in customized pinch valves for various industries, including dialysis systems, laboratory setups, the beverage industry and agricultural irrigation systems. Recently, we have initiated the standardization process for our pinch valves, improving cost-efficiency, scalability, and maintaining consistent quality across our product line.

Our latest breakthrough, the 2/2-way Power Pinch Valve, with a robust clamping force of 42N, is ideal for applications using PVC and silicone tubes. Already in use in the US, China, and Europe, the 2/2-way Power Pinch Valve positions us to meet growing demand and to strengthen our leadership in the pinch valve market. In 2024, we anticipate doubling our turnover from these valves.

Ensuring high quality, compliance, and confidence in the future
Committed to fostering a more sustainable future, we actively explore new applications for our products. Our in-house market research team ensures we stay ahead of relevant market trends and developments and maintain a profound understanding of our customers’ needs — both current and future.

Several of our customers operate in critical and highly regulated sectors such as medical, aerospace, and nuclear power. With a dedicated quality organization, we not only adhere to ISO 9001 quality requirements, but also routinely surpass them, ensuring that our products meet the exacting standards of the industries we are active in.

Globally, our technological expertise, agility, and flexible production processes position us to deliver meaningful solutions for OEMs, end-users, and society at large.

Pinch valves play a crucial role in applications requiring precise and controlled flow regulation of fluids. Kendrion continues to be a pioneer in customized pinch valves for various industries, including dialysis systems, laboratory setups, the beverage industry and agricultural irrigation systems.

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

OUR PRODUCTS ARE USED IN

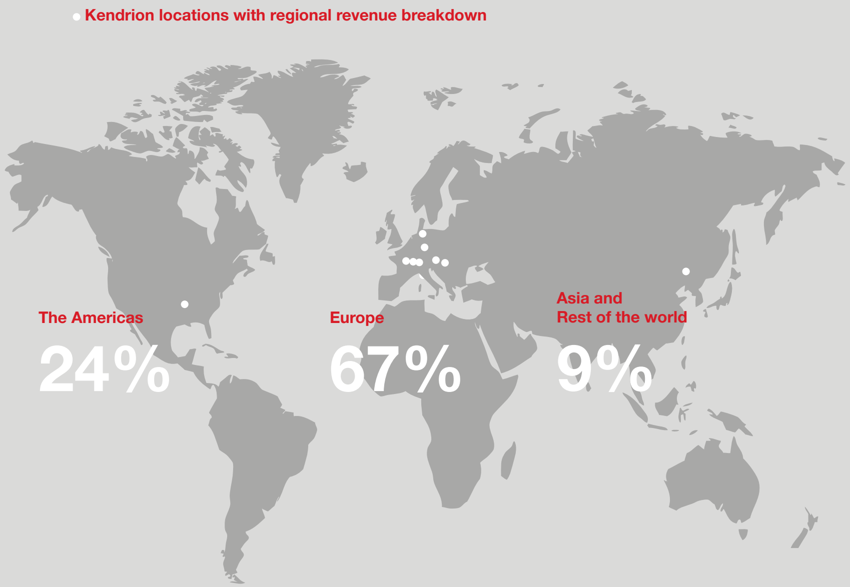
Active suspension systems
Fuel systems
Mobile hydraulics
Acoustic vehicle alerting systems
Thermal management
Sensor cleaning systems
Transmission systems

OUR CUSTOMERS INCLUDE

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

TOTAL AUTOMOTIVE REVENUE
(in EUR)

262.0 million
2022 **242.8 million**



Accelerating the transformation

Profile

The Kendrion Automotive Group (KAG) develops, manufactures, and markets innovative, high-quality electromagnetic actuators and control units for customers in the automotive industry worldwide. Our customers include major OEMs and Tier 1 suppliers across global markets for passenger cars, commercial vehicles, and off-highway vehicles. The KAG organization is split into 2 distinct organizations: Automotive Core and Automotive E.

KAG's primary focus is on advanced valve technology, smart actuation, and control technology tailored to facilitate the transformation towards Autonomous, Connected, Electric and Shared mobility, collectively known as ACES. Applications driving this transformation comprise sound systems (AVAS), active suspension valves, and smart actuators, which presently contribute approximately 28% to KAG's revenue. Other KAG applications include transmission systems and fuel systems for passenger cars, hydraulic solenoids for agricultural equipment, and thermal management systems for commercial vehicles.

KAG maintains a global presence through its R&D centers and manufacturing facilities situated in Germany, Rumania, Czech Republic, the US, and China. Kendrion develops products designed to meet customers' specific needs, placing great emphasis on performance, quality, and reliability.

Market and market position

The accelerating shift toward electrification in the automotive industry, coupled with the emergence of electric and autonomous vehicles, are expected to transform the overall automotive market significantly. Several countries and car manufacturers have announced to completely phasing out internal combustion engine cars by 2035.

To increase our focus on clean energy even more, we previously decided to split the Automotive Group into Automotive Core and Automotive E. The split involved a structural redesign, resource reallocation, the establishment of separate financials and the formulation of distinct key performance indicators. Automotive E is tasked with developing products relevant to electric vehicles, prioritizing profitable growth and innovation. Automotive Core manages our combustion engine-related business with cash and cashflow serving as its primary KPIs. As part of this reorganization, KAG successfully further streamlined its costs, saving EUR 4 million per year starting Q1 2023. The split is anticipated to enhance our focus on products for E, where innovation and growth abound, and to optimize the efficiency and cash generation of our existing combustion engine business through Automotive Core. The Core and E split, including the cost savings, was implemented effectively in December 2022.

According to market analysts study by S&P Global Mobility, the battery electric vehicle market is projected to experience an average annual growth rate of approximately 27% between 2023 and 2028. This growth trajectory is instrumental in propelling demand for Kendrion's actuators, specifically designed for electrified vehicles such as Kendrion's Phantone sound system, active suspension valves, and smart actuators. Anticipated regulatory requirements worldwide, mandating electric cars to emit a sound below a specific speed, are expected to drive the demand for Kendrion's Phantone sound system. Moreover, the markets for high-end suspension systems are also expected to continue its fast-paced growth as more heavy electric vehicles are being equipped with active and air suspension systems.

Automotive Core and E compete in a market that features several mid-sized competitors, predominantly situated in Germany. Europe remains Kendrion's primary automotive market, where the majority of the revenue is derived from collaboration with major German car manufacturers and Tier 1 automotive suppliers. Notably, Kendrion China has significantly bolstered its market position by securing multiple new projects with both local and global brands in recent years.

Developments in 2023

KAG's revenue reached EUR 262.0 million (2022: EUR 242.8 million). Although Automotive revenue is gradually recovering from the historically low level of the first COVID-19 year in 2020, car production in Europe, where KAG realizes two thirds of its revenues, is still well below the pre-pandemic level. Analysts estimate European car production of EUR 17.8 million units in 2023 against 21.1 million in 2019*.

* Source: IHS Markit

At the end of 2022, Kendrion has split the Automotive Business Group into two distinct units: Automotive Core and Automotive E. While Automotive Core concentrates on maximizing value from existing technologies for combustion engine cars and commercial vehicles, Automotive E focuses on the development and marketing of new product technologies that enable future mobility. The spilt has increased our focus and has helped to gradually raise the sales prices to our customers in Automotive Core, reflecting the inflation, ultimately enhancing the profitability of our Automotive Group, particularly in the second half of 2023. The current pillars of the Automotive E portfolio are acoustic vehicle alerting systems, valves and electronic control units for suspension systems and valves and control units for sensor cleaning.
In 2023, the Automotive E portfolio represented 28% of the total Automotive Group revenue.

KAG has added an additional EUR 300 million (2022: EUR 305 million) in lifetime revenue to its long-term order book, reflecting a positive book-to-bill ratio of 1.15 times the 2022 Automotive revenue. More than EUR 230.0 million project wins are attributed to Automotive E (2022: EURO 200 million), resulting in a book-to-bill ratio of 3.2 for Automotive E. The remaining EUR 70 million in lifetime revenue wins stem from product lifetime extensions in Automotive Core. New business nominations were won in all three Automotive E technology segments, with the majority in suspension applications. Another year with a significant positive book-to-bill in Automotive E has increased our confidence that, despite the challenges in the automotive industry, the technology platforms that Automotive has invested in in recent years have the capacity to put the Automotive Group back on a trajectory of sustainable and profitable growth.

New business nominations were won in all three Automotive E technology segments, with the majority in suspension applications.

Kendrion China's successful expansion

In 2023, our operations in China achieved a significant milestone with the inauguration of our state-of-the-art 28,000m^2 factory at the renowned Suzhou Industrial Park (SIP) in China – the largest in the Kendrion Group. But this is only the start: substantial nominations for our automotive products and the first cross-selling opportunities for our industrial brakes, are propelling us towards a future of growth and collaborative success.

Consistent performance

Since its establishment in 2005, Kendrion China has experienced remarkable growth. In the challenging 2023 economy, we focused on three achievements: maintaining a stable turnover, finalizing, and initiating production in the new plant, and pursuing new sales opportunities.

Our growth ambition is built on a solid foundation. As the world's largest automotive and electric vehicle (EV) market, China presents abundant opportunities for our products. Contributing to 60% of global battery-powered car sales, China had an impressive 80% annual growth rate in 2023, solidifying its position as the fastest-growing region. Additionally, eighteen of the top 20 EV models worldwide originate from China.

Aligned with the Chinese market

Our product portfolio aligns well with this fast-growing EV market. In 2023, our continuous damping valves (eCDV and iCDV) and Air Suspension Valves (ASV) received significant nominations from Chinese as well as European customers active in China. The increasing demand for luxury and high-performance vehicles, coupled with a growing emphasis on passenger comfort and safety, is driving the adoption of active suspension systems. We expect a surge in demand for our valves. Electric vehicle active suspension systems require eight valves and our market projections indicate a fivefold increase by 2028.

New cross-selling nominations

Simultaneously, we capitalized on new cross-selling opportunities. In 2022, we secured the first contract with a Chinese vehicle brand to integrate our industrial brakes, enhancing the smooth operation of automated, voice-controlled car doors. The first vehicle equipped with these brakes debuted in August 2022. In October 2023, four more models followed, resulting in a significant increase in demand for our brakes. Additional models featuring our brakes are scheduled for release in 2024.

Since its establishment in 2005, Kendrion China has experienced remarkable growth.

Telly Kuo
President Kendrion Asia

Our unique capability to manufacture both automotive and industrial products within the same facility strategically positions us to continue to pursue cross-selling opportunities. This initial success marks only the beginning, and we envision more opportunities to explore in the years ahead.

Powering tomorrow

Our new factory is a key element in this promising future, and we strategically chose the Suzhou Industrial Park (SIP) as the location. Positioned among advanced local and foreign manufacturing companies in the automotive and industrial sectors, our high-tech facility is designed to support our anticipated business growth.

The factory embraces innovative technologies, incorporating artificial intelligence, robotics, solar power, and smart warehouse logistics. Notably, 70% of the warehouse constitutes a fully automated, 22-meter-high area, with water recycling for industrial brake washers.

In 2023, we began reaping the rewards of our solar panel investment. We anticipate generating around 650,000 kWh annually through sustainable and self-generated solar power, which will enable us to independently cover a substantial part of our electricity requirements.

Navigating change with confidence

As management, we take immense pride in our team's exceptional response to the significant changes brought about by our new factory. Their remarkable flexibility and unwavering dedication facilitated a smooth transition of equipment from the existing two factories to the new facility in under two months, ensuring minimal disruption to production processes and customer deliveries.

The tremendous potential for our active suspension systems, our first sales of industrial brakes to automotive customers, and the team's unwavering drive for excellence give us great confidence that we will take advantage of the opportunities and rise to the challenges that lie ahead of us.

Our new factory embraces innovative technologies, incorporating artificial intelligence, robotics, solar power, and smart warehouse logistics.

Key figures

EUR million	Reported 2023	Adjustments 2023	Normalized 2023	Reported 2022	Adjustments 2022	Normalized 2022
Revenue	**518.5**	**–**	**518.5**	**519.3**	**–**	**519.3**
Other income	0.1	–	0.1	0.5	0.5	0.0
Total revenue and other income	518.6	–	518.6	519.8	0.5	519.3
Changes in inventories of finished goods and work in progress	0.6	–	0.6	1.8	–	1.8
Raw materials and subcontracted work	275.1	0.1	275.0	268.7	–	268.7
Staff costs	151.5	1.6	149.9	153.6	5.3	148.3
Impairments of fixed assets	0.1	0.0	0.1	58.7	58.6	0.1
Other operating expenses	40.7	0.8	39.9	43.6	0.6	43.0
EBITDA[1]	**50.6**	**(2.5)**	**53.1**	**(6.6)**	**(64.0)**	**57.4**
Depreciation and amortization	26.8	–	26.8	28.0	–	28.0
Finance income and expense and share loss of an associate	9.9	(0.0)	9.9	5.1	0.7	4.4
Income tax expense	4.0	(0.9)	4.9	6.6	(0.2)	6.8
Profit for the period	**9.9**	**(1.6)**	**11.5**	**(46.3)**	**(64.5)**	**18.2**
Amortization after tax	2.4	–	2.4	3.5	–	3.5
Profit for the period before amortization[1]	**12.3**	**(1.6)**	**13.9**	**(42.8)**	**(64.5)**	**21.7**
Cash flows						
Cash flow from operations	36.4	4.1	40.5	37.9	3.0	40.9
Cash flow from investing activities	(29.6)	0.4	(29.3)	(37.9)	0.1	(37.8)
Free cash flow[1]	**6.8**	**4.5**	**11.3**	**0.0**	**3.1**	**3.1**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measures, refer to reconciliation of non-IFRS information, starting on page 207.

Group performance

Kendrion realized EUR 518.5 million revenue in 2023, compared with EUR 519.3 million in the previous year. Revenue growth at constant rates of exchange was 1%, as currency translation negatively affected group revenue mainly due to the weaker average Chinese and US currencies. The industrial activities realized revenue of EUR 256.5 million, which was 7% below the previous year and caused by a slowdown in the markets for industrial automation and wind power in Germany and China affecting revenues in Industrial Brakes. Revenue in Industrial Actuators and Controls was partially affected by the same market dynamics, but benefited from more than offsetting demand increases in other segments. Revenue in the Automotive Group grew with 8% to EUR 262.0 million driven by higher average sales prices in Automotive Core and volume increases in Automotive E. Automotive Core realized EUR 189.5 million revenue and Automotive E EUR 72.5 million.

Profit for the period ended at EUR 9.9 million, against a loss of EUR 46.3 million in the previous year. Previous year's profit was significantly affected by a EUR 58.5 million impairment of goodwill and other acquisition related intangibles and tax assets in the newly established unit Automotive Core. The impairment was the result of the fundamental shift in the automotive industry which is expected to gradually phase out the combustion engine. For a meaningful analysis of the underlying financial performance of the group, Kendrion presents certain performance measures on a normalized basis. The normalized performance measures exclude costs and benefits that are generated outside the ordinary course of business and include restructuring charges, asset impairments and other items of an incidental nature. Definitions and a detailed reconciliation of these alternative performance measures to the closest applicable IFRS performance measures can be found on pages 207-211 of this Annual Integrated Report.

Normalized EBITDA[1] in 2023 came in at EUR 53.1 million compared with EUR 57.4 million in the previous year. Normalized EBITDA as a percentage of revenue ended at 10.2% (2022: 11.1%). The costs for raw materials and subcontracted work increased by EUR 6.3 million, or 2%. The increase was mainly the result of the higher proportionate revenue share of the Automotive Group compared to the previous year. The Automotive Group has on average higher material costs as a percentage of revenue compared with the Industrial business groups. Total staff and other operating expenses, excluding costs that are normalized from the results, decreased by EUR 1.5 million as cost savings more than offset the inflationary pressure on wages and other costs. Normalized finance costs[1] increased by EUR 5.5 million to EUR 9.9 million because of higher average market interest rates and negative realised and unrealised currency differences of EUR 1.5 million. The normalized effective tax rate increased to 30.4% (2022: 27.4%). Taxation costs were affected by a EUR 0.5 million lower valuation of carry forward tax losses in the US. Normalized profit before amortization[1] ended at EUR 13.9 million, (2022: EUR 21.7 million). In 2023 the group incurred in total EUR 2.5 million costs and benefits that were generated outside the normal course of business (2022: EUR 64.7 million). The costs mainly relate to the integration of the Chinese locations into the new manufacturing location in Suzhou. The after-tax amount of normalized costs in 2023 was EUR 1.6 million (2022: EUR 64.5 million).

Net cash flows from operating activities came it at EUR 36.4 million (2022: EUR 37.9 million). Cash flows from investing activities came in at negative EUR 29.6 million compared to negative 37.9 million in the previous year. The largest investment – EUR 6.3 million (2022: EUR 15.0 million) – related to the finalization of the construction of the new manufacturing facility at China's Suzhou Industrial Park. Other investments mainly related to new production lines in the Industrial and Automotive activities. Cash flows in 2023 included EUR 4.5 million cash items related to costs that have been normalized from the results (2022: EUR 3.1 million) mainly related to restructuring activities and the settlement of a tax claim agree to in the previous year. Overall normalized free cash flow[1] ended at EUR 11.3 million (2022: EUR 3.1 million).

Total net debt ended at EUR 145.0 million, an increase of EUR 4.7 million compared to 31 December 2022. The positive free cash flow was more than offset by EUR 3.2 million payments of lease liabilities and EUR 7.1 million dividends paid. Total invested capital per 31 December 2023 ended at EUR 217.5 million (31 December 2022: EUR 213.3 million), when excluding goodwill and other intangibles arising on acquisitions. Invested capital was EUR 218.9 million when excluding items that have been normalized. Return on invested capital[1] ended at 13.5% (2022: 15.6%).

Liquidity position

Kendrion's liquidity position exists of freely available cash balances and undrawn facilities. Cash balances on 31 December 2023 amounted to EUR 20.6 million (2022: EUR 37.8 million). In addition, Kendrion had EUR 43 million (2022: EUR 20 million) available under undrawn credit facilities. Kendrion's main credit facility is a EUR 102.5 million facility agreement with HSBC Bank and ING Bank. The facility agreement runs until 26 April 2026 and includes a one-year extension option. Certain covenants apply including a maximum leverage ratio of 3.25, with a possible temporary spike up to 3.75 under certain conditions. Kendrion's leverage ratio1 based on the definitions in the facility agreement as per 31 December 2023 was 2.7 (31 December 2022: 2.4).

Research & Development

EUR 27.0 million (2022: EUR 29.4 million) costs for R&D are included in the operating expenses, of which EUR 21.1 million (2022: EUR 21.6 million) staff costs. An amount of EUR 2.5 million in R&D expenses (2022: EUR 3.0 million) has been capitalized as R&D on the balance sheet. Costs for R&D as a percentage of revenue came to 5.0% (2022: 6.2%). Kendrion Group employed 249 FTE R&D employees.

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measures, refer to reconciliation of non-IFRS information, starting on page 207.

R&D activities primarily focused on modifying existing electromagnetic brake technology for growth markets such as AGVs and surgical robots, locking solutions for industrial applications, inductive heating technology for industrial processes, the AVAS sound platform, customer-specific applications for active and air suspension and a platform application for sensor cleaning.

Developments per segment

The Industrial activities generated EUR 256.5 million (2022: EUR 276.5 million) of revenue in 2023, representing 49% of group revenue. Revenue at constant rates of exchange decreased 6% in 2023. Revenue in Industrial Brakes came in at EUR 129.0 million (2022: EUR 251.2 million) and in Industrial Actuators & Controls at EUR 127.5 million 2022: EUR 125.3 million). Revenue in Industrial Brakes was affected by a significant slowdown in the market for industrial automation and wind energy in their main markets Germany and China. As a result, revenue in Industrial Brakes at constant rates of exchange decreased 13% in 2023 million after two consecutive years of strong growth in 2021 and 2022. Industrial Actuators & Controls benefited from a diversified market segmentation with good revenue in medical, aviation and energy sectors more than offsetting weakness in other segments.

Profit before finance expenses was EUR 23.1million (2022: EUR 40.5 million). Normalized EBITDA[1] came in at EUR 36.1 million (2022: EUR 47.5 million). Reduced profitability is fully attributable to lower revenues in Industrial Brakes because of the cyclical industrial downturn. Normalized EBITDA in the Industrial groups excludes a total amount of EUR 1.5 million in costs and benefits (2022: EUR 0.6 million) that are that are generated outside the ordinary course of business of the Industrial activities. These costs include restructuring charges in Industrial Brakes and costs related to the relocation of existing facilities to the new manufacturing facility at Suzhou Industrial Park.

The Kendrion Automotive Group (KAG) realized 9% revenue growth when measured at constant rates of exchange, resulting in its revenue increasing to EUR 262.0 million (2022: EUR 242.8 million) and accounting for 51% of group revenue. Since the end of 2022, the Automotive business group has been separated in Automotive Core, focusing on technologies for combustion engine vehicles, and Automotive E focusing on developing and marketing technologies for electrified and autonomous mobility. Automotive Core realized EUR 189.5 million revenue and Automotive E EUR 72.5 million. Profit before finance costs ended at EUR 0.7 million (2022: EUR -75.1 million). The Automotive Group realized normalized EBITDA[1] of EUR 17.0 million (2022: EUR 9.9 million). Normalized EBITDA in the Automotive Group excludes EUR 1.0 m costs (2022: EUR 63.4 million) that are generated outside the ordinary course of business and mainly relate to restructuring charges and the relocation in China.

Management statement

In accordance with article 5:25c of the Financial Supervision Act (Wet op het Financieel Toezicht), the Executive Board confirms, to the best of its knowledge, that: (i) the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit and loss of Kendrion N.V. and its consolidated companies; (ii) the Annual Integrated Report gives a true and fair view of the position as at 31 December 2023 and the developments during the financial year of Kendrion N.V. and its group of companies included in the consolidated financial statements; and (iii) the Annual Integrated Report describes the main risks Kendrion is facing.

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

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measures, refer to reconciliation of non-IFRS information, starting on page 207.

Creating long-term sustainable value

The world we live in has become increasingly turbulent and unpredictable, with geopolitical instability and the effects of climate change having a large impact on people's lives and economies worldwide. The transition to a more sustainable world using clean energy sources is more pressing and urgent than ever. We are dedicated to help reducing the negative impact of climate change and to addressing social matters. Our approach is characterized by the ambition to mitigate risks, manage performance, and establish long-term sustainable value.
The extent to which meaningful contributions can be made is subject to an unambiguous approach throughout the supply chain of the industry in which we operate. We are supported by our customers, suppliers, and other business relations who have also inspired and pushed the sustainability transformation, and we are committed to scaling up our and our supply chain partners' efforts.

Managing our environmental impact

We are committed to minimizing our environmental impact. Measuring, managing, and reporting environmental impact is essential for making well-informed decisions and safeguarding our performance is aligned to our values and ambitions. Our global sustainability program describes our approach to defining, measuring, and managing our environmental impact. We are positioned to enable the shift towards clean energy as all our Business Groups and our operations in China focus on delivering smart actuator products that support the broad energy transition away from fossil fuels towards clean forms of energy. Our dedication to taking climate action is reflected in our ambitious reduction targets.

Kendrion's global sustainability program forms an integral part of our strategic plan and our short- and longer-term objectives. Our ambition to continuously improve our sustainability performance required cultural and organizational changes. Our sustainability ambitions are appropriately aligned with our organizational set-up where decision makers are empowered and held accountable for prioritizing and fundamentally enhancing our sustainability performance. Sustainability objectives are cascaded to our Business Groups and made an explicit component of Kendrion's performance-based remuneration schemes. Personal targets set for senior management include sustainability criteria. The short-term and long-term variable remuneration of the Executive Board also include sustainability performance criteria (e.g., energy efficiency and reduction of CO_2 emissions) and social performance criteria (e.g., diversity, company culture, leadership development). Reference is made to the Remuneration Report included in this Annual Integrated Report for detailed information on the application of the Remuneration Policy for the Executive Board and the actual performance in 2023 against the predefined performance criteria.

We are confident that our sustainability program serves the long-term interests of our stakeholders, including the communities where we operate. Our current sustainability program expired as per the end of 2023. With the increasing sustainability demands and the resulting legislative initiatives, we are motivated to further sharpen and strengthen our sustainability ambitions and strategy.

Mitigate climate change
resulting from business and operations

Care for social wellbeing
by respecting human rights

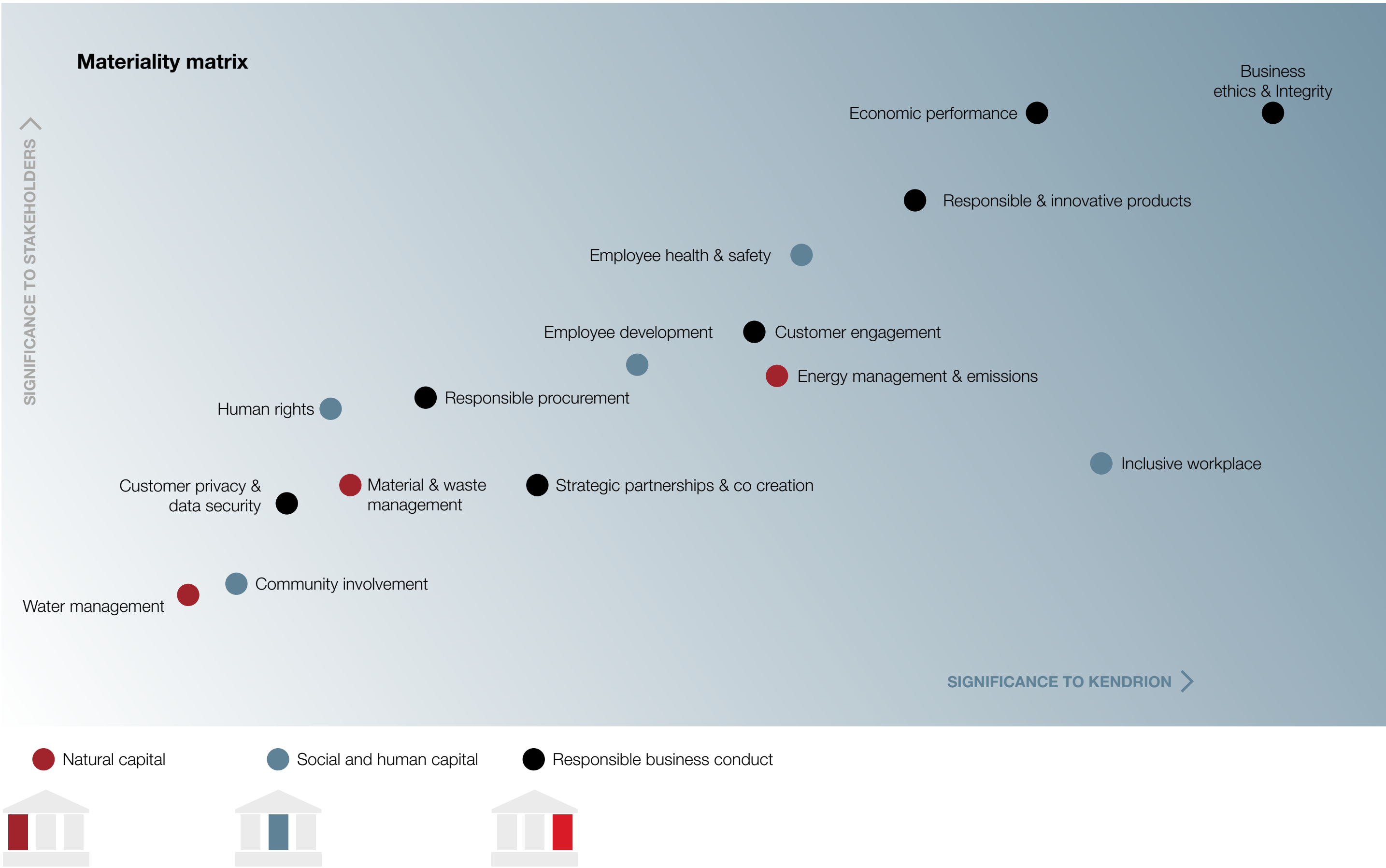
Support and enable
the transition to a sustainable world

Engaging with our stakeholders

To create long-term sustainable value for our stakeholders, we engage in an open and continuous dialogue about sustainability themes to deepen our insights into their needs and expectations. This regular engagement helps us improve and innovate our global sustainability program, not only in design but also in management and execution. In engaging with our stakeholders, we aim to build trust, identify trends, and address critical issues, including the implications of climate change for our business operations and products as well as the impact of our operations on the environment and society. The dialogue with our stakeholders helps us assess our environmental risk profile and establish what mitigation plans are required or expected to make a meaningful contribution to a sustainable future. By engaging in a dialogue, we provide transparency in our plans and actions to reduce the negative impact of climate change and to address other related challenges. When developing strategies and mitigation plans, we always consider input provided by our stakeholders.

Our key stakeholder groups include customers, suppliers, employees, shareholders, local communities, technical universities, and institutions of higher technical education. For each group, Kendrion's stakeholder engagement varies and includes formal and informal channels that are being used with varying degrees of regularity. Our key stakeholder groups are described on pages 62-63 of this Annual Integrated Report. Key themes addressed during our stakeholder dialogues in 2023 included:

- **Environmental impact and climate change:** decarbonization and energy efficiency, and renewable energy sources;
- **Supply chain management:** raw material sourcing and environmental and social standards in the supply chain;



- **Sustainable production and waste management:** contributing to climate mitigation and adaptation objectives;
- **Social impact:** labor practices, community engagement and human rights;
- **Governance:** executive remuneration and risk management.

Identified material matters

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

In this Annual Integrated Report, we are disclosing material topics following our 2020 materiality assessment which did not reveal significant movements in the ranking of individual themes compared to the assessment of 2018. The outcome of the 2018 and 2020 assessments is a refined number of material themes structured in a materiality matrix around Kendrion's three pillars of value creation that form the basis of the global sustainability program: Natural Capital, Social and Human Capital and Responsible Business Conduct.

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

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

The outcome of the 2018 and 2020 materiality analyses formed important input for Kendrion's sustainability program and the 2019-2023 target framework as well as the further development and execution thereof.

While this Annual Integrated Report generally covers topics in the above materiality matrix, under Kendrion's second 5-year sustainability plan covering 2019-2023, Kendrion has chosen to not set measurable sustainability targets for each material topic, but instead select the topics where it can have most impact.

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

Kendrion reports only on the most relevant material topics. The most relevant material topics are economic performance, anti-corruption, energy efficiency, carbon emissions, occupational health and safety, training and education, non-discrimination, and equal opportunities. Kendrion reports according to the GRI reference claims, which are described on pages 212-213 in the section 'About the Sustainability Report'.

2019-2023 TARGET FRAMEWORK

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

Please refer to the section 'About the sustainability report' on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

CSRD consistent double materiality assessment

In anticipation of the upcoming Corporate Sustainability Reporting Directive (CSRD) – with the support of external experts, we have started the process to update our materiality assessment to align with the double materiality approach. As per the new requirements, a CSRD compliant materiality assessment requires a review of material matters that represent relevant impacts of our operations and activities on the environment, people, and their human rights (i.e. impact materiality) and a review of how sustainability and climate impact our operations and activities (i.e. financial materiality). Building on our existing material matters, we have conducted a company analysis, the outcome of which was used to create a long list of topics. The list of topics has been the starting point for our stakeholder dialogue, and initial impact, risk, and opportunity (IRO) collection. The results of the initial IRO collection have been used as input for our subsequent identification of IROs. Identified IROs were evaluated in line with CSRD requirements – and will form the basis for our preliminary materiality matrix needed for the classification of our focus topics. We will continue engaging with our stakeholders and -with the help of external consultants- finalize the assessment and materiality matrix for those areas where interpretations of the CSRD and underlying European Sustainability Reporting Standards (ESRS) were not yet fully clear when preparing for this Annual Integrated Report. We will make the required disclosures in our 2024 Annual Integrated Report, including the finalized CSRD materiality matrix.

2024 - 2028 Sustainability/ESG program

During the past period we completed the development of our third 5-year sustainability/ESG program for the period 2024-2028. The development process involved the completion of various extensive analyses, the identification of areas for improvement, and validation of ambitious and realistic sustainability targets. The key components of the 2024-2028 sustainability/ESG program are outlined below.

- Achieve a further 70% reduction in CO_2 emissions.
- Establish reporting frameworks for Scope 1, 2 and 3 reporting and disclosure.
- Implement gender diversity targets at Business Group level for indirect staff, aiming for a 25% improvement over time with a minimum threshold of 33%.
- Enhance supplier selection and screening by transitioning from basic risk assessment to integrating ESG metrics into the sourcing process.
- Sustain ESG ratings from EcoVadis and CDP.

The official launch of the new sustainability program is anticipated in February 2024.

NATURAL CAPITAL

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

Energy efficiency, renewable energy and CO_2 emissions

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

We are dedicated to reducing the impact of our business operations on the environment. We consistently strive to increase energy efficiency and use of renewable energy to reduce emissions of CO_2 in the development and manufacture of our products. We have implemented several initiatives to reduce our carbon footprint and increase energy efficiency, including the transition to renewable energy sources and the implementation of enhanced waste management practices.

2019-2023 TARGET FRAMEWORK

Relative reduction of energy consumption

TARGET 2023
15%

REALIZED
15.31% ↓

Relative reduction of CO_2 emission

TARGET 2023
15%

REALIZED
22.9% ↓

REALIZED IN 2023

- Completed required analyses to finalize the 2024-2028 ESG program
- Reduction relative CO_2 emissions from energy by production plants by 56% compared to 2015

Please refer to the section 'About the sustainability report' on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

Sustainable growth opportunities

The energy transformation impacts the industries we operate in. Sustainable products and technologies are seen as the default choice by a growing number of people. As developer and manufacturer of high-quality actuator products we are well positioned to contribute to the global shift towards electrification and clean energy.

With our product portfolio we contribute to the increasing demand for clean energy and the accelerating development of electrification of industrial processes and mobility. These key trends in electrification drive demand for our products in wind power, automated warehouses, induction heating technology and electric vehicles that support the transition from fossil fuel to electrical solutions. The strategic plans of our Business Groups are directed at these market segments accordingly.

Industrial Brakes (IB) capitalizes on the energy transition in segments such as wind power, intralogistics, and robotics. Industrial Actuators and Controls (IAC) responds to the increasing demand for sustainable products and technologies with its electrified induction heating systems that replace traditional gas and oil heating solutions, its circuit brakers for electricity distribution and its safety actuators for nuclear power facilities.

The 2022 split of the Automotive Group into two distinct units – Automotive Core and Automotive E – brought us the additional strategic agility needed to contribute to the accelerating transformation the automotive industry is going through. The split further strengthens Kendrion's ability to benefit from the move towards automotive electrification and clean energy and presents a well-considered and thought-out path towards the future of new forms of sustainable mobility.

With the increasingly smart actuation technology of Automotive E, we help facilitate Autonomous, Connected, Electric and Shared mobility (or ACES). These developments come with an increasing demand for software and electronics to control our actuators and the safety and comfort of electric vehicles. With the addition of 3T – a Netherlands-based developer of electronics and embedded systems – we have expanded our electronics development capabilities significantly and enhanced our ability to deliver high quality smart actuators for electrified and autonomous vehicles.

Decarbonization of our operations

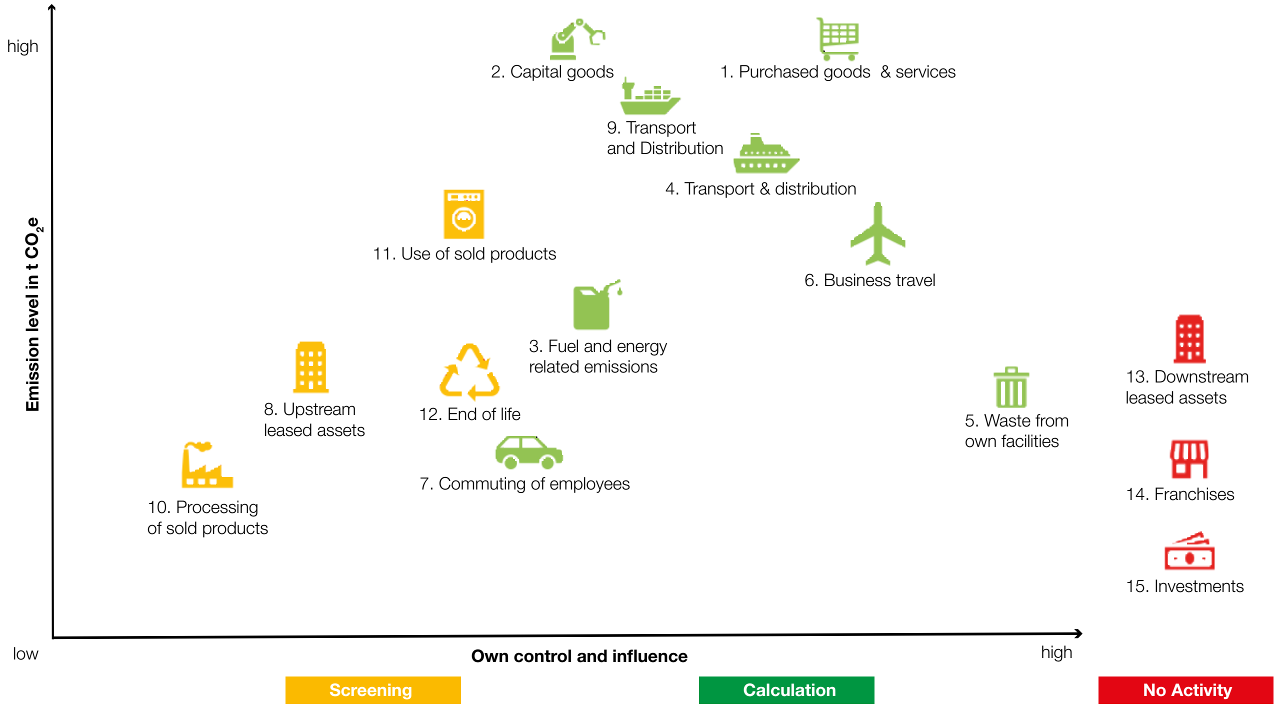
We are dedicated to supporting the Paris Agreement to limit global warming to 1.5 Celsius. Under our 2019-2023 sustainability target framework we aspire to realizing a 15% relative reduction of energy consumption and CO_2 emissions by the end of 2023. The roadmap has been subject to regular review to ensure continued effectiveness of measures implemented and to allow for possible adjustments as required in view of our 15% relative reduction targets. With the support of a consultancy firm, we have previously carried out a comprehensive assessment which has given us the necessary outside-in perspective on our decarbonization plans. Consistent with the recommendations made, we have advanced our decarbonization propositions in support of the realization of our 2019-2023 sustainability target framework.

The implementation of energy-efficient practices – specifically in our production facilities – and the further transition to renewable energy sources, yielded the achievement of the 2019-2023 sustainability targets to realize a 15% relative reduction of energy consumption and CO_2 emissions. As per the end of 2023 a relative reduction of energy consumption of 15.31% has been achieved compared with 2018, and a relative reduction of CO_2 emission of 22.9% compared with 2018 has been achieved. Since 2015 a relative reduction of CO_2 emissions – mostly from energy by production plants – of 56% has been achieved.

An important milestone has been the installation of solar panels on our new 28,000 m^2 manufacturing facility in Suzhou, China. With our solar panels in China, we envisage generating an estimated 650.000 kWh annually, which will enable us to cover around 30% to 40% of our estimated electricity requirements in China.

For our remaining energy requirements in China that cannot be satisfied through our own solar panels, green energy will be purchased.

As part of the preparations for our new 5-year sustainability program for the period 2024 to 2028 – we carried out a GHG scope 3 materiality assessment together with an external specialist. This materiality assessment was performed in support of our upcoming measurement and disclosure of scope 1, 2 and 3 CO_2 emissions where we currently report our scope 1 and 2 emissions on a consolidated basis.



Our scope 3 materiality assessment involved an analysis of 15 categories of scope 3 emissions in line with the definitions of the Greenhouse Gas Protocol. The various categories were assessed for their relevance and influenceability and were accordingly arranged in a matrix.

In addition to distinguishing among scope 1 and 2 emissions and advancing our scope 1 and 2 reduction targets; measuring and managing our scope 3 emissions and developing scope 3 reduction targets will be part of our 2024-2028 sustainability target framework. We intend to launch our third 5-year sustainability target framework in February of 2024.

Developing and executing a sustainability strategy with ambitious goals involves transformation time and costs. The extent to which meaningful contributions can be made is subject to an unequivocal approach throughout the supply chain of the industry in which we operate. We are actively engaging with customers and suppliers that are equally dedicated to addressing climate change challenges. We aim to develop partnerships that advance emission reduction efforts throughout the supply chains of which we are part.

Energy and Emissions[1]

Energy consumption		2023	2022	Δ % 2023 / 2022
Power	kWh	24,724,627	24,113,379	2.5%
Fuel oil	kWh	337,110	403,740	-16.5%
Natural gas	kWh	9,193,299	10,147,307	-9.4%
		34,255,036	**34,664,426**	-1.2%

Energy consumption per EUR million added value		2023	2022	Δ % 2023 / 2022
Power	kWh	108,164	102,381	5.6%
Fuel oil	kWh	1,475	1,714	-13.9%
Natural gas	kWh	40,218	43,084	-6.7%
		149,857	**147,179**	1.8%

Energy consumption	2023	2022	Δ % 2023 / 2022
Absolute consumption, kWh	34,255,036	34,664,426	-1.2%
Relative consumption, kWh / million EUR added value	149,857	147,179	1.8%

CO_2 emissions[2]	2023	2022	Δ % 2023 / 2022
Absolute emissions, tonnes	6,231	5,833	6.8%
Relative emissions, tonnes / million EUR added value	27.3	24.8	10.1%

1 Please refer to the section ‘About the sustainability report’ on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

2 Scope 1 and 2 of the Greenhouse Gas Protocol.

Sustainability rating and environmental certification

For many years now, we have been actively engaged in reducing its environmental impact. We apply an environmental reporting system that tracks the CO_2 emissions and energy consumption of all the production plants. Kendrion has consistently improved its production processes with the overall objective of reducing the environmental footprint of the production plants.

Our 2023 EcoVadis sustainability rating put us in the top 19% (2022: 22%) of rated manufacturing companies and our first CDP score (B minus) shows our good environmental management.

Our sustainability ratings illustrate our long-standing dedication to making meaningful contributions.

The global certification ISO 50001 Energy Management System supports the production plants in their efforts to use energy more efficiently by developing and maintaining an energy management system. Kendrion’s environmental management systems are in accordance with ISO 14001.

ISO 14001 Environmental Management Systems specify requirements for an environmental management system to enhance environmental performance. Kendrion’s largest production plants are ISO 50001 certified and ISO 14001 certified.

Waste management: waste disposal and recycling

We focus on the development and implementation of waste reduction and waste use. Our efforts are structured according to the long-recognized hierarchy of management of waste, in the following order of preference: prevention, reuse, recycling, other recovery and (landfill) disposal.

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

We maintain a centralized waste data collection process with uniform waste data collection sheets and waste registers using standardized and consistent definitions. The standardization of internal reporting and control processes enable comprehensive reviews of the different categories of waste generated by our manufacturing facilities. Our uniform practices furthermore allow for the identification and handling of differences in local waste management practices that are driven by – for example – variances in production processes or regulatory requirements.

The outcome of the most recent waste data analysis shows a slight increase of total waste compared to the prior year and the overall recycling rate came out at 84.8% (prior year: 74%).

The distribution of hazardous waste (8%, prior year 8.7%) and non-hazardous waste (92%, prior year 91.3%) slightly shifted. The top-three of hazardous and non-hazardous materials remained unchanged, with cooling fluid, solvent, old oil, and packaging of hazardous substances comprising the top-three of hazardous materials and iron and steel, commercial waste and cardboard dominating the top-three of non-hazardous materials.

Following our earlier engagement with a specialized consultancy firm we expanded our horizon with respect to waste management. The comprehensive analysis carried out by the external specialist covered a review of key characteristics of our manufacturing processes and the various categories of waste reported through the uniform data collection sheets and waste registers. The outcome of the analysis enhanced our insights and has – among other things – been used to progress our uniform waste standards. The degree of compliance of a manufacturing location with our newly developed waste standards is assessed annually by means of an internal rating and verification system. The implementation of new waste standards and the related rating and verification system enable us to closely monitor each manufacturing location. The uniform waste standards will be reviewed regularly to ensure they continue meeting current practices and expectations.

Our dedicated waste management task force comprising waste management and quality professionals of all Business Groups will continue its analysis to ascertain the feasibility of indicators and monitoring parameters in the following areas: zero landfill waste, recycling – specifically recycling of Critical Raw Materials (CRMs) – and waste per unit sale (kg). With our current waste management practices – and the envisaged improvements thereof – we reduce our environmental impact and promote a more sustainable future.

TAKING RESPONSIBILITY

- **Prevention**
- **Reuse**
- **Recycling**
- **Other recovery**
- **Disposal**

WASTE MANAGEMENT HIERARCHY

Accidents
(per 1,000 FTE)

2023 TARGET
6.5

2023
7.7

Lost Time Injuries
(in days)

2023 TARGET
707

2023
573

Illness rate

2023 TARGET
5.4%

2023
4.7%

Diversity@Kendrion

49 nationalities,
9 countries,
46% female workforce

Please refer to the section 'About the sustainability report' on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

SOCIAL AND HUMAN CAPITAL

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

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

Health and Safety

We provide a high-quality and safe work environment where the norms and values underlying The Kendrion Way, and our Code of Conduct are acknowledged and respected. Health and safety have the highest priority in every aspect of Kendrion's operations. We apply the most stringent quality and health and safety standards to protect our people from potential risks that may occur in the workplace and to reduce the risk of accidents and injuries. Kendrion's employees receive periodic safety training, including training in proper use of machinery, protective equipment, handling of substances, emergency procedures, and other safe work practices. In addition, safety inspections are carried out at regular intervals. The health and safety of employees are a crucial aspect of any manufacturing operation and essential to the successful conduct of our business.

The Kendrion Health Task Force, chaired by the CEO, monitors our global health and safety figures, and coordinates the implementation of improvement measures in all our facilities. The Task Force meets monthly or more often as needed.

Day-to-day responsibility for health and safety is concentrated within the Business Groups in which health and safety are managed systematically and in a standardized manner with clear rules and procedures based on recognized industry standards and best practices that are laid down in Health, Safety & Environmental (HSE) policies. Each production plant further implements initiatives to enhance its HSE standards depending on plant-specific needs, production lines and

Our joint value journey so far...

2019

The Kendrion Way

2020

Update Code of Conduct:
a diverse and inclusive culture and atmosphere

2021

Strategic diversity framework

charta der vielfalt
Für Diversity in der Arbeitswelt

2022

Circle of Trust
German Charta der Vielfalt
Update Fair Labour & Human Rights Policy

2023

Celebrations:
International Women's Day
World Day for Cultural Diversity

technologies. HSE audits are performed to assess implementation and compliance with HSE policies at regular intervals. All employees are required to adhere to local health and safety procedures and practices and participate in training programs. Specific and measurable performance targets for Kendrion's business units and local management include health and safety metrics, which are determined by the number of accidents per 1,000 FTE, Lost Time Injury (LTI) rates and illness rates.

5S methodology

Due to a continued focus on the safety of the production processes, Kendrion achieved good safety results across its production plants. Some of our production plants apply the 5S methodology, which aims to continuously improve workplace safety and working conditions. These plants apply a systematic process to optimize their production lines and periodically perform 5S audits to verify compliance with the methodology.

We are dedicated to ensuring due compliance with the applicable occupational health and safety regulations at all our locations. Our health and safety procedures contribute to the advancement of selected UN Sustainable Development Goals (SDGs), towards SDG 3 (Good health and well-being) and SDG 8 (Decent work and economic growth).

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

Fair labor practices and human rights

Respecting human rights is fundamental to a sustainable society and an essential component of promoting sustainable business practices throughout our organization and interactions with customers, suppliers, and other business partners. We recognize and support the human rights outlined in the Ten Principles of the United Nations Global Compact. Acknowledging and respecting fair labor practices and human rights are an essential component of conveying and practicing sustainable business standards. We acknowledge and respect children's rights to education and development, and the applicable minimum employment age and related conditions consistent with applicable statutory requirements. Kendrion does not tolerate any form of forced or involuntary labor and endeavors to apply the UN Guiding Principles on Business and Human Rights. We consider ourselves a responsible corporate citizen. We take responsibility for the living conditions and career opportunities at our locations and maintain strong ties to the communities in which we operate. Intercultural understanding and respect, fair working conditions, career development, (gender) diversity and employee representation are some of the focal points of our corporate citizenship initiatives. These are also areas in which we aim to contribute to the advancement of selected UN Sustainable Development Goals (SDGs), towards SDG 5 (Gender equality) and SDG 8 (Decent work and economic growth).

Our commitment to endorse fair labor practices and to respect human rights is recorded in our Fair Labor and Human Rights Policy. Our Fair Labor and Human Rights Policy contains global standards and principles applicable across all Kendrion business operations.

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

The Circle of Trust

Workplace well-being is an important part of Kendrion's culture as it relates to all aspects of our employees' working life at Kendrion. Promoting cohesion – within a professional community where all employees feel welcome and respected, regardless of their background or position – enables engagement, innovation, and performance. We have made a concerted effort to prioritize the well-being of our employees through a variety of initiatives.

Achieving social change for female employees, particularly in the workforce, remains a topical theme. Overall, social change for female employees is a multifaceted topic that requires consistent effort not only from employers but also from their employees. Building on our employee wellbeing program we established The Circle of Trust, providing female Kendrion employees access to a trusted network and a confidential support line. The primary objective of The Circle of Trust is to foster a safe and ethical working environment and promoting female empowerment and well-being. Through our trusted network and confidential support line of The Circle of Trust, we create a sense of community, contributing to the advancement of social progress for female employees.

RESPONSIBLE BUSINESS CONDUCT

The Responsible Business Conduct pillar focuses on business conduct and integrity, accountability, and transparency. Material themes for the Responsible Business Conduct pillar include sustainable sourcing and ethical behavior.

Sustainable sourcing

We are looking for ways to increase efficiency and transparency in our supply chain and are committed to sourcing our materials in an environmentally responsible and socially viable manner. Our pursuit of long-term sustainability goals are not limited to achieving energy efficiencies and reducing our carbon footprint. Our sustainability commitments and efforts are directed at other parts of the value chain as well. We select suppliers based on various criteria, including sustainability criteria. As part of our selection and screening process we require our suppliers to sign and adhere to the Kendrion Supplier Code of Conduct. Our Supplier Code of Conduct includes specific requirements relevant to the recognition of human rights, commitments to a safe working environment, environmental protection, and responsible business practices.

We operate as part of a supply chain with a central focus on product development and manufacturing processes. Kendrion and other parties forming part of the supply chain are collectively responsible for maintaining the quality and sustainability of the materials and products in the supply chain. We want to play a meaningful role in our supply chain. To achieve meaningful results, it is necessary to progress our proactive engagement with suppliers, and to continue focusing on suppliers' environmental and social performance in our selection and assessment process.

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

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

Our facilities are supported by an extensive supplier network. Frequently used materials are steel, aluminum, copper, and plastics. In many cases, semi-finished products are purchased based on specifications of Kendrion's customers. Kendrion used 1,713 tons of copper (best estimate) in the manufacture of its products in 2023 (2022: 1,811).

Looking ahead

In tandem with our existing sustainability program and in anticipation of our new 2024-2028 sustainability program, we are dedicated to advancing our existing processes for supplier selection and screening. Responding to the reasonable expectations of our stakeholders and existing and upcoming regulatory requirements – our emphasis shifted from mere risk assessment to further embedding sustainability requirements in our sourcing processes. Engaging with our suppliers – and customers – to take to take climate action is an important step and integral to our selection and screening process.

We will continue this engagement with our suppliers, also to better understand how to use environmental and social metrics in future supplier selection. For example, the collection of primary GHG emissions data from our suppliers is expected to contribute to a reduction of emissions from our procured goods and services. The results of our scope 3 materiality assessment – as shown in the diagram on page 43 – also demonstrate the high relevance and influenceability of the scope 3 category 'purchased goods and services'. Our third 5-year sustainability program for the period 2024-2028 will include additional metrics and improved existing metrics against which our suppliers will be assessed. Below is a summary overview of the envisaged metrics.

Sustainable sourcing metrics

Natural Capital

- Renewable energy
- Energy efficiency
- CO_2 emission values cradle to gate
- Waste prevention / Waste management

Social and Human Capital

- Human Rights
- Labour Rights
- Diversity, equality and inclusion
- Occupational health and safety

Responsible Business Conduct

- Export controls and economic sanctions / Sanction monitoring
- Environmental management system (ISO14001)

Materials

- Percentage of recycled materials
- Product less CO_2 impact than comparable products
- Reuse and recycling
- Regulations - Conflict Minerals, RoHS, REACH, VDA etc.
- Hazardous substances

Ecology

- Land, forest and water rights
- Biodiversity, land use and deforestation
- Soil quality

Compliance

- Whistleblower / Anti-Corruption & anti-bribery
- Data Security / personal data protection
- Intellectual Property

Supplier Code of Conduct and audit procedures

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

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

Failure to adequately follow up the remediation plan may result in the termination of the relationship with the relevant supplier. The results of the 25 (2022: 29) supplier audits conducted in 2023 have been encouraging as most suppliers followed through on our audit procedures. As in 2022, none of our suppliers failed to fulfil the recommended requirements for compliance with the Supplier Code of Conduct. However, there was a limited number of suppliers where we had to follow up to clarify their responses.

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

Ethical behavior

We are committed to maintaining the highest standards of conduct in all our business activities. To this end, we foster a culture where universal ethical values and behaviors are the standard. These ethical values and expected behaviors are laid down in a set of internal policies and procedures. In addition to setting norms, values and expected behaviors, Kendrion's policies and procedures are directed at ensuring compliance with applicable laws and regulations.

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

Our Code of Conduct builds on the values of The Kendrion Way, and is intended to further develop and implement our corporate norms and values, with a particular emphasis on 'integrity' . The Code of Conduct is about bringing together over 2.637 people with 49 different nationalities from multiple Kendrion locations around the globe that operate under The Kendrion Way and together form the Kendrion brand. The Code of Conduct provides unity and sets guidance for business decisions. It provides principles of ethical business behavior and is integral to our culture. It is about taking the right decisions in our everyday business lives.

We expect all our employees to do what is ethically right and legal, and not only live by and respect the principles set forth in the Code of Conduct, but also convey the message underlying the Code of Conduct. Education, training and concrete examples of expected behaviors, dilemmas and actions are key to ensuring continued compliance with our values.

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

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

Monitoring and accountability

As we require all employees to understand and sign off on and comply with the Code of Conduct – the Code of Conduct is part of every employee's onboarding process. To ensure continued awareness of the values underlying the Code of Conduct and the relevance of continued compliance – a new online training was introduced in the course of 2023. This online training specifically addressed matters such as corruption, bribery, conflicts of interest etc.

We monitor compliance with the Code of Conduct – and other applicable internal policies – in all operating companies through quarterly internal reporting procedures that operating companies are subject to. Reports submitted are – to the extent required and appropriate – discussed among the Executive Board and the responsible Business Group Director and Business Group management team during quarterly business reviews.

Speak-up line

We encourage our employees who have a concern about a (suspected) violation of our Code of Conduct or any related policy – to speak up and express their concerns. Our Speak-up procedure provides guidance on how to raise concerns and the way in which reported concerns are handled. Our reporting procedure includes a global Speak-up line managed by an external party through which employees who feel uncomfortable raising their concerns with their direct manager, higher management, or their HR manager, can speak-up and raise their concerns anonymously. The Speak-up line offers phone and web-based reporting and is available to our employees twenty-four hours, seven days a week.

Reports of potential or suspected misconduct or other issues can be made by employees in their native language. In 2023, 7 (2022: 6) reports were made through the Speak-up line. These reports were assessed by the Compliance Committee and, where appropriate, further investigated or advised upon.

Violation of the Code of Conduct may lead to sanctions, including termination of employment. None of the reports made through the Speak-up line in 2023 resulted in a dismissal of employees.

The Speak-up line is also accessible to external stakeholders of Kendrion that wish to make a report and raise their concerns about a(n) (alleged) breach of the Code of Conduct or related policies. The Speak-up procedure and the contact details of our Speak-up line are also published on our corporate website.

Taxes

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

Taxable profits are recognized in jurisdictions in which value is created, in accordance with the applicable tax regulations and standards, including the OECD Guidelines for Multinational Enterprises and local transfer-pricing and other applicable tax regulations. Kendrion does not seek to establish aggressive tax-driven structures that are not compliant with the letter and spirit of applicable tax regulations. This means that Kendrion does not pursue any aggressive tax planning or establishment of entities in tax haven jurisdictions solely for tax optimization purposes and without commercial substance. Reference is made to pages 83-87 (Corporate Governance Report) for more information about our tax policy.

Sustainable development goals

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

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

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

SDG 3 – Good health and well-being

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

SDG 12 – Responsible consumption and production

In all its production processes, Kendrion is committed to minimizing waste and disposing of waste in an environmentally responsible manner. Kendrion's largest production plants are ISO 14001 certified. As part of the ISO 14001 certification process, new waste reduction measures must be implemented every year. Through the implementation of a waste management hierarchy in harmonized waste management practices, Kendrion is committed to contributing to the advancement of sustainable production patterns.

SDG 13 – Climate action

Kendrion has established strategies and plans to increase energy efficiency, use renewable energy and reduce CO_2 emissions. Concrete and measurable targets support these strategies and plans. To mitigate the effects of climate change, Kendrion focuses resources on the development of sustainable products and the improvement of manufacturing processes. Kendrion contributes to creating a sustainable future as many products in our product portfolio help meet the increasing demand for clean energy and facilitate the accelerating development of electrification of industrial processes. These key trends in electrification particularly drive the demand for Kendrion's products in wind power, automated warehouses, and induction heating technology supporting the transition for certain oil and/or gas enabled industrial processes to electrical solutions. Kendrion's smart actuation technology supports the transition to sustainable mobility (i.e. Autonomous, Connected, Electric and Shared driving). Kendrion's largest production plants maintain energy management systems in accordance with ISO 50001.

Disclosures pursuant to the EU Taxonomy Regulation

The EU Taxonomy Regulation provides a statutory framework pursuant to which sustainable economic activities are classified. The classification and earmarking of sustainable economic activities make a positive contribution towards increasing transparency and thereby comparability of the extent to which companies are pursuing sustainable economic activities within the meaning of the EU Taxonomy Regulation.

Pursuant to the EU Taxonomy Regulation, Kendrion is subject to mandatory disclosures of its economic activities in terms of revenue, capital expenditures and operational expenditures, in each case to the extent these financial performance indicators are linked to eligible and aligned economic activities within the meaning of the EU Taxonomy Regulation and the Delegated Acts issued thereunder.

An economic activity is considered eligible under the EU Taxonomy Regulation if such activity is in scope of the Delegated Acts to the EU Taxonomy Regulation and considered likely to substantially contribute to one of the six environmental objectives, i.e. (i) climate change mitigation; (ii) climate change adaptation; (iii) sustainable use and protection of water and marine resources; (iv) transition to a circular economy; (v) pollution prevention and control; and (vi) protection and restoration of biodiversity and ecosystems. Whether an economic activity taxonomy eligible or not does not define the (un)sustainability of that activity. Being taxonomy eligible is exclusively an indication that a certain economic activity is considered to make a substantial contribution to one of the six environmental objectives defined under the EU Taxonomy Regulation.

Taxonomy alignment of an economic activity goes beyond eligibility. Taxonomy aligned means that an economic activity complies with the requirements enumerated specifically for this activity – as the economic activity:

- substantially contributes to one or more of the environmental objectives under the EU Taxonomy Regulation by meeting the relevant technical screening criteria under the applicable Delegated Acts to the EU Taxonomy Regulation;
- does not cause any significant harm to the other environmental objectives, by meeting the applicable 'Do no Significant Harm' criteria under the Delegated Acts to the EU Taxonomy Regulation;
- is carried out in compliance with the minimum safeguards.

Only when an economic activity is compliant with the abovementioned conditions, criteria, and the relevant minimum safeguards is the activity considered to be taxonomy aligned.

Eligible activities
We carried out an analysis of our activities to identify activities that correspond to the activities included in the taxonomy Delegated Acts. The assessment and determination of Kendrion's taxonomy eligible activities is based on current insights and best judgement in the absence of certain data that is not yet in full obtainable through existing reporting systems. Although significant progress has been made during the year under review, certain additional changes to our reporting systems and data collection processes are needed to further improve our taxonomy data collection process and analysis.

Our 2023 taxonomy assessment led to the identification of the following eligible activities.

Eligible activity		Description
3.1	Manufacture of renewable energy technology	Electromagnetic brakes for wind power turbines
3.3	Manufacture of low carbon technologies for transport	Components and subsystems for electric vehicles
3.6	Manufacture of other low carbon technologies	Components and subsystems for induction heating
7.1	Construction of new buildings	Construction new China factory (28,000 m^2)

Consistent with current guidance, where taxonomy eligible economic activities could cover both the 'climate change mitigation' and the 'climate change adaptation' environmental objective, economic activities have been allocated to the EU taxonomy environmental objective 'climate change mitigation' as the contribution to 'climate change adaptation' is considered less significant.

Electromagnetic brakes for wind power turbines
Kendrion has been active in the wind energy industry for years and is well-positioned to support manufacturers of wind turbines. Tens of thousands of Kendrion's brakes are installed in wind parks worldwide and with factories in the EU, China, India and the US, Kendrion can provide locally customized, high-quality brakes.

Components and subsystems for electric vehicles
Supporting the change towards clean, electric mobility, with increased passenger comfort and safety is a strategic focus area of Kendrion. In Automotive E Kendrion focuses on actuators for sound, suspension, and sensor cleaning, three products specifically aimed at Autonomous, Connected, Electrified and Shared, or abbreviated ACES vehicles.

This includes subsystems and components for active suspension, Acoustic Vehicle Alerting Systems (AVAS) for electric vehicles, and a turnkey sensor cleaning solution.

Components and subsystems for induction heating

Kendrion's Industrial Actuators and Controls Business Group product portfolio includes modular, electrified heating systems to replace traditional heating solutions that use gas or oil.

Construction 28,000 m^2 high-tech factory in China

Solar panels have been installed on our new 28,000 m^2 high-tech manufacturing facility in China. With these solar panels, we expect to generate approximately 650,000 KwH annually, which will enable us to cover around 30% to 40% of our estimated electricity requirements in China. For our remaining energy requirements in China that cannot be satisfied through our own solar panels, green energy is purchased.

Assessment of alignment of activities

We carried out an assessment of the technical screening criteria for identified eligible activities based on an analysis of the relevant product propositions. The assessment involved Kendrion's sustainability expert task force as well as business controllers and managers from different function areas who are responsible for or are otherwise overseeing the development, manufacture, or sale of eligible product activities. To achieve EU Taxonomy alignment of economic activities, it is required to meet all of the applicable 'Do no Significant Harm' criteria under the Delegated Acts supporting the EU Taxonomy Regulation. Absent full compliance with all of these criteria - the abovementioned identified eligible activities are not considered to be EU Taxonomy aligned.

Minimum safeguards

The minimum safeguards consist of criteria relating to human rights and responsible business conduct – particularly in the areas of anti-bribery and anti-corruption – fair competition and taxation. Kendrion respects the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights – as such principles are also recorded in various policies, including Kendrion's Fair Labor and Human Rights Policy, Anti-bribery and anti-corruption Policy, tax policy, Code of Conduct, Supplier Code of Conduct and Competition Compliance Manual. Kendrion's Compliance Committee evaluates and monitors implementation of and compliance with applicable procedures and policies. Kendrion is a member of the UN Global Compact and supports the Ten Principles of the UN Global Compact in each of the four areas: human rights, labor, environment, anti-corruption). The policies and procedures in place reflect the UN Global Compact principles and our membership to the UN Global Compact is a confirmation of our commitment and sustainability ambitions. While Kendrion has established policies to promote fair labor and human rights, the necessary measures to fully align with the minimum safeguards outlined at the beginning of this section have not been implemented as of yet.

Human Rights

Kendrion suppliers are required to adhere to Kendrion's Supplier Code of Conduct – which includes the recognition of human rights. We have in place a supplier audit procedure pursuant to which compliance with Kendrion's Supplier Code of Conduct is assessed. Our Fair Labor and Human Rights Policy contains global standards and principles endorsing fair labor practices and respect for human rights.

Anti-bribery and anti-corruption

Kendrion takes a zero-tolerance approach to bribery and corruption. Our commitment to prevent corruption has been recorded in Kendrion's Anti-bribery and anti-corruption policy as well as our Code of Conduct. In 2023 – an online anti-bribery and anti-corruption training was rolled out.

Taxation

Our sustainability commitments, our company values as embedded in the Code of Conduct and The Kendrion Way, also form the foundation of our approach to taxation. Kendrion's tax policy is based on the values laid down in the Code of Conduct and aligned with Kendrion's strategy and rationale underlying the value creation pillar Responsible Business Conduct, which is part of Kendrion's current global sustainability program.

Fair competition

We support the principle of free enterprise and unrestricted competition as a basis for conducting business and we adhere to the applicable competition laws and regulations. Our Competition Compliance Manual provides guidance and principles on fair competition.

Kendrion's Responsible Product Portfolio

Aside from our efforts relevant to the requirements imposed pursuant to the EU Taxonomy Regulation, we continue our focus on the expansion of our Responsible Product Portfolio, which includes the category 'Products that reduce climate impact' – i.e. products that contribute to or otherwise support the energy transition. We systematically take account of the different aspects of sustainable product development with a view to enhancing Kendrion's environmentally sustainable economic activities, whilst recognizing that we are part of an extensive chain of links that together comprise the supply chain of the industries in which we operate.

Our Responsible Product Portfolio also covers the categories: ‘Products that keep you safe’ and ‘Products that improve health’. The product roadmaps of our Business Groups are directed at all three categories of the responsible product portfolio.

Financial performance indicators
The figures reported below relate to the consolidated companies included in Kendrion’s consolidated financial statements.

Revenue
As per 31 December 2023, the total revenue used for the calculation of the taxonomy revenue performance indicator amounts to EUR 518.5 million and corresponds to the group revenue as included in the consolidated financial statements. Our consolidated revenue can be reconciled to our consolidated financial statements, cf. income statement on page 115 of this Annual Integrated Report.

Kendrion’s taxonomy eligible revenue amounts to EUR 34.1 million representing close to 6.6% of total revenue for 2023 and corresponds to revenue generated by the manufacturing and sale of electromagnetic brakes for wind power turbines, components and subsystems for electric vehicles and components and subsystems for induction heating. As per the comprehensive assessment performed, the abovementioned products fall within the scope of the relevant Delegated Acts supplementing the EU Taxonomy Regulation. Moreover, the technologies relevant to these products contribute to the reduction of CO_2 emission. Various internal controls – including organizational data structuring - are in place with a view to avoid double counting in respect of the financial metrics disclosed under the EU Taxonomy Regulation.

Although of the total 2023 revenue we cannot report taxonomy aligned revenue due to insufficiencies relevant to certain process steps – we would have expected that the 2023 revenue generated by the manufacturing and sale of electromagnetic brakes for wind power turbines would have qualified as taxonomy aligned revenue absent such insufficiencies relevant to certain process steps.

Capital expenditures
Total capital expenditure consists of all additions to tangible and intangible fixed assets during the financial year, before depreciation, amortization, and any other re-measurements. Additions resulting from business combinations are also included, except for goodwill. Our total capital expenditure can be reconciled to our consolidated financial statements, notes 1 and 2 of the financial statements in this Annual Integrated Report. Taxonomy eligible capital expenditure includes capital expenditure directly related to the taxonomy eligible economic activities, including the construction of an energy efficient building in China.

As per 31 December 2023, the total amount of capital expenditures used for the calculation of the taxonomy capital expenditure performance indicator amounts to EUR 30.7 million.

As per 31 December 2023, taxonomy eligible capital expenditures amount to EUR 10.3 million and relate to investments in development and manufacture of components and subsystems for electric vehicles as well as investments relevant to the construction of the new manufacturing facility in China. The amount of taxonomy eligible capital expenditures does not qualify as taxonomy aligned.

Operating expenditures
Total operational expenditures consist of direct non capitalized costs related to research and development, repair and maintenance and any other direct expenditure relating to the day-to-day servicing of assets of property, plant and equipment. This includes research and development expenditure recognized as an expense during the reporting period in our income statement, as referred to in note 23 of the financial statements in this Annual Integrated Report. Maintenance and repair and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment were determined based on expenses that are recorded as repair and maintenance and housing costs, including in different line items as other operating expenses in note 23 of the financial statements in this Annual Integrated Report.

As per 31 December 2023, the total amount of operating expenditures used for the calculation of the taxonomy operating expenditures performance indicator amounts to EUR 34.8 million.

As per 31 December 2023, taxonomy eligible operating expenditures amount to EUR 2.4 million and relate to costs relevant to development and manufacturing of components and subsystems for electric vehicles as well as costs relevant to the development and manufacturing of components and subsystems for inductive heating. The amount of taxonomy eligible operating expenditures does not qualify as taxonomy aligned.

TURNOVER Economic activities	Code	Turnover in mio €	Year Proportion of Turnover, year 2023	Substantial Contribution Criteria Climate change mitigation	Climate change adaption	Water	Pollution	Circular Economy	Biodiversity	DNSH criteria Climate change mitigation	Climate change adaption	Water	Pollution	Circular Economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) Turnover, year 2022	Category enabling activity
A. Taxonomy Eligible activities																		
A.1 Environmentally sustainable activities (Taxonomy aligned)																		
Manufacture of renewable energy technologies	3.1	-	0%	Y	Y	N	N	N	N	N	N	Y	N	Y	N	N	0%	Enabling
Manufacture of low carbon technologies for transport	3.3	-	0%	Y	Y	N	N	N	N	N	N	N	N	N	N	N	0%	Enabling
Manufacture of other low carbon technologies	3.6	-	0%	Y	Y	N	N	N	N	N	N	N	N	N	N	N	0%	Enabling
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1.)		**-**	**0%**	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	
Of which enabling		-	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	Enabling
Of which transitional		-	0%	0%						N	N	N	N	N	N	N	0%	
A.2 Taxonomy Eligible but not environmentally sustainable activities, non-aligned Taxonomy activities																		
Manufacture of renewable energy technologies	3.1	13.1	2.5%	EL	EL	N/EL	N/EL	N/EL	N/EL								2.30%	
Manufacture of low carbon technologies for transport	3.3	17.9	3.5%	EL	EL	N/EL	N/EL	N/EL	N/EL								4.60%	
Manufacture of other low carbon technologies	3.6	3.1	0.6%	EL	EL	N/EL	N/EL	N/EL	N/EL								1.50%	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		34.1	6.6%	100%	100%	0%	0%	0%	0%								8.40%	
A. Turnover of Taxonomy-eligible activities Total A.1+ A.2		34.1	6.6%	100%	100%	0%	0%	0%	0%									
B. Taxonomy-non-eligible-activities																		
Turnover of Taxonomy-non-eligible activities		484.4	93.4%															
Total (A+B)		**518.5**	**100%**															

CAPEX Economic activities	Code	CapEx in mio €	Year Proportion of CapEx, year 2023	Substantial Contribution Criteria Climate change mitigation	Climate change adaption	Water	Pollution	Circular Economy	Biodiversity	DNSH criteria Climate change mitigation	Climate change adaption	Water	Pollution	Circular Economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) CapEx, year 2022	Category enabling activity
A. Taxonomy Eligible activities																		
A.1 Environmentally sustainable activities (Taxonomy aligned)																		
Manufacture of low carbon technologies for transport	3.3	-	0%	Y	Y	N	N	N	N	N	N	N	N	N	N	N	0%	Enabling
Construction of new buildings	7.1	-	0%	Y	N	N	N	N	N	N	N	Y	N	N	N	N	0%	Enabling
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1.)		**-**	**0%**	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	
Of which enabling		-	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	Enabling
Of which transitional		-	0%	0%						N	N	N	N	N	N	N	0%	
A.2 Taxonomy Eligible but not environmentally sustainable activities, non-aligned Taxonomy activities																		
Manufacture of low carbon technologies for transport	3.3	4.5	14.6%	EL	EL	N/EL	N/EL	N/EL	N/EL								13.8%	
Construction of new buildings	7.1	5.8	18.8%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								38.5%	
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		10.3	33.4%	100%	43,7%	0%	0%	0%	0%									
A. CapEx of Taxonomy-eligible activities Total A.1+ A.2		10.3	33.4%	100%	0%	0%	0%	0%	0%								52.3%	
B. Taxonomy-non-eligible-activities																		
CapEx of Taxonomy-non-eligible activities		20.5	66.6%															
Total (A+B)		**30.7**	**100%**															

OPEX			Year	Substantial Contribution Criteria						DNSH criteria								
Economic activities	Code	OpEx in mio €	Proportion of OpEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular Economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular Economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) OpEx, year 2022	Category enabling activity
A. Taxonomy Eligible activities																		
A.1 Environmentally sustainable activities (Taxonomy aligned)																		
Manufacture of low carbon technologies for transport	3.3	-	0%	Y	Y	N	N	N	N	N	N	N	N	N	N	N	0%	Enabling
Manufacture of other low carbon technologies	3.6	-	0%	Y	Y	N	N	N	N	N	N	N	N	N	N	N	0%	Enabling
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1.)		**-**	**0%**	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	
Of which enabling		-	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	Enabling
Of which transitional		-	0%	0%						N	N	N	N	N	N	N	0%	
A.2 Taxonomy Eligible but not environmentally sustainable activities, non-aligned Taxonomy activities																		
Manufacture of low carbon technologies for transport	3.3	1.8	5.1%	EL	EL	N/EL	N/EL	N/EL	N/EL								7.3%	
Manufacture of other low carbon technologies	3.6	0.6	1.7%	EL	EL	N/EL	N/EL	N/EL	N/EL								1.8%	
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		2.4	6.8%	100%	100%	0%	0%	0%	0%								9.1%	
A. OpEx of Taxonomy-eligible activities Total A.1+ A.2		2.4	6.8%	100%	100%	0%	0%	0%	0%									
B. Taxonomy-non-eligible-activities																		
OpEx of Taxonomy-non-eligible activities		33.6	93.2%															
Total (A+B)		**36.0**	**100%**															

Reporting principles and external verification

Being transparent and accountable is fundamental to the way in which Kendrion operates. Our approach to reporting enhances discipline to our sustainability and responsible business practices. It ensures that we align our activities with our strategic objectives and business values. Our sustainability reporting shows whether our activities and initiatives meet our 2019 to 2023 sustainability target framework. The scope of Kendrion's non-financial reporting is based on the information requirements of our key stakeholder groups. To ensure that Kendrion meets the information requirements of its stakeholders, Kendrion performs materiality analyses at regular intervals.

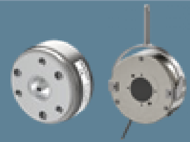
Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework to safeguard the quality and accuracy of the collected non-financial data. Selected sustainability performance targets are subject to a limited assurance review by Deloitte Accountants B.V. Please refer to pages 202-204 of this Annual Integrated Report for reporting periods, definitions, scope, and limited assurance review.

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

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

INDUSTRIAL ACTUATORS AND CONTROLS

INDUSTRIAL BRAKES

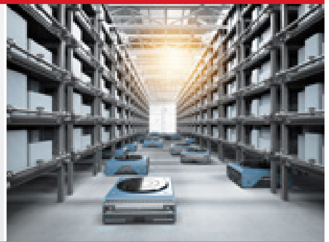


AUTOMOTIVE

Environmentally sustainable economic activities

INDUCTIVE HEATING AND ENERGY DISTRIBUTION

WINDPOWER AND AUTOMATED WAREHOUSES



ELECTRIC VEHICLES

Products that keep you healthy

Products that keep you safe

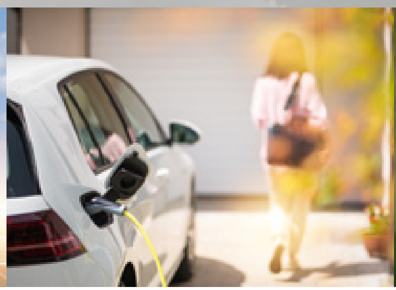
Products that reduce climate impact

Progressing on sustainability

Accelerating ambitions beyond 2023

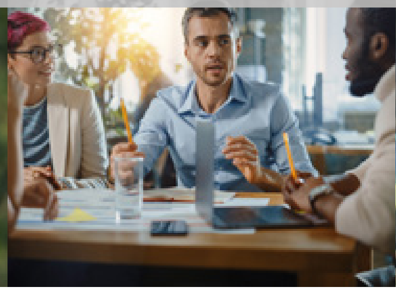
Increase renewable energy

Reduce emissions

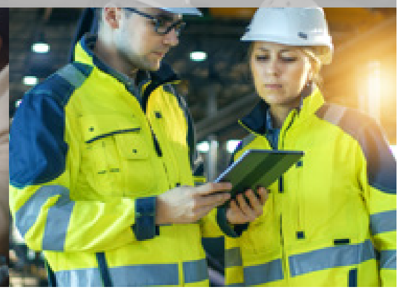


Sustainable sourcing

Gender diversity



Health and safety



Stakeholders

Customers

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

Suppliers

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

Employees

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

Shareholders

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

Local communities

Kendrion is making a positive contribution to the reduction of social and economic gaps. Kendrion appreciates the importance of maintaining constructive and appropriate contacts with local communities and authorities.

Technical universities and institutions of higher technical education

Active engagement with students is key to understanding their views and observations on sustainability and forms a valuable platform for the exchange of knowledge and experiences. Dialogues with students are often inspirational and stimulate the formulation of innovative sustainability goals and ambitions, including our ambition to encourage young talented female students to take an interest in Science, Technology, Engineering and Mathematics (STEM) related studies. These dialogues also raise awareness among students about sustainability and its importance.

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

Customers

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

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

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

Suppliers

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

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

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

Employees

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

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

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

Shareholders

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

Topics discussed
Kendrion's global sustainability program and objectives

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

Local communities

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

Topics discussed
Communities' participations and investments

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

Technical universities and institutions of higher technical education

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

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

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

Value creation model

INPUT

Financial capital

Net cash from operations	€	**36.4 mln**
Total loans and borrowings	€	**165.6 mln**
Shareholders equity	€	**172.0 mln**

Natural capital

Power	**24,724,627 kWh**
Fuel oil	**337,110 kWh**
Natural gas	**9,193,299 kWh**
Copper	**1,713 tons**

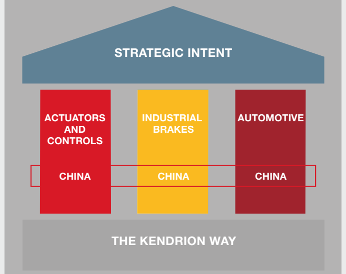
Human capital

2,606
FTEs

Manufactured capital

> 10,000
Solutions and products

ADDED VALUE



ENTERPRISE RISK MANAGEMENT

GLOBAL LEGAL COMPLIANCE AND GOVERNANCE FRAMEWORK

OUTPUT

Business output

Revenue	€	**518.5 mln**
EBITDA[1]	€	**53.1 mln**
Profit for the period	€	**9.9 mln**

Natural Capital

23.0% Relative decrease of CO_2 emissions compared to 2018

15.0% Relative decrease of energy consumption compared to 2018

Social and Human Capital

Accidents
7.7 accidents per 1,000 FTE
573 LTI (days)

Illness rate
4.7%

Responsible Business Conduct

25 Number of CSR supplier audits

OUTCOME

REDUCED CLIMATE IMPACT

INCREASED SAFETY AND MOBILITY

INCREASED COMFORT

IMPROVED HEALTH

1 Normalized for costs and benefits outside the normal course of business. The bridge from reported to normalized figures can be found on pages 209-211.

2,606	1,379	1,080	147	2,637	1,237	1,400
Total number of employees in FTEs at 31 December (number FTE)	**Direct employees** (number FTE)	**Indirect employees** (number FTE)	**Temporary employees** (number FTE)	**Total number of employees** at 31 December	**Women employed** (number)	**Men employed** (number)
2022 **2,753**	2022 **1,404**	2022 **1,135**	2022 **214**	2022 **2,708**	2022 **1,267**	2022 **1,441**

Please refer to the section 'About the sustainability report' on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

411	**Employees with a fixed-term contract** (number)	2022 **470**
22	**Overall employee turnover rate** (%)	2022 **22**
44	**Average age of all employees**	2022 **42**
12	**Average number of years' service**	2022 **10**
4.7	**Illness rate**[1] (%)	2022 **5.4**
54.7	**Wage costs per FTE** (EUR 1,000)	2022 **53.0**
0.4	**Training costs** (as a % of wage costs)	2022 **0.5**

[1] Please refer to the section 'About the sustainability report' on pages 212-214 of this Annual Integrated Report for reporting periods, definitions, scope and limited assurance review.

People and culture

Diverse and inclusive learning organisation

We maintain a culture and environment that empowers everyone to reach their full potential. Prioritising personal and professional growth encourages performance and enhances professional values, expertise, and capabilities. We encourage our people to translate their ideas into action, thereby increasing their engagement and performance within a safe and high-quality work environment. The ongoing development of the professional values, expertise and capabilities of our employees is critical to creating long-term, sustainable value for our customers and other stakeholders. We are committed to being the industry's employer of choice, dedicated to supporting our people in being their best by enabling a culture built on diversity, inclusion, and learning.

Our professional values

Kendrion's strategy for realizing long-term, sustainable value creation is symbolically captured in our strategic house that provides direction and uniformity within a clear structure. Creating long-term sustainable value with a lean and focused organization, and fostering a diverse, inclusive, safe, and high-quality work environment, is crucial to our strategy. The foundation of our strategic house is our culture. No building remains stable without a strong foundation, regardless of the strength of its building blocks. Our culture and its underlying values underpin all we do. The key values exemplifying our culture are articulated in The Kendrion Way: *'A global team of actuator specialists, with courage to act, curiosity to learn from successes and mistakes, confidence to share, and open to feedback'.* The Kendrion Way offers our employees clear guidance on ''how we do things" at our company, irrespective of location, level of responsibility or functional role. The Kendrion Way provides a universal approach towards realizing our ambitions and serves as the foundation upon which we are building Kendrion's future.

We are committed to maintaining the highest standards of conduct in all our business activities. Our Code of Conduct is intended to further develop and implement our corporate norms and values, with a particular emphasis on 'integrity'. The Code of Conduct sets guidance for our business decisions. It provides principles of ethical business behavior and is integral to our culture. Containing clear and universal standards, The Code of Conduct establishes expected behaviors for all employees, contributing to the creation of a safe and respectful environment for everyone. We are dedicated to maintaining a positive, diverse, and inclusive work environment, and do not tolerate any form of discrimination, harassment, or misconduct. We are committed to conducting our business in a transparent and responsible manner and will continue to review and update our Code of Conduct to ensure that our norms and values remain relevant and effective. The Code of Conduct can be found on the corporate website at www.kendrion.com.

Increasing awareness, education, training, and providing concrete examples of expected behaviors, dilemmas and actions are key to promoting and preserving our culture. With the support of dedicated value teams, managers are entrusted with enhancing awareness and assisting their team members in their value journey. and to help them understand what each value means for themselves, their team, and the organization.

A mix of interactive trainings is available to help our employees internalize and embody the values outlined in The Kendrion Way and the Code of Conduct.

Employee value proposition and engagement

Our workforce is crucial to the successful execution of our strategy.

Employee value proposition

We foster a purpose-driven and professional environment, where people are recognised for a job well done and are fairly and competitively remunerated in line with personal and company performance. In an increasingly competitive talent market, our employee value proposition is crucial to retaining and attracting talent that supports the successful execution of our strategy. We consistently invest in talent attraction and employer brand strategies to recruit new talent. Our comprehensive recruitment strategy involves targeted advertising, networking events, and partnerships with technical universities and higher technical education institutions. In our recruitment strategy, we take a global approach.

Digital innovation contributed to the execution of several targeted marketing campaigns across various social media platforms. This global approach and marketing campaigns have enabled us to reach broader talent pools. Our recruitment team has also created a positive candidate experience, with positive responses. On our career website, candidates can find information about vacancies worldwide and the countries in which we operate.

Attracting and selecting young, early-career professionals is particularly important. In addition to maintaining good relationships with technical universities and higher technical education institutions, our offices are situated at attractive and inspiring locations such as the High Tech Campus in Eindhoven, the Netherlands, and the renowned Suzhou Industrial Park (SIP) in China. Career-advancing development opportunities, international exchange programs, workstyle flexibility, and a positive, engaging, and inclusive company culture are key elements of our employee value proposition. Our efforts have led to a reduction in employee turnover and an improvement in employee satisfaction.

In a historically male-dominated industry, we strive to encourage and attract talented females, including early-career professionals, through our renowned apprenticeship and trainee program. We have established an informal partnership with the Hochschule Furtwangen University (HFU) in Germany, providing guest lectures on managing diversity within our organization as part of the Intercultural Management module offered by the HFU. Through our active engagement with students and the exchange of experiences and perspectives, we seek to encourage and inspire students to pursue a STEM (Science, Technology, Engineering and Math) career path, contributing to our ambition of attracting talent to our industry.

Employee engagement

Being recognized as a safe, inspiring, and high-quality place to work requires active engagement with our employees. This is becoming ever more important in a market where it is challenging to attract talent, more specifically specialists in areas such as software and electronics, and where the ways of working have changed over the past years. Understanding our employees' expectations in this changing work environment is key as it impacts the way in which we execute our strategy and engage with our customers, suppliers, and other business relations. We facilitate flexible workstyles that contribute to the performance and job satisfaction of our employees. In addition to enabling workstyle flexibility, including remote and hybrid models, we continue to provide a safe space for collaboration and the exchange of expertise within our offices. Striking a healthy balance between flexible workstyles and ensuring the availability of safe workplaces, where diverse individuals feel inspired and can excel, remains crucial for the wellbeing of our employees.

Being recognized as a safe, inspiring, and high-quality place to work requires active engagement with our employees.

We offer our employees the opportunity to work on meaningful tasks and innovative projects. Another essential component of our efforts to maintain an engaged and committed workforce involves offering a wide range of measures and tools aimed at cultivating a healthy, safe, and sustainable workplace culture. This includes annual 'Health Days', medical check-ups, sports opportunities, and other events. Maintaining a healthy work-life balance is important to sustaining employee satisfaction and engagement. We enable employees to balance their personal lives with our dynamic, purpose-driven, and performance-oriented work environment.

Beyond physical health, we recognize the significance of prioritizing our employees' mental well-being. At select locations employees have the option to consult with a psychologist at their request. Increasing mental health awareness and showing respect and acceptance contributes to removing potential barriers for employees to seek help when struggling with mental health issues. Good physical and mental health creates a more resilient workforce and enhances employee well-being.

We assess our progress in maintaining and building a safe and inclusive workplace through regular employee satisfaction and culture surveys. Monitoring the results enables us to better understand developments and requirements to uphold our positive, engaging, and inclusive company culture. Our most recent survey took place in 2022 and we anticipate preparing a subsequent employee survey in 2024. The outcomes of the 2022 survey revealed, among other insights, that our employees feel a strong connection with Kendrion as an employer and that they feel valued and appreciated. Specifically, satisfaction regarding recognition and opportunities for growth and development were positive. Moreover, the survey affirmed our employees' capacity and willingness to thrive in times of change, going the extra mile to contribute to Kendrion's success. Immediate managers play a crucial role in fostering a positive employee experience. At the same time, employees have requested more support and communication concerning changes affecting the organization or their work.

We are committed to prioritizing employee engagement and are confident that this will result in increased productivity, job quality, and overall success in executing our strategy Employee Achieving social change for female employees, particularly in the workforce, remains a topical theme. Strengthening our holistic approach across these well-being pillars, we have established The Circle of Trust, providing female Kendrion employees access to a trusted network and a confidential support line. The primary objective of The Circle of Trust is to foster a safe and ethical working environment and promoting female empowerment and well-being. Through our trusted network and confidential support line of The Circle of Trust, we create a sense of community, contributing to social progress for female employees. The Kendrion Way, our Code of Conduct and Speak-Up Procedure clearly define our values and commitments, and the process for reporting concerns. An official record of our norms and values, and a confidential

reporting procedure remain critical. However, The Circle of Trust serves as an informal space where female employees feel comfortable sharing their experiences and concerns within a trusted group. Special expert sessions are held annually, focusing on specific themes such as self-awareness and visibility of women within the organization. Through our Circle of Trust, we actively contribute to the ongoing advancement of social change for female employees.

Opportunity to learn and grow

By providing career-enhancing development opportunities for our employees, we facilitate their growth and progression within their roles. Investing in our employees is essential for creating long-term and sustainable value. We provide our employees with the tools, resources, and opportunities to enhance their capabilities and skills, allowing them to achieve their career goals.

We have implemented a variety of initiatives to enable career development within Kendrion and offer a broad spectrum of learning and development tools and opportunities. Cultivating a culture of trust and recognition as outlined in The Kendrion Way and our Code of Conduct is an important contributor. Our 'Learn and Share' value team, part of The Kendrion Way, oversees several learning and development programs designed to advance relevant skill sets and leadership capabilities. We leverage learning and development tools to accelerate and strengthen our capabilities in critical areas for the successful execution of our sustainable growth strategy, ranging from personal strengths to inspirational leadership, health, and social and emotional well-being.

Our focus remains on maintaining a culture where employees feel supported and empowered to take charge of their own career development. The role and responsibility of our leadership are key in creating and maintaining an inspiring learning environment that stimulates innovation and development. Emphasizing personal leadership, building internal knowledge networks, and fostering innovation and agility are integral values in our management programs and development initiatives.

We respect the principle of equal opportunities for career development, irrespective of background, nationality, ethnicity, religion, age, or gender. To maximize the potential of our employees and to meet their developmental needs, we support the principle of internal mobility, striving to fill vacancies with qualified internal candidates. Internal moves are viewed as beneficial to our people, offering new and challenging opportunities and experiences, while retaining valuable knowledge within the organization.

Our culture, which encourages the sharing of ideas, knowledge, expertise, and on-the-job training, positively contributes to the development of our employees.

We encourage internal promotion and the advancement of young talent to management roles in our business. The Kendrion High Potential program serves as our global learning and development program, offering aspiring young talents with managerial potential access to diverse learning modules. The High Potential program offers development opportunities that are aligned with business and individual needs including strengthening personal competencies. Additional modules, e.g. sustainability, diversity and inclusion and strategy, are added as deemed appropriate.

Our efforts have resulted in an engaged and motivated workforce. We are proud of our culture; employees are assessed and valued on their merits and have the confidence to take on new roles and responsibilities that align with their expectations, talents, and ambitions. We remain committed to continuing our efforts, ensuring that our employees continue to receive the tools and resources they need to realize their full potential.

Succession management

We have implemented a comprehensive succession management plan. This plan includes identifying successors for critical positions and the monitoring of their development to ensure they are ready for leadership roles at the right time. Training and development programs are also strategically designed to equip our talented employees for future leadership roles in the future. Our efforts help us reinforce a healthy leadership pipeline and accelerate the development and growth of top talent.

Our talent management and succession-planning tool identifies and facilitates the monitoring and review of our employees. More specifically, the tool enables a structured development of our employees, including current and potential leaders who have the talent and potential to take on a new role in the future. The tool also helps us conduct performance reviews, offering clear and structured insights into employee development. The tool incorporates a competency framework that defines how we expect our employees to fulfil the tasks and responsibilities in line with their job role. Together with the skills required for a certain job role, the competency framework forms the basis of our performance reviews and determines the requirements for future positions. The competency framework is updated as appropriate to increase effectiveness and improve the performance review process. It helps our managers and employees to better determine career paths and the corresponding training and development needs. With our talent management and succession-planning tool we create an environment for our employees to grow, perform and succeed in their careers.

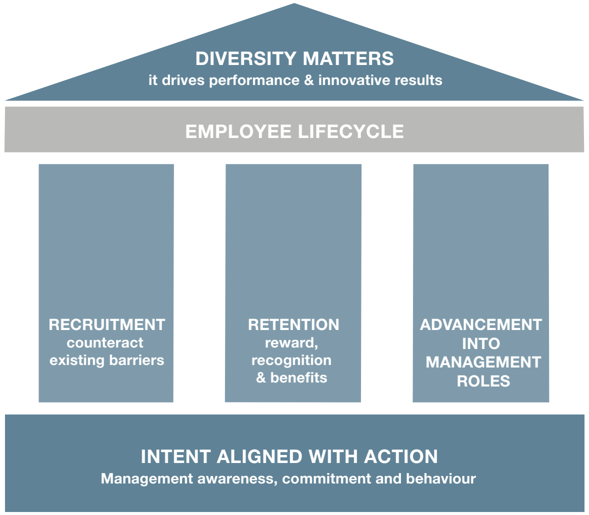
Compensation and benefits

We provide compensation and benefits schemes that align with industry standards and local practices, aiming to attract and retain the most diverse talent around the globe in a fair and responsible manner. We do not offer remuneration packages below the applicable minimum-wage standards. Our compensation and benefits schemes are designed to create transparency and fairness in the structure of both fixed and variable remuneration, while offering a competitive package with appropriate upside potential linked to performance. Our compensation schemes include performance-based compensation and share-based compensation for eligible employees. These programs aim to ensure fair and attractive compensation. As such, our compensation scheme is designed to incentivize achieving sustainable strategic, operational, and financial objectives in the short-term and long-term.

Building a diverse and inclusive workplace

Diversity is crucial for creating a fair and inclusive society. It promotes equal opportunities and helps break down barriers of prejudice and unconscious bias. We provide an environment where all employees have equal opportunity to develop and contribute to the realization of our strategy, regardless of their age, background, gender, nationality, ethnicity, religion or any other (protected) characteristic. Diverse and inclusive teams make our organization more agile, creative, and innovative. Enabling a diverse and inclusive workforce – in terms of gender, nationality, and background (i.e. education, (work) experience), age, etc. – gives us access to a larger talent pool.

Having the right mix of people in the right jobs, with the right capabilities, encourages better decision-making and helps us grow our business.



As part of the Social Capital and Human Capital value creation pillar of our global sustainability program, we are committed to creating and maintaining a diverse and inclusive workforce where all employees feel welcome and respected. We actively promote diversity across the employee lifecycle, leveraging this framework to address these aspects and the complexity around (gender) diversity, especially in a company like Kendrion where the demand for technical and Science, Technology, Engineering and Mathematics (STEM) skills is high.

Leadership support and shared responsibility form the backbone of our approach, guiding us in establishing a truly diverse and inclusive workplace. Key priorities within our strategic diversity framework include:

- **Recruitment of diverse employees:** Ensuring that our recruitment process is unbiased, signaling our interest in a diverse candidate pool; supporting applications from a diverse group; and clearly communicating these expectations to our recruitment teams.
- **Developing and maintaining a robust pipeline of diverse talent.**
- **Retention and promotion of talents with diverse backgrounds, nationalities, and genders:** Covering various aspects such as reward, recognition, benefits, work allocation, performance management, and career development.
- **Advancement into management roles:** Preserving an environment that fosters the growth of a diverse group of talents into management, technical, and other leadership roles.

While our overarching focus embraces diversity in its broadest sense, our strategic approach is directed at the improvement of gender balance in management roles, technical roles, and other leadership positions. Through building engagement around gender equality among managers and other (senior) employees, implementing concrete actions and initiatives, and providing insights into possible barriers, we aim to increase sustainable gender diversity across the organization.

Specific numerical gender diversity targets will be incorporated into our new sustainability program for the period 2024-2028. The identified gender diversity targets will involve an improvement requirement of female FTE for our indirect staff within our Business Groups of 25% combined with a minimum threshold requirement of 33%, to be achieved over multiple years. Further qualifications and conditions relevant to the introduction of these numerical gender diversity targets will be laid down in our 2024-2028 sustainability program that we anticipate launching in the course of 2024.

Several proactive measures have been initiated to promote diversity and elevate the representation of female employees in our Business Groups. These include introducing changes to our recruitment process, sourcing candidates from diverse pools, conducting unconscious bias training sessions, and establishing a so-called employee resource group, such as The Circle of Trust. Consistently addressing challenges faced by female employees has significantly contributed to improving our overall workplace culture.

Kendrion is a proud signatory of the German *Charta der Vielfalt* (Diversity Charter). Supported by the German Commissioner of the Federal Government for Migration, Refugees and Integration, the charter promotes the recognition, appreciation, and integration of diversity in business culture.

Diverse and inclusive teams make our organization more agile, creative, and innovative. Having the right mix of people in the right jobs, with the right capabilities, encourages better decision-making and helps us grow our business.

Kendrion's workforce comprises 49 nationalities (2022: 47) across 9 countries (2022: 9) Furthermore, 46% of our workforce is female (2022: 47%), reflecting a healthy balance of backgrounds, nationalities, and gender throughout the organization.

Fair labor practices and human rights

Respecting human rights is fundamental to a sustainable society and an essential component of promoting sustainable business practices throughout our organization and interactions with customers, suppliers, and other business partners. We recognize and support the human rights outlined in the Ten Principles of the United Nations Global Compact. We acknowledge and respect children's rights to education and development, and the applicable minimum employment age and related conditions consistent with applicable statutory requirements. Kendrion does not tolerate any form of forced or involuntary labor and endeavors to apply the UN Guiding Principles on Business and Human Rights. Our commitment to endorse fair labor practices and to respect human rights is recorded in our Fair Labor and Human Rights Policy. Our Fair Labor and Human Rights Policy contains global standards and principles applicable across all Kendrion business operations. Our Fair Labor and Human Rights Policy can be found on the corporate website at www.kendrion.com. No material human rights or labor issues were raised in relation to our activities in 2023.

We require our suppliers to recognize human rights and to ensure that they are not engaged in any violations or abuses. Suppliers must confirm their compliance with the sustainable sourcing standards, including the recognition of human rights, by signing our Supplier Code of Conduct.

Internal audit procedures are in place to assess suppliers' adherence to the Supplier Code of Conduct. For detailed information about our Supplier Code of Conduct and the corresponding internal audit procedures, reference is made to page 50 of this Annual Integrated Report. Our Supplier Code of Conduct can be found on the corporate website at www.kendrion.com.

Employee representation

Fair labor practices and human rights are essential for ensuring that our employees are treated respectfully. This encompasses the provision of fair wages, a safe working environment and protection against discrimination and harassment. It also means allowing employees to form unions and engage in collective bargaining. Kendrion upholds freedom of association and the right to collective bargaining. Works councils and employee representatives have been appointed at Kendrion's major operating companies in Germany as well as Kendrion's operating companies in the Netherlands, Romania and Austria. These works councils and employee representatives are involved in a wide range of employment, health & safety, and social issues, in accordance with local labor legislation. Regular meetings and consistent communication provide employees with opportunities to raise questions and contribute valuable input. We believe that constructive interaction with our works councils and employee representatives fosters a more engaged and satisfied workforce, leading to improved productivity and morale. We appreciate the efforts of our dedicated works councils and employee representatives in voicing and addressing the needs and questions of our employees.

Approximately 64.4% (2022: 67.4%) of all Kendrion employees are represented by these works councils and employee representatives. Moreover, approximately 70.2% (2022: 62.4%) of employment contracts in Germany are governed by or follow the collective bargaining agreements for the metal industry.

Enabling the shift towards clean energy

Reflecting on 2023, the year presented a mixed economic and geopolitical landscape. On a positive note, the energy crisis in 2022, stemming from the Russian invasion of Ukraine on 24 February of that year, subsided, thanks to the EU's successful reduction of dependency on Russian natural gas. This, in combination with decisive action by major central banks including the FED and ECB, contributed to a gradual decline in inflation throughout the year. However, challenges persisted as the global economy, initially slowing in the first half of 2023, faced further declines in the second half. The ongoing war in Ukraine slowed no signs of resolution, and on 7 October of this year, the conflict between Hamas and Israel added further geopolitical complexity. Regionally, the EU grappled with a potential recession throughout the year, with Germany, representing around 40% of the Group's revenue, experiencing economic difficulties beyond the EU average. Fortunately, the US fared slightly better despite continued political uncertainty and a significant UAW strike impacting the US automotive market. In China, the anticipated COVID rebound, following the relaxation of strict lock-down rules early in 2023, did not materialize. China grew its GDP with a modest 4% year-over-year in 2023. Exports fell short of expectations, and a recovery is not expected in the near term.

Kendrion develops and manufactures actuator products contributing to the global shift towards electrification and clean energy.

Our balanced, diverse product portfolio supports this transition, without excessive reliance on any specific vertical or market segment.

Our products include brakes for wind power, robotics, automated warehouses, sound actuators, suspension and sensor cleaning products for electrical vehicles; and induction heating technology that facilitates the transition from oil and gas to electrical solutions in industrial applications. This commitment to electrification has guided our product development decisions across all Business Groups, including operations in China, for the past few years and will remain a key focus moving forward.

The emphasis on energy transition continues to guide Kendrion's operational and strategic decisions.

To further increase our focus on electrified vehicles, we have split our automotive franchise into two distinct units: Automotive Core and Automotive E.

The widespread adoption of Autonomous, Connected, Electric, and Shared (ACES) vehicles, in combination with the ongoing pursuit of enhanced safety and comfort, presents substantial growth opportunities for both the automotive industry and Kendrion. Automotive E is fully dedicated to these opportunities. Our innovative product platforms encompass systems and components for active suspension, Acoustic Vehicle Alerting Systems (AVAS) for electric vehicles, and smart actuation, including a turnkey sensor cleaning solution. Automotive Core is responsible for Kendrion's automotive business related to combustion engines, emphasizing operational excellence, lean production, cost efficiency, profitability, and cashflow.

The emphasis on energy transition continues to guide Kendrion's operational and strategic decisions.

The acquisition of INTORQ in 2020 significantly strengthened our position in the industrial brakes market. Given that our industrial brakes are sold in tandem with an electromotor, the accelerating energy transition towards electrification opens up substantial opportunities in a flourishing market. In 2023, the brake market experienced a setback due to higher interest rates and a slowdown in China, resulting in reduced demand for industrial goods like robots, wind power and industrial automation.

The acquisition of Dutch electronics and embedded systems developer 3T in September 2021 holds significant growth potential for our Industrial business. 3T's expertise seamlessly aligns with the control technology activities of our Industrial Actuators and Controls (IAC) Business Group. This acquisition also reinforces our software and electronics development capabilities, benefiting not only our Automotive Group but specifically the Automotive E organization, where software and electronics play a substantial role in our products for sound actuation and sensor cleaning. Throughout 2023, 3T experienced substantial growth, albeit constrained by our ability to hire more software and electronics engineers.

To accommodate our expanding project pipeline and the associated growth in China, we successfully completed the 28,000 m^2 manufacturing facility at Suzhou's Industrial Park, an esteemed location for technology and advanced manufacturing companies. The facility officially opened on 24 May 2023, and by August 2023, all product lines from our previous facilities in Suzhou and Shanghai were fully operational.

Entering 2024, the broad disruption of the automotive industry continues. We anticipate reaping the benefits from six Automotive E projects ramping up in China. With an additional EUR 230.0 million in lifetime revenue added to our Automotive E project portfolio, we have established a robust foundation for further future growth. In Industrial Brakes, we expect the market for brakes to stabilize at the level observed in the second half of 2023. Over the long term, the market for industrial brakes is poised to gain from the global push towards electrification, driving demand for our products in wind power, robotics & automation, forklift trucks, AGVs and more. With leading positions in all these segments, we foresee substantial gains from underlying growth trends. IAC will continue to focus on strong cash generation and on actively targeting opportunities in segments such as inductive heating for industrial processes, energy distribution, control technology, nuclear power, and industrial locks. To facilitate more growth for 3T, IAC will open a satellite office in Drachten, a city in the north of the Netherlands, close to two higher education institutions for software and electronics engineers. In China, our new manufacturing facility is geared to accommodate the expansive project pipeline, including the initiation of the six new Automotive E projects. These projects are expected to contribute to Kendrion China's growth over the year.

The economic outlook for 2024 remains uncertain. The ongoing war in Ukraine has led many economists to predict a recession in Europe, and possibly the US. China is grappling with deflation and is expected to grow only modestly in 2024. In short, the outlook for 2024 remains subdued and unclear. Therefore, we expect the market unpredictability observed in 2023 to persist in 2024. The global acceleration towards electrification and clean energy is expected to persist, presenting opportunities in the years ahead. Provided the world returns to a more stable economic environment in the course of 2024, we remain committed to executing on our strategic plans, aimed at achieving our medium-term financial targets: 5% organic growth between 2019 and 2025, an EBITDA of at least 15% in 2025 and a ROI of at least 25% in 2025.

The global acceleration towards electrification and clean energy is expected to persist, presenting opportunities in the years ahead.

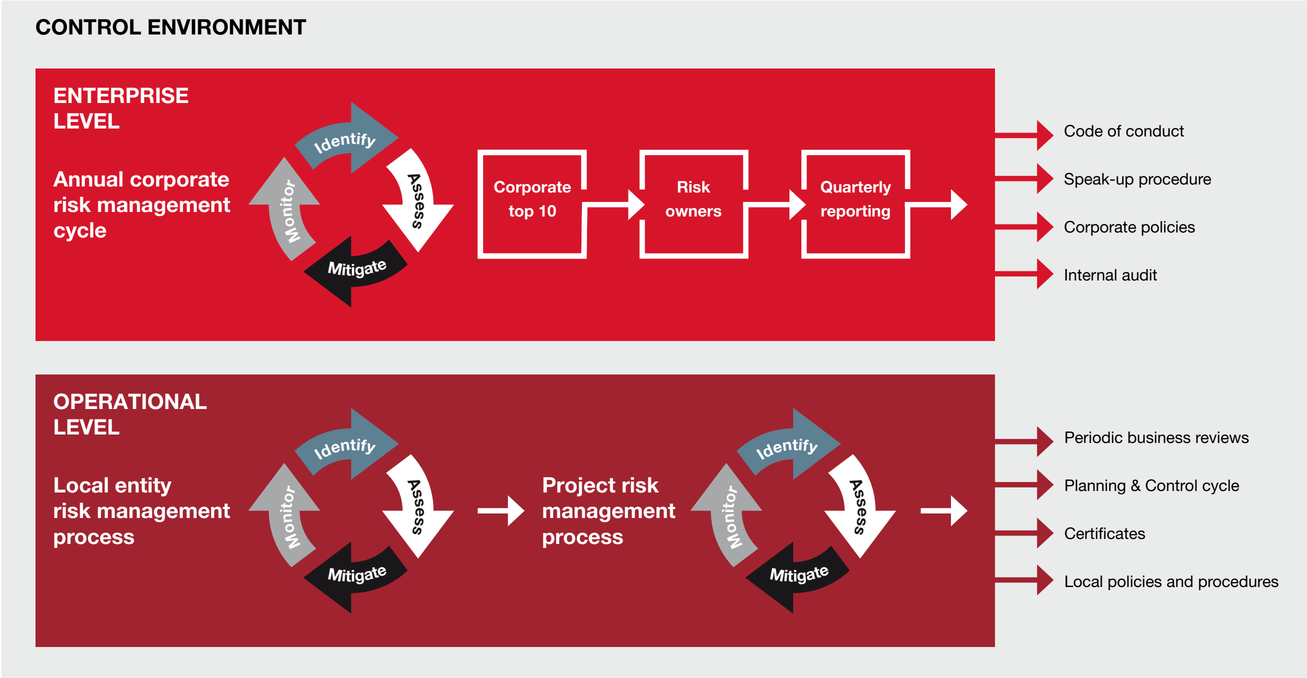
Risk management

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

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

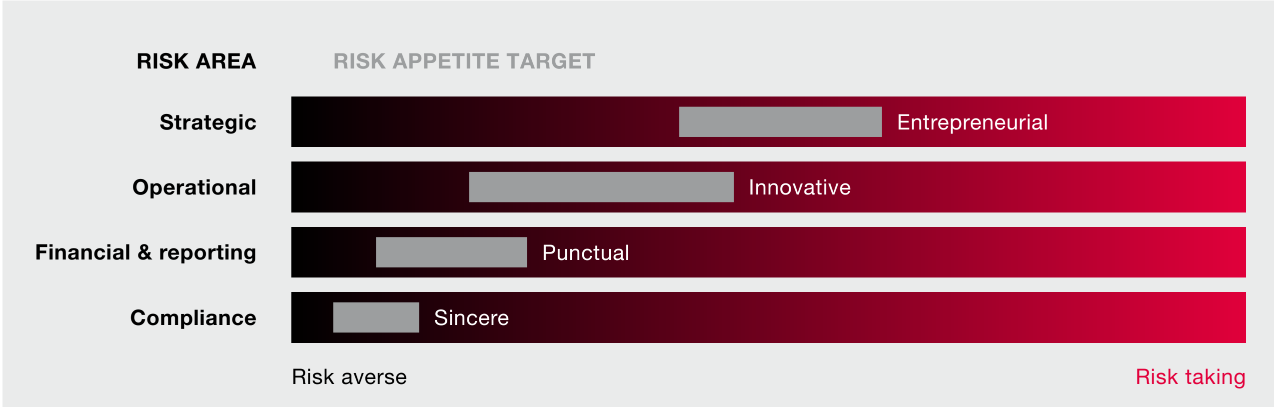
The Executive Board is responsible for maintaining a comprehensive risk management and internal control system aligned with the risks associated with Kendrion's strategy and activities, and for regularly reviewing and supervising its effectiveness. In addition to maintaining a risk management and internal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

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



The Executive Board conducts an annual risk assessment and considers if adjustments to the risk management and internal control system are required, as conditions and market circumstances change. The risk assessment includes a section specifically focused on fraud risks that are relevant for Kendrion. The result of the annual risk assessment is discussed within Kendrion's Management Team and shared and discussed with the Supervisory Board. To strengthen risk management and oversight, risk owners are assigned to the top-10 risks identified, and each risk owner is responsible for preparing and updating mitigation plans. On a quarterly basis, risk owners report to the Executive Board on mitigation progress and risk development. This report is also shared and discussed with the Audit Committee.

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



Risk appetite

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

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

Risk overview

Risk area	Risk name	Risk description
Strategic	Market disruption/decline and uncertainties related to the global political and economic conditions	Continued long-term recession in the automotive and/or industrial markets. Additionally, Inability to respond with agility to volatile economic and political conditions may lead to difficulties to manage business operations.
	Unsuccessful long-term strategy or unsuccessful implementation of long-term strategy	The strategy does not deliver the expected results (e.g. growth, profit, market share) or focus on the right products and product portfolio — also based on megatrends — to serve clients in the future, leading to a decline in market share and financial performance.
	Unable to attract and retain qualified personnel	Inability to attract and retain qualified people by being unresponsive to relevant employee satisfaction drivers (e.g. modern, diverse and inclusive working environment, competitive compensation) may lead to increased stress on existing personnel, absence or loss of key knowledge, or capacity issues.
Operational	Sourcing issues and/or purchase price increases	Risk of instability in the supply chain (affecting sourcing of raw materials, services, energy) and/or significant increase of purchase prices could lead to business interruptions and additional costs.
	IT and Cyber Security risks	Cyber risks e.g. failures of information systems and the alteration, destruction or copying of data through unauthorized system and data access, may lead to business interruptions, loss of confidential data or reputation damage.
	Significant order volume fluctuation/decline or project cancelation	Increase in the volatility of customer orders, with larger deviations in quantities and cancellations of projects altogether.
Financial & reporting	Cost increases or efficiency losses are not transferred to the customer	Cost increases for raw materials, energy or wages or efficiency losses caused by volatile order volumes are not passed on to the customer.
	Customer-related risk	Customer actions (pressure on price) or issues (insolvency) impacting profit margins, asset values (impairment) and/or cash flow.
	Cash flow / liquidity risk	Insufficient cash generated through operating activities to finance business activities and pursue strategic opportunities.
Compliance	Employee health and safety	Inability to manage a healthy working environment (e.g. hygiene protocols) and employee safety may lead to incidents, loss of productivity, demotivation or absence.
	Tax compliance	Non compliance with applicable tax regulations can lead to increase of tax expenses, penalties, litigation and harm the reputation with authorities and other stakeholders.

In addition to the selected key risks described in the table above, Kendrion distinctively recognizes risks related to climate change, tax compliance, and fraud. Each of the risk areas and the associated key risks will be addressed in more detail.

Strategic risks

Market disruption/decline and uncertain political and economic conditions

Kendrion operates in a competitive market that is exposed to economic changes, geopolitical developments, societal changes as well as industry disruption, including the accelerating transformation from a predominantly hardware-based automobile to a software-centric electronic device on wheels. Market disruption, saturation (e.g., possible Peak Car in EU and USA) or decline, could pressure Kendrion's financial results and the company's ability to achieve its strategic goals. Volatile economic and political conditions may lead to difficulties in managing business operations (e.g. planning and forecasting) and declined business performance. Kendrion will continue its development efforts to address markets that offer sustainable above average growth, by offering a tailored product portfolio focused on megatrends such as industrial and automotive electrification and automation.

This is supported by maintaining a lean and flexible organization that can swiftly adjust to the economic tides and market trends. This flexibility not only relates to working with temporary staff and focusing on the reduction of variable operating expenses, but also includes the ability to communicate up-to-date financial information efficiently to decision-makers throughout the organization, make justifiable insourcing and outsourcing decisions, adjust supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and use opportunities to reduce working hours in specific countries. The composition of the group with about 50% automotive activities and 50% industrial activities reduces Kendrion's exposure to a market disruption or decline in one of these markets.

Unsuccessful strategy or unsuccessful implementation of long-term strategy

In the current volatile environment, there is always the risk that a company's long-term strategy will not deliver the expected results, such as growth, profit, or an increase in market share (within the expected timeframe). This risk can also arise if the long-term strategy is not successfully implemented, for example if the company does not focus on the right products or product portfolio or does not adequately consider megatrends or its clients' needs. If the long-term strategy is not successful or not implemented effectively, it can lead to a decline in market share and financial performance for the company. Kendrion is aware of the importance to plan and execute strategic changes carefully, and to be prepared to adapt to changing circumstances. There is an in-depth annual strategic review process, involving senior management of the company, to assess Kendrion's performance compared to its multi-year strategy. This includes quarterly meetings to review progress of individual business groups on operational targets and strategic projects.

In these meetings, any relevant changes in the environment are considered and monitored to ensure timely adjustments of strategic projects or to consider alternative solutions.

Unable to attract and retain qualified personnel

The market for talent is increasingly competitive, especially pertaining to the key skills, expertise, and capabilities we need. Inability to attract and retain qualified employees may lead to high dependency on existing personnel and loss of knowledge. Kendrion's required know-how is highly specific and often requires on-the-job training. A lack of skilled employees could impede the achievement of Kendrion's strategic objectives.

Kendrion strives to be recognized as a safe, inspiring, and high-quality place to work. Besides offering competitive benefit packages and securing good and safe labor conditions in all locations, Kendrion offers flexible work styles that contribute to the performance and job satisfaction of employees.
By investing in succession planning (e.g. through a training program for high potentials), various in-house training programs and apprentice programs, Kendrion intends to encourage ambition and give employees the possibility to work on exciting tasks and innovative projects. Kendrion conducts company wide employee satisfaction and culture surveys at regular intervals enabling people to give and receive feedback. So that Kendrion can attract early career professionals it maintains good relations with technical universities and institutions of higher technical education. In addition, Kendrion makes sure that offices are located at attractive and inspiring locations.

Operational risks

Sourcing issues and/or purchase price increases

Kendrion is dependent on a continuous supply of (raw) materials for its plants to operate and to be able to meet customer demands and expectations.
The supply chain of (raw) materials can be disrupted in many ways, from issues during transport, to a bankrupt supplier, or scarcity of certain materials. Suppliers can also be faced with increased demand for their products or increasing raw material prices, resulting in increases in purchase prices for Kendrion's raw materials.

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

Significant order volume fluctuation/decline or project cancelation

External events such as a pandemic, an economic downturn, supply chain disruptions or changes in regulations or preferences, including the sustainability transformation, can cause certain customers to experience a structural decline in the demand for their products. This could cause a similar decline in their order volumes or even the cancellation of projects altogether.

Also, persisting shortages in the supply of raw materials to our customers may increase the risk for customer orders to be adjusted due to lack of certain components, resulting in ad-hoc and unpredictable adjustments to order levels. In turn, this could result in significant and short-term fluctuations in demand, requiring short-term plant capacity adjustments, and consequently, additional costs for underused plant capacity or an increase in production backlog due to insufficient production capacity. Order volatility could also result in increased inventory levels either because orders are cancelled, or to ensure that increased demand can be fulfilled.

Kendrion focuses on strengthening relationships with customers and engages constructively with them to actively monitor developments and changes to order volumes and timing where possible. Kendrion undertakes to negotiate contractual terms that ensure that sales prices per product increase when volumes are reduced, and that investments (e.g., development, tools, and equipment) are reimbursed if contracts are cancelled or predicted volumes are not achieved. However, this will not be sufficient to offset all the expenses incurred or compensate for revenue loss. Demand levels are closely monitored to timely detect overcapacity and production capacity and purchase volumes are adjusted accordingly to mitigate the impact on profit and working capital. Kendrion continuously adapts its production and supply chain planning to movements in day-to-day orders, and the roll-out of predictive planning tools have enabled an increased flexibility in production while maintaining a high level of efficiency.

IT and Cyber Security risks

Cyber risks e.g. failures of information systems and the alteration, destruction or copying of data through unauthorized system and data access, may lead to business interruptions, loss of confidential data or reputation damage.

On 29 August 2023 Kendrion reported the identification of a cyber security incident involving unauthorized third-party access to certain of the company's IT systems. In response, Kendrion immediately shut down all affected IT systems to contain the incident and activated its response protocol, including contingency plans to continue operations without these systems. On 5 September 2023, Kendrion announced it had restored all key IT systems, having incurred minimal disruption for customers and employees and no material impact on the company's financial results.

During 2023 Kendrion has further intensified its focus on cybersecurity risks, acknowledging the significant impact on operational integrity and stakeholder confidence. Kendrion has integrated renowned security monitoring tools that provide advanced 24/7 threat detection, network monitoring, and real-time alerts, enabling us to identify and respond to potential threats swiftly. In addition, Kendrion places strong emphasis on contingency planning involving strategies to ensure business continuity and data integrity in the event of a cyber incident. Contingency plans include redundant data storage, backup systems, and disaster recovery protocols to quickly restore operations with minimal disruption. Combined with regular software updates, employee training, and continuous vulnerability assessments, our multi-layered approach to cybersecurity fortifies our defense against cyber-attacks. This proactive stance, encompassing state-of-the-art technologies, best practices, and robust contingency planning, safeguards our digital infrastructure and sensitive data, reinforcing our standing as a secure, resilient, and responsible organization.

Financial & reporting risks

As a globally operating, publicly listed company, Kendrion must comply with financial reporting requirements.

Material misstatements in reporting could affect Kendrion's reputation and/or stock market value. Kendrion reports to the market on a quarterly basis, and reports financial figures based on IFRS standards.

With the risk appetite for this risk area being on the adverse side of the spectrum, Kendrion has several controls in place that help to contain risk exposure within acceptable boundaries.

It is critical that all operating entities report to the same standards and deliver the same quality of reporting, in line with applicable accounting and reporting principles. There are local planning and control cycles that provide financial and non-financial information to the group based on standardized reporting formats on a weekly, monthly, or annual basis, based on a group reporting manual. To protect the integrity and accuracy of reported information without having to rely on manual controls, it is important that effective general IT controls are in place, such as proper segregation of duties, access control for important systems, and source data protection through proportionate change control procedures for all accounting and reporting systems and their key infrastructure. Where Kendrion would mitigate sub-optimal general IT controls in previous years by performing additional manual controls, in recent years these manual controls have gradually shifted to automated IT controls through continuous improvement actions, also based on recommendations by the external auditor over the past years. Kendrion will continue to improve its general IT controls, with a focus on increased control automation, while balancing available resources against improvement benefits.

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

Apart from the key financial & reporting risk mentioned above, Kendrion also recognizes financial & reporting risks related to debt financing, credit exposure and interest and exchange rate fluctuations (refer to pages 139-142 and following of the financial statements for an outline of Kendrion's financial market risks and the policy for mitigating those risks or their impact). Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

Cost increases or efficiency losses are not transferred to the customer
Kendrion's gross margin can be negatively impacted by increased prices of raw materials, energy and labor, or efficiency losses through low and volatile order volumes, if these effects cannot be transferred to customers in a timely manner.

Kendrion aims to minimize the financial impact of price fluctuations for those materials that are most relevant. The most important (raw) materials for Kendrion are machined steel parts, raw steel, copper and permanent magnets. Where feasible, Kendrion includes raw material price clauses in its long-term customer contracts that provide for a sales price adjustment when the actual average raw material price over a certain timeframe deviates from a predetermined base price.

Short-term agreements generally provide for price surcharges, allowing the sales price to be adjusted based on the prevailing market prices for logistics, raw materials, or energy. When customers reduce their orders below previously agreed levels, additional costs are charged to these customers to offset inefficiencies.

Customer-related risk
Key and other customers that represent a significant part of Kendrion's revenue may demand more favorable terms for their business. This may manifest itself in the form of renegotiations on price or other adverse changes to contractual conditions, such as extended payment terms. This may impact margins and/or cash flow. If customers become insolvent, this could involve writing off outstanding invoices and stock and equipment becoming obsolete, resulting in losses.

Kendrion aims to maintain and protect its contractual position and reject unreasonable changes to existing terms, while valuing and preserving business relations. By consistently delivering qualitative products according to customer expectations against a competitive proposition, Kendrion aims to satisfy its customers while also remaining profitable. Through conducting credit reviews of significant customers, enforcing customer credit limits, and prepayment requirements for new customers, Kendrion aims to limit the exposure to customer insolvency to an acceptable level.

Cash flow and liquidity risks
Insufficient cash generated through operating activities can affect the company's financial stability and ability to invest in strategic growth opportunities. Kendrion closely monitors and manages cash flow and liquidity risks, including effective working capital and expenditure management. Kendrion has implemented stringent cash flow management measures, prioritizing essential expenditures and optimizing working capital to enhance our financial position. Optimized working capital include maintaining a minimum amount of inventory required to secure efficient operations and delivery commitments, strict debt collection policies and procedures and placing emphasis on negotiating fair payment terms. Kendrion is judicious in its capital expenditure decisions, carefully evaluating each opportunity for its potential to contribute to strategic growth and long-term value creation. Our approach includes rigorous financial forecasting and scenario planning enabling us to continue strategic investment opportunities while maintaining a healthy balance sheet. Kendrion is committed to maintaining a healthy financial position, reducing its debt levels and laying a solid foundation for sustainable growth and profitability.

Compliance risks

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

Global and local policies are developed and maintained to support compliance. Kendrion's global policies include a range of procedures and policies that must be applied when conducting business, including a Code of Conduct, Insider Trading Code, Speak-up procedure, etc. Kendrion's Code of Conduct builds on the values of The Kendrion Way, an inspiring motto at the heart of the Kendrion organization.

The Code of Conduct provides a set of principles and expectations that guide the behavior of everyone within Kendrion. Guidance and training are provided to Kendrion employees to help them recognize compliance dilemmas and raise actual or suspected misconduct or irregularities following Kendrion's Speak-up procedure.

For more information about The Kendrion Way reference is made to the section People & culture included in this Annual Integrated Report.

Compliance with Kendrion's internal policies and procedures, as well as local laws and regulations is also reviewed by Kendrion's internal audit function. The Global Internal Audit and Risk Manager is responsible for the design and execution of the annual audit plan to assess the adequacy of Kendrion's internal control systems. The Global Internal Audit and Risk Manager reports to the Executive Board with direct and independent access to the Audit Committee and external auditor. Audit results are reported to the Executive Board and the essence of the results are reported to, and discussed with, the Audit Committee and external auditors on a regular basis. The results of the audits conducted in 2023 were discussed with local management and any control deficiencies have been addressed.

Employee health and safety
For Kendrion, the health and safety of its employees is paramount. Inability to manage a healthy working environment (e.g. hygiene protocols) and ensure employee safety may lead to incidents such as the spread of illness or injury. If employees do not feel welcome and safe in the workplace, it can lead to demotivation, lower morale, or absence, resulting in loss of or decrease in productivity and an increase in employee turnover.

Kendrion promotes health and safety standards for all its employees through all available communication channels (e.g. billboards, intranet, newsletters, etc.). Personal health is encouraged via several local initiatives (e.g. sports, fruit baskets, health days) and cooperation with clinics provide support with mental health issues. Managers are trained to identify health issues, and first responders' training is available to employees interested in learning how to perform first aid. Employee absence is monitored on a monthly basis as an indicator of employee health development. By doing so on a monthly basis, Kendrion is able to adapt to changing circumstances and implement additional measures when appropriate.

Tax compliance risks

In line with the overall risk averse appetite for compliance risks, Kendrion also specifically reiterates this risk averse appetite for tax compliance and associated risks. Tax risks originate from local tax rules and regulations as well as from international regulatory frameworks. Tax risks include transfer pricing risks on intercompany cross-border deliveries of goods and services, tax risks related to acquisitions and divestments, tax losses, taxes carried forward, permanent establishments and potential changes in tax law. This may result in financial impacts in the form of increased tax expenses and payments, tax adjustments, accrued interest, fines, litigation against Kendrion's management, and damaging Kendrion's reputation with the (local) authorities and its stakeholders.

The Group Finance & Control department is in charge of establishing and overseeing group wide tax policies. Potential risks are periodically monitored and assessed based on the likelihood of occurrence and its potential impact on local and groupwide financial tax results. For the most important tax jurisdictions periodic meetings are held with external tax specialists to assess the tax position, tax risks and to the extend applicable, any impact of potential changes in tax laws and legislation. Kendrion actively seeks to reduce tax risks by involving external tax advisors when specialist knowledge is required and (local) authorities when interpretations of tax requirements can have an evident impact.

Climate change

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

The product portfolio of Kendrion's Industrial Business Groups is expected to benefit from the global trend towards electrification of industrial processes that decrease the use of fossil fuels and greenhouse gas emissions. The automotive industry is transforming based on four reinforcing trends towards Autonomous, Connected, Electric and Shared (or ACES) mobility, leading to cleaner, safer and more comfortable forms of transportation.

To advance these trends, the automotive industry requires new actuator technologies that will replace existing technologies developed for internal combustion engines of passenger cars

and commercial vehicles. Kendrion has been transitioning and will continue to transition its product portfolio towards these new technologies. To the extent the existing Automotive product portfolio relates to combustion engine vehicles, it is expected that the revenue derived from these technologies will gradually decrease over the next 10 to 15 years in line with the phase out of the combustion engine as mandated by various legislative initiatives around the globe.
On balance we expect our Automotive revenue to benefit from this transformation.

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

Fraud

With its global footprint, Kendrion is exposed to a wide range of fraudulent activities. Given Kendrion's activities as an industrial production company, the most important fraud risks are identified in the supply chain (kickbacks, shop in shop, bribery, false invoices), inventory and asset management (theft, manipulation), administrative processes (fraudulent payments, falsified records) and cyberattacks. Fraud in this context can result in a wide range of losses, ranging from negligible financial loss through petty theft of (office) materials to significant financial losses, damage to the organization's reputation, and a loss of customer trust when legal penalties in strict anti-fraud regimes are involved. Fraud risks are explicitly included in the annual corporate risk assessment as a separate category, to ensure active monitoring of fraud risk development, and continuously create awareness for fraud risks amongst (senior) management.

Kendrion has measures in place to significantly reduce its exposure to fraud. An important cornerstone of these measures is the restriction of access (both physical and digital) to only those areas that individuals require to perform their day-to-day activities, and segregation of duties (SoD) so that important checks and balances are not combined within the same person. Both the user access and SoD are reviewed on an annual basis and adjusted to be in line with the risk appetite if situations change. A significant number of general IT controls around user access and SoD have been implemented. However, to date, a few deficiencies in the design and effectiveness of the controls do exist. To the extent deficiencies in the IT controls do exist, Kendrion has additional controls in place that also detect and prevent fraud, such as but not limited to variance and margin analysis and comprehensive reviews on key master data changes. At the same time, Kendrion continues to address and improve the design and effectiveness of the IT controls.

On top of the foundation of access management and SoD, Kendrion also implemented an authorization matrix to clearly define the responsibilities and authorization limits for each function within the company. This ensures that the right employees are involved when information is processed or decisions are made with a certain level of (fraud) risk. Every employee within the company is informed about Kendrion's Code of Conduct (CoC) when they join Kendrion, and the CoC specifically addresses the most common forms of fraud and the expected employee behavior concerning these topics. On an annual basis the CoC (or specific topics thereof) are refreshed for all employees through different forms of communication (e.g. posters, video's, e-learning, workshops, etc.).

In control statement

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

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

Kendrion's governance framework is based on the statutory requirements that apply to public limited liability companies in the Netherlands. This framework includes the principles and best practice provisions outlined in the Dutch Corporate Governance Code, most recently updated on 20 December 2022 (the 'Code'), and Kendrion's articles of association, last amended on 25 June 2020. Certain core topics of the Code are addressed in the various sections of this Annual Integrated Report. For instance, diversity in the Supervisory Board, the Executive Board and the Management Team is addressed in this Corporate Governance Report. 'The Kendrion Way' is described in the section 'Sustainability' and in the section 'People & Culture'. The articles of association, along with ancillary policies such as the Supervisory Board regulations and the Supervisory Board committee regulations constitute a framework for the affairs and governance of Kendrion. This framework ensures the establishment of a sound and transparent system of checks and balances. For the articles of association, the Supervisory Board regulations, the Supervisory Board committee regulations and additional information about Corporate Governance at Kendrion, please refer to our corporate website at www.kendrion.com.

Kendrion N.V.

Kendrion N.V. is a public limited liability company incorporated under the laws of the Netherlands, with its corporate seat in Amsterdam, the Netherlands. For details regarding Kendrion N.V.'s share capital, reference is made to the section 'Share and shareholder information' on pages 21-23.

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

Two-tier governance structure

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

Executive Board

The Executive Board is responsible for the management and the continuity of Kendrion and Kendrion's long-term and sustainable value creation strategy, objectives, results, and policy, including the responsibility for defining strategies and plans conducive to the goal of the Paris Agreement to limit global warming. In discharging its responsibilities, the Executive Board considers the impact of Kendrion and its affiliated enterprise on people and the environment, whereby the Executive Board carefully balances the interests of stakeholders that are relevant in this context. An essential aspect of the Executive Board's duties is the establishment and perpetuation of a culture oriented towards sustainable long-term value creation. A professionally robust and healthy company culture, as detailed in the People & Culture section of this Annual Integrated Report, plays a crucial role in preventing misconduct and irregularities.

The Executive Board is accountable to the Supervisory Board and the General Meeting of Shareholders. Crucial decisions made by the Executive Board necessitate the approval of the Supervisory Board.

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

Members of the Executive Board are appointed by the General Meeting of Shareholders, following the recommendations put forth by the Supervisory Board. In compliance with provision 2.2.1 of the Code, all Executive Board members are appointed for a maximum term of four years and may be reappointed for successive terms of no more than four years each. The selection process for Executive Board members considers the diversity objectives outlined in Kendrion's diversity policy, accessible on the corporate website at www.kendrion.com. Other than upon a proposal of the Supervisory Board, the members of the Executive Board are suspended and dismissed by the General Meeting of Shareholders by a resolution adopted by an absolute majority representing at least one-third of the issued share capital. A resolution of the General Meeting of Shareholders to suspend or dismiss Executive Board members in line with a recommendation of the Supervisory Board is adopted by an absolute majority of the votes cast.

Members of the Executive Board comply with statutory requirements regarding the number of supervisory or non-executive functions they can hold in large enterprises.

For detailed information about the composition of the Executive Board and its members, please refer to page 24.

A member of the Executive Board refrains from participating in the deliberation and decision-making process on any matter in which a member of the Executive Board has a personal interest that conflicts with the interests of Kendrion.

Should a conflict of interest arise, a member of the Executive Board is obligated to promptly report it to the Chairman of the Supervisory Board. Transactions involving conflicts of interest with an Executive Board member require the approval from the Supervisory Board. In 2023, there were no transactions in which there was a conflict of interest with a member of the Executive Board. Kendrion has a policy of not providing loans or guarantees to members of the Executive Board.

Management Team

The Management Team is composed of the CEO, CFO, and various executives who bear clear accountability for delivering on all aspects of the strategic plan. Representation on the Management Team includes Business Group Directors from the Automotive Group, Industrial Brakes, Industrial Actuators and Controls, and the Kendrion President Asia. Additionally, functional areas such as Information Technology, People, Sustainability and Compliance, are addressed by the CIO, HR Director, and General Counsel within the Management Team.

The determination of the number of members of the Management Team is a decision made by the Executive Board in consultation with the Supervisory Board. For those members of the Management Team who are not part of the Executive Board, appointments and dismissals are carried out by the Executive Board, subject to the Executive Board's consultation with the Supervisory Board. When appointing members to the Management Team, diversity objectives outlined in Kendrion's diversity policy will be considered.

The Management Team meets frequently. Members of the Management Team who are not part of the Executive Board are regularly invited to attend Supervisory Board meetings.

Supervisory Board

The Supervisory Board is responsible for supervising and advising the Executive Board in the execution of its tasks and duties, as well as supervising the overall development and performance of Kendrion. In discharging its role, the Supervisory Board prioritizes the interests of Kendrion and its stakeholders, focusing on aspects such as the effectiveness of Kendrion's risk management and internal control systems, and the integrity and quality of financial and sustainability reporting.

The composition of the Supervisory Board is designed to ensure that its members can operate critically and independently, free from influence by each other, the Executive Board, the Management Team, or any other specific interests. Each member possesses the necessary expertise, experience, and background to fulfil their role, in accordance with the 'Profile outline' for the Supervisory Board and the diversity objectives outlined in Kendrion's diversity policy for the Supervisory Board. Both the 'Profile outline' and the diversity policy for the Supervisory Board are accessible on the corporate website at www.kendrion.com.

The Supervisory Board is comprised of four independent members as defined by the Code. Each member of the Supervisory Board adheres to statutory requirements regarding the allowable number of supervisory or non-executive functions within large enterprises. The composition of the Supervisory Board aligns with the statutory requirements outlined in the Dutch Gender Balance Act.

Members of the Supervisory Board are appointed by the General Meeting of Shareholders based on the recommendation of the Supervisory Board for a four-year term. Additionally, the Supervisory Board internally elects a Chairman from amongst its members.

The Chairman presides over Supervisory Board meetings, ensuring their effective functioning along with that of its committees. Additionally, the Chairman facilitates proper communication between the Supervisory Board, the Executive Board, the Management Team, and the General Meeting of Shareholders. Regular contact is maintained between the Chairman and the CEO, focusing on matters within the Supervisory Board's purview. Similarly, the Chair of the Audit Committee stays in regular contact with the CFO regarding responsibilities specific to the Audit Committee.

Supervisory Board members step down in accordance with a rotation schedule adopted by the Supervisory Board. Members of the Supervisory Board whose term of office expires can be reappointed. For any reappointment account is taken of the manner in which the person concerned performed his or her duties as a member of the Supervisory Board, the diversity objectives as described in Kendrion's diversity policy for the Supervisory Board, and best practice provision 2.2.2 of the Code regarding appointment and reappointment periods. Each member of the Supervisory Board can be dismissed by the General Meeting of Shareholders.

New members of the Supervisory Board undergo an introduction program, providing them with sufficient familiarity with Kendrion, its business activities, and pertinent internal procedures and processes essential for fulfilling their duties as members of the Supervisory Board.

Regular meetings of the Supervisory Board typically include the attendance of the Executive Board and, periodically, members of the Management Team. Additionally, the Supervisory Board holds meetings independently, excluding Executive Board members. Assisting the Supervisory Board is the Company Secretary, who ensures adherence to correct procedures and statutory obligations and those outlined in the articles of association. The Company Secretary also facilitates information exchange between the Executive Board and the Supervisory Board and aids the Chairman of the Supervisory Board in organizing Board affairs.

The Supervisory Board has established two committees: the Audit Committee and the HR Committee (combining the remuneration committee and the selection and appointment committee). The committees are responsible for preparing the decision-making for the Supervisory Board. The regulations outlining the tasks and procedures of the committees can be found on the corporate website at www.kendrion.com. For detailed information on the composition of the Supervisory Board, its committees and its members, please refer to pages 88-89 of this Annual Integrated Report.

Annually, the Supervisory Board evaluates its own functioning, the performance of its committees, and that of individual Supervisory Board members. The outcome of this evaluation is discussed among the members of the Supervisory Board, and the Chairman subsequently informs the Executive Board as appropriate. For further details about the annual evaluation of the Supervisory Board, reference is made to the Report of the Supervisory Board included in this Annual Integrated Report.

Members of the Supervisory Board do not receive any shares and rights to acquire shares in Kendrion as remuneration. With the exception of the Chairman of the Supervisory Board, who holds 11,800 shares as of December 31, 2023, Supervisory Board members do not hold any shares in Kendrion. Kendrion does not grant loans or guarantees to Supervisory Board members. In accordance with the Supervisory Board regulations, a member of the Supervisory Board may not participate in the deliberation and decision-making process on any subject in which a member of the Supervisory Board has a personal interest that conflicts with the interests of Kendrion. In 2023 there were no transactions involving a conflict of interest with any member of the Supervisory Board.

Diversity within the Executive Board, Management Team, and Supervisory Board

Kendrion places significant value on fostering diversity within its workforce, extending from the overall Kendrion organization to the Executive Board, the Management Team, and the Supervisory Board. As part of Kendrion's sustainability program, the pillar 'Social and Human Capital' emphasizes the prioritization of advancing diversity across the organization. Ambitious diversity targets, aligned with Kendrion's diversity framework, have been established for each of Kendrion's Business Groups. The strategic diversity framework and related targets for Kendrion's Business Groups are detailed in the 'People & Culture' section of this Annual Integrated Report.

A diverse array of competences and skills and a variety of backgrounds within the Executive Board, the Management Team and the Supervisory Board contribute to effective decision-making and, consequently, long-term and sustainable value creation. Kendrion considers diversity aspects such as gender, nationality, and background (education, (work) experience) most relevant for Kendrion and its business. This commitment to diversity is evident in the ongoing efforts to enhance diversity in the Executive Board, the Management Team and the Supervisory Board.

According to Kendrion's diversity policy for the Supervisory Board, at least 33% of the Supervisory Board shall consist of women, and at least 33% shall consist of men. The current composition of the Supervisory Board, consisting of two female members and two male members, aligns with the 33% gender diversity target.

Aligned with statutory requirements introduced in January 2022, gender diversity targets have been set for the Executive Board and the Management Team. Kendrion is committed to reshaping the composition of the Executive Board and Management Team so that, over time, at least 33% of both the Executive Board, and the Management Team, comprises women, and at least 33% comprises men. In 2023, there were no additions to the Executive Board or the Management Team. The Executive Board currently consists of two men and the Management Team (excluding the members of the Executive Board) consists of 25% women and 75% men, thereby the identified gender diversity targets for the Executive Board and the Management Board have not yet been met.

As a global company, Kendrion has also established targets related to nationality. According to the diversity policy, the Management Team should include representatives from at least two regions where Kendrion operates. This nationality diversity objective for the Management Team has been met. In the case of the Supervisory Board and the Executive Board, the objective is to maintain appropriate nationality diversity. In the Supervisory Board one member holds German nationality, reflecting Kendrion's significant operations in Germany.

Furthermore, Kendrion's diversity policy incorporates a background diversity objective. According to this policy, at least one member of the Executive Board and at least three members of the Management Team should possess experience in international industrial or automotive business, or an industry closely related thereto. For the background diversity objective for the Supervisory Board, please refer to the Supervisory Board 'Profile outline' which is available on Kendrion's corporate website. The composition of the Executive Board, the Management Team and the Supervisory Board align with their respective background diversity objectives.

The composition of the Supervisory Board is both diverse and experienced, reflecting a balanced participation of two female members and two male members. The Executive Board is composed of qualified, knowledgeable, and experienced members. The Management Team exhibits a healthy mix of skills, nationalities, ages, backgrounds, and other relevant factors.

Kendrion's diversity policy outlines specific objectives which will be explicitly considered – beyond functional requirements – when selecting individuals for (re)appointment to the Supervisory Board and Executive Board, as well as when filling vacancies within the Management Team. In the event of engaging external recruitment consultants, Kendrion provides search instructions aligned with the diversity principles underlying the diversity policy. The diversity policy is available on the corporate website at www.kendrion.com.

General Meeting of Shareholders

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

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

Shareholders representing 73.52% (2022: 69.47%) of the total number of shares entitled to vote were represented at the General Meeting of Shareholders held on 17 April 2023.

For further details about the authority of the General Meeting of Shareholders and the articles of association, please refer to the corporate website at www.kendrion.com.

Special provisions relating to shares

Unless indicated otherwise, there are no restrictions on the transfer of shares, the exercise of voting rights or the term for exercising those rights, and there are no special controlling rights attached to shares. On 17 April 2023, the General Meeting of Shareholders granted the Executive Board the authority to: (i) issue shares or grant rights to acquire shares and restrict or exclude pre-emptive rights in relation to the issue of shares or the granting of rights to acquire shares; and (ii) acquire shares in Kendrion N.V. within the limits prescribed by the articles of association and the applicable statutory provisions, in each case for a period of 18 months from the date of the General Meeting of Shareholders (i.e. until 17 October 2024) and subject to the prior approval of the Supervisory Board.

Auditor

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

In consultation with Deloitte Accountants B.V., Kendrion initiated a comprehensive tender process in the course of 2023, inviting various audit firms to participate. Following the completion of this process, Kendrion intends to propose the appointment of Mazars Audit & Assurance to the General Meeting of Shareholders in 2024 as its statutory auditor for a three-year period starting from the financial year 2024.

Kendrion maintains an internal audit function operating under the Executive Board's responsibility, with reporting lines to the CFO and the Audit Committee of the Supervisory Board. The internal audit function assesses the design and operation of the internal risk management and control systems. In accordance with the Code, the Executive Board and the Audit Committee of the Supervisory Board are involved in the preparation and approval of the internal audit plan. The annual internal audit plan is submitted for approval to the Executive Board and the Supervisory Board. Internal audit reports are discussed with the Executive Board and the Audit Committee, and the external auditor is informed accordingly.

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

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

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

Corporate Governance statement

This Corporate Governance Report, along with the section 'Share and shareholder information' on pages 21-23 contains the information specified in the Decree for the implementation of article 10 of the Takeover Directive. Furthermore, when combined with the sections 'Risk management' and 'Report of the Supervisory Board' included in this Annual Integrated Report, it should be considered as the Corporate Governance Statement as required by the Decree on the contents of the management report *(Besluit inhoud bestuursverslag).*

Relevant documents on corporate website

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

Taxes

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

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

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

Stringent controls are implemented to identify, monitor and address (potential) tax risks, aiming to mitigate and avoid these risks. Accredited tax advisors are engaged in reviewing and preparing material corporate income tax returns, if appropriate. Tax compliance is integrated into Kendrion's internal audit plan, with material tax risks and topics, including Kendrion's tax policy, reported and discussed within the Audit Committee.

Kendrion takes responsibility and shows prudence with regard to corporate tax obligations. The effective tax rate of Kendrion or any of its affiliates is not a key performance indicator for Kendrion's finance and tax department nor do individual bonus schemes contain effective tax rate performance targets. Additional information about the reconciliation of the effective tax rate can be found on page 177 of this Annual Integrated Report.

	F.J. van Hout (Chairman), male, 1960 Chairman	**E.H. Slijkhuis**, female, 1968 Chair Audit Committee
Nationality	Dutch	Dutch
International expertise	Yes	Yes
Date of first appointment	12 April 2021	17 april 2023
Term of office	2021-2025	2023-2027
Current number of SB positions	5	2
Shares in Kendrion	11,800	No
Professional experience	Semiconductors	Finance/IT
Additional positions	Chairman of the Investment Committee of the DeepTech Fonds (Dutch Ministry of Economic Affairs and InvestNL); Vice-Chairman of the Supervisory Board, Aixtron SE; Member of the Supervisory Board, Bambi Belt Holding BV; Member of the Supervisory Board, Stichting PhotonDelta; Member of the Supervisory Board, Smart Photonics BV; Member of the Board of Management of the Stichting Continuïteit BESI	CFO and Managing Director, Hydratec Industries N.V.; Member of the Supervisory Board, Deventer Ziekenhuis
Former positions	Executive Vice President and Member of the Board of Management, ASML; Chief Strategy Officer, Chief Program Officer, Chief Marketing Officer and other various functions in management, ASML; CEO, Beyeler Group; Chief Technology Officer, Datacolor	CFO Veco B.V.; Interim & Project Manager Finance & IT; Senior Management function Aviko; Consultant Eiffel; Finance Director Galegoid; Auditor Deloitte

M.J.G. Mestrom, female, 1961
Chair HR Committee

Nationality	Dutch
International expertise	Yes
Date of first appointment	11 April 2016
Term of office	2020-2024 (2nd term)
Current number of SB positions	1
Shares in Kendrion	No
Professional experience	HR/organizational design/transformation/international experience (expat Hong Kong and frequent business travel across all continents)
Additional positions	Chief Human Resources Officer at Brenntag SE
Former positions	Head of Global Human Resources, at Siegwerk Druckfarben Group; Senior Global Human Resources positions Philips Electronics

E. Doll, male, 1959
Audit Committee

Nationality	German
International expertise	Yes
Date of first appointment	24 June 2020
Term of office	2020-2024
Current number of SB positions	3
Shares in Kendrion	No
Professional experience	Automotive, plastics, industrial, medical, chemical
Additional positions	Vice Chairman of Supervisory Board, WITTE Automotive GmbH; Non-Executive Director, Aeristech Ltd.
Former positions	Vice Chairman of the Executive Board, Röchling Group; President & CEO, Röchling Automotive SE; EVP, Plastic Omnium Auto Exterior; Managing Director, Plastic Omnium GmbH; General Manager, Johnson Controls GmbH; Business Manager, BASF SE

Resilient performance despite ongoing challenges

In 2023, our pursuit of long-term sustainable growth was strongly tested by high inflation, rising interest rates, and geopolitical uncertainties. Nevertheless, Kendrion's global teams, guided by resilient management, demonstrated remarkable determination, and delivered consistent results. The strategic initiatives implemented in 2022 played a pivotal role in our steadfast performance and positive outlook to the future. Key strategic initiatives are yielding positive results

We successfully concluded several of these initiatives in 2023, including the further advancement of the implementation of the previously effected split of the Automotive Group into 'Core' and 'E,' the establishment of a state-of-the-art factory in China, and the completion of the integration of 3T.

Frits van Hout
Chairman of the Supervisory Board

Automotive Core focuses on optimizing profitability and cash flow, while Automotive E actively spearheads innovation in sound systems, active suspension, and sensor cleaning. The benefits in terms of efficiency, focus, and increased orders are already apparent, with sustained and long-term advantages anticipated in the evolving automotive landscape.

The inauguration of our new factory in China marked a major milestone in our localization strategy. Even though the Chinese economy developed at a slower pace in 2023, the significant investment in this expansive 28,000m^2 facility positions us optimally to seize growth opportunities. We were truly impressed by the skill and diligence that our management and employees demonstrated in seamlessly transferring operations from two factories – that have now been closed – to this new one. As a result, our cutting-edge facility was operational swiftly and efficiently.

The third initiative, the integration of 3T into the Kendrion group, has also delivered notable benefits, both enhancing our electronics and software capabilities and strengthening our reputation as an employer of choice. The relocation of 3T's Eindhoven team to the High Tech Campus in Eindhoven brings us closer to customers and places us within a popular hub for ambitious tech professionals.

Steady turnover

Despite challenging conditions in both the industrial and automotive sectors, our overall turnover for the year held steady. While our Industrial business growth did not meet expectations, our Automotive business surpassed them, with an unexpectedly strong performance, in what is still a difficult market. Looking ahead, we anticipate a rebound in demand for our industrial products over the long term, and we are optimistic about the growth prospects for our innovations in the automotive sector, driven by the continued expansion of ACES (Autonomous, Connected, Electric, and Shared) technologies.

Cybersecurity resilience

In August 2023, we demonstrated resilience on the cybersecurity front in our response to a cybersecurity incident. We blocked the attack in its early stages, preventing major damage to our infrastructure. Collaborating with top-tier forensic cybersecurity experts, we shut down, audited and reconfigured affected IT systems within days, which effectively mitigated the impact. Thanks to the dedication and flexibility of our IT and production teams, the incident had no significant impact on customer deliveries, nor on our financial results.

Together for a sustainable future

As Jabine van der Meijs concluded her term as Supervisory Board member, we like to thank her for her excellent contributions and her ever inspiring personality, and warmly welcome Everien Slijkhuis as new member. The Supervisory Board sincerely thanks our dedicated management and employees for their remarkable contributions throughout this challenging year. While profitability remains a central focus, our pride comes from our high-quality products and practices working together. Following the theme "Enabling the shift towards clean energy for a sustainable future," they actively contribute to a cleaner world.

The Supervisory Board provides oversight, evaluates progress and performance, maintains a sound and transparent system of checks and balances, and advises the Executive Board when appropriate.

This Report of the Supervisory Board sets out the way in which the Supervisory Board fulfilled its duties and responsibilities in 2023.

Performance in 2023

Under supervision of the Supervisory Board, the Executive Board developed and implemented a strategy for sustainable long-term value creation. During the year under review, important strategic initiatives were progressed or completed – despite the persistent geopolitical instabilities, high inflation and increased interest rates. Our global teams have both determined and resilient achieved consistent results in our pursuit of long-term sustainable growth. The successful advancement and completion of strategic initiatives have been crucial for both performance development and shaping a positive outlook for our business, ensuring long-term sustainable growth.

Focus points in 2023

In coordination with the Executive Board, the Supervisory Board previously determined certain focus areas for 2023. The Supervisory Board placed special emphasis on the following points in 2023:

Finalization 2024-2028 sustainability strategy
The shift towards a more sustainable world, driven by clean energy sources, is now more imperative than ever. Kendrion is committed to actively contribute to mitigating the adverse effects of climate change and addressing social themes. Kendrion's approach is marked by the ambition to minimize risks, optimize performance, and create sustainable value for the long term. Kendrion has been actively engaged in reducing its environmental impact and promoting social responsibility for many years. As an illustrative example, Kendrion reduced the relative CO_2 emissions from energy by its production facilities by 56% compared to 2015.
During the past period Kendrion finalized the development of an ambitious new sustainability program for the period 2024 to 2028. The development process encompassed a comprehensive analysis of existing practices, identification of areas for improvement, evaluation, and validation of ambitious yet realistic sustainability targets, and the formulation of a roadmap for the effective implementation of measures.

The development of an ambitious new sustainability program not only contributes to a more sustainable future but also provides commercial opportunities and adds to Kendrion's competitive advantage. Increasingly, sustainable products and technologies are becoming the default choice for a growing number of companies, presenting significant commercial potential. Kendrion's smart actuation technology aligns with the increasing demand for products that support the energy transition. Through its Responsible Product Portfolio, encompassing Products that Improve Health, Products that Reduce Climate Impact and Products that Keep you Safe, Kendrion contributes to promoting healthier lives and enhancing overall well-being. The commitment to prioritizing the development of this Responsible Product Portfolio will continue to be a key focus area within the forthcoming 2024-2028 sustainability program.

The key components of the 2024-2028 sustainability program were presented to and deliberated upon by the Supervisory Board and are outlined below.

- Achieve a further 70% reduction in CO_2 emissions.
- Establish reporting frameworks for Scope 1, 2 and 3 reporting and disclosure.
- Implement gender diversity targets at Business Group level for indirect staff, aiming for a 25% improvement over time with a minimum threshold of 33%.
- Enhance supplier selection and screening by transitioning from basic risk assessment to integrating ESG metrics into the sourcing process.
- Sustain ESG ratings from EcoVadis and CDP.

The official launch of the new sustainability program is anticipated in February 2024. Reference is made to the Sustainability review included in this Annual Integrated Report for detailed information about our ESG efforts.

The Supervisory Board expresses optimism regarding the framework of the upcoming 2024-2028 sustainability program, anticipating that it aligns with the reasonable expectations of Kendrion's stakeholders and adheres to prevailing ESG standards.

Completion of the new China manufacturing facility at S.I.P. in Suzhou and successful transfer of the Shanghai and former Suzhou production activities
Amid the challenges of the 2023 economy, our strategic focus revolved around three key accomplishments for our China operations: delivering products in line with customer expectations and uninterrupted by the construction of the new facility and the move towards that facility, completing the construction and initiation of production in the new plant, and actively pursuing fresh sales opportunities. The completion of the construction of the state-of-the-art 28,000m² factory in the

renowned Suzhou Industrial Park (SIP) and the commencement of operations at the new facility represent a noteworthy accomplishment. The factory embraces innovative technologies, incorporating artificial intelligence, robotics, solar power, and smart warehouse logistics.

China's growth ambition, rests on a robust foundation. Given that China stands as the world's largest automotive and electric vehicle (EV) market, opportunities for Kendrion's products unfold in this dynamic landscape. In 2022, China successfully secured its first contract with a prominent Chinese vehicle brand, integrating Kendrion's industrial brakes to optimize the seamless functioning of automated, voice-controlled car doors. In 2023, an additional four models were introduced, leading to a substantial increase in demand for our braking systems. The considerable nominations for Kendrion's automotive products and the first cross-selling opportunities for industrial brakes are advancing Kendrion China toward a future of growth and collaborative success in China.

The Supervisory Board commends the seamless transition of operations from two now-closed factories to Kendrion's new and currently largest facility. The facility became operational swiftly and demonstrated remarkable efficiency. Moreover, the Supervisory Board expresses confidence in Kendrion China's growth ambitions, driven by the robust pipeline for Kendrion's Automotive products, the rapidly expanding electric vehicle (EV) market, and promising cross-selling opportunities for industrial brakes.

Sustainable advancement through further strategic alignment of Automotive Core and E

The division of the Automotive Group at the end of 2022 into two distinct units – Automotive Core and Automotive E – highlights the strategic agility essential for effective engagement and contribution to the rapidly evolving automotive transformation. Automotive Core will concentrate on established technologies for vehicles with internal combustion engines, while Automotive E will pursue growth opportunities presented by the shift towards emerging forms of sustainable mobility. Throughout the year, the implementation of the organisational split continued to evolve – with reassuring effects.

The performance of the Automotive Group demonstrated a steady upward trend. We successfully implemented price increases for our customers, simultaneously achieving stability in procurement pricing with our suppliers. This, coupled with improved operational efficiency in our factories and a more focused R&D spent in Automotive E, resulted in an 80% increase of normalized EBITDA to EUR 17.8 million in 2023.

The Supervisory Board fully supports the split of the Automotive Group and the establishment of Automotive E and Core. This strategic division within the Automotive Group enhances Kendrion's capacity to capitalize on the shift towards electrification and clean energy, representing a thoroughly considered and well-thought-out path toward the future of sustainable mobility. Progressing with the organizational split of the Automotive Group throughout the year has positively influenced the performance of the Automotive Group in 2023.

Focus points for 2024

The Supervisory Board has defined the following attention points for 2024:

- Advancing the execution of the 2024-2028 sustainability program.
- Intensify efforts to progress operational flexibility and operational leverage within Industrial Brakes.
- Ramping our new Automotive E products in China in line with our customer's schedule.

Meetings and attendance

The Supervisory Board conducted eight regularly scheduled meetings and three extraordinary sessions throughout 2023.

All the aforementioned Supervisory Board meetings were attended by the Executive Board, occasionally joined by members of the Management Team. Additionally, pre-scheduled meetings without the Executive Board and Management Team were held before each regular Supervisory Board meeting. The attendance rate for regular scheduled Supervisory Board meetings in 2023 was 100% (2022: 100%). In the case of the three extraordinary meetings, Mrs. Mestrom was unable to attend one session.

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

The agenda for the Supervisory Board meetings encompassed the focal items outlined above, along with recurring topics routinely addressed each year. These included discussions on operational and financial performance, advancements in the strategic plan, principal risks associated with operations, progress and milestone achievements in special projects, fraud and risk management, the internal control system, governance and compliance matters, and considerations related to the General Meeting of Shareholders.

Evaluation

Throughout the year, the Supervisory Board proactively invested in its ongoing training, staying updated on governance and compliance matters. Annually, a comprehensive self-assessment, encompassing evaluations of both the Supervisory Board committees and individual members, is conducted. In a meeting without Executive Board members, the Supervisory Board critically assessed its own performance, considering aspects such as team dynamics, competencies, and market knowledge. Furthermore, performance evaluations were conducted through a structured questionnaire completed by both Supervisory Board and Executive Board members. The questionnaire covered various aspects, including the composition and expertise of the Supervisory Board, the dynamics and functionality of both the Supervisory Board and its committees, the performance of individual Supervisory Board members, the interaction between the Supervisory Board and the Executive Board, and the delineation of tasks and responsibilities for the Supervisory Board. For the upcoming evaluation in 2024, the intent is to engage an external consultant. It is intended to retain an external consultant for the annual evaluation in 2024.

The evaluation results affirmed a positive and constructive relationship between the Supervisory Board and the Executive Board. Members of the Supervisory Board consistently demonstrate appropriate responsibility and are esteemed for their dedication, expertise, and continual commitment. They exhibit a clear awareness of the distinct roles and responsibilities between the Supervisory Board and the Executive Board, actively seeking to uphold these distinctions. Areas for improvement involve further leveraging the Supervisory Board members' knowledge and network effectively, along with an increased focus on developments in the field of ESG.

In Supervisory Board-only meetings, members evaluate the performance of both the Executive Board members. Engaging with the CEO and CFO, the Supervisory Board deliberates on performance metrics from the previous year, strategic and operational priorities for 2023, and opportunities for personal development.

Composition

The Supervisory Board consists of four members: Frits van Hout (Chairman), Everien Slijkhuis (Chair of the Audit Committee), Marion Mestrom (Chair of the HR Committee) and Erwin Doll.

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

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

Committees of the Supervisory Board

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

Audit Committee

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

The Audit Committee consists of Everien Slijkhuis (Chair) and Erwin Doll.

The Audit Committee held four meetings in 2023. Attendance during 2023 was 100% (2022: 100%). The CFO and the Internal Audit and Risk Manager attended all meetings. The external auditor Deloitte Accountants B.V. attended the meetings of the Audit Committee during which the full-year financial statements for 2022, the half-year financial statements for 2023 and the management letter were discussed. The Audit Committee met with the external auditor without the CFO and the Chair of the Audit Committee held recurring meetings with the Internal Audit and Risk Manager.

The Audit Committee informed itself of relevant developments in the field of ESG and associated reporting requirements and in addition to regular updates provided by management during the Audit Committee meetings.

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

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

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

In addition to the above, the Audit Committee monitored progress on the execution of the 2020-2025 IT strategic framework, including a comprehensive session about information security and information security management.

Deloitte Accountants B.V. was reappointed as external auditor by the General Meeting of Shareholders on 12 April 2021 for a final term of four years up to and including the financial year 2024. The Audit Committee monitored both the external auditor's performance and the effectiveness of the external audit process and its independence. The Audit Committee approved the 2023 external audit plan, including scope and materiality applied. Reviews and discussions were held on the findings of the external auditor in its management letter and the actions taken to address the recommendations and observations made by the external auditor.

Starting from the financial year 2025, legal requirements mandate the rotation of the audit firm. There are compelling reasons justifying an early rotation of Deloitte Accountants B.V., including upcoming sustainability reporting requirements (e.g., CSRD) applicable from the financial year 2024 onwards. The proposed early rotation of Deloitte Accountants B.V. is supported by Deloitte and there are no disagreements. Consequently, the Supervisory Board tasked the Audit Committee with initiating a tender process, inviting selected audit firms to submit competitive proposals. After a thorough tender process, the Audit Committee recommended, and the Supervisory Board subsequently resolved, to propose the appointment of Mazars Audit & Assurance by the general meeting of shareholders in 2024 as the statutory auditor for a three-year term starting from the financial year 2024.

HR Committee

The HR Committee consists of Marion Mestrom (Chair) and Frits van Hout. The HR Committee held two meetings, with an attendance rate of 100% (2022: 100%). The CEO attended both meetings. In addition to the scheduled meetings, the HR Committee had several informal meetings with and without the members of the Executive Board being present.

Succession planning

Anticipating the conclusion of Mrs. Marion Mestrom's second term in 2024, the search for a new member for the Supervisory Board commenced early in the year. Upon concluding the search process, the Supervisory Board will deliberate and formulate a resolution to propose a candidate for appointment by the general meeting of shareholders.

The Supervisory Board and the Executive Board express their deep appreciation to Marion Mestrom for her significant and invaluable contribution to Kendrion as she provided thoughtful guidance and oversight throughout her membership and as Chair of the HR Committee.

Mr. Erwin Doll was initially appointed to the Supervisory Board on June 24, 2020, for a four-year term ending on the day of the annual general meeting of shareholders in 2024. Expressing his availability for a second term, Mr. Doll has conveyed his intention to continue serving as a member of the Supervisory Board. The Supervisory Board is delighted to propose the reappointment of Erwin Doll, and this nomination will be presented to the general meeting of shareholders on April 15, 2024.

Performance management

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

Variable remuneration

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

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

Financial statements and auditor's opinion

The 2023 financial statements included in this Annual Integrated Report have been audited and Deloitte Accountants B.V. has issued an unqualified opinion. These were discussed with the Supervisory Board, the Audit Committee in the presence of the external auditor, and the Executive Board.

The Supervisory Board is of the opinion that the 2023 financial statements meet all requirements for transparency and correctness. Therefore, the Supervisory Board recommends that the General Meeting of Shareholders to be held on 15 April 2024 adopt the 2023 financial statements and the appropriation of net income.

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

Profit appropriation

Kendrion realized a net profit of EUR 9.9 million in 2023. Normalized net profit before amortization[1] of intangibles amounted to EUR 13.9 million.

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

The members of the Supervisory Board have signed the 2023 financial statements to comply with their statutory obligation pursuant to article 2:101, paragraph 2, of the Dutch Civil Code.

Concluding remarks

Notwithstanding challenging conditions in both the industrial and automotive sectors, annual turnover remained resilient. While the growth of the Industrial business fell short of expectations, the Automotive segment exceeded projections, demonstrating an improving and robust performance in a persistently challenging market. We thank the Executive Board, the Management Team and the entire Kendrion staff for their flexibility, loyalty, and commitment to perform throughout what has been a challenging year. We extend our appreciation to our shareholders for their continued trust and support.

Supervisory Board

Frits van Hout, Chairman
Everien Slijkhuis
Marion Mestrom
Erwin Doll

28 February 2024

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measures, refer to reconciliation of non-IFRS information, starting on page 207.

Introduction

This Remuneration Report describes the application of the Remuneration Policy for the Executive Board and the actual performance in 2023 against the predefined performance criteria. In addition, the Remuneration report provides an overview of the remuneration of the Supervisory Board in 2023.

Performance in 2023

2023 was a year another marked by significant challenges due to the persistent geopolitical instabilities, high inflation, and increased interest rates. Taking account of the challenging market conditions, the Executive Board demonstrated resilience in the execution of a strategy directed at sustainable long term value creation. Whilst maintaining focus on the implementation and advancement of important strategic initiatives, necessary adaptations to the business were made in view of the difficult market circumstances, including increased emphasis on operational cost controls and cash management. Important strategic initiatives that contributed to the solid performance and encouraging outlook to the future include the progression of the previously effected split of the Automotive Group into separate units Automotive E and Core and the completion of the new high-tech manufacturing facility in Suzhou and swift transfer of the Shanghai and former Suzhou production activities to the new manufacturing facility.

In addition, required analyses were completed to finalize the 2024-2028 ESG program. Key components of the 2024-2028 ESG program include:

- Achieve a further 70% reduction in CO_2 emissions.
- Establish reporting frameworks for Scope 1, 2 and 3 reporting and disclosure.
- Implement gender diversity targets at Business Group level for indirect staff, aiming for a 25% improvement over time with a minimum threshold of 33%.
- Enhance supplier selection and screening by transitioning from basic risk assessment to integrating ESG metrics into the sourcing process.
- Sustain ESG ratings from EcoVadis and CDP.

The official introduction of the new ESG program is anticipated for February 2024.

Remuneration Policy Executive Board

The Remuneration Policy for the Executive Board has been developed by the Supervisory Board and adopted by the General Meeting of Shareholders in April 2023.

The Remuneration Policy is evaluated at least once every four years by the Supervisory Board, and unless otherwise resolved by the General Meeting of Shareholders, the Remuneration Policy adopted by the General Meeting of Shareholders in April 2023 becomes applicable to (i) remuneration granted in the years 2024 up to and including 2027 – irrespective whether pay-outs and vesting of performance shares become due, occur or are made after 2027; and (ii) remuneration of Executive Board members reappointed by the General Meeting of Shareholders in April 2023 as of the date on which the new term of office of the relevant reappointed Executive Board member commences.

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

Remuneration objectives

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

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

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

Temporary deviations

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

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

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

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

The Supervisory Board did not decide to deviate temporarily from the Remuneration Policy for the members of the Executive Board in 2023.

Remuneration components

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

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

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

Fixed base salary

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

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

On 27 February 2023 the Supervisory Board unanimously resolved to nominate Messrs. Van Beurden and Hemmen for reappointment as members of the Executive Board by the General Meeting of Shareholders on 17 April 2023. During their meeting on 17 April 2023, the General Meeting of Shareholders reappointed both Mr. Van Beurden and Mr. Hemmen for a four-year term ending on 1 December 2027 and 1 July 2027, respectively. Following these reappointments and the adoption of the new Remuneration Policy by the General Meeting of Shareholders, the fixed gross salaries for the members of the Executive Board are as indicated in the table below.

	2023 Annual base salary (gross)	Proportionate amount (gross)
CEO (J.A.J. van Beurden)	EUR 550,000 – as of 1 January 2023 until expiry 2nd term on 1 December 2023	EUR 504,166.66 (i.e. 11/12th of EUR 550,000)
	EUR 590,000 – as of commencement 3rd term on 1 December 2023	EUR 49,166.66 (i.e. 1/12th of EUR 590,000)
	Total	**EUR 553,333.32 (actual)**
CFO (J.H. Hemmen)	EUR 335,000 – as of 1 January 2023 until expiry of 1st term on 1 July 2023	EUR 167,500 (i.e. 6/12th of EUR 335,000)
	EUR 350,000 – as of commencement 2nd term on 1 July 2023	EUR 175,000 (i.e. 6/12th of EUR 350,000)
	Total	**EUR 342,500 (actual)**

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

	2023 annual gross base salary	2022 annual gross base salary	2021 annual gross base salary	2020 annual gross base salary	2019 annual gross base salary	2018 annual gross base salary	2017 annual gross base salary	2016 annual gross base salary
CEO (J.A.J. van Beurden)	EUR 550,000 (as of 1 January 2023 until expiry 2nd term on 1 December 2023) EUR 590,000 (as of commencement 3rd term on 1 December 2023) **EUR 553,333.32** (actual)	EUR 550,000	EUR 550,000	EUR 550,000 EUR 517,916.67 (actual)[4]	EUR 504,645[1] EUR 550,000[2] EUR 508,424.58[3] (actual)	EUR 490,900	EUR 474,300	EUR 465,000
CFO (J.H. Hemmen)	EUR 335,000 (as of 1 January 2023 until expiry of 1st term on 1 July 2023) EUR 350,000 (as of commencement 2nd term on 1 July 2023) **EUR 342,500** (actual)	EUR 335,000	EUR 310,788	EUR 270,250 EUR 254,485.41 (actual)[4]	EUR 235,000[5] EUR 117,500 (actual)			

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

Short-term variable remuneration

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

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

CEO	The short-term variable remuneration ranges from 0% to 90% of the annual fixed gross base salary of the CEO, with 60% being the target amount
CFO	The short-term variable remuneration ranges from 0% to 67.5% of the annual fixed gross base salary of the CFO, with 45% being the target amount

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

Financial performance criteria
- The financial driven performance criteria determine 60% of the short-term variable remuneration.
- Each year the Supervisory Board selects at least three financial driven performance criteria from the list below with a view to incentivize delivery of financial priorities that support Kendrion's strategic and operational spearheads.
- The Supervisory Board may allocate different weight percentages to the different financial performance criteria it selects for a particular year, provided a minimum weight of 10% shall apply to a financial performance criterion.
- Financial performance criteria[1]
  - Net profit
  - Return on sales (ROS)
  - Return on investment (ROI)
  - Organic growth
  - Free cash flow
  - Revenue
  - EBITA
  - EBITDA
- The performance incentive zone (threshold, target and maximum) for each financial performance criterion will be determined in advance by the Supervisory Board by reference to the strategic and operational spearheads for the respective performance year. No pay-out will be made for below threshold performance. In the case of performance equal to the threshold performance of the relevant performance criterion, the pay-out of the short-term incentive will be equal to 50% of the relevant target amount. A linear curve will be applied to calculate the pay-out between threshold performance and maximum performance.

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

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

[1] In each case excluding items that are generated outside the ordinary course of business and the amortization of intangibles arising on acquisitions or similar corporate events.

2023 short-term variable remuneration

Within the framework of the Executive Board Remuneration Policy, the Supervisory Board takes an informed decision relevant to the variable remuneration of the members of the Executive Board. For the determination of the financial and non-financial performance criteria of the 2023 short-term incentive, the Supervisory Board considered – amongst others – the 2023 focus items as previously defined by the Supervisory Board; the increasing demands and complexity around ESG and ESG reporting and disclosure requirements, the volatile economic climate and trading environment; and the importance of long-term value creation through continued investments in sustainable growth areas. The 2023 focus items of the Supervisory Board included the finalization of the 2024-2028 ESG strategy, completion of the new high-tech manufacturing facility in Suzhou and the successful transfer of production activities to the new facility and progressing the previously effected split of the Automotive Group into separate units Automotive E and Core. The Supervisory Board reported on the progression made and the key points of attention relevant to the 2023 focus items in the Report of the Supervisory Board included in this Annual Integrated Report.

For the 2023 short-term variable remuneration, the Supervisory Board followed the recommendations of the HR Committee and selected four financial performance criteria, a non-financial performance criterion in the area of sustainability/ESG and other non-financial performance criteria that are linked to the Supervisory Board's 2023 focus items and Kendrion's strategic plan and operational spearheads. The 2023 financial and non-financial performance criteria reflect the collective responsibility of the members of the Executive Board and make no distinction between the applicable performance criteria for the CEO and CFO.

In 2023, the following short-term incentive target amounts applied to the members of the Executive Board:

	2023 short-term incentive target amount
CEO (J.A.J. van Beurden)	EUR 332,000
CFO (J.H. Hemmen)	EUR 137,375

The abovementioned target amounts have been calculated as follows:

CEO (J.A.J. van Beurden)

Annual fixed base salary (gross)	Target amount	Proportionate target amount
EUR 550,000 (as of 1 January 2023 until expiry 2nd term on 1 December 2023)	EUR 330,000 (i.e. 60% of EUR 550,000)	EUR 302,500 (i.e. 11/12th of EUR 330,000)
EUR 590,000 (as of commencement 3rd term on 1 December 2023)	EUR 354,000 (i.e. 60% of EUR 590,000)	EUR 29,500 (i.e. 1/12th of EUR 354,000)
Total		**EUR 332,000** (i.e. sum of EUR 302,500 and EUR 29,500)

CFO (J.H. Hemmen)

Annual fixed base salary (gross)	Target amount	Proportionate target amount
EUR 335,000 (as of 1 January 2023 until expiry 1st term on 1 July 2023)	EUR 117,250 (i.e. 35% of EUR 335,000)	EUR 58,625 (i.e. 6/12th of EUR 550,00)
EUR 350,000 (as of commencement 2nd term on 1 July 2023)	EUR 157,500 (i.e. 45% of EUR 350,000)	EUR 29,500 (i.e. 6/12th of EUR 157,500)
Total		**EUR 137,375** (i.e. sum of EUR 58,625 and EUR 78,750)

For the performance year 2023, the short-term incentive performance criteria are allocated as follows:

Short-term remuneration as percentage of annual gross base salary

Performance criterion	Weight	Minimum		At target	Maximum
Financial performance criteria (60%)					
ROI	15%	0	CEO	9%	13.5%
			CFO	6.75%	10.2%
ROS	15%	0	CEO	9%	13.5%
			CFO	6.75%	10.2%
EBITDA	10%	0	CEO	6%	9%
			CFO	4.5%	6.75%
Free cash flow	20%	0	CEO	12%	18%
			CFO	9%	13.5%
Non-financial performance criteria (40%)					
		0	CEO	24%	36%
			CFO	18%	27%
TOTAL	**100%**	**0**	**CEO**	**60%**	**90%**
	100%	**0**	**CFO**	**45%**	**67.5%**

2023 short-term financial performance criteria

In 2023, the actual performance against the financial performance criteria was as follows:

2023 short-term incentive performance on financial performance criteria

Financial performance criterion	Pay-out as % of short-term incentive target amount	Pay-out as % of 2023 annual gross base salary (actual)		Pay-out in EUR (gross)			
		CEO (J.A.J. van Beurden)	CFO (J.H. Hemmen)		CEO (J.A.J. van Beurden)		CFO (J.H. Hemmen)
ROI	63.7%	5.70%	3.81%	EUR	31,540	EUR	13,050
ROS	0%	0%	0%	EUR	0	EUR	0
EBITDA	0%	0%	0%	EUR	0	EUR	0
Free cash flow	58.5%	7.02%	4.69%	EUR	38,844	EUR	16,072.87
TOTAL		12.72%	8.50%	**EUR**	**70,384**	**EUR**	**29,123**

2023 short-term non-financial performance criteria

The non-financial performance criteria for the 2023 short-term incentive recognize the collective responsibility of the Executive Board and are aligned to the Supervisory Board's 2023 focus items and Kendrion's strategic and operational spearheads. The table below provides a summarized description of the non-financial performance criteria.

Summarized description 2022 non-financial performance criteria	
Sustainability	Completion remaining analyses to finalize the 2024-2028 ESG program ready for official launch in 2024
Sustainability	Realization relative CO_2 reduction of at least 15% and relative energy reduction of at least 15% compared to 2018 and min. of 25 supplier audits consistent with the 2019-2023 sustainability target framework
China	Completion of the new high-tech manufacturing facility in Suzhou and swift transfer of the Shanghai and former Suzhou production activities to the new manufacturing facility
Automotive Group	Enhance strategic positioning of Kendrion Automotive Group, amongst others by strengthening commercial and contractual terms for certain key-accounts and implementing appropriate adjustments to pricing grids

Consistent with the Remuneration Policy, achievement of an individual non-financial performance criterion will be measured by applying a binary scoring model where a non-financial performance criterion can either be achieved or not achieved. The amount of the pay-out for the non-performance criteria depends on the number of non-financial performance criteria achieved. The following step curve is applicable for the 2023 non-financial performance criteria.

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

Throughout the year, the Supervisory Board reviewed progress against the non-financial performance criteria and received detailed updates about relevant developments and actions taken. During the December 2023 Supervisory Board meeting, the Executive Board presented the accomplishments and advancements realized. Managing and dealing with the persistent challenging trading conditions forcing enhanced focus on – amongst others – operational cost and cash control, whilst at the same time implementing and advancing important strategic initiatives supportive to the continued pursuit of sustainable long-term growth opportunities, and the increasing demands and complexity around ESG and ESG reporting and disclosure requirementshave been important themes considered and discussed among the Supervisory Board and Executive Board.

With the rapid adjustment of standing practices and the development of longer-term measures in response to the changing economic landscape, Kendrion convincingly demonstrated its organizational agility and resilience.
The Executive Board appropriately anticipated and managed the unpredictability involved in building a new facility.
The construction of the new high-tech manufacturing facility in Suzhou was successfully completed mid-year and the subsequent transfer of the Shanghai and former Suzhou production activities to the new manufacturing facility was swiftly finalized well before the end of 2023.

The Automotive Group achieved solid revenue results – attributable to the successful implementation of sales price increases and the further strengthening of its strategic position. The latter also due to the advancement of the previously effected split of the Automotive Group in the distinct units: Automotive Core and E.

Decarbonization remains key to reducing the negative impact of climate change and Kendrion has long been engaged in reducing its environmental impact. Kendrion's production facilities already achieved a 56% reduction in relative CO_2 emissions from energy compared to 2015. The 15% relative energy consumption and CO_2 reduction targets under the 2019-2023 sustainability target framework have been widely achieved and measure 15.31% and 22.9%, respectively per year-end.

The Supervisory Board is optimistic about the forthcoming 2024-2028 ESG program – the development of which was successfully completed in 2023 – and is looking forward to the official introduction of the program in February 2024.

The Supervisory Board will continue monitoring progress in the above-mentioned areas. Reference is made to the Report of the Supervisory Board included in this Annual Integrated Report that also substantiate performance and achievements realized in 2023 and the focus areas for 2024.

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

Based on the comprehensive review of the performance of the members of the Executive Board, the Supervisory Board resolved that the members of the Executive Board realized all four non-financial performance criteria as set under the 2023 short-term variable remuneration.

Consistent with the step-up curve, the score on the non-financial performance criteria results in a pay-out of 150% of the short-term target amount corresponding to a pay-out of EUR 199,200 (gross) for the CEO and EUR 82,425 (gross) for the CFO, representing: 36% of the CEO's 2023 annual gross base salary of EUR 553,333.32 and 24.06% of the CFO's 2023 annual gross base salary of EUR 342,500.

2023 pay-out short term incentive

Overall performance resulted in the following pay-out of the short-term incentive in 2023:

	Total pay-out 2023 short-term incentive (gross)	Pay-out as % of 2023 annual gross base salary (actual)
CEO (J.A.J. van Beurden)	EUR 269,584 (i.e. sum of EUR 70,384 and EUR 199,200)	48.72% of the gross annual base salary of EUR 553,333.32
CFO (J.H. Hemmen)	EUR 111,548 (i.e. sum of EUR 29,123 and EUR 82,425)	32.57% of the gross annual base salary of EUR 342,500

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

Short-term incentive	2022*	2021*	2020*	2019*	2018*	2017*	2016*
CEO (J.A.J. van Beurden)	EUR 267,438 (gross)	EUR 429,000 (gross)	EUR 358,600 (gross)	EUR 191,282.90 (gross)	EUR 117,816 (gross)	EUR 170,748 (gross) based on 90% achievement of 2017 performance criteria, representing 36% of gross annual base salary (i.e. 36% of EUR 474,300), one-third paid in cash and two-thirds awarded conditionally in shares.	EUR 180,420 (gross) based on 97% achievement of 2016 performance criteria, representing 38.80% of the gross annual base salary (i.e. 38.80% of EUR 465,000), one-third paid in cash and two-thirds awarded conditionally in shares.
CFO (J.H. Hemmen)	EUR 95,023 (gross)	EUR 141,408.80 (gross)	EUR 102,965 (gross)	EUR 37,012.50 (gross)	Not applicable – effective date of appointment to the Executive Board 1 July 2019		

* Pay-out amounts calculated in accordance with the then prevailing remuneration policy.

Long-term variable remuneration

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

The members of the Executive Board annually receive conditional performance shares. The conditional performance shares will vest upon achievement of performance measured over a period of three years, including the year in which the conditional performance shares are granted. Vested performance shares are restricted by a two-year holding period as of vesting.

The size of the award is defined as a percentage of the annual fixed gross base salary of the relevant Executive Board member as per the year in which the conditional performance shares are granted. The actual grant (i.e. the number of conditional performance shares) is determined by the percentage of the annual fixed gross base salary and calculated on the basis of the average share price during the fourth quarter of the year immediately preceding the year in which the conditional performance shares are granted.

The target value as per the year in which conditional performance shares are granted is as follows:

CEO	60% of the annual fixed gross base salary of the CEO
CFO	50% of the annual fixed gross base salary of the CFO

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

Performance measure

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

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

Relative TSR

To determine achievement of this performance measure, the relative TSR is measured, which means share price movements, including dividends and assuming dividends are reinvested. For the calculation of the relative TSR position, the reinvestment of cash dividend in fixed-income securities and the reinvestment of stock dividend in the relevant share applies. The TSR performance of Kendrion is measured against the performance of 20 selected TSR peer companies included in the table below.

#	Company	Industry	Country	Market value (EUR x 1 mln)*
1.	Schneider Electric SE	Electrical components	France	74,653
2.	Eaton Corporation plc	Diversified industrials	US	58,485
3.	Sensata Technologies Holding NV	Electronic equipment: gauges and meters	US	5,787
4.	Aalbers Industries NV	Electronic equipment: control and filter	Netherlands	4,006
5.	Emerson Electric Co	Electronic equipment: other	US	53,229
6.	Continental AG	Auto parts	Germany	11,272
7.	Schaeffler AG	Auto parts	Germany	1,057
8.	TKH Group NV	Electrical components	Netherlands	1,568
9.	Borg Warner Inc	Auto parts	US	8,831
10.	SKF AB	Metal fabricating	Sweden	6,096
11.	Phoenix Mecano AG	Machinery: industrial	Switzerland	320
12.	Grammar AG	Auto parts	Germany	158
13.	Regal Beloit	Electrical components	US	7,437
14.	IMI Plc	Electronic equipment: control and filter	UK	3,786
15.	Autoneum Holding AG	Auto parts	Switzerland	483
16.	Akwel	Auto parts	France	465
17.	Elringklinger AG	Auto parts	Germany	436
18.	VBG Group publ AB	Auto parts	Sweden	299
19.	Kongsberg Automotive ASA	Auto parts	Norway	253
20.	Sogefi SpA	Auto parts	Italy	112

Identified possible replacements in case of delisting or other corporate events in respect of any of the above selected TSR peer companies

#	Company	Industry	Country	Market value (EUR x 1 mln)*
	ABB Ltd	Electrical components	Switzerland	55,833
	VAT Group AG	Electronic equipment: control and filter	Switzerland	7,681
	Addtech AB	Electrical components	Sweden	3,475
	Incap Oyj	Electrical components	Finland	501
	Katek SE	Electrical components	Germany	204
	Freni Brembo SpA	Auto parts	Italy	3,489
	Vitesco Technologies Group AG	Auto parts	Germany	2,185
	JOST Werke AG	Auto parts	Germany	788
	hGears AG	Auto parts	Germany	75

* Per reporting date 31 December 2022

The position of Kendrion in the TSR performance peer group, upon expiry of the three-year performance period, determines the score for the relative TSR measure in accordance with the following performance incentive zone:

Ranking	1-3	4	5	6	7	8	9	10	11-21
Vesting	150%	137.5%	125%	112.5%	100%	83%	67%	50%	0%

The position of Kendrion in the ranking defines the vesting for this part of the conditional grant of shares. The calculation to determine Kendrion's ranking shall be conducted by an external independent and reputable specialized firm.

EPS

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

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

	< Threshold	Target	Maximum
EPS	0	100%	150%

Vesting is linear between threshold performance and on target performance and between on-target performance and maximum performance.

Sustainability/ESG

The Supervisory Board will annually set a sustainability target that is aligned with Kendrion's sustainability ambitions.
The Supervisory Board sets the performance incentive zone (threshold, target and maximum) annually. The achieved performance will be disclosed in the Annual Integrated Report after expiry of the relevant three-year performance period.

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

	< Threshold	Target	Maximum
Sustainability/ ESG	0	100%	150%

Vesting is linear between threshold performance and on target performance and between on-target performance and maximum performance.

2023 long-term variable remuneration

Consistent with the applicable Remuneration Policy as adopted by the General Meeting Shareholders on 17 April 2023, the members of the Executive Board were granted conditional performance shares as described in the table below.

	2023 annual gross base salary (actual)	Target amount	Average share price Q4 2022	Conditional performance shares	Performance period	Expiry holding period
CEO (J.A.J. van Beurden)	EUR 553,333.32	EUR 332,000	EUR 15.07	22,030	Performance period 2023-2025	End of 2027
CFO (J.H. Hemmen)	EUR 342,500	EUR 171,250	EUR 15.07	11,363	Performance period 2023-2024	End of 2027

The abovementioned target amounts have been calculated as follows:

CEO (J.A.J. van Beurden)

Annual fixed base salary (gross)	Target amount	Proportionate target amount
EUR 550,000 (as of 1 January 2023 until expiry 2nd term on 1 December 2023)	EUR 330,000 (i.e. 60% of EUR 550,000)	EUR 302,500 (i.e. 11/12th of EUR 330,000)
EUR 590,000 (as of commencement 3rd term on1 December 2023)	EUR 354,000 (i.e. 60% of EUR 590,000)	EUR 29,500 (i.e. 1/12th of EUR 354,000)
Total		**EUR 332,000**

CFO (J.H. Hemmen)

Annual fixed base salary (gross)	Target amount	Proportionate target amount
EUR 335,000 (as of 1 January 2023 until expiry 1st term on 1 July 2023)	EUR 167,500 (i.e. 50% of EUR 335,000)	EUR 83,750 (i.e. 6/12th of EUR 167,500)
EUR 350,000 (as of commencement 2nd term on 1 July 2023)	EUR 175,000 (i.e. 50% of EUR 350,000)	EUR 87,500 (i.e. 6/12th of EUR 175,000)
Total		**EUR 171,250**

In accordance with the applicable Remuneration Policy, the vesting percentage of the performance shares is conditional upon the achievement of performance measured as relative TSR, EPS and a non-financial measure in the area of sustainability/ESG. The sustainability/ESG performance criteria for the 2023 long-term incentive are related to the advancement of supplier selection and screening by integrating ESG metrics into the sourcing process and establishing a supplier ESG performance dashboard and developing a standardized approach towards supplier data collection.

Based on the contents and quality of the actions taken and strategies developed, the Supervisory Board shall determine performance, whereby: (i) on-target performance results in 100%, maximum performance results in 150% vesting and minimum threshold performance results in 0% vesting.

2021 long-term variable remuneration

Pursuant to the 2021 long-term incentive scheme, 20,245 conditional performance shares have been granted to Joep van Beurden and 9,533 conditional performance shares have been granted to Jeroen Hemmen. The number of conditional performance shares has been calculated as follows:

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

Consistent with the Remuneration Policy governing the 2021 long-term variable remuneration, the vesting percentage of the performance shares is conditional upon the achievement (during the performance period 2021-2023) of performance measured as:

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

A summary description of the performance measure in the area of sustainability for the performance period 2021-2023 has been included in the table below.

Summary description sustainability performance measure – 2021-2023	
Achievement of measures in line with five-year roadmap containing energy efficiency and emission mitigation measures as part of the 2019-2023 sustainability target framework	■ On target performance (i.e. 100% vesting) ■ Max. performance (i.e. 150% vesting) ■ Min. threshold performance (i.e. 0% vesting)

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

TSR and EPS

When measuring the relative TSR (i.e., share price movements, including dividends assuming dividends are reinvested), the position of Kendrion within the predefined TSR performance peer group, as stipulated by the Remuneration Policy for the 2021 long-term variable remuneration, is ten. As per the Remuneration Policy governing the 2021 long-term variable remuneration, the tenth position leads to a 0% vesting.

Based on the EPS performance incentive zones determined by the Supervisory Board by reference to the 2021 mid-term plan, the actual 2023 EPS falls below the predetermined minimum threshold performance level and therefore leads to a 0% vesting.

Sustainability/ESG – five-year energy and CO_2 roadmap

The five-year roadmap containing energy efficiency and emission mitigation measures that has been developed as part of the 2019-2023 sustainability target framework aims to achieve a 15% relative reduction of energy consumption and CO_2 emission by the end of 2023.

As per the end of 2023 a relative reduction of energy consumption of 15.31% has been achieved compared with 2018, and a relative reduction of CO_2 emission of 22.9% compared with 2018 has been achieved. Since 2015 a relative reduction of CO_2 emissions – mostly from energy by production plants – of 56% has been achieved. Through the accelerated investment in and implementation of reduction measures, both the energy efficiency and CO_2 emission target have been achieved.

This achievement justifies on-target performance under the 2021 long-term incentive scheme for the sustainability/ESG performance measure and thereby results in 100% vesting of 20% of the target-value. For Joep van Beurden 4,049 performance shares have vested and for Jeroen Hemmen 1,906 performance shares have vested for the achievement of the sustainability performance measure.

This means that under the 2021 long-term incentive, a total number of 4,049 shares have vested for Joep van Beurden and a total number of 1,906 shares have vested for Jeroen Hemmen.
The vested shares remain subject to a holding period until the end of 2025.

In accordance with the long-term incentive plan, Joep van Beurden and Jeroen Hemmen will be entitled to accrued dividends for each of the 4,049 and 1,906, respectively, vested shares. Accrued dividends will – in accordance with the long-term incentive plan – be paid in cash.

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

Pension arrangement and other benefits

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

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

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

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

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

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

The Executive Board participates in the defined contribution plan of Kendrion. The pension contribution in 2023 was EUR 75,000 (2022: EUR 75,000) for the CEO and EUR 75,000 (2022: EUR 69,000) for the CFO. In 2023 Kendrion provided the CFO with a car allowance in the monthly gross amount of EUR 2,000.

	2022	Expiry	2021	Expiry		2020	Expiry		2019	Expiry		2018	Expiry		2017	Expiry		2016	Expiry	
Long-term incentive	number of shares	vesting period	number of shares	vesting period	holding period	number of shares	vesting period	holding period	number of shares	vesting period	holding period	number of shares	vesting period	holding period	number of shares	vesting period	holding period	number of shares	vesting period	holding period
CEO (J.A.J. van Beurden)	16,465	End of 2024	20,245	End of 2023	End of 2025	16,533	End of 2022	End of 2024	11,559	End of 2021	End of 2023	6,960	End of 2020	End of 2022	3,383	End of 2019	End of 2021	3,970	End of 2018	End of 2020
CFO (J.H. Hemmen)	6,740	End of 2024	9,533	End of 2023	End of 2025	6,769	End of 2022	End of 2024	2,409	End of 2021	End of 2023	Not applicable – effective date of appointment to the Executive Board 1 July 2019								

Share ownership guideline

An objective of the Remuneration Policy is to appropriately align the interests of the members of the Executive Board with the interests of shareholders by encouraging share ownership. As per the Remuneration Policy adopted by the General Meeting of Shareholders on 17 April 2023, Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual fixed gross base salary for the CEO and 50% of the annual fixed gross base salary for the CFO. This shareholding must be gradually built up with performance shares earned under the long-term incentive, although it is permitted to sell shares to finance taxes due at the date of vesting of the performance shares, and by purchasing shares with at least 20% of the net amount of the pay-out of the short-term incentive. However – during the General Meeting of Shareholders held on 17 April 2023 – a commitment was made to propose a further adjustment to the share ownership guideline during the first next General Meeting of Shareholders in 2024. The additional amendment comprises:

- A share ownership requirement for the CEO of 200% of the annual fixed gross base salary of the CEO (as opposed to 100% of the annual fixed gross base salary).
- A share ownership requirement for the CFO of 100% of the annual fixed gross base salary of the CFO (as opposed to 50% of the annual fixed gross base salary).
- The shareholding must be gradually built up with performance shares earned under the long-term incentive, although it is permitted to sell shares to finance taxes due at the date of vesting of the performance shares, and by purchasing shares with at least 50% (as opposed to 20%) of the net amount of the pay-out of the short-term incentive.

Although the abovementioned adjustments will be proposed to the General Meeting of Shareholders for adoption on 15 April 2024, the management agreements with the current members of the Executive Board covering the third term for the CEO and the second term of the CFO, include the abovementioned share ownership requirements and provisions.

Policy in case of change of control

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

Adjustment and claw back

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

Other key elements

Term and termination

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

Termination fee

In the event of termination of the management agreement on Kendrion's initiative, the termination fee for members of the Executive Board shall not exceed 100% of the annual fixed gross base salary (i.e. excluding short-term and long-term incentive and other elements such as pension contributions). The members of the Executive Board are not entitled to a termination fee if the contract is terminated for cause (i.e. seriously culpable or negligent behavior on the part of the Executive Board member) or if the contract is terminated at the initiative of the Executive Board member.

Pay ratio

The Executive Board to employee pay-ratio is approximately 14 (2022: 15). This pay ratio is based on the average of the 2023 Executive Board remuneration including pensions and other expenses and the average wage costs per FTE in 2023 as disclosed on pages 65-66 of this Annual Integrated Report.

Remuneration Policy Supervisory Board

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

The remuneration of the Supervisory Board shall be as described in the table below. The base fee and committee fee levels in the table below are the same as determined by the General Meeting of Shareholders on 11 April 2022.

Base fee		
Chairman Supervisory Board	EUR	59,000
Member Supervisory Board	EUR	41,800
Committee fee		
Chair Audit Committee	EUR	7,200
Member Audit Committee	EUR	6,000
Chair HR Committee	EUR	7,200
Member HR Committee	EUR	6,000

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

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

The aggregate amount of the remuneration of the Supervisory Board members in 2023 was EUR 214,883 (2022: EUR 210,800). The table below gives a breakdown of the remuneration in 2022 per Supervisory Board member.

Supervisory Board member		2023
F.J. van Hout (Chairman)	EUR	65,000
M.J.G. Mestrom	EUR	49,000
J.T.M. van der Meijs	EUR	16,333
E.H. Slijkhuis	EUR	36,750
E.M. Doll	EUR	47,800
Total	**EUR**	**214,883**

Advisory vote remuneration report 2022

The remuneration report 2022 has been discussed with the shareholders and put to the General Meeting of Shareholders for an advisory vote during the annual General Meeting of Shareholders held on 17 April 2023. Of the votes cast, 99.18% voted in favor of the 2022 remuneration report. Supported by this advisory vote, the Executive Board and the Supervisory Board considered that no substantive changes are needed relevant to the application of the Remuneration Policy.
The voting results of the General Meeting of Shareholders held on 17 April 2023 can be found on the corporate website at www.kendrion.com.

Taking account of the content of this 2023 Remuneration Report, it is determined that the aggregate amount of remuneration awarded is in line with the Remuneration Policy and contributes to the performance of Kendrion and the execution of its long-term value creation strategy.

This 2023 Remuneration Report will be discussed with shareholders and put to the General Meeting of Shareholders for an advisory vote during the upcoming annual General Meeting of Shareholders to be held on 15 April 2024.

Remuneration components 2023

(in EUR)	CEO	%	CFO	%
Base salary	553,333	58.11%	342,500	61.64%
Short term incentive	269,584	28.31%	111,548	20.07%
Long term incentive	48,912	5.14%	23,024	4.14%
Pension contribution	75,000	7.88%	75,000	13.50%
Other	5,400	0.57%	3,600	0.65%
Total compensation	**952,229**	**100%**	**555,672**	**100%**

Executive Board remuneration comparative

EUR Thousand	2023	2022	2021	2020	2019
J.A.J. van Beurden, CEO	951.4	1,153.0	1,118.0	984.2	853.5
J.H. Hemmen, CFO	555.0	632.0	565.8	450.4	189.4
Pay ratio	14	15	15	18	14
Company performance					
Revenue (EUR million)	518.6	519.3	464.0	396.4	412.4
Normalized EBITDA (EUR million)	53.1	57.4	55.8	44.6	43.8
Normalized EBITDA margin	10.2%	11.1%	12.0%	11.3%	10.6%

Supervisory Board remuneration comparative

	2023	2022	2021	2020 (excl. fee reduction)	2019	2018	2017	2016
Base fee								
Chairman Supervisory Board	EUR 59,000	EUR 59,000	EUR 45,000	EUR 45,000	EUR 45,000	EUR 45,000	EUR 45,000	EUR 40,000
Member Supervisory Board	EUR 41,800	EUR 41,800	EUR 35,000	EUR 35,000	EUR 35,000	EUR 35,000	EUR 35,000	EUR 30,000
Committee fee								
Chair Committee	EUR 7,200	EUR 7,200	EUR 6,000	EUR 6,000	EUR 6,000	EUR 6,000	EUR 6,000	EUR 5,000
Member Committee	EUR 6,000	EUR 6,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000	EUR 5,000
Total Supervisory Board remuneration	**EUR 210,800**	**EUR 210,800**	**EUR 172,000**	**EUR 172,000**	**EUR 172,000**	**EUR 172,000**	**EUR 172,000**	**EUR 150,000**

FINANCIAL STATEMENTS - CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Note	EUR million	2023	2022
	Assets		
	Non-current assets		
1	Property, plant and equipment	134.5	131.6
2	Intangible assets	125.8	126.5
3	Other investments, including derivatives	0.5	0.4
4	Deferred tax assets	20.1	19.7
5	Contract costs	0.6	0.3
	Total non-current assets	**281.5**	**278.5**
	Current assets		
6	Inventories	87.4	85.1
	Current tax assets	5.7	2.8
7	Trade and other receivables	65.2	70.5
8	Cash and cash equivalents	20.6	37.8
9	Assets classified as held for sale	1.9	1.9
	Total current assets	**180.8**	**198.1**
	Total assets	**462.3**	**476.6**

Note	EUR million	2023	2022
	Equity and liabilities		
10, 11	**Equity**		
	Share capital	30.6	30.2
	Share premium	37.3	38.4
	Reserves	94.2	152.7
	Retained earnings	9.9	(46.3)
	Total equity[1]	**172.0**	**175.0**
	Liabilities		
12	Loans and borrowings	153.2	166.6
13	Employee benefits	8.7	10.7
4	Deferred tax liabilities	19.0	17.5
14	Provisions	0.7	0.7
	Total non-current liabilities	**181.6**	**195.5**
8	Bank overdraft	7.1	3.1
12	Loans and borrowings	5.3	8.4
14	Provisions	–	1.3
	Current tax liabilities	7.4	10.3
15	Contract liabilities	4.4	4.7
16	Trade and other payables	84.5	78.3
	Total current liabilities	**108.7**	**106.1**
	Total liabilities	**290.3**	**301.6**
	Total equity and liabilities	**462.3**	**476.6**

[1] Equity is attributable to owners of the company as non-controlling interests are not applicable.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Note	EUR million	2023	2022
21	Revenue	518.5	519.3
	Other income	0.1	0.5
	Total revenue and other income	**518.6**	**519.8**
	Changes in inventories of finished goods and work in progress	0.6	1.8
	Raw materials and subcontracted work	275.1	268.7
22	Staff costs	151.5	153.6
	Depreciation and amortization	26.8	28.0
1, 2	Impairments of fixed assets	0.1	58.7
23	Other operating expenses	40.7	43.6
	Result before net finance costs	**23.8**	**(34.6)**
24	Finance income	0.2	0.0
24	Finance expense	(10.1)	(5.1)
	Profit before income tax	**13.9**	**(39.7)**
25, 26	Income tax expense	(4.0)	(6.6)
	Profit for the period	**9.9**	**(46.3)**

Note	EUR million	2023	2022
	Other comprehensive income		
13	Remeasurements of defined benefit plans[1]	0.4	1.5
10	Foreign currency translation differences for foreign operations[2]	(4.8)	1.8
10	Net change in fair value of cash flow hedges, net of income tax[2]	(1.5)	1.6
	Other comprehensive income for the period, net of income tax	**(5.9)**	**4.9**
	Total comprehensive income for the period[3]	**4.0**	**(41.4)**
11	Basic earnings per share (EUR), based on weighted average	0.65	(3.09)
11	Basic earnings per share (EUR), based on weighted average (diluted)	0.64	(3.05)

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

2 These items may be reclassified to profit or loss.

3 All profits are attributable to owners of the company as non-controlling interests are not applicable.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2022	**29.9**	**45.8**	**7.6**	**0.2**	**(1.9)**	**127.0**	**14.4**	**223.0**
	Total comprehensive income for the period								
	Loss for the period	–	–	–	–	–	–	(46.3)	(46.3)
	Other comprehensive income								
13	Remeasurements of defined benefit plans	–	–	–	–	–	1.5	–	1.5
10	Foreign currency translation differences for foreign operations	–	–	1.8	–	–	–	–	1.8
10	Net change in fair value of cash flow hedges, net of income tax	–	–	–	1.6	–	–	–	1.6
	Other comprehensive income for the period, net of income tax	–	–	1.8	1.6	–	1.5	–	4.9
	Total comprehensive income for the period	**–**	**–**	**1.8**	**1.6**	**–**	**1.5**	**(46.3)**	**(41.4)**
	Transactions with owners, recorded directly in equity								
10	Issue of ordinary shares	0.3	2.8	–	–	–	–	–	3.1
	Share-based payment transactions	–	–	–	–	0.1	0.4	–	0.5
10	Dividends to equity holders	–	(10.2)	–	–	–	–	–	(10.2)
10	Appropriation of retained earnings	–	–	–	–	–	14.4	(14.4)	–
	Balance at 31 December 2022	**30.2**	**38.4**	**9.4**	**1.8**	**(1.8)**	**143.3**	**(46.3)**	**175.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2023	**30.2**	**38.4**	**9.4**	**1.8**	**(1.8)**	**143.3**	**(46.3)**	**175.0**
	Total comprehensive income for the period								
	Profit for the period	–	–	–	–	–	–	9.9	9.9
	Other comprehensive income								
13	Remeasurements of defined benefit plans	–	–	–	–	–	0.4	–	0.4
10	Foreign currency translation differences for foreign operations	–	–	(4.8)	–	–	–	–	(4.8)
10	Net change in fair value of cash flow hedges, net of income tax	–	–	–	(1.5)	–	–	–	(1.5)
	Other comprehensive income for the period, net of income tax	–	–	(4.8)	(1.5)	–	0.4	–	(5.9)
	Total comprehensive income for the period	**–**	**–**	**(4.8)**	**(1.5)**	**–**	**0.4**	**9.9**	**4.0**
	Transactions with owners, recorded directly in equity								
10	Issue of ordinary shares	0.4	2.7	–	–	–	(0.0)	–	3.1
10	Treasury shares issued	–	–	–	–	0.8	(0.0)	–	0.8
	Share–based payment transactions	–	–	–	–	1.0	(1.0)	–	0.0
10	Dividends to equity holders	–	(3.8)	–	–	–	(7.1)	–	(10.9)
10	Appropriation of retained earnings	–	–	–	–	–	(46.3)	46.3	–
	Balance at 31 December 2023	**30.6**	**37.3**	**4.6**	**0.3**	**–**	**89.3**	**9.9**	**172.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	EUR million	2023	2022
	Cash flows from operating activities		
	Profit / (loss) for the period	9.9	(46.3)
	Adjustments for:		
25	Net finance costs	9.9	5.1
26	Income tax expense	4.0	6.6
1, 2	Depreciation of property, plant and equipment and software	23.6	23.3
2	Amortization of other intangible assets	3.2	4.7
1, 2	Impairments of fixed assets	0.1	58.7
	Share-based payments	0.0	0.5
		50.7	52.6
	Change in trade and other receivables	2.7	(3.2)
	Change in inventories	(3.5)	(5.0)
	Change in trade and other payables	6.7	3.1
	Change in provisions	(2.7)	(0.5)
	Change in contract liabilities	(0.3)	0.2
		53.6	47.2
	Interest paid	(8.4)	(4.1)
	Interest received	0.2	0.0
	Tax paid	(9.0)	(5.2)
	Net cash flows from operating activities	**36.4**	**37.9**

Note	EUR million	2023	2022
	Cash flows from investing activities		
1	Investments in property, plant and equipment	(23.9)	(32.0)
1	Disinvestments of property, plant and equipment	1.1	0.2
2	Investments in intangible fixed assets	(6.4)	(5.7)
2	Disinvestments of intangible fixed assets	0.1	0.0
3	Investments of other investments	(0.5)	(0.4)
	Net cash from investing activities	**(29.6)**	**(37.9)**
	Cash flows from financing activities		
12	Payment of lease liabilities	(3.2)	(3.3)
	(Repayments of) / proceeds from borrowings (non-current)	(14.4)	30.8
12	(Repayments of) / proceeds from borrowings (current)	(3.1)	1.7
10	Dividends paid	(7.1)	(7.1)
	Net cash from financing activities	**(27.8)**	**22.1**
	Change in cash and cash equivalents	(21.0)	22.1
8	Cash and cash equivalents at 1 January	34.7	12.5
	Effect of exchange rate fluctuations on cash held	(0.2)	0.1
8	**Cash and cash equivalents at 31 December**	**13.5**	**34.7**

Reporting entity

Kendrion N.V. (the 'Company') is domiciled in the Netherlands. The Company's registered office is at Herikerbergweg 213, 1101 CN Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2023 comprise the Company and its subsidiaries (together also referred to as the 'Group'). The Group is involved in the design and manufacture of intelligent actuators that are used in wind turbines, robots, factory automation, energy distribution, and industrial heating processes, and of innovative solutions for automotive focused on sound systems, smart suspension valves and sensor cleaning.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements as of 31 December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS IC interpretations (IFRIC), published by the International Accounting Standards Board (IASB) as adopted by the European Union (hereinafter referred to as EU-IFRS) and in accordance with the legal requirements of Part 9, Book 2 of the Dutch Civil Code. The Company financial statements are integrated part of the 2023 financial statements of Kendrion N.V.

The financial statements were authorized for issue by the Executive Board on 28 February 2024.

(b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis except that:
- derivative financial instruments are stated at fair value;
- the defined benefit liability is recognized as net total of plan assets and present value of the defined benefit obligations;

The Executive Board had, at the time of approving the financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The methods used to measure the fair values are disclosed in note r. In preparing these consolidated financial statements, the Executive Board has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Executive Board made critical judgements in the process of applying Group's accounting policies and have the most significant effect on the amounts recognized in the consolidated financial statements, see notes:
- note 2 – goodwill impairment testing;

- note 6 – inventories.

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

- note 2 – management forecast and growth rate of each cash-generating unit to determine whether goodwill is impaired;
- note 2 – management forecast of cashflows to determine whether customer relations are impaired;
- note 4 – management forecast of profit before tax for utilisation of tax losses;
- note 4 – outcome of tax audits;
- note 6 – valuation of inventories;
- note 7 – valuation of customer claims;
- note 13 – valuation of defined benefit obligations;
- note 14 – provisions;
- note 18 – leases.

Due to the impact on climate change supported by various legislative initiatives, the automotive industry is transitioning from combustion engine vehicles to electric and hybrid vehicles, which impacts the Groups Automotive business. The imminent phase out of existing technologies has impacted the accounting estimates around the valuation of goodwill. The economic life and valuation of the tangible fixed assets is not impacted by this changed outlook. On the other hand the transition towards electrification in automotive and the broader energy transition poses opportunities for the Group to develop new strategically relevant products and secure profitable growth for the future.

Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

No business combination or acquisition of non-controlling interest occurred in 2023.

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

If the excess is negative, a bargain purchase gain is recognized 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 recognized 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 recognized in profit or loss.

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

Intragroup balances and transactions, as well as any unrealized 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 recognized 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 recognized 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 recognized 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 capitalized borrowing costs.

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

(ii) Lease

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

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

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

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

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

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

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

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

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

Lease liability might include:

- Fixed lease payments;
- Amounts expected to be payable under a residual value guarantee;

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

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

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

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

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized 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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized as an incurred charge in profit or loss.

(iv) Depreciation

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

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

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

(v) Recognition of transaction results

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

(d) Intangible assets

(i) Goodwill

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

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

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

(ii) Research and development

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

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized 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 capitalized 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 capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss when incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortization

Amortization is recognized 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 amortized from the date they are available for use. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Financial instruments and other investments

Financial instruments

Non-derivative financial instruments

Recognition and initial measurement

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

Classification and subsequent measurement

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows.

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

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

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

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

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

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

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Derecognition

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

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

Offsetting

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

Other investments

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

Trade and other receivables

Trade and other receivables represent the Group's right to an amount of consideration that is unconditional. Trade and other receivables are carried at amortized cost, less impairment losses (see note g). An exception is made for trade receivables of designated customers of a limited number of subsidiaries of the Group, which are sold to a factoring company, with limited recourse. These trade debtors are measured at fair value through profit and loss, until they are derecognized at the moment that the invoices are sold to the factoring company.

Recognized interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are carried at amortized 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 amortized 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 amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. At 31 December 2023, no embedded derivatives existed.

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

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

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

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

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

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

(f) Inventories

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

(g) Impairment

(i) Financial assets

The Group recognizes impairments for financial assets based on the 'expected credit loss' model. The Group measures loss allowances at an amount equal to the lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance to the contract and the cash flows that the Group expects to receive.
The Group makes use of the simplified method for trade receivables and contracts assets as set out in IFRS 9.

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

All impairment losses are recognized 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 recognized.
For financial assets measured at amortized cost, the reversal is recognized 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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(iii) Reversal of impairment losses

Impairment losses in respect of goodwill are not reversed. Impairment losses in respect of other assets are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.
Reversals of impairment losses are recognized in profit or loss.

(iv) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortized 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 recognized as a deduction from equity, net of any tax effect.

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

When own shares recognized as equity are repurchased, the amount of the consideration paid, including directly attributable costs and net of any tax effects, is recognized 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 recognized 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 recognized 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 recognized as an employee benefit expense in profit or loss when incurred. Prepaid contributions are recognized as an asset to the extent that a cash refund or reduction in future payments will occur.

(ii) Defined benefit plans

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

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized 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 recognizes 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 recognized immediately in profit or loss when the plan amendment or curtailment occurs. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

(iii) Other long-term service benefits

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

(iv) Share-based payment transactions

As only equity settled share-based payments are applicable only the accounting policy for these transactions has been included.
The fair value on the grant date of share-based payment awards made to employees and the Executive Board is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized 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 recognized 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 recognized 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 recognized 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 recognized in the statement of financial position if the Group has a present legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that settlement of the obligation will involve an outflow of funds. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Restructuring provisions

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

(k) Assets classified as held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(l) Revenue

Revenue from contracts with customers

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

Sale of goods

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

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

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

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

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

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

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

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

(m) Expenses

(i) Lease expenses – short-term leases and leases of low-value assets

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

(ii) Net finance costs

Finance income comprises interest income on funds invested, and financial assets held to maturity. Interest income is recognized 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 recognized on financial assets and losses on interest rate hedge instruments to the extent they are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

Realized and unrealized 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.

(n) Income tax

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

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

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

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

(o) 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.

(p) 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 has four operating segments, the business groups Industrial Brakes and Industrial Actuators and Automotive Core and Automotive E, which are subgroups to the business group Automotive. 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, on the basis of the aggregation criteria of IFRS 8.12, these operating segments have been aggregated into three reportable segments: Automotive Core, Automotive E and Industrial. In accordance with IFRS 8, the Company also discloses general and entity-wide information, including information about geographical areas and major customers of the Group as a whole. More information on the reportable segments is provided in note 21.

(q) New standards and interpretations

A number of amendments to standards are effective, and have been endorsed by the European Union, for annual periods beginning on or after 1 January 2023 and therefore apply to the year ended 31 December 2023:

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policy (amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimate (amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)
- International Tax reform – Pillar Two Models Rules (Amendments to IAS12)

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

The following standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are not effective at 31 December 2023 and are not expected to have a significant impact on the Group's consolidated financial statements:

- Amendments to IAS 1 - Classification of liabilities as current or non-current
- Amendments to IAS 1 - Non-current Liabilities with Covenants
- Amendments to IFRS16 - Lease Liability in a Sale and Leaseback
- Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

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

(iii) Intangible assets

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

(iv) Lease liabilities

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

(v) Inventories

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

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

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

(vii) Interest-bearing loans

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

(viii) Derivatives

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

(ix) Non-derivative financial liabilities

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

(x) Contingent consideration

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

(s) Financial risk management

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

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

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

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

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

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

(i) Credit risk

Credit risk is the risk of financial loss to the Group in the event that a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risks arise primarily from accounts receivable, derivative transactions concluded with banks, and cash positions and deposits held with banks. The Group continually monitors the credit risk within the Group. The Group does not normally require collateral for trade and other receivables or financial assets.
The credit policy includes an assessment of the creditworthiness of every new major customer before offering payment and delivery terms. This assessment includes external credit ratings or reports if they are available. The creditworthiness of major customers is actively monitored on an ongoing basis.
The Group recognizes 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 concentration risk

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. More details on credit concentration risk can be found in note 17.

(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 12 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of HSBC and ING Bank on an equal basis. The Group had approximately EUR 66 million available in cash and undrawn facilities 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 75 million in order to reduce interest rate risk exposure to increasing market rates. EUR 25 million matures in 2024, EUR 25 million in 2025 and EUR 25 million in 2026.

(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 realized in the euro zone. Sales outside the euro zone are partly generated locally and partly through exports from the euro zone. Most of these exports are realized 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. Exchange rate risks are hedged with derivatives.

Other currencies are actively monitored and where needed exposure is hedged, however less structural exposure is identified.

The Group also actively hedges intercompany loans in foreign currencies with currency forwards, swaps or back-to-back loans in the same foreign currency.
Pursuant to the Group's policy for other monetary assets and liabilities denominated in a foreign currency, net exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates as required to correct short-term imbalances.

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

(viii) Other price risks

Steel, copper and rare earth metals used in permanent magnets are the most important commodities for the Group.

Copper constitutes the Group's main direct exposure to raw material price risks, since copper wire is an important component of electromagnets. Pursuant to the Group's policy, the sensitivity to copper prices is actively reduced both by concluding fixed-price purchase contracts in the normal course of business with copper wire suppliers and by including raw material clauses in sales contracts. As the need arises the Group can also conclude derivative financial instrument contracts with financial counterparties to hedge the copper risk. No financial derivative contracts for raw materials were outstanding at the balance sheet date.
The Group is also exposed to risks associated with rare earth metals such as neodymium, a component of permanent magnets, which are used in some of the Group's products. Prices of these commodities have shown significant volatility in the past. The Group closely monitors developments in this market and has increased stock levels and the number of supply sources for these permanent magnets.

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

The Group is mainly indirectly exposed to raw material price risks relating to oil and steel, primarily as part of the purchase prices of machined components. This exposure is monitored and, if feasible, reduced by means of raw material clauses with customers and by concluding fixed-price agreements with suppliers for periods of between six and twelve months. The Kendrion steel contracts also partly govern the purchasing from component suppliers.
Raw materials are purchased separately by each business unit, but in accordance with the group policy reviewed periodically with the objective of further increasing and sharing knowledge on commodities and commodity markets between business units, reducing risks and/or prices.

(ix) Capital management

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

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

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

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

(t) Government Grants

Grants that compensate the Group for expenses incurred are recognized in profit or loss as deduction on the related expense on a systematic basis in the periods in which the expenses are recognized, unless the conditions for receiving the grant are met after the related expenses have been recognized. In this case, the grant is recognized when it becomes receivable.

1 Property, plant and equipment

EUR million	2023	2022
Property, plant and equipment owned	122.0	118.3
Property, plant and equipment right-of-use assets	12.5	13.3
Total	**134.5**	**131.6**

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Balance as at 1 January 2022					
Costs	68.1	162.2	63.0	22.5	315.8
Accumulated depreciation and impairment losses	(34.2)	(119.7)	(50.6)	(3.8)	(208.3)
Carrying amount as at 1 January 2022	33.9	42.5	12.4	18.7	107.5
Acquired, other	2.4	11.7	6.4	26.6	47.1
Disposals	(0.9)	(1.3)	(0.3)	(12.8)	(15.3)
Currency translation differences	0.0	0.2	0.0	0.2	0.4
Reclassified to held for sale	(1.6)	(0.1)	(0.2)	–	(1.9)
Depreciation for the year	(2.5)	(11.1)	(4.5)	–	(18.1)
Impairments	(0.7)	(0.1)	(0.0)	(0.6)	(1.4)
Carrying amount as at 31 December 2022	30.6	41.8	13.8	32.1	118.3

Property, plant and equipment owned EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Balance as at 1 January 2023					
Costs	68.0	172.7	68.9	36.5	346.1
Accumulated depreciation and impairment losses	(37.4)	(130.9)	(55.1)	(4.4)	(227.8)
Carrying amount as at 1 January 2023	30.6	41.8	13.8	32.1	118.3
Acquired, other	6.8	6.1	4.4	5.6	22.9
Disposals	(0.1)	(0.7)	(0.3)	(0.0)	(1.1)
Transfer	21.1	3.8	1.7	(24.6)	2.0
Currency translation differences	(0.1)	(0.3)	(0.1)	(1.6)	(2.1)
Depreciation for the year	(2.5)	(10.7)	(4.7)	–	(17.9)
Impairments	(0.0)	(0.1)	(0.0)	–	(0.1)
Carrying amount as at 31 December 2023	55.8	39.9	14.8	11.5	122.0
Costs	95.7	181.6	74.6	15.9	367.8
Accumulated depreciation and impairment losses	(39.9)	(141.7)	(59.8)	(4.4)	(245.8)
Carrying amount as at 31 December 2023	55.8	39.9	14.8	11.5	122.0

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Balance as at 1 January 2022					
Costs	22.5	0.2	3.8	–	26.5
Accumulated depreciation and impairment losses	(8.8)	(0.2)	(3.1)	–	(12.1)
Carrying amount as at 1 January 2022	13.7	0.0	0.7	–	14.4
Acquired, other	0.9	0.0	0.6	–	1.5
Disposals	(0.0)	–	(0.0)	–	(0.0)
Currency translation differences	0.2	0.0	(0.0)	–	0.2
Depreciation for the year	(2.3)	(0.0)	(0.5)	–	(2.8)
Carrying amount as at 31 December 2022	12.5	0.0	0.8	–	13.3

Right-of-use assets EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Balance as at 1 January 2023					
Costs	23.6	0.2	4.4	–	28.2
Accumulated depreciation and impairment losses	(11.1)	(0.2)	(3.6)	–	(14.9)
Carrying amount as at 1 January 2023	12.5	0.0	0.8	–	13.3
Acquired, other	3.3	–	0.7	–	4.0
Disposals	(0.1)	–	(0.0)	–	(0.1)
Transfer	(2.0)	–	–	–	(2.0)
Currency translation differences	(0.1)	(0.0)	(0.0)	–	(0.1)
Depreciation for the year	(2.1)	(0.0)	(0.5)	–	(2.6)
Carrying amount as at 31 December 2023	11.5	0.0	1.0	–	12.5
Costs	24.7	0.2	5.1	–	30.0
Accumulated depreciation and impairment losses	(13.2)	(0.2)	(4.1)	–	(17.5)
Carrying amount as at 31 December 2023	11.5	0.0	1.0	–	12.5

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

The estimated useful lives of the property, plant and equipment are as follows:

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

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

During 2023, the group bought one building for the residual value (equal the purchase price) of EUR 2.0 million. Depreciation of EUR 20.5 million (2022: EUR 20.9 million) is recognized in Depreciation and amortization in the consolidated statement of profit and loss and other comprehensive income. Impairments of EUR 0.1 million (2022: EUR 1.4 million) are recorded in Impairments of fixed assets in the consolidated statement of profit and loss and other comprehensive income.

2 Intangible assets

EUR million	Goodwill	Development costs	Software	Concessions	Other	Total
Balance as at 1 January 2022						
Costs	133.7	10.6	30.3	1.1	75.1	250.8
Accumulated amortization and impairment losses	–	(4.8)	(25.0)	(0.0)	(37.6)	(67.4)
Carrying amount as at 1 January 2022	133.7	5.8	5.3	1.1	37.5	183.4
Acquired, other	–	3.1	3.4	–	–	6.5
Disposals	–	–	(0.8)	–	–	(0.8)
Currency translation differences	1.7	(0.2)	0.0	(0.0)	0.3	1.8
Amortisation for the year	–	(0.9)	(1.4)	(0.1)	(4.7)	(7.1)
Impairments	(54.7)	–	–	–	(2.6)	(57.3)
Carrying amount as at 31 December 2022	80.7	7.8	6.5	1.0	30.5	126.5
Balance as at 1 January 2023						
Costs	135.4	13.5	32.9	1.1	75.4	258.3
Accumulated amortization and impairment losses	(54.7)	(5.7)	(26.4)	(0.1)	(44.9)	(131.8)
Carrying amount as at 1 January 2023	80.7	7.8	6.5	1.0	30.5	126.5
Acquired, other	–	3.3	3.1	–	–	6.4
Disposals	–	(0.1)	(0.0)	–	–	(0.1)
Currency translation differences	(0.2)	(0.4)	(0.0)	(0.1)	–	(0.7)
Amortisation for the year	–	(1.3)	(1.8)	(0.0)	(3.2)	(6.3)
Impairments	–	–	–	–	–	–
Carrying amount as at 31 December 2023	80.5	9.3	7.8	0.9	27.3	125.8
Costs	135.2	16.3	36.0	1.0	75.4	263.9
Accumulated amortization and impairment losses	(54.7)	(7.0)	(28.2)	(0.1)	(48.1)	(138.1)
Carrying amount as at 31 December 2023	80.5	9.3	7.8	0.9	27.3	125.8

Goodwill has an indefinite estimated useful life. The estimated useful life of software is between three and eight years. The estimated useful life of other intangible assets is approximately between eight and nineteen years. The Executive Board reviews at each reporting period the estimated useful lives of each intangible asset with a definite useful life.

Development costs of EUR 3.3 million (2022: EUR 3.1 million) mainly relate to the AVAS sound platform and a platform application for sensor cleaning. The investments in software during 2023 of EUR 3.1 million (2022: EUR 3.4 million) mainly relate to various software upgrades, business application projects and infrastructure projects. The other intangible assets mainly comprise the carrying amount of customer relationships of EUR 27.0 million (2022: EUR 30.0 million). These customer relationships were acquired through business combinations.

Amortization of EUR 6.3 million (2022: EUR 7.1 million) is recognized in Depreciation and amortization in the consolidated statement of profit and loss and other comprehensive income. Note that for Cash Flow Statement purposes the amortization of software, capitalized development costs and concessions is added to the line 'Depreciation of property, plant and equipment and software'.

The Group did not recognize any impairment of intangible fixed assets in this reporting period. In 2022, the Group recognized an impairment of EUR 57.3 million on the line impairments of fixed assets in the consolidated statement of profit and loss and other comprehensive income. Refer to the next paragraph for goodwill impairment testing.

Impairment testing for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to groups of CGUs, which reflect the level on which goodwill is monitored.

Goodwill EUR million	2023	2022
Industrial Actuators and Controls (IAC)	39.4	39.6
Industrial Brakes (IB)	33.8	33.8
Automotive Core (Core)	–	–
Automotive E (E)	7.3	7.3
	80.5	80.7

As per the end of 2022, these groups of CGUs have been revised as a direct consequence of our strategy to focus on enabling the energy transition, resulting in the organizational split of the Business Group Kendrion Automotive Group in Automotive E and Automotive Core. Both units are servicing distinct segments of the automotive market with specific product technologies. While Automotive Core focuses on existing technologies for combustion engine vehicles, Automotive E focuses on the development and marketing of new technologies for autonomous, connected and electric vehicles.

Key assumptions and method of quantification

Pursuant to IAS 36, the Group has performed an impairment test with reference to the goodwill allocated to each group of 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. In previous year, the impairment test for both Automotive CGUs had been performed as per December 31, since the organizational split became effective at the end of 2022. In the current year, the impairment test for Automotive E has been performed as per September 30. The Group considered the 2022 test per December 31 exceptional and has continued to perform the testing at the regular date of September 30.

For all groups of CGUs, the cash flows for the first five years were based on budgets and mid-term plans drawn up by the local management and approved by the Executive Board and Supervisory Board. For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a terminal growth rate of 1.5% - 2.0% taken into account. The forecasts 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 expansion investments was also excluded. This is particularly relevant for the goodwill CGUs where significant growth is expected and strategic investments are planned.

Key assumptions used in the calculation of recoverable amounts concern discount rates, terminal value growth rates, EBITDA margin growth and revenue growth. Key assumptions are based on past experience, management assessment of revenue and external sources.

Key assumptions	Pre-tax discount rate		Terminal value growth rate	
	2023	2022	2023	2022
Industrial Actuators and Controls (IAC)	13.4%	13.2%	1.5%	1.5%
Industrial Brakes (IB)	13.4%	13.2%	1.5%	1.5%
Kendrion Automotive Core (Core)	–	18.4%	–	(35.0)%
Automotive E (E)	12.9%	11.0%	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 25%. The post-tax weighted average cost of capital rates of cash generating units amount to 10.5% for IAC, IB and Automotive E, and these rates were used for calculating the post-tax cash flows.

Terminal value growth rate
The cash generating units IAC, IB and Automotive E have five years of cash flows included in their discounted cash flow models. A long-term growth rate in perpetuity has been assumed on the basis of a growth rate of 1.5% for IAC and IB and 2.0% for Automotive E. The slightly higher long-term growth rate of Automotive E is a reflection of higher long term inflation expectations and the fact that is expected that the Automotive E CGU, focusing on a relatively young market segment, will not have reached maturity after the 5 year projection period.

Revenue and EBITDA margin
For the cash generating units IAC, IB and Automotive E the revenue and EBITDA margin[1] development of the cash generating units are based on the strategic business plans for the coming 5 years. The growth rates are based on the expectation of market developments and management's assessment of the project pipeline of the cash generating units. The average annual growth rates for revenue in the first 5 years range between 2% and 9% for IAC and IB and between 11% and 23% for Automotive E, the total development of the EBITDA margin is in line with the long-term group target of at least 15% by 2025.

1 Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to reconciliation of non-IFRS information, starting on page 207.

Sensitivity to changes in assumptions

The recoverable amounts of all cash-generating units with goodwill exceed their carrying amounts. Management has carried out an analysis of sensitivity to changes in the key assumptions. Sensitivity analyses are performed based on a change in an assumption while holding other assumptions constant. The following changes in assumptions are assessed:

- Increase of the discount rate (post-tax) by 2.0%;
- Decrease of terminal value growth rate by 1.0%;
- Decrease of average revenues growth by 3.0%;

Based on the sensitivity analyses performed it is concluded that any reasonable changes in the key assumptions would not require an impairment for IAC, IB and Automotive E.

3 Other investments, including derivatives

Other investments in 2023 include financial derivatives and capitalized professional fees related to the facility agreement (see note 12). Kendrion amortizes 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.

EUR million	2023	2022
Equity-accounted investee	0.0	0.0
Other	0.5	0.4
	0.5	0.4

4 Deferred tax assets and liabilities

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

Germany

At 31 December 2023, the tax loss carry forwards amounted to EUR 11.1 million (2022: EUR 4.7 million) (Trade Tax) and EUR 6.2 million (Corporate Income Tax) (2022: zero). These are recognized in full, resulting in deferred tax assets of EUR 2.3 million (2022: EUR 0.6 million).

United States of America

At 31 December 2023, the tax loss carry forwards amounted to EUR 17.0 million (2022: EUR 15.6 million) (Federal Tax) and EUR 7.8 million (2022: EUR 6.9 million) (State Tax). Federal Tax carry-forward losses are not recognized, a deferred tax asset is recorded for EUR 4.8 million of the State Tax carry-forward losses resulting in a deferred tax assets of EUR 0.2 million (2022: EUR 1.1 million).

China

At 31 December 2023, the tax loss carry-forwards amounted to EUR 29.7 million (2022: EUR 21.5 million). EUR 3.2 million of these carry-forward losses are not recognized, a deferred tax asset is recorded of EUR 6.6 million (2022: EUR 4.6 million).

The Netherlands

At 31 December 2023, the tax loss carry-forwards amounted to EUR 1.9 million (2022: EUR 5.0 million). These are recognzed in full, resulting in a deferred tax asset of EUR 0.5 million (2022: EUR 0.7 million).

Deferred tax assets and liabilities included in the financial position

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

	Assets		Liabilities		Net	
EUR million	2023	2022	2023	2022	2023	2022
Property, plant and equipment	1.4	2.8	3.8	3.7	(2.4)	(0.9)
Intangible assets	3.0	4.4	13.0	12.4	(10.0)	(8.0)
Inventories	1.3	1.0	0.3	0.3	1.0	0.7
Employee benefits	0.4	0.8	0.2	0.2	0.2	0.6
Provisions	0.0	0.2	0.0	0.0	0.0	0.2
Other items	4.4	3.1	1.7	0.9	2.7	2.2
Tax value of recognized loss carry-forwards	9.6	7.4	–	–	9.6	7.4
Deferred tax assets/liabilities	20.1	19.7	19.0	17.5	1.1	2.2

The deferred tax liabilities relate largely 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. Other deferred tax assets relate mainly to deferred revenues and accruals.

Deferred tax assets are recognized 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 realized; such reductions are reversed if the probability of future taxable profits improves. Whether Kendrion is able to realize its deferred tax assets is an estimate that has an element of inherent uncertainty to it. Both the budget 2024 and mid-term plan, which include the projections for the upcoming years, are based upon expectations of the market, contracts that have been signed and negotiations currently ongoing for new contracts. Based on this, Kendrion expects a substantial increase in China's revenues and results in the upcoming years in order to realize the deferred tax asset. 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 recognized and unrecognized carry forward tax losses in case of a direct or indirect change in ownership.

The tax losses carry forward for which no deferred tax assets are recognized in the statement of financial position are reviewed each reporting date. These tax losses carry forward for which no deferred tax assets are recognized in the statement of financial position amount to EUR 20.2 million (2022: EUR 13.8 million).

Movement in temporary differences during the financial year

				2023
Net, EUR million	At 1 January	Recognized in profit and loss	Recognized in other comprehensive income	At 31 December
Property, plant and equipment	(0.9)	(1.5)	–	(2.4)
Intangible assets	(8.0)	(2.0)	–	(10.0)
Inventories	0.7	0.3	–	1.0
Employee benefits	0.6	(0.4)	(0.0)	0.2
Provisions	0.2	(0.2)	–	0.0
Other items	2.2	0.1	0.4	2.7
Tax value of loss carry-forwards	7.4	2.2	–	9.6
	2.2	(1.5)	0.4	1.1

				2022
Net, EUR million	At 1 January	Recognized in profit and loss	Recognized in other comprehensive income	At 31 December
Property, plant and equipment	(1.9)	1.0	–	(0.9)
Intangible assets	(8.9)	0.9	–	(8.0)
Inventories	0.1	0.6	–	0.7
Employee benefits	1.4	(0.1)	(0.7)	0.6
Provisions	0.0	0.2	–	0.2
Other items	2.7	0.1	(0.6)	2.2
Tax value of loss carry-forwards	7.2	0.2	–	7.4
	0.6	2.9	(1.3)	2.2

5 Contract costs

EUR million	2023	2022
Balance at 1 January	0.3	0.5
Costs to obtain a contract with customers	0.4	–
Amortization	(0.1)	(0.2)
Balance at 31 December	0.6	0.3

From time to time, the Group acquires contracts with customers, for which costs are made to acquire these contracts. Those costs are recognized as contracts costs. Contract costs are amortized on a systematic basis that is consistent with the Group's transfer of the related goods to the customer.

6 Inventories

EUR million	2023	2022
Raw materials, consumables, technical materials and packing materials	57.2	54.4
Work in progress	16.2	16.4
Finished goods	11.4	11.7
Goods for resale	2.6	2.6
	87.4	85.1

The value of inventory recorded as an expense in 2023 amounts to EUR 263.1 million (2022: EUR 259.7 million). The inventories are presented after accounting for a provision of EUR 8.1 million (2022: EUR 8.0 million) for obsolescence. In 2023, the release of the write-down to net realisable value of the inventories in earlier years was EUR 0.5 million (2022: EUR 0.6 million release). The write-down and reversals are included in Raw material and subcontracted work.

7 Trade and other receivables

EUR million	2023	2022
Trade receivables	54.4	58.8
Other taxes and social security	2.4	2.9
Other receivables	6.2	4.2
Derivatives used for hedging	1.0	2.4
Prepayments	1.2	2.2
	65.2	70.5

The credit and currency risks associated with trade and other receivables are disclosed in note 17, and in the financial risk management paragraph of note q. The provision for doubtful debts amounts to EUR 0.2 million (2022: EUR 0.2 million).
The receivables are mainly held according to the 'held-to-collect' business model. For certain designated customers Kendrion applies factoring.
At the end of 2023, an amount of EUR 6.8 million (2022: EUR 4.9 million) was sold to a factoring company and was derecognized.

8 Cash and cash equivalents

EUR million	2023	2022
Cash and cash equivalents	20.6	37.8
Bank overdrafts	(7.1)	(3.1)
Cash and cash equivalents in the statement of cash flows	13.5	34.7

The cash and cash equivalents include EUR 0.5 million (2022: EUR 0.5 million) of cash that is held in countries where the Group faces cross-border foreign exchange controls and/or other legal restrictions that inhibit the Groups ability to make these balances available for general use by the Group.

The other bank balances are freely available. The interest rate risk for the Group and a sensitivity analysis for financial assets and liabilities are disclosed in notes 17 and accounting policy s.

9 Assets classified as held for sale

The assets classified as held for sale relate to a building in where Kendrion Eibiswald GmbH conducted its business. While a sale is expected within a year this is not in full control of the company. Also refer to note 20.

10 Capital and reserves

Capital and share premium

	Shares entitled to dividend		Shares owned by Kendrion		Total number of issued shares	
	2023	2022	2023	2022	2023	2022
At 1 January	15,026,305	14,841,072	88,316	93,663	15,114,621	14,934 735
Issued shares (share dividend)	199,358	179,886	(40,038)	–	159,320	179,886
Issued registered shares (share plan)	2,073	–	–	–	2,073	–
Granted shares	48,278	5,347	(48,278)	(5,347)	–	–
At 31 December	15,276,014	15,026,305	–	88,316	15,276,014	15,114,621

Issuance of ordinary shares

In 2023, in total 199,358 new shares were issued (2022: 179,886). During 2023, the Company delivered 48,278 shares to the Executive Board and senior management as part of its share plan and remuneration packages (2022: 5,347).

Ordinary shares

The authorized share capital consists of:

EUR million	2023	2022
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2023: 15,114,621 ordinary shares (2022: 14,934,735)	30.2	29.9
Balance at 31 December 2023: 15,276,014 ordinary shares (2022: 15,114,621)	30.6	30.2

Share premium

EUR million	2023	2022
Balance as at 1 January	38.4	45.8
Dividend payment	(3.8)	(10.2)
Share premium on issued shares	2.7	2.8
Balance as at 31 December	37.3	38.4

Translation reserve

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

Hedge reserve

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

The hedge reserve decreased by EUR 1.2 million due to the realization of hedged transactions (2022: EUR 0.0 million increase). The hedge reserve decreased by EUR 0.3 million due to valuation effects (2022: EUR 1.6 million increase). There was no hedge ineffectiveness in 2023 (2022: no hedge ineffectiveness).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for issuance of share dividend and the remuneration packages for the Executive Board. At 31 December 2023, the Company held 0 of its own shares (2022: 88,316).

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 2023, the result for 2022 was fully transferred to other reserves. Retained earnings in the 2023 financial statements consequently consist solely of the result for 2023.

Dividends
The following dividends were paid by the Company for the year:

EUR million	2023	2022
0.72 euro per qualifying ordinary share (2022: 0.69 euro)	10.9	10.2

After the reporting date, the following dividends were proposed by the Executive Board. The dividends have not been recognized as liabilities and there are no tax consequences in 2023.

EUR million	2023	2022
0.45 euro per qualifying ordinary share (2022: 0.72 euro)	6.9	10.8

11 Earnings per share

Basic earnings per share
The calculation of the basic earnings per share at 31 December 2023 is based on the profit for the period of EUR 9.9 million (2022: EUR (46.3) million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2023: 15,197,000 (2022: 14,965,000).

EUR million	2023	2022
Net profit attributable to ordinary shareholders	9.9	(46.3)

Weighted average number of ordinary shares

In thousands of shares	2023	2022
Issued ordinary shares at 1 January	15,115	14,935
Effect of shares issued as share dividend	159	180
Effect of shares issued as share plan	2	–
Ordinary shares outstanding at 31 December	15,276	15,115
Weighted average number of ordinary shares entitled to dividend	15,197	14,965
Basic earnings per share (EUR), based on ordinary shares outstanding at 31 December	0.65	(3.06)
Basic earnings per share (EUR), based on weighted average	0.65	(3.09)

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2023 is based on the profit of EUR 9.9 million (2022: EUR (46.3) million) attributable to the holders of ordinary shares and the weighted average numbers of shares during the year after adjustment for the effects of all dilutive potential ordinary shares of 15,384,000 (2022: 15,158,000).

EUR million	2023	2022
Net profit attributable to ordinary shareholders	9.9	(46.3)
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	9.9	(46.3)

Weighted average number of ordinary shares (diluted)

In thousands of shares	2023	2022
Weighted average number of ordinary shares entitled to dividend	15,197	14,965
Weighted average numbers of ordinary shares (diluted)	15,384	15,158
Basic earnings per share (EUR), based on weighted average (diluted)	0.64	(3.05)

12 Loans and borrowings

This note contains information on the contractual provisions of the Group's interest-bearing loans and borrowings, which are carried at amortized cost. For further information on the interest rates, and the currency and liquidity risks borne by the Group, see note 17 and accounting policy q.

EUR million	2023	2022
Non-current liabilities		
Bank syndicate loans	62.0	82.5
Schuldschein loans	72.2	72.1
Lease liabilities	10.9	9.7
Other loans	8.1	2.3
	153.2	166.6

EUR million	2023	2022
Current liabilities		
Current portion lease liabilities	2.6	3.5
Current portion loans	2.7	4.9
	5.3	8.4

Schuldschein loans

On 14 April 2022, Kendrion Finance BV successfully completed a EUR 72.5 million transaction in the Schuldschein private placement market.
The Schuldschein loans exist out of a EUR 52.5 million loan maturing in April 2027 and a EUR 20 million loan maturing in April 2025. The interest rates on the loans are based on 6-month Euribor plus a margin (between 1.0% – 1.25%). The margin is linked to the ESG score of the Kendrion Group as rated by Ecovadis. From 2023 onwards, an increase in ESG rating of 10 percent points or more results in a 5 basis point decrease of the margin. Vice versa, a 5 percent point decrease in ESG score, results in a 5 basis points margin increase. The ESG rating of the Group improved to 61 out of 100 in 2023 (2022: 58 out of 100). The Group is in the top 19% of ESG rated general manufacturing companies.
The loans include a financial covenant relating to the leverage ratio. The leverage ratio (calculated as interest bearing debt / normalized EBITDA) should remain below 3.25, which under certain circumstances can be temporarily increased to a maximum of 3.75. This covenant is tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 2.7 (2022: 2.4). A reconciliation of normalized EBITDA can be found on page 210.

Revolving credit facility agreement

On 29 April 2022, Kendrion agreed upon a revolving credit facility agreement of EUR 102.5 million with ING Bank and HSBC. The credit facility at the time had a maturity of 3 years, with two one-year extension options. During 2023, the Group has extended the facility by 1 year.
The interest rates on the loans are based on 6-month Euribor plus a margin (between 0.7% and 1.85%). The margin is based on the leverage ratio of the Group. In addition, the interest rates are linked to the ESG score of the Kendrion Group, via the same mechanism as the Schuldschein loans.

The facility agreement includes an option for Kendrion to request to increase the facility of maximum EUR 50 million (incremental facility). In case Kendrion requests an incremental facility, the terms and conditions of this facility are agreed upon separately between Kendrion and the lenders. In addition, the facility agreement allows the Group to attract designated additional alternative sources of debt funding. The leverage ratio covenant is the same as for the Schuldschein loans.

Credit lines

At 31 December 2023, the Group had the following credit lines available:

- EUR 102.5 million revolving Credit Facility with a syndicate of two banks consisting of HSBC and ING Bank. The Credit Facility is committed until April 2026 with a one-year extension option and includes an option (accordion option) to increase the facility by a maximum of EUR 50 million;
- EUR 72.5 million Schuldschein private placement loans;
- EUR 13.5 million in leases for buildings, various equipment and vehicles;
- EUR 4.0 million other loans were mainly acquired through business combinations in 2020, with maturities in 2024 – 2026;
- EUR 7.6 million mortgage loan for the premises of the Suzhou facilities in China. The loan matures in 2024 – 2030.
- EUR 12.1 million in other overdraft facilities.

At 31 December 2023, the total unutilised amount of the facilities was approximately EUR 46 million.

Security provided

The Group has provided a mortgage on its premises in Suzhou, China for a EUR 7.6 million loan. A positive pledge is in place for the EUR 102.5 million revolving Credit Facility.

Interest-rate sensitivity

Interest amounts payable on the EUR 102.5 million revolving Credit Facility and Schuldschein loans are based on short-term interest rate (three and six months). The floating rates are partly fixed by means of interest rate swaps. The other loans of EUR 4.0 million and leases of EUR 13.5 million both have fixed interest rates. The interest sensitivity is disclosed on page 169.

Lease liabilities

The lease liabilities are payable as follows:

EUR million	2023	2022
< 1 year	2.6	3.5
1 - 5 years	9.1	7.9
> 5 years	1.8	1.8
	13.5	13.2

The lease liabilities mostly relate to leases for various buildings & vehicles.

Buildings

The Group leases properties for its offices and manufacturing facilities. Some lease arrangements contain conditions to revise the rentals based on changes of indices. The leases run for a period between 3 and 15 years. Majority of the leases include an option to renew the lease for an additional period after the contract term. Key assumption as applied by the Group is that all renewal options, which can be exercised within the mid-term plan period of five years and very likely to be exercised, are taken into consideration on top of the non-cancellable period of the lease.

Vehicles and equipment

The Group leases equipment with terms of two to five years. Based on experience the likelihood that these lease arrangements are extended for a substantial period (> three months) is remote. Due to this no periods after the non-cancellable period of the lease are taken into consideration.

13 Employee benefits

EUR million	2023	2022
Present value of unfunded obligations*	4.8	5.0
Present value of funded obligations*	3.4	4.2
Fair value of plan assets	(0.8)	(0.8)
Recognized net liability for defined benefit obligations	7.4	8.4
Liability for long-service leave and anniversaries	2.4	2.3
Total employee benefits	9.8	10.7
Non current portion	8.7	10.7
Current portion**	1.1	–

* The classification of funded/unfunded plans was updated in 2023. This update was implemented retrospectively for comparability purposes. The reclassification resulted in an increase of the present value of funded plans of EUR 2.7 million per 31 December 2022. The present obligation for unfunded plans decreased by the same amount and, consequently, the net liability for defined benefit obligations per 31 December 2022, remained unchanged.

** The total employee benefit provision as of 31 December 2023 amounts to EUR 9.8 million. An amount of EUR 8.7 million is presented as non-current employee benefits in the statement of financial position. The remainder of EUR 1.1 million is presented under trade and other payables.

The table shows a reconciliation from the opening to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
EUR million	2023	2022	2023	2022	2023	2022
Balance at 1 January	9.2	12.5	0.8	0.9	8.4	11.6
Included in statement of comprehensive income						
Current service cost	0.0	0.0	–	–	0.0	0.0
Past service cost	–	–	–	–	–	–
Interest cost (income)	0.3	0.1	(0.0)	0.0	0.3	0.1
	0.3	0.1	(0.0)	0.0	0.3	0.1
Included in OCI						
Remeasurement loss (gain):						
- Actuarial loss (gain) arising from:						
- Demographic assumptions	(0.0)	(0.1)	(0.0)	(0.1)	–	–
- Financial assumptions	(0.3)	(2.3)	–	–	(0.3)	(2.3)
- Experience adjustment	(0.2)	0.3	–	–	(0.2)	0.3
- Return on plan assets excluding interest income	–	–	–	–	–	–
Effect of movements in exchange rates	–	–	–	–	–	–
	(0.5)	(2.1)	(0.0)	(0.1)	(0.5)	(2.0)
Other						
Contributions paid by the employer	–	–	–	–	–	–
Benefits paid	(0.8)	(1.3)	(0.0)	(0.0)	(0.8)	(1.3)
	(0.8)	(1.3)	(0.0)	(0.0)	(0.8)	(1.3)
Balance at 31 December	8.2	9.2	0.8	0.8	7.4	8.4

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

The Group contributes to the following post-employment defined benefits plans in several countries, mainly in Germany. Below the characteristics of the major plans are included.

- A direct commitment in the form of capital has been agreed upon with the employees, who directly receive this commitment as an one-off payment upon retirement. An alternative version is a plan where the employees receive monthly payments instead of an one-off payment. The plans are reviewed on periodic basis.
- The Defined-Benefit plan entitles a retired employee to receive a monthly pension payment. The amount of these payments is based on individual contracts with the respective employee. The person has to be employed for a certain time. Each further year of employment the employee receives an amount in addition to the contractual fixed amount.

The defined benefit plans are administered by multiple pension funds which are legally separated from the Group. The board of the pension fund is required to act in the best interest of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund. The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk. The expenses relating to the defined benefit pension arrangements are included in the following line items of the statement of comprehensive income:

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

EUR million	2023	2022
Staff costs	0.0	0.0
Net finance costs	0.3	0.1
	0.3	0.1

Principal actuarial assumptions (expressed as weighted averages)

	2023	2022
Discount rate at 31 December	4.1%	3.7%
Future salary increases	1.3%	1.4%
Future pension increases	2.1%	2.1%

Composition plan assets

EUR million	2023	2022
Bonds	0.8	0.8
Equity	0.0	0.0
Real estate	0.0	0.0
Government loans	0.0	0.0
Total	0.8	0.8

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Sensitivity analysis

	Defined benefit obligation	
EUR million	Increase	Decrease
Discount rate (0.5 percent)	(0.3)	0.3
Future salary growth (1.0 percent)	0.2	(0.2)
Future pension (1.0 percent)	3.1	2.2
Future mortality (1.0 percent)	(0.0)	0.0

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown. The method for preparing the sensitivity analyses did not changed from prior year.

Assumptions regarding future longevity have been based on published statistics and mortality tables.

At 31 December 2023, the weighted-average duration of the defined benefit obligation was 7.1 years (2022: 7.5 years). The expected payment for 2024 amounts to EUR 1.1 million (2023: EUR 1.2 million).

Liabilities arising from employee benefits

The pension plans included defined contribution plans as well as defined benefit plans. In the case of defined contribution plans, the contribution is charged to the year to which it relates. With defined benefit plans, benefit obligations are calculated using the projected unit credit method. Calculations are made by qualified actuaries. The pension liability shown in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate methodology for accounting long-term employee benefits in accordance with IAS 19 is determined by the Executive Board. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The discount rate used to calculate the defined benefit obligation is based on the yield on corporate bonds issued in Euros.

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

The greater part of the defined benefit obligation at year-end 2023 relates to post employment arrangements in Germany. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group

companies is reinsured. All pension arrangements accounted for as defined benefit obligations are not open for new participants (< 15% active participants).

Liabilities arising from employee benefits also include liabilities relating to long-service, early retirement and service anniversaries of EUR 2.3 million (2022: EUR 2.3 million) in Germany.

14 Provisions

EUR million	2023	2022
Balance at 1 January	2.0	2.1
Provisions made during the period	0.0	3.4
Provisions transferred/used during the period	(1.3)	(3.5)
Provisions released during the period	–	–
Balance at 31 December	0.7	2.0
Non-current portion	0.7	0.7

The provisions consist of a restructuring provision of EUR 0.0 million (2022: EUR 1.0 million).

15 Contract liabilities

EUR million	2023	2022
Balance at 1 January	4.7	4.5
Consideration received	0.2	0.4
Recognized as revenue in the period	(0.5)	(0.2)
Balance at 31 December	4.4	4.7

The contract liabilities relate to long-term advance consideration received from customers for investments made in equipment in order to fulfil the obligations according to the contract. Considerations are received and based on a mark-up on top of contractual agreed piece price during a certain period of time. Recognition is consistent with the Group's transfer of the related goods to the customer and released to profit or loss on a systematic basis that is consistent with depreciation and amortization of related equipment.

16 Trade and other payables

EUR million	2023	2022
Trade payables	58.3	54.9
Other taxes and social security contributions	2.3	1.8
Derivatives used for hedging	0.3	–
Non-trade payables	7.4	6.4
Accrued expenses	16.2	15.2
	84.5	78.3

Non-trade payables relate to various other liabilities such as personnel-related liabilities (social charges, holiday allowance, bonus accruals, vacation days) while accrued expenses relate to other invoices that are expected but not yet received.

17 Financial instruments

Credit risk

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

EUR million	2023	2022
Cash and cash equivalents	20.6	37.8
Other long-term investments	0.5	0.4
Current tax assets	5.7	2.8
Trade and other receivables	65.2	70.5
Total	92.0	111.5

Impairment losses

Aging analysis of the trade and other receivables

	2023		2022	
EUR million	Gross	Provision	Gross	Provision
Within the term of payment	54.3	–	60.5	–
0 – 30 days due	6.6	–	7.0	–
31 – 60 days due	2.2	–	1.4	–
> 60 days due	2.3	(0.2)	1.8	(0.2)
Total trade and other receivables	65.4	(0.2)	70.7	(0.2)

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 2023, 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 2023 are collectible. This system is in line with the cash shortfall model as described in IFRS 9. EUR 4.5 million of trade receivables are more than 30 days overdue (2022: EUR 3.2 million), of which EUR 0.2 million is provided for (2022: EUR 0.2 million). The Group has written off EUR 0.2 million receivables in 2023 (2022: EUR 0.2 million), which are recognized under other operating expenses in the statement of comprehensive income.

The customer with the largest trade receivables outstanding accounted for 5% of the trade and other receivables at 31 December 2023 (2022: 4%). The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

Credit risk rating grades

The credit quality of the Group's financial assets, contract assets and financial guarantee contracts, as well as the Group's maximum exposure to credit risk by credit risk rating grades on the reporting date was as follows:

31 December 2023							2023
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk[1]	Lifetime ECL	54.6	(0.2)	54.4
Contract costs	5	N/A	Low risk	Lifetime ECL	0.6	–	0.6
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	0.0	–	0.0
Other investments	3	N/A	Low risk	Lifetime ECL	0.5	–	0.5
					55.7	(0.2)	55.5

31 December 2022							2022
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk[1]	Lifetime ECL	59.0	(0.2)	58.8
Contract costs	5	N/A	Low risk	Lifetime ECL	0.3	–	0.3
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	0.0	–	0.0
Other investments	3	N/A	Low risk	Lifetime ECL	0.4	–	0.4
					59.7	(0.2)	59.5

Liquidity risk

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

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

[1] Amongst the trade receivables there are a number of items that are considered doubtful

31 December 2023 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	(62.0)	(69.5)	(1.6)	(1.6)	(3.2)	(63.1)	–
Schuldschein loans	(72.2)	(82.5)	(1.8)	(1.8)	(23.0)	(55.9)	–
Lease liabilities	(13.5)	(15.7)	(1.4)	(1.4)	(2.8)	(6.9)	(3.2)
Bank overdrafts	(7.1)	(7.1)	(3.0)	(4.1)	–	–	–
Other loans and borrowings	(10.8)	(12.1)	(1.6)	(1.0)	(1.5)	(5.5)	(2.5)
Trade and other payables	(84.5)	(84.5)	(84.5)	–	–	–	–
Tax liabilities	(7.4)	(7.4)	(7.4)	–	–	–	–
Derivative financial assets / liabilities							
Interest rate swap contracts	0.7	1.5	0.7	0.4	0.4	0.0	–
Forward exchange contracts	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–
Total	(257.0)	(277.5)	(100.7)	(9.6)	(30.1)	(131.4)	(5.7)

31 December 2022 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	(82.5)	(89.2)	(1.4)	(1.4)	(2.9)	(83.5)	–
Schuldschein loans	(72.1)	(83.1)	(1.4)	(1.4)	(2.9)	(77.4)	–
Lease liabilities	(13.2)	(15.9)	(1.4)	(1.4)	(4.8)	(5.9)	(2.4)
Bank overdrafts	(3.1)	(3.1)	(3.1)	–	–	–	–
Other loans and borrowings	(7.2)	(7.5)	(3.4)	(0.4)	(0.6)	(3.1)	–
Trade and other payables	(83.0)	(83.0)	(83.0)	–	–	–	–
Tax liabilities	(10.3)	(10.3)	(10.3)	–	–	–	–
Derivative financial assets							
Interest rate swap contracts	2.3	1.7	0.6	0.5	0.5	0.1	–
Forward exchange contracts	0.1	0.1	0.1	–	–	–	–
Total	(273.8)	(293.9)	(104.7)	(5.1)	(11.7)	(170.0)	(2.4)

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

Within the scope of the Group's risk management the Group has hedged the currency and interest risks with derivatives, whereby the hedges have been designated as cash flow hedges.

Cash flow hedges (in statement of cash flows)

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

2023 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	1.1	1.2	0.6	0.4	0.2	0.0	–
Liabilities	(0.4)	0.3	0.1	0.1	0.1	0.0	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–
Total	0.5	1.3	0.6	0.4	0.3	0.0	–

2022 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	2.3	1.7	0.6	0.5	0.5	0.1	–
Liabilities	–	–	–	–	–	–	–
Forward exchange contracts							
Assets	0.1	0.1	0.1	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Total	2.4	1.8	0.7	0.5	0.5	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.

2023 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	1.1	1.2	0.6	0.4	0.2	0.0	–
Liabilities	(0.4)	0.3	0.1	0.1	0.1	0.0	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–
Total	0.5	1.3	0.6	0.4	0.3	0.0	–

2022 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	2.3	1.7	0.6	0.5	0.5	0.1	–
Liabilities	–	–	–	–	–	–	–
Forward exchange contracts							
Assets	0.1	0.1	0.1	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Total	2.4	1.8	0.7	0.5	0.5	0.1	–

Interest-rate risk

Part of the Group's loans is governed by a floating interest rate (usually 3- or 6-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 75 million (2022: EUR 70 million). The aggregate fair value of the outstanding interest rate swaps at 31 December 2023 was EUR 0.7 million (2022: EUR 2.3 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 equalises the nominal interest rate.

				2023		2022	
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Bank syndicate loans	EUR	IBOR + 1.3%	2026	62.0	62.0	82.5	82.5
Schuldschein	EUR	IBOR +1% to 1.25%	2025-2027	72.2	72.2	72.1	72.1
Other loans	Various	1.40%-5.05%	2024-2030	10.8	10.8	7.2	7.2
Bank overdrafts China	CNY	3.1%	2024	5.5	5.5	2.7	2.7
Bank overdrafts - other	EUR	IBOR + 0.8% to 1.6%	2024	1.6	1.6	0.4	0.4
Lease liabilities	Various	1.5% - 8.3%	Various	13.5	13.5	13.2	13.2
Total interest-bearing debt				165.6	165.6	178.1	178.1

Sensitivity analysis interest

Financial assets and liabilities with a fixed interest rate are not recognized 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 2023 would not have had a material effect on the 2023 profit for the period.

The Group has hedged a considerable part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps and the loans with a fixed rate, in total EUR 74.3 million of the EUR 145.0 million long-term and short-term loans, excluding lease liabilities, at financial year-end have an interest rate which is fixed for one year or longer. Based on the interest-bearing debt levels at year-end and expected cash flow development, a 1%-point increase in the interest rate across the yield curve as from 1 January 2024, will have an increasing effect on interest expenses in 2024 of maximum EUR 0.8 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was EUR 0.2 million negative at 31 December 2023 (2022: positive EUR 0.1 million).

A 10%-point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2023 and the result for 2023 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 on the result and equity.

31 December 2023	Equity	Result
US dollar	3.7	0.1
Czech koruna	0.8	(0.3)
Chinese yuan	6.0	0.1
Romanian lei	1.6	(0.2)
Indian rupee	0.2	(0.1)

31 December 2022	Equity	Result
US dollar	2.8	0.5
Czech koruna	0.9	(0.3)
Chinese yuan	5.8	0.1
Romanian lei	1.8	(0.2)
Indian rupee	0.3	(0.0)

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2023	At 31 December 2022	Average over 2023
Pound sterling	0.8690	0.8869	0.8705
Czech koruna	24.7237	24.1161	23.9739
Chinese yuan	7.8509	7.3582	7.6554
US dollar	1.1050	1.0666	1.0817
Romanian lei	4.9756	4.9495	4.9517
Swedish krona	11.0959	11.1217	11.4466
Indian rupee	91.9033	88.1679	89.3575

Fair values of financial instruments

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

	2023		2022	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized costs				
Receivables (including current tax assets)	70.9	70.9	73.3	73.3
Cash and cash equivalents	20.6	20.6	37.8	37.8
Held to maturity investments	0.5	0.5	0.4	0.4
	92.0	92.0	111.5	111.5
Liabilities carried at amortized costs				
Bank syndicate loans	(62.0)	(62.0)	(82.5)	(82.5)
Schuldschein loans	(72.2)	(72.2)	(72.1)	(72.1)
Other loans	(10.8)	(10.8)	(7.2)	(7.2)
Lease liabilities	(13.5)	(13.5)	(13.2)	(13.2)
Bank overdraft	(7.1)	(7.1)	(3.1)	(3.1)
Trade and other payables (including current tax liabilities)	(91.9)	(91.9)	(93.3)	(93.3)
	(257.5)	(257.5)	(271.4)	(271.4)
Assets / (Liabilities) carried at fair value				
Interest derivatives	0.7	0.7	2.3	2.3
Forward exchange contracts	(0.2)	(0.2)	0.1	0.1
	0.5	0.5	2.4	2.4

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

Interest rate used in measuring fair value

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

	2023	2022
Derivatives	3.9%	2.2%
Leases	4.3%	4.3%
Bank syndicate loans	5.2%	3.5%
Schulschein loans	4.9%	3.7%
Other loans	2.8%	1.6%

Fair value hierarchy

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The fair value calculation method of all assets and liabilities carried at amortized 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 2023				
Derivative contracts used for hedging	–	0.5	–	0.5
Total	–	0.5	–	0.5
31 December 2022				
Derivative contracts used for hedging	–	2.4	–	2.4
Total	–	2.4	–	2.4

Master netting

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

18 Leases

The Group leases buildings, cars, office equipment and forklifts. The lease term varies between 3 to 15 years. For buildings an option to renew the lease after the lease period is customary. Information about leases for which the Group is a lessee is presented on several places throughout the financial statements:

- total cash outflow for leases is included in the consolidated statement of cash flows for repayments of lease liabilities EUR 3.2 million (2022: EUR 3.3 million) and in note 24 for interest EUR 0.8 million (2022: EUR 0.6 million);
- the carrying amount of right-of-use assets at the end of the reporting period by class of underlying assets, addition to these assets and the depreciation charge for these assets are included in note 1;
- interest expense on lease liabilities are included in note 24;
- expenses relating to short-term leases or low-value assets amount to EUR 0.2 million (2022: EUR 0.3 million).

19 Capital commitments

As at 31 December 2023 the Group had capital commitments totaling to EUR 6.5 million (2022: EUR 11.6 million).

20 Contingent assets and liabilities

The Group had guarantees in particular with regard to rentals, financing facilities and post employee benefits totaling to EUR 0.9 million (2022: EUR 1.4 million).

Based on the outcome of certain water samples taken in Austria in the area where a Kendrion site is located – the Austrian Federal State government commissioned a further environmental investigation at the Kendrion premises in Austria. The water samples taken in the relevant area showed a slight above threshold value of Chlorofluorocarbon. An initial environmental investigation was carried out early 2023. Monitoring is still ongoing at the date of issuance of these financial statements. The outcome of the investigation may or may not result in an obligation for restorative action. No reliable estimation of a possible obligation can be made and therefore no provision has been recorded.

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

The Group has a contingent asset amounting to EUR 0.1 million (2022: EUR 1.5 million) resulting from claims on customers.

21 Operating segments

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

Geographical segments based on physical location of the Group operating companies

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

	The Netherlands		Germany		Other European countries	
EUR million	2023	2022	2023	2022	2023	2022
Revenue from transactions with third parties	15.0	12.2	309.4	309.9	97.2	94.0
Other non-current assets	24.2	25.2	157.7	157.0	22.8	23.6
Deferred tax assets	1.7	2.6	9.3	8.2	0.3	0.1
Net liability for defined benefit obligations	–	–	6.0	8.2	0.3	0.2

	Asia[1]		The Americas		Consolidated	
EUR million	2023	2022	2023	2022	2023	2022
Revenue from transactions with third parties	45.3	51.4	51.6	51.8	518.5	519.3
Other non-current assets	41.2	35.9	15.5	17.1	261.4	258.8
Deferred tax assets	6.9	6.2	1.9	2.6	20.1	19.7
Net liability for defined benefit obligations	–	–	–	–	6.3	8.4

Revenue segmented by customer location

EUR million	2023	2022
Germany	192.0	203.6
Other European countries	170.7	151.1
Asia [1]	68.2	73.4
The Americas	84.6	88.4
Other countries	3.0	2.8
Total	518.5	519.3

[1] Mainly related to China

Information about reportable segments

Kendrion has split all activities over three segments: Automotive Core, Automotive E and Industrial. Based on the structure of the Group and the criteria of IFRS 8 – Operating segments, Kendrion has concluded it has four operating segments, the business groups Industrial Brakes and Industrial Actuators and Controls and Automotive Core and Automotive E, which are subgroups to the business group Automotive. Last year, we aggregated the operating segments Automotive Core and Automotive E into one reporting segment being Automotive. When looking at the current market developments, long term financial performance and aggregation criteria in IFRS 8 we deem it appropriate to classify both operating segments as two reporting segments as of 2023. Given the fact that the change to two operating segments and thus the internal reporting to the Chief Operating Decision Maker only happened in the last months in 2022 we don't have financial figures available for the full year and have therefore not included the comparative figures for Automotive Core and Automotive E.

Based on the aggregation criteria of IFRS 8, Industrial Brakes and Industrial Actuators and Controls have been aggregated into one reportable segment. The industrial activities of the business units Industrial Brakes and Industrial Actuators and Controls focus on developing and manufacturing electromagnetic systems and components for industrial applications. These business units also have similar economic characteristics and display a number of similarities with respect to their technology, production processes, equipment and customers.

	Industrial		Automotive Core	Automotive E	Automotive Total	Automotive Total	Consolidated	
EUR million	2023	2022	2023	2023	2023	2022	2023	2022
Revenue from transactions with third parties	256.5	276.5	189.5	72.5	262.0	242.8	518.5	519.3
Inter-segment revenue	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1
EBITDA[1]	34.6	46.9	22.8	(6.8)	16.0	(53.5)	50.6	(6.6)
EBITDA as a % of revenue[1]	13.5%	17.0%	12.1%	(9.4)%	6.1%	(22.0)%	9.8%	(1.3)%
Normalized EBITDA[1]	36.1	47.5	23.6	(6.6)	17.0	9.9	53.1	57.4
Normalized EBITDA as a % of revenue[1]	14.1%	17.2%	12.4%	(9.1)%	6.5%	4.1%	10.2%	11.1%
Reportable segment assets	278.9	272.8	116.8	66.6	183.4	203.8	462.3	476.6
Reportable segment employees (FTE)	1,233	1,346	1,204	169	1,373	1,407	2,606	2,753

Disaggregation revenue

EUR million	2023	2022
Revenue from serial produced goods	510.8	512.2
Revenue from engineering and samples	7.7	7.1
Total	518.5	519.3

1 Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to reconciliation of non-IFRS information, starting on page 207

22 Staff costs

EUR million	2023	2022
Wages and salaries	117.6	119.9
Social security charges	20.2	20.5
Temporary personnel	8.0	8.2
Contributions to defined contribution plans	1.1	0.8
Expenses related to defined benefit plans	0.0	0.0
Increase in liability for long-service leave	0.1	0.1
Other costs of personnel	4.5	4.1
	151.5	153.6
Total number of employees and temporary workers at 31 December (FTE)	2,606	2,753

The number of employees and temporary workers at 31 December 2023 (FTE) working in the Netherlands is 112 (2022: 100). The staff costs 2023 include EUR 1.6 million costs related to restructuring measures (2022: EUR 5.3 million). The staff costs 2023 include a EUR 0.9 million government grant for R&D activities (2022: EUR 0.8 million).

23 Other operating expenses

EUR million	2023	2022
Increase/(Decrease) in provision for doubtful debts	0.1	(0.1)
Premises costs	7.8	9.1
Maintenance expenses	10.8	11.1
Transport expenses	2.7	2.6
Consultancy expenses	9.4	11.5
Sales and promotion expenses	1.1	1.4
Car, travel and representation costs	3.0	3.1
Insurance	2.4	2.2
Other	3.4	2.7
	40.7	43.6

The other operating expenses 2023 include EUR 0.8 million costs related to the restructuring measures (2022: EUR 0.6 million).

Research & Development expenses (including staff and other operating expenses) for 2023 totaled EUR 27.0 million (2022: EUR 29.4 million).

24 Net finance costs

EUR million	2023	2022
Interest income	0.2	0.0
Net exchange gain	–	–
Finance income	0.2	0.0
Interest expenses	(7.5)	(4.2)
Interest expenses related to lease liabilities	(0.8)	(0.6)
Interest expenses related to employee benefits	(0.3)	(0.1)
Net exchange loss	(1.5)	(0.2)
Finance expense	(10.1)	(5.1)
Net financing costs	(9.9)	(5.1)

25 Income tax

EUR million	2023	2022
Current tax charge on year under review	(4.0)	(6.6)
Total corporation tax expenses in the income statement	(4.0)	(6.6)

26 Reconciliation of effective tax rate

	Reconciliation effective tax rate		Reconciliation in EUR million	
	2023	2022	2023	2022
Profit before income tax			13.9	(39.7)
Income tax expense at local corporation tax rate	25.8%	25.8%	3.6	(10.2)
Effect of tax rates in foreign jurisdictions	(4.2)%	2.2%	(0.6)	(0.9)
Non-deductible expenses	2.7%	(39.1)%	0.4	15.4
Tax exempt income	(0.4)%	0.0%	(0.1)	0.0
Changes in estimates related to prior years	9.8%	(5.5)%	1.3	2.2
Current-year losses for which no deferred tax asset is recognized	0.0%	(2.5)%	-	1.0
Additional deductible items	(4.7)%	1.7%	(0.7)	(0.7)
Other movements	0.4%	0.6%	0.1	(0.2)
	29.4%	(16.8)%	4.0	6.6

Non-deductible expenses include the effect of partially deductible interest cost, additional deductible items reflect double deduction of R&D cost in China.

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 effectuated at arm's length market prices. As all subsidiaries are fully consolidated and reflected in these financial statements, the amounts of these transactions are not further specified. For a list of the subsidiaries, see pages 205-206.

Compensations of key management personnel

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

EUR thousand	2023	2022
Short-term benefits	1,500.8	1,491.3
Post-employment benefits	150.0	145.0
Other long-term benefits	–	–
Share-based payments	71.9	359.7
Termination benefits	–	–
	1,722.7	1,996.0

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 96-112.

The CEO will, based on this performance, receive a variable remuneration of 48.72% of his gross fixed remuneration. The CEO's gross variable remuneration amounts to EUR 269,584 (2022: EUR 267,438) which will be paid in cash.
The CFO will, based on this performance, receive a variable remuneration of 32.57% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 111,548 (2022: EUR 95,023) which will be paid in cash.

Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual fixed gross base salary for the CEO and 50% of the annual fixed gross salary of the CFO. This shareholding has to be gradually built up with performance shares earned under the long-term share incentive, subject to the sell-to-cover concept as prescribed by the 'Share ownership guideline'.

The amount charged to the profit or loss regarding the long-term variable remuneration policy was EUR 71,936 (2022: EUR 359,700).

The vesting and holding periods for (conditional) shares awarded to the CEO are specified as follows:

CEO (J.A.J. van Beurden)	Number of shares	Expiry vesting period	Expiry holding period
2023	22,030	Expiry performance period 2023-2025	End of 2027
2022	16,144	Expiry performance period 2022-2024	End of 2026
2021	20,245	Expiry performance period 2021-2023	End of 2025
2020	16,533	Expiry performance period 2020-2022	End of 2024
2019	11,559	Expiry performance period 2019-2021	End of 2023

CFO (J.H. Hemmen)	Number of shares	Expiry vesting period	Expiry holding period
2023	11,363	Expiry performance period 2023-2025	End of 2027
2022	8,194	Expiry performance period 2022-2024	End of 2026
2021	9,533	Expiry performance period 2021-2023	End of 2025
2020	6,769	Expiry performance period 2020-2022	End of 2024
2019	2,409	Expiry performance period 2019-2021	End of 2023

Pensions

The Executive Board participates in the defined contribution plan of the Company. For 2023, the contribution to the pension insurer was EUR 41,958 (2022: EUR 37,124) for the CEO and EUR 30,147 (2022: EUR 27,017) for the CFO.

Transactions with shareholders

There were no transactions with shareholders, except for the dividend payment, which is disclosed under note 10.

Other related party transactions

There were no transactions with other related parties.

28 Other notes

The subsidiary Kendrion Holding Germany GmbH, Markdorf, Germany included in these consolidated financial statements makes use of § 264(3) HGB (German Commercial Code). In accordance with that rule, the consolidated financial statements of Kendrion Holding Germany GmbH as of 31 December 2022 were not published. A complete list of all subsidiaries is available from the Amtsgericht in Freiburg im Breisgau (number HRB 704749) and from the Company offices. The following German legal entities are consolidated in these consolidated financial statements: Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH, Kendrion (Markdorf) GmbH, Kendrion Kuhnke GmbH, Kendrion Kuhnke Automation GmbH, Kendrion Kuhnke Automotive GmbH, Kendrion FAS Controls Holding GmbH, Kendrion INTORQ GmbH, INTORQ Beteiligungs-GmbH and Kendrion IP Management GmbH.

The subsidiary Kendrion (UK) Ltd. (registration number 1124810), Bradford, United Kingdom included in these consolidated financial statements is exempt from the requirements of section 479A (audit of accounts) of the Companies Act 2006.

29 Post-balance sheet events

There were no post-balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2023.

COMPANY BALANCE SHEET AT 31 DECEMBER

(before profit appropriation)

Note	EUR million	2023	2022
	Fixed assets		
	Property, plant and equipment	0.6	0.6
	Intangible assets	–	0.0
	Other investments, including derivatives	0.1	0.2
1.3	Financial fixed assets	228.4	221.2
	Total non-current assets	**229.1**	**222.0**
	Current assets		
1.4	Receivables	1.2	1.0
	Cash and cash equivalents	0.0	0.0
	Total current assets	**1.2**	**1.0**
	Total assets	**230.3**	**223.0**
1.5	**Equity**		
	Share capital	30.6	30.2
	Share premium	37.3	38.4
	Legal reserves	14.2	19.0
	Other reserves	80.0	133.7
	Net profit/ (loss) for the period	9.9	(46.3)
	Total equity	**172.0**	**175.0**
1.6	**Current liabilities**		
	Loans and borrowings	56.5	46.3
	Payables	1.8	1.7
	Total current liabilities	**58.3**	**48.0**
	Total equity and liabilities	**230.3**	**223.0**

Note	EUR million	2023	2022
	Revenue	–	–
1.8	Other income	5.5	5.4
	Total revenue and other income	**5.5**	**5.4**
1.9	Staff costs	4.6	5.0
	Depreciation and amortization	0.1	0.1
	Other operating expenses	1.8	1.8
	Result before net finance costs	**(1.0)**	**(1.5)**
	Finance income	–	–
	Finance expense	(2.3)	(1.6)
	Profit before income tax	**(3.3)**	**(3.1)**
	Income tax expense	(0.4)	(1.1)
	Profit for the period	**(3.7)**	**(4.2)**
	Share in results of Group companies after tax	13.6	(42.1)
1.10	**Net profit/ (loss) for the period**	**9.9**	**(46.3)**

1 Notes to the company financial statements

1.1 General

The Company financial statements are part of the 2023 financial statements of Kendrion N.V. (the 'Company'). The Company is registered at the Chamber of Commerce in The Netherlands under number: 30113646.

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

In selecting the principles employed in the company financial statements for the valuation of assets and liabilities and determination of results, Kendrion N.V. has made use of the option provided by Section 362, subsection 8, of Book 2 of the Netherlands Civil Code. Consequently, the principles employed in the Company financial statements of Kendrion N.V. for the valuation of assets and liabilities and determination of results (the 'accounting policies') are identical to those employed in the consolidated EU-IFRS financial statements. Interests in entities in which Kendrion N.V. has significant influence are measured using the equity method. The consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board as endorsed for use in the European Union (hereinafter referred to as 'EU-IFRS'). These policies are discussed in notes a – t

1.3 Financial fixed assets

EUR million	Interest in Group companies	Loans to Group companies	Deferred tax	Total 2023	Total 2022
Carrying amount at 1 January	220.1	–	1.1	221.2	259.5
Results of Group companies	13.6	–	–	13.6	(42.1)
Movements in deferred tax assets	–	–	(0.5)	(0.5)	(1.0)
Foreign currency translation differences for foreign operations	(4.8)	–	–	(4.8)	1.8
Other movements	(1.1)	–	–	(1.1)	3.0
Carrying amount at 31 December	227.8	–	0.6	228.4	221.2

1.4 Receivables

EUR million	2023	2022
Receivables from Group companies	0.6	0.6
Prepayments and accrued income	0.6	0.4
	1.2	1.0

All receivables are due within one year.

1.5 Equity

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for participations	Reserve for own shares	Other reserves	Result for the year	Total 2023	Total 2022
Balance at 1 January	30.2	38.4	9.4	1.8	7.8	(1.8)	135.5	(46.3)	175.0	223.0
Appropriation of retained earnings	–	–	–	–	–	–	(46.3)	46.3	–	–
Foreign currency translation differences for foreign operations	–	–	(4.8)	–	–	–	–	–	(4.8)	1.8
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(1.5)	–	–	–	–	(1.5)	1.6
Issue of ordinary shares	0.4	2.7	–	–	–	–	(0.0)	–	3.1	3.1
Own shares issued	–	–	–	–	–	0.8	(0.0)	–	0.8	–
Share-based payment transactions	–	–	–	–	–	1.0	(1.0)	–	0.0	0.5
Dividends to equity holders	–	(3.8)	–	–	–	–	(7.1)	–	(10.9)	(10.2)
Other	–	–	–	–	1.5	–	(1.1)	–	0.4	1.5
Net profit/ (loss) for the period	–	–	–	–	–	–	–	9.9	9.9	(46.3)
Balance at 31 December	30.6	37.3	4.6	0.3	9.3	–	80.0	9.9	172.0	175.0

1.5.1 Share capital

The authorized capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00 each, of which 15,276,014 ordinary shares have been issued (2022: 15,114,621) .

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 recognized capital.

1.5.3 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries outside the euro zone. Gains and losses relating to the translation risk are recognized 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 2023, the Company held 0 of its own shares (2022: 88,316).

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 2023, the full result for 2022 was included in other reserves. Retained earnings consequently consist solely of the result for 2023.

1.6 Current liabilities

EUR million	2023	2022
Debts to Group companies	56.0	45.8
Lease liability	0.5	0.5
Trade payables	0.7	0.7
Other payables and accrued expenses	1.1	1.0
	58.3	48.0

An amount of EUR 0.4 million is included on the line lease liability that is due after 2024 (2022: EUR 0.4 million).

1.7 Financial instruments

See note 17 to the consolidated financial statements for details on financial instruments.

1.8 Other income

EUR million	2023	2022
Management fee	5.5	5.4
Other	–	–
	5.5	5.4

1.9 Staff costs

EUR million	2023	2022
Wages and salaries	3.5	4.1
Social security charge	0.2	0.2
Pension costs	0.6	0.5
Other costs of personnel	0.3	0.2
	4.6	5.0
Total number of employees and temporary workers at 31 December (FTE)	19	18

The Company has only defined contribution plans for its employees.

1.10 Profit appropriation

Appropriation of net profit

EUR million	2023	2022
Net profit	9.9	(46.3)

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 9.9 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., De Bilt;
- Kendrion Finance B.V., Zeist;
- 3T B.V., Enschede;
- Kendrion Marketing B.V., Zeist.

Kendrion N.V. has a guarantee which relates to the rent of the office in Amsterdam totaling to EUR 0.0 million (2022: EUR 0.0 miilion).

1.11.2 Fiscal unity

The Company and its Dutch subsidiaries excluding 3T B.V. form a tax group for corporation tax purposes.
According to the standard terms, each of the companies is jointly and severally liable for corporation tax payable by all the members of the fiscal unity.

1.12 Post-balance sheet events

There were no post-balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2023.

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 2023 and 2022 to the Company, its subsidiaries and other consolidated entities:

EUR thousand	2023 Deloitte Accountants B.V.	2023 Other Deloitte member firms and affiliates	2023 Total Deloitte	2022 Deloitte Accountants B.V.	2022 Other Deloitte member firms and affiliates	2022 Total Deloitte
Audit of financial statements	516.9	405.0	921.9	488.1	375.0	863.1
Other assurance services	33.5	–	33.5	31.0	–	31.0
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	–	–	–
Total	550.4	405.0	955.4	519.1	375.0	894.1

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 1,507,800 (2022: EUR 1,785,100). This remuneration is as follows:

EUR thousand	2023 J.A.J. van Beurden	2023 J. H. Hemmen	2023 Total	2022 J.A.J. van Beurden	2022 J. H. Hemmen	2022 Total
Fixed remuneration	553.3	342.5	895.8	550.0	335.0	885.0
Short-term variable remuneration	269.6	111.5	381.1	267.4	95.0	362.4
Long-term variable remuneration	48.9	23.0	71.9	255.2	104.5	359.7
Total remuneration	871.8	477.0	1,348.8	1,072.6	534.5	1,607.1
Pension and other expenses	80.4	78.6	159.0	80.4	97.6	178.0
Total	952.2	555.6	1,507.8	1,153.0	632.1	1,785.1

The 2023 short-term variable remuneration will be paid in cash after income tax.
For more information on the long-term variable remuneration see pages 178.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2023 amounts to EUR 215 thousand (2022: EUR 211 thousand). This remuneration is as follows:

EUR thousand	2023	2022
Supervisory Board Members:		
E. Slijkhuis (appointed as of 17 April 2023)	37	–
F. van Hout	65	65
M.J.G. Mestrom	49	49
J.T.M. van der Meijs (stepped down as from 17 April 2023)	16	49
E.M. Doll	48	48
	215	211

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 2023	31 December 2022
Executive Board	J.A.J. van Beurden	56,835	36,867
	J.H. Hemmen	11,403	4,090
Supervisory Board	F. van Hout	11,800	7,300

Amsterdam, February 28, 2024

Executive Board
J.A.J. van Beurden
J.H. Hemmen

Supervisory Board
F. van Hout
M.J.G. Mestrom
E. Slijkhuis
E.M. Doll

Provisions in the Articles of Association governing the appropriation of profit

Under article 35.1 and 35.2 of the Articles of Association of the Company, the Executive Board shall, with the approval of the Supervisory Board, determine which part of the profits is added to the reserves. The profit remaining after transfer to the reserves is available to the General Meeting of Shareholders. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by the Executive Board at the date of each dividend payment.

Independent auditor's report

To the shareholders and the Supervisory Board of Kendrion N.V.

Report on the audit of the financial statements 2023 included in the annual report

Our opinion

We have audited the financial statements 2023 of Kendrion N.V., based in Amsterdam. The financial statements comprise the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2023, and of its result and its cash flows for 2023 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2023, and of its result for 2023 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2023.
2. The following statements for 2023: the consolidated statement of financial position, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.
3. The notes comprising material accounting policy information and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2023.
2. The company income statement for 2023.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

Deloitte Accountants B.V. is registered with the Trade Register of the Chamber of Commerce and Industry in Rotterdam number 24362853. Deloitte Accountants B.V. is a Netherlands affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited.

We are independent of Kendrion N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 1,100,000 (2022: € 1,500,000). We used Profit before Tax and EBITDA as benchmarks for the calculation of our materiality. The materiality is approx. 8% of profit before tax and 2% of EBITDA. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Component audits are performed using materiality levels determined by the judgement of the group audit team, considering materiality for the consolidated financial statements as a whole and the reporting structure of the group. Component materiality did not exceed € 577,500 (2022: € 787,500).

We agreed with the Supervisory Board that misstatements in excess of € 55,000 (2022: € 75,000), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Kendrion N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Kendrion N.V.
In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by the auditors of the components. We directed and supervised the work of our component auditors as part of the group audit. Our group audit mainly focused on significant group entities in terms of size and financial interest, significant risk or where complex activities are present.

For the selected component audit teams, the group audit team provided detailed written instructions, which, in addition to communicating our requirements of component audit teams, also detailed significant audit areas, including awareness for risks related to management override of controls and revenue recognition. Furthermore, we developed a plan for overseeing component audit teams based on its relative significance and specific risk characteristics. Our oversight procedures included a combination of live and virtual meetings with the component auditor, including working paper reviews. We also reviewed component audit team deliverables to gain a sufficient understanding of the work performed based on our instructions.

The nature, timing and extent of our oversight procedures varied based on both quantitative and qualitative considerations.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the entity and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as among others the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due fraud is present. In line with last two years we involved forensic specialists who performed these procedures in close co-operation with us.

We performed, amongst others, the following specific procedures together with our component auditors:

- We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.
- We considered available information and made enquiries of relevant executives , directors (including but not limited to, e.g. General Counsel, Internal Audit, and Financial Controllers.) and the Supervisory Board.
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Our Forensic Specialists were involved in the oversight of several components and were present during discussions with component auditors, which were selected based on complexity, risk and/or size.

- We evaluated whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.
- We evaluated whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Management insights, estimates and assumptions that might have a major impact on the financial statements are disclosed in notes to the consolidated financial statements. We performed a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in prior year financial statements.
- For significant transactions we evaluated whether the business rationale of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.
- We assessed the impact of the cyber security incident in August 2023, which involved an authorized third party that gained access to the Company's systems. Among others, we performed the following procedures to assess the impact of the cyber security incident on Kendrion's operations and financial statements:
  - we and our component audit teams have performed inquiries with management and other relevant personnel;
  - we have assessed the work performed by management's cyber expert;
  - Considered and performed additional testing on manual journal entries around the period of the cyber-attack;
  - Considered the impact of the cyber-attack on internal controls and our risk assessment; and
  - Analyzed trends in revenue, margins and other accounts subsequent to the downtime of the system.
- In performing these procedures, we used the support of our component auditors, IT-specialists and forensic specialists.

This did not lead to indications for fraud potentially resulting in material misstatements.

Audit approach compliance with laws and regulations

We assessed the laws and regulations relevant to the entity through discussion with relevant employees, discussion with component teams, reading minutes and reports of internal audit. We involved our forensic specialists in this evaluation.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered the following laws and regulations: adherence to (corporate) tax law and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the financial statements.

We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, the entity is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation. Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements.

Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to the entity's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to (i) inquiry of management, the Supervisory Board, the Executive Board and others within the entity as to whether the entity is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

In addition to the aforementioned we used a specific artificial intelligence solution with automatically analyzes worldwide news about Kendrion. Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Audit approach going concern

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future, defined as until 31 December 2023. The Executive Board is of the opinion that, based on the current state of affairs, it is justified that the financial statements are prepared on a going concern basis.

We have evaluated management's assessment of the Company's ability to continue as a going concern. In evaluating management's assessment, we considered whether management's assessment includes all relevant information of which we are aware as a result of the audit.

We have evaluated the Company's going concern assessment and performed (amongst others) the following procedures:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management;
- Analyzing and discussing the entity's latest available internal reportings;
- Reading the terms of debt covenants and determining whether any have been breached;
- Reading minutes of those charged with governance and relevant committees for reference to financing difficulties;
- Inquiring of the entity's Legal Counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications;
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern;
- Discussion with component auditors about facts and circumstances which might be relevant for the going concern assessment at group level.
- Analyzing the Company's assessment on the impact of the current market developments (i.e. demand volatility and increasing raw material prices).

Based on the procedure performed we concur with management's evaluation.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior year, we included the goodwill impairment related to the Automotive Core CGU, the general IT controls and group audit as separate key audit matters. In the current year, we have no longer included the goodwill impairment for Automotive Core as key audit matter, as this was impaired in 2022. This year, we also considered the valuation of deferred tax assets, specifically related to China, to be a key audit matter.

1. General IT controls

Description	How the key audit matter was addressed in the audit
Kendrion has operations in different countries that use one groupwide Financial IT platform (excl. INTORQ), which is located and maintained in Villingen, Germany. In the last couple of years, management has been in the process of establishing a formal IT control framework and further enhancing the internal controls surrounding the overall IT environment. We consider Kendrion's IT landscape and general IT controls over financial reporting as our basis for designing audit procedures that are appropriate for our audit. We have included general IT controls as a key audit matter because the importance of these controls on the group's control environment.	We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes. IT audit specialists have been deployed to assist us with testing the group's general IT controls. **Observation** We observed that management has made further improvements in remediating control deficiencies detected by us in previous years in relation to the General IT Controls. However, we concluded that (parts of) certain control deficiencies still existed during the year and therefore we were not able to rely on the general IT controls for the audit of 2023. As a result we applied a substantive audit approach.

2. Valuation of a deferred tax asset related to carry forward losses in China

Description

Kendrion has recognized a deferred tax asset related to carry forward losses in China of € 6,6 million which is disclosed under note 4 to the financial statements. The deferred tax asset for carry forward losses in China represents approx. 69% of the total deferred tax assets for carry forward losses recognized per balance sheet date, and therefore represents a significant portion of this balance. Management has recognized this asset to the extent that they consider it probable that taxable profit will be available in the foreseeable future based on budget and mid-term plans. As this is dependent to a large extent on estimates and assumptions made by management and a recent history of reported losses in China, the accounting treatment is subject to uncertainties. Therefore we have classified this as a Key Audit Matter.

How the key audit matter was addressed in the audit

We have performed the following audit procedures:

- As part of our group audit oversight proceduresand to gain a better understanding of theChinese market, we have visited the newKendrion factory in Suzhou, China, and heldmeetings with local management and ourcomponent audit team about, amongst others,the operations and business outlook.
- We obtained and reviewed the Company'sposition paper on the recognition of the deferredtax asset related to carry forward losses.
- We have assessed the accounting treatment ofthe deferred tax asset related to carry forwardlosses in cooperation with our component auditteam in China.
- We have tested management's assumptions related to management's forecast on realizing sufficient taxable profit in the foreseeable future.
- Specifically, we have challenged management on their assumptions made with regards to its budgets and business plans and assessed the volumes, prices and margins with the underlying contracts and supporting calculations;
- We have verified that the disclosure is in accordance with IAS 12.

We have adopted a substantive audit approach and did not rely on internal controls.

Observation

Based on our work performed, we conclude that management has sufficiently substantiated its assumptions in realizing sufficient taxable profit in the foreseeable future. We therefore concur with management's assessment in recognizing the deferred tax asset for carry forward losses related to China.

3. Group audit

Description

Kendrion is a global organization which operates in 9 countries and has 20 different locations in Europe, the Americas and Asia. Almost all revenue and result before net finance costs are generated outside the Netherlands and are audited by component auditors of the Deloitte network. The direction and oversight of the components is a substantial part of the audit of the consolidated financial statement.

How the key audit matter was addressed in the audit

We have performed the following audit procedures:

- We performed audit procedures at group level in areas such as IFRS 16, share-based payments, consolidation, reporting, goodwill impairment testing and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.
- At group level, we have performed audit procedures regarding the corporate entities and we also performed audit procedures on Kendrion (Shelby) Inc. and 3T B.V.
- For all other relevant foreign components, the group audit team provided detailed written instructions. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics.
  This included conference calls with component during all stages of the audit whereby fraud specialists accompanied the group engagement team at several preselected components, performing both remote and onsite file reviews, attending client meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed.
- We have performed site visits to Prostějov, Czech Republic, Shelby, USA, and Suzhou, China where we have visited the factories, held discussions with management and our component auditors and performed an on-site file review.
- As part of the interaction with the components we paid specific attention to the consistent application of the group accounting policies.
- As part of our audit of the consolidation, we tested the relevant controls around the elimination of all intercompany transactions and positions and performed detailed substantive procedures.

Observation

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Report on the other information included in the Annual Report

The annual report contain other information, in addition to the financial statements and our auditor's report thereon.

The other information consists of:

- Report of the Executive Board.
- Report of the Supervisory Board.
- Remuneration Report.
- Other information as included in the report.
- Other information as required by Part 9 of Book of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the report of the Executive Board.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by the Supervisory Board as auditor of Kendrion N.V. on April 13, 2013, as of the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

European Single Electronic Reporting Format (ESEF)

Kendrion N.V. has prepared its annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in XHTML format, including the (partly) marked-up consolidated financial statements, as included in the reporting package by Kendrion N.V. complies in all material respects with the RTS on ESEF.

Management is responsible for preparing the annual report including the financial statements in accordance with the RTS on ESEF, whereby management combines the various components into one single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

We performed our examination in accordance with Dutch law, including Dutch Standard 3950N 'Assurance-opdrachten inzake het voldoen aan de criteria voor het opstellen van een digitaal verantwoordingsdocument' (assurance engagements relating to compliance with criteria for digital reporting).

Our examination included amongst others:

- Obtaining an understanding of the company's financial reporting process, including the preparation of the reporting package.
- Identifying and assessing the risks that the annual report does not comply in all material respects with the RTS on ESEF and designing and performing further assurance procedures responsive to those risks to provide a basis for our opinion, including:
  - obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance and the XBRL extension taxonomy files has been prepared in accordance with the technical specifications as included in the RTS on ESEF;
  - examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities regarding the Financial Statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with Executive Board and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, 28 February 2024

Deloitte Accountants B.V.

B.Beemer

Limited Assurance Report of the Independent Auditor on Kendrion N.V.'s sustainabilty information

To the shareholders and the Supervisory Board of Kendrion N.V.

Our conclusion

We have performed a limited assurance engagement on the sustainability information in the annual report of Kendrion N.V. for 2023 at Amsterdam. Based on our procedures performed and the assurance information obtained, nothing has come to our attention that causes us to believe that the sustainability information in the annual report of Kendrion N.V. does not present fairly, in all material respects:

- The policy with regard to sustainability matters: The sustainability information consists of performance information regarding Energy consumption and CO_2-emission, Accidents and Lost Time Injuries, Illness rate and Number of Supplier audits in the sections 'Facts and Figures' on page 10 and 'Sustainability review' on pages 38-64 of the 2023 Annual Report (hereafter: "the KPIs") and
- The business operations, events and achievements in that area in 2023 in accordance with the applicable criteria as included in the 'Criteria' section of our report.

Our scope is limited to the sustainability information included in the 'Sustainability review' chapter (pages 38-64) of the annual report. The EU Taxonomy regulation disclosure included on page 53-58 is excluded from the limited assurance scope.
The sustainability information is included in the 'Sustainability review' of the annual report.

Basis for our conclusion

We have performed our limited assurance engagement on the sustainability information in accordance with Dutch law, including Dutch Standard 3000A 'Assurance-opdrachten anders dan opdrachten tot controle of beoordeling van historische financiële informatie (attest-opdrachten)' (assurance engagements other than audits or reviews of historical financial information (attestation engagements). Our responsibilities in this regard are further described in the 'Our responsibilities for the examination of annual report' section of our report.

We are independent of Kendrion N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence). Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics for Professional Accountants).

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

Criteria

The sustainability information needs to be read and understood together with the reporting criteria. Kendrion N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are disclosed in the chapter 'About the Sustainability Report' of the 2023, which can be seen on pages 212-214.

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Consequently, the sustainability information needs to be read and understood together with the criteria applied.

Limitations to the scope of our assurance engagement
The sustainability information includes prospective information such as ambitions, strategy, plans, expectations, and estimates and risk assessments. Prospective information relates to events and actions that have not yet occurred and may never occur. We do not provide any assurance on the assumptions and achievability of this prospective information.

The references to external sources or websites in the sustainability information are not part of the sustainability information as included in the scope of our assurance engagement. We therefore do not provide assurance on this information.

Our conclusion is not modified in respect to these matters.

Responsibilities of the management board and the supervisory board for the sustainability information
The management board is responsible for the preparation and fair presentation of the sustainability information in accordance with the criteria as included in the 'Criteria' section, including the identification of stakeholders and the definition of material matters. The management board is also responsible for selecting and applying the criteria and for determining that these criteria are suitable for the legitimate information needs of stakeholders, considering applicable law and regulations related to reporting. The choices made by the management board regarding the scope of the sustainability information and the reporting policy are summarised in the chapter 'about the sustainability report' of the annual report.

Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the sustainability reporting process of Kendrion N.V.

Our responsibilities for the assurance engagement on the sustainability information
Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Our assurance engagement is aimed to obtain a limited level of assurance to determine the plausibility of information. The procedures vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a limited assurance engagement is therefore substantially less than the assurance that is obtained when a reasonable assurance engagement is performed.

We apply the 'Nadere voorschriften kwaliteitssystemen)' (NVKS, regulations for Quality management systems) and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

Our limited assurance engagement included among others:

- Performing an analysis of the external environment and obtaining an understanding of relevant sustainability themes and issues, and the characteristics of the company.
- Evaluating the appropriateness of the criteria applied, their consistent application and related disclosures in the sustainability information.
- Obtaining through inquiries a general understanding of the internal control environment, the reporting processes, the information systems and the entity's risk assessment process relevant to the preparation of the sustainability information, without obtaining assurance information about the implementation or testing the operating effectiveness of controls.
- Identifying areas of the sustainability information where misleading or unbalanced information or a material misstatement, whether due to fraud or error, is likely to arise. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted among others of:
  - obtaining inquiries from management at group level responsible for the sustainability strategy, policy and results;
  - obtaining inquiries from relevant staff responsible for providing the information for, carrying out internal procedures on, and consolidating the data in the sustainability information;
  - obtaining assurance evidence that the sustainability information reconciles with underlying records of the company;
  - reviewing, on a limited test basis, relevant internal and external documentation;
  - performing an analytical review of the data and trends;
- Considering the overall presentation and balanced content of the sustainability information.
- Considering whether the sustainability information as a whole, including the sustainability matters and disclosures, is clearly and adequately disclosed in accordance with applicable criteria.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the assurance engagement and significant findings that we identify during our assurance engagement.

Eindhoven, 28 February 2024

Deloitte Accountants B.V.

B. Beemer

PRINCIPAL SUBSIDIARIES

At 31 December 2023

Industrial

Industrial Actuators and Controls (Robert Lewin)	Managing Director
Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany	Robert Lewin
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, USA	Corey Hurcomb
Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania	Mihai Petculescu
Kendrion (Linz) GmbH, Linz, Austria	Christian Edelmaier
Kendrion Kuhnke Automation GmbH, Malente, Germany	Robert Lewin
Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden	Niklas Sjöström
3T B.V., Enschede, the Netherlands	Michiel Bloemen

Industrial Brakes (Robert Lewin)	Managing Director
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo
Kendrion (Mishawaka) LLC, Mishawaka, USA	Corey Hurcomb
Kendrion INTORQ GmbH, Aerzen, Germany	Lars Knoke
INTORQ (Shanghai) Co. Ltd, Shanghai, P.R. China	Telly Kuo
Kendrion (Atlanta) Inc (previous INTORQ US Inc.), Atlanta, USA	Olaf Detlef
INTORQ India Private Limited, Pune, India	Aniket Gujrathi

Automotive (Ralf Wieland / Richard Mijnheer)	Managing Director
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Ralf Wieland
Kendrion Kuhnke Automotive GmbH, Malente, Germany	Richard Mijnheer, Ralf Wieland
Kendrion (Markdorf) GmbH, Markdorf, Germany	Ralf Wieland
Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania	Andra Boboc
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Tomas Soldan
Kendrion (Shelby) Inc., Shelby, USA	Ingo Griessmann
Kendrion (China) Co. Ltd, Suzhou, P.R. China	Telly Kuo

Kendrion N.V. has, directly or indirectly, a 100% interest in all subsidiaries.

OTHER HOLDING AND DORMANT ENTITIES

At 31 December 2023

Blasio Grundstückverwaltungsgesellschaft mbh & Co Vermietungs KG, Mainz, Germany
Combattant Holding B.V., De Bilt, the Netherlands
Kendrion (Eibiswald) GmbH, Eibiswald, Austria
INTORQ Beteiligungs GmbH, Aerzen, Germany
Kendrion FAS Controls Holding GmbH, Villingen-Schwenningen, Germany
Kendrion Finance B.V., Zeist, the Netherlands
Kendrion Holding Germany GmbH, Markdorf, Germany
Kendrion Holding USA Inc., Indianapolis, USA
Kendrion IP Management GmbH, Malente, Germany
Kendrion Kuhnke GmbH, Malente, Germany
Kendrion Marketing B.V., Zeist, the Netherlands
Kendrion Toluca, SA de CV, Mexicaltzingo, Mexico
Kendrion (UK) Ltd., Bradford, United Kingdom
Landfort I B.V., Zeist, the Netherlands

Kendrion N.V. has, directly or indirectly, a 100% interest in all subsidiaries.

Added value is a non-IFRS financial measure, which is defined as total revenue and other income plus changes in inventory of finished goods and work in progress and subtracted by raw materials and subcontracted work. Added value is a measure of the group's ability to generate a variable profit contribution on its revenue that is sufficient to absorb the total staff and other operating expenses. It is an important factor is assessing to what extent increasing or decreasing revenue volumes will contribute to the group's profit.

EBITA is a non IFRS financial measure, which is defined as profit for the period before income tax expense, finance income, finance expense, share of profit or loss of an associate and amortization of other intangible fixed assets. EBITA is a measure of the group's ability to realize a positive return on the group's operations and continue to provide shareholder returns.

EBITDA is a non IFRS financial measure which is defined as profit for the period before income tax expense, finance income, finance expense, share of profit or loss of an associate, depreciation and amortization. EBITDA is a measure of the group's ability to continue to invest in the group's operations and provide shareholder returns.

Free cash flow is a non IFRS financial measure that is defined as cash from operating activities less cash from investing activities. Free cash flow is a measure of cash flow which is available for repayment of outstanding interest-bearing debt or dividend to the shareholders.

Invested capital is a non IFRS financial measure that is defined as the sum of property plant and equipment, intangible assets, other fixed assets and net working capital. Invested capital is a measure to assess the amount of equity and interest-bearing debt the company has invested in assets and is an important measure for investors to assess how well a company is using its financial resources to generate shareholder returns. Invested capital is a measure widely used by investors and security analysts to evaluate a group's profitability relative to other investment opportunities.

Leverage ratio is a non IFRS financial measure that is defined as net debt divided by EBITDA. The leverage ratio is a measure to evaluate the credit worthiness of the group and the ability of the group to continue to fund its operations with debt. The leverage ratio is widely used by investors, analysts, lenders and others to assess the groups credit worthiness in comparison to other industrial and automotive manufacturing companies and in relation to the financial covenant agreed in the group's financing arrangement which its main lenders.

Net debt is a non IFRS financial measure that is defined as bank overdraft, current and non-current loans and borrowings subtracted by cash and cash equivalents. Net debt is a measure in determining the group's financial position. In comparison to the available credit facilities, the total net debt is an important factor in assessing the group's liquidity and in combination which the group's EBITDA, the net debt is an important factor in determining the group's credit worthiness and ability to fund future investments.

Normalized EBITA is non IFRS financial measures, which is defined as EBITA before restructuring expense and other adjustments not related to the group's normal course of business including but not limited to gains or losses on divestitures, transaction costs related to business combinations and impairments. Normalized EBITA is a measure of the group's ability to realize a positive return on the core operations and continue to provide shareholder returns. We use normalized EBITA in assessing the effectiveness of business strategies. In addition to its use by management, we also believe normalized EBITA is a measure widely used by securities analysts, investors and others to evaluate financial performance of the group relative to other industrial and automotive suppliers.

Normalized EBITDA is a non IFRS financial measure which is defined as EBITDA before restructuring expense and other adjustments not related to the group's normal course of business including but not limited to gains or losses on divestitures, transaction costs related to business combinations and impairments. Normalized EBITDA is a measure of the group's ability to continue to invest in the operations and provide shareholder returns based on the core operations. We use normalized EBITDA in assessing the effectiveness of business strategies, evaluating and pricing potential acquisitions and as a factor in management incentive decisions. In addition to its use by management, we also believe normalized EBITDA is a measure widely used by securities analysts, investors and others to evaluate financial performance of the group relative to other industrial and automotive suppliers.

Normalized effective tax rate is a non IFRS measure that is defined as reported income tax expenses before adjustments not related to the group's normal course of business, including but not limited to income tax expense on restructuring costs and impairments, divided by normalized profit before tax which is defined as profit before tax before adjustments not related to core operations, including but not limited to restructuring costs and impairments. Normalized effective tax rate is used to assess the group's tax expense in relation to the profit before tax from its core activities. The normalized effective tax rate is used to evaluate the effective tax rate relative to previous periods and other companies.

Normalized free cash flow is a non IFRS financial measure that is defined as free cash flow before cash flow related to restructuring expense and other adjustments that are not related to the group's core operations, including but not limited to acquisitions and divestitures. Normalized free cash flow is a measure of cash flow from the group's core activities which is available for repayment of outstanding interest-bearing debt or dividend to the shareholders. We use normalized free cash flow as a factor in management incentive decisions. In addition to its use by management, we also believe normalized free cash flow is a measure widely used by securities analysts and investors and others to evaluate the value of the group.

Normalized invested capital is a non IFRS measure that is defined as invested capital adjusted for items in the statement of financial position that are considered not to be part of the group's normal course of business, including but not limited to provisions or liabilities related to restructurings. Normalized invested capital is used to assess the return the company generates on the amount the company has invested in assets related to its core operations and is a measure for investors to assess how well a company is using its financial resources to generate shareholder returns.

Normalized interest charges is a non IFRS measure that is defined as financing costs before adjustments not related to the group's normal course of business including but not limited to gains or losses on the recycling of currency translation results previously recorded in equity upon the liquidation of a legal entity. Normalized interest charges is used to assess the amount of net financing costs recognized related to the core operations of the group. Normalized interest charges is used to be able to compare interest charges to previous reporting periods and other companies.

Normalized net profit before amortization is a non IFRS measure that is defined as profit for the period before amortization and restructuring expense and other adjustments not related to the group's core operations including but not limited to gains or losses on divestitures, transaction costs related to business combinations and impairments. Normalized net profit before amortization is a measure of the group's ability to realize a positive return on core operations and continue to provide shareholder returns when excluding any profit impact from amortizing intangibles arising from business combinations. The measure is used by management, investors and security analysts in order to evaluate the shareholder return relative to companies that do not include business combinations.

Normalized staff and other operating expense is a non IFRS measure that is defined as operating expense before restructuring expense and other adjustments not related to the group's normal course of business including but not limited to gains or losses on divestitures, transaction costs related to business combinations and impairments. Normalized operating expense is used to assess the amount of operating expense recognized related to the core operations of the group. Normalized operating expense is used to be able to evaluate expenses to previous reporting periods and other companies.

Normalized working capital is a non IFRS measure that is defined as working capital adjusted for items in the statement of financial position that are considered not to be part of the group's core operations, including but not limited to provisions or liabilities related to restructurings. Normalized working capital is used to assess the amount of cash the company has invested in short term and non-interest-bearing assets and liabilities in order to run its core operations.

Organic growth is a non IFRS financial measure that is defined as revenue in the period under review divided by the revenue in the previous period, excluding revenue that is attributable to a business combination in one of both periods and/or the revenue contribution that attributable to a divestiture in one of both periods. Organic growth is a measure to which extent the group has been able to increase its revenue compared to the previous period on a comparable basis and therefore excluding the impact from acquisitions. Organic growth is one of the groups long term financial targets. We use organic growth in assessing the effectiveness of business strategies. In addition to its use by management, we also believe organic growth is a measure widely used by securities analysts, investors and others to evaluate the success of the company's commercial strategies and effectiveness relative to other industrial and automotive suppliers.

ROI or Return On Invested Capital is a non IFRS financial measure that is defined as EBITA dividend by the sum of property plant and equipment, intangible assets, other fixed assets and net working capital subtracted with the amount of goodwill and other intangible assets arising from business combinations. ROIC is a measure that assesses the result from operations is generated per currency equivalent that the group has invested in property plant and equipment and other net assets that are part of the group's operations. ROIC is an important factor in assessing relative profitability and used as a factor in management incentive decisions. Besides the use by management, we believe ROIC is widely use by investors and securities analysts to assess the performance of the group in comparison to other manufacturing companies or alternative investment propositions.

Solvency is a non IFRS financial measure that is defined as total equity divided by the sum of total equity and total liabilities. Solvency is a measure that assesses the portion of the total assets that is funded by equity. We use solvency as a measure of financial position and credit worthiness. In addition to its use by management we believe solvency is a measure widely use by lenders and analysts to evaluate the credit worthiness of the group.

Measures related to the statement of profit and loss

Organic growth (revenue)

EUR million - unless stated otherwise	2023	2022
Reported revenue	518.5	519.3
Exclude: currency effects on revenue	5.2	–
Normalized revenue (excl. currency effects)	**523.7**	**519.3**
Organic growth	**0.9%**	**–**

Added value

EUR million	2023	2022
Reported total revenue and other income	518.6	519.8
less: Reported changes in inventories of finished goods and work in progress	(0.6)	(1.8)
less: Reported raw materials and subcontracted work	(275.1)	(268.7)
less: Benefits outside the normal course of business	–	(0.5)
Normalization of other costs outside the normal course of business	0.1	–
Added value	**243.0**	**248.8**
Added value margin %	**46.9%**	**48.1%**

Normalized staff, impairments and other operating expenses

EUR million	2023	2022
Reported staff costs	151.5	153.6
Reported impairments of fixed assets	0.1	58.7
Reported other operating expenses	40.7	43.6
Reported staff, impairments and other operating expenses	**192.3**	**255.9**
Normalization of restructuring charges	(2.3)	(5.9)
Normalization of impairments PP&E, goodwill and other intangibles	(0.0)	(58.6)
Normalization of other (costs) and benefits outside the normal course of business	(0.1)	–
Normalized staff, impairments and other operating expenses	**189.9**	**191.4**
Currency effects	1.5	(4.3)
Normalized staff, impairments and other operating expenses (excl. currency effects)	**191.4**	**187.1**

Bridge from EBITDA to normalized net profit before amortization

EUR million	2023	2022
Reported result before net finance costs	23.8	(34.6)
Reported depreciation and amortization	26.8	28.0
Reported operating result before depreciation & amortization (EBITDA)	**50.6**	**(6.6)**
less: Depreciation on PP&E	(20.5)	(20.9)
less: Amortization on non-PPA related intangibles	(3.1)	(2.4)
Reported operating result before amortization (EBITA)	**27.0**	**(29.9)**
Normalization of costs and (benefits) related to:		
Restructuring measures - Automotive	0.8	5.1
Restructuring measures - Industrial	1.5	0.3
Impairments Goodwill and other intangibles - Automotive	–	57.3
Impairments PP&E - Automotive	–	1.0
Impairments PP&E - Industrial	0.0	0.3
Other costs / (benefits) outside the normal course of business - Automotive	0.2	–
Other costs / (benefits) outside the normal course of business - Industrial	–	–
Total Normalizations	**2.5**	**64.0**
Normalized EBITDA	**53.1**	**57.4**
Normalized EBITDA margin %	***10.2%***	***11.1%***
Normalized EBITA	**29.5**	**34.1**
Normalized EBITA margin %	***5.7%***	***6.6%***
Reported amortisation on PPA related intangibles	(3.2)	(4.7)
Reported net finance costs	(9.9)	(5.1)
Normalization related to credit facility	–	0.5
Other normalizations of net finance costs	(0.0)	0.2
Normalized profit before income tax	**16.4**	**25.0**

EUR million	2023	2022
Reported income tax expense	(4.0)	(6.6)
Normalization related to tax audits	0.6	0.5
Normalization related to deferred income tax adjustment	(0.8)	1.2
Impact costs / (benefits) outside the normal course of business on income tax expense	(0.7)	(1.9)
Amortization after tax	2.4	3.5
Normalized net profit for the period before amortization	**13.9**	**21.7**

Measures related to the Statement of financial position

Invested capital at 31 December

EUR million	2023	2022
Property, plant and equipment	134.5	131.6
Intangible assets	125.8	126.5
Net working capital	63.9	65.7
Other fixed assets	1.1	0.7
Invested capital	**325.3**	**324.5**
Goodwill and other intangibles related to acquisitions	(107.8)	(111.2)
Operating invested capital	**217.5**	**213.3**
Impact costs / (benefits) outside the normal course of business on invested capital	1.4	4.5
Normalized invested capital	**218.9**	**217.8**

Net Debt & Leverage ratio

EUR million - unless stated otherwise	2023	2022
Total interest bearing loans	165.6	178.1
less: Cash and cash equivalents	(20.6)	(37.8)
Net Debt	**145.0**	**140.3**
Normalized EBITDA	53.1	57.4
Leverage ratio (Net Debt / Normalized EBITDA)	**2.7**	**2.4**

Net working capital at 31 December

EUR million	2023	2022
Inventories	87.4	85.1
Trade and other receivables, tax receivable	72.8	75.2
Less: Trade and other payables, tax payables, current provisions and assets clasified as held for sale	(96.3)	(94.6)
Net working capital	**63.9**	**65.7**
Impact one-off costs and benefits on working capital	1.7	2.8
Normalized working capital	**65.6**	**68.5**
As % of revenue	12.6%	13.2%

Measures related to the Statement of cash flows

Free cash flow

EUR million	2023	2022
Net cash flow from operating activities	36.4	37.9
Net cash flow from investing activities	(29.6)	(37.9)
Free cash flow	**6.8**	**0.0**
Normalizations	4.5	3.1
Normalized free cash flow	**11.3**	**3.1**

Ratios

Return on Investment % (ROI)

EUR million - unless stated otherwise	2023	2022
Normalized EBITA	29.5	34.1
Normalized Invested capital	218.9	217.8
Return on Investment % (ROI)	**13.5%**	**15.6%**

Solvency

EUR million - unless stated otherwise	2023	2022
Total equity	172.0	175.0
Total assets	462.3	476.6
Solvency %	**37.2%**	**36.7%**

Normalized effective tax rate

EUR million - unless stated otherwise	2023	2022
Reported income tax expense	(4.0)	(6.6)
Normalization related to tax audits	0.6	0.5
Normalization related to deferred income tax adjustment	(0.8)	1.2
Impact costs / (benefits) outside the normal course of business on income tax expense	(0.7)	(1.9)
Normalized income tax expense	**(4.9)**	**(6.8)**
Normalized profit before tax	16.4	25.0
Normalized effective tax rate %	**30.4%**	**27.4%**

The scope of Kendrion's sustainability/ESG or non-financial reporting is based on the information requirements of our key stakeholder groups.

For a focused strategic approach, aimed at a healthy balance between stakeholder expectations and business aspirations, we identify and assess the material topics that are most relevant to Kendrion's activities. To this end, Kendrion uses a materiality analysis to gain insight into the relevance and importance of topics for both Kendrion and our stakeholder groups. The relevance of identified material topics for internal and external stakeholders may vary and is subject to change. In this Annual Integrated Report, we are disclosing material topics following our 2020 materiality assessment which did not reveal significant movements in the ranking of individual themes compared to the assessment of 2018. The outcome of the 2018 and 2020 assessments is a refined number of material themes structured in a materiality matrix around Kendrion's three pillars of value creation that form the basis of the global sustainability program: Natural Capital, Social and Human Capital and Responsible Business Conduct.

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

The outcome of the 2018 and 2020 materiality analyses formed important input for Kendrion's sustainability program and the 2019-2023 target framework as well as the further development and execution thereof.

While this Annual Integrated Report generally covers topics in the above materiality matrix, under Kendrion's second 5-year sustainability plan covering 2019-2023, Kendrion has chosen to not set measurable sustainability targets for each material topic, but instead select the topics where it can have most impact. Kendrion reports against the 2019-2023 target framework and related commitments.

Kendrion reports only on the most relevant material topics. The most relevant material topics are economic performance, anti-corruption, energy efficiency, carbon emissions, occupational health and safety, training and education, non-discrimination, and equal opportunities.

For a description of our materiality analysis, please refer to pages 39-40 of this Annual Integrated Report.

Kendrion makes use of the Global Reporting Initiative (GRI) reference claims for most of the general information and material topics, including: economic performance, anti-corruption, energy efficiency, emissions to air, occupational safety and health and non-discrimination and equal opportunities. This Annual Integrated Report references Disclosure 201-1 (a) from GRI 201: Economic performance 2016, Disclosure 205-3 from GRI 205: Anti-corruption 2016, Disclosure 302-1 (a, c, e-g) from GRI 302: Energy 2016, Disclosure 305-1 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 305-2 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 403-9 (a, d-g) from GRI 403: Occupational Health and Safety 2018, Disclosure 405-1 (a-i, b-i) from GRI 405: Diversity and Equal Opportunities 2016. For the material themes 'responsible procurement practices' and 'training and education', Kendrion has developed its own indicators.

Kendrion's non-financial reporting includes only data from entities that are – directly or indirectly – wholly owned by Kendrion N.V., unless explicitly stated otherwise. Acquisitions are reported as from the effective date ownership is acquired.

Being transparent and accountable is fundamental to the way in which Kendrion operates. Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework in order to safeguard the quality and accuracy of data collected. With a view to maintaining the quality and consistency of the data reported, the reporting process and applicable definitions relevant to all non-financial data collected and subsequently consolidated, are recorded in an internal reporting manual which is regularly reviewed and evaluated. Internal control procedures safeguarding the quality and accuracy of non-financial data collected are part of Kendrion's Risk Management Framework. Compliance with the internal reporting manual and the internal control procedures are reviewed by the Global Internal Audit and Risk Manager.

The sustainability figures and data presented in this Annual Integrated Report are not always fully comparable with those of other companies. This may be caused by differences in targets and definitions applied and the nature and spread of Kendrion's activities making comparison with other industrial companies difficult. Information used was collected from the existing management and reporting systems. Any estimates or forecasts included are explicitly referred to as such.

In 2023, Kendrion closed its production location in Shanghai and relocated the Shanghai production to its new manufacturing facility in Suzhou. For the production location in Shanghai energy consumption values are reported for the first months of 2023 until completion of the relocation to the new facility in Suzhou. During 2022 Kendrion closed its production location in Eibiswald (Austria) and moved relevant production equipment to Villingen (Germany) and Sibiu (Romania).
For 2022 the production location in Eibiswald was still included in the non-financial reporting, although production in Eibiswald ceased in the course of Q3 2022.

The non-financial information reported faithfully represents the outcome of systematic data collection and review.

The reported numbers for energy consumption, absolute and relative & CO_2 emissions, accidents, lost time injury, illness, supply chain management as described in the section 'Sustainability review' of the 2023 Annual Integrated Report, have been subjected to a review by the external auditor Deloitte Accountants B.V. The auditor's report with limited assurance on selected targets is included on pages 190-201. For the reported numbers associated with relative energy consumption, relative CO_2 emission, accidents per 1,000 FTE, Lost Time Injuries (LTI), illness rate and audits performed at direct suppliers, Kendrion used the GRI Standards Specific Disclosures 302-1, 305-1, 305-2 and 403-2 respectively as described in the GRI referenced claim mentioned above. We report on the same indicators as in previous years and there are no material restatements on the information accordingly presented in previous years.

Definitions, reporting period and scope

Energy consumption and CO_2 emission

The information on energy consumption is based on the consumption of Kendrion's production facilities (electricity, natural gas, fuel oil) in Germany, the Czech Republic, the USA, China, India and Romania. For greenhouse gas emissions, Kendrion applies the same reporting scope as for energy consumption, only operational control. In our calculations we only included CO_2 emissions, other emissions like CH4, N2O, HFCs, PFCs, SF6 and NF3 are not material for us and therefore not included. Internal and external transport under Kendrion's control is limited, therefore transport emissions are excluded.

The relative energy consumption and CO_2 emissions are based on the added value of the relevant production facilities.

The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus raw materials and subcontracted work.

The absolute and relative energy consumption and CO_2 emissions are reported for a 12-month period. Where information is timely available, the absolute and relative energy consumption and CO_2 emissions are reported for the period 1 January 2023 up to and including 31 December 2023. Comparative figures for previous years are calculated based on identical timeframes.

Calculation of the CO_2 emissions is based on the following conversion factors:

- Electricity generated from renewable sources: 0
- Electricity generated from non-renewable sources (average): 0.368 kg/kWh (2022: 0.391 kg/kWh)
- Renewable gas for plants with carbon neutral contracts: 0
- Natural gas for other plants (average): 0.106 kg/kWh (2022: 0.112 kg/kWh)
- Fuel oil (average): 0.208 kg/kWh (2022: 0.206 kg/kWh)

Accidents and LTI

Kendrion reports the total number of work-related accidents during working time or on the way to or from work for its own employees and independent contractors under supervision of Kendrion. Only the accidents that the group entity had to report to an external institution are reported. As of 2017, Kendrion reports accidents from all group entities that caused an absence of more than three calendar days, not including the day of the accident. This definition is based on regulations applicable in Germany. In addition, Kendrion reports the absence resulting from work-related accidents.

The Lost Time Injury (LTI) is time ('scheduled working days') that could not be worked (and is thus 'lost') as a consequence of an employee being unable to perform the usual work due to an occupational accident ('at work accident' as well as 'way-to-work accident') or disease. Kendrion makes 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 organization 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). The count of 'absent days' due to a work-related accident ends when the employee either is fully back to work or is absent from work for other reasons (e.g. vacation, reduction in overtime, etc.). A lost day counts as one full day regardless of whether the employee has a part-time or a full-time contract. Kendrion does not specify LTI data per region, worker type or gender as Kendrion considers this information not relevant to its current operations.

Illness rate

The reported illness rate is based on the total illness hours. The locations in Shelby and Atlanta reported 0% illness on a yearly basis since no registration of illness takes place. The total illness hours with and without wage continuation, cumulative divided by the total timetable hours, cumulative.

Supplier audits

As mentioned above, for reporting on the number of supplier audits (i.e. 'responsible procurement practices') Kendrion makes use of its own indicator.

The supplier audits are internal audits by Kendrion employees based on an internal procedure that prescribes the collection of Corporate Responsibility documentation (e.g. Code of Conduct, ABC Policy, Whistle-blower procedure) of the relevant supplier in the case the supplier is ISO certified and the use of standardized self-assessment questionnaires in the case the supplier is not ISO certified.

Kendrion has not selected underlying performance indicators or GRI indicators for the following topics: ‘non-discrimination and equal opportunities’, ‘market presence’, ‘responsible material consumption’, ‘environmental & energy management’, ‘human rights’, ‘effluents and waste management’, ‘customer privacy and data security’, ‘anti-competitive behavior’, ‘biodiversity’, ‘responsible local citizenship’, ‘innovation’, ‘customer relationship and satisfaction’, ‘remuneration policy’ and ‘business ethics’. Following further engagement with Kendrion’s stakeholders in the course of 2023, Kendrion will consider to what extent these material themes continue to be relevant to stakeholders and whether indicators on these topics should be developed.