KENDRION N.V.

INTERIM REPORT 2020

18 August 2020

Kendrion shows resilience and consolidates financial position on the back of strong performance in Industrial and China despite COVID-19 related downturn

- **Strict operating procedures implemented to continue safe and responsible production in all factories around the world**
- **HY1 revenue of EUR 194.7 million 10% lower than HY1 2019 (EUR 217.3 million)**
- **Normalised HY1 EBITDA of EUR 21.8 million (HY1 2019: EUR 25.4 million)**
- **Q2 revenue at EUR 85.1 million, 22% lower than Q2 2019, and 34% lower excluding INTORQ**
- **Q2 normalised EBITDA of EUR 8.1 million, or 9.5% of revenue compared to EUR 12.7 million or 11.7% in Q2 2019**
- **Normalised net profit before amortisation of EUR 5.8 million in HY1 2020 (HY1 2019: EUR 9.1 million)**
- **Industrial EBITDA of EUR 14.2 million in HY1 up 32% compared to HY1 2019**
- **INTORQ fully integrated, contributing significantly to the Group's profitability and cashflow**
- **Strong liquidity position with EUR 54.3 million availability in cash and undrawn facilities**
- **Agreement in principle on financial covenant relief with banks which substantially increases headroom**

Key figures

Reported (in EUR million)	Q2 2020	Q2 2019	delta	HY1 2020	HY1 2019	delta
Revenue	85,1	109,0	-22%	194,7	217,3	-10%
EBITDA	7,6	11,1	-31%	20,2	23,8	-15%
EBITA	1,2	5,1	-76%	7,4	11,8	-37%
Net profit	0,0	4,5	-100%	3,0	8,8	-66%
EBITDA as a % of revenue	9,0%	10,2%		10,4%	11,0%	
EBITA as a % of revenue	1,4%	4,6%		3,8%	5,4%	
Return on invested capital (12 months rolling)				2,6%	7,2%	

Normalised (in EUR million)	Q2 2020	Q2 2019	delta	HY1 2020	HY1 2019	delta
Revenue	85,1	109,0	-22%	194,7	217,3	-10%
EBITDA	8,1	12,7	-36%	21,8	25,4	-14%
EBITA	1,7	6,7	-75%	9,0	13,4	-33%
Net profit before amortisation	1,1	4,4	-75%	5,8	9,1	-36%
EBITDA as a % of revenue	9,5%	11,7%		11,2%	11,7%	
EBITA as a % of revenue	2,0%	6,1%		4,6%	6,2%	
Return on invested capital (12 months rolling)				4,7%	8,7%	

Normalised in Q2 2020: EUR 0.5 million (EUR 0.4 million after tax) restructuring costs
Normalised in Q2 2019: EUR 1.6m (EUR 1.2m after tax) claim settlement, EUR 2.0m positive release currency translation reserve, EUR 0.3m income tax expense related to tax audit

Normalised in HY1 2020: EUR 1.1 million (EUR 0.8 million after tax) restructuring costs, EUR 0.5 million (EUR 0.4 million after tax) acquisition
Normalised in HY1 2019: EUR 1.6m (EUR 1.2m after tax) claim settlement, EUR 2.0m positive release currency translation reserve and EUR 0.3m income tax expense related to tax audit.

Normalised Return on invested capital (12 months rolling) includes 12 months profitability of INTORQ on a pro forma basis.

Joep van Beurden, Kendrion CEO:

"Almost half a year into the global COVID-19 pandemic, the world we live in has changed in an unprecedented way. As our priority, we have implemented strict measures to protect the health and safety of our employees. We have had nine infected colleagues, seven have fully recovered and two are recovering. In no instance has a Kendrion employee infected another employee. We have been able to continue production in all our factories in a safe and responsible way and we continue to deliver to our customers around the world.

Although the global economic activity level is increasing, we are still substantially below pre-COVID-19 levels with most advanced economies shrinking by around 10% year-on-year in Q2. In Europe and in the US, passenger car purchases were severely impacted in April and May. The Industrial segment was impacted to a lesser extent and, including the contribution of INTORQ, we were able to grow our Industrial revenue and its profitability in Q1 and Q2. INTORQ, now an integral part of our Industrial Brakes business unit, performed ahead of expectations. China – affected heavily in Q1 by COVID-19 – is another highlight, as the strong recovery in Q2 compensated for the weaker Q1, both in terms of revenue growth and profitability. In addition to the voluntary and temporary salary reduction of senior management, throughout Q2 we have applied strict cost control measures and have made full use of available support packages from governments in countries in which we operate.

With INTORQ fully integrated, and China well over 10% of the Group's revenue, our profile has changed. We invest in growth opportunities in Automotive, Industrial Brakes and China. The focus in Industrial Actuators and Controls is on profitability and cash generation.

Looking ahead, we expect the pandemic to continue to determine our (business) life. We withstood the shock of the COVID-19 crisis, adjusted our cost levels and stabilised our financial position. We have reached agreement in principle with the banks on an increased buffer within our financial covenants. Kendrion's product pipeline is healthy and the work on all future products is continuing. We remain positive about our underlying business fundamentals for the longer term and work diligently to ensure that beyond COVID-19, our prospects are better than ever."

Update on COVID-19

In all of Kendrion's facilities, we have strict operating procedures in place to protect the health and safety of our employees. We will keep in place and adjust these measures as appropriate and for as long as it is needed. To date, Kendrion has had nine known COVID-19 infections, seven are fully recovered and two are recovering. So far, there are no secondary infections at Kendrion identified.

As part of our strict cost control programme, we continued to make use of available short-time work arrangements in all European facilities. Discretionary spending has been restrained and we have suspended all uncommitted and non-urgent capital expenditure.

Kendrion's supply chain is fully operational. Kendrion continuously monitors suppliers that are critical to its supply chain and is committed to reducing its cash contained in working capital in a period where revenues are under pressure.

Progress on strategy

Kendrion has built a robust and lean organisation, operating in three business units: Automotive Group (AG), Industrial Brakes (IB) and Industrial Actuators and Controls (IAC). We maintain our focus on operational effectiveness and cost levels and continue investing in growth in Automotive, Industrial Brakes and China. In IAC the focus is on profitability and cash generation.

Within the Automotive Group, we have continued to make progress with our five Lighthouse platforms. We see significant interest in solutions for sensor cleaning and our solution for the so-called acoustic vehicle alerting system (AVAS). Furthermore, we have received additional nominations in active suspension. We are prioritising capital investments for revenue generating projects for which we have received nominations over the last years.

The COVID-19 effect on IB in Q2 has been limited and revenue was ahead of its original budget. IB experienced strong orders in the wind power segment in China, driven by Government subsidies for clean energy. Within Industrial Brakes, INTORQ performed ahead of expectations. The realisation of the targeted EUR 2.0 million run rate for cost synergies as per the end of 2020 is on track.

Revenue in IAC decreased in the second quarter as demand from customers in textile machinery and aviation was weak, with customers in the medical segment and infrastructure being more stable, IAC experienced some COVID-19 related supply chain interruptions resulting in a greater than normal revenue backlog.

China had a strong second quarter as the economy experienced a 'V-shaped' recovery, with current volumes of passenger cars sold back at pre-pandemic levels. Our pipeline is strong, and we continue to invest in production equipment, our local workforce and supply chain. The training of the Chinese R&D team by our German engineers is now fully virtual. We expect continued growth in our Chinese operation as we add to our project pipeline in all three business units.

Kendrion will host a Capital Markets Day on 10 September 2020, to present a comprehensive strategy update for the enlarged Kendrion Group, reflecting our changed profile. This will include updated medium-term financial targets.

Financial review

Revenue

Q2 2020

Revenue in the second quarter of 2020 came in at EUR 85.1 million, a decrease of 22% compared to the second quarter of 2019 (EUR 109.0 million). Excluding the revenue contribution of INTORQ, organic revenue decreased by 34%. Exchange rates had a limited adverse effect of 0.1% on consolidated revenue.

Automotive revenue decreased by 44% in the second quarter as a result of the global decline in passenger car and commercial vehicle production, most notably in April and May 2020. Revenue recovered sharply in June 2020, but still at a lower level than pre-COVID-19. The Industrial activities increased by 15% compared to the second quarter of 2019 and generally showed more robustness. Organic Industrial revenue decreased by 18%.

Revenue in China showed a strong recovery from the first quarter with 13% organic growth compared to the same quarter last year and 63% higher revenue compared to the first quarter of this year when China faced the largest impact from the COVID-19 pandemic. Both the Industrial and Automotive activities in China reported year-on-year growth.

HY1 2020

Overall revenue for the first half of 2020 decreased by 10% to EUR 194.7 million (HY1 2019: EUR 217.3 million). Organically, revenue decreased by 23%. Exchange rates had a limited adverse impact of 0.1% on revenue in the first half year of 2020.

Revenue for our Industrial activities, representing 50% of Group revenue, increased 19% and organically, excluding the contribution of INTORQ, decreased by 14% compared to the first half year of 2019. Automotive revenue decreased by 28% in the first six months, impacted by the global car production declining 32% and commercial vehicle production declining 28%.

Results

Q2 2020

The normalised operating result before depreciation and amortisation (EBITDA) was EUR 8.1 million (normalised Q2 2019: EUR 12.7 million). A positive gross margin development and cost reductions helped to mitigate the profitability impact of the EUR 37.5 million lower organic revenue. The added value margin increased 310bp on the back of the increased revenue share of Industrial activities and positive product mix effects in Automotive. Total staff and other operating costs decreased on an organic basis by EUR 8.9 million, or 23%, as a result of strict cost control, structural cost measures implemented in the previous quarters, voluntary and temporary salary reductions and the use of available governmental measures, such as short-time work arrangements in Europe. For the Group, the EBITDA margin in Q2 2020 was 9.5%, compared to 11.7% in Q2 2019.

HY1 2020

Normalised EBITDA in HY1 2020 decreased by 14% to EUR 21.8 million (HY1 2019: EUR 25.4 million). The normalised EBITDA margin was 11.2% compared to 11.7% in the first half year of 2019.

Normalised EBITDA for the Industrial activities increased to EUR 14.2 million from EUR 10.8 million in the same period last year on the back of a strong contribution from INTORQ and strict cost control in both Industrial Brakes and Industrial Actuators and Controls. Total staff and other operating costs in Industrial were EUR 3.4 million below last year on an organic basis.

The Automotive activities posted normalised EBITDA of EUR 7.6 million compared to EUR 14.6 million in HY1 2019. Automotive has shown resilience amidst the COVID-19 pandemic and was able to reduce costs by EUR 8.6 million, or 20% compared to the first half year of 2019.

The added value margin of the Group increased to 49.0% (HY1 2019: 47.2%) with most of the improvement coming from the increased revenue share of the Industrial activities. Total staff and other operating costs decreased by EUR 3.5 million more than offsetting annual wage inflation and the addition of INTORQ. Depreciation charges increased by EUR 0.8 million to EUR 12.8 million.

Normalised net finance costs of EUR 1.6 million in the first six months of 2020 were higher than in the same period last year (HY1 2019: EUR 1.2 million) due to the additional debt taken on to fund the acquisition of INTORQ. The normalised income tax expenses for HY1 2020 was EUR 1.1 million (HY1 2019: EUR 2.8 million). The normalised effective tax rate in the first six months of 2020 was 21.3% (HY1 2019: 25.6%).

Normalised net profit, before amortisation of intangibles arising on acquisitions, in HY1 2020 was EUR 5.8 million (HY1 2019: EUR 9.1 million). Normalised earnings before amortisation per share amounted to EUR 0.39 (HY1 2019: EUR 0.68). Basic reported earnings per share amounted to EUR 0.20 (HY1 2019: EUR 0.66).

Financial position

Total net debt including IFRS 16 lease liabilities decreased from EUR 131.8 million at the end of Q1 to EUR 130.5 million at the end of the second quarter. The positive free cash flow of EUR 2.2 million in the second quarter contributed to the debt reduction. The normalised free cash flow came in at EUR 0.2 million negative in the first half year (HY1 2019: EUR 2.7 million negative) as the positive cash flow in the second quarter nearly offset the negative cash flow in the first quarter, which is traditionally impacted by seasonal effects due to lower working capital in December when activity levels are lower. Total working capital at the end of the first half year was EUR 61.0 million. Excluding the additional working capital requirement caused by the acquisition of INTORQ, working capital was 24% lower compared to the end of the first half year of 2019. Cash flow and reducing working capital will remain a priority for the remainder of the year.

Capital expenditure totalled EUR 9.8 million in the first half of 2020, below the depreciation level of EUR 12.8 million. We expect 2020 investments to be around the EUR 19.5 million level of FY 2019 as we continue to focus on cash flow and prioritise investments that protect existing and future revenue.

Kendrion has reached an agreement on key terms with its banking syndicate to increase the leverage covenant for the quarters up to and including the third quarter of 2021. The agreement in principle allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from 31 December 2021 onwards. Although Kendrion currently operates well within its existing leverage covenants, the agreed covenant relief is designed to assure that Kendrion will continue to be able to invest in its longer-term growth opportunities, also in case of additional unforeseen circumstances as a result of COVID-19. At the end of the second quarter, the leverage ratio (based on definitions in the existing loan documentation) was 2.6 against a permitted financial covenant level of 3.5.

Kendrion's liquidity position remains strong with a total of EUR 54.3 million available in undrawn credit facilities and cash. The solvency ratio at the end of June 2020 was 43.3% compared to 44.1% at the end of the first quarter of 2020.

Number of employees

The number of employees (FTEs) at the end of the second quarter was 2,428, including 63 temporary employees (Q1 2020: 2,522 employees, including 69 temporary employees). Of the total number, INTORQ represents 274 FTE, including 6 temporary employees as at the end of the first half year.

Alternative Performance Measures (APM) adjustments to EBIT(D)A and net profit

An amount of EUR 1.6 million (EUR 1.2 million after tax) in staff and other operating expenses has been normalised in the results over the first half year of 2020 and is adjusted in EBITDA. EUR 0.9 million in normalised costs related to restructuring activities, EUR 0.2 million in costs were incurred relating to the realisation of synergies in Industrial Brakes and the Group incurred EUR 0.5 million in transaction costs related to the acquisition of INTORQ. For a full reconciliation reference is made to Annex 2.

Outlook

The global economy is severely impacted by the effects of the COVID-19 pandemic, and we expect this to continue for the remainder of 2020 and possibly into 2021. In the medium to long-term, we continue to see growth opportunities in our focus areas of Automotive, Industrial Brakes and China. Our product pipeline is healthy and the work on future projects is continuing. Kendrion has shown resilience, making full use of available cost saving and cash preserving instruments. We remain positive about our business fundamentals, with our main objective being the delivery of sustainable profitable growth.

Audio webcast interim results 2020

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the interim results on Tuesday, 18 August 2020 at 11:00 a.m. A live audio webcast will be available on www.kendrion.com with playback functionalities.

Capital Markets Day

Kendrion will organise a Capital Markets Day for analysts and investors on Thursday, 10 September 2020 at 11:00 a.m. A live audio webcast will be available on www.kendrion.com with playback functionalities.

Profile of Kendrion N.V.

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

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

Regulated information

This press release contains information that qualifies or may qualify as information within the meaning of article 7(1) of the EU Market Abuse Regulation.

Responsibility statement

In accordance with article 5:25d of the Financial Markets Supervision Act (*Wet op het financieel toezicht*), the Executive Board of Kendrion N.V. hereby declares that to the best of its knowledge, the consolidated interim financial statements, which have been prepared in accordance with IAS 34 'Interim Financial Reporting', give a true and fair view of the assets, liabilities, financial position and profit or loss of Kendrion N.V. and the companies included in the consolidation taken as a whole, and the semi-annual management report for the six-month period ended 30 June 2020 gives a fair view of the information required pursuant to article 5:25d subsection 8 and 9 of the Financial Markets Supervision Act.

Amsterdam, 18 August 2020

The Executive Board

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Annexes

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Annex 1 – Financial calendar 2020 - 2021

2020

Capital Markets Day	Thursday, 10 September 2020	11.00 a.m.
Publication Q3 2020 results	Tuesday, 3 November 2020	07.30 a.m.
Analysts' call	Tuesday, 3 November 2020	11.00 a.m.

2021

Publication Q4 and FY 2020 results	Tuesday, 19 February 2021	07.30 a.m.
Analysts' meeting	Tuesday, 19 February 2021	11.00 a.m.
General Meeting of Shareholders	Monday, 12 April 2021	02.30 p.m.
Publication Q1 2021 results	Tuesday, 4 May 2021	07.30 a.m.
Analysts' call	Tuesday, 4 May 2021	11.00 a.m.
Publication Q2 and HY1 2021 results	Wednesday, 25 August 2021	07.30 a.m.
Analysts' meeting	Wednesday, 25 August 2021	11.00 a.m.
Publication Q3 2021 results	Tuesday, 2 November 2021	07.30 a.m.
Analysts' call	Tuesday, 2 November 2021	11.00 a.m.

ANNEX 2

KENDRION N.V.

SEMI-ANNUAL FINANCIAL STATEMENTS 2020 (UNAUDITED)

Annex 2.1 – Consolidated statement of comprehensive income *

(EUR million)	Q2 2020	Q2 2019	half year 2020	half year 2019	full year 2019
Revenue	85.1	109.0	194.7	217.3	412.4
Other income	0.1	-	0.2	-	-
Total revenue and other income	**85.2**	**109.0**	**194.9**	**217.3**	**412.4**
Changes in inventories of finished goods and work in progress	3.7	1.7	0.2	0.1	4.8
Raw materials and subcontracted work	40.4	56.4	99.2	114.6	214.6
Staff costs	27.4	31.1	60.9	63.0	124.6
Depreciation and amortisation	7.3	6.6	14.9	13.1	26.2
Other operating expenses	6.1	8.7	14.4	15.8	30.7
Result before net finance costs	**0.3**	**4.5**	**5.3**	**10.7**	**11.5**
Finance income	0.0	2.1	0.0	2.1	2.2
Finance expense	(0.9)	(0.9)	(1.6)	(1.3)	(2.8)
Share profit or loss of an associate	-	-	-	-	(0.3)
Profit before income tax	**(0.6)**	**5.7**	**3.7**	**11.5**	**10.6**
Income tax expense	0.6	(1.2)	(0.7)	(2.7)	(2.7)
Profit for the period	**0.0**	**4.5**	**3.0**	**8.8**	**7.9**
Other comprehensive income					
Remeasurements of defined benefit plans[1]			-	-	(1.3)
Foreign currency translation differences for foreign operations[2]			(1.0)	(1.6)	(0.8)
Net change in fair value of cash flow hedges, net of income tax[2]			(0.3)	0.1	0.3
Other comprehensive income for the period, net of income tax[3]			**(1.3)**	**(1.5)**	**(1.8)**
Total comprehensive income for the period			**1.7**	**7.3**	**6.1**
Basic earnings per share (EUR), based on weighted average	0.00	0.33	0.20	0.66	0.59
Basic earnings per share (EUR), based on weighted average (diluted)	0.00	0.33	0.20	0.66	0.59

[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 interest are not applicable.

* Not adjusted for non-recurring items

Annex 2.2 – Consolidated statement of financial position

(EUR million)	30 june 2020	30 June 2019	31 Dec. 2019
Assets			
Non-current assets			
Property, plant and equipment	123.4	113.1	111.4
Intangible assets	170.3	116.0	115.5
Other investments, including derivatives	2.6	3.0	2.7
Deferred tax assets	14.9	13.3	14.5
Contract costs	0.7	0.3	0.7
Total non-current assets	**311.9**	**245.7**	**244.8**
Current assets			
Inventories	70.4	63.9	56.3
Current tax assets	1.6	1.3	2.7
Trade and other receivables	57.4	63.0	47.1
Cash and cash equivalents	33.1	8.6	7.1
Total current assets	**162.5**	**136.8**	**113.2**
Total assets	**474.4**	**382.5**	**358.0**
Equity and liabilities			
Equity			
Share capital	29.9	27.2	29.9
Share premium	51.7	28.1	51.7
Reserves	120.8	115.3	114.0
Retained earnings	3.0	8.8	7.9
Total equity	**205.4**	**179.4**	**203.5**
Liabilities			
Loans and borrowings	153.7	88.6	48.9
Employee benefits	18.9	18.5	19.8
Deferred tax liabilities	17.7	10.1	10.6
Provisions	0.4	-	-
Total non-current liabilities	**190.7**	**117.2**	**79.3**
Bank overdraft	6.6	10.6	2.5
Loans and borrowings	3.3	5.6	3.1
Provisions[1]	1.1	3.0	1.4
Current tax liabilities[1]	2.6	3.3	2.6
Contract liabilities	5.7	6.1	6.6
Trade and other payables	59.0	57.3	59.0
Total current liabilities	**78.3**	**85.9**	**75.2**
Total liabilities	**269.0**	**203.1**	**154.5**
Total equity and liabilities	**474.4**	**382.5**	**358.0**

[1]Restated 30 june 2019 due to adoption of IFRIC 23.

Annex 2.3 – Consolidated cash flow statement

(EUR million)	half year 2020	half year 2019	full year 2019
Cash flows from operating activities			
Profit for the period	3.0	8.8	7.9
Adjustments for:			
Net finance costs	1.6	(0.8)	0.6
Share profit or loss of an associate	-	-	0.3
Income tax expense	0.7	2.7	2.7
Depreciation of property, plant and equipment and software	12.8	12.0	24.0
Amortisation of other intangible assets	2.1	1.1	2.2
Impairment of fixed assets	-	-	0.0
Share-based payments	0.0	(0.0)	0.0
	20.2	**23.8**	**37.7**
Change in trade and other receivables	(3.3)	(8.5)	7.4
Change in inventories	0.0	(0.4)	7.3
Change in trade and other payables	(7.3)	(2.0)	(0.1)
Change in provisions	(1.2)	0.2	(1.6)
Change in contract liabilities	(0.9)	(2.1)	(1.6)
	7.5	**11.0**	**49.1**
Interest paid	(1.3)	(1.0)	(2.2)
Interest received	0.0	0.0	0.1
Tax paid	(0.6)	(3.5)	(6.1)
Net cash flows from operating activities	**5.6**	**6.5**	**40.9**
Cash flows from investing activities			
Acquisition of equity-accounted investee	(77.7)	-	-
Investments in property, plant and equipment	(7.8)	(7.8)	(15.5)
Disinvestments of property, plant and equipment	0.3	0.1	0.4
Investments in intangible fixed assets	(2.3)	(2.5)	(4.5)
Disinvestments of intangible fixed assets	-	0.0	0.1
(Dis)investments of other investments	0.0	0.0	(0.4)
Net cash from investing activities	**(87.5)**	**(10.2)**	**(19.9)**
Free cash flow	**(81.9)**	**(3.7)**	**21.0**
Cash flows from financing activities			
Payment of lease liabilities	(1.5)	(1.2)	(2.5)
Proceeds from borrowings (non current)	105.2	9.3	-
Repayment of borrowings (non current)	-	-	(30.2)
Proceeds from borrowings (current)	0.2	2.7	0.2
Proceeds from the issue of share capital	-	0.0	30.5
Own shares bought	-	(2.0)	(7.2)
Dividends paid	-	(8.1)	(8.1)
Net cash from financing activities	**103.9**	**0.7**	**(17.3)**
Change in cash and cash equivalents	22.0	(3.0)	3.7
Cash and cash equivalents at 1 January	4.6	0.9	0.9
Effect of exchange rate fluctuations on cash held	(0.1)	0.1	0.0
Cash and cash equivalents at end of period	26.5	(2.0)	4.6

Annex 2.4 – Consolidated statement of changes in equity

(EUR million)	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
Balance at 1 January 2019	**27.1**	**39.8**	**6.1**	**(0.4)**	**(6.6)**	**102.3**	**13.8**	**182.1**
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	7.9	7.9
Other comprehensive income								
Remeasurements of defined benefit plans	-	-	-	-	-	(1.3)	-	(1.3)
Foreign currency translation differences for foreign operations	-	-	(0.8)	-	-	-	-	(0.8)
Net change in fair value of cash flow hedges, net of income tax	-	-	-	0.3	-	-	-	0.3
Other comprehensive income for the period, net of income tax	-	-	(0.8)	0.3	-	(1.3)	-	(1.8)
Total comprehensive income for the period	**-**	**-**	**(0.8)**	**0.3**	**-**	**(1.3)**	**7.9**	**6.1**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares	2.7	23.6	-	-	4.2	-	-	30.5
Own shares sold	-	-	-	-	5.9	(2.3)	-	3.6
Own shares repurchased	-	-	-	-	(7.2)	-	-	(7.2)
Share-based payment transactions	0.1	0.0	-	-	-	0.0	-	0.1
Dividends to equity holders	-	(11.7)	-	-	-	-	-	(11.7)
Appropriation of retained earnings	-	-	-	-	-	13.8	(13.8)	-
Balance at 31 December 2019	**29.9**	**51.7**	**5.3**	**(0.1)**	**(3.7)**	**112.5**	**7.9**	**203.5**

(EUR million)	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
Balance at 1 January 2020	**29.9**	**51.7**	**5.3**	**(0.1)**	**(3.7)**	**112.5**	**7.9**	**203.5**
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	3.0	3.0
Other comprehensive income								
Foreign currency translation differences for foreign operations	-	-	(1.0)	-	-	-	-	(1.0)
Net change in fair value of cash flow hedges, net of income tax	-	-	-	(0.3)	-	-	-	(0.3)
Other comprehensive income for the period, net of income tax	-	-	(1.0)	(0.3)	-	-	-	(1.3)
Total comprehensive income for the period	**-**	**-**	**(1.0)**	**(0.3)**	**-**	**-**	**3.0**	**1.7**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Share-based payment transactions	-	-	-	-	0.3	(0.1)	-	0.2
Appropriation of retained earnings	-	-	-	-	-	7.9	(7.9)	-
Balance at 30 June 2020	**29.9**	**51.7**	**4.3**	**(0.4)**	**(3.4)**	**120.3**	**3.0**	**205.4**

Annex 2.5 – Reconciliation of normalised to reported 2020 figures

(x EUR 1 million)	HY1 2020	HY1 2019
Reported result before net finance costs	5.3	10.7
Reported amortisation	2.1	1.1
Reported operating result before amortisation (EBITA)	**7.4**	**11.8**
One-off costs related to simplifying measures in staff costs	1.1	-
One-off costs related to simplifying measures in other operating expenses	0.0	-
One-off costs related to acquisition costs in other operating expenses	0.5	-
One-off costs related to claim settlement in other operating expenses	-	1.6
Normalised EBITA	**9.0**	**13.4**
Reported amortisation	(2.1)	(1.1)
Reported net finance costs	(1.6)	0.8
One-off costs related to acquisition costs in finance expense	0.0	-
One-off gains related to release of currency translation reserve	-	(2.0)
Normalised profit before income tax	**5.3**	**11.1**
Reported income tax expense	(0.7)	(2.7)
One-off costs related to tax audits in income tax expense	-	0.3
Impact one-off costs on income tax expense	(0.4)	(0.4)
Amortisation after tax	1.6	0.8
Normalised profit for the period before amortisation	**5.8**	**9.1**

Annex 2.6 – Risks and risk management

The 2019 Annual Integrated Report of Kendrion N.V. extensively described the risk categories and risk factors that could have an adverse impact on the business and financial performance. The risk factors described in Kendrion N.V.'s 2019 Annual Integrated Report on pages 57 to 63 are deemed to be included herein by reference.

During the first half year of 2020, the COVID-19 pandemic has presented material risks and uncertainties in addition to the earlier identified risks as described in the 2019 Annual Integrated Report that first affected Kendrion's operations in China and subsequently in Europe and the US. A sustained global economic recession as a result of COVID-19 might impact Kendrion's future financial performance and might lead to a different view on the future. Management has carried out multiple scenarios assessments and implemented various measures with a view to mitigate the additional risks imposed.

Additional risks not known to Kendrion, or currently believed not to be material, may occur and later turn out to have a material impact on Kendrion's business, objectives or capital resources.

Annex 2.7 – Notes to the consolidated interim financial statements

1. Reporting entity
Kendrion N.V. is a public company organised under Dutch law. Its statutory seat is Amsterdam and its principal office is located in Amsterdam, the Netherlands.

Kendrion N.V. and its consolidated subsidiaries develop, manufacture and market high-quality electromagnetic systems and components for industrial and automotive applications.

The consolidated interim financial statements as at and for the six-month period ended 30 June 2020 include the results of Kendrion N.V., its subsidiaries (collectively referred to as the “Group”) and the Group's interests in associates and jointly controlled entities.

The consolidated interim financial statements are unaudited.

2. Declaration of conformity
The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34, Interim Financial Reporting, and should be read in conjunction with the annual consolidated financial statements as at and for the year ended 31 December 2019, which are available from Kendrion N.V.’s registered office at Herikerbergweg 213, 1101 CN Amsterdam, or at www.kendrion.com.

The consolidated interim financial statements do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2019.

The consolidated interim financial statements were authorised for issue by the Executive Board and the Supervisory Board on 17 August 2020.

3. Significant accounting policies
The accounting policies applied in the consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019. To the extent amendments to international Financial Reporting Standards and interpretations have become effective for annual periods beginning on or after 1 January 2020 these do not have a material impact on the Group’s financial performance in the first six months of 2020 and the financial position as at 30 June 2020.

4. Accounting estimates
The preparation of the consolidated interim financial statements requires the Executive Board to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, income and expenditures as well as the information disclosed. Actual results may differ from these estimates. The impact of COVID-19 has increased estimation uncertainty. The Group has applied best judgment to make reasonable estimates.

Unless otherwise specified herein in the preparation of the consolidated interim financial statements, important opinions formed by management in applying the Group’s accounting policies, and the main sources of estimation used are equal to the opinions and sources used in preparing the annual consolidated financial statements as at and for the year ended 31 December 2019.

5. Financial risk management

The Group's objectives and policy relating to financial risk management are identical to the objectives and policy disclosed in the annual consolidated financial statements as at and for the year ended 31 December 2019.

6. Segment reporting

Based on the structure of the Group and the criteria of IFRS 8-Operating segments, Kendrion has concluded that the business units are the operating segments within the Group. Based on the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: the Industrial activities and the Automotive activities. INTORQ is included in the Industrial segment as from 8 January 2020.

	Industrial		Automotive		Consolidated	
(x EUR 1 million unless otherwise stated)	HY1 2020	HY1 2019	HY1 2020	HY1 2019	HY1 2020	HY1 2019
Revenue from transactions with third parties	97.7	82.1	97.0	135.2	194.7	217.3
Inter-segment revenue	0.0	0.0	0.1	0.1	0.1	0.1
EBITDA	13.3	10.8	6.9	13.0	20.2	23.8
EBITDA as a % of revenue	13.6%	13.1%	7.1%	9.7%	10.4%	11.0%
EBITA	9.0	7.5	-1.6	4.3	7.4	11.8
EBITA as a % of revenue	9.2%	9.1%	-1.7%	3.2%	3.8%	5.4%
EBITDA[1]	14.2	10.8	7.6	14.6	21.8	25.4
EBITDA as a % of revenue[1]	14.5%	13.1%	7.8%	10.8%	11.2%	11.7%
EBITA[1]	9.9	7.5	-0.9	5.9	9.0	13.4
EBITA as a % of revenue[1]	10.2%	9.1%	-0.9%	4.4%	4.6%	6.2%
Reportable segment assets	231.8	140.1	242.6	242.4	474.4	382.5
Reportable segment employees (FTE)	1,083	945	1,345	1,528	2,428	2,473

[1] Normalised for non-recurring costs of EUR 1.6 million for HY1 2020 and of EUR 1.6 million for HY1 2019.

7. Seasonality

Kendrion is not significantly affected by seasonal trends. There are, however, fewer working days in the second half of the year due to the summer holiday periods in the third quarter and the bank holidays in December.

8. Changes in the Group

Business combinations

On 5 November 2019 Kendrion announced that it entered into a definitive agreement to acquire INTORQ GmbH & Co. KG ("INTORQ"). This transaction was successfully completed on 8 January 2020. From 8 January 2020 onwards the financial statements of INTORQ and its subsidiaries are consolidated by Kendrion and reporting within the Industrial segment.

INTORQ manufactures spring-applied brakes and electromagnetic brakes and clutches for electrical drive technologies. INTORQ products are used in a diverse range of applications, including geared and servomotors, electric forklifts, wind power, cranes, hoists, elevators and escalators. INTORQ has production sites in Aerzen (Germany), Shanghai (China), Atlanta (the US) and Pune (India) and produces approximately one million brakes and clutches per year. INTORQ has annual revenues of around EUR 57 million and nearly 300 employees as at the end of 2019. With its strong position and deep knowledge of the spring-applied brake technology, proven product portfolio and successful and sizeable presence in Shanghai and Aerzen, INTORQ complements Kendrion's business unit Industrial Drive Systems (IDS) that has a strong position and broad product portfolio in permanent magnet brake technology. Both INTORQ and Kendrion are well-positioned to profit from growing end markets. The combination with INTORQ, creates a leading industrial brake company with a full range of high-quality industrial brakes in an expanded number of growth markets in Europe, China, the US and India. Specific shared end-markets include electric motors, wind power and elevators. Complimentary markets include geared motors, forklifts, cranes and hoists.

As of 8 January 2020, INTORQ contributed revenue of EUR 27.5 million to the Group's results. Its contribution to net profit during this period amounted to EUR 1.9 million after deduction of the charges relating to the purchase price allocation. Management considers the revenue and contribution to net profit in the period 1 January 2020 until 8 January 2020 neglectable.

Consideration transferred
The total consideration transferred amounted to EUR 64.4 million.

Identifiable assets acquired and liabilities assumed
The table below shows the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Carrying amount	**Fair value adjustments**	**Recognised value**
Intangible fixed assets	0.5	26.0	26.5
Property, Plant and equipment	15.2	-	15.2
Inventories	14.6	0.3	14.9
Trade and other receivables	7.3	-	7.3
Cash and cash equivalents	4.3	-	4.3
Deferred tax liabilities	-	-7.4	-7.4
Provisions	-0.1	-	-0.1
Loans and borrowings	-17.6	-	-17.6
Trade and other payables	-7.9	-	-7.9
Total identifiable net assets	**16.3**	**18.9**	**35.2**

Goodwill
Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	64.4
Fair value of identifiable net assets	(35.2)
Goodwill	29.2

The goodwill is mainly attributable to the assembled workforce, synergies expected to be achieved from tangible and well-identified cost savings including the integration of selected manufacturing sites in Europe, China and the US and the value attributable to future customers.

Acquisition related costs
The Group incurred acquisition-related costs of EUR 1.7 million related to advisory fees, legal fees and due diligence costs. Of these costs, EUR 1.2 million were recognised in FY 2019 and EUR 0.5 million in HY1 2020. The costs have been included in other operating expenses in the statement of comprehensive income.

9. Main currencies

The table below shows the main exchange rates during the first half of 2020:

Value of EUR	At 30 June 2020	At 31 December 2019	Average over HY1 2020
Pound sterling	0.9124	0.8508	0.8723
Czech koruna	26.7401	25.4078	26.2529
Chinese yuan	7.9219	7.8205	7.7814
US dollar	1.1198	1.1234	1.1058
Romanian lei	4.8397	4.7830	4.8187
Swedish krona	10.4948	10.4468	10.6260

10. Property, plant and equipment

Capital commitments

As at 30 June 2020, the Group had agreements outstanding for the acquisition of property, plant and equipment in the amount of EUR 2.7 million (versus EUR 3.4 million as at 30 June 2019).

11. Impairment

During the first half of 2020, as well as in previous periods, Kendrion assessed whether there were indications during this period for impairments adjusting goodwill or other key assets, and the conclusion was that there was no need for impairment.

12. Deferred tax assets

As at 30 June 2019, deferred tax assets amounted to EUR 14.9 million, of which a total of EUR 4.7 million relates to the valuation of tax losses carried forward and can be specified as follows:

Germany	EUR 2.6 million
United States of America	EUR 1.0 million
The Netherlands	EUR 0.4 million
Other	EUR 0.7 million

13. Equity

The table below shows the number of outstanding shares as at 30 June 2020.

	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2020	14.753.533	180.451	14.933.984
Issued registered shares (share plan)	2.654	(2.654)	-
Delivered shares	10.294	(10.294)	-
At 30 June 2020	14.766.481	167.503	14.933.984

14. Loans and borrowings

As at 30 June 2020, the Group had the following credit lines available:

- EUR 150.0 million revolving Credit Facility with a syndicate of three banks consisting of HSBC, Deutsche Bank and ING Bank. The Credit Facility is committed until 27 July 2023 and includes an option (accordion option) to increase the facility with a maximum of EUR 75.0 million and the possibility to attract additional alternative sources of debt funding;
- EUR 15.0 million entrepreneurial loans within the former INTORQ group. These loans mature in the period 2020-2025.
- EUR 14.5 million in leases for various buildings, equipment and vehicles;
- EUR 1.9 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;

- EUR 3.6 million in other overdraft facilities.

As at 30 June 2020, the total availability in cash and unutilised amount of the credit facilities was approximately EUR 54 million.

Pursuant to the terms of the credit facility with the banking syndicate, the Group is subject to a financial covenant relating to the leverage ratio (interest-bearing debt / EBITDA). The total net debt (including IFRS 16) to EBITDA ratio should remain below 3.0, with the possibility of a temporary increase until the end of 2020 to a maximum of 3.5. As per the end of the second quarter the leverage ratio was 2.6 against the permitted maximum leverage ratio of 3.5. Thereby, the Group satisfied the leverage ratio as at 30 June 2020. The financial covenant is tested quarterly on a 12-month rolling basis.

Kendrion has reached an agreement on key terms to increase the leverage covenant for the quarters up to and including the third quarter of 2021. The agreement in principle allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from 31 December onwards.

Security provided
The Group has provided a mortgage on its premises in Malente, Germany for a EUR 1.9 million loan. No security is provided in relation to the EUR 150 million revolving Credit facility.

15. Taxes
The tax expense for the first six months was EUR 0.7 million, equivalent to a 19% effective tax rate.

As mentioned in Annex 2.2, the provisions and current tax liabilities per 30 June 2019 were restated due to the adoption of IFRIC 23. The effect of this restatement is EUR 2.2 million and concerns a reclassification from the provisions to the current tax liabilities.

16. Financial instruments
As at 30 June 2020 the value of the derivative instruments in the balance sheet is a EUR 0.3 million liability (31 December 2019: EUR 0.1 million asset).

There have been no material changes since the end of 2019 in terms of sensitivity to market risks (i.e. currency, interest and price).

17. Commitments, contingent assets and contingent liabilities
There have been no material changes since the end of 2019 regarding the contingent liabilities as per note 19 of the Annual Integrated Report for the financial year 2019.

18. Related parties
For the definition of "related parties", please refer to note 29 of the Group's Annual Integrated Report for the financial year 2019. No new significant related party transactions have occurred during HY1 2020.