KENDRION

WE MAGNETISE THE WORLD

ANNUAL REPORT 2011

LINNIG

BINDER

100 YEARS OF ELECTROMAGNETISM

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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, presentations as well as
the Annual Magazine 2011.

It all started in 1911 when the company's founder, Wilhelm Binder, barely twenty years old, had a vision: to create his own company, Binder und Mook Werkzeuge GmbH in Villingen, Germany. In 1938, his son, Dr. Wilhelm Binder Jr, joined the company and in 1953, after his father's death, he took over management of the company. Dr. Wilhelm Binder has had no problems filling his father's shoes. The company has thrived under his leadership, expanding its operations and initiating new research and development, and acquiring more than 40 patents. In 2011, under the banner '100 years of electromagnetism', Kendrion celebrated its origin.
A portrait of Dr. Wilhelm Binder features on the cover of this Annual Report.

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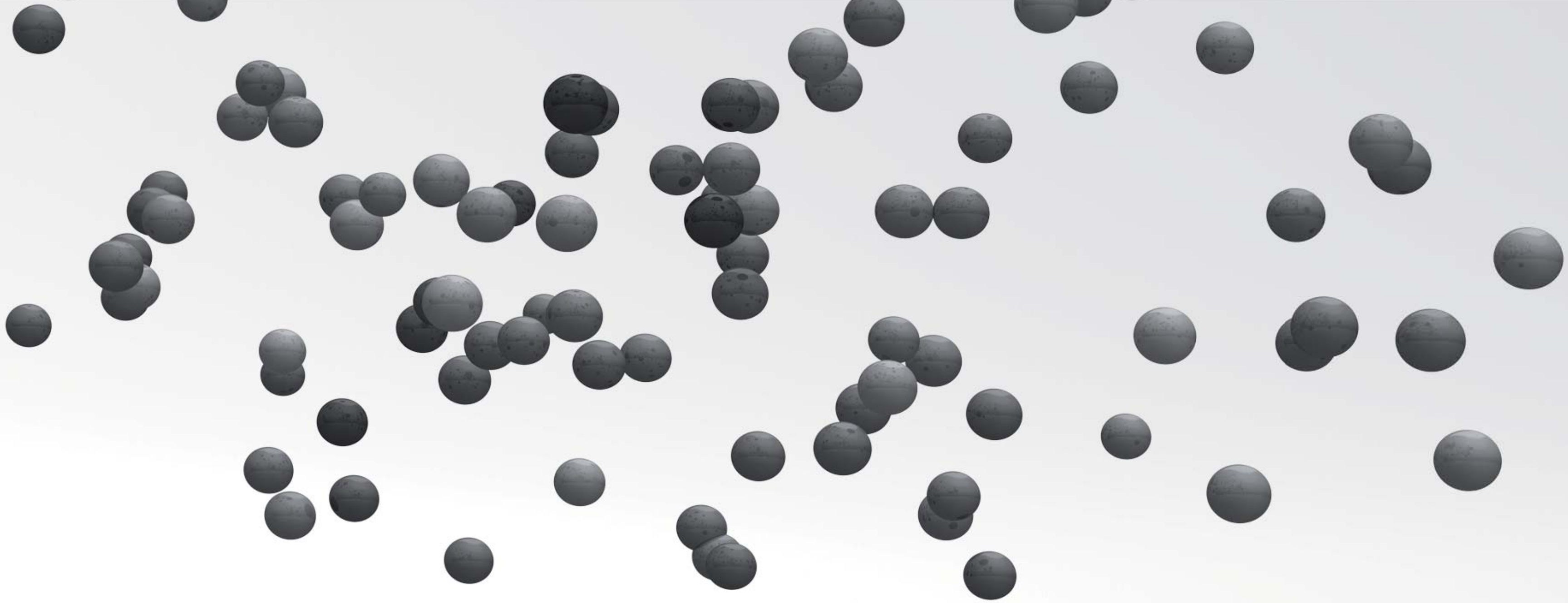


Profile

KENDRION N.V., a solution provider, develops, manufactures and markets innovative high-quality electromagnetic systems and components for customers all over the world. Kendrion's operations are carried out by four business units focused on specific market segments, namely *Industrial Magnetic Systems*, *Industrial Drive Systems*, *Passenger Car Systems* and *Commercial Vehicle Systems*.

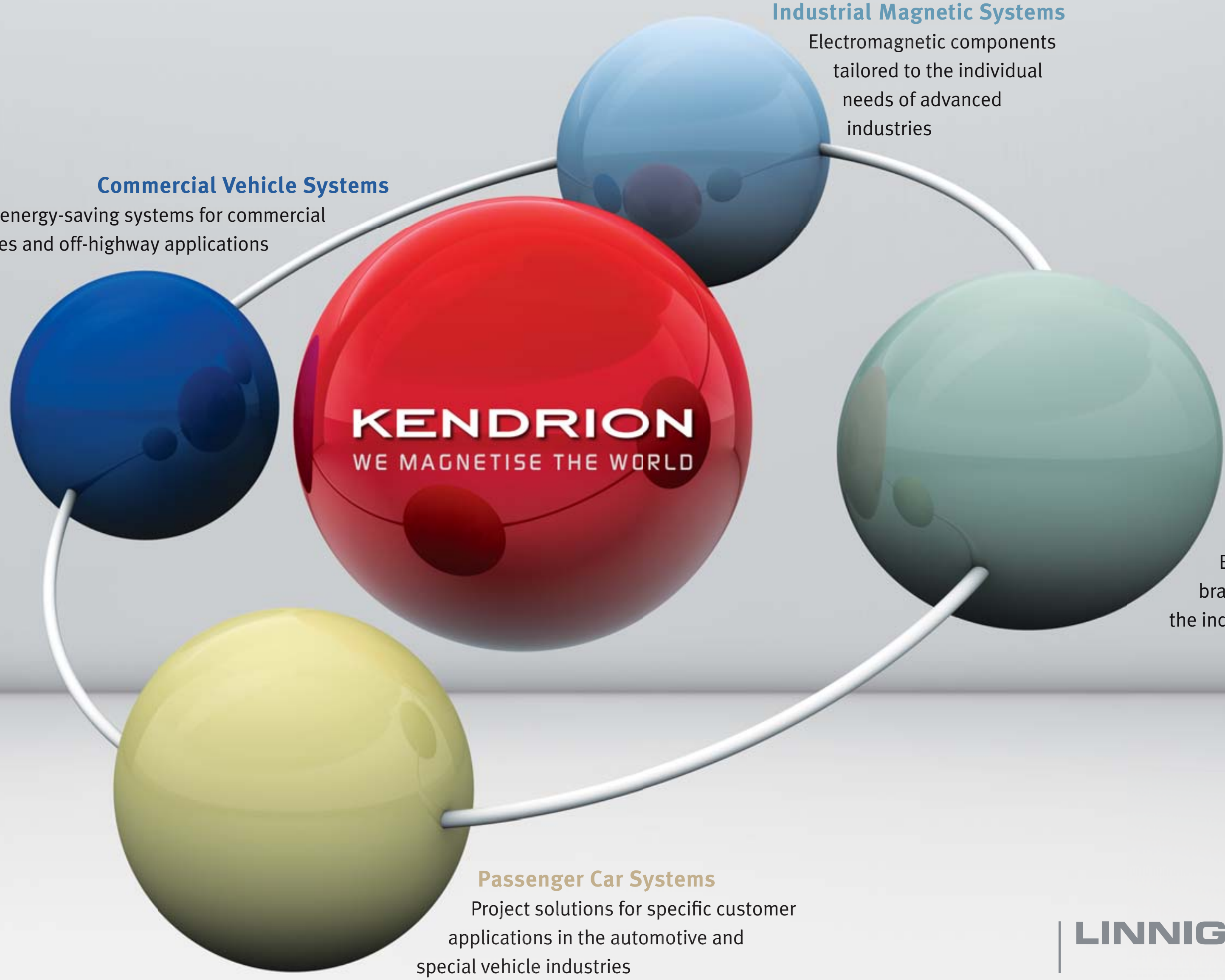
KENDRION has leading positions in a number of business-to-business niche markets. Germany is Kendrion's main market, although other countries are becoming increasingly important.

Kendrion's activities

KENDRION develops advanced electromagnetic solutions for industrial applications. These are used by customers all over the world in systems such as lifts, door-locking systems, industrial robots, medical equipment, electrical switchbox systems, diesel engines, air-conditioning installations, motor cooling systems and beverage dispensers. Kendrion's key customers include Bosch, Siemens, Daimler, Continental, Delphi, Evobus, Hyundai and Yutong.

Kendrion's shares are listed on NYSE Euronext's Amsterdam market.

Organisation



Industrial Magnetic Systems
Electromagnetic components tailored to the individual needs of advanced industries

Commercial Vehicle Systems
Individual energy-saving systems for commercial vehicles and off-highway applications

Industrial Drive Systems
Electromagnetic brakes and clutches for the industrial drive technology

Passenger Car Systems
Project solutions for specific customer applications in the automotive and special vehicle industries

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BINDER

Preface *To all our shareholders and other stakeholders,*

In 2011, Kendrion celebrated the fact, under the motto '100 years of electromagnetism', that what is the basis of Kendrion today commenced 100 years ago with the start of the company Binder und Mook Werkzeuge GmbH in Villingen, Germany. We marked this 100^{th} anniversary on various occasions, not just to look back but above all to look forward at the same time. It is especially gratifying that this year was also an excellent year for Kendrion.

Kendrion had already been able to recover well in 2010 from the crisis of the years 2008/2009 and continued this improvement in the past year. We were very confident at the end of 2010 that 2011 would be a good year, with further revenue and profit growth. The year proved to be even better than hoped and projected.

Despite much talk and debate about developments in European industry and about the euro, market conditions remained good in the great majority of our activities. This was mainly attributable to the good performance of the German economy, which in turn was driven by Germany's strong export position in the Far East. Kendrion was able to benefit significantly from this in both its automotive activities and industrial activities. The strong organic revenue growth of 43% in 2010 was followed by high organic revenue growth of 21% in 2011.

The greatly increased revenue also enabled us to take major steps in terms of efficiency improvements and to trim costs relative to revenue. We have also been able to utilise the growth to achieve further streamlining of our internal processes in many businesses.

The many steps we have taken internally support our confidence that our competitive position was further strengthened in 2011. Kendrion is now active in a large number of countries in Europe, but also in the Far East and in the Americas. Examples of the growing internationalisation of our activities are the launch of a greenfield operation in India and the acquisition of FAS Controls, Inc. in the USA.

We expect rapid revenue growth in these activities in the coming years, given the ample market opportunities in the USA and in India.

We were obviously very disappointed in 2011 with the judgement of the General Court of the European Union on our appeal against the fine imposed on us in 2005 by the European Commission with regard to an infringement by the former subsidiary Fardem Packaging B.V. The fine of EUR 34 million (excluding interest) was upheld by the General Court, against our expectations. At the start of 2012, Kendrion announced that it would lodge an appeal against this judgement with the Court of Justice of the European Union. At the same time, following the judgement of the General Court of the European Union, Kendrion recorded an additional provision of EUR 39 million (including interest) in 2011. Our strong financial position remains the basis for further growth, despite the provision for the fine of the European Commission. On the basis of our financial position and the strong cash flow and our market positions, we were also able, early in 2012, to expand our options for financing potential new acquisitions with an additional facility of EUR 60 million.

Other spearheads in 2011 were innovation and flexibility. For a niche player such as Kendrion it is vitally important to continually come up with innovative solutions for problems our customers may face. The innovation policy introduced a few years ago again generated results in 2011, with a range of new projects and applications. Another significant event in connection with innovation was the Dr. Wilhelm Binder Symposium, which we organised in November 2011 for our customers and which centred on the topic of new developments in our specialist area in the years ahead.

Kendrion will need to retain its flexibility since the company does not expect the economic volatility of its key markets to abate in the next few years. We will have to respond with a flexible organisation that uses flexible staff where required, with flexible suppliers and flexible costs.

Kendrion is increasingly growing into a strong, international niche player. In 2011, this was for instance reflected in a further EBITA increase to 11.5% (normalised) in relation to revenue. We aim to continue to grow in the coming years, focusing on further growth not just in Germany but also in China and the USA. We perceive scope for autonomous growth, supplemented by acquisitions, in these countries on the basis of our accumulated know-how and their need for European technology. We again managed to grow rapidly in China in the past year. The acquisition of FAS Controls, Inc. in the USA just before the close of the year is also part of this strategy. We believe that our strong know-how in the automotive sector, in tandem with a strong local presence, could lead to accelerated growth of our activities in the USA.

The steps we have taken in the past few years give us confidence for the future.

We therefore welcome this opportunity to express our gratitude to our employees, our management and our other stakeholders for their hard work, their support and their commitment. Our plans for the company's further growth are ambitious, and can only be achieved by continuing to combine all forces within our company as we go forward.

Piet Veenema, CEO

Kendrion at a glance

Key figures

EUR million, unless otherwise stated

Share information [2]

Normalised net profit per share (EUR)		
2010	1.30	
2011	1.79	↑ +38%

Operations

Revenue		
2010	221.9	
2011	267.9	↑ +21%

Operating result before amortisation (EBITA) [1, 6]		
2010	24.2	
2011	30.7	↑ +27%

Operating result before depreciation and amortisation (EBITDA) [6]		
2010	32.9	
2011	40.0	↑ +22%

Normalised net profit [2]		
2010	14.8	
2011	20.5	↑ +39%

EBITA [1, 6]/invested capital [4, 5] (ROI)		
2010	18.7%	
2011	22.2%	↑ +19%

Net investments		
2010	8.9	
2011	13.5	↑ +52%

Depreciation and amortisation		
2010	10.1	
2011	10.8	↑ +7%

Solvency (total equity/ balance sheet total)		
2010	64.7%	
2011	40.0%	↓ -/-38%

Working capital in % of revenue [3, 5, 8]		
2010	11.7%	
2011	11.8%	↑ +1%

EUR million, unless otherwise stated	2011	2010
Net profit	(20.1)	16.6
Organic growth	20.7%	42.9%
Net interest-bearing debt	25.9	5.2
Net interest-bearing debt / equity (gearing)	0.28	0.05
Net interest-bearing debt / operating result before depreciation and amortisation (EBITDA) [5, 6]	(0.07)	0.16
Operating result before amortisation (EBITA) [1, 6] / net finance costs	15.3	8.1
Outstanding shares at year-end (x 1,000)	11,493	11,316

Realisation of targets

Organic growth	
Target	› 10% per year
Actual	20.7%

Return on Sales[6] (ROS)	
Target	› 10.0%
Actual	11.5%

Return on invested capital[4, 6]	
Target	› 17.5%
Actual	22.2%

Solvency	
Target	not below 35%
Actual	40%

Ratio of interest-bearing debt and EBITDA	
Target	‹ 3.00
Actual	0.60

Free cash flow[7]	
Target	healthy free cash flow in relation to organic growth in % of net profit
Actual	71%

Dividend distribution	
Target	between 35-50% of net profit
Actual	35% of normalised net profit

1 *EBITA excluding amortisation related to acquisitions (part of other intangible assets).*

2 *Excluding EC fine and a.o. acquisition expenses in 2011 (2010 excluding incidental tax benefit).*

3 *Working capital and revenue are excluding FAS Controls, Inc.*

4 *Total invested capital is property, plant and equipment, intangible assets and current assets less the current tax liabilities, trade payables and other payables.*

5 *Net interest-bearing debt, working capital and invested capital is excluding FAS Controls, Inc.*

6 *Excluding EC fine and a.o. acquisition expenses in 2011.*

7 *Before cash flow relating to acquisitions.*

8 *Excluding an earn-out liability at year-end 2010.*

Mission, strategy and financial objectives

Mission

Kendrion is committed to being a leading international company that uses its existing know-how, innovative capabilities and commercial strengths to provide solutions to the company's industrial and automotive customers. In doing so Kendrion intends to be a transparent, flexible and reliable company where entrepreneurial zeal is combined with clear profit targets. Kendrion seeks to further strengthen its position as a fast-growing high-tech company.

Strategy

Kendrion's policy is focused on the creation of sustainable added value and the achievement of appealing return on investment for the company as a whole. This is based on a powerful focus on a number of selected operations and on profitable growth achieved both organically and via acquisitions. Kendrion's objective is to evolve from a European player into a global player. Within this context, China, India and the USA are important countries for further growth. Kendrion intends to achieve this objective by building up and expanding its leading market positions in selected niche markets in terms of both revenue and added value.

Kendrion utilises its existing know-how, innovative capacity and commercial strengths to offer solutions to a wide range of customers, whereby the company shall focus on the further expansion in the fields of applications for electromagnetic systems and components.

Kendrion, characterised by its transparency, flexibility and local entrepreneurship, is driven by challenging but realistic targets. In addition, Kendrion intends to be and remain a company that appeals to its employees, customers and shareholders. Kendrion is aware of the importance of its social responsibility, and for this reason the social and environmental standards governing all processes are continually being made more stringent.

Kendrion's spearheads are:

- Niche market leadership in selected business-to-business markets;
- Organic growth in the current operations;
- Utilisation of synergy in and between the business units (locally but also internationally);
- Balanced spread of the operations;
- Targeted add-on acquisitions;
- Enhancement of the innovative capacity.

Niche market leadership in selected business-to-business markets

Kendrion endeavours to achieve niche market leadership in selected business-to-business markets. Niche markets are small markets, where 'small' refers not so much to revenue or volume as to a limited number of suppliers in the sense of quality (technology and innovation). Kendrion intends to acquire a leading position in the niche markets that offer appealing margins and which are governed by relatively high barriers to entry (know-how, investments). Kendrion's products and services have the following features:

- The products and services are of an innovative and technical nature;
- Products and services are mostly customised;
- The contribution to costs may be 'minor', but is essential to the customer's finished products;
- The number of customers (and suppliers) is limited but there are long-term relationships;
- The market for a specific product or service offers the company an opportunity to hold a leading position in that market.

Organic growth in the current operations
Kendrion endeavours to achieve organic growth in its operations in terms of revenue, volume and result. This can be achieved by having powerful market positions, further expansion of the company's high-grade engineering and test facilities, offering customised solutions to customers and the provision of excellent logistics concepts. Top priority is assigned to the provision of first-rate service and knowing the market segments and customers demands.

Utilisation of synergy in and between the business units
Kendrion's four market-focused business units operate in different markets. Kendrion endeavours to achieve optimum synergy in and between the business units by measures including joining forces in marketing and sales and exchanges of engineering know-how, purchasing and support services such as HR, Finance, and IT.

Balanced spread of the operations
Kendrion strives to achieve a balanced customer base in which, in principle, no customer generates more than 5% of the company's total revenue. Kendrion intends to safeguard stable results by avoiding a dependency on one geographical market. Kendrion endeavours to achieve a balanced geographical spread of its operations over the world, with Europe, the Far East and the Americas as the most important geographic markets. In Europe, the importance of countries in Eastern Europe shall continue to increase. Eastern Europe offers opportunities in terms of production locations and markets, as is illustrated by the operating companies in the Czech Republic and Romania. The Far East and the Americas are also becoming more important. Kendrion is increasing its focus on these areas to achieve further growth, whereby the company is striving to create centres of excellence in each continent, each offering solutions as locally required.

Targeted add-on acquisitions
Kendrion endeavours to acquire companies that enhance the company's leading position in its markets and the geographical spread of its operations. Kendrion is focused on strengthening the company's position in the markets outside Europe, more specifically in the markets of the East Asia and American continents. One recent example is the acquisition of FAS Controls, Inc., North Carolina, USA. However, Kendrion still perceives interesting opportunities in Europe, in particular in Germany. Kendrion is focused on acquisitions in the industrial segments. Acquisition targets need to offer good returns in terms of their EBIT and ROI, at levels similar to Kendrion's returns, and ample opportunities for further organic growth in their revenues and results.

Enhancement of the innovative capacity
Globalisation and technological developments are increasing the competitive pressure. Kendrion is aware that the company will be unable to achieve and retain its planned growth and attractive market positions without a strong innovative behaviour, strong engineering capacity, its knowledge of markets and customers and permanent improvements to its operations. This will in turn require Unique Selling Points and innovation. Kendrion uses a multi-year Innovation Calendar that states fixed times at which the business units are encouraged to introduce innovations. This leads to annual presentations of Kendrion's most important innovations to its stakeholders, such as the Dr. Wilhelm Binder Symposium (the 'Next century of electromagnetism') which Kendrion organised in November 2011. Kendrion also makes use of the services of an external Innovation Board for the provision of the necessary advice and support to the company. Kendrion strives to improve the company's Intellectual Property strategy and devotes continually increasing efforts to the development of knowledge management.

>> Financial objectives

- Annual organic growth in revenue of at least 10%;
- Growth of the company, including acquisitions, to annual revenues of about EUR 350 million within one year;
- Return on Sales (ROS) of more than 10%;
- Return on investment (ROI) inclusive of goodwill of more than 17.5%;
- Payment terms and stock levels of each operation in line with the market, taking account of local variations;
- A healthy free cash flow given the organic growth achieved;
- Solvency ratio not below 35%;
- Interest-bearing debt/EBITDA of lower than 3.0;
- Dividend distribution between 35% and 50% of the net profit.

Important events

1 March 2011
100 years of electromagnetism
Kendrion's plant in Villingen, Germany, celebrated its centenary on 1 March 2011. Kendrion celebrated this milestone by organising a series of events based on the '100 years of electromagnetism' theme, in which a large number of stakeholders were involved.

4 October 2011
ERP system
The roll-out of the HORIZON project (the implementation of a new ERP system) proceeded according to plan. In early October, Passenger Car Systems in Villingen, Germany, was the first of Kendrion's major plants to migrate to the new ERP software supplied by IFS.

The transition was carried out according to schedule and completed without any major problems. Over the next several quarters, a number of smaller operations will migrate to the new software, with the next major plant to follow in mid-2012. The HORIZON project is scheduled for completion by the end of 2013.

10 November 2011
Dr. Wilhelm Binder Symposium
The Dr. Wilhelm Binder Symposium, held in Villingen, Germany, on 10 November, focused on the main trends and developments in the electromagnetism field. Several international speakers gave presentations at the symposium, including members of the Kendrion Innovation Board, company employees, external experts and representatives of customers based in Germany and the USA.

16 November 2011
Verdict EU Fine
On 30 November 2005, the European Commission fined Kendrion N.V. EUR 34 million (excluding interest) for the infringement of Article 81(1) of the EC Treaty by Kendrion's former subsidiary Fardem Packaging B.V., in Edam, the Netherlands. The fine was imposed for prohibited agreements in the industrial bags sector in the Netherlands and, on occasion, Belgium, to which Fardem Packaging B.V. was a party during a certain period. Kendrion N.V was fined as the company was the sole shareholder in Fardem Packaging B.V. from June 1995 to September 2003. Kendrion wishes to emphasise that Fardem Packaging B.V. operated as an independent enterprise at all times and that Kendrion N.V. was never directly involved in prohibited agreements.

Following the 2005 decision, Kendrion N.V. immediately lodged an appeal against the fine imposed by the European Commission with the General Court of the European Union in Luxembourg. A hearing was held on 9 March 2011.

The General Court delivered its judgement in the case brought by Kendrion N.V. on 16 November 2011. The General Court ruled that the fine was to be upheld in its entirety.

Kendrion N.V. has decided to lodge an appeal against the General Court's judgement with the Court of Justice of the European Union.

27 December 2011
Acquisition FAS Controls, Inc.
Kendrion N.V. has reached agreement with Industrial Opportunity Partners on the acquisition of FAS Controls, Inc. FAS Controls, located in Shelby, North Carolina, the USA, generates revenue of approximately USD 35 million and has some 200 employees. FAS Controls is active in the automotive and truck market. The company supplies high-quality electromagnetic valves, as well as pressure switches and lighting modules. FAS Controls, a true niche player, is technologically advanced and profitable.

The acquisition of FAS Controls is a good fit with Kendrion's strategy of strengthening its global position in countries including the USA. FAS Controls was acquired to further strengthen the operations of Kendrion's Passenger Car Systems business unit.

Kendrion at a glance

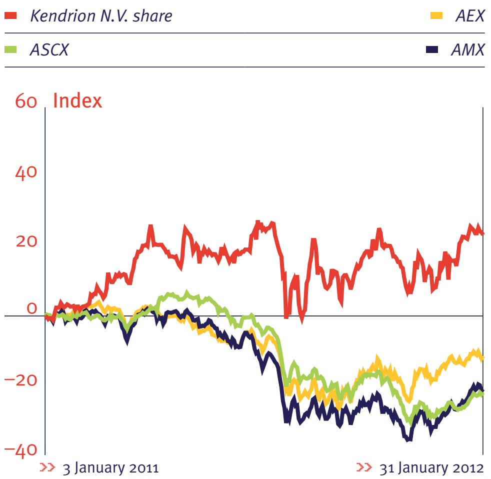
Information on Kendrion N.V. shares

Share capital

The authorised share capital amounts to EUR 80,000,000 and is comprised of 40,000,000 ordinary shares with a nominal value of EUR 2.00. On 31 December 2011, 11,492,525 shares had been issued. On the balance sheet date the company owned 47,392 shares that are required to cover the current share plans.

Kendrion's shares are listed on NYSE Euronext's Amsterdam market.

Movements in the share price from 3 January 2011 to 31 January 2012



Movements in the number of outstanding shares

	Ordinary shares entitled to dividend	Repurchased shares	Total number of issued shares
At 1 January 2011	11,257,259	59,115	11,316,374
Issued shares (share dividend)	176,151	–	176,151
Delivered repurchased shares	11,723	11,723	–
At 31 December 2011	11,445,133	47,392	11,492,525

Other information

In EUR, unless otherwise stated	2011	2010	2009
Number of shares x 1,000 at 31 December	11,492	11,316	11,316
Market capitalisation at 31 December, EUR million	189.6	164.1	105.8
Enterprise value (EV)	215.5	169.3	119.7
Highest share price in the financial year	18.99	15.10	10.30
Lowest share price in the financial year	13.25	8.82	6.59
Share price on 31 December	16.50	14.50	9.35
Average daily ordinary share volume	17,489	13,642	4,230
EBITDA multiple (over EV)	5.39	5.10	9.30 [1]
Result per share	(1.79)	1.47	0.37
Result normalised per share	1.79	1.30	0.37
Share price earnings ratio	9.27	9.93	26.71

[1] *Before Springtime (reorganisation plan).*

Major shareholders

Pursuant to the Netherlands Financial Supervision Act, Kendrion is aware, on the basis of the information in the registers of the Netherlands Authority for the Financial Markets (AFM), that the following shareholders possessed an interest of more than 5% on 31 December 2011:

Shareholder		Date of report
Parcom Capital (ING)	15.07%	1-10-2010
Menor Investments B.V.	7.92%	7-1-2009
Aviva Plc	7.58%	1-11-2006
Darlin N.V.	5.09%	1-11-2006
Janivo Beleggingen B.V.	5.88%	4-10-2011
Jan Plas S.A.	5.02%	2-4-2009
J.N.A. van Caldenborgh	5.00%	4-3-2010
Total	51.56%	

On 22 April 2011, Dr T. Tettamanti disclosed that its indirect interest in Kendrion had fallen to 4.99% as from 21 April 2011. Following an internal restructuring, Janivo Participaties II B.V. transferred its Kendrion shares to Janivo Beleggingen B.V. on 4 October 2011. Other movements in the size of the interests of Kendrion's major shareholders also took place during the course of 2011. These changes fall within the disclosure thresholds as stipulated in the Financial Supervision Act and, consequently, do not need to be disclosed by the major shareholders.

On 8 February 2012 Delta Lloyd Deelnemingen Fonds N.V. disclosed that it has acquired a 5.10% interest in Kendrion.

Transactions between the company and legal persons holding at least 10% of the shares in the company as specified in best practice provision III.6.4 of the Netherlands Corporate Governance Code have not taken place.

Dividend

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

Kendrion carried out an evaluation of its dividend policy during the course of 2011 which also took into account the discussion with the shareholders in the General Meeting of Shareholders on 18 April 2011. The Executive Board decided, with the approval of the Supervisory Board, to implement some amendments to the former policy of paying out 30% of the net profit unless all or part of the profit needed to be retained for strategic reasons (acquisitions, strong growth, investments) and subject to the condition that the company maintains a minimum solvency ratio of 30%.

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

The Executive Board shall, in line with the new dividend policy and with the approval of the Supervisory Board, submit a proposal to the shareholders for the payment of a dividend of 35% of the normalised net profit of 2011. The dividend is equivalent to an amount of EUR 7.1 million. The number of outstanding shares entitled to dividend at 31 December 2011 was 11,445,133 and, consequently, the dividend amounts to EUR 0.62 per ordinary share with a nominal value of EUR 2.00 each.

A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 16 April 2012 for the payment of the dividend, at the shareholder's discretion, in cash and/or in ordinary shares, charged to the share premium reserve. The share dividend will be set on 8 May 2012 (before start of trading), on the basis of the volume-weighted average price of all ordinary shares in Kendrion traded on 30 April, 2, 3, 4 and 7 May 2012, at a level whereby the value of the dividend in shares is virtually equal to the cash dividend. The dividend will be made available on 10 May 2012.

Financial calendar

Wednesday 29 February 2012	Publication of the 2011 full-year figures
Monday 19 March 2012	Record date General Meeting of Shareholders
Monday 16 April 2012	General Meeting of Shareholders
Wednesday 18 April 2012	Ex-dividend date
Friday 20 April 2012	Dividend record date
Monday 23 April – Monday 7 May 2012, 3 pm	Dividend election period (stock and/or cash)
Tuesday 8 May 2012	Determination stock dividend exchange ratio
Wednesday 9 May 2012	Publication of the results for the first quarter of 2012
Thursday 10 May 2012	Cash dividend made payable and delivery stock dividend
Thursday 23 August 2012	Publication of the results for the first six months of 2012
Wednesday 7 November 2012	Publication of the results for the third quarter of 2012
Wednesday 27 February 2013	Publication of the 2012 full-year figures
Monday 15 April 2013	General Meeting of Shareholders

Voting by proxy

Shareholders can be represented by proxy at meetings of shareholders. At request a proxy can be granted to an independent third party. Shareholders who are unable to attend the General Meeting of Shareholders can request proxy forms from the company. These are issued free of charge and are also available on Kendrion's website. Shareholders may also grant a proxy electronically through e-voting (www.rbs.com/evoting).

Participation

A share plan for the top management of Kendrion was introduced in 2005. This plan provides for the issue of shares in Kendrion as payment in kind. After the General Meeting of Shareholders each year the number of shares to be awarded to the top management of Kendrion in that year is determined by the Supervisory Board on the basis of the Executive Board's recommendations. 6,075 shares were awarded pursuant to this plan in 2011. The plan does not extend to the Executive Board. In addition, the Business Unit Managers and a number of other officers are offered an opportunity to apply for the conversion of a maximum of half of their annual net cash bonus into shares. Kendrion doubles the number of shares after three years when officers are still employed by Kendrion and still possess the shares. Pursuant to this loyalty bonus plan a total of 2,469 shares were awarded in 2011.

A bonus scheme in shares was granted to the members of the Executive Board for 2011. More information about the shares granted to the members of the Executive Board is enclosed on pages 123, 124 and 134. A comprehensive description of the bonus scheme for 2012 and onwards is included in the remuneration policy section on pages 58 and 59.

Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading. These regulations govern the Supervisory Board, Executive Board, Innovation Board, Business Unit Managers and their Controllers, and a number of other employees. In addition, the Executive Board and the Supervisory Board are governed by restrictions on trading in other listed companies. Kendrion has also designated a number of consultants affiliated with the company as insiders. Kendrion's Compliance Officer is entrusted with the supervision of compliance with the regulations.

Investor relations

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

Analysts

The following stock exchange analysts actively monitor the Kendrion share:

■ ABN AMRO Bank N.V.	Maarten Bakker
■ Rabo Securities N.V.	Frank Claassen
■ SNS Securities N.V.	Gert Steens
■ Theodoor Gilissen Bankiers N.V.	Tom Muller
■ The Idea Driven Equities Analyses company	Maarten Verbeek

More information about the Kendrion share is available from Kendrion's website, www.kendrion.com.

Liquidity providing

In 2011, SNS Securities N.V. has acted as a liquidity provider for Kendrion N.V. As such, SNS Securities acts as counterparty for buy or sell orders of which the bid and ask prices are set within a range around the last executed price. This way, relatively smaller (retail) buy and sell orders can be executed through the liquidity provider which results in a more fair and orderly market.

Members of the Supervisory Board

S.J. van Kesteren (70)
Mr Van Kesteren is the Chairman of the Supervisory Board. In 2005 the General Meeting of Shareholders appointed Mr Van Kesteren for a four-year term until 2009. In 2009 the General Meeting of Shareholders reappointed Mr Van Kesteren for a four-year term until 2013. He is member of the Remuneration Committee of Kendrion. Mr Van Kesteren is Chairman of the Supervisory Board of Koninklijke Nedschroef Holding B.V. Formerly he was Chairman of the Board of Draka Holding N.V. and member of the Advisory Board of ABN AMRO N.V.
Mr Van Kesteren is a Dutch national. He does not possess any shares in Kendrion.

R.L. de Bakker (61)
Mr De Bakker was appointed a member of the Supervisory Board during the Extraordinary General Meeting of Shareholders held in June 2005 for a two-year term until 2007. In 2007 Mr De Bakker was reappointed for a four-year term until 2011 and during the April 2011 General Meeting of Shareholders for a further period until 2015. He is Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Kendrion. Mr De Bakker is Chairman of the Supervisory Board of SPIE Nederland B.V. and Chairman of the Supervisory Board of WCC B.V. He is also a member of the Board of a number of investment companies based in the Netherlands and a member of the Board of the Tom-Tom Continuity Foundation, Chairman of the Supervisory Board of the Florence Zorg Foundation, Chairman of the Supervisory Board of the Raamwerk Foundation, and Vice-Chairman of the Supervisory Board of the Laurens Zorg Foundation. He was formerly Chief Financial Officer and member of the Executive Board of ASM International N.V.
Mr De Bakker is a Dutch national. He does not possess any shares in Kendrion.

M.E.P. Sanders (58)
Ms Sanders was appointed a member of the Supervisory Board during the General Meeting of Shareholders held in April 2005 for a three-year term until 2008. In 2008 the General Meeting of Shareholders reappointed Ms Sanders for a four-year term until 2012. At the General Meeting of Shareholders on 16 April 2012 it will be proposed to reappoint Ms Sanders for a period of four years. She is Chair of the Remuneration Committee of Kendrion.
Ms Sanders is Chair of the Supervisory Board of Hoens Broadcast Facilities B.V. and Chair of the Advisory Board of Difrax Beheer B.V. and Kalff de Jager B.V.
Ms Sanders is member of the Board of Supervision of Altrecht N.V. and Brandwonden Stichting. She is also member of the Advisory Board of De Hoge Dennen B.V.
Ms Sanders is a Dutch national. She does not possess any shares in Kendrion.

H.J. Kayser (51)
Dr Kayser was appointed to the Supervisory Board during the Extraordinary General Meeting of Shareholders held in July 2009 for a four-year term scheduled to expire in 2013. He is a member of Kendrion's Audit Committee. Dr Kayser is CEO of 3W Power Holdings SA and AEG Power Solutions BV. He was formerly the CEO of Kuka AG. He held several (international) management positions with Siemens AG and McKinsey & Company during the period from 1989 to 2008.
Dr Kayser is a German national. He does not possess any shares in Kendrion.

From left to right:
R.L. de Bakker, Vice-Chairman
M.E.P. Sanders, member
S.J. van Kesteren, Chairman
H.J. Kayser, member

Report of the Supervisory Board

Annual Report

We hereby present you the Annual Report for 2011 prepared by the Executive Board. The Annual Report includes the financial statements audited by KPMG Accountants N.V. The unqualified independent auditor's report is enclosed on pages 135 and 136 of this Report.

The Supervisory Board and the Executive Board held extensive discussions on the Annual Report for 2011 and the preparation of the Report, partly during a meeting attended by the auditor. These discussions have convinced us that the Annual Report complies with the transparency requirements, and we are of the opinion that it constitutes a good basis for the accountability of the Supervisory Board for its supervision and advice during the year under review.

The Supervisory Board recommends that the General Meeting of Shareholders to be held on 16 April 2012 adopts these financial statements and discharges the Executive Board and Supervisory Board of responsibility in respect of their respective management and supervision.

Composition of the Supervisory Board and Executive Board

The Supervisory Board is comprised of four members. The membership of the Supervisory Board remained unchanged during the year under review. In accordance with the rotation schedule and after consideration a proposal to reappoint Ms Sanders as a member of the Supervisory Board for a further four-year term shall be submitted to the General Meeting of Shareholders to be held on 16 April 2012.

All four members of the Supervisory Board comply with best practice provision III.3.4 of the Netherlands Corporate Governance Code (stipulating the maximum number of Supervisory Boards of Dutch listed companies of which an individual may be a member).

The Supervisory Board is of the opinion that it complies with the independence requirements stipulated by the Netherlands Corporate Governance Code.

The profile of the Supervisory Board includes a statement (in part in view of the diversity provisions of best practice provision III.3.1 of the Netherlands Corporate Governance Code) that endeavours shall be made to achieve a mixed composition in terms of age and experience and that preferably at least one woman shall be a member of the Supervisory Board. These endeavours have been achieved. The profile of the Supervisory Board is available on the website of the company.

Both the Supervisory Board and the Executive Board comply with the conflicts of interest rules laid down in the Netherlands Corporate Governance Code. No transactions took place in the year under review in which conflicts of interest on the part of the members of the Executive Board or the Supervisory Board played a role.

The membership of the Executive Board remained unchanged in 2011. A proposal will be submitted to the General Meeting of Shareholders recommending the reappointment of Mr Ris as Kendrion's CFO for a further period of four years.

The prevailing regulations and addendum governing the ownership of and transactions in the own company's securities and securities of other designated companies offer sufficient assurances.

Evaluations

In several meetings of the Supervisory Board, not attended by the Board, the performance of the Supervisory Board, its Committees and its members, the performance of the Board and its members and an evaluation of the remuneration policy governing the Executive Board were discussed. These meetings also reviewed the requirements for the profile, composition and competence of the Supervisory Board. The Supervisory Board has worked with a self-assessment questionnaire, to be filled out by each of its members. The performance of this form of evaluation was discussed in a meeting of the Supervisory Board which reviewed issues including the communication and the modus operandi between the two Boards. This revealed a few attention points which will be addressed in 2012, to be monitored by the Chairman of the Supervisory Board. These attention points include the further optimisation of the preparations of meetings and the intention to have an even stronger focus on CSR. Last year, an attention point was the more direct involvement of the Business Unit Managers and other senior staff in the discussions with the Supervisory Board to enable the members of the Supervisory Board to gain an even better understanding of the business units' driving forces and current business ideas. This was addressed by inviting each of the Business Unit Managers to a meeting of the Supervisory Board held in 2011.

The Supervisory Board also held consultations with the external auditor, in part attended by the Board. In addition to these formal meetings, the Chairman of the Supervisory Board held regular informal discussions with the CEO, and the Chairman of the Audit Committee had informal discussions with the CFO.

The Audit Committee once again reviewed the need for an internal auditor. The Supervisory Board recommends that the Executive Board, in line with the Audit Committee's proposal, maintains the current situation. The Supervisory Board is of the opinion that the internal control procedures described in more detail on pages 30 and following of this Annual Report are adequate for Kendrion's needs.

KPMG Accountants N.V. ('KPMG') were appointed Kendrion's auditor in 2005 and reappointed by the General Meeting of Shareholders in 2009. The Executive Board and Audit Committee of the Supervisory Board have carried out a thorough assessment of KPMG's performance. KPMG has always adopted a critical attitude during the performance of its audits in the manner that may be expected from an independent auditor. Pursuant to KPMG's rotation schedule, the Lead Partner for Kendrion was exchanged in 2010: the Engagement Partner will be exchanged in 2012, in close consultation with Kendrion. The fees charged for the auditors' services are in line with the market. The Supervisory Board is, upon advice of the Executive Board and the Audit Committee, of the opinion that KPMG comes into consideration for reappointment and, consequently, the Supervisory Board shall submit a proposal to the General Meeting of Shareholders recommending KPMG's reappointment for a period of two years after 2012 (for the 2012 and 2013 financial years).

Meetings

The Supervisory Board met with the Board on ten occasions. These meetings reviewed a number of permanent items on the agenda which included the company's strategy, the results of and developments within the market-focused business units and Kendrion as a whole, flexibility, innovation, corporate governance, CSR, the independence of the auditor, the auditor's findings and recommendations, the business units' policy and business plans, the financing, fiscal position, risk management, PR/IR, the ERP project HORIZON, as well as management development. One meeting was convened specifically for a detailed discussion of the strategy, including the growth and acquisition policy.

With the exception of one meeting, all meetings were attended by all members of the Supervisory Board.

The Supervisory Board paid a working visit to the plant of Kendrion Binder Magnete GmbH in Eibiswald, Austria.

The members of the Supervisory Board were pleased to attend the Kendrion 100th anniversary dinner in Rottweil, Germany, to celebrate 100 years of electromagnetism and the associated opportunity to hold informal contacts with shareholders, customers, employees and other stakeholders. The Chairman gave a speech during the dinner. Dr Kayser was also honoured to give a speech during the employees' event organised on 1 July in Villingen, Germany, to celebrate the company's 100th anniversary.

Committees

The Supervisory Board instituted two specific committees, an Audit Committee and a Remuneration Committee. Both Committees have been assigned the duty of making the preparations for the decision-making by the full Supervisory Board. The roles and responsibilities of the Committees are in accordance with the relevant provisions of the Netherlands Corporate Governance Code (best practice provisions III.5.4 and III.5.10).

The regulations of both Committees have been published on Kendrion's website.

Audit Committee
In 2011 the Audit Committee was comprised of Mr De Bakker (Chairman and financial expert within the meaning of the Netherlands Corporate Governance Code) and Dr Kayser.

The Audit Committee held four meetings with the CFO and his staff during the year under review which discussed issues including the development in the results, the tax position, risk management, claims, treasury activities and insurance. The external auditors joined the meetings in which the yearly figures of 2010 and the half year figures of 2011 were discussed. The members of the Committee attended all meetings.

Remuneration Committee
In 2011 the Remuneration Committee was comprised of Ms Sanders (Chair) and Mr Van Kesteren.

The Remuneration Committee held two meetings in 2011. The meetings were attended by the Executive Board. During the meetings the bonus systems were discussed and also the remuneration policy for the Executive Board was evaluated and the to be expected outcome of the variable remuneration for 2011 was discussed. Also the general management organisation was part of the discussion. Both members of the Committee attended the meetings.

Highlights supervision

The financial results as well as working capital and other developments (including the associated press releases) were discussed in detail during the meetings held prior to the publication of the quarterly, half-year and annual figures. The company's external auditor attended the meeting in which the annual figures were discussed.

One meeting was devoted especially to evaluating and discussing the company's strategy on the mid-term, including the acquisition strategy. During this meeting the Supervisory Board also scrutinised the business unit's principles, risks and opportunities in greater detail. Intensive discussions were held on the markets, acquisition targets and the geographical focus, including the acquisition of FAS Controls, Inc., of the USA.

The Supervisory Board devoted full attention to the organisation's internal risk management and control systems, including the degree of flexibility. More information is enclosed in the risk management section on pages 30 and following of this Annual Report. In one meeting, the overview of internal control issues of the auditor was discussed as well as the results, progress and further improvements of the internal tests of the financial reporting systems. The Supervisory Board expressed its satisfaction with the fact that the management letter revealed only a limited number of relatively minor issues.

The Board and the Supervisory Board also discussed the agreement on the new EUR 60 million supplementary credit facility that was finally concluded on 17 January 2012, the financial covenants and other relevant terms and conditions. The Supervisory Board is of the opinion that the financing package creates the right level of flexibility required for Kendrion to execute its mid-term strategy.

The Supervisory Board kept close track of the developments in the fine imposed by the European Commission for the alleged infringement of Article 81, paragraph 1, of the EC Treaty by a former Kendrion subsidiary, including the preparations for the oral hearing at the General Court on 9 March 2011. The Supervisory Board was extremely disappointed about the unfavourable verdict of 16 November 2011 and, following a review and discussion of a further legal analysis, fully endorses the decision to lodge an appeal with the Court of Justice of the European Union. The Supervisory Board was updated from time to time on the progress of the ERP Project HORIZON. In two of its meetings, the responsible Program Director was present to provide a status update.

The Supervisory Board held extensive discussions on the design of the organisational and management structure, in part in view of Mr Freitag's resignation as COO as from January 2012.

The Supervisory Board and the Executive Board discussed the new dividend policy that will be put on the agenda of the General Meeting of Shareholders (see page 12).

The Supervisory Board recognises the importance of Kendrion's corporate social responsibility and advocates an even stronger focus on the company's social and environmental standards governing its processes. The Supervisory Board reviewed the plans of the newly-installed CSR Board. More information about Kendrion's CSR activities is enclosed on pages 25 and 26.

The Supervisory Board is periodically updated on the latest developments in the relevant legislation and corporate governance regulations. The Supervisory Board then discusses the measures Kendrion will need to implement, such as the amendment of the Articles of Association of Kendrion N.V. on 18 April 2011.

Remuneration Executive Board

The Supervisory Board determined the remuneration for the individual members of the Executive Board in accordance with the remuneration policy approved by the General Meeting of Shareholders.
A specification of the remuneration for the Executive Board and the Supervisory Board is enclosed in the notes to the financial statements (page 132).
The Supervisory Board has received confirmation from the auditor that the figures on which the 2011 bonus for the Executive Board is based are derived from the audited financial statements, and that the calculation of the bonus has been checked.

Remuneration policy

The remuneration policy is designed to offer remuneration that attracts managers qualified to manage an international company of the nature and character of Kendrion. The policy is also sufficiently challenging to motivate managers and, with good performance, retain them for the longer term. The composition of the remuneration package supports Kendrion's short and long-term objectives.

The package is of a performance-oriented design, whereby the results are used to determine a variable income, which is of a challenging level but not excessive.

The Supervisory Board adopted the remuneration package after taking account of the movement in results, movement in the share price and non-financial indicators also relevant to the long-term creation of company value. Consideration was also given to the influence of the total remuneration of the Executive Board on the overall remuneration rates within the company. The Supervisory Board has analysed the possible outcomes of the proposed variable remuneration components of the policy.
The Supervisory Board periodically benchmarks the remuneration package against information supplied by external experts to verify that it is in line with the company's objectives and the market.

A further explanation of the remuneration policy and a specification of actual remuneration is provided on pages 58, 59 and 132, and can also be reviewed in the remuneration report as published on Kendrion's website.

Share plan

A share plan for the top management of Kendrion was introduced in 2005. This plan provides for the allocation of shares in Kendrion as payment in kind. After the General Meeting of Shareholders in each year the number of shares awarded to the senior management of Kendrion in that year is determined by the Supervisory Board on the basis of the Executive Board's recommendations. 6,075 shares were awarded pursuant to this plan in 2011. The plan does not extend to the Board.

In addition, the Business Unit Managers and a number of other officers are offered an opportunity to apply for the conversion of a maximum of half of their annual net cash bonus into shares. Kendrion doubles the number of shares after three years when officers are still employed by Kendrion and still possess the shares. Pursuant to this loyalty bonus plan a total of 2,469 shares were issued in 2011.

Profit appropriation

Kendrion recorded a normalised net profit of EUR 20.5 million over 2011, before non-recurrent items such as the European Commission's fine and the acquisition costs incurred in the takeover of FAS Controls, Inc.

The Executive Board shall, in line with the newly proposed dividend policy and with the approval of the Supervisory Board, submit a proposal to the shareholders for the payment of a dividend of 35% of the normalised net profit of 2011. The dividend is equivalent to an amount of EUR 0.62 per share entitled to dividend. A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 16 April 2012 for the payment of the dividend, at the shareholder's discretion, in cash and/or in ordinary shares charged to the share premium reserve.

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

The Supervisory Board thanks the Board and all Kendrion employees for their contribution and efforts in the year 2011.

Supervisory Board
S.J. van Kesteren, Chairman
R.L. de Bakker, Vice-Chairman
M.E.P. Sanders
H.J. Kayser

Zeist, 28 February 2012

Members of the Board

P. Veenema* (56)
Position: Chief Executive Officer
Nationality: Dutch
Joined Kendrion: 1993
Appointment to current position: 2003
Additional positions: member of the Supervisory Board of Helvoet Holding B.V.

E. Ris* (53)
Position: Chief Financial Officer
Nationality: Dutch
Joined Kendrion: 2001
Appointment to current position: 2004
New term: 2008-2012 - A proposal will be submitted to the General Meeting of Shareholders on 16 April 2012 for the reappointment of Mr E. Ris for a period of four years.
Additional positions: member of the Board of Supervision of Zaans Medisch Centrum, Chairman of the Audit Committee of Zaans Medisch Centrum and member of the Supervisory Board of Dekker Holding Krabbendam B.V.

H. Freitag (61)**
Position: Chief Technology Officer
Nationality: German
Joined Kendrion: 1978

From left to right: **H. Freitag, P. Veenema, E. Ris**

* *Executive Board.*
** *Mr H. Freitag stepped down from the position of Chief Operating Officer and left the Board in January 2012. He has been appointed Chief Technology Officer.*

Highlights

- Further expansion of a focused company with a clear profile;
- 21% increase in revenue due to the strongly expanding economy in Kendrion's main markets;
- Growth in revenue recorded by all business units, generating EBITA of 11.5% for Kendrion as it benefited from steps taken in the past, for instance to reduce costs and increase innovation and flexibility;
- Very good normalised net profit (before the provision for the fine of the EC and acquisition costs) of EUR 20.5 million, due to revenue growth and reduced cost levels;
- Strong financial position, with a solvency of 40% (equity of EUR 91.7 million after the provision for the European fine of EUR 41.8 million) and low bank debts (EUR 25.9 million at the end of 2011 after the acquisition of FAS Controls);
- Very satisfying free cash flow of almost EUR 15 million, despite the substantial growth in revenue;
- Acquisition of FAS Controls, Inc., Shelby, North Carolina, USA to strengthen Kendrion's market position in the US automotive and truck markets;
- At the beginning of 2012, an expansion of the credit facility for acquisitions by EUR 60 million, leading to a total financing package of EUR 183.5 million, was arranged with Kendrion's bank consortium, comprising Rabobank, ING Bank and Deutsche Bank;
- Celebration of '100 years of electromagnetism' on several occasions and with many employees and other stakeholders involved;
- A significant focus on innovation, including the organisation of the Dr. Wilhelm Binder Symposium 'Next century of electromagnetism' in Villingen (Germany) in November 2011;
- A significant focus on flexibility, with business units being requested to be prepared for increasing economic volatility of their most important home markets;
- Further refinement of the company's strategy (the Mid-term Plan 'Entering another league'), designed to achieve leading global positions in Kendrion's most important niche markets;
- Start of a greenfield operation in Pune, India, to strengthen Kendrion's position in the bus and truck market in that country;
- Selection of IFS as ERP software provider for all locations worldwide, first successful go-live on 4 October 2011 at Passenger Car Systems Villingen, Germany, followed by Pune, India.

Organisational structure

Kendrion is a strongly focused company with one main objective: the development, manufacture and sales of innovative high-quality electromagnetic components and systems. The operations are organised into four market-focused business units:

- *Industrial Magnetic Systems:* electromagnetic components tailored to the individual needs of advanced industries;
- *Industrial Drive Systems:* electromagnetic brakes and clutches for the industrial drive technology;
- *Passenger Car Systems:* project solutions for specific customer applications in the automotive and special vehicle industries;
- *Commercial Vehicle Systems:* individual energy-saving systems for commercial vehicles and off-highway applications.

Each business unit has a number of operating companies in various geographical locations. The organisation has implemented a decentralised structure to promote the company's decisiveness.

The individual business units have a shared strategy and the Business Unit Managers and the Managing Directors of the individual operating companies collaborate in a wide range of fields, such as engineering, project management, purchasing, production strategy, marketing and sales. The Executive Board, supported by the Business Unit Managers and the Chief Technology Officer – together the Executive Committee – takes all significant decisions concerning the strategy and direction of the electromagnetic operations as a whole including the allocation of resources to the individual operating companies. The Executive Committee, that meets regularly, reviews the financial and operational performance of the individual companies on the basis of the internal management information and identifies the prevalent best practices to be shared and implemented within Kendrion.

Kendrion strongly encourages motivated local entrepreneurship. Short lines of communication enable managers to respond rapidly and adequately to new developments at their customers or in local markets. Kendrion's Executive Board performs a coordinating role in the development of the strategy, and is responsible for the acquisition policy.

A number of responsibilities are entrusted to Kendrion Group Services, such as financing and cash management, reporting and controlling, taxation, risk management, corporate communications and investor relations, facility management, insurance, IT, human resources management, legal affairs and corporate governance.

More information about the business units is enclosed on pages 47 and following of this Annual Report.

Targets and objectives

Continued focus on key issues

2011 was a great year for Kendrion. After strong revenue growth of 43% in 2010, so soon after the crisis in 2008/2009, 2011 also showed further organic growth of 21% in all areas. The objectives Kendrion's Board had formulated and agreed to focus on as from 2009 continued to prove their worth in 2011. Kendrion's objectives in 2011 were:

- Actively respond to developments in all key markets;
- Increase flexibility of staffing and costs;
- Further globalisation;
- Enhance capacity for innovation;
- Improve sustainability;
- Further improve working capital management;
- Continue to strengthen risk management.

Kendrion can conclude that the specific steps taken to attain these objectives have largely achieved the desired results.

Actively respond to developments in all key markets

To be able to respond to developments in the company's key markets and to respond satisfactorily to Kendrion customer problems, the company worked hard to strengthen the engineering staff in its business units. Furthermore, Kendrion paid considerable attention in 2011 to the issue of market segmentation. The sales and engineering teams in each of Kendrion's business units are to focus on the development of specific market segments, such as the machine equipment market or the medical market, and increase their market intelligence.

Increase flexibility of staffing and costs

The major lesson learned in the last few years has been that flexibility in all areas and at all levels is essential to Kendrion's development and growth. Kendrion strongly believes that those companies which best adapt to rapidly changing circumstances will be the ones which win out in the future. For this reason, Kendrion is endeavouring to incorporate flexibility of between 20% and 30% into its total cost structure (staffing costs and other operating expenses) and continually assesses every opportunity and option available for achieving that flexibility. In addition, Kendrion's suppliers need to be managed in such a way as to enable them to respond rapidly to developments in the company's market segments. Kendrion therefore is making considerable efforts to select appropriate strategic suppliers for the longer term, as a means of increasing flexibility in the future.

The company monitors the flexibility of each business unit every quarter. Flexibility will remain an extremely important topic in 2012, when Kendrion expects its markets to be volatile once again.

Further globalisation

The world is Kendrion's marketplace. In the Americas, future growth will be supported by the acquisition of FAS Controls, Inc. in Shelby, North Carolina, USA, in late December 2011. This company will further enhance the activities of the Passenger Car Systems business unit. Kendrion expects that this increased foothold in the USA will support the company in its intended growth in this country, also sustained by new, recently acquired projects.

Kendrion will further strengthen its position, not only by monitoring business opportunities in existing markets but also by focusing even more closely on emerging markets. In 2011, Kendrion launched a greenfield operation in Pune, India. The company achieved rapid expansion of its Eastern European activities and demonstrated high organic growth in China. Nevertheless, Kendrion believes it still needs to make major advances in the future in this country. In this particular market, the company believes that the need for qualified suppliers with strong engineering expertise will grow in the coming years. To make the most of these opportunities, Kendrion undoubtedly needs to have more Chinese management skills on board. Contacts with several important market players have been established during the year.

Enhance capacity for innovation
Innovation involves more than simply requesting everyone to be innovative: innovation can be achieved by creating the appropriate conditions and scope for innovation, starting with paying it the attention it deserves. Kendrion has implemented an organisational structure designed to ensure continued innovation within the company. The Innovation Board, Innovation Calendar, Dr. Wilhelm Binder Day, Dr. Wilhelm Binder Symposium and the appointment of dedicated Innovation Managers at the Kendrion business units have encouraged the adoption of an innovative attitude, which also resulted in several new innovations in each business unit in 2011. For example, Kendrion organised the Dr. Wilhelm Binder Symposium in November 2011, to discuss new developments in electromagnetism in the years to come.

The whole range of initiatives taken by Kendrion enhanced its reputation as an innovative company. In September 2011, Passenger Car Systems was presented the Company Award for the most innovative business unit for its development of new technologies for the automotive industry.

Kendrion is seeing increasing evidence that the company is recognised by its customers as an innovative partner. In 2012 Kendrion will therefore continue to seek new ways to increase its potential for innovation.

Improve sustainability
Sustainability is at the core of many of the company's products and innovations. Kendrion and its highly motivated staff exploit the specific expertise and experience available within the company as a means of increasing safety and substantially reducing emissions and fuel consumption. Kendrion is inspired by the desire to secure a sustainable and 'green' environment for generations to come, fully appreciating and assuming its responsibility for achieving this objective. Furthermore, Kendrion installed an internal CSR Board in 2011, which will coordinate action plans to further improve the sustainability of the company, its internal processes and supply chain in 2012 (see also pages 25 and 26 of this report for more information on Kendrion's CSR efforts).

Further improve working capital management
Also in 2011, Kendrion spent time on further optimising working capital in all business units. Despite the strong growth in revenue, the company succeeded once more in earning a substantial free cash flow in 2011.

Continue to strengthen risk management
Kendrion's risk management programme is performing satisfactorily and was continued in 2011. More emphasis was placed on the risks associated with the ongoing implementation of a new ERP system. Plans for testing financial reporting risk management procedures in the smaller entities, as well as a new tax compliance programme, were delayed until 2012.

Financial
In 2012, the financial targets set by Kendrion remain unchanged. As in 2011, the primary target is to achieve organic growth of 10%, a figure that will, of course, depend on economic developments, mainly in Europe. In the last two years, Kendrion's revenue has grown from EUR 150 million (2009) to EUR 268 million in 2011. When the revenue of the company's acquisition in the USA is included, the company's goal of increasing it to approximately EUR 350 million within one year becomes even more realistic. It is also clear that through targeted acquisitions the company's market position will improve even further.

Mid-term Plan

Kendrion has always paid considerable attention to Mid-term Plans. The new Mid-term Plan 2012-2014, 'Entering another league', focuses in particular on strengthening Kendrion's internal organisation to improve its leading position as component supplier in clearly defined niche markets in the years ahead. For this reason, the focus internally will – as discussed above – be on issues such as flexibility, innovation and knowledge management (including the development of an Intellectual Property strategy). Furthermore, Kendrion will strive to strengthen its engineering capacity through local empowerment of its plants, by adding local engineers, and through further plans to improve the company's manufacturing facilities. The Mid-term Plan also defines areas for growth, as viewed from both an activity and a geographical perspective.

As is standard practice, the Plan is based on targets for the coming years, which are specified in consultation with the Business Unit Managers. The operating companies employ these targets to prepare their individual Mid-term Plans. The Business Unit Managers then use these individual plans to prepare an overall plan for their business unit. The Executive Board processes the results to draw up Kendrion's Mid-term Plan and tests it against the targets specified by Kendrion's Executive Board. The Mid-term Plan serves as a benchmark for the strategy pursued by management at local and business unit level, as well as for their responsibilities. Kendrion can then determine, at an early stage, whether it is meeting – and, even more importantly, will continue to meet – the company's targets. As a result, Kendrion is able to respond promptly to major changes in market conditions (as has been demonstrated in the past) and has an actual blueprint of the approach to adopt in order to secure further growth.

Corporate Social Responsibility

Corporate Social Responsibility (CSR)

CSR is high on Kendrion's agenda. CSR and sustainability are intrinsic, integral elements of Kendrion's local operations. For Kendrion, CSR means conducting business with consideration for climate effects and energy sources, with a feeling for people and the environment, and on the basis of a responsibility for the chain in which the company operates. This form of entrepreneurship pivots on the creation of multiple value – and consequently not just Profit, but also People and Planet. Kendrion intends to give shape to CSR in a practical and relevant manner.

Transparency and chain responsibility are important issues for Kendrion. Kendrion attaches great importance to good relationships with the group's customers, employees, suppliers, other business partners and the communities where Kendrion is active. Cooperation and consultations are essential if Kendrion is to fulfil its ambitions.

CSR also offers all Kendrion's business units opportunities to develop innovative products for new markets. Kendrion develops many specific electromagnets that are necessary for the appropriate performance of products that take account of climate effects, sources of energy, safety and the environment.

Environment and quality

Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make continual organisational and technical improvements to environmental procedures. During the design phase and technical planning Kendrion takes due account of the consequences for the environment. This relates not only to the reduction of harmful emissions and the achievement of a lower environmental impact, but also to the retention of the company's good reputation. As a company Kendrion bears a social responsibility that necessitates attention to environmental issues when assessing processes. Involvement, both now and in the future, is of great importance to the individual Kendrion companies and the enterprise as a whole. The quality, environmental management and safety systems are usually combined in one system that forms the basis for the implementation of many projects. Virtually all Kendrion's operating companies comply with the most stringent quality and safety requirements. Kendrion's environmental management systems comply with the ISO 14001 standard.

UN Global Compact

Kendrion joined the UN Global Compact in September 2009. The UN Global Compact is the world's largest network initiative that unites companies, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices. Kendrion endorses these principles and will issue periodic reports on the measures it has implemented in these areas. This is a further example of Kendrion's objective of being a company that all stakeholders can be proud of, in particular regarding the company's social and ethical principles and the manner in which these principles are implemented in everyday practice.

The Kendrion progress reports for 2010 and 2011 are available on Kendrion's website, under the 'CSR' section. These reports provide a more detailed description of all Kendrion's CSR activities and the measures Kendrion has implemented in these years. In addition, the reports contain some examples of products developed by Kendrion's business units which were designed with due regard for climate effects, safety, sources of energy and the environment.

Code of Conduct

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

Whistleblower's Charter

The Whistleblower's Charter offers the Kendrion employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their (legal) position. In 2011, no irregularities were reported.

CSR Board

In 2011, the Executive Committee decided to give further shape to the CSR activities of Kendrion, in part by the appointment of a CSR Board. The Board was chaired by the COO in 2011, and will be chaired by the CFO as from 2012. The Board's other members are representatives from the business units. The Board met three times in 2011 to establish a CSR ambition statement (published on the website of Kendrion) and to define the key issues, targets and key performance indicators (KPIs). The key issues include working conditions standards (inclusive but not limited to health and staff satisfaction), community investment, chain responsibility and energy reduction, business ethics as well as knowledge-sharing and communication. It is the intention to publish a first Corporate Social Responsibility Report, based on the General Reporting Initiative (GRI) guidelines, at the end of the first quarter of 2012. In this report, the key issues, targets and KPIs will be described in more detail. This report will also be placed on the website of Kendrion. During 2012, the CSR Board will coordinate the preparations of the action plans to reach the defined goals.

Human Resources

Personnel

Kendrion is a decentralised organisation comprised of four market-focused business units. Responsibilities are assigned as low as possible within the organisation, and local entrepreneurship is encouraged. Short lines of communication enable managers to respond rapidly and adequately to new developments at their customers or in local markets. This in turn results in high levels of creativity and involvement at the local companies, as well as ample challenges and feasibilities for the development of the local management. In so doing, local entrepreneurship offers flexibility and opportunities.

Kendrion had a good year in 2011. Market conditions were favourable, and several new projects were initiated that resulted in vigorous growth in the number of employees during the year. Kendrion found itself compelled to hire numerous new employees throughout all parts of the organisation. Notwithstanding this strong growth, efficiency and flexibility were also maintained at a good level by keeping and hiring more temporary employees. However, in view of the uncertainties about the future economic circumstances, maintaining the flexibility of costs – including personnel costs – will continue to be of great importance in the coming years.

Kendrion forecasts more pronounced fluctuations in the global economy in the future, with effects that will be greater than in the past.

Kendrion's Human Resources (HR) policy is decentralised, and local management bears the responsibility for the local HR policy within the specified guidelines. A number of duties are coordinated at a central level. These duties primarily relate to the (senior) management, a group of about 40 managers and to increase recruitment opportunities.

New employees to be recruited by the company are selected on the basis of a number of core competences. The quality of the management is assured by internal and external training programmes, and solely highly trained managers are recruited.

Kendrion takes many initiatives to promote itself as an appealing employer in the region, such as publications in regional newspapers and magazines, as well as open days for schoolchildren, family days, and the provision of traineeships. Kendrion also organises fairly regular meetings for its retired employees.

Kendrion attaches importance to the creation of diversity in nationalities and cultures. This diversity promotes intercultural experience, which is highly compatible with the current internationalisation trend.

Bond with the employees

Kendrion's success is determined by the quality of both the company's organisation and employees. An explicit strategy and, on the basis of the strategy, feasible and challenging targets, open and honest labour relations and short lines of communication create a strong bond between Kendrion and its employees.

Kendrion's Executive Board and the Business Unit Managers devote a great deal of attention to the communication of the strategy, the plans of action resulting from the strategy, and the details and progress of the plans. This ensures that the employees are provided with a clear insight into what is expected of them, and consequently are able to make an active contribution to the achievement of growth. Many operating companies have implemented career development and training programmes designed to improve their staff's knowledge and skills. Employees receive guidance in forms such as annual performance appraisal interviews. Kendrion's corporate magazine 'Magnetised', for all staff, is published three times a year.

Kendrion has a good relationship with the works councils and the unions.

Number of employees

Kendrion has approximately 1,800 employees (including 200 temporary employees) in eight European countries and China, Mexico, Brazil, India and the USA. People make Kendrion, and consequently Kendrion invests in the development of the knowledge and skills of its employees. Kendrion promotes inspirational exchanges of experience and collaboration between the various business units and operating companies.

Remuneration

Kendrion offers its employees good terms of employment that are in line with the market and are always assessed against local benchmarks. A bonus scheme has been implemented for the management that is based on the company's performance (operating result and free cash flow) and on individual long-term and short-term performance targets. Kendrion has implemented a share scheme for senior management.

The 100th anniversary and the vigorous development of the company resulted in the decision to award a special bonus to all employees at the beginning of 2012.

Insight

Insight into the quality of the company's HR is at least as important as insight into Kendrion's financial health, since figures and results are the product of human action. Kendrion obtains this insight with an HR audit developed by the company. Competences, knowledge and experience, as well as the manner in which Kendrion deploys its employees, contribute to the company's continuity and decisiveness. The HR audit, an element of the regular audits, is used to obtain insight in an operating company at a given point in time and to provide information about a number of HR indicators. The audit provides insight into both hard HR indicators and somewhat softer issues. The audit has been found to constitute a uniform and objective instrument that measures quality and which provides a clear insight into opportunities for developments in the HR field.
In addition, monthly HR key figures are reported for the entire company. Understanding of the influence of the human factor on the organisation's performance results in an increasingly strategic HR policy, and offers scope for specific modification.

Awards

Kendrion also promotes innovation and improvement, and encourages the management and employees.
In September 2011 Company Awards were presented to the most innovative Kendrion company and the most flexible business unit. The Innovation Award was awarded to Kendrion Binder Magnete in Villingen, Germany, business unit Passenger Car Systems. The business unit Industrial Drive Systems won the Flexibility Award.

Management development

Kendrion's ambition is to achieve niche market leadership in business-to-business markets by organic growth and strategic acquisitions, and consequently the quality of the management is both important to and characteristic of Kendrion. Good management is of essential importance to the future, and for this reason Kendrion assigns high priority to management development. The corporate management development programme is supported by the Kendrion Executive Programme, a customised, international modular teaching programme in which the company collaborates with the Rotterdam School of Management. Each year two modules of three days are organised. The subjects covered by the programme are communication and leadership, sales and marketing, strategy, production and logistics, HR and project management. The programme also constitutes an important platform for exchanges of experience between the (senior) management, and for the further expansion of collaboration between the various operating companies.

Almost every year a group of non-financial managers follows a course in finance. This course, which is also customised, covers issues of importance to Kendrion, such as risk management, sales, investment decisions and planning and control.
In addition, the various business units have implemented training programmes at all levels in the organisation. Kendrion's management development endeavours to find an appropriate equilibrium between the transfer of internal knowledge and the recruitment of external knowledge.

A professional organisation of the nature of Kendrion must ensure for continuity. Consequently, the company needs to devote continual attention to the question as to who will succeed who and when, and what is required to ensure that the succession is a success. Obviously, the converse is also the case: Kendrion wishes to help people fulfil their ambitions: people are the most important factor, and Kendrion intends to invest in their future. Kendrion will also need a group of managers with a well-developed vision of strategy and internationalisation in the future. Kendrion endeavours to retain high potential managers and interest them in filling vacant positions. A new and special program for selected high potential managers will start in 2012. The development of the managers is followed by means such as annual performance appraisal interviews where the managers' targets and duties are reviewed and the managers receive feedback on their performance. In addition, managers participate in an individual development assessment.

Social policy

Kendrion is and wishes to remain a conscientious and reputable company. Kendrion intends to be a versatile and flexible company for its employees, a company where pleasure in entrepreneurship is combined with clear result targets.

Kendrion's social policy is designed to enable the company to achieve its targets and offer its staff at all levels opportunities to develop and further themselves. Kendrion's HR policy endeavours to ensure that the composition of the company's personnel, including the lower and middle management, reflects the geographical spread of Kendrion's operations.

The importance Kendrion attaches to a good social policy is also demonstrated by the company's accession to the UN Global Compact that includes labour principles relating to the working conditions of employees. Finally, labour standards are one of the key elements defined by the CSR Board installed in 2011.

Personnel: key figures	2011 [1]	2010
Total number of employees at 31 December	1,425	1,298
Number of women in permanent employment	450	413
Number of men in permanent employment	718	660
Number of employees with a fixed-term contract	257	225
Number of temporary employees (FTE)	152	158
Number of permanent and temporary employees at 31 December (FTE)	1,482	1,376
Number of direct employees (FTE)	680	610
Number of indirect employees (FTE)	651	608
Average age of women	41.0	41.4
Average age of men	40.0	39.9
Average age of all employees	40.4	40.4
Average number of years' service	9.4	10.0
Average rate of absenteeism per employee (%)	2.9	2.5
Influx percentage (%)	28	31
Departure percentage (%)	18	19
Wage costs per FTE (EUR)	48,035	46,996 [2]
Training costs (as a % of wage costs)	0.7	1.00

[1] *Personnel 2011 is excluding the newly acquired FAS Controls, Inc., with 204 employees, 121 women and 83 man and 10 temporary employees.*

[2] *Wage costs per FTE is recalculated, total staff costs divided by average FTE.*

Risks and risk management

Background

Kendrion promotes local entrepreneurship at its companies and, logically, offers scope to exercise the associated discretionary powers. Kendrion actively conveys the essential need to maintain a healthy equilibrium between entrepreneurial spirit and the extent to which risks are accepted. Adequate risk management is an integral element of good business practice. When risks are made visible Kendrion's managers can implement adequate measures in their everyday management that offer them optimum control of the risks. Kendrion's risk management is not intended to eliminate all risks entirely: seeking business opportunities is not without risks. Kendrion's objective is to adopt an approach to business risks that minimises surprises and the impact of any surprises that nevertheless occur, while always taking account of the necessary balance between risk exposure and costs.

Kendrion has a responsibility to put internal controls and procedures into place and test them to verify their adequate performance. The local management is expected to be fully aware of the operating risks and the necessity for internal control procedures. Kendrion has devoted structural attention to the optimisation of the risk management and control system as part of the everyday decision-making. All companies are logically confronted with business risks during the pursuit of their operations. Kendrion's policy is focused on mitigating the risks or, when possible and prudent, hedging the risks without losing sight of the company's entrepreneurship.

The Executive Board wishes to emphasise that risk management and control systems – no matter how professional they may be – can neither offer absolute guarantees that the company's objectives shall be achieved nor entirely prevent material errors, loss, fraud, or violations of laws or regulations.

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

Kendrion Risk Management 2011

Enterprise Risk Management

Strategic & Business Risk Management
- Risk workshop
- Quarterly evaluation per business unit

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

Financial Reporting Risk Management
- Group Reporting Manual
- Monthly closing procedures
- Internal control procedures
- Audits (external & internal)
- Monthly review cycle with business unit management

Compliance & Regulatory
- Reporting & disclosures
- Legal counseling
- Internal audits
- Training

Planning & Control Cycle

Kendrion's Code of Conduct & Whistleblower's Charter

Kendrion's Control Framework (COSO)

Kendrion employs a structured risk management framework that reveals the various elements of risk management and the relationship between the elements. Kendrion's objective is to avoid duplication within separate systems whenever possible. Links are made, when this is worthwhile, between systems where they interact. The factors that underpin the quality of the management framework are integrity, business ethics and the staff's expertise, the management style and the manner in which authorities and responsibilities are delegated and monitored by the management, but also the deployment and development of the staff, and the manner in which the aforementioned factors are directed.
The risk management process is based on the generally accepted COSO Enterprise Risk Management framework.

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

Control environment

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

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

Code of Conduct

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

Whistleblower's Charter

The Whistleblower's Charter offers the Kendrion employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their (legal) position. In 2011, no irregularities have been reported.

Regulations to prevent insider trading

Kendrion has implemented regulations to prevent insider trading which are designed to make a contribution to the prevention of employee infringement of the prevailing insider trading and market abuse regulations. These regulations include a prohibition on dealing in Kendrion's shares in the period prior to the publication of the quarterly, half-yearly and annual figures. More details about these regulations are disclosed on page 13.

Rules and Regulations and Letters of Representation

Kendrion employs Rules and Regulations and Letters of Representation. The Rules and Regulations constitute rules of behaviour governing all Kendrion Managing Directors. The Letters of Representation are submitted once a quarter, in a bottom-up procedure, to the Managing Directors of the operating companies and Controllers, and to the Business Unit Managers and their Controllers. Each officer is required to sign the letter to confirm to their managers that the information and financial information they have reported is correct and complete.

Group Reporting Manual including Standard Chart of Accounts

Kendrion has implemented a Group Reporting Manual governing all operating companies to provide for correct financial reporting. The Manual is continually updated. To this end the company has implemented measures including the formation of the Kendrion Group Reporting Committee, with representatives from the operating companies. Reporting sets are standardised.

The ERP HORIZON project includes the implementation of a global Standard Chart of Accounts, whereby all operating companies are required to make use of one detailed accounting structure. This Standard was developed during the course of 2011, and was immediately adopted for the first two IFS implementations in the fourth quarter of 2011 (see page 10).

Planning and control cycle
Insight into Kendrion's performance is obtained from the monthly reports of the current figures submitted by all the operating companies. In the summer of each year Kendrion prepares a Mid-term Plan with a three-year planning horizon. This plan provides insight into the strategic course of the companies and business units. The Mid-term Plan is accompanied by a more detailed annual budget to provide a precise management tool. The budget is also used to reach short-term agreements with managers. A complete forecast prepared each quarter offers insight into financial expectations until the end of the year, and updates the budget.
The Executive Board and the Executive Board's control and audit team devote a great deal of attention to the assessment and follow up of all report cycles. When necessary, special audits are conducted to review specific issues in more depth. Consultations on the progress, development of key performance indicators and variations from long-term targets are held at various levels in the organisation. Kendrion has implemented a capital expenditure procedure which makes use of standard investment request forms. Executive Board approval is required for new projects with planned annual revenue in excess of EUR 1 million to test return on investment, payback period and cash flows. Executive Board approval is also required for actual capital expenditure in excess of EUR 50,000.

Quarterly and monthly reports and meetings
Regular discussions in the monthly meetings between the Executive Board and the Business Unit Managers and similar reviews within the business units address the internal risk management system. Each business unit submits a comprehensive written report at least once a quarter which provides details about the financial and operational situation and the status of any current claims and proceedings, where relevant. These reports include an estimate of the possible financial consequences of each of the claims.

Strategic and business risk management
The Executive Committee discussed specific strategic and business risks during the year under review. Quarterly meetings on the issue were held with and within the business units. In 2011, the main issues that received attention were the flexibility of the operations, the selection and implementation of the new ERP software, Human Resources (the recruitment of new employees, retention of the employee base and development of staff) and developments in raw material prices.

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

Financial reporting risk management
The Controllers' regular duties include the structured management of financial reporting risks. Pursuant to this duty the Controllers periodically monitor the organisation's implementation of and compliance with control measures, i.e. monitor the use of control measures as an integral element of the Group's operations. Kendrion has also implemented corporate guidelines that specify the monthly close procedures and the minimum controls to be performed. The internal control procedures of the largest companies are also reviewed in semi-annual internal audits conducted by teams of Kendrion N.V., Business Unit Controllers and contracted qualified auditors. Kendrion endeavours to conduct audits that encompass at least 80% of the consolidated revenue, but without neglecting the smaller operating companies.

A structured approach to both financial reporting risks and strategic and operating risks is a standard component of risk management. Kendrion's organisation of risk management varies for each focal point and can rapidly be tightened as necessary.

Compliance & regulation
Kendrion must comply with the local legislation and regulations in all countries in which the company is active. The responsibility for compliance rests with the local management. Transactions and affairs that could be of influence on the legal structure of the Kendrion Group companies and material claims should be addressed at corporate level. Kendrion obtains advice from external legal experts to acquire timely information about the latest developments in the legislation and regulations, including the applicable stock exchange regulations. Kendrion has also arranged for liability insurance at corporate level to protect the companies and their Managing Directors from possible claims. Internal audits conducted from time to time at the operating companies investigate issues including compliance with local legislation and regulations.

Strategic and business risks

Kendrion's strategic and business risks identified are reviewed below.
This review extends to a selection of the major risk factors, and is not exhaustive.
The four most important risks, designated by 'top 4 risk' in the heading of the relevant paragraph, are:

- adaptation to economic downturn;
- project management;
- commodity markets;
- Information Systems.

Strategic risks

External

Adaptation to economic downturn (top 4 risk)

A lack of adaptation to deteriorating economic conditions could be detrimental to Kendrion's financial results and the company's ability to achieve its strategic goals

Kendrion expects greater volatility in future economic development. In addition, the situation in the eurozone remains unstable at present. An economic decline could be detrimental to Kendrion's profitability. Kendrion has prioritised the maintenance of a flexible organisation to enable the company to 'breathe' with the economic tides. Flexibility not only relates to working with temporary personnel or with personnel with contracts of employment for a definite period and a focus on the reduction of variable operating expenses. It also includes the ability to communicate up-to-date finance information efficiently to decision-makers throughout the organisation, the development of plans to enable personnel to switch between business units, make justifiable insourcing and outsourcing decisions, adjust supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and make use of opportunities for the reduction of working hours in specific countries.

Kendrion has implemented a flexibility measurement system for each operating company and, consequently, for each business unit.

The flexibility measurement focuses primarily on variable staff costs and variable or semi-variable other operating expenses. Specifically, it is a cost block Kendrion can use to reduce costs when revenue decreases. Variable staff costs include temporary employees, overtime and fixed-term contracts; while variable other operating expenses include transport and packaging costs, sales costs, etc. Additionally, working-time reduction in certain jurisdictions, such as Germany offer cost compensations.

Kendrion will retain its focus on flexibility. Steps have been taken to further improve the quality of the periodic measurements. Flexibility came under pressure during the year under review due to the scarcity on the German labour market which resulted in a lack of available highly-qualified temporary staff and new employees' non-acceptance of fixed-term contracts. Nevertheless, throughout 2011 Kendrion's flexibility rate fluctuated between approximately 20 and 30%. This latter percentage takes account of government working-hours reduction schemes.

Kendrion carried out a sensitivity analysis to review the relationship between the decrease in revenue and the operating result.

Kendrion strives to keep pace with the volatility of market demand and ultimately to mitigate a 35% decline in revenue before incurring an operating loss and without redundancy expenses. However, as this is not feasible for a longer period, structurally lower revenues result in the need for fundamental changes to the organisation.

In addition to the increased focus on flexibility, Kendrion's objective is to decrease the company's dependency on the European and, more specifically, German market. Kendrion is of the opinion that a broader geographical spread in combination with a spread between customers and markets will reduce the company's vulnerability to regional economic or market downturns.

Sustainable market developments/ competition

Kendrion could become more dependent on one of its markets in which it operates

Kendrion is a technically-driven company with a leading position in the European market. The barriers to entry to specific markets are substantial due to the high levels of technological knowledge and investments that are required. Kendrion's competitors are often smaller family-owned companies focused on a specific segment. In 2011 42% of the revenue from electromagnetic components and systems was generated by the automotive market, a market characterised by competition and, consequently, pressure on prices. As a result, and notwithstanding the companies' good market positions, customers endeavour to pass this pricing pressure back up the supply chain. Kendrion has adopted a strategy stipulating that the company shall not become excessively dependent on a specific market or customer and has adjusted its investment and acquisition policy accordingly. Kendrion has a broad spread of customers in a wide range of market segments. Just one customer, supplied indirectly via several product categories and group companies, accounts for more than 5% of the company's total revenue (12%).

Internal

Innovation

Kendrion might not be able to benefit from a changing market environment

Kendrion is an innovative player in the field of electromagnetic systems and products. The company carries out innovative projects in close consultation with its customers, an approach which Kendrion also perceives as contributing to the company's provision of added value. However, new technologies and innovations in the market environment could result in the imposition of changed requirements on Kendrion's products and operations. Although this would offer the company opportunities it could also result in the risk of being unable to meet the requirements or lagging in developing new solutions. Kendrion conducts an innovative policy that enables the company to approach opportunities in a balanced manner. Pursuant to this policy Kendrion has implemented measures including the institution of an Innovation Board in 2009. The Innovation Board is comprised of seven external members from various disciplines and countries who each make a contribution to the company's innovative capacity together with a number of Kendrion staff. Kendrion has also installed an Innovation Calendar and appointed Innovation Managers at each business unit, both measures designed to maintain a continual focus on Kendrion's innovative creativity and conduct.

Project management (top 4 risk)

The lack of adequate project management could cause a loss of knowledge and reputation which could in turn be detrimental to Kendrion's productivity, customer contacts and results

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

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

Project management is also applicable to greenfield operations and acquisitions. The progress in the organisation at new locations and recent acquisitions is reported at a number of management levels, thereby ensuring continual attention and, where relevant, implementation of the necessary measures.

Intellectual Property (IP)

The lack of patent registration or other protection could lead to third-parties copying Kendrion's products.

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

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

In other instances the know-how acquired from projects for specific customers can be protected by concluding confidentiality agreements with the relevant customers. For this reason confidentiality agreements may also be concluded with Kendrion developers.

The development of new products or submission of applications for patents is accompanied by the risk of the infringement of third-party intellectual property rights. Any such infringement can result in the relevant third party claiming damages and filing a petition for an injunction prohibiting the use of the technology in question. Kendrion protects itself from this risk by cooperating with a specialised patent agency. This agency carries out studies of potential infringements of Kendrion's rights by third parties and vice versa.

Operational risks

External

Commodity markets (top 4 risk)

An inability to access raw materials and/or increases in the cost of raw materials and energy could be detrimental to Kendrion's future results

Kendrion's results could suffer from the reduced availability of raw materials and fluctuations in the price of raw materials. Steel and copper are Kendrion's most important raw materials. These raw materials are purchased from reputable suppliers. Kendrion has also adopted a multi-sourcing strategy for important materials and components, with procurement in several countries. Steel is Kendrion's number-one raw material, although a large proportion is in the form of purchased components. Kendrion concludes fixed price arrangements with steel suppliers for periods up to twelve months. These prices also govern a large number of Kendrion's component suppliers. When the copper price risk is not passed on to the customer then Kendrion usually fixes the purchase price for the next four quarters on a rolling basis. During 2011, prices for permanent magnets increased eight-fold due to China's strategy of controlling the scarcity of rare earth materials. As a result, permanent magnets are now of much more financial importance to Kendrion. Permanent magnets are incorporated in permanent magnet brake solutions, as well as in bus and truck electromagnetic engine cooling systems. Kendrion responded by increasing the number of sources of supply and purchasing directly from manufacturers rather than via traders. Kendrion was also able to pass on the sharp increase in the price of permanent magnets to most of its customers, thereby limiting the effect on the added value in euros.

The raw materials are purchased separately by each business unit on the basis of their individual requirements. Raw materials are purchased in accordance with a group policy which is reviewed once a quarter by Kendrion's Commodity Board. All purchases are coordinated.

Self-evidently, Kendrion endeavours to minimise the effects of price fluctuations on the group's results. The feasibility of this objective depends on contractual clauses and the market. In addition, a time lag is usual. Kendrion limits the unavailability of raw materials by means of adequate planning systems in the supply chain.

Product liability

Product liability claims and /or product recalls could be detrimental to the company's reputation and results

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

Environmental liabilities

Kendrion's business is exposed to (reputational) risks of environmental liabilities

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

Internal

Information systems (IS) (top 4 risk)

Inadequate IS (including the infrastructure) and/or implementation of new systems could have a major influence on the company's business processes and, consequently, the results

This risk has received significant management attention during the year under review due to the preparations for a replacement of the existing ERP applications within the next two years.

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

- the arrangements for IS decision-making and the decisions that can be made at each level (central or local);
- IT governance for system and data responsibility;
- the regulations governing the implementation of IS systems;
- the arrangements for sourcing IS products and services for the business units and their operating companies;

- the requirements to be met by the IS organisation in serving the users as internal customers;
- the measures that need to be implemented to mitigate risks, such as access security (programmes, equipment backup and recovery, change management procedures, etc.);
- the development of solutions for customer requirements (such as EDI) and the integration of suppliers into the supply chain for Kendrion's processes.

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

- an adequate governance structure throughout the entire projects;
- thorough preparations;
- balanced selection of suppliers;
- milestone planning and reviews;
- audits for important go/no-go decisions;
- business cases;
- end user acceptance and training.

Infrastructure – Most operating companies and Kendrion Group Services are supported by the IS department in Villingen, Germany. This department coordinates the service level agreements with suppliers such as network providers, security, maintenance companies and suppliers of hardware. Kendrion works with highly skilled IS staff and reputable external IS suppliers. The servers are well protected against outsiders, fire and unauthorised access. Appropriate procedures have also been implemented for regular backups of the data. The infrastructure operates at a high level of availability. The availability of the services is monitored and the support team is active on a 24/7 basis. Kendrion's new Indian operation was connected to the Kendrion group network in the fourth quarter of 2011. All Commercial Vehicle Systems entities will be migrated in 2012 and 2013, and all Kendrion operating companies will be incorporated in the Kendrion infrastructure.

Software application portfolio – Most operating companies use a standardised ERP system (operational since 2000), Microsoft Operating Systems (OS) and applications and software for specific applications such as project management. The software is stable and Kendrion has the knowledge required for user support. In 2010, Kendrion's Executive Committee decided to invest in a new ERP software application. The planned total investment amounts to EUR 5.5 million over a 3-year period (2011-2013). In the first quarter of 2011, and following thorough preparations (proof of concept phase), Kendrion selected the Swedish IFS company, a global ERP standard software provider. Passenger Car Systems in Villingen, Germany, migrated successfully in the fourth quarter of 2011, as well as Kendrion's new operation in India. Other operating companies will migrate in increments in 2012 and 2013. In addition to this HORIZON roll-out-strategy (plant for plant) some additional project issues will be solved for each individual location (such as payroll systems).

ERP implementations are accompanied by high risks of business interruption and substantial budget overrides. Kendrion has implemented measures to minimise these risks by strict and high-level governance that also extends to adequate project management. Measures implemented in 2010, such as the recruitment of a dedicated Program Director and the appointment of Information Managers for each business unit, paid off in 2011. An international Application Management Service (AMS) was prepared during the course of 2011 and will be implemented in the first quarter of 2012. Milestones and deliverables that have also been agreed and laid down in the contract with IFS will reduce the risk of cost overruns. To date (end of 2011), Kendrion has remained well within budget.

Financial risks

External

Treasury

A lack of insight into the treasury risks and a lack of appropriate agreements on the approach to risks of this nature can be detrimental to Kendrion's results

Kendrion has implemented a Treasury Policy. Pursuant to the management's policy significant sensitivities to currency and interest rate fluctuations can be hedged with derivatives.

Exchange rate risks – The majority of Kendrion's revenue, costs, assets and liabilities are denominated in euros. Revenue and costs are realised in the same currency whenever this is feasible and profitable. Kendrion monitors currency exposures using monthly and quarterly reporting sets. Significant exposures are hedged after taking costs and benefits into account.

Group companies with significant sensitivities to currency and interest rate fluctuations shall hedge these sensitivities with the central Treasury, which then enters into back-to-back transactions with counterparties. Highly probable future transactions pursuant to existing projects are hedged with derivatives for a maximum of two years, whereby Kendrion makes use of forward exchange contracts or currency options. In addition, loans to Group companies in foreign currencies are hedged at a central level using currency swaps. At balance sheet date Kendrion had not hedged any net investments in its subsidiaries outside the eurozone. In principle significant acquisitions and local debts are financed in the local currency and as a result this financing constitutes a natural hedge against exchange rate risks.

Interest rate risks – The majority of the financing raised by the company is in the form of variable interest rate loans. These variable interest rates can fluctuate and reduce the results. At the end of 2011, Kendrion concluded interest rate swaps for EUR 20 million for a period of one and two years to hedge a substantial part of the interest-bearing debt. Fluctuations in the level of interest rates can also affect the assets and liabilities of pension funds and result in higher pension costs and contributions. The majority of Kendrion's pension schemes are defined contribution pension schemes.

Although Kendrion hedges significant sensitivities to interest rate and currency fluctuations, some sensitivities will always remain.

Tax risks

The outcome of tax disputes, litigation, indemnification and guarantees, and regulatory action could be detrimental to the business and the results

Kendrion operates in 13 countries with companies that possess a high degree of autonomy. In most countries the responsibility for accurate tax returns has been assigned to the local management. Kendrion carries out an annual inventory at corporate level and in close collaboration with renowned international tax consultants to assess whether fiscal developments could have an effect on the company's subsidiaries. Kendrion plans to initiate a tax compliance programme in 2012, which will review our operating companies' compliance with the regulations for various taxes during a three-year timeframe.

Management of financial reporting risks in the year under review

Kendrion has adopted a structured approach to the management of financial reporting risks. The company perceives the structured management of financial reporting risks as one of the regular duties of the Controllers. In principle, the control measures are integrated in the various company processes. The local Controllers supervise compliance. Kendrion has implemented guidelines for the Controllers that specify the monthly close procedures and the minimum controls to be performed. Kendrion has developed a special internal audit programme (KiC: Kendrion-in-Control) for an independent assessment of the effectiveness of the companies' control framework. Kendrion has to date opted for an audit programme with a scope of the companies that jointly account for approximately 80% of the value of the relevant reporting cycles. The reporting cycles Kendrion has implemented for its operating companies are revenue and accounts receivable, purchase and accounts payable, inventories, fixed assets, and human resources. The current audit programme set-up safeguards the independence of the internal auditors, since Controllers do not audit their own operating companies. The KiC testing also serves as a platform for management development and provides for the sharing of best practices between the various operating companies. Audits are conducted by Kendrion N.V. and/or external audit firm staff, depending on the available capacity.

Results from and shortcomings revealed by the audit programme

In 2011, Kendrion audited companies to assess the quality of their financial reporting risk management systems. These internal audits covered over 80% of the value of the relevant reporting cycles. The overall results from the audits carried out in 2011 were satisfactory, in view of the outcome of the internal audits conducted by Kendrion and the limited number of audit findings of the external local auditors communicated in the management letters and identified during the final audits. In 2010, shortcomings in the segregation of duties were identified in the ICT system at Kendrion Magneta, a company that was acquired earlier in 2010. These shortcomings have since been rectified or the risks have been mitigated by the implementation of compensating controls, as was established during an internal audit.

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

Financial review

Highlights

16 November 2011

On 16 November 2011, the General Court of the European Union in Luxembourg delivered its judgement in the case brought by Kendrion N.V. against the fine imposed on 30 November 2005 by the European Commission, for the sum of EUR 34 million (excluding interest), for infringement of Article 81(1) of the EC Treaty by its former subsidiary Fardem Packaging B.V., based in Edam, the Netherlands (case number T-54/06). As mentioned in the press release of 16 November 2011, the General Court ruled that the fine is to be upheld in full. The judgement of the General Court has little impact on the operational activities of Kendrion and in no way affects its ability to meet its financial covenants and obligations.

Upon thorough review of the complete judgment and based on external legal opinion, Kendrion N.V. has decided to lodge an appeal with the Court of Justice of the European Union. In the opinion of Kendrion N.V., such an appeal has a significant chance of success. The legal costs involved are very limited.

27 December 2011

Kendrion N.V. reached agreement with Industrial Opportunity Partners regarding the acquisition of FAS Controls, Inc. FAS Controls, which is located in Shelby, North Carolina, USA, generates revenue of approximately USD 35 million and employs around 200 people. FAS Controls is active in the automotive and truck market and supplies high-quality electromagnetic valves, in addition to pressure switches and lighting modules. The company is a true niche player, technologically advanced and profitable.

The acquisition of FAS Controls is a good fit with Kendrion's strategy of strengthening its global position, including in the USA. FAS Controls is being acquired specifically to further strengthen the operations of Kendrion's Passenger Car Systems business unit. This business unit has shown rapid growth in recent years and now has subsidiaries in Germany, the Czech Republic, Austria and China. Its operations will grow further in the coming years, partly as a result of projects that have been acquired last year (including electromagnetic valves for common rail systems for gasoline engines and valves for gasoline direct injection) for US car manufacturers and system suppliers. These projects will start in 2013 and are expected to generate total revenue in 2014 of approximately USD 25-30 million. The acquisition allows Kendrion to manufacture locally and gives it an excellent opportunity to win new high-value projects in the US car industry. The deal moreover offers potential for expanding Kendrion's position in the truck market. Bundling the know-how of Kendrion and FAS Controls will further strengthen the technological expertise of FAS Controls in the US market. The acquisition of this company is thus an important step in realising Kendrion's strategy for the coming years.

Normalised net profit

EUR million	2011	2010
Net result	(20.1)	16.6
Provision for EC fine, including legal expenses	39.4	–
Net acquisition costs and other expenses	1.2	–
Incidental tax benefit	–	1.8
Normalised net profit	20.5	14.8

Financial results

The year under review generated a net loss of EUR 20.1 million, particularly negatively influenced by the provision, including legal expenses, made for the EC fine. In addition, other incidental expenses, e.g. acquisition costs, have made the 2011 result less easy to read. Normalised net profit amounted to EUR 20.5 million (normalised 2010: EUR 14.8 million).

The results have not been influenced by newly acquired FAS Controls, Inc., as this company was acquired on 27 December 2011; the period between that date and 31 December 2011 involved non-working days.

Kendrion has considerably leveraged from the measures taken in the crisis year 2009, as is illustrated by the following table:

EUR million	2011	2010	2008 (before crisis)
Revenue	267.9	221.9	204.2
Normalised net profit	20.5	14.8	8.0
Return as %	7.7%	6.7%	3.9%
Return on Investment	22.2%*	18.7%	17.6%

* *Invested capital before acquisition of FAS Controls, Inc.*

Revenue

In 2011, revenue grew to almost EUR 270 million from EUR 220 million in the previous year, an increase of 21%. Kendrion exhibited very strong growth again after growth of 43% in 2010, the year following the crisis. Revenue grew throughout the four quarters of 2011, as compared to the same periods in the previous year:

1st quarter: 36%
2nd quarter: 22%
3rd quarter: 17%
4th quarter: 10%

Growth at Kendrion has been strong since the beginning of 2010. Growth was still manifest in the fourth quarter of 2011, remaining around the target of 10%, after strong growth of 46% in the fourth quarter of 2010.

Increased sales prices accounted for 1% of revenue during the year under review; sales price reductions had a negative effect on revenue of 1.6%. In 2011, the upward effect of exchange rate differences on revenue was approximately EUR 0.9 million, equivalent to 0.4%. Overall, organic growth in volume was 20%.

Kendrion is striving to become less dependent on Germany and to spread revenue to other continents worldwide. However, Kendrion's current growth is largely due to the success of the German economy and the country's strong export position in both the automotive and Far East industries.
Compared to last year, the spread of revenue, based on customer location, developed as follows:

EUR million	2011	Share	2010	Share	Growth
Germany	148	55%	134	60%	11%
Rest of Europe	65	24%	51	23%	27%
Americas	20	8%	17	8%	19%
Asia	32	12%	18	8%	79%
Other	3	1%	2	1%	19%
Total	268		222		21%

Growth was evident in all regions. Germany's share decreased, while Asia had a larger share of revenue during 2011. The strong growth was achieved in the automotive, bus and truck business (China, India and Thailand). Growth in the American countries was about equal to the overall Kendrion growth. With the acquisition of FAS Controls, the share of revenue in the Americas automatically increases pro forma to 17%, whereas the share of Europe is reduced from 79% in 2011 to 72%. Kendrion understands that a significant proportion of the increased sales to customer bases in Germany was destined for products they manufactured for their Asian end-customers.

Developments in each business unit
Industrial Magnetic Systems exhibited organic growth of 14% (the effect of net price increases was 1.5%), with above average growth in countries outside Germany, such as China and the USA. The business unit acquired interesting new projects in Germany for the textile machinery business and in the USA for power plant safety and post sorting. The plant in the USA has been extended to accommodate the planned increase in capacity in the light of the project portfolio. Industrial Magnetic Systems' company in the USA, Kendrion Tri-Tech, acquired in 2008, is one of the most profitable entities. This business unit has a broad customer portfolio. The top ten customers generate 35% of the total revenue. The biggest customer generates revenue of EUR 2.5 million, about 4% of the business unit's revenue and about 1% of Kendrion's revenue.

Industrial Drive Systems achieved organic growth of 15% (effect of net price increases was 3%).The business unit dominates the market in Germany for permanent magnet brake solutions. The biggest customer generates 25% of the business unit's revenue and 4% of Kendrion's revenue. The top ten customers generate 60% of the business unit's revenue; the remaining 40% is well spread out over a broad range of customers. The business unit developed a new spring-applied brake – the most widely offered solution in the USA and Far East – to strengthen its position in these markets. Interesting new projects have been acquired in China.

Passenger Car Systems saw its revenue increase a further 30% (including the effect of the usual price reduction schemes of 3%), strongly driven by further penetration in the common rail diesel market and involving high tech valves. All plants contributed strongly to growth, however, with the Czech facility making an above-average contribution especially in the hydraulics market. The business unit was able to establish two projects in the USA with, for example, a new valve for fuel engines. The newly acquired company, FAS Controls, Inc., will house and produce these new projects, which will be scaled up in the second half of 2013. The business unit has a good spread of customers; the biggest customer comprises 27% of the business unit's revenue and 12% of Kendrion's revenue. This share will decrease over the coming years as a consequence of the acquisition of FAS Controls, as well as newly acquired projects with other customers.

Commercial Vehicle Systems exhibited growth in 2011 of 11% (effect of net price increases was practically zero), coming from strong growth in China, in bus cooling engine systems, and in India with Kendrion's new start-up for truck engine cooling systems. The business unit has a strong market position worldwide, with an extensive network of agents and is market leader in the area of luxury touring cars, where it has a broad customer base. The biggest customer generates 8% of the business unit's revenue and 1.5% of Kendrion's revenue. Kendrion considers the truck market a growth market and is building up engineering capacity to support this growth. India is an example of this and the company had already started in 2010 with its service business in the USA to replace other cooling techniques with those produced by Kendrion.

Added value
In 2011, added value amounted to EUR 134.0 million (49.8%), as compared to EUR 114.4 million in 2010 (51.4%). When the effect of stock changes is excluded, added value decreases by two points. The rise in the cost of materials had a negative effect of 2.2%, which was offset by a 1.5% price reduction at suppliers. Foreign exchange differences had a 0.6% negative effect. The remaining negative effect of 0.7% resulted from the product mix, incidental start-up expenses for India (delay in localisation of suppliers) and net sales price impact.

The increased prices of permanent magnets (explained further in the risk management paragraph on page 36) had a significant impact on the increased costs of raw materials. The effects of the increased price of permanent magnets were felt most in the fourth quarter and resulted in a 1.1% increase in the total raw material costs for 2011. Due to a delay in passing on the effects to customers Kendrion was able to offset part of this sharp increase in prices (by as much as 800%) by raising the sales prices. Kendrion expects that more of these price increases can be passed on to the customers, although not to the full extent. However, also if increased raw material prices are passed on to customers one to one, the percentage of added value to turnover is reduced mathematically.

Staff costs and other operating expenses

Staff costs, including costs for temporary employees, amounted to EUR 72.8 million compared to EUR 62 million in 2010, an increase of EUR 10.8 million (17%). Staff costs in relation to revenue and added value have evolved as follows:

	2011	2010
In relation to revenue	27.2%	27.9%
In relation to added value	54.3%	54.2%

Staff costs were negatively influenced in 2011 by severance payments and a special 100th anniversary bonus to all employees, so leverage on staff costs, given the continued growth, is better than stated in the above table.

Average staff costs per FTE increased in 2011 to EUR 48,000 (2.2%), partly due to the severance payments and the 100th anniversary bonus referred to above.

The number of employees (in FTE) increased by 11% in 2011 as compared to 2010. The increase can be shown as follows:

	2011	2010	% growth
Direct staff	680	610	11.5%
Indirect staff	651	608	7.1%
Temporary employees	152	158	(3.8)%

The growth in indirect staff was particularly evident in the Commercial Vehicle Systems business unit, with an increase of 18 FTE, largely due to the Indian start-up.

Other operating expenses for 2011 were affected by the provision made for the EC fine and acquisition expenses. Adjusted for these items, other operating expenses increased by EUR 2.2 million (11%) from EUR 19.5 million to EUR 21.7 million. The increase was partly due to higher revenue, with variable costs like packaging, transport, energy and repair and maintenance all rising. Furthermore, IT expenses relating to the ERP roll-out had an increasing effect, as did the '100 years of electromagnetism' celebrations in 2011. Adjusted other operating expenses expressed in terms of added value decreased from 17.0% to 16.1% in 2011.

Kendrion is heavily focused on increasing the company's flexibility, monitored on the basis of quarterly measurements of changes in staff expenses and operating expenses, classified as fixed, variable and semi-variable costs.

Net financing costs

Net financing costs amounted to EUR 2.0 million, including unfavourable exchange rate differences of EUR 0.2 million. EUR 1.8 million interest expenses also included the bank guarantee fee relating to the EC fine, commitment fees on unused facilities, amortised bank and legal fees (transaction costs), interest on pension obligations and a number of smaller items. Average (gross) bank debt levels in 2011 amounted to EUR 13 million, excluding (unpooled) cash positions. Average interest charged was 3.3%.

Income tax

The effective income tax rate for 2011, – 48.9%, is detrimentally influenced by the EC fine including interest, which is not tax deductable. The normalised tax situation is as follows:

Normalised profit before tax	27.2	
Income tax	6.7	(24.6%)
Normalised net profit	20.5	

The normalised effective tax rate in 2010 was 25%.

For further information on the effective tax rate, refer to page 122 of the financial statements.

Tax paid in 2011 amounted to EUR 4.1 million, lower than the total tax charge of EUR 6.7 million, due to offsetting the tax loss carried forward in Germany and the Netherlands against the profit before tax recorded in 2011. Tax paid in 2011 was negatively influenced by a delayed payment from 2010 in Germany of EUR 0.8 million.

Net income, earnings per share and dividend

EUR million	2011	2010
Net income attributable to equity holders of the company	(20.2)	16.5
After tax incidental items	40.6	(1.8)
Adjusted net income attributable to equity holders of the company	20.4	14.7
Amortisation acquisition-related intangible assets	1.5	1.4
Tax effect on amortisation intangible assets	(0.4)	(0.4)
Adjusted net income attributable to equity holders of the company before amortisation	21.5	15.7
Normalised Earnings per Share (EPS)	1.79	1.30
Adjusted normalised EPS (before amortisation)	1.87	1.39

Net income attributable to equity holders of the company has been adjusted, for the EC fine and a.o. acquisition expenses, and has subsequently been applied to determine the dividend proposal. Kendrion is proposing an optional dividend of 35%, which amounts to EUR 0.62 per share entitled to dividend.

Statement of financial position totals, working capital and financial position

Condensed statement of financial position

Assets

EUR million	31 December 2011	Adjusted 2011*	2010
Property plant & equipment	55.2	48.6	46.5
Intangible assets			
■ Goodwill	57.8	40.7	41.5
■ Acquisition related	15.6	6.7	8.1
■ Software	2.6	2.6	0.5
Deferred income tax	9.3	9.3	12.8
Other	0.5	0.5	–
Non-current assets	141.0	108.4	109.4
Inventories	38.5	34.7	28.2
Trade and other receivables	39.6	35.8	30.2
Income tax	1.0	0.9	0.3
Cash	9.2	8.0	9.0
Current assets	88.3	79.4	67.7
Balance sheet total	229.3	187.8	177.1

* *Adjusted means excluding the effect of the acquisition of FAS Controls, Inc.*

The balance sheet total increased by EUR 52 million from end 2010 to end 2011, as a result of:

- Acquisition of FAS Controls, Inc.: EUR 41 million;
- Increased inventories (23%) and trade and other receivables (18.5%): total EUR 12 million;
- Reduced deferred income tax: EUR 4 million.

Goodwill payments were made for the Linnig Group in 2007, Tri-Tech in 2008, Magneta in 2010 and FAS Controls, at the end of 2011.

Acquisition-related intangible assets for the four acquisitions mainly consist of the value of customer relations and technology. The annual amortisation (without taking foreign currency translation differences into account) will amount to EUR 2.4 million in 2012 and EUR 2.0 million in 2013, and will decrease incrementally to EUR 1.3 million in 2017 and EUR 0.5 million in 2018 (up to 2026). Further information is included in the notes 2 and 20 on pages 91 and following and 117 and following.

Deferred income tax

EUR million	2011	2010
Valued tax losses carried forward		
Germany income tax (15.8%)	38.6	47.5
Germany trade tax (12.2%)	9.0	18.6
The Netherlands income tax (25.5%)	3.6	5.2
Austria income tax (25.0%)	–	2.0
Total	51.2	73.3
Temporary differences	4.0	3.9
Deferred income tax assets	55.2	77.2
Deferred income tax	9.3	12.8

We refer to note 4 on pages 94, 95 and 96 of the financial statements for more detailed information.

Net working capital 31 December

EUR million	2011[1]	2010
Inventories	34.7	28.2
Trade and other receivables, tax receivable	36.6	30.5
Trade and other payables, tax payable	(39.8)	(32.7) [2]
Net working capital	31.5	26.0
As % of revenue	11.8%	11.7%

[1] *Before acquisition of FAS Controls, Inc.*

[2] *Excluding an earn-out liability.*

Net working capital as a % of revenue remained stable compared to 2010, although 2011 compared to 2010 has been negatively influenced by income tax receivable and payable; excluding this effect, net working capital would have been 11.9% (12.5% at end 2010).

The Days Inventory Outstanding as based on the fourth-quarter revenue increased from 44 to 49, partly explained by increased activities in Asia (sea freight), while Days Sales Outstanding increased from 41 to 44. The increases in both working capital categories were compensated by the increase in Payables. The increase in inventories will result in more stringent monitoring of stock levels in 2012.

The quality of the trade receivables portfolio remains at a high level. At year-end the provision amounted to EUR 0.3 million. Amounts › 60 days overdue are negligible (less than 1%).

At year-end 2011, the solvency ratio was 40% (year-end 2010: 64.7%).

Net debt

EUR million	2011	2010
Non-current borrowings	4.9	2.5
Current borrowings	0.3	11.7
Cash and cash equivalents	8.0	9.0
Net cash position before acquiring FAS Controls, Inc.	2.8	(5.2)
Paid purchase price FAS Controls, Inc. including bank debt	(28.7)	–
Net bank debt as per 31 December	(25.9)	(5.2)
12 months EBITDA	44.7[1]	32.9
Debt cover	0.58	0.16
Debt cover (net bank debt including EC fine)	1.51	0.23

[1] *Including FAS Controls, Inc. and normalised*

Credit facility in place

EUR million	
■ For working capital	35.0
■ For acquisitions	40.0*
■ For EC fine	48.5

* *On 18 January 2012, the credit line for acquisitions was extended by EUR 60 million to EUR 100 million. Following the acquisition of FAS Controls, Inc. more than EUR 70 million of this credit line is available.*

Repayment obligations
As of 31 December 2012, the acquisition credit line will be reduced bi-annually by EUR 8 million.

Credit facility compliance

		Actual
Debt cover (Net bank debt/12 months EBITDA)	‹ 2.5	0.6
Interest cover (Net finance charges*/12 months EBITDA)	› 4.0	18.9

* *The net finance charges exclude foreign exchange differences, the commitment fees for unused facilities and the amortisation of upfront and legal fees, but include the fee for the EC fine bank guarantee.*

For more information, we refer to note 15 on pages 107 and following of the financial statements.

Invested capital 31 December

EUR million	2011	2010
Balance sheet total	229.3	177.1
Less: non-interest bearing debt	43.3	35.0
Less: deferred income tax receivable	9.3	12.8
Invested capital	176.7	129.3

The growth in invested capital in 2011 was impacted as follows:

EUR million	
FAS Controls, Inc. acquisition	38.0
Higher net working capital	8.0
Higher property, plant and equipment plus software	4.0
Other impacts	(3.0)

Free cash flow

In 2011, the free cash flow generated before acquisitions was satisfactory at EUR 14.6 million, compared to EUR 20.5 million normalised net profit. Capital expenditure exceeded depreciation by EUR 4.2 million and the increase in working capital was EUR 3.7 million at an organic growth rate of 10% in the fourth quarter. All business units contributed well to the overall free cash flow.

Contingent liabilities

The EC fine, as mentioned in the company's Annual Reports since 2005, is now fully provided for and is no longer contingent. We refer to page 116 of the notes to the financial statements for other contingent liabilities.

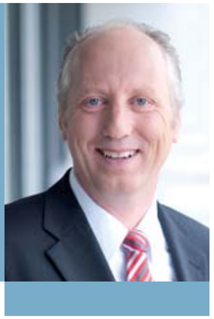
Directors' declaration

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

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

Developments in each business unit

Industrial Magnetic Systems



Norman Graf
Business Unit Manager
Industrial Magnetic Systems

Profile

The Industrial Magnetic Systems business unit develops and manufactures electromagnetic systems for industrial applications including mechanical engineering, energy distribution, process automation, doors and safety technology, medical equipment and the beverages industry. Both the group of customers and range of applications are extremely diverse. The business unit's products make use of the most advanced technology and comply with the most stringent reliability and precision requirements. The activities of Industrial Magnetic Systems are subdivided into two core competences:

- projects with customised products in large volumes;
- modified products and services.

The business unit's head office is located in Donaueschingen (Germany) and the business unit has production facilities in Germany, Romania, the USA and China. In addition, the business unit has sales organisations in the UK, Austria, Switzerland and Italy. The other major European markets are covered by sales partners and distributors.

The business unit has a customer portfolio of approximately 2,000 customers who generate revenue ranging from about EUR 1,000 a year to, for a number of customers, EUR 1 – 2.5 million. Major customers include Euchner, Fresenius, Schindler, Siemens and Stoll.

Objectives and strategy

Industrial Magnetic Systems continues to expand its position from a player on the European market to a global player in specific submarkets, whereby the business unit's objectives are to achieve powerful organic growth and excellent returns.

Industrial Magnetic Systems develops new project activities in its markets by means of relationships with customers operating on a global scale or possessing powerful positions in local submarkets. In addition, Industrial Magnetic Systems' project activities have enabled the business unit to expand its operations to the provision of modified products and services. These operations offer less risky opportunities to generate revenue, certainly in more difficult economic times. During the coming years the business unit will focus on selected key markets where the most important developments are foreseen in the global industry.

Developments 2011

Sales

Industrial Magnetic Systems continued to strengthen its sales organisation in two different directions. First, direct customer support has been enhanced by the addition of several new sales representatives in Germany. Industrial Magnetic Systems opened a sales office in Italy and also strengthened the sales force in other European countries. Second, the quality of customer support has also been enhanced by the consistent development of the key sales personnel organisation from a key account management into a branch specialist management structure.
This change has prepared the entire organisation for the achievement of the next big step in increasing market intelligence.

Engineering

The business unit continued with the consistent development of its innovation skills and focus on innovative new product development. At the end of 2011, Industrial Magnetic Systems' new project pipeline includes several new product developments in its key markets which will address the technical and commercial needs for the next three to seven years. Industrial Magnetic

Systems is substantiating its claim of being a technical market leader in its business environment. The business unit's research and development activities are supplemented by cooperation with a range of universities and engineering partners. In 2011, Industrial Magnetic Systems developed the world's fasted acting solenoid, as a trigger for high voltage switchgear. A patent for this unique product has been applied for.

Production

With the plants in China, USA, Romania and two plants in Germany, the Industrial Magnetic Systems group is able to support and deliver to its customers within all key markets. In 2011, the main focus was on the sub-segmentation of the German production organisation into four production units. The business unit is now able to concentrate on specific customer needs including:

- high volume and semi-automated production;
- low volume and special product production;
- technology line production;
- tailor-made production for specific customers.

This structure enables the business unit to quantify the performance of and optimise each production unit as a separate profit center. Above-average investments have resulted in the optimisation of several lines and the introduction of lean manufacturing concepts and equipment.

Market and market position

Industrial Magnetic Systems' main market continues to be Germany with its advanced market-leading mechanical engineering and automation industries. The USA, China, France and Italy are the other most important countries for the business unit. Additional attention was devoted in the year under review to the market developments of Sweden, the UK and Spain.

The business unit focuses on niche markets that feature excellent growth figures and that are gaining importance for the future. These markets include the energy, medical & pharma, transportation and safety industries.

Industrial Magnetic Systems' Chinese operation focuses on customer and product applications that require a high level of technical know-how, product quality and reliability. In principle, the business unit focuses less on the low-cost segment of the market. However, attention is also being devoted to the simpler applications required by the Chinese market so that the business unit can expand its operations in this region and acquire strong market positions.

The beverage industry is the most important market segment for the business unit's US operating company, which is the clear market leader in this segment. Expansion into other niche markets is being implemented.

Outlook for 2012

Industrial Magnetic Systems, in view of the current economical conditions and the new projects now entering the production phase, forecasts moderate growth in 2012. The activities that were started and implemented in 2011 will enable the business unit to continue to strengthen its position in the key markets during the coming year.

The lean production concept will be introduced in all production lines. For this reason, the business unit will focus on efficiency improvements throughout the organisation on the basis of its strong positions in sales and engineering and the new opportunities that are now available following the preparations in the past months.

As a result of the uncertainties in Europe and the continued volatility of the global economy the organisation's flexibility will once again play a major role in the coming year. The technical leverage between the USA, China and Europe will be cultivated further to emphasise Kendrion's ambition of being the world's leading solenoid company in the industrial sector of the company's business.

Developments in each business unit

Michael Bernhard
Business Unit Manager
Industrial Drive Systems

Industrial Drive Systems

Profile

The Industrial Drive Systems business unit develops and manufactures electromagnetic brakes and clutches for industrial drive systems that accelerate, retard, position, hold and secure movable drive components and loads. The primary applications for the business unit's products are robotics and process-automation technology, machine construction and production machines, machine control and lift technology. The business unit's head office and production location are located at Villingen (Germany) and it also has a sales organisation in Bradford (UK) as well as a production location in Aerzen (Germany). The other major European markets are covered by sales partners and distributors.
The business unit also conducts sales activities via Suzhou (China).

The business unit has a customer portfolio of approximately 100 customers who generate revenue ranging from about EUR 1,000 a year to, for a number of customers, between EUR 0.5 and EUR 1 million.
Major customers include Bosch, Lenze, Schottel and Siemens.

Objectives and strategy

Industrial Drive Systems has further enhanced its position as a European market leader in permanent magnet brake technology. The business unit's objectives are to achieve powerful organic growth and excellent returns. Industrial Drive Systems develops new project activities in its markets by means of relationships with customers operating on a global scale or possessing powerful positions in local submarkets. In addition, the business unit is also expanding its operations in the field of services on the basis of project activities.

During the coming years the business unit will focus on two key markets, namely process automation and the generation of sustainable energy, the markets where the most important developments are foreseen in the global industry.

Developments in 2011

Industrial Drive Systems recorded a very good year. The budgets were exceeded and secured by the homogeneous development of order income. The business unit was once again successful in generating a good profit, which was achieved by the continual and systematic expansion of production capacity.
Industrial Drive Systems' early negotiations and strategic purchasing policy enabled the business unit to stabilise the surprisingly sharp increase in the prices quoted by Chinese permanent magnet suppliers in the middle of the year.

The business unit's permanent magnet brakes business with its largest customers continued to expand. Self-evidently, high-performance servomotors are usually required with smaller high-torque brakes.

On the development of the business unit's 'KOBRA – Kendrion Optimised Brake' new generation spring-applied brakes Kendrion has achieved an important milestone for the future protection of this market segment. An intelligent modular system has enabled Kendrion to minimise the range of products required for various customer applications.

Kendrion's innovative and intelligent elevator brake systems enabled the company to acquire a number of important development projects with well-known customers in this branch.

China's Suzhou sales operations were expanded on the recruitment of a Sales Manager. Kendrion was also awarded numerous projects with global clients in the Asian market which will further the company's Chinese operations. Kendrion Magneta succeeded in winning a major customer in the US aviation industry due to the development of the world's smallest permanent magnet brake. Kendrion's UK branch succeeded in expanding its service business to provide service and spare parts to clients all over the world.

The business unit furthermore developed a new high-torque permanent brake for pitch regulation to fulfil the high requirements for wind energy generation. By this safe, powerful and low-maintenance brake, Industrial Drive Systems can conquer a bigger market share.

Kendrion's on-going quality assurance improvements included major steps in the reduction of the parts per million (ppm) rate. Kendrion continually stressed the 'Lean Management' and 'Clean Shop Floor' concepts and formed a new 'FIT for Production' team to secure the company's strategic targets in these areas.

In 2011, Kendrion was an exhibitor at two German trade fairs (Hannover Messe and SPS/IPC/Drives) and at one Chinese trade fair (PTC Asia), where the company introduced its KOBRA Line.

>> Market and market position

Germany, with its advanced market-leading mechanical engineering and automation industries, remains Industrial Drive Systems' major market. The business unit is the European market leader in permanent magnet brakes.

Additional attention has been devoted to the enhancement of spring-applied brake operations, whereby Kendrion intends to play the role of problem-solver for specific customer needs and questions and, in so doing, distinguish the company from the market for standard products.

Industrial Drive Systems is still a small niche player in the USA and China. Nevertheless, the business unit has succeeded in achieving remarkable growth figures in Asia during the last years. Kendrion expects that this achievement can be repeated in the coming years.

The increasing use of technology for the generation of sustainable energy, a global trend, has opened an attractive new segment of the market to the business unit. Industrial Drive Systems possesses the technology required for this segment. A number of new projects have been initiated and Kendrion benefited from the results of these developments in 2011.

>> Outlook for 2012

In view of the current prospects Kendrion forecasts a slight weakening of the economic situation in 2012, although the company expects the current overall favourable trend to continue. Kendrion intends to achieve a significant increase in its activities by the introduction of new projects, in particular in China.

Work on the first three sizes of the KOBRA spring-applied brake will be completed in the first quarter of 2012, and a marketing campaign will be started.

Kendrion intends to make further major investments in the Villingen production plant to improve the efficiency and leanness of the production lines. Nevertheless, quality assurance and the reduction of manufacturing costs will remain of great importance to the retention of Kendrion's position as market leader.

Significant increases in the market potential are planned for Europe, in particular in Italy and France. Kendrion will continue to meet the growing demand for the company's air pneumatic clutches (AIRFLEX / EATON) by strengthening the sales activities.

Kendrion is planning to take part as an exhibitor at national and international trade fairs including SPS/IPC/Drives in Nuremberg, Medica in Dusseldorf (both in Germany), or Elevator Expo in China.

Developments in each business unit

Passenger Car Systems

Bernd Gundelsweiler
Business Unit Manager
Passenger Car Systems

Profile

The Passenger Car Systems business unit develops and manufactures electromagnetic components for applications in the automotive industry. The business unit is globally renowned as a competent development and engineering partner and has production facilities in Germany, Austria, the Czech Republic, Romania, the USA and China. All products are developed and designed in accordance with the customer's specific needs, whereby great emphasis is placed on performance and reliability. Kendrion has been awarded ISO/TS 16949 certification, and supports environmentally-conscious working methods in accordance with ISO 14001.

Objectives and strategy

Passenger Car Systems is continually expanding its market position by obtaining new customer orders that relate to new projects or to further applications that expand the current portfolio. The business unit's objectives are to achieve acceptable organic growth with satisfactory returns and cash flow.

The business unit's operations are conducted on the basis of an explicit strategy which addresses niche markets by offering them innovative technological solutions in the fields of switching solenoids (on/off or proportional), braking systems and advanced valve technology (common rail). In addition, the business unit also develops and manufactures electromagnetic components for hydraulic systems. The highly reliable production processes are in part carried out in clean-room conditions, and are virtually entirely or partly automated, depending on the annual production volume. Passenger Car Systems complies with stringent quality standards through the use of end-of-line control units for complete systems or individual functions.

Developments in 2011

2011 was marked by strong growth in all Passenger Car Systems production plants. Revenue on sales increased by 30% and the production capacity needed to be expanded by increases in shift work and the further qualification of additional sub-suppliers.

Business generated by projects for specific customers expanded Kendrion's position in the fuel systems market, with new common rail and gasoline developments. In addition to Kendrion's work on fuel systems, the company also focuses on fuel efficiency and environmental protection. All products in this range comply with the most stringent Euro 5 and 6 standards.

Alongside the passenger car market, Kendrion also generated new business in the medium and heavy duty segments and adapted the company's technology to meet the truck market's highly-demanding requirements.

Kendrion has strengthened its international position further on the introduction of stroke solenoids in the company's Chinese plant and further acquisition of new business for its US activities. At the end of

2011, the US FAS Controls, Inc. company joined the Passenger Car Systems business unit. The business unit's product portfolio is tailored precisely to the current trends in the market: motor management, downsizing, switchable units, fuel efficiency and CO_2 reduction. The workforce in all departments is at full strength and ready to tackle the challenges to come.

Market and market position

The international automotive market can be divided into three regions, Europe, the USA and Asia. The business unit's largest market is Europe and, within that market, Germany. From a global perspective the business unit's major customers are Daimler, Continental, Delphi Europe, INA, Automotive Lighting and ZF Lemförder. Customers can rely on Passenger Car Systems as a development partner, with active project teams, in-depth technical knowledge and access to development, test and production facilities. This will be of particular importance to the US market in the coming years.

Further growth in the worldwide electromagnetic component market is expected due to new applications in environmental protection, aggregates that can be switched on/off and common rail / gasoline technology that minimises emissions. New hybrid and electric cars create new market segments that are favourable to Passenger Car Systems.

Outlook for 2012

The information currently available is insufficient for an accurate forecast of the automotive industry's development in 2012. The Passenger Car Systems business unit does not expect to realise growth in its revenue or profit from new projects in 2012 because of the time needed to develop new projects, for instance for the US market. Further growth in revenue is expected from the second half of 2013.

Passenger Car Systems will expand its electromagnetic portfolio. The production and development of units / applications will be served on a global basis.
The preparations for the start of new projects in the USA are in full swing and will go on stream at FAS Controls in the first half of 2012. The business unit's flexibility will enable the company to respond immediately to changing market demands in providing optimum service to Kendrion's customers all over the world.

Passenger Car Systems, as a customer-oriented organisation with a strong focus on corporate social responsibility, is committed to the achievement of market and innovation leadership in electromagnetic niche technologies.

Developments in each business unit

Bernd Gundelsweiler
Interim Business Unit Manager
Commercial Vehicle Systems

Commercial Vehicle Systems

Profile

Commercial Vehicle Systems develops and manufactures components and complete cooling systems for buses, trucks and special vehicles. Main products include fan clutches for engine cooling, compressor clutches for vehicle air-conditioning and air pressure, vibration dampers for crankshaft applications, fan clutches with angle gear for cooling, pneumatic and hydraulic clutches, brakes and belt tensioners.
The business unit is also penetrating other markets with existing applications, for example the gensets.

The business unit's customers include all major OEMs in the global bus market and all first-line suppliers of air-conditioning systems, as well as manufacturers of refuse collection vehicles, agricultural vehicles, railway vehicles, and specialised vehicles such as piste bullies for the preparation of ski pistes.
Major customers include Evobus, Kia, Volkswagen, Volvo and Yutong.

Commercial Vehicle Systems has its head office (including production, R&D, sales and accounting) in Markdorf (Germany) and additional production, R&D and sales departments in Atlanta (USA), Mexico City (Mexico), São Paulo (Brazil) and Nanjing (China). Commercial Vehicle Systems has a global network of partners for distribution and service. In 2011, operations began in Pune (India).

The business unit's products help to reduce the fuel consumption of commercial vehicles and consequently contribute to lower vehicle emissions. Thanks to this contribution, the business unit has seen steady operational growth in recent years. The goal of the business unit's corporate philosophy is to provide answers for customers' technical issues by helping them to reduce fuel consumption using solutions mainly based on electromagnetic components.

Objectives and strategy

Commercial Vehicle Systems' steady growth over the past ten years has been built on the business unit's objectives of supplying customers all over the world and doing business with every OEM in Asia, the USA and Europe. The business unit's objective is to evolve from a local niche player into a global company and to set the standards for quality and speed in R&D. The targets specify excellent organic growth and returns.

Developments in 2011

In 2011, the business unit once again achieved double-digit growth in bus and truck market sales, largely due to the plants in China, Brazil and Germany.

Following the incorporation of the company's new plant in India Kendrion finished work on setting up the production line and transferred the production to the local plant. In December 2011, Kendrion received the final customer release for the Indian production of the company's fan clutch for truck applications. Kendrion also began production of its new fan clutch with angle gear box following a successful launch with an OEM in Canada. The genset applications are under testing at several customers. Kendrion expects to receive the customer releases for these applications within the near future and achieve further growth in this business segment. Commercial Vehicle Systems is also developing a compact electric drive powertrain unit.

Kendrion's current product portfolio has been enlarged to include fans for installation with the company's clutches and two electronic controllers. The electronics support thermal management by a 'thermal switch', and 'micro pulsing' reduces wear of the A/C compressor bearings.

The business unit's applications have further penetrated the after-sales truck market in the USA, replacing other technical solutions, and the unit has expanded its sales network in order to deliver full support in the USA.

In mid-2011, prices for permanent magnets really took off, reaching a level which was eight times higher. The business unit responded jointly with other Kendrion business units to select further suppliers in China, achieving better prices coupled with good quality, but still at a price level four times higher than before. The effect was only visible as from the fourth quarter of 2011, as stock was built up anticipating the steep increase in prices. The price increases have been transferred to customers, although with a delay, affecting the fourth quarter results. The steep price increases will also subsequently have an impact on the gross profit margin, although a limited one on average, as it has not been possible to pass on the entire cost of these price increases.

Since mid-2011, management of the business unit has been taken over (ad interim) by Bernd Gundelsweiler, who is also Business Unit Manager of Passenger Car Systems.

Market and market position

There are three regions in the international market for components for engine-cooling systems and air-conditioning: Europe, the Americas and Asia. Kendrion Linnig is the European market leader in compressor and fan clutches. The company faces technical competition in the engine-cooling segment from companies offering solutions not based on electromagnetic components. But as the requirements on engine cooling and emission reductions become increasingly stringent, Kendrion is increasingly convinced that the company is in the right position to expand its share of the market.

Although Commercial Vehicle Systems is still a niche player in the Americas, the business unit has implemented ambitious objectives that will enable it to achieve steady growth.
The situation in Asia is also conducive to growth, and Kendrion is working on new projects with a large number of new customers in that region.

Outlook for 2012

In 2012, the development of the market is expected to bring further growth in the Commercial Vehicle Systems business unit's sales. The increased sales will be generated by the series production of larger numbers of fan clutches for truck applications and revenues from the genset business. Kendrion is seeking new customers and applications in the BRIC states. Kendrion shall continue with the products the company has introduced in China and India. The Euro 6 standard will increase demand for higher cooling capacities and result in additional projects in Europe.

Conditions in the raw material markets, in particular in the rare earth permanent magnet markets, have changed totally. The development department is confronted with the need to achieve major design optimisation targets if costs are to be reduced. Other development work is focused on a new, next-generation fan clutch solution for trucks. The high production volumes have resulted in the implementation of a project business organisation to carry out the truck business projects.

Commercial Vehicle Systems will take part as an exhibitor in trade fairs in China, the USA and Europe.

Corporate governance

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

Kendrion is characterised by a transparent and efficient corporate governance structure that lays down the relationship between the shareholders, Supervisory Board and Executive Board. Kendrion monitors corporate governance developments closely to ensure that any necessary changes to the structure can be implemented in good time.

Corporate governance structure

Kendrion N.V. is a public limited liability company under Netherlands law, with its registered offices in Zeist, the Netherlands. The company's authorised share capital is divided into 40,000,000 ordinary shares with a nominal value of EUR 2.00. At year-end 2011 11,492,525 ordinary shares had been issued, of which 47,392 shares are held by the company. These 'own' shares have been purchased for the variable remuneration package for the members of the Board and the share plan for the senior management. Kendrion's shares are listed on NYSE Euronext's Amsterdam market. Kendrion N.V. does not have a Works Council.

Articles of Association

A resolution to amend the Articles of Association can be passed by the General Meeting of Shareholders solely on the proposal of the Executive Board as approved by the Supervisory Board. Resolutions of this nature can be passed by an absolute majority of the votes cast at the General Meeting of Shareholders. Amendments to the Articles of Association are also governed by a number of procedural regulations specified in more detail in the company's Articles of Association.

The Executive Board, with the approval of the Supervisory Board, submitted a proposal for the amendment of the Articles of Association to the General Meeting of Shareholders held on 18 April 2011. The General Meeting of Shareholders approved the proposal. The amendments to Kendrion's Articles of Association included changes required following the introduction of new legislation implementing the EU Directive on the exercise of shareholders' rights, as well as changes in the management and supervision of the company. The revised Articles of Association have been published on Kendrion's website.

General Meeting of Shareholders

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

Votes representing shares can be cast at the General Meeting of Shareholders either personally or by proxy. No restrictions are imposed on these proxies, which can be granted electronically or in writing to the company, or to independent third parties. Pursuant to the Articles of Association the Executive Board will be entitled to determine that shareholders may also vote by letter prior to the meeting. Each share grants an entitlement to one vote. All resolutions adopted by the General Meeting of Shareholders are passed by an absolute majority of the votes cast, unless the law or the Articles of Association prescribe a larger majority. The shareholders possess the rights conferred by Kendrion's Articles of Association and by law.

Shareholders individually or jointly representing at least 1% of the issued share capital (or individually or jointly representing at least EUR 50 million of the issued share capital) are entitled to submit a request to the Executive Board or Supervisory Board for the inclusion of items on the agenda of the General Meeting of Shareholders. Should new legislation increase this percentage then the new percentage will apply. However, during the General Meeting of Shareholders held on 18 April 2011 it was agreed that the Executive Board will continue to apply the 1% level until this item has been discussed again by the General Meeting of Shareholders. A request to include items on the agenda shall be granted provided that the motivated request is submitted in writing to the CEO or the Chairman of the Supervisory Board at least 60 days before the date of the General Meeting of Shareholders. Resolutions relating to items placed on the agenda at the request of shareholders can be passed by an absolute majority of the votes cast that represents at least one third of the issued share capital. In the event that an absolute majority supports the resolution but this majority does not represent one third of the issued share capital then in a new meeting to be convened the resolution can be passed by an absolute majority of the votes independent of the represented issued share capital (unless the law prescribes a larger majority or a quorum).

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

Shareholders representing 68% of the total issued share capital attended or were represented at the General Meeting of Shareholders held in the year under review on 18 April 2011.

Executive Board

In 2011, Kendrion was managed by a Board comprised of three members, of whom two are Executive Directors, and was supervised by the Supervisory Board. The COO stepped down and left the Board at the beginning of 2012. The Executive Board possesses the powers which the relevant legislation and Articles of Association have not assigned to the Supervisory Board or the General Meeting of Shareholders.

The Executive Board has adopted regulations governing the Executive Board's procedures and decision-making. These regulations have been approved by the Supervisory Board. The members of the Executive Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. Each member of the Executive Board can be dismissed by the General Meeting of Shareholders at any time. The General Meeting of Shareholders can pass a resolution for dismissal on the proposal of the Supervisory Board by an absolute majority of the votes cast. The General Meeting of Shareholders can pass a resolution for dismissal other than on the proposal of the Supervisory Board solely by an absolute majority of the votes cast that represents at least one third of the issued share capital.

The Executive Board is supplemented by an Executive Committee, which is not mandated under the Articles of Association, comprised of the Executive Board, the Business Unit Managers and the Chief Technology Officer. The Executive Committee is a consultative body and the Executive Board always has the deciding vote.

Important resolutions of the Executive Board require the approval of the Supervisory Board. The resolutions governed by this stipulation are specified in Kendrion's Articles of Association.

The Executive Board has the authority, with the approval of the Supervisory Board, to decide to issue shares in the period until 18 October 2012. This authority relates to a maximum of 10% of the issued share capital at the time of issue.

In addition, the Executive Board has the authority to arrange for the company to acquire shares in its capital. This authority relates to a maximum of 10% of the issued share capital, and runs until 18 October 2012. Each year, the Executive Board places a request to be granted the authority for the issue and purchase of shares referred to above on the agenda of the General Meeting of Shareholders.

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

The Supervisory Board currently has four members. The members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board has adopted regulations and a profile of the Supervisory Board. The Supervisory Board elects a Chairman from amongst its members. The members of the Supervisory Board step down by rotation pursuant to a schedule adopted by the Supervisory Board. Members of the Supervisory Board who step down can be reappointed. These reappointments take account of the manner in which the candidate performed his or her duties as a member of the Supervisory Board.
Each member of the Supervisory Board can be dismissed by the General Meeting of Shareholders at any time in a resolution passed by an absolute majority of the votes cast. Resolutions for dismissal not on the proposal of the Supervisory Board are passed solely by an absolute majority of the votes cast that represents at least one third of the issued share capital.

The Supervisory Board has established two Committees, an Audit Committee and a Remuneration Committee. The Committees are responsible for making the preparations for the decision-making by the Supervisory Board. Their roles and responsibilities are in accordance with the relevant provisions of the Netherlands Corporate Governance Code. The regulations for both Committees have been adopted by the Supervisory Board. The regulations have been published on Kendrion's website.

Corporate governance structure in light of the Netherlands Corporate Governance Code
The provisions of the Netherlands Corporate Governance Code as amended on 10 December 2008 are applicable to Kendrion. The Netherlands Corporate Governance Code is available at www.commissiecorporategovenance.nl. Kendrion has applied virtually all the principles and best practice provisions – to the extent that they are applicable – laid down in the Code.

The company reserves, however, the right, both now and in the future, not to apply the occasional best practice provision, whereby the company shall always comply with the principle formulated in the Netherlands Corporate Governance Code that the company shall explain why it has not applied the best practice provision in question. For example, the company will not be able to breach existing agreements at will. It should be noted that the Netherlands Corporate Governance Code also states that agreements of this nature should be respected. The provisions of the Netherlands Corporate Governance Code that have not been applied are listed below.

II.1.1 *A Management Board member is appointed for a maximum period of four years.*
This provision is not in line with the contractual situation of the current CEO. Kendrion respects this contractual situation.

II.2. *Remuneration of the Executive Board.*
Kendrion has applied or will apply virtually all best practice provisions. The precise criteria for the variable remuneration are not disclosed, since the company is of the opinion that the disclosure of the (relevant) performance criteria is undesirable from the perspective of the competitive and market positioning of the company. In addition, the publication of the performance criteria is at variance with the management of external expectations, such with the knowledge that there is a simultaneous internal need for incentives for the members of the Executive Board in the form of challenging targets.

II.2.8 *The maximum remuneration in the event of dismissal is one year's salary.*
This provision is not in line with the contractual situation of the current CEO (currently approximately over two years of total remuneration based on the years of service). Kendrion respects this contractual situation.

IV.3.1 *All investor relations meetings shall be announced in advance, and provisions shall be made for all shareholders to follow these meetings in real time.*
Kendrion announces all press meetings and analyst meetings in advance. Kendrion is of the opinion that webcasting these meetings is not necessary. Unannounced meetings with individual analysts are also held. No price-sensitive information is disclosed during these meetings.

Agreements in the meaning of Article 1.j. of the Decree of 5 April 2006 for the implementation of Article 10 of the EU Takeover Directive (change of control)
The credit facility of Kendrion N.V. incorporates what is referred to as a 'change of control' provision. Once a party acquires more than half the company's issued share capital or voting rights then the company is governed by a repayment commitment.

Code of Conduct and the Whistleblower's Charter

The Code of Conduct and the Whistleblower's Charter are available for inspection on the website.
The Whistleblower's Charter offers the Kendrion employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their legal position. The Code of Conduct and the Whistleblower's Charter were both updated in 2010.

Remuneration policy

General
Kendrion's current remuneration policy was discussed by and adopted at the General Meeting of Shareholders in 2010. The remuneration report, which is published on the company's website, explains the policy for the remuneration of the Executive Board and the Supervisory Board. The remuneration report also provides information about the remuneration that was actually paid over 2011. Information about the remuneration received by the individual members of the Executive Board and the Supervisory Board is also enclosed in the financial statements (page 133).

The policy for the remuneration of the members of the Executive Board is based on the allocation of remuneration of an amount and structure such that qualified and expert executives can be recruited. The policy is also challenging to such an extent that it motivates the members of the Executive Board and, when they exhibit an appropriate performance, ensures they can be retained in the longer term. The composition of the remuneration package promotes the achievement of Kendrion's short and long-term objectives. Pursuant to the Netherlands Corporate Governance Code, the Supervisory Board possesses discretionary powers for the downward or upward adjustment of the total remuneration should the variable remuneration system result in unreasonable and inequitable remuneration. In addition, when so requested by the Supervisory Board, the variable component of the remuneration adopted in the past two years must be repaid in part or in full should it transpire that this was unjustifiably awarded on the basis of incorrect financial information. The Supervisory Board periodically tests the package to verify that it is in line with the company's objectives and the market on the basis of information supplied by external experts.

The current remuneration policy provides for a fixed component and a variable component, as well as a pension scheme and a number of fringe benefits.

Fixed remuneration
The fixed remuneration is in line with the aforementioned policy. During the year under review the fixed component was adjusted solely pursuant to the indexation provision of the remuneration policy.

Variable remuneration
The variable remuneration is intended to promote the Executive Board members' attention to the growth of the company and the value of the share. The variable remuneration is appropriate in relation to the fixed remuneration.

The Supervisory Board determines the variable remuneration for the individual members of the Executive Board on the basis of their performance and results as compared to the agreed performance criteria.

The General Meeting of Shareholders held in April 2010 decided that a variable bonus for the Executive Board members shall be awarded in 2010 and the following years that promotes the achievement of Kendrion's short and long-term objectives. The annual variable remuneration for an at-target performance will amount to 40% of the gross fixed remuneration of the CEO and 35% of the gross fixed remuneration of the CFO, with a maximum of 50% of the gross fixed remuneration. 70% of the bonus will be comprised of financial performance criteria (net profit, ROI, free cash flow and relative Total Shareholders Return (the movement in Kendrion's TSR compared to the AScX) and 30% will be comprised of individual (non-financial) performance criteria. The four financial performance criteria are weighted approximately equally. The component of the bonus relating to the relative TSR is set to zero when the relative TSR is less than zero.

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

Once the award of the shares has become unconditional after the expiry of the vesting period they must be retained for a minimum of two years (the holding period) unless the relevant member of the Executive Board terminates his/her term of office or the term of office is terminated during this period.

The aforementioned financial and individual performance criteria are determined for each full year prior to the beginning of the relevant financial year. The precise criteria are not disclosed, since the company is of the opinion that the disclosure of the (relevant) performance criteria is undesirable from the perspective of the competitive and market positioning of the company. In addition, the publication of the performance criteria is at variance with the management of external expectations, such with the knowledge that there is a simultaneous internal need for incentives for the members of the Executive Board in the form of challenging targets.

Although this is an annual scheme it nevertheless possesses the long-term nature required by the Netherlands Corporate Governance Code by virtue of the inclusion of the vesting and holding regulations.

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

Kendrion has drawn up this proposed scheme with the intention of introducing a simple and transparent remuneration package. This is also one of the objectives of the Netherlands Corporate Governance Code.

Pensions
Pursuant to the policy, the company bears the cost of the contributions for the old-age pension of the members of the Executive Board to a maximum of 20% of the pension base. The pensionable age is 65.
No schemes have been agreed for the (voluntary) early retirement of the members of the Executive Board.

Element	Fixed	Variable	
	Base salary	Annual incentive	
Way of payment	Cash	Performance related restricted shares	
Performance measure	Not applicable	■ Net profit ■ ROI ■ Free cash flow ■ Relative total Shareholder Return	Total 70%
		■ Non-financial individual performance criteria	Total 30%
Pay-out at minimum performance	100%	0%	
Target pay-out as % of gross fixed remuneration	100%	CEO: 40% CFO: 35%	
Maximum pay-out as % of gross fixed remuneration	100%	CEO: 50% CFO: 50%	

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

Severance pay
The contract of employment with the current CEO grants the officer entitlement to severance pay equal to the compensation for involuntary dismissal in the event that the contract of employment is terminated after a change of control.
The provision in the current CFO's contract of employment entitles the officer to severance pay comprised of one year's salary following a change of control.

Remuneration of the Supervisory Board

The remuneration received by the members of the Supervisory Board is comprised of a fixed remuneration that is independent of the results, whereby a distinction is made between the remuneration received by the Chairman and the other members of the Supervisory Board. Pursuant to this distinction the remuneration received by the Chairman is about one third higher than the remuneration received by the other members. The remuneration of EUR 35,000 for the Chairman and EUR 25,000 for the other members of the Supervisory Board was set by the Extraordinary Meeting of Shareholders held in 2005, and has not been adjusted subsequently. In 2009, the members were awarded an additional amount of EUR 5,000 for their membership of one of the Committees of the Supervisory Board. A proposal will be submitted to the General Meeting of Shareholders to be held on 16 April 2012 recommending that the fixed remuneration of each of the members of the Supervisory Board be increased by an amount of EUR 5,000 to bring it more in line with the remuneration of the members of the Supervisory Board of peer companies. Following this increase the Chairman will receive a total remuneration of EUR 40,000 and each of the other members EUR 30,000, besides the remuneration of EUR 5,000 for the membership of one of the Committees of the Supervisory Board, as determined in 2009. In addition to this fixed remuneration the members also receive a contribution towards their expenses.

Prospects

Apart from the ruling on the fine of the European Commission in the case involving Fardem, 2011 was an excellent year for Kendrion. The company made further progress in the implementation of its strategy, and was able to realise an excellent return. A strong financial position, being a niche player and having the ability to innovate are the features that will form the basis for Kendrion's further growth in the coming years. All Kendrion's business units are working on new strategic opportunities. In 2012, Kendrion will strengthen its investment in its own organisation in view of the many growth opportunities and the progress that has been made in recent years. These plans are established in the Mid-term Plan 2012-2014 entitled 'Entering another league'.

Uncertainty regarding the future development of the global economy is still high. Nonetheless, Kendrion would appear to have an advantage in the fact that a sizeable proportion of its revenue is realised in Germany, the country that currently is driving the European economy. There is also uncertainty regarding developments in the company's other important home markets of China and the USA, although the first tentative signs of optimism are beginning to appear in these countries.

Based on the information currently available, Kendrion expects to achieve further growth in its revenue in 2012, mainly from the projects acquired and developed by the Industrial Magnetic Systems and Industrial Drive Systems business units in recent years. The Passenger Car Systems business unit does not expect to realise substantial growth in its revenue from new projects in 2012 because of the time needed to develop new projects, for instance for the US market. Further growth in revenue is expected from the second half of 2013. The Commercial Vehicle Systems business unit expects to achieve further growth, mainly in the BRIC countries. In addition, FAS Controls, Inc. will begin to contribute to the revenue and result in 2012.

Kendrion expects to see a small decline in its operating margin (EBITA) of revenue due to a further expansion of the development capacity to enable growth in the medium to long term. The net profit over 2012 will be negatively influenced by the accrued interest on the EC fine of EUR 1.5 million which is not tax deductable. 2012 has begun with a healthy order book and good revenue development in the first months of the year.

Investments will be considerably higher than the depreciation level in 2012, mainly due to the new projects for the Passenger Car Systems business unit in the USA and the current ERP project.
Kendrion will continue to strive to strengthen its market position through acquisitions. The focus will remain on acquiring strong niche players in Germany, Kendrion's most important market, however Kendrion will also look to grow further especially in the USA and China in order to further reduce its dependence on the European market.

While Kendrion looks to the future with a high level of confidence and expects to achieve a further improvement in its revenue and profit, the situation is such that concrete forecasts regarding the development of its profit performance would not be appropriate at this stage.

Financial statements
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Consolidated statement of financial position at 31 December

Note	EUR million	2011	2010
	Assets		
	Non-current assets		
1	Property, plant and equipment	55.2	46.5
2	Intangible assets	76.0	50.1
3	Other investments, including derivatives	0.5	0.0
4	Deferred tax assets	9.3	12.8
	Total non-current assets	141.0	109.4
	Current assets		
5	Inventories	38.5	28.2
	Current tax assets	1.0	0.3
6	Trade and other receivables	39.6	30.2
7	Cash and cash equivalents	9.2	9.0
	Total current assets	88.3	67.7
	Total assets	229.3	177.1

Note	EUR million	2011	2010
	Equity and liabilities		
8, 9	**Equity**		
	Share capital	22.9	22.6
	Share premium	64.6	68.4
	Reserves	24.1	6.8
	Retained earnings	(20.2)	16.5
	Total equity attributable to equity holders of the company	91.4	114.3
	Minority interest	0.3	0.2
	Total equity	91.7	114.5
	Liabilities		
10	Loans and borrowings	23.3	2.5
11	Employee benefits	6.5	7.0
	Government grants received in advance	0.1	0.3
13	Provisions	46.4	2.7
4	Deferred tax liabilities	6.2	3.4
	Total non-current liabilities	82.5	15.9
7	Bank overdraft	0.3	1.7
10	Loans and borrowings	11.5	10.0
	Current tax liabilities	1.2	2.0
14	Trade and other payables	42.1	33.0
	Total current liabilities	55.1	46.7
	Total liabilities	137.6	62.6
	Total equity and liabilities	229.3	177.1

Consolidated statement of comprehensive income

Note	EUR million	2011	2010
19	Revenue	267.9	221.9
21	Other operating income	1.0	0.8
	Total revenue and other operating income	268.9	222.7
	Changes in inventories of finished goods and work in progress	(4.2)	(2.4)
	Raw materials and subcontracted work	139.1	110.7
22	Staff costs	72.8	62.0
	Depreciation and amortisation	10.8	10.1
16, 23	Other operating expenses	61.9	19.5
	Results before net finance costs	**(11.5)**	**22.8**
	Finance income	0.1	0.4
	Finance expense	(2.1)	(3.4)
24	**Net finance costs**	**(2.0)**	**(3.0)**
	Profit before income tax	**(13.5)**	**19.8**
25, 26	Income tax expense	(6.6)	(3.2)
	Profit for the period	**(20.1)**	**16.6**
	Attributable to:		
	Equity holders of the company	(20.2)	16.5
	Minority interest	0.1	0.1
	Profit for the period	**(20.1)**	**16.6**

Note	EUR million	2011	2010
	Other comprehensive income		
	Foreign currency translation differences for foreign operations	0.7	1.1
	Net change in fair value of cash flow hedges, net of tax	(0.2)	0.9
	Other comprehensive income for the period, net of income tax	0.5	2.0
	Total comprehensive income for the period	**(19.6)**	**18.6**
	Total comprehensive income attributable to:		
	Equity holders of the Company	(19.7)	18.5
	Minority interest	0.1	0.1
	Total comprehensive income for the period	**(19.6)**	**18.6**
9	Basic earnings per share (EUR), based on weighted average	(1.79)	1.47
9	Diluted earnings per share (EUR)	(1.79)	1.47
	Normalised earnings per share (EUR)	1.79	1.30

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	Minority interest	Total equity
Balance at 1 January 2010	22.6	68.4	0.5	(0.9)	(0.4)	1.8	3.9	95.9	0.2	96.1
Total comprehensive income for the period										
Profit or loss	–	–	–	–	–	–	16.5	16.5	0.1	16.6
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	1.1	–	–	–	–	1.1	–	1.1
Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.9	–	–	–	0.9	–	0.9
Total other comprehensive income for the period	–	–	1.1	0.9	–	–	–	2.0	–	2.0
Total comprehensive income for the period	–	–	1.1	0.9	–	–	16.5	18.5	0.1	18.6
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares	–	–	–	–	–	–	–	–	–	–
Own shares acquired	–	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Dividends to equity holders	–	–	–	–	–	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–	3.9	(3.9)	–	(0.1)	(0.1)
Balance at 31 December 2010	22.6	68.4	1.6	0.0	(0.5)	5.7	16.5	114.3	0.2	114.5

Consolidated statement of changes in equity (continued)

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2011	22.6	68.4	1.6	0.0	(0.5)	5.7	16.5	114.3	0.2	114.5
Total comprehensive income for the period										
Profit or loss	–	–	–	–	–	–	(20.2)	(20.2)	0.1	(20.1)
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	0.7	–	–	–	–	0.7	–	0.7
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.2)	–	–	–	(0.2)	–	(0.2)
Total other comprehensive income for the period	–	–	0.7	(0.2)	–	–	–	0.5	–	0.5
Total comprehensive income for the period	–	–	0.7	(0.2)	–	–	(20.2)	(19.7)	0.1	(19.6)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares	0.3	2.9	–	–	–	–	–	3.2	–	3.2
Own shares sold	–	–	–	–	0.2	–	–	0.2	–	0.2
Share-based payment transactions	–	–	–	–	–	0.1	–	0.1	–	0.1
Dividends to equity holders	–	(6.7)	–	–	–	–	–	(6.7)	–	(6.7)
Total contributions by and distributions to owners	–	–	–	–	–	16.5	(16.5)	–	(0.0)	(0.0)
Balance at 31 December 2011	22.9	64.6	2.3	(0.2)	(0.3)	22.3	(20.2)	91.4	0.3	91.7

Consolidated statement of cash flows

Note	EUR million	2011	2010
	Cash flows from operating activities		
	Profit for the period	(20.1)	16.6
	Adjustments for:		
	Net finance costs	2.0	3.0
	Income tax expense	6.6	3.2
	Depreciation of property, plant and equipment	9.0	8.4
	Amortisation of intangible assets	1.8	1.7
	Reversal of impairment of property, plant and equipment	–	(0.2)
		(0.7)	32.7
	Change in trade and other receivables	(4.8)	(4.6)
	Change in inventories	(6.4)	(4.3)
	Change in trade and other payables	7.5	4.3
	Change in provisions	38.6	0.6
		34.2	28.7
	Interest paid	(2.6)	(2.4)
	Interest received	0.1	0.2
	Tax paid	(4.1)	(0.8)
	Net cash flows from operating activities	**27.6**	**25.7**
	Cash flows from investing activities		
20	Acquisitions of subsidiaries, net of cash received	(31.3)	(8.2)
	Investments in property, plant and equipment	(11.3)	(9.3)
	Disinvestments of property, plant and equipment	0.2	0.7
	Investments in intangible fixed assets	(2.4)	(0.3)
	Disinvestments of intangible fixed assets	0.0	–
	(Dis)investments of other investments	0.0	0.6
	Net cash from investing activities	**(44.8)**	**(16.5)**
	Free cash flow	**(17.2)**	**9.2**

Note	EUR million	2011	2010
	Cash flows from financing activities		
	Proceeds from borrowings (non current)	20.8	–
	Repayment of borrowings (non current)	–	(11.8)
	Proceeds borrowings (current)	1.5	–
	Repayment of borrowings (current)	–	8.8
	Dividends paid	(3.5)	–
	Change in shares held in own Company	–	(0.1)
	Net cash from financing activities	**18.8**	**(3.1)**
	Change in cash and cash equivalents	1.6	6.1
	Cash and cash equivalents at 1 January	7.3	1.0
	Effect of exchange rate fluctuations on cash held	(0.0)	0.2
7	Cash and cash equivalents at 31 December	8.9	7.3

Notes to the consolidated financial statements

Reporting entity

Kendrion N.V. (the 'Company') is domiciled in the Netherlands. The Company's registered office is at Utrechtseweg 33, 3704 HA Zeist.
The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together also referred to as the 'Group'). The Group is involved in the design, manufacture and sale of high-quality electromagnetic systems and components.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards adopted by the International Accounting Standards Board (IASB) and endorsed by the European Union (hereinafter referred to as EU-IFRS) per 31 December 2011.

The Company financial statements are part of the 2011 financial statements of Kendrion N.V. With regard to the Company income statement of Kendrion N.V., the Company has made use of the option provided by Section 402 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements were authorised for issue by the Executive Board on 28 February 2012.

(b) Basis of measurement

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

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

- derivative financial instruments are stated at fair value;
- liabilities arising from cash-settled share-based payments arrangements are stated at fair value;
- the defined benefit liability is recognised as the net total of the plan assets, plus unrecognised past service costs and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation;
- the contingent consideration is stated at fair value.

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

The preparation of the financial statements in conformity with EU-IFRS requires the Executive Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered reasonable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Changes in estimation methods and the impact thereof are outlined in the notes to the relevant item.

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

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

Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

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

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

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

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights, that are currently exercisable or convertible, are taken into account. 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 have been changed, where necessary, to align them with the policies adopted by the Company.

(iii) Composition of the Group

2011

The Company reached an agreement with the owners of FAS Controls, Inc. on the acquisition of the company as from 27 December 2011.

2010

The Company reached an agreement with the owner of Magneta GmbH & Co. KG on the acquisition of this company as from 25 February 2010.

(iv) Transactions eliminated on consolidation

Intragroup balances and transactions, as well as any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted entities are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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 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 the non-euro zone currencies that are measured at fair value and are translated in euros against the exchange rates which were valid at the dates that the fair values were set. Currency differences on foreign currrency transactions are recognised in the statement of comprehensive income, except loans considered to be part of the net investment, or qualifying cash flow hedges which are recognised directly in the translation reserve in equity.

(ii) Foreign operation

The assets and liabilities of non-euro zone operations, including goodwill and fair value adjustments arising on the moment 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 differences are recognised directly in the translation reserve.

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

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

(c) Property, plant and equipment

(i) Owned assets

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

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

(ii) **Leased assets**

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

(iii) **Subsequent costs**

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

(iv) **Depreciation**

Depreciation is charged to the 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.

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 comprehensive income.

(d) >> Intangible assets

(i) **Goodwill**

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

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

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

(ii) **Research and development**

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if 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 development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

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

(iii) **Other intangible assets**

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

(iv) **Subsequent expenditure**

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

(v) **Amortisation**

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

(e) Financial instruments and other investments

(i) **Financial instruments**

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, recognised interest bearing loans and borrowings, trade and other payables, cash and cash equivalents, and other non-derivative financial instruments, recognised on the date they are originated.

Non-derivative financial instruments are recognised initially at fair value, less any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Trade and other receivables

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

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

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

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

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

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

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

Embedded derivatives are separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative, would meet the definition of a derivative, and the combined instrument is not measured at fair value in the profit or loss. Changes in the fair value of separated embedded derivatives are recognised immediately in the profit or loss. At 31 December 2011 no embedded derivatives existed.

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

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

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

(f) >> Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to sell.

The cost of inventories of the Group is based on the weighted average cost, and includes expenditure incurred in acquiring the inventories and bringing them to their current location and condition. The cost of inventories includes an appropriate share of overheads based on normal operating capacity.

(g) >> Impairment

(i) Financial assets

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

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

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

All impairment losses are recognised as a charge in the profit or loss.

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

(ii) **Non-financial assets**

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

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

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

(iii) **Reversal of impairment losses**

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

(iv) **Calculation of recoverable amount**

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed on initial recognition of these financial assets). Receivables with a short remaining term are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use. In 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(h) Share capital

(i) Ordinary shares

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

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

When own shares recognised as equity are repurchased, the amount of the consideration paid, including directly attributable costs and net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred 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 not yet paid dividends are recognised as a liability.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of comprehensive income when they are due. Prepaid contributions are recognised as an asset to the extent that cash refund or a 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 pension 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. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and 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. 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.

Actuarial results gains and losses arising from defined benefit plans in excess of the so called 'corridor' (10% of the higher of the defined benefit obligations or the fair value of the pension fund assets) are amortised over the remaining average term of service.

(iii) **Other long-term service benefits**

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

(iv) **Share-based payment transactions**

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

(j) Provisions

A provision is recognised in the financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will involve an outflow of funds.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The unwinding of the discount is recognised as finance cost.

(k) Revenue

(i) Goods sold and services rendered

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

(ii) Government grants

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

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

(l) Expenses

(i) Operating lease payments

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

(ii) Financial lease payments

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

(iii) Net finance costs

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

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

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

(m) Income tax

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

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

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

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

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

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

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

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

(n) Earnings per share

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

(o) Segment reporting

The Group continues to determine and present 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.

Based on the criteria of IFRS 8, in essence the individual operating companies of Kendrion are the operating segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating segment's operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and assess its performance, and for which separate financial information is available.

Based on the aggregation criteria of IFRS 8, however, these operating segments have been aggregated into one single reportable operating segment on the consolidated level of Kendrion as a Group. In accordance with IFRS 8, the Company discloses general and entity-wide disclosures, including information about geographical areas and major customers of the Group as a whole.

(p) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for the year ended 31 December 2011, and, where relevant, have been applied in the preparation of these consolidated financial statements.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), which are in effect for the year ended 31 December 2011, and may be relevant and may have an impact on the financial statements, are as follows:

- **IAS 1:** The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The financial statements were not impacted by these amendments.

- **IAS 24:** Related party disclosures. The amendment to IAS 24 clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The financial statements were not impacted by this amendment.

- **IAS 32:** Financial instruments: presentation – classification of rights issues. The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. The financial statements were not impacted by this amendment.

- **IFRS 3:** Business combinations. The amendment clarifies and expands the current guidance with respect to IFRS 3. The financial statements were not impacted by this amendment.

- **IFRS 7:** Financial instruments: disclosures. The amendment adds an explicit statement that qualitative disclosure should be made in the contact of the quantitative disclosures to better enable users to evaluate an entity's exposure to risk arising from financial instruments. The financial statements were not impacted by this amendment.

- **IFRIC 14:** Minimum funding requirements. The amendment to IFRIC 14 on minimum funding requirements corrects an unintended consequence of the originally issued interpretation. The financial statements were not impacted by this amendment.

- **IFRIC 19:** Extinguishing financial liabilities with equity instruments. This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has not impacted the financial statements.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) which are not yet in effect at 31 December 2011 and may be relevant, and may have an impact on the financial statements, are as follows:

- **IFRS 7:** Financial instruments: disclosures. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments are effective from 1 July 2011. The Group does not expect a material impact on the disclosures as a result of these amendments.

- **IAS 12:** Income taxes. The amendment clarifies the determination of deferred tax on investment property measured at fair value. This amendment is effective from 1 January 2012. The amendment is not expected to have influence on the Group's financial statements.

- **IAS 1:** Presentation of Financial statements. The amendments to IAS 1 require companies to group together items within Other Comprehensive Income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. These amendments are effective from 1 July 2012. These amendments are not expected to have influence on the Group's financial statements.

- **IAS 19:** Employee benefits. The amendments require that all actuarial gains and losses on defined benefit pension plans are recognised immediately in other comprehensive income. Also the net interest income on plan assets is determined based on the discount rate applied for the determination of defined benefit pension plan liabilities. The amendments are effective from 1 January 2013, with earlier application permitted. The impact of these amendments will be that the unrecognised actuarial gains and losses will be recognised in other comprehensive income.

- **IFRS 9:** Financial instruments. The new standard on accounting for financial instruments which will replace IAS 39 Financial instruments: recognition and measurement. This standard will become effective from 1 January 2013. IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard encompassed an overall change of accounting principles.

- **IFRS 10:** Consolidated Financial Statements. This new standard establishes principles for the preparation and presentation of consolidated financial statements when a reporting entity controls one or more investees. IFRS 10 builds on the concepts in IAS 27 and SIC-12 and combines them into a single consolidation model, based on the principle of control. This standard will become effective from 1 January 2013. This new standard is not expected to have influence on the Group's financial statements.

- **IFRS 11:** Joint Arrangements. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13—Jointly Controlled Entities–Non-Monetary Contributions by Ventures. This standard will become effective from 1 January 2013. This new standard is not expected to have influence on the Group's financial statements.

- **IFRS 12:** Disclosure of Interests in Other Entities. This is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This standard will become effective from 1 January 2013. The Group does not expect a material impact on the disclosures as a result of this new standard.

- **IFRS 13:** Fair value measurement. This new standard defines fair value and sets out a single framework for measuring fair value and required disclosures about fair value measurements. This standard will become effective from 1 January 2013. This new standard is not expected to have influence on the Group's financial statements.

(q) Fair values

(i) Measurement of fair value

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

(ii) Property, plant and equipment

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

(iii) **Intangible assets**

The fair value of patents and trademarks acquired as part of a business combination is measured on the basis of the discounted estimated royalties, which 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, valuating 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 the assets.

(iv) **Financial lease liabilities**

The fair value is estimated on the basis of the present value of future cash flows, discounted at the interest rate for lease contracts of a similar kind. 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 the normal business operations, less the estimated costs of completion and the selling costs, plus a reasonable profit margin which 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 of 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, augmented by a credit mark-up reflecting the credit worthiness of the Group.

(viii) **Derivatives**

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

(ix) **Non-derivative financial liabilities**

The fair value of non-derivative financial liabilities is determined for information supply 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.

(r) Financial risk management

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

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

This section provides general information about the Group's exposure to each of the above risks in the course of its normal business operations, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are concluded 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, when 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, we refer to the Annual Report.

(i) Credit risk

Credit risk is the risk of financial loss to the Group in the event that a client 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 normally not require collateral for trade and other receivables and financial assets.

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

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

(ii) **Credit risk concentration**

The Group's most significant customer, a German-based buying entity of an international automotive group, accounted for 8% of the trade and other receivables at 31 December 2011. In 2010 the largest customer accounted for 8% of total receivables. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

(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 (uncommitted) credit facilities or cash to meet present and future financial obligations in normal and difficult circumstances.

A summary of the credit lines available to the Group is enclosed in note 10 of these consolidated financial statements. Almost 100% of the available facilities are provided by a syndicate of lenders existing of Rabobank, ING Bank and Deutsche Bank on an equal basis. The Group had approximately EUR 35 million available within its existing credit facility on the financial position date. On 17 January 2012, the Group increased credit facilities with EUR 60 million, which is available for acquisitions.

(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 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 usually carried out within the treasury framework adopted by the Executive Board. Where 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, between 50-85% of the exposure to changes 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 flow. The policy is implemented by making use of derivative financial instruments such as interest rate swaps and interest rate options.

On 27 December 2011, the Group increased its interest bearing debt to finance the acquisition of FAS Controls, Inc. in order to reduce interest rate risk exposure to increasing market rates, the Group has entered into two interest rate swap contracts of EUR 10 million each, thereby fixing the interest rate of EUR 20 million in interest bearing debt for periods of one respectively two years.

(vii) **Currency risk**

The Group is exposed to exchange rate risks on sales, purchases, equity positions and loans expressed in currencies other than the euro. The Group companies are primarily financed in their own currency. The majority of the revenues and costs of the Group companies are realised in the eurozone. Approximately 85% of the cost base and 85% of the revenue is realised in euros. Sales outside the eurozone are partly produced locally and partly exported from the eurozone. Most of these exports are realised in euros.

The Group's activities in the Czech Republic result in the most significant currency exposure, since the majority of revenue is generated in euros and part of the costs are realised in Czech krones. Pursuant to the Group's policy this currency exposure is hedged to a level of at least 70% for the next four quarters and at least 30% for the next four quarters thereafter. Exchange rate risks are hedged with derivatives.

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

Pursuant to the Group's policy for other monetary assets and liabilities denominated in 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**

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 with copper wire suppliers and by including raw material clauses in sales contracts. As the occasion 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 some of the rare earth metals, used in permanent magnets which are used in some of the Group's products. Prices of these commodities have increased dramatically in 2011, topping price increases of 800%. The Group closely monitors development in this market and has increased stock levels and the number of supply sources for these permanent magnets. Furthermore agreements have been made with certain customers to link sales prices to developments of 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, when feasible, reduced by means of raw material clauses with customers and by concluding fixed-price agreements with suppliers.

The Group has formed a Commodity Board, which meets on a quarterly basis and has the objective of further increasing and sharing knowledge on commodities and commodity markets reducing risks and / or prices and sets purchasing policies.

(ix) **Capital management**

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

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

No changes were made to the Group's capital management system during the reporting period.

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

1 ## Property, plant and equipment

EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance at 1 January 2010	31.1	49.6	23.5	5.5	109.7
Acquired through business combinations	0.0	0.2	0.2	–	0.4
Acquired, other	0.6	8.4	2.8	1.4	13.2
Disposals	–	(1.0)	(0.4)	(3.9)	(5.3)
Currency translation differences	0.0	0.4	0.0	0.0	0.4
Balance at 31 December 2010	31.7	57.6	26.1	3.0	118.4
Balance at 1 January 2011	31.7	57.6	26.1	3.0	118.4
Acquired through business combinations	2.1	4.4	0.0	–	6.5
Acquired, other	1.0	4.6	3.6	5.3	14.5
Disposals	(0.6)	(0.6)	(1.3)	(3.2)	(5.7)
Currency translation differences	(0.0)	0.0	0.1	(0.0)	0.1
Balance at 31 December 2011	34.2	66.0	28.5	5.1	133.8
Depreciation and impairment losses					
Balance at 1 January 2010	15.5	31.2	17.7	–	64.4
Depreciation for the year	1.0	5.2	2.2	–	8.4
Reversal of impairment	–	(0.2)	–	–	(0.2)
Disposals	–	(0.4)	(0.3)	–	(0.7)
Balance at 31 December 2010	16.5	35.8	19.6	–	71.9
Balance at 1 January 2011	16.5	35.8	19.6	–	71.9
Depreciation for the year	1.0	5.6	2.4	0.0	9.0
Disposals	(0.6)	(0.5)	(1.2)	–	(2.3)
Balance at 31 December 2011	16.9	40.9	20.8	0.0	78.6
Carrying amounts					
At 1 January 2010	15.6	18.4	5.8	5.5	45.3
At 31 December 2010	15.2	21.8	6.5	3.0	46.5
At 1 January 2011	15.2	21.8	6.5	3.0	46.5
At 31 December 2011	17.3	25.1	7.7	5.1	55.2

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

The estimated useful life is as follows:

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

2 Intangible assets

EUR million	Goodwill	Software	Other	Total
Cost				
Balance at 1 January 2010	33.8	1.8	9.3	44.9
Acquired through business combinations	7.1	–	2.4	9.5
Acquired, other	–	0.3	–	0.3
Disposals	–	0.0	–	0.0
Currency translation differences	0.4	0.0	0.2	0.6
Balance at 31 December 2010	41.3	2.1	11.9	55.3
Balance at 1 January 2011	41.3	2.1	11.9	55.3
Acquired through business combinations	17.2	0.0	8.9	26.1
Acquired, other	–	2.4	–	2.4
Disposals	–	(0.1)	–	(0.1)
Other movements [1]	(0.9)	–	–	(0.9)
Currency translation differences	0.2	0.0	(0.1)	0.1
Balance at 31 December 2011	57.8	4.4	20.7	82.9
Amortisation and impairment losses				
Balance at 1 January 2010	–	1.3	2.2	3.5
Amortisation for the year	–	0.3	1.4	1.7
Disposals	–	(0.0)	–	(0.0)
Balance at 31 December 2010	–	1.6	3.6	5.2
Balance at 1 January 2011	–	1.6	3.6	5.2
Amortisation for the year	–	0.3	1.5	1.8
Disposals	–	(0.1)	–	(0.1)
Balance at 31 December 2011	–	1.8	5.1	6.9

[1] *The other movements relate to prior year adjustments to the deferred tax liabilities of Kendrion Tri-Tech LLC. Due to the limited impact of this adjustment (no impact on the result) it was accounted for in 2011 instead of revising the comparative figures.*

EUR million	Goodwill	Software	Other	Total
Carrying amounts				
At 1 January 2010	33.8	0.5	7.1	41.4
At 31 December 2010	41.3	0.5	8.2	50.1
At 1 January 2011	41.3	0.5	8.2	50.1
At 31 December 2011	57.8	2.6	15.6	76.0

Depreciation, amortisation and impairment loss

Depreciation, amortisation and impairment losses are recognised in the following items in the statement of comprehensive income:

EUR million	2011	2010
Depreciation and amortisation of intangible assets and property, plant and equipment	10.8	10.1

The estimated useful life of software is between three and eight years. The estimated life of other intangible assets is approximately between eight and fifteen years. Goodwill has an indefinite estimated useful life. The investments in software during 2011 (EUR 2.4 million) mainly relate to the introduction of a new ERP system. The depreciation period for the ERP system is eight years based on the expected useful life.

Impairment testing for cash-generating units containing goodwill

EUR million	2011	2010
Kendrion Linnig Group	27.6	27.6
Kendrion Tri-Tech LLC	5.9	6.6
Kendrion Magneta GmbH	7.1	7.1
FAS Controls, Inc.	17.2	–
	57.8	41.3

Key assumptions and method of quantification

The Group recognises its intangible assets in accordance with IAS 38 and IFRS 3. In accordance with IAS 36, the Group has performed an impairment test on the capitalised goodwill in Germany and the USA. The test was carried out by discounting future cash flows to be generated from the continuing use of the cash-generating unit to which the goodwill applies and on the assumption of an indefinite life.

The cash flows for the next three years were based on the relevant Mid-term Plans and budgets drawn up by the local management. For the subsequent years the residual value was calculated on the basis of the results in the last year of relevant forecasts and whereby a moderate growth rate of 2% was taken into account to reflect inflation. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The discount rate (WACC) was also pre-tax. In accordance with IAS 36.44, expansion investments were excluded from the calculations.

The expected growth in cash flows as a result of these expansion investments was also excluded.

The Group has not processed any impairment of goodwill in this accounting period.

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBIT growth. Assumptions are based on past experience and external sources.

These assumptions are as follows:

Discounted cash flow projections

	Discount rate		Terminal value growth rate		Assumed EBIT growth	
	2011	2010	2011	2010	2011	2010
Kendrion Linnig Group	8.3%	9.7%	2.0%	2.0%	13.5%	6.7%
Kendrion Tri-Tech LLC	9.7%	9.0%	2.0%	2.0%	8.9%	15.0%
Kendrion Magneta GmbH	8.4%	10.1%	2.0%	2.0%	19.2%	4.9%
FAS Controls, Inc.	9.3%	–	2.0%	–	18.8%	–

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 a debt leveraging compared to the market value of equity of 10%. The debt leveraging was derived from a peer group benchmark analysis. The cost of equity is based on a market risk premium of 4.9% for the cash generating units in Germany and 5.7% for the cash generating units located in the USA, a risk-free interest rate of approximately 2%, and a beta factor (sensitivity to the overall stock market) of 1.00. The cost of debt is based on a risk-free rate of 2%, a credit margin of 2% and the local corporate income tax rates. All the post tax average cost of capital rates of the cash generating units containing goodwill approximated 6.5% to 7.2%, which rates were used for calculating the after tax cash flows. Based on an iterative process the pre tax discount rates mentioned in the table above were derived for discounting the post tax cash flows.

Compared to last year the discount rates have decreased slightly for the German companies. The decrease was caused by the decrease in the risk-free interest rate from 3% at 31 December 2010 to 2% at 31 December 2011.

Terminal value growth rate

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

EBIT growth

Forecasted EBIT is expressed at the compound annual growth rates in the initial five years of the cash flow models employed for impairment testing and is based on the three-year Mid-term Plans, drawn up locally in a bottom-up forecasting process and the 2% growth rate mentioned above.

Sensitivity to changes in assumptions

The recoverable amounts of all cash-generating units with goodwill exceed the carrying amounts. Management has carried out an analysis of sensitivity to changes in assumptions. When other variables were kept unchanged, management established that a 10% reduction in EBIT levels from the 2011 level and no growth into perpetuity would not lead to impairment. The same analysis was carried out for the discount rate. A 2.5% point increase in the pre-tax average cost of capital as compared to the rates mentioned above would not lead to impairment in any of the cash-generating units with goodwill. Referring to note 0, in which the Group explains that the single reportable operating segments are aggregated into one single reportable operating segment of Kendrion as a Group, the Group chooses not to report on recoverable amounts on reporting entities.

3 >> Other investments, derivatives

Other investments in 2011 include recognised upfront and legal fees related to the facility agreement (see note 10) and the extension of the EC Fine Guarantee. Kendrion amortises these costs over the remaining maturity of the facility and guarantee. As these costs relate to the facility agreement as a whole and not to individual loans, these costs are not part of the effective interest rate of outstanding loans.

4 >> Deferred tax assets and liabilities

The Group has recognised deferred tax assets for tax loss carry-forwards in Germany and the Netherlands in the financial position.

Germany

Final assessments have been submitted for the German intermediate holding up to and including 2009, and for the German operating companies up to and including 2010. As from 2005, these years are still open for potential tax audits with the exception of Kendrion Magneta GmbH which has been audited up to and including 2008. The years up to 2009 are currently being audited by the German tax authorities. At 31 December 2011 the tax loss carry-forwards amounted to about EUR 9 million (‘Gewerbesteuer’) and EUR 39 million (‘Körperschaftsteuer’). These are recognised in full, resulting in deferred tax assets of EUR 7.2 million.

The Netherlands

Final assessments have been submitted up to and including 2008. The years 2005 up to 2009 are still open for potential tax audits.
At 31 December 2011 the tax loss carry-forwards amounted to EUR 31 million. These are recognised in part, resulting in deferred tax assets of EUR 0.9 million.

The main element of the tax loss carry-forwards originates from 2008, after the final settlement of the Dutch tax return for 2007, in which a large tax loss incurred on the sale of Automotive Metals was recognised by the Dutch tax authorities.

Deferred tax assets and liabilities included in the financial position
The deferred tax assets and liabilities can be specified as follows:

EUR million	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	0.2	0.2	1.8	0.9	(1.6)	(0.7)
Intangible assets	0.1	0.1	4.0	2.3	(3.9)	(2.2)
Inventories	–	0.0	0.2	0.1	(0.2)	(0.1)
Employee benefits	0.2	0.2	–	–	0.2	0.2
Provisions	0.2	0.2	0.1	0.1	0.1	0.1
Other items	0.5	0.5	0.1	0.0	0.4	0.5
Tax value of recognised loss carry-forwards	8.1	11.6	–	–	8.1	11.6
Deferred tax assets/liabilities	9.3	12.8	6.2	3.4	3.1	9.4

The deferred tax assets relate to a large extent to recognised tax loss carry-forwards.

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

Movements in temporary differences during the financial year

Net, EUR million					2011
	At 1 January	Effect acquisitions	EUR	Recognised in income	At 31 December
Property, plant and equipment	(0.7)	(1.0)	(1.7)	0.1	(1.6)
Intangible assets	(2.2)	(2.4)	(4.6)	0.7	(3.9)
Inventories	(0.1)	–	(0.1)	(0.1)	(0.2)
Employee benefits	0.2	–	0.2	–	0.2
Provisions	0.1	–	0.1	–	0.1
Other items	0.5	–	0.5	(0.1)	0.4
Tax value of loss carry-forwards used	11.6	–	11.6	(3.5)	8.1
	9.4	(3.4)	6.0	(2.9)	3.1

In 2011, the net amount from the movement in deferred tax assets and liabilities, presented as tax in the profit or loss, is EUR – 2.9 million (2010: EUR – 0.7 million). In 2011 a deferred tax asset was recognised as a consequence of gains and losses of designated cash flow hedges, deferred in the hedging reserve in other incomprehensive income amounting to EUR 0.0 million (2010: EUR 0.0 million).
No deferred tax assets are recognised related to other items that are recognised directly in the other comprehensive income.

Unrecognised deferred tax assets
At 31 December 2011, the Group had not valued tax losses of approximately EUR 27 million (2010: EUR 29 million) primarily originating in the Netherlands. Tax losses in the Netherlands can be carried forward for a period of nine years. The majority of the current unrecognised losses will expire in 2016.

5 Inventories

EUR million	2011	2010
Raw materials, consumables, technical materials and packing materials	17.1	12.6
Work in progress	8.6	7.7
Finished goods	12.1	7.4
Goods for resale	0.7	0.5
	38.5	28.2

The inventories are presented after accounting for a provision for obsolescence amounting to EUR 4.2 million (2010: EUR 4.0 million).
In 2011 the amount of the write down to net realisable value of the inventories was EUR 0.6 million (2010: EUR 0.5 million).

6 Trade and other receivables

EUR million	2011	2010
Trade receivables	34.9	26.4
Other taxes and social security	1.3	1.1
Other receivables	1.9	1.0
Derivatives used for hedging	–	0.1
Prepayments	1.5	1.6
	39.6	30.2

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

7 Cash and cash equivalents

EUR million	2011	2010
Bank balances	9.2	9.0
Bank overdrafts	(0.3)	(1.7)
Cash and cash equivalents in the statement of cash flows	8.9	7.3

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

8 Capital and reserves

Capital and share premium

	Shares entitled to dividend		Repurchased shares		Total number of issued shares	
	2011	2010	2011	2010	2011	2010
At 1 January	11,257,259	11,267,886	59,115	48,488	11,316,374	11,316,374
Repurchased	–	25,000	–	25,000	–	–
Delivered repurchased shares	11,723	14,373	11,723	14,373	–	–
Issued	176,151	–	–	–	176,151	–
At 31 December	11,445,133	11,257,259	47,392	59,115	11,492,525	11,316,374

Issuance of ordinary shares

In 2011 176,151 new shares were issued as share dividend. During 2011, the Company delivered 11,723 shares to the Board and senior management as part of its share plan and remuneration packages. The Company purchased none of the Company's shares in 2011 (2010: 25,000 shares).

Ordinary shares

The authorised share capital consists of:

EUR million	2011	2010
40,000,000 ordinary shares of EUR 2.00	80.0	80.0

Issued share capital

Balance at 1 January 2011: 11,316,374 ordinary shares (2010: 11,316,374)	22.6	22.6
Balance at 31 December 2011: 11,492,525 ordinary shares (2010: 11,316,374)	22.9	22.6

Share premium

EUR million	2011	2010
Balance at 1 January	68.4	68.4
Dividend payment	(6.7)	–
Share premium on issued shares	2.9	–
Balance at 31 December	64.6	68.4

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates in the non-euro zone. Gains and losses relating to the translation risk are recognised in equity. The build-up of the cumulative figure commenced on 1 January 2004.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net movement in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, net of tax.

The net movement was EUR – 0.2 million (2010: EUR 0.9 million). The realisation of hedged transactions amounted to EUR 0.0 million (2010: EUR 0.9 million). The hedge reserve decreased with EUR 0.2 million due to valuation (2010: EUR 0.0 million). There was no hedge ineffectiveness in 2011 (2010: EUR 0.0 million).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the cost of the Company shares held by the Company for the share plan and the remuneration packages for the Board and senior management. At 31 December 2011, the Company held 47,392 of the Company's shares (2010: 59,115). See also note 27.

Other reserves

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

Retained earnings

In 2011, the result for 2010 was fully transferred in other reserves. Retained earnings in the 2011 financial statements consequently consist solely of the result for 2011.

Restrictions

Certain subsidiaries are restricted, either by law or by the provisions of their Articles of Association, in the extent to which they may distribute equity. These restrictions amounted to EUR 11.7 million at 31 December 2011 (2010: EUR 4.7 million).

Minority interests

The Company has one non 100%-subsidiary that is fully consolidated: Kendrion Binder Magnete Vertriebsgesellschaft mbH (Austria). For the interest that is not held by the Company, an amount is included in equity and results.

9 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2011 is based on the loss of EUR 20.2 million (2010: profit EUR 16.5 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2011: 11,337,000 (2010: 11,258,000).

EUR million	2011	2010
Net profit attributable to ordinary shareholders	(20.2)	16.5

Weighted average number of ordinary shares

In thousands of shares	2011	2010
Ordinary shares outstanding at 1 January	11,257	11,268
Effect of own shares repurchased	11	(12)
Effect of shares issued as share dividend	176	–
Ordinary shares outstanding at 31 December	11,445	11,257
Weighted average number of ordinary shares	11,337	11,258
Basic earnings per share (EUR)	(1.77)	1.47
Basic earnings per share (EUR), based on weighted average	(1.79)	1.47

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2011 is based on the loss of EUR 20.2 million (2010: profit EUR 16.5 million) attributable to the holders of ordinary shares and the weighted average number of shares in issue during the year: 11,337,000 (2010: 11,258,000).

EUR million	2011	2010
Net profit attributable to ordinary shareholders	(20.2)	16.5
Effect of dilution	–	–
Net profit attributable to ordinary shareholders (diluted)	(20.2)	16.5

Weighted average numbers of ordinary shares (diluted)

In thousands of shares	2011	2010
Weighted average numbers of ordinary shares at 31 December	11,337	11,258
Weighted average numbers of ordinary shares at 31 December (diluted)	11,337	11,258
Diluted earnings per share (EUR), based on weighted average	(1.79)	1.47

10 Loans and borrowings

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

EUR million	2011	2010
Non-current liabilities		
Secured bank loans	21.9	0.0
Financial lease liabilities	0.1	0.1
Other loans	1.3	2.4
	23.3	2.5

EUR million	2011	2010
Current liabilities		
Interest-bearing debts to credit institutions	11.5	10.0
	11.5	10.0

Financing conditions

At 31 December 2011, the Group had the following credit lines available:

- A EUR 123.5 million facility agreement, with a syndicate of three banks consisting of Deutsche Bank, ING Bank and Rabobank. The facility agreement includes the following facilities:
  - EUR 35 million revolving working capital facility, with a commitment running until 17 January 2016;
  - EUR 40 million acquisition facility, with a commitment running until 17 January 2016;
  - EUR 48.5 million guarantees facility. This facility was provided In connection with the fine imposed by the European Commission, against which the Group has appealed;
- EUR 1.5 million other facilities, including a EUR 1.3 million loan in Austria.

At 31 December 2011, the total unutilised amount of the facilities was approximately EUR 35 million.

In December 2011, the Group reached an agreement with the banking syndicate for an increase of the facilities with EUR 60 million with a commitment until 17 January 2016. The purpose of the facility is financing acquisitions. The increase took effect on 18 January 2012.

Banking syndicate credit facility

Pursuant to the terms of the facility agreement with the banking syndicate, the Group has agreed to a number of financial covenants relating to interest-bearing debt / EBITDA (debt cover) and interest coverage (EBITDA / interest costs). The required covenants are tested each quarter on a 12-month rolling basis. All covenant ratios were satisfied with ample margin at year-end 2011.

Security provided

The Group has provided security for a subsidised ERP (European Restructuring Programme) loan in Austria with an outstanding amount of EUR 1.3 million, referred to above, in the form of a pledge on specific machinery in Austria for which the loan was received. No security is provided in relation to the facility agreement with the banking syndicate.

Interest-rate sensitivity

The interest payable on the Group's interest-bearing borrowings is mainly at rates fixed for three months or shorter periods. Reference is made to notes 15 and r for further details.

Financial lease liabilities

The financial lease liabilities are payable as follows:

EUR million			2011			2010
	Minimum lease	Interest	Principal	Minimum lease	Interest	Principal
‹ 1 year	0.0	0.0	0.0	0.0	0.0	0.0
1 – 5 years	0.1	–	0.1	0.1	–	0.1
› 5 years	–	–	–	–	–	–
	0.1	0.0	0.1	0.1	0.0	0.1

The financial lease liabilities relate to machinery. According to the provisions of the lease contracts, no conditional lease payments are due.

11 Employee benefits

EUR million	2011	2010
Present value of unfunded obligations	3.8	3.5
Present value of funded obligations	6.6	5.5
Fair value of plan assets	(3.8)	(3.6)
Present value of net obligations	6.6	5.4
Unrecognised actuarial gains and losses	(1.8)	(0.3)
Recognised liability for defined-benefit obligations (see below)	4.8	5.1
Liability for long-service leave and anniversaries	1.7	1.9
Total employee benefits	6.5	7.0
Employee benefits classified as liabilities	(6.5)	(7.0)
Total employee benefits	(6.5)	(7.0)

Movements in net liability for defined benefit obligations recognised in the statement of financial position

EUR million	2011	2010
Recognised net liability for defined-benefit obligations at 1 January	5.1	4.7
Expense recognised in the income statement	0.3	0.4
Benefits paid by the plan	(0.4)	(0.3)
Other movements (including currency differences, actuarial results and employer contributions paid)	(0.2)	0.2
Acquired through business combinations	0.0	0.1
Recognised net liability for defined-benefit obligations at 31 December	4.8	5.1

Movement in plan assets

EUR million	2011	2010
Fair value of plan assets at 1 January	(3.6)	(2.4)
Contributions paid employer	–	(0.2)
Contributions paid participants	–	(0.2)
Payments made	0.1	0.0
Expected return on plan assets	(0.2)	(0.2)
Other movements	(0.1)	(0.6)
Fair value of plan assets at 31 December	(3.8)	(3.6)

Expense recognised in the consolidated statement of comprehensive income regarding defined benefit arrangements

EUR million	2011	2010
Current service costs	0.3	0.3
Interest on obligation	0.2	0.2
Settlement (gain)/loss recognised	–	0.1
Expected return on plan assets	(0.2)	(0.2)
	0.3	0.4
Effective return on plan assets	0.1	0.3

The cost related to the defined benefit pension arrangements are processed in the following line items of the statement of comprehensive income:

EUR million	2011	2010
Interest expense	0.1	0.2
Staff costs	0.2	0.2
	0.3	0.4

There were no actuarial gains or losses processed directly in equity.

Principal actuarial assumptions (expressed as weighted averages)

	2011	2010
Discount rate at 31 December	3.9%	4.1%
Expected return on plan assets at 31 December	4.2%	4.0%
Future salary increases	0.8%	1.0%
Future pension increases	0.4%	0.2%

Historical information

EUR million	2011	2010	2009	2008	2007
Net liability for defined-benefit obligations	10.4	9.0	7.5	12.0	11.2
Fair value of plan assets	3.8	3.6	2.4	5.3	5.4
Deficit in plan	6.6	5.4	5.1	6.7	5.8

Actuarial calculations of employee benefits have not been materially influenced by amendments based on historical experience and by variable assumptions.

Composition plan assets

EUR million	2011	2010
Bonds	2.1	2.0
Equity	1.0	1.0
Real estate	0.4	0.4
Government loans	0.1	0.1
Other	0.2	0.1
Total	3.8	3.6

Liabilities arising from employee benefits

The pension plans consist of both defined contribution plans and 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. Actuarial gains and losses falling outside the so-called ‘corridor’ (10% of the higher of the benefit obligations and fair value of the plan assets) are amortised over the remaining average years of service. Calculations are made by qualified actuaries. The pension liability shown on the financial position is the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at the financial position date plus or minus unallocated actuarial gains and losses. The discount rate used to calculate the defined benefit obligation is based on the yield on AA-rated corporate bonds in Europe.

The greater part of the defined benefit obligation at year-end 2011 relates to pension arrangements in Germany, Austria and Switzerland. The organisation administers the plan in-house and is fully liable for the benefit obligations. A portion is reinsured.

Liabilities arising from employee benefits also include liabilities relating to long-service leave, termination of employment and service anniversaries.

12 Share-based payments

At 31 December 2011, the Group had the following share-based payment arrangements.

Loyalty bonus (equity settled)

The Group introduced a share incentive programme in 2010, which entitles key management to purchase shares in the Company for an amount equal to a maximum 50% of their net cash bonus. Employees who retain these shares for three years and remain in service for three years become entitled to a number of shares equal to the number of shares purchased by the employee.

Terms & conditions share programme (loyalty bonus)

Grant date	Number of instruments	Vesting conditions
Shares granted to key management in 2010	2,064	3 years of service
Shares granted to key management in 2011	2,469	3 years of service
Total shares	4,533	

Share plan for the Executive Board (equity settled)

Details of the remuneration of the Executive Board are provided in note 27.

Awarded shares

Every year, the Company awards a number of shares in the Company to certain key employees. There are no vesting conditions attached to these shares.

13 Provisions

EUR million	2011	2010
Balance at 1 January	2.7	2.6
Provisions made during the period	43.9	0.1
Provisions used during the period	(0.2)	–
Provisions released during the period	(0.0)	(0.0)
Balance at 31 December	46.4	2.7
Non-current part	46.4	2.7
	46.4	2.7

This item includes a provision of EUR 41.8 million relating to the fine imposed by the European Commission and a provision of EUR 4.4 million for the contingent consideration as a result of the acquisition of FAS Controls, Inc. (see note 20).

On 30 November 2005, the European Commission imposed a EUR 34 million fine on the Company for the infringement of competition law by the Company's former subsidiary, Fardem Packaging B.V. The facts and circumstances then known and the legal advice taken at the time resulted in the Company's decision to form a provision for this fine of an amount of EUR 2.3 million at 31 December 2005. The Company also issued a guarantee to Fardem's purchaser for an equal amount. The Company lodged an appeal against the fine in 2006. The amount payable relating to the fine and the provision accrue annually with an interest percentage of 3.56%. The total amount had accrued to EUR 41.8 million at 31 December 2011.
On 16 November 2011, the General Court of the European Union in Luxembourg ruled that the fine is to be upheld in full. The Company decided to increase the provision to the full amount of the fine (including accrued interest) following the General Court's ruling. After conducting thorough review of the complete ruling and seeking external legal opinion, in January 2012, the Company decided to lodge an appeal against the General Court's ruling of 16 November 2011 with the Court of Justice of the European Union.

14 Trade and other payables

EUR million	2011	2010
Trade payables	26.2	18.9
Other taxes and social security contributions	1.5	1.2
Derivatives used for hedging	0.2	–
Non-trade payables and accrued expenses	14.2	12.9
	42.1	33.0

15 ## Financial instruments

Credit risk

The carrying amount of the financial assets represents the maximum credit risk. The maximum credit risk on the reporting date was as follows:

EUR million	Carrying amount	
	2011	2010
Cash and cash equivalents	9.2	9.0
Currency forward contracts	–	0.1
Other long term investments	0.5	–
Current income tax	1.0	0.3
Trade and other receivables	39.6	30.1
Total	50.3	39.5

The Group's most significant customer, a German-based buying entity of an international automotive group, accounted for 8% of the trade and other receivables at 31 December 2011. In 2010 the largest customer accounted for 8% of total receivables. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

Impairment losses

Aged analysis of the trade and other receivables

EUR million	2011		2010	
	Gross	Provision	Gross	Provision
Within the term of payment	34.4	–	26.9	–
0 – 30 days due	4.2	–	3.1	–
31 – 60 days due	0.8	(0.1)	0.3	(0.1)
› 60 days due	0.5	(0.2)	0.2	(0.2)
Total trade and other receivables	39.9	(0.3)	30.5	(0.3)

The provision for trade receivables is used to absorb impairment losses, unless the Group is certain that collection of the amount owed is impossible, in which case the amount is treated as a bad debt and written off against the financial asset in question.

At 31 December 2011 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 2011 are collectible. EUR 1.3 million of trade receivables are over 30 days overdue, of which EUR 0.3 million is provided. Individual invoices with a material amount are outstanding to well-known customers with a solid financial position, while invoices

with immaterial amounts are spread over a large number of customers. The group has written off less than EUR 0.1 million receivables in 2011 (2010: EUR 0.0 million), which are recognised under other operating expenses in the comprehensive statement of income.
The contractual terms of the financial obligations, including the estimated interest payments and repayment obligations, are set out below.

31 December 2011 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 loans	33.5	(33.6)	(33.6)	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–	–
Bank overdrafts	0.3	(0.3)	(0.3)	–	–	–	–
Other loans and borrowings	1.3	(1.3)	(0.2)	(0.3)	(0.5)	(0.3)	–
Trade and other payables	41.8	(41.8)	(41.8)	–	–	–	–
Tax liabilities	1.2	(1.2)	(1.2)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	–	–	–	–	–	–	–
Forward exchange contracts	0.3	(0.3)	(0.2)	(0.1)	–	–	–
Total	78.4	(78.5)	(77.3)	(0.4)	(0.5)	(0.3)	–

31 December 2010 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 loans	10.0	(10.0)	(10.0)	–	–	–	–
Finance lease liabilities	0.1	(0.1)	–	–	(0.1)	–	–
Bank overdrafts	1.7	(1.7)	(1.7)	–	–	–	–
Other loans and borrowings	2.4	(2.8)	(0.3)	(0.6)	(0.6)	(1.3)	–
Trade and other payables	33.0	(33.0)	(33.0)	–	–	–	–
Tax liabilities	2.0	(2.0)	(2.0)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	–	–	–	–	–	–	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	49.2	(49.6)	(47.0)	(0.6)	(0.7)	(1.3)	–

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Within the scope of the Group's risk management the Group has hedged the currency risks with derivatives, whereby the hedges have been designated as cash flow hedges. The following table lists the value of these derivatives at financial position date, and when the derivatives will influence the profit or loss and cash flows.

Cash flow hedges (in cash flows statement)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

2011 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–
Total	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–

2010 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Forward exchange contracts							
Assets	0.0	0.0	0.0	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Total	0.0	0.0	0.0	–	–	–	–

Cash flow hedges (in statement of comprehensive income)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact comprehensive income.

2011 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Forward exchange contracts	–	–	–	–	–	–	–
Assets	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.2)	(0.1)	–	(0.1)	–	–
Total	(0.2)	(0.2)	(0.1)	–	(0.1)	–	–

2010 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Forward exchange contracts	–	–	–	–	–	–	–
Assets	0.0	0.0	0.0	–	–	–	–
Liabilities	–	–	–	–	–	–	–
Total	0.0	0.0	0.0	–	–	–	–

Interest-rate risk

Part of the Group’s loans is governed by a floating interest rate (usually 3-month EURIBOR). In view of the Treasury Policy, the Group hedges at least 50% of the floating interest rate exposure. To this extent the Group has outstanding interest rate swaps with a notional amount of in total EUR 20 million.

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. 95% of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalise the nominal interest rate. Loans were not provided at an up, – or discount and no incremental transaction costs were incurred when the loans were drawn.

				2011		2010	
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Senior bank loans	EUR	EURIBOR + 1.70%	2016	33.5	33.5	10.0	10.0
ERP Fund Loan	EUR	2.25%	2014	1.2	1.2	2.0	2.1
Bank overdrafts	Various	EURIBOR + 1.70%	2012	0.3	0.3	1.7	1.7
Finance lease liabilities	USD	6.5-8.0%	2012	0.1	0.1	0.1	0.1
Other debts	EUR	2.50%	2012	–	–	0.3	0.3
Total interest-bearing debt				35.1	35.1	14.1	14.2

Sensitivity analysis interest

Financial assets and liabilities with a fixed interest rate are not recognised at fair value by processing the value changes in the statement of comprehensive income. For this reason a movement in interest rates across the yield curve at 1 January 2012 would not have had a material influence on the 2011 result.

The Group has hedged a considerable large part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps, in total EUR 21 million of the EUR 35 million long and short term loans at financial year end have an interest rate which is fixed for one year or longer. Based on the interest bearing debt levels at year end and expected cash flow development, a 1% point increase in the interest rate across the yield curve as from 1 January 2012, will have an increasing effect on interest expenses in 2012 of maximum EUR 0.1 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was negative EUR 0.3 million at 31 December 2010 (2010 0.1 million).

A 10% point appreciation of the currencies listed below against the euro would increase shareholders' equity at 31 December 2011 and the result for 2011 by the amounts shown in the following table. The same analysis was performed at 31 December 2010. A 10% point depreciation of the listed currencies against the euro would have had the opposite effect.

The same test was done for the profit or loss, where the sensitivities for a 10% appreciation or depreciation on 31 December 2011 would have had an impact as is shown below.

31 December 2011	Equity	Result
US dollar	3.7	–
Czech krone	0.6	(0.3)
Swiss franc	0.3	(0.1)
Chinese yuan	0.7	–
Indian rupee	–	(0.2)

31 December 2010	Equity	Result
US dollar	0.3	0.0
Czech krone	0.4	(0.1)
Swiss franc	0.2	(0.1)
Chinese yuan	0.4	0.0

The large increase in sensitivity to the US dollar relates to the acquisition of FAS Controls.

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2011	At 31 December 2010	Average over 2011
Pound sterling	0.8353	0.8607	0.8701
Swiss franc	1.2156	1.2504	1.2315
Czech krone	25.7872	25.0608	24.6257
Chinese yuan	8.1586	8.8220	8.9977
US dollar	1.2939	1.3362	1.3931
Mexican peso	18.0512	16.5475	17.3238
Brazilian real	2.4159	2.2177	2.3261
Romanian ley	4.3233	4.2620	4.2399
Indian rupee	68.7144	59.6516	64.9815

Fair values of financial instruments

The following table shows the fair values and carrying amounts of the financial instruments.

EUR million	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Loans and receivables (including current tax assets)	40.6	40.6	30.4	30.4
Cash and cash equivalents	9.2	9.2	9.0	9.0
Held to maturity investments	0.5	0.5	–	–
Other long term receivables	–	–	–	–
	50.3	50.3	39.4	39.4
Assets carried at fair value				
Forward exchange contracts	–	–	0.1	0.1
Liabilities carried at amortised costs				
Secured bank loans	(33.5)	(33.5)	(10.0)	(10.0)
Other debts	(1.2)	(1.2)	(2.4)	(2.3)
Finance lease liabilities	(0.1)	(0.1)	(0.1)	(0.1)
Bank overdraft	(0.3)	(0.3)	(1.7)	(1.7)
Trade and other payables (including current tax liabilities)	(43.0)	(43.0)	(35.0)	(35.0)
	(78.1)	(78.1)	(49.2)	(49.1)
Liabilities carried at fair value				
Interest derivatives	–	–	–	–
Forward exchange contracts	(0.3)	(0.3)	–	–
	(0.3)	(0.3)	–	–

The Group has no available-for-sale financial assets and all liabilities at fair value were designated as such upon initial recognition. The loans and receivables consist of the trade and other receivables, including the current tax assets in the statement of financial position. The held-to-maturity investments and other long-term receivables are included in the other investments, including derivatives in the statement of financial position. The interest derivatives and forward exchange contracts are included in the trade and other payables in the statement of financial position.

Interest rate used in measuring fair value

The interest rate used for discounting estimated cash flows, where applicable, is based on the swap curve at 31 December 2011, augmented by the prevailing credit mark-up, and is as follows:

	2011	2010
Derivatives	0.6%-1.5%	3.00%
Leases	3.10%	3.50%
Bank loans	2.72%	3.00%
Loans and receivables	2.33%	3.00%

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 2011				
Forward exchange contracts used for hedging	–	(0.3)	–	(0.3)
Contingent considerations	–	–	(4.4)	(4.4)
Total	–	(0.3)	(4.4)	(4.7)
31 December 2010				
Forward exchange contracts used for hedging	–	0.1	–	0.1
Contingent considerations	–	–	(2.2)	(2.2)
Total	–	0.1	(2.2)	(2.1)

The following table shows a reconciliation from the beginning to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

	Contingent consideration
31 December 2011	
Balance at 1 January	2.2
Arising from business combinations	4.4
Change in fair value of contingent consideration	(2.2)
Balance at 31 December	4.4

Level 3 fair value measurements are sensitive to professional judgments and assumptions. No sensitivity analysis is performed as the only level 3 fair value measurement relates to the contingent consideration (earn-out) arising from business combination. Details relating to business combinations are provided in note 20.

16 Operating lease agreements

Lease contracts in which the Group acts as lessee

The sums payable on non-redeemable operating lease and rental contracts are as follows:

EUR million	2011	2010
‹ 1 year	3.0	2.5
1 – 5 years	3.9	4.1
› 5 years	2.7	3.2
	9.6	9.8

In the 2011 financial year a charge of EUR 0.8 million was recognised in consolidated statement of comprehensive income in respect of operating leases (2010: EUR 0.8 million) based on continuing activities. The operating lease contracts are mostly related to buildings.

17 Capital commitments

During the year ended 31 December 2011, the Group signed purchase contracts for property, plant and equipment totalling EUR 6.5 million (2010: EUR 0.3 million).

18 Contingent liabilities

Kendrion Binder Magnete GmbH (Germany) was summoned to appear before the court of Milan, Italy, by the Italian Binder Magnete s.r.l. company (not a member of the Kendrion Group), in connection with Kendrion Binder Magnete GmbH's termination of the distribution contract between the parties. Binder Magnete s.r.l. claims compensation of EUR 1,250,000. Kendrion has filed a counterclaim. The facts and circumstances currently known and the legal advice that has been taken resulted in the decision to form a provision of EUR 90,000. The court's ruling is not expected before the third quarter of 2012.

The Managing Director of Linnig Brasil Acoplamentos Ltda. decided to leave the company in August 2011. The former director has unexpectedly filed a claim at the local court for a total amount of BRL 3,435,683 (equivalent to EUR 1,422,112) in connection with employment law issues. The facts and circumstances currently known and the legal advice that has been taken resulted in the decision to form a provision of an amount of BRL 50,000 (EUR 20,696).

The Group has divested a number of divisions and companies in the past. The customary representations and warranties for transactions of this nature are included in the relevant Share or Asset Purchase Agreements. The Group, as is customary for transactions of this nature, also issued representations and warrants for potential (tax) claims relating to periods prior to the various divestment dates.

19 Operating segments

The Group, in accordance with IFRS 8, has enclosed general and entity-wide disclosures in these consolidated financial statements.

Geographical segments based on physical location of the Group operating companies

The revenue and non-current assets per geographic area are specified below.

EUR million	The Americas		Germany		Asia	
	2011	2010	2011	2010	2011	2010
Revenue from transactions with third parties	12.3	11.9	163.6	137.8	17.9	13.0
Non-current assets	23.6	9.2	95.7	74.8	1.4	1.2
Deferred tax assets	0.1	0.1	8.1	10.7	0.1	0.0
Pensions	0.0	0.0	3.9	4.1	0.0	0.0

EUR million	Other European countries		Consolidated	
	2011	2010	2011	2010
Revenue from transactions with third parties	74.1	59.2	267.9	221.9
Non-current assets	11.0	11.4	131.7	96.6
Deferred tax assets	1.0	2.0	9.3	12.8
Pensions	0.9	1.0	4.8	5.1

Sales segmented by customer location

EUR million	2011	2010
Germany	148.0	133.5
Other European countries	64.9	50.9
Asia	32.4	18.5
The Americas	19.9	16.8
Other countries	2.7	2.2
Total	267.9	221.9

Major customers

One customer, supplied indirectly via several product categories and group companies, accounts for more than 5% of the company's total revenue. This customer accounts for 12% of total revenue.

20 Business combinations

2011

On 27 December 2011, the Company reached an agreement with the owners of FAS Controls, Inc. on the acquisition of 100% of the interest in the company. FAS Controls, located in Shelby, North Carolina (USA), is active in the automotive and truck market and supplies high-quality electromagnetic valves, in addition to pressure switches and lighting modules. The company is a true niche player, technologically advanced and profitable.

The acquisition of FAS Controls is a good fit with Kendrion's strategy of strengthening its global position, including the USA. FAS Controls has been acquired specifically to further strengthen the operations of Kendrion's Passenger Car Systems business unit. The business unit's operations will continue to grow in the coming years, in part as a result of projects that were acquired last year (including electromagnetic valves for common-rail systems for gasoline engines and valves for gasoline direct injection) for US car manufacturers and system suppliers. These projects will start in 2013. The acquisition will enable Kendrion to begin local manufacture and offers the company excellent opportunities for the acquisition of new high-value projects for the US car industry. Moreover the deal offers potential for an expansion of Kendrion's position in the truck market.

During the five days prior to 31 December 2011, FAS Controls did not contribute revenue or net profit to the Group's results due to the fact that the company was closed during the last week of December. The management estimates that if the acquisition had taken place on 1 January 2011, the consolidated revenue would have been EUR 293.4 million and the consolidated net loss for the year would have been EUR 19.4 million. When management determined these amounts it was assumed that the fair value adjustments, as determined provisionally, arising on the date of acquisition would have been identical to those on acquisition on 1 January 2011.
The following summarises the major classes of consideration that have been transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

Contingent consideration

The Company agreed to pay the selling shareholders an additional consideration dependent on the extent to which the acquired company's operating result exceeds a predetermined threshold in 2012. At acquisition date the discounted value of the consideration was valued at EUR 4.4 million. The maximum amount of the contingent consideration is EUR 4.7 million (USD 6.0 million). At the acquisition date the maximum amount was recognised as a provision for the discounted value of EUR 4.4 million (see note 14). The valuation of the contingent consideration was based on the budget of FAS Controls, Inc., for 2012. The carrying amount of the accrued contingent consideration at 31 December 2011 also amounted to EUR 4.4 million. Once the operating result for 2012 has been determined the contingent liability will be settled with the former shareholders during 2013.

Consideration transferred

EUR million	
Cash	30.1
Contingent consideration	4.4
	34.5

Identifiable assets acquired and liabilities assumed

EUR million	Book value before acquisition	Fair value adjustments	Recognised at acquisition
Property, plant and equipment	3.9	2.6	6.5
Intangible assets	2.8	6.1	8.9
Inventories	3.8	–	3.8
Trade and other receivables	3.9	–	3.9
Cash and cash equivalents	1.0	–	1.0
Deferred tax liabilities	–	(3.4)	(3.4)
Contingent consideration liabilities	–	(4.4)	(4.4)
Trade and other payables	(3.4)	–	(3.4)
Total identifiable net assets	12.0	0.9	12.9

No contingent liabilities are applicable. The trade receivables comprise contractual amounts due of EUR 3.9 million, all of which was expected to be collectible at the acquisition date.

Goodwill

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

EUR million	
Total consideration transferred	30.1
Contingent consideration (earn out)	4.4
Fair value of identifiable net assets	(17.3)
Goodwill	17.2

The goodwill is mainly attributable to the synergies expected to be achieved from integrating the company into the Group's Passenger Car Systems business unit and to projects for US car manufacturers and system suppliers that were acquired last year.

Acquisition related costs

The Group incurred acquisition related costs of EUR 0.9 million related to advisory fees, legal fees and due diligence costs. The costs have been included in the other expenses in the consolidated statement of comprehensive income in 2011.

2010

On 25 February 2010, the Company reached agreement with the owner of Magneta GmbH & Co. KG on the acquisition of 100% of the interest in the company. Kendrion Magneta, located in Aerzen (Germany), is specialised in small electromagnetic brakes and clutches. Applications for these products include cash dispensers, transport systems and vehicles manufactured by the automotive industry.

During the ten months prior to 31 December 2010, Kendrion Magneta contributed revenue of EUR 8.8 million and a net profit of EUR 0.5 million to the Group's results. The management estimates that if the acquisition had taken place on 1 January 2010, then the consolidated revenue would have been EUR 223.4 million and the consolidated net profit for the year would have been EUR 16.8 million. When management determined these amounts it was assumed that the fair value adjustments, as determined provisionally, arising on the date of acquisition would have been identical to those on acquisition on 1 January 2010.

21 Other operating income

EUR million	2011	2010
Release of unused provisions and accrued expenses	0.6	0.2
Net gain on disposal of property, plant and equipment	0.0	0.1
Other	0.4	0.5
	1.0	0.8

22 Staff costs

EUR million	2011	2010
Wages and salaries	57.8	49.5
Social security charge	7.5	6.5
Temporary personnel	5.5	4.5
Contributions to defined contribution plans	0.3	0.3
Expenses related to defined benefit plans	0.1	0.2
Increase in liability for long-service leave	(0.2)	0.1
Other costs of personnel	1.8	0.9
	72.8	62.0
Total number of employees and temporary workers at 31 December (FTE)	1,482	1,376

23 Other operating expenses

EUR million	2011	2010
Lease expenses	0.8	0.8
Increase in provision for doubtful debts	0.0	(0.1)
Premises costs	4.7	3.8
Maintenance expenses	3.0	2.3
Transport expenses	1.8	1.6
Consultancy expenses	4.1	2.7
Sales and promotion expenses	1.3	1.0
Car, travel and representation costs	2.7	2.2
Addition to provision EC fine	39.4	–
Other	4.1	5.2
	61.9	19.5

Research & Development expenses for 2011 totalled EUR 12.2 million (2010: EUR 10.6 million).
Details of the provision relating to the fine imposed by the European Commission are provided in note 13.

24 Net finance costs

EUR million	2011	2010
Interest income	0.1	0.2
Net exchange gain	–	0.2
Finance income	0.1	0.4
Interest expenses	(1.8)	(3.2)
Interest expenses related to employee benefits	(0.1)	(0.2)
Net exchange loss	(0.2)	–
Finance expense	(2.1)	(3.4)
Net financing costs	(2.0)	(3.0)

25 Income tax

Recognised in the consolidated statement of comprehensive income

EUR million	2011	2010
Current tax charge on year under review	(6.6)	(3.2)
Total corporation tax expenses in the income statement	(6.6)	(3.2)

26 Reconciliation with the effective tax rate

	Reconciliation with tax rate 2011	Reconciliation with tax rate 2010	Reconciliation with effective rate EUR million 2011	Reconciliation with effective rate EUR million 2010
Profit before income tax			(13.5)	19.8
Income tax expense at local corporation tax rate	25.5%	25.5%	(3.4)	5.1
Non-deductible expenses [1]	(78.2)%	–	10.6	–
Effect of tax rates in foreign jurisdictions	(2.3)%	1.9%	0.3	0.4
Tax holiday in foreign jurisdiction	2.9%	(1.6)%	(0.4)	(0.3)
Reduction in tax rate	–	2.6%	–	0.5
Change in unrecognised temporary differences	–	(2.1)%	–	(0.4)
Current year losses for which no deferred tax effect was recognised	–	0.1%	–	0.0
Recognition of previously unrecognised tax losses[2]	4.4%	(9.7)%	(0.6)	(2.0)
Other movements	(1.2)%	0.7%	0.1	0.1
Under/over (–) provision in previous years	–	(1.0)%	–	(0.2)
	(48.9)%	16.4%	6.6	3.2

[1] *Mainly due to the non-deductible expenses relating to the fine imposed by the European Commission*

[2] *Mainly due to recognition of carry forward tax losses in the Netherlands.*

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. Internal supplies also take place within the business units. Intercompany transactions are effected at arm's length market prices. As all subsidiaries are fully consolidated and reflected in these financial statements, the amounts of these transaction are not further specified. For a list of the principal subsidiaries and associates please refer to page 137.

Transactions with managers in key positions

The remuneration of the Board is as follows:

EUR thousand	2011	2010
Total remuneration	1,397.2	1,278.0
Pension and other expense	173.3	168.0

The total remuneration is included in staff costs (see note i).

The incentive plan, introduced in 2008, rewards the members of the Executive Board with a non-recurrent cash bonus when sufficient focus in the Group's activities is introduced within a period of a maximum of three years, what is referred to as the 'focus bonus'. With an at-target performance the bonus amounted to 75% of the gross fixed remuneration. The required focus was introduced on the sale of Vink in early 2009. The Supervisory Board set the focus bonus on the basis of at-target performance. It has been decided that this remuneration will be converted into a deferred pay-out scheme in which the members of the Executive Board will receive shares three years after the determination and without further conditions being attached. The number of shares determined on the basis of the net bonus and the relevant closing share price amounted to 17,269 for the CEO and 12,886 for the CFO. The shares will be issued in April 2012.

The bonus for 2009 was solely in the form of shares. With an at-target performance this bonus in shares amounted to 40% (CEO) and 35% (CFO) of the gross fixed remuneration, with a maximum of 50% of the gross fixed remuneration. The shares must be held for a minimum of five years unless the contract of employment is terminated earlier. The performance is in part assessed on the basis of the realisation of long-term shareholder value (the movement in the Group's TSR compared to the AScX) and in part on the basis of the Executive Board's performance during the 2009 financial year. The targets have been realised for 37.5%. The numbers of shares have been determined immediately after the General Meeting of Shareholders held on 7 April 2010, based on the net bonus and the prevailing share price on that date. The number of shares so allocated amounted to 2,750 for the CEO and 1,800 for the CFO. The holding period ends in 2015.

The General Meeting of Shareholders held in April 2010 decided that a variable bonus for the members of the Executive Board shall be awarded in 2010 and the following years to promote the achievement of the Group's short and long-term objectives. The annual variable remuneration for an at-target performance will amount to 40% of the gross fixed remuneration of the CEO and 35% of the gross fixed remuneration of the CFO, with a maximum of 50% of the gross fixed remuneration in case of above at-target performance. 70% of the bonus will be comprised of financial performance criteria (net profit, ROI, free cash flow and relative Total Shareholders Return (the movement in the Group's TSR compared to the AScX)) and 30% will be comprised of individual (non-financial) performance criteria. The four financial performance criteria are weighted more or less equally. The part of the bonus that relates to the relative TSR will be zero in case the relative TSR is less than zero.

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

Once the award of the shares has become unconditional after the expiry of the vesting period they must be retained for a minimum of two years (the holding period) unless the relevant member of the Executive Board terminates his term of office or the term of office is terminated during this period.

The CEO's bonus for 2010 amounted to EUR 182,500 of which EUR 29,200 was paid in cash. EUR 58,400 was awarded conditionally in shares on the basis of the closing share price on 18 April 2011. The CFO's bonus for 2010 amounted to EUR 137,500 of which EUR 22,000 was paid in cash. EUR 44,000 was awarded conditionally in shares on the basis of the closing share price on 18 April 2011. The number of shares so allocated amounted to 3,263 for the CEO and 2,459 for the CFO. The vesting period ends in 2013 and the holding period ends in 2015.

The Supervisory Board has decided that, on the basis of the performance and relevant criteria in 2011 (excluding the effect of the fine imposed by the European Commission), the CEO shall receive the maximum bonus of 50% of his gross fixed remuneration and the CFO shall receive a bonus of 49% of his gross fixed remuneration. The CEO's bonus amounts to EUR 185,000 of which EUR 29,600 shall be paid in cash. EUR 59,200 is awarded conditionally in shares on the basis of the closing share price on 16 April 2012. The CFO's bonus amounts to EUR 137,200 of which EUR 21,952 shall be paid in cash. EUR 43,904 is awarded conditionally in shares on the basis of the closing share price on 16 April 2012. The vesting period ends in 2014 and the holding period ends in 2016.

Pensions
The Executive Board participates in the defined contribution plan of the Company in 2011. The contribution was EUR 67,500 for the CEO and EUR 59,000 for the CFO.

Transactions with shareholders
There were no transactions with shareholders. One of the Company's shareholders Parcom Capital is part of ING Bank N.V., which is also one of the banks that arranged the existing facility agreement of the Group referred to in note 10.

28 >> Accounting estimates and judgements by management

The Executive Board discussed the selection and disclosure of the critical accounting policies for financial reporting and estimates as well as the application of these policies and estimates with the Supervisory Board.

In preparing the financial statements, the management is required under IFRS to make various judgements, estimates and assumptions which affect the implementation of policy and the amounts disclosed in relation to assets, liabilities, income and expenses. The estimates and assumptions are based on experience and factors deemed reasonable in the circumstances. Estimates and assumptions are constantly reappraised.
Changes in the accounting estimates used are reflected in the period in which the estimate is changed if the change affects only that period or in the period in which the estimate is changed and in future periods if the change affects both the reporting period and future periods.

Estimated impairment of goodwill
The Group tests annually whether the goodwill is subject to any impairment, in conformity with the accounting policy disclosed in note g.
The impairment model applied is the discounted cash flow method (value determination on the basis of the discounted value of the expected cash flows) applying a weighted average cost of capital (pre-tax WACC) of around 9%. The use of estimates is essential for making this calculation.
The explicit prognoses period contains five planning years. As of year six the residual value is calculated based on the last explicit prognoses year (year five). No further growth in earnings is considered, with the exception of an inflation adjustment. The first three years of the explicit prognoses period are based on cash flow projections derived from the bottom-up generated Mid-term Plan (available per company and approved by the Executive Board). The last two years are based on experience or target data for the Group under review. The pre-tax WACC is consistent with external sources of information, past experience and internal assessment of the used assumptions.

Pensions
Since the pension arrangements involve long-term obligations and uncertainties, it is necessary to make assumptions in order to estimate the amount that the Group needs to invest to fund its pension obligations. Actuaries calculate the obligation for defined benefit plans partly on the basis of information provided by the Executive Board, such as future pay rises, the return on plan assets, mortality tables and the probable extent to which pension scheme members will leave the scheme because they have reached retirement age, become incapacitated or left the Group.

29 >> Post-balance sheet events
Other than the finalisation of the increase of the facility agreement with the banking syndicate, explained in note 10, there are no post-balance sheet events.

Company balance sheet at 31 December

(before profit appropriation)

Note	EUR million	2011	2010
	Non-current assets		
	Property, plant and equipment	0.1	0.1
	Intangible assets	0.0	0.0
	Other investments, including derivatives	0.3	–
1.3	Financial assets	157.1	138.3
	Total non-current assets	157.5	138.4
	Current assets		
1.4	Receivables	0.5	0.6
	Cash and cash equivalents	0.0	0.9
	Total current assets	0.5	1.5
	Total assets	158.0	139.9
1.5	**Equity**		
	Share capital	22.9	22.6
	Share premium	64.6	68.4
	Reserves	24.1	6.8
	Retained earnings	(20.2)	16.5
	Total equity	91.4	114.3
1.6	**Provisions**	41.8	2.6
1.7	**Loans and borrowings (current)**	24.8	23.0
	Total equity and liabilities	158.0	139.9

Company income statement

Note	EUR million	2011	2010
1.11	Share in results of Group companies after tax	22.8	17.7
	Other results after tax	(43.0)	(1.2)
	Net profit	(20.2)	16.5

Notes to the company financial statements

1 ## Notes to the company financial statements

1.1 **General**

The Company financial statements are part of the 2011 financial statements of Kendrion N.V. (the 'Company'). With regard to the Company statement of comprehensive income of Kendrion N.V., the Company has made use of the option provided by Section 402 of Book 2 of the Netherlands Civil Code.

1.2 **Principles of valuation of assets and liabilities and determination of results**

In selecting the principles of valuation of assets and liabilities and determination of results employed in the company financial statements, 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 of valuation of assets and liabilities and determination of results (the 'accounting policies') employed in the Company financial statements of Kendrion N.V. are identical to those employed in the consolidated EU-IFRS financial statements. Interests in entities in which Kendrion N.V. has significant influence are measured using the equity method. The consolidated EU-IFRS financial statements have been prepared in accordance with the standards adopted by the International Accounting Standards Board as endorsed for use in the European Union (hereinafter referred to as 'EU-IFRS'). These policies are discussed in notes a – r.
The share in the results of Group companies relates to the Company's share in the results of those companies. Results on transactions whereby assets and liabilities have been transferred between the Company and its subsidiaries and between subsidiaries have not been recognised to the extent they can be considered unrealised.

1.3 **Financial fixed assets**

EUR million	Interest in Group Companies	Loans to Group Companies	Deferred tax	Total 2011	Total 2010
Carrying amount at 1 January	131.4	5.6	1.3	138.3	117.0
Results of Group companies	22.8	–	–	22.8	17.7
Movements in loans and borrowings	–	(4.0)	–	(4.0)	0.2
Movements in deferred tax assets	–	–	(0.4)	(0.4)	1.3
Other movements	0.4	–	–	0.4	2.1
Carrying amount at 31 December	154.6	1.6	0.9	157.1	138.3

The main part of the loans to Group companies has a duration of over one year.

The investments in the principal subsidiaries and associates are disclosed on page 137 of the Annual Report.

1.4 Receivables

EUR million	2011	2010
Receivables from Group companies	0.2	0.3
Prepayments and accrued income	0.3	0.3
	0.5	0.6

All receivables are due within one year.

1.5 Equity

EUR million	Share capital	Share premium	Hedge reserve	Reserve for own shares	Statutory reserve for participations	Other reserves	Retained earnings	Total 2011	Total 2010
Balance at 1 January	22.6	68.4	0.0	(0.5)	4.7	2.6	16.5	114.3	95.9
Appropriation of retained earnings	–	–	–	–	–	16.5	(16.5)	–	–
Dividend payment	–	(6.7)	–	–	–	–	–	(6.7)	–
Own shares sold	–	–	–	0.2	–	–	–	0.2	(0.1)
Issue of ordinary shares	0.3	2.9	–	–	–	–	–	3.2	–
Share-based payment transaction	–	–	–	–	–	0.1	–	0.1	–
Other	–	–	0.0	–	7.0	(6.5)	–	0.5	2.0
Total recognised income and expenses	–	–	–	–	–	–	(20.2)	(20.2)	16.5
Balance at 31 December	22.9	64.6	–	(0.3)	11.7	12.7	(20.2)	91.4	114.3

1.5.1 Share capital

The authorised capital of the Company amounts to EUR 80 million, divided into 40 million ordinary shares of EUR 2.00, of which 11,492,525 ordinary shares have been issued.

1.5.2 Share premium

The share premium represents revenue from shares issued at more than their nominal value (issued above par). The issued and paid share capital, including share premium, is fiscally acknowledged capital.

1.5.3 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.

1.5.4 Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company shares which are held by the Company for the share plan and remuneration packages for the Board and senior management. At 31 December 2011, the Company held 47,392 of its own shares (2010: 59,115).

1.5.5 Statutory reserve for participations

This reserve represents the undistributed profits of subsidiaries the free distribution of which the Company cannot procure. The statutory reserve for participations arises as a result of participations being valued by the equity method and 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 Other reserves

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

1.5.7 Retained earnings

In 2011, the full result for 2010 was included in other reserves. Retained earnings consequently consist solely of the result for 2011.

1.6 Provisions

EUR million	2011	2010
Other provisions	41.8	2.6
	41.8	2.6

The provisions include a provision of EUR 41.8 million (2010: EUR 2.6 million) relating to the fine imposed by the European Commission.

1.7 Loans and borrowings (current)

EUR million	2011	2010
Debts to credit institutions	0.1	0.1
Debts to suppliers and trade payables	0.5	0.2
Debts to Group companies	22.4	21.9
Other debts	1.8	0.8
	24.8	23.0

1.8 Financial instruments

See note 15 to the consolidated financial statements for details on financial instruments.

1.9 Staff costs

EUR million	2011	2010
Wages and salaries	1.8	1.7
Social security charge	0.1	0.1
Pension costs	0.2	0.2
	2.1	2.0
Total number of employees and temporary workers at 31 December (FTE)	9	10

The Company has only defined contribution plans for its employees. The Company had 9 employees (FTE) at year-end 2011 (2010: 10).

1.10 Commitments not appearing on the balance sheet

1.10.1 Joint and several liability and guarantees

The Company and its Group Companies have issued guarantees mainly in the context of the financing by financial institutions. The Company has issued declarations of joint and several liability, as referred to in Section 403 of Book 2 of the Netherlands Civil Code, for:

- Combattant Holding B.V., Zeist
- Kendrion Finance B.V., Zeist

A EUR 48.5 million bank guarantee has been issued to the European Commission. This guarantee is valid until 14 March 2016. The guarantee relates to the fine of EUR 34 million (excluding accrued interest) imposed by the European Commission at the end of 2005 for infringement of Article 81(1) of the EC Treaty by the Company's former subsidiary Fardem Packaging B.V. and which was upheld in full by the General Court of the European Union in Luxembourg on 16 November 2011 (see also section 13 of the notes to the consolidated financial statements).

1.10.2 **Fiscal unity**

The Company and its Dutch subsidiaries form a fiscal unity 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.

1.11 Share in results of Group Companies

This relates to the Company's share in the results of its associates, of which EUR 22.8 million (2010: EUR 17.7 million) relates to Group Companies.

1.12 Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by KPMG to the Company, its subsidiaries and other consolidated entities:

EUR thousand	2011			2010		
	KPMG Accountants NV	Other KPMG member firms and affiliates	Total KPMG	KPMG Accountants NV	Other KPMG member firms and affiliates	Total KPMG
Audit of financial statements	86.0	181.0	267.0	79.0	171.0	250.0
Other assurance services	5.0	–	5.0	7.0	7.0	14.0
Tax advisory services	–	13.0	13.0	–	4.0	4.0
Other non-audit services	93.0	139.0	232.0	12.0	–	12.0
Total	184.0	333.0	517.0	98.0	182.0	280.0

The other fees in 2011 primarily relate to due diligence procedures, review of the FAS Controls purchase price allocation, assistance in the Horizon ERP process and audit-related assignments.

1.13 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 1,123,800 (2010: EUR 1,108,000). This remuneration is specified as follows:

EUR thousand			2011			2010
	P. Veenema	E. Ris	Total	P. Veenema	E. Ris	Total
Fixed remuneration	370.0	280.0	650.0	365.0	275.0	640.0
Variable remuneration	185.0	137.2	322.2	182.5	137.5	320.0
Total remuneration	555.0	417.2	972.2	547.5	412.5	960.0
Pension and other expenses	80.9	70.7	151.6	77.7	70.3	148.0
	635.9	487.9	1,123.8	625.2	482.8	1,108.0

The 2011 variable remuneration will be granted directly after the General Meeting of Shareholders on 16 April 2012. The amount after income tax will be paid in cash for 1/3 and will be covered conditionally for 2/3 in shares against the prevailing closing share price of 16 April 2012.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2011 amounts to EUR 130,000 (2010: EUR 130,000).
This remuneration is specified as follows:

EUR thousand	2011	2010
Current Supervisory Board members:		
S.J. van Kesteren	40	40
R.L. de Bakker	30	30
M.E.P. Sanders	30	30
H.J. Kayser	30	30
	130	130

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 2011	31 December 2010
Executive Board	P. Veenema	15,649	14,171
	E. Ris	8,973	8,973
Supervisory Board		–	–

Zeist, 28 February 2012

Executive Board	*Supervisory Board*
P. Veenema	S.J. van Kesteren
E. Ris	R.L. de Bakker
	M.E.P. Sanders
	H.J. Kayser

Other information

To: The General Meeting of Shareholders of Kendrion N.V.

Independent auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2011 of Kendrion N.V., Zeist. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2011, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Report of the Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, 28 February 2012

KPMG ACCOUNTANTS N.V.
J.P. Faber RA

Profit appropriation

Appropriation of net loss

EUR million	
Net loss	20.2

The Executive Board has decided, with the approval of the Supervisory Board, that the net loss of EUR 20.2 million will be deducted from the other reserves.

Post-balance sheet events
Other than the finalisation of the increase of the facility agreement with the banking syndicate, explained in note 10, there are no post-balance sheet events.

Principal subsidiaries

At 31 December 2011

[1] *Fully consolidated. The minority interest is shown separately on the consolidated statement of financial position and the consolidated statement of comprehensive income.*

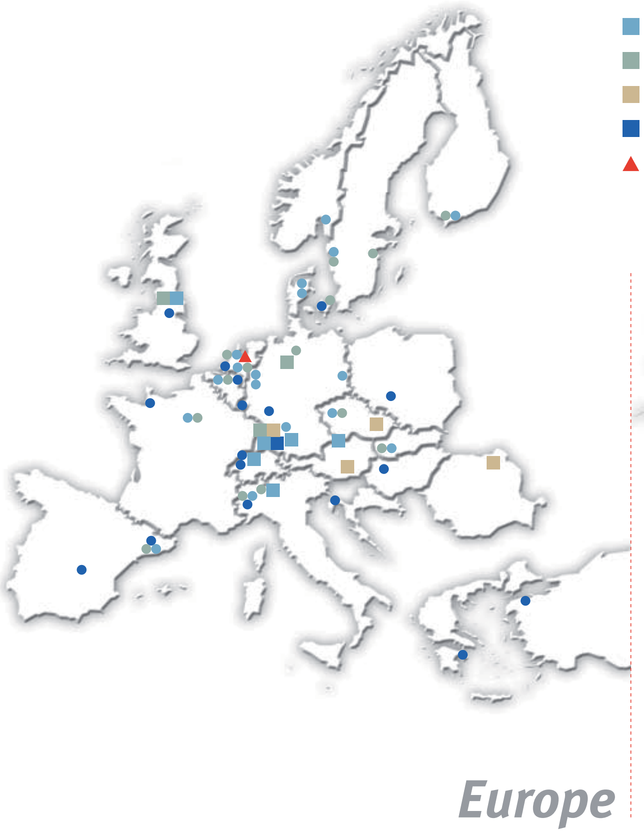
Industrial Magnetic Systems (Norman Graf)	
Kendrion Magnettechnik GmbH, Donaueschingen, Germany	Norman Graf
Kendrion Magnettechnik GmbH, Engelswies, Germany	Alfons Mattes
Kendrion Binder Magnetic (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion Tri-Tech LLC, Mishawaka, Indiana, USA	Brad Price
Kendrion Binder Magnet AG, Hausen am Albis, Switzerland	Edgar Bruhin
Kendrion Binder Magnete Vertriebsgesellschaft mbH, Linz, Austria (51%)[1]	Erich Holzinger

Industrial Drive Systems (Michael Bernhard)	
Kendrion Binder Magnete GmbH, Villingen-Schwenningen, Germany	Michael Bernhard
Kendrion Binder Magnete (UK) Ltd, Bradford, United Kingdom	Peter McShane
Kendrion Binder Magnetic (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion Tri-Tech LLC, Mishawaka, Indiana, USA	Brad Price
Kendrion Magneta GmbH, Aerzen, Germany	Laurent Lebas

Passenger Car Systems (Bernd Gundelsweiler)	
Kendrion Binder Magnete GmbH, Villingen-Schwenningen, Germany	Bernd Gundelsweiler
Kendrion Binder Magnete GmbH, Eibiswald, Austria	Martin Kollmann
Kendrion Binder Magnety s.r.o, Prostějov, Czech Republic	Jiři Hýbl
Kendrion Binder Magnetic (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion Binder Magnete s.r.l., Rădăuţi, Romania	Artur Daneliuc
FAS Controls, Inc., Shelby, North Carolina, USA	William Brown

Commercial Vehicle Systems (Bernd Gundelsweiler) (a.i.)	
Kendrion LINNIG GmbH, Markdorf, Germany	Bernd Gundelsweiler (a.i.)
Linnig Brasil Acoplamentos Ltda., Louveira, Brazil	Elton Baggio
Linnig Corporation, Tucker, Georgia, USA	Jürgen Häberle
Linnig de México, S.A. de C.V., Mexicaltzingo, Mexico	Alexander Glaser
Linnig Drive Tech. (Nanjing) Co. Ltd., Nanjing, P.R. China	Liangchen Lu
Kendrion Linnig India pvt Ltd.	Sameer Deshmukh

A complete list of all subsidiaries and associates can be obtained from the Chamber of Commerce in Utrecht (number 30113646) and from the offices of the Company.


Industrial Magnetic Systems
Industrial Drive Systems
Passenger Car Systems
Commercial Vehicle Systems
Kendrion N.V.
Subsidiaries
Partners
Europe


Rest of the world

Five-year summary

[1] *The reader should be aware that Kendrion went through a lot of changes since 2006; divestments took place including results on disposals, which does not give a clear insight in comparability between the years.*
[2] *Relates to inventories, receivables minus non interest bearing debts.*
[3] *2009 EBITA and EBITDA excluding effect restructuring provision and costs related to the disposal of the Vink Group. EBITA excluding amortisation related to acquisitions.*
[4] *2008 including Distribution Services and 2011 including FAS Controls, Inc.*
[5] *Pro forma. Unaudited.*
[6] *For 2008 including net interest bearing debt Vink in assets and liabilities as held for sale.*
[7] *Before cash flow acquisitions and disposals (2011 and excluding acquisition expenses).*
[8] *Total invested capital is property, plant and equipment, intangible assets and current assets less the current tax liabilities, trade payables and other payables.*
[9] *2011 EBITA and EBITDA are normalised (excluding EC fine and a.o. acquisition expenses).*
[10] *The results for 2011 have been negatively influenced by a non-recurring supplementary provision of over EUR 39 million as a result of the judgement regarding the EC fine.*

EUR million	2011[10]	2010	2009	2008	2007
Kendrion N.V. consolidated [1]					
Statement of comprehensive income conform financial statements					
Revenue	267.9	221.9	149.2	207.4	501.0
Organic growth	20.7%	42.9%	(27.0)%	3.6%	7.0%
Operating result (EBIT)	(11.5)	22.8	(5.0)	11.0	21.8
Operating result before amortisation (EBITA) [3]	(10.0)	24.2	(3.9)	14.3	15.1
Depreciation and amortisation	10.8	10.1	8.8	8.3	10.1
Operating result before depreciation and amortisation (EBITDA)	(0.7)	32.9	3.8	19.3	31.9
Profit for the period	(20.1)	16.6	4.0	12.9	3.7
Statement of financial position at 31 December conform financial statements					
Total assets	229.3	177.1	152.8	280.5	303.1
Total equity	91.7	114.5	96.1	93.5	88.8
Net interest-bearing debt	25.9	5.2	13.9	75.3	85.2
Working capital [2]	35.8	26.0	21.7	22.4	63.2
Invested capital [8]	176.7	129.3	113.1	177.4	174.5
Cash flow conform financial statements					
Net cash from operating activities	27.6	25.6	3.9	21.3	23.8
Net investments	13.5	8.9	5.9	13.5	16.2
Free cash flow [7]	14.6	17.4	(1.9)	3.7	7.6
Ratios – pro forma					
Solvency	40.0%	64.7%	62.9%	33.3%	29.3%
Net interest-bearing debt [6] / EBITDA [3,4,5,9] (debt cover)	0.6	0.2	1.1	2.4	2.2
Net interest-bearing debt [6] / equity (gearing)	0.3	0.1	0.1	0.8	1.0
EBITA [3,9] / net finance costs (interest cover) [4,5]	12.1	8.1	1.6	3.2	3.8
Working capital [2,4,5] in % of revenue	12.1%	11.7%	14.5%	11.6%	11.8%
Market capitalisation (in millions) as at 31 December	189.6	164.1	105.8	74.1	185.2
Net interest-bearing debt as at 31 December [6]	25.9	5.2	13.9	75.3	85.2
Theoretic value of the organisation (Enterprise value) [5]	215.5	169.3	119.7	149.4	270.4
Number of employees at 31 December (fte) [4]	1,534	1,218	1,027	2,414	2,493

Glossary

Code of Conduct A set of behavioural rules and standards which broadly reflects the values that should guide all employees, for example in relation to doing business responsibly, safety, health and the environment.

Compliance Officer The Kendrion employee who is charged with supervising compliance with the regulations to prevent insider trading.

Corporate governance The management of the business, the supervision of that management, the rendering of account thereon and the way in which stakeholders can influence decisions.

COSO Enterprise Risk Management Framework Risk management framework based on the system proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (see www.coso.org).

Defined benefit plan A pension scheme where the employee is promised a pension the level of which depends on their age, salary and years of service.
The commitment carried in the financial position is the cash value of the projected pension benefits on the financial position date, less the fair market value of fund investments.

Defined contribution plan Pension scheme where the employer pays agreed contributions to a fund or insurance company and no obligation arises for the employer to pay supplementary contributions in the event of a shortfall in the fund or insurance company.

Derivatives Derivative financial products which do not represent a direct cash value; they include options, forward exchange contracts and swap contracts.

ERP system Enterprise Resource Planning: an ICT system which supports all the business processes within an organisation, such as purchasing, sales and accounting, with data being exchanged between departments.

Fair value The current value. For assets or liabilities for which there is an active market, this is generally the market value.

Greenfield operation The start-up of a new activity, usually in a new location, which is not based on an acquisition. In reality this is organic growth.

Hedging The covering of financial risks, usually relating to (undesirable) movements in market interest rates, exchange rates and raw material prices.

IFRS International Financial Reporting Standards, also referred to as IAS (International Accounting Standards). With effect from 2005, all listed companies in the European Union must comply with these accounting rules.

Interest rate swap Derivative financial product whereby an agreement is reached with a counterparty (bank) to exchange specific interest payments on a predetermined underlying amount during a predetermined period. A variable interest rate (e.g. three-month EURIBOR) is usually swapped for a fixed interest rate.

Mid-term Plan A plan for the medium term (three years) which is drawn up by the Group annually to facilitate the management and control of its organisation in the short to medium term.

Natural hedge Natural hedges arise where financial risks are neutralised without the use of derivative financial products, for example where currency risks relating to income in dollars are hedged by simultaneous dollar expenditure.

Normalisation Figures from which exceptional effects have been eliminated in order to improve comparability and transparency.

Number of employees (FTEs) Number of employees stated in full-time equivalents.

Organic (sales) growth Growth in revenue after eliminating the effects of acquisitions and disposal of activities.

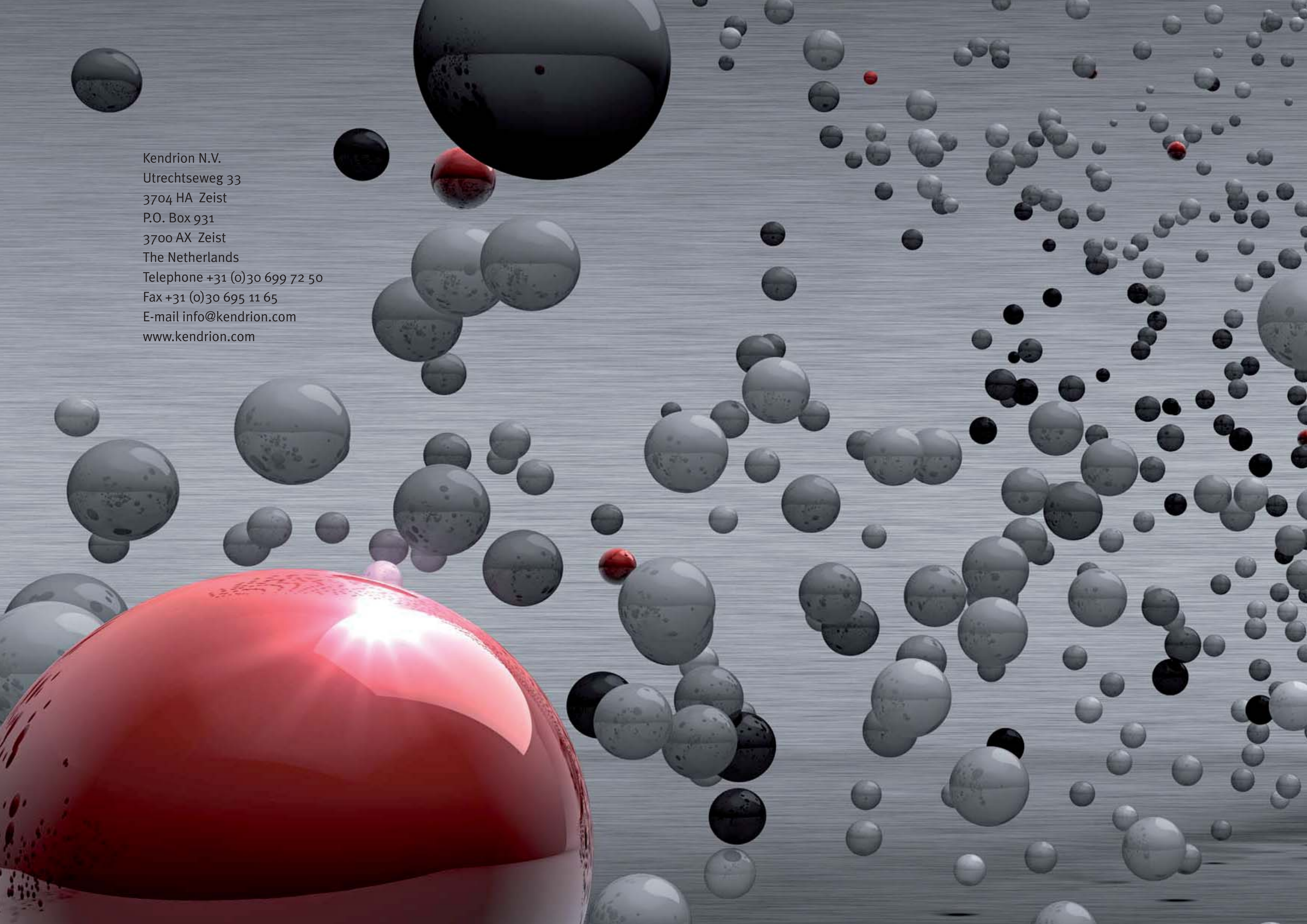
Return on investment (ROI) The result before amortisation of intangibles related to acquisitions, interest and tax as a percentage of the average invested capital.

Return on sales (ROS) The result before amortisation of intangibles related to acquisitions interest and tax as a percentage of revenue.

Solvency ratio The ratio of total equity to the financial position total.

Translation risk Translation risk: a change in the value of an asset or liability of a subsidiary as a result of movements in the (non-euro) exchange rate.

TSR Total shareholders return.



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