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STEADY REVENUE AND PROFIT GROWTH COMPARED TO PREVIOUS QUARTERS CONTINUES

- **Revenue for Q2 2013: EUR 87.1 million (up 18% from Q2 2012; organic growth down 3% from Q2 2012)**
- **Positive contribution from Kuhnke in Q2 2013; integration on schedule**
- **Further increase in the number of orders due to new project launches; well positioned for HY2 2013**
- **Macroeconomic trends remain uncertain; no clear profit forecast for 2013**

Key figures [1]

(x EUR 1 million)	Q2 2013	Q2 2012	Difference in %
Revenue	87.1	74.0	18%
EBITA	6.0	6.2	-3%
Net profit	3.2	2.9	10%

(x EUR 1 million)	HY1 2013	HY1 2012	Difference in %
Revenue	158.4	151.3	5%
EBITA	10.9	14.9	-26%
Net profit	5.8	8.2	-29%

[1] EBITA and net profit adjusted for non-recurring items:
Q2 2013: Non-recurring costs relating to the Kuhnke acquisition (EUR 1.8 million), along with a non-recurring tax gain of EUR 1.6 million
Q2 2012: Release of earn-out provision for FAS Controls Inc (EUR 0.7 million) and a non-recurring tax gain of EUR 0.5 million

- The quarterly and interim results are not audited -

100 YEARS OF ELECTROMAGNETISM

Piet Veenema, CEO of Kendrion:
"Although economic conditions remained challenging in the second quarter, our organic revenue and profit have gradually recovered from the fourth-quarter dip. Other key events in the second quarter included the acquisition and integration of Kuhnke, which is going according to plan. In line with the tentative recovery of the market in the first six months of 2013, the number of orders increased accordingly. We expect that the launch of several new projects will result in higher revenue and profit in the second half year of 2013, allowing us to continue the upward trend of the first two quarters."

Financial trends

Second-quarter revenue was up 18% from the same period in 2012 (to EUR 87.1 million), driven mainly by the acquisition of Kuhnke in mid-May. Organic revenue fell by 3% compared to the second quarter of 2012 due to a lower revenue in the Automotive division. Organic revenue increased 1% compared to the first quarter of 2013.

The adjusted operating result before amortisation (EBITA) and excluding Kuhnke, was EUR 5.1 million in the second quarter of 2013 (Q2 2012: EUR 6.2 million). On an organic basis, EBITA increased by 4% from the first quarter of 2013 (EUR 4.9 million).

The adjusted EBITA margin for the second quarter including Kuhnke was 6.9%. It was reduced slightly due to the acquisition of Kuhnke, which, following the takeover, posted revenue of EUR 15 million, with an EBITA margin of 6%. The adjusted EBITA margin of the Industrial division was 6.5% during the first six months; for Automotive, it was 7.1%.

Net financing expenses for the second quarter totalled EUR 1.4 million (+7%). The increase over the second quarter of 2012 was caused by the higher net debt following the Kuhnke acquisition.

A EUR 1.6 million increase in deferred tax assets (Q2 2012: EUR 0.5 million) resulted in a EUR 0.9 million tax gain in the second quarter.

Net profit excluding the non-recurring income and expenses related to the acquisition of Kuhnke totalled EUR 3.2 million in the second quarter, an increase of 23% compared to the first quarter and 10% up on last year.

Investments in property, plant and equipment totalled EUR 7.3 million in the first half of 2013, of which EUR 1.2 million in the Industrial Division and EUR 4.7 million in the Automotive Division. Other investments, mostly in the new ERP system (project Horizon), totalled EUR 1.4 million. This project is on schedule in terms of both time and budget. This system will also be implemented at Kuhnke in 2014. Free cash flow for the first six months was EUR -8.4 million as a result of the investments described above and the usual seasonal patterns. Positive free cash flow is expected for the full year 2013.

Total equity at the end of June 2013 was EUR 125.7 million (year-end 2012: EUR 103.1 million) and increased mainly as a result of the rights issue launched at the acquisition of Kuhnke. Net debt increased to EUR 66.1 million (year-end 2012: EUR 21.3 million) due to Kuhnke's acquisition and seasonal working capital effects. The solvency ratio at the end of June was 36.5% (year-end 2012: 44.8%). This ensures that the financial position of Kendrion will remain solid even after the Kuhnke acquisition.

Acquisition and integration of Kuhnke

Kendrion reached agreement on 6 May 2013 with the shareholders and management of Kuhnke AG ("Kuhnke") on the acquisition of Kuhnke. Kuhnke had revenue of some EUR 110 million in 2012 and approximately 1,100 employees. Kuhnke has branches in Malente (Germany, approximately 500 employees), Sibiu (Romania, approximately 560 employees) and sales offices in various locations including Kristianstadt (Sweden). Kuhnke operates in the automotive industry, with revenues of approximately EUR 70 million in 2012, and the automation industry, with revenues of approximately EUR 40 million in 2012 (generated in the machine manufacturing and medical sectors).

The integration of Kuhnke was a key focus for the company in the second quarter. We are pleased that Kuhnke's and Kendrion's existing operations complement each other perfectly. Kuhnke performed in line with expectations following the acquisition. Kuhnke's activities have been brought into the new business units Industrial Control Systems and Automotive Control Systems. Support functions will be either integrated into these business units or phased out over the next few months. The number of support staff at Kuhnke will be reduced by approximately 40, half of which as a result of outsourcing. Talks with the Works Council and unions are underway.

Operational changes

Division Industrial

Following the Kuhnke takeover, this division consists of three business units: Industrial Magnetic Systems, Industrial Drive Systems and Industrial Control Systems.

Industrial Magnetic Systems improved its revenue and profit significantly from the first half year 2012, due in part to the higher revenues in textile machinery, along with revenue growth in the United States driven by new projects.

Industrial Control Systems started strongly at Kendrion, with satisfactory operating result and good opportunities for future revenue and profit growth.

Industrial Drive Systems experienced a challenging second quarter, mainly due to lower revenue in German machine manufacturing. The previously expected revival in this industry has thus far failed to materialise. The company also invested in activities with a view to further revenue growth in the coming years, including new products and the launch of manufacturing operations in China.

Division Automotive

Following the Kuhnke acquisition and the transfer of Kendrion's existing operations for the truck market to a new business unit, this division currently consists of four business units: Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems.

Passenger Car Systems was clearly affected by the downturn in the automotive market during the first six months, with revenue down 7% from the same period in 2012. Revenue in this business unit is expected to pick up again in the coming months, especially also as a result of the new projects scheduled to be launched in the United States.

After a hesitant start – caused by start-up costs relating to a major new project for this business unit – the newly incorporated Automotive Control Systems is now likely to complete this project on schedule.

Despite a sluggish European bus market, Commercial Vehicle Systems experienced a stronger second quarter, growing its revenue mainly in the Far East.

Heavy Duty Systems was faced with a weak truck market in both the United States and India in the second quarter. The outlook for the second half of the year is more positive, largely due to the economic recovery in the United States.

Number of employees
The number of FTEs rose to 2,800, an increase of more than 1.100 from the end of Q1 2013, due to the Kuhnke acquisition. This includes approximately 160 temporary employees.

Outlook

While we continue to be faced with a tough economy, we have noted some positive trends, including the US economic recovery. General trends in Germany have been somewhat positive, but China has been faced with a dip in various sub-markets. On a global level, trends in the automotive market, in particular, are difficult to predict. Based on the growing number of orders, due in part to new project launches in the United States in particular, Kendrion expects to continue the upward trend in the second half of the year. A clear revenue and profit forecast for the full year 2013 however will not be provided.

Mr Henk ten Hove appointed member of Supervisory Board

Kendrion is pleased to announce that during the Extraordinary General Meeting of Shareholders held on 19 August 2013, Mr Henk ten Hove was appointed a member of the Supervisory Board of Kendrion N.V. for a period of four years. He will succeed Mr Jan van Kesteren as Chairman of the Supervisory Board in December 2013, as Mr Van Kesteren will be resigning on 31 December.
Mr Ten Hove has also been appointed a member of the Kendrion Remuneration Committee.
Mr Ten Hove is the former CEO of Wavin N.V.

Kendrion Symposium 2013

Kendrion is committed to providing its customers with innovative solutions and its innovative processes are a key priority in all business units. Having previously established the Kendrion Academy for this purpose – opened in early 2013 – the company will be hosting the second Kendrion Symposium in Villingen-Schwenningen, Germany, on 7 November 2013. This year's theme will be "Magnetised by R&D". The development engineers of our main customers will be among the key guests at this symposium.

Profile Kendrion N.V.

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 two divisions with in total seven business units focused on specific market segments, namely in the Division Industrial the business units Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems, and in the Division Automotive the business units Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty 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 and gasoline engines, air-conditioning installations, motor cooling systems and beverage dispensers. Kendrion's key customers include a.o. Bosch, Continental, Daimler, Delphi, Eaton, Evobus, Hyundai, Siemens, Volkswagen and Yutong.

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

Declaration of the Board

The Executive Board declares that, with due regard for what has been described in this report, to its knowledge, (i) the semi-annual financial statements give a true and fair view of the assets, liabilities, financial position and profits of Kendrion N.V. and the companies jointly included in the consolidation, and (ii) the semi-annual report gives a true and fair overview of the information required pursuant to Article 5-25d sub 8 and 9 of the Netherlands Financial Supervision Act.

Zeist, 21 August 2013

The Executive Board

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Annexes

1. Financial calendar 2013 - 2014
2. Semi-annual condensed financial statements 2013
   - 2.1. Condensed consolidated statement of comprehensive income
   - 2.2. Condensed consolidated statement of financial position
   - 2.3. Condensed consolidated statement of cash flows
   - 2.4. Condensed consolidated statement of changes in equity
   - 2.5. Risks and risk management
   - 2.6. Notes to the condensed consolidated interim report

Annex 1 - Financial calendar 2013 - 2014

2013

Publication of HY1 2013 results	Wednesday, 21 August 2013	08.00 a.m.
Analysts' meeting	Wednesday, 21 August 2013	12.30 a.m.
Publication of Q3 2013 results	Wednesday, 6 November 2013	08.00 a.m.

2014

Publication of 2013 full-year figures	Thursday, 27 February 2014	08.00 a.m.
Analysts' meeting	Thursday, 27 February 2014	11.30 a.m.
General Meeting of Shareholders	Monday, 14 April 2014	02.30 p.m.
Publication of Q1 2014 results	Thursday, 8 May 2014	08.00 a.m.
Publication of HY1 2014 results	Thursday, 21 August 2014	08.00 a.m.
Analysts' meeting	Thursday, 21 August 2014	11.30 a.m.
Publication of Q3 2014 results	Thursday, 6 November 2014	08.00 a.m.

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- The quarterly and interim results are not audited -

Annex 2.1 – Condensed consolidated statement of comprehensive income

(EUR million)	Q2 2013	Q2 2012	Half-year 2013	Half-year 2012	Year 2012
Revenue	87.0	74.0	158.4	151.3	284.9
Other operating income	0.1	0.8	0.1	0.9	5.1
Total revenue and other operating income	**87.1**	**74.8**	**158.5**	**152.2**	**290.0**
Changes in inventories of finished goods and work in progress	(1.3)	2.0	(0.1)	(0.9)	1.0
Raw materials and subcontracted work	46.1	36.9	82.0	78.9	148.2
Staff costs	26.6	21.0	47.9	41.6	79.8
Depreciation and amortisation	3.6	3.1	6.8	6.3	12.7
Other operating expenses	8.6	5.5	14.0	11.9	23.9
Result before net finance costs	**3.5**	**6.3**	**7.9**	**14.4**	**24.4**
Finance income	0.1	0.0	0.1	0.0	0.1
Finance expense	(1.5)	(1.3)	(2.6)	(2.4)	(5.0)
Net finance costs	**(1.4)**	**(1.3)**	**(2.5)**	**(2.4)**	**(4.9)**
Profit before income tax	**2.1**	**5.0**	**5.4**	**12.0**	**19.5**
Income tax expense	0.9	(0.9)	0.2	(2.6)	(1.5)
Profit for the period	**3.0**	**4.1**	**5.6**	**9.4**	**18.0**
Attributable to:					
Equity holders of the company	3.0	4.1	5.6	9.3	17.9
Minority interest	-	0.0	-	0.1	0.1
Profit for the period	**3.0**	**4.1**	**5.6**	**9.4**	**18.0**
Other comprehensive income					
Remeasurements of defined benefit plans			-	0.8	0.6
Foreign currency translation differences for foreign operations			0.1	1.0	(0.8)
Net change in fair value of cash flows hedges, net of tax			(0.1)	(0.0)	0.1
Tax on other comprehensive income			0.0	0.0	(0.1)
Other comprehensive income for the period, net of income tax			**0.0**	**1.8**	**(0.2)**
Total comprehensive income for the period			**5.6**	**11.2**	**17.8**
Total comprehensive income attributable to:					
Equity holders of the company			5.6	11.1	17.7
Minority interest			-	0.1	0.1
Total comprehensive income for the period			**5.6**	**11.2**	**17.8**
Basic earnings per share (EUR), based on weighted average	0.24	0.35	0.46	0.81	1.55
Diluted earnings per share (EUR)	0.24	0.35	0.46	0.81	1.55
Normalised earnings per share (EUR), based on weighted average	0.25	0.25	0.48	0.70	1.16

Annex 2.2 – Consolidated statement of financial position

(EUR million)	30 June 2013	30 June 2012	31 Dec. 2012
Assets			
Non-current assets			
Property, plant and equipment	80.6	59.7	61.8
Intangible assets	120.5	76.6	74.5
Other investments, including derivatives	0.9	0.9	0.7
Deferred tax assets	13.8	8.0	10.5
Total non-current assets	**215.8**	**145.2**	**147.5**
Current assets			
Inventories	50.6	39.9	35.2
Current tax assets	3.1	2.1	3.0
Trade and other receivables	60.9	46.6	34.5
Cash and cash equivalents	14.0	8.5	9.9
Total current assets	**128.6**	**97.1**	**82.6**
Total assets	**344.4**	**242.3**	**230.1**
Equity and liabilities			
Equity			
Share capital	25.8	23.2	23.2
Share premium	74.2	60.0	59.9
Reserves	20.1	4.1	2.1
Retained earnings	5.6	9.3	17.9
Total equity attributable to equity holders of the company	**125.7**	**96.6**	**103.1**
Minority interest	-	0.3	-
Total equity	**125.7**	**96.9**	**103.1**
Liabilities			
Loans and borrowings	74.3	25.0	25.8
Employee benefits	18.9	7.6	7.1
Government grants received in advance	0.1	0.1	0.1
Provisions	49.9	46.7	43.6
Deferred tax liabilities	12.5	6.3	6.2
Total non-current liabilities	**155.7**	**85.7**	**82.8**
Bank overdraft	5.7	18.8	5.4
Loans and borrowings	0.1	-	-
Current tax liabilities	0.7	1.1	0.7
Trade and other payables	56.5	39.8	38.1
Total current liabilities	**63.0**	**59.7**	**44.2**
Total liabilities	**218.7**	**145.4**	**127.0**
Total equity and liabilities	**344.4**	**242.3**	**230.1**

Annex 2.3 – Condensed consolidated statement of cash flows

(EUR million)	30 June 2013	30 June 2012	31 Dec. 2012
Cash flows from operating activities			
Profit for the period	5.6	9.4	18.0
Adjustments for:			
Net finance costs	2.5	2.4	4.9
Income tax expense	(0.2)	2.6	1.5
Depreciation of property, plant and equipment	5.2	4.8	9.7
Amortisation of intangbile assets	1.6	1.5	3.0
Impairment of property, plant and equipment			0.3
	14.7	**20.7**	**37.4**
Change in trade and other receivables	(12.4)	(8.2)	4.2
Change in inventories	(2.4)	(1.5)	3.2
Change in trade and other payables	2.7	(2.4)	(3.9)
Change in provisions	(0.3)	(0.1)	(4.7)
	2.3	**8.5**	**36.2**
Interest paid	(1.8)	(2.2)	(3.8)
Interest received	0.1	0.0	0.1
Tax paid	(1.6)	(1.6)	(4.1)
Net cash flows from operating activities	**(1.1)**	**4.7**	**28.4**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash received	(38.3)	0.0	(0.7)
Investments in property, plant and equipment	(6.2)	(9.2)	(17.0)
Disinvestments of property, plant and equipment	0.0	0.1	0.3
Investments in intangible fixed assets	(1.0)	(1.0)	(2.0)
Disinvestments of intangible fixed assets	0.0	0.0	0.0
(Dis)investments of other investments	(0.1)	0.0	0.0
Net cash from investing activities	**(45.6)**	**(10.1)**	**(19.4)**
Free cash flow	**(46.7)**	**(5.4)**	**9.0**
Cash flows from financing activities			
Proceeds from borrowings (non current)	38.6	0.0	0.0
Repayment of borrowings (non current)	-	(10)	(9)
Repayment of borrowings (current)	(2.9)	-	-
Proceeds from the issue of share capital	19.0	-	-
Dividends paid	(4.3)	(4.4)	(4.4)
Change in shares held in own company	0.0	0.1	0
Net cash from financing activities	**50.5**	**(14.1)**	**(13.3)**
Change in cash and cash equivalents	3.8	(19.5)	(4.3)
Cash and cash equivalents at 1 January	4.5	8.9	8.9
Effect of exchange rate fluctuations on cash held	0.0	0.3	(0.1)
Cash and cash equivalents end of period	8.3	(10.3)	4.5

Annex 2.4 – Condensed 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 2012	22.9	64.6	2.3	(0.2)	(0.3)	20.9	(20.2)	90.0	0.3	90.3
Total comprehensive income for the period										
Profit or loss	-	-	-	-	-	-	17.9	17.9	0.1	18.0
Other comprehensive income										
Remeasurements of defined benefit plans	-	-	-	-	-	0.5	-	0.5	-	0.5
Foreign currency translation differences for foreign operations	-	-	(0.8)	-	-	-	-	(0.8)	-	(0.8)
Net change in fair value of cash flow hedges, net of income tax	-	-	-	0.1	-	-	-	0.1	-	0.1
Total other comprehensive income for the period	-	-	(0.8)	0.1	-	0.5	-	(0.2)	-	(0.2)
Total comprehensive income for the period	-	-	(0.8)	0.1	-	0.5	17.9	17.7	0.1	17.8
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares	0.3	2.4	-	-	-	-	-	2.7	-	2.7
Own shares sold	-	-	-	-	0.1	-	-	0.1	-	0.1
Share-based payment transactions	-	-	-	-	-	0.1	-	0.1	-	0.1
Dividends to equity holders	-	(7.1)	-	-	-	-	-	(7.1)	-	(7.1)
Total contributions by and distributions to owners	-	-	-	-	-	(20.2)	20.2	-	(0.3)	(0.3)
Acquisition of minority interest subsidiary	-	-	-	-	-	(0.4)	-	(0.4)	(0.1)	(0.5)
Balance at 31 December 2012	23.2	59.9	1.5	(0.1)	(0.2)	0.9	17.9	103.1	-	103.1
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 2013	23.2	59.9	1.5	(0.1)	(0.2)	0.9	17.9	103.1	-	103.1
Total comprehensive income for the period										
Profit or loss	-	-	-	-	-	-	5.6	5.6	-	5.6
Other comprehensive income										
Remeasurements of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Foreign currency translation differences for foreign operations	-	-	0.1	-	-	-	-	0.1	-	0.1
Net change in fair value of cash flow hedges, net of income tax	-	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Total other comprehensive income for the period	-	-	0.1	(0.1)	-	-	-	0.0	-	0.0
Total comprehensive income for the period	-	-	0.1	(0.1)	-	-	5.6	5.6	-	5.6
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares	2.6	21.1	-	-	-	-	-	23.7	-	23.7
Own shares sold	-	-	-	-	0.1	-	-	0.1	-	0.1
Share-based payment transactions	-	-	-	-	-	0.0	-	0.0	-	0.0
Dividends to equity holders	-	(6.8)	-	-	-	-	-	(6.8)	-	(6.8)
Total contributions by and distributions to owners	-	-	-	-	-	17.9	(17.9)	-	-	-
Balance at the end of the period	25.8	74.2	1.6	(0.2)	(0.1)	18.8	5.6	125.7	-	125.7

- The quarterly and interim results are not audited -

Annex 2.5 – Risks and risk management

Pages 33 to 41 of Kendrion N.V.'s 2012 Annual Report include a review of the risks faced by the company in conducting its business operations.

These risks break down into the following groups:
- Strategic & Business Risk Management
- Operational Risk Management
- Financial Reporting Risk Management
- Compliance and Regulatory

In the 2012 Annual Report, the following risks were identified as the most important risks:
- Volatile economic conditions, including the insolvency of customers and suppliers
- Technological substitution
- Shifts in customer preferences
- Dependency on A-customers
- Attraction and retention of qualified staff
- Non-performing Information Systems
- Excessive focus on short-term rather than on long-term objectives

These issues continue to be the main points of concern for Kendrion. The volatile economic conditions remain a top priority in the immediate future, given the remaining uncertainty in the market.

Following the acquisition of the Kuhnke Group in May 2013, a specific point of attention will be the integration of the Kuhnke companies into the Kendrion Group.

Kendrion will continue to closely monitor risks and adjust its control measures as new risks may emerge or current risks may change.

Annex 2.6 – Notes to the consolidated condensed interim report

1. Reporting entity

Kendrion N.V. (the "Company") has its registered office in Zeist, the Netherlands. The Company's condensed consolidated interim report for the first six months of 2013 covers the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in associates.

The Group's Annual Report for the 2012 financial year is available on request from the Company's registered office at Utrechtseweg 33, Zeist, the Netherlands or on www.kendrion.com.

2. Declaration of Conformity

This condensed consolidated interim report was prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34, *Interim Financial Reporting*. The report does not contain all the information required for comprehensive financial statements and must be read in conjunction with the Group's 2012 consolidated financial statements.

This condensed consolidated interim report was approved by the Executive Board and the Supervisory Board on 20 August 2013.

3. Primary accounting principles

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2012. The changes in accounting policies described below are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2013.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011)
- IFRS 11 Joint Arrangements
- IFRS 13 Fair Value Measurement
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The adoption of the new standards and the amendment to IAS 1 has had no impact on the interim financial statements of the Group.

4. Estimates

The preparation of the interim reports requires the opinion of the management, which makes estimates and assumptions that affect the application of accounting principles, the reported value of assets and liabilities, and the size of the company's income and expenditure. Note that the actual results may vary from these estimates.

Unless otherwise specified below, in the preparation of this condensed consolidated interim report, important opinions formed by management in applying the Group's accounting principles, and the main sources of estimation used are equal to the opinions and sources used in preparing the consolidated financial statements for the financial year 2012.

5. Financial risk management

The Group's objectives and policy relating to financial risk management are identical to the objectives and policy set out in the 2012 consolidated financial statements.

6. Segment reporting

Until 2012 Kendrion aggregated all operating segments into a single reportable operating segment at the consolidated level of Kendrion as a group. Following the acquisition of the Kuhnke group, Kendrion now has two new business units: Industrial Control Systems and Automotive Control

Systems. The new business unit Heavy Duty Systems was created as from 1 January 2013. Due to these changes and the increase in its activities, Kendrion has split all activities into an Automotive Division and an Industrial Division. The Automotive Division consists of the Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems business units. The Industrial Division consists of the Industrial Drive Systems, Industrial Magnetic Systems and Industrial Control Systems business units.

Based on this new division structure and the criteria of IFRS 8-Operating segments, we have concluded that within the new structure the Kendrion business units are the operating segments within the Group. Based on the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: the Automotive Division and the Industrial Division.

Information about reportable segments	Industrial division		Automotive division		Corporate activities		Total	
(EUR million)	30 June 2013	30 June 2012	30 June 2013	30 June 2012	30 June 2013	30 June 2012	30 June 2013	30 June 2012
External revenues	56.5	52.3	101.9	99.0	-	-	158.4	151.3
Inter-segment revenue	0.1	0.3	0.1	0.0	-	-	0.2	0.3
EBITA	3.5	4.1	6.9	10.6	(1.4)	0.8	9.1	15.6

	Industrial division		Automotive division		Corporate activities		Total	
(EUR million)	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012
Reportable segment assets	111.4	61.5	217.1	157.4	15.8	11.2	344.4	230.1

7. Seasonality of business operations

Kendrion is not affected by seasonal trends. In general, however, there are fewer working days in the second half of the year due to the holiday periods in the third quarter and the month of December.

8. Changes in the Group

Business combinations

On 6 May 2013 Kendrion reached an agreement with the shareholders and management of Kuhnke AG on the acquisition of 100% of the shares in the company. The Kuhnke group operates in the automotive industry, with annual revenues of approximately EUR 70 million, and the automation industry, with annual revenues of approximately EUR 40 million, both predominantly in the European market. On 14 May 2013 Kendrion obtained control over Kuhnke AG and from that date onwards the financial statements of Kuhnke AG and its subsidiaries are consolidated by Kendrion and reported in the Automotive segment (automotive activities) and the Industrial segment (automation activities). The Kuhnke Group employs approximately 1,100 people and has production locations in Malente, Germany and Sibiu, Romania, along with sales offices in various locations including Kristianstadt, Sweden. Kendrion and Kuhnke complement each other strategically with their respective competencies and positions in electromagnetic, electronic and mechatronic sub-systems and components for a wide range of automotive and industrial applications. Kuhnke has complementary technological knowledge of electronic and electromechanical applications and the combination offers scope for the joint development of high-technology subsystems. Kendrion and Kuhnke's customer bases show little overlap and hence offer cross-selling opportunities, and at the international level the combination offers opportunities for leveraging Kendrion's international footprint to market Kuhnke's expertise beyond Europe as well. There are also significant opportunities in terms of production with, for example, Kuhnke's Romanian production site, which currently manufactures mainly for Automotive, also providing opportunities for expanding the joint industrial activities.

In the month and a half leading up to 30 June 2013, Kuhnke contributed revenue of EUR 15 million to the Group's results. Its contribution to net profit during this period was negligible after deduction of the charges relating to the purchase price allocation. Management estimates that if the acquisition had taken place on 1 January 2013, the consolidated revenue for the first six months would have been EUR 202 million and the consolidated reported net profit would have been EUR 6.1 million after purchase price allocation charges.

Contingent consideration

The Company agreed to pay the selling shareholders an additional consideration dependent on the extent to which the acquired company's added value exceeds a predetermined threshold in 2013. At the acquisition date the discounted value of the consideration was valued at EUR 5.3 million, based on the latest forecast at the acquisition date. The contingent consideration is capped at EUR 15 million and the minimum agreed amount is EUR 1 million. Once the added value for 2013 has been determined the contingent liability will be settled with the former owners during 2014.

Consideration transferred

Cash	44.0
Equity instruments (114,130 ordinary shares)	2.3
Contingent consideration	5.3
	51.6

The fair value of the ordinary shares issued was based on the company's listed share price at 14 May 2013 of EUR 20.04 per share.

Identifiable assets acquired and liabilities assumed

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

	Carrying amount	Fair value adjustments	Recognised value
Intangible assets	0.4	15.8	16.2
Property, plant and equipment	17.1	0.7	17.8
Deferred tax assets	1.8	-	1.8
Inventories	12.6	0.5	13.1
Trade and other receivables	14.2	-	14.2
Cash and cash equivalents	5.8	-	5.8
Loans and borrowings	(12.8)	-	(12.8)
Deferred tax liabilities	(1.7)	(4.7)	(6.4)
Provisions	(12.1)	-	(12.1)
Trade and other payables	(16.3)	-	(16.3)
Total identifiable net assets	**9.1**	**12.2**	**21.3**

Loans and borrowings include a loan of EUR 6.5 million which was previously unconsolidated before the adoption of IFRS as from the acquisition date. No contingent liabilities are applicable. The trade and other receivables comprise contractual amounts of EUR 15.3 million, of which EUR 1.1 million was expected to be uncollectible at the acquisition date.

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

Total consideration transferred	46.3
Contingent consideration (earn-out)	5.3
Fair value of identifiable net assets	(21.3)
Goodwill	**30.3**

The goodwill is mainly attributable to know-how contained in the workforce and synergies expected to be achieved from combining technologies, production facilities, customers and the international network.

Acquisition-related costs
The group incurred acquisition-related costs of EUR 1.3 million related to advisory fees, legal fees and due diligence costs. The costs have been included in other operating expenses in the statement of comprehensive income in 2013 and are reported under corporate activities.

9. Main currencies
The table below shows the main exchange rates during the first half of 2013.

Value of EUR	At 30 June 2013	At 31 December 2012	Average over HY1 2013
Pound sterling	0.8572	0.8161	0.8479
Swiss franc	1.2338	1.2072	1.2256
Czech krone	25.9491	25.1509	25.6562
Chinese yuan	8.0280	8.2207	8.1180
US dollar	1.3080	1.3194	1.3116
Mexican peso	17.0413	17.1845	16.6572
Brazilian real	2.8899	2.7036	2.6861
Romanian ley	4.4603	4.4445	4.3964
Indian rupee	77.7182	72.5584	72.3641
Swedish krone	8.7773	8.5820	8.6328

10. Property, plant and equipment
Capital commitments
As at 30 June 2013, the Group had agreements outstanding for the acquisition of property, plant and equipment in the amount of EUR 4.8 million (versus EUR 5.1 million as at 30 June 2012).

11. Assessment of downward value adjustments
During the first half of 2013, as well as in previous periods, Kendrion assessed whether there were indications during this period for downwardly adjusting goodwill or other key assets, and the conclusion was that there was no need for impairment.

12. Deferred tax assets
As at 30 June 2013, deferred tax assets amounted to EUR 13.8 million, of which a total of EUR 10.5 million relates to the valuation of tax losses carried forward and can be specified as follows:

Germany	EUR 5.2 million
The Netherlands	EUR 4.3 million
USA	EUR 0.7 million
India	EUR 0.3 million

13. Provisions

"Provisions" includes a provision of EUR 5.3 million for the contingent consideration (earn-out) relating to the acquisition of the Kuhnke Group. Please refer to section 8.

14. Equity

In May 2013 Kendrion issued 1,165,521 ordinary shares at a price of EUR 18.40 per share. These shares were issued and fully paid during the period.

In May 2013, the optional dividend of EUR 0.58 per share was paid to shareholders. A total cash dividend was paid of EUR 4.3 million, and a total of 133,113 shares were issued.

The table below shows the number of outstanding shares as at 30 June 2013.

	Ordinary shares qualifying for dividend	Own shares acquired	Total number of shares issued
1 January 2013	11,639,375	15,839	11,655,214
Shares issued	1,165,521		1,165,521
Shares issued (stock dividend)	133,113	-	133,113
Issued registered shares (share plan)	8,428	-	8,428
Own shares delivered	4,486	(4,486)	-
30 June 2013	12,950,923	11,353	12,962,276

15. Loans and borrowings

As at 30 June 2013, the Group had access to the following lines of credit:

- A EUR 183.5 million credit facility with a banking consortium consisting of Deutsche Bank, ING Bank and Rabobank. The credit facility has the following sub-facilities:
  - A committed EUR 35 million revolving working-capital facility with a maturity date of 17 January 2016;
  - A committed EUR 100 million acquisition facility with a maturity date of 17 January 2016;
  - A EUR 48.5 million guarantee facility relating to the fine imposed by the European Commission, which Kendrion has appealed;
- EUR 6.5 million loan from Sparkasse Holstein related to the Kuhnke buildings in Malente;
- EUR 5.0 million current account facilities with Sparkasse Holstein and Commerzbank in Germany;
- EUR 1.7 million in finance leases related to equipment in the Kuhnke Group;
- EUR 2.1 million in other loans

As at 30 June 2013, the total unutilised amount of the credit facilities was approximately EUR 60 million. Effective from 31 December 2013, the acquisition facility will be reduced by EUR 8 million every six months unless the leverage ratio remains below the predetermined threshold starting at 2.5.

Under the credit facility's terms and conditions, the Group has committed to complying with a number of financial covenants.

	Covenant	Actual
Debt cover (net bank debt / 12 months EBITDA)	< 2.5	1.79
Interest cover (net finance charges / 12 months EBITDA)	> 4.0	13.55

These covenants are tested each quarter based on a rolling 12-month period.

Securities issued
The group has provided a mortgage right to Sparkasse Holstein in relation to the EUR 6.5 million loan. Certain trade receivables are pledged to Sparkasse Holstein in relation to a EUR 1.5 million current-account facility. A pledge on specific machines in Austria is provided in relation to a EUR 0.6 million subsidised loan. No securities have been provided relating to the banking consortium's credit facility.

16. Taxes
The tax income for the first six months was EUR 0.2 million, equivalent to 3% negative effective tax rate. During the second quarter of 2013, the deferred tax assets in the Netherlands were increased by EUR 1.6 million. This increase lowered the tax burden.

17. Financial instruments
As at 30 June 2013 the value of the derivative instruments in the balance sheet is a EUR 0.2 million liability (year-end 2012: EUR 0.2 million liability).

There have been no material changes since the end of 2012 in terms of sensitivity to market risks (i.e. currency, interest and price).

18. Contingent liabilities
The information regarding this issue included in the 2012 Annual Report (pages 119 and 120, point 18) remains valid.

Regarding the lawsuit initiated by the former Managing Director of Kendrion (Sao Paulo) Sistemas Automotivos Ltda., the higher court ordered Kendrion to pay an amount of approximately BRS 300,000 (out of the claim of BRS 3,435,683). The former Managing Director decided to appeal this decision to the highest labour court in Brazil.

Regarding the warranty claims received by Kendrion LINNIG GmbH for the total amount of USD 1.3 million, a settlement was reached in 2013, based on which Kendrion is required to pay a total amount of approximately EUR 250,000.

19. Related parties
For the definition of "related parties", please refer to pages 124 to 126 (point 27) of the 2012 Annual Report.