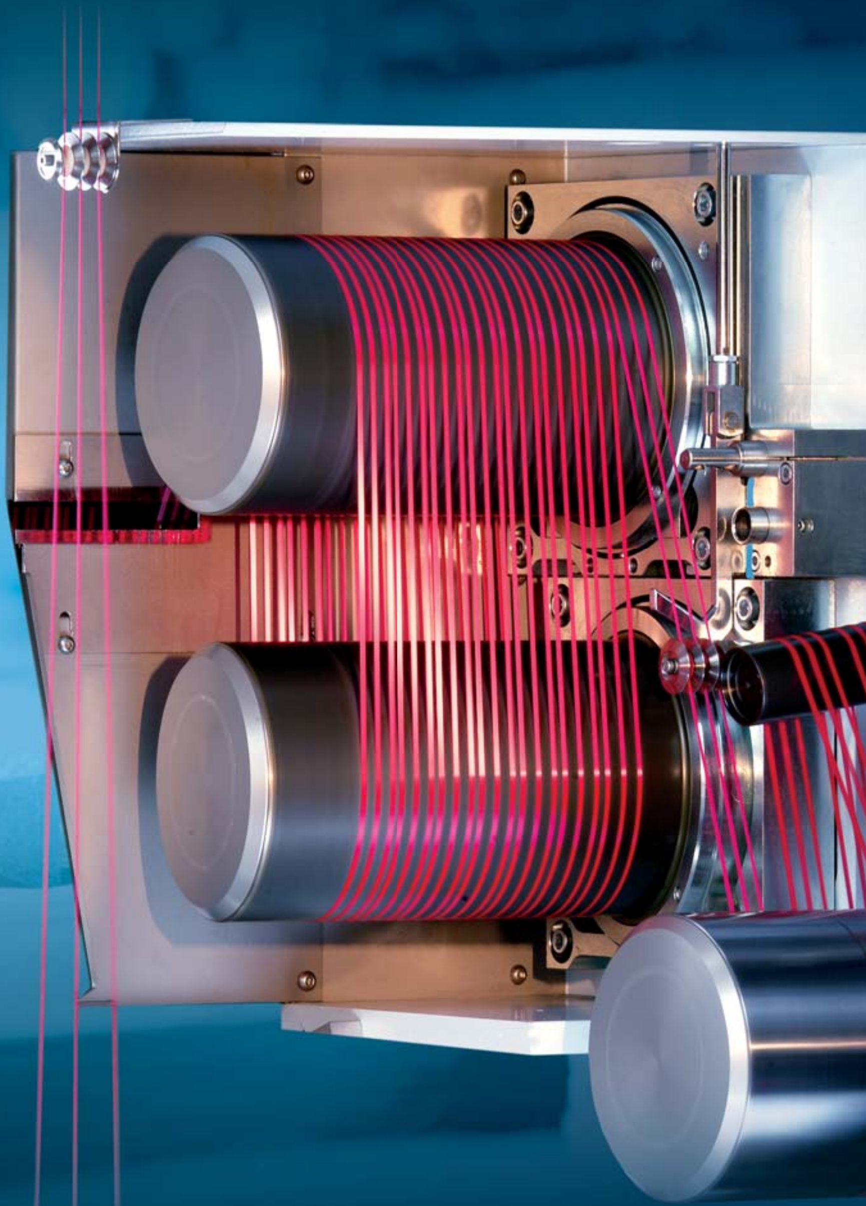
KENDRION

WE MAGNETISE THE WORLD

ANNUAL REPORT 2013



KUHNKE LINNIG® BINDER

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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 2013 and
the CSR Report 2013.

Contents

Profile

KENDRION N.V., a solution provider, develops, manufactures and markets innovative high-quality electromagnetic and mechatronic 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 and mechatronic solutions for industrial and automotive 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, Evobus, Hyundai, Siemens, ThyssenKrupp Bilstein, Volkswagen, Wabco, Yutong and ZF.

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

Organisation

KENDRION

WE MAGNETISE THE WORLD

- Development, production and marketing of high-quality electromagnetic and mechatronic systems and components
- 2,800 employees (including about 100 temps) in 15 countries
- Revenue: approximately EUR 400 million
- Listed company on NYSE Euronext's Amsterdam Market

Division Industrial

IMS

Industrial Magnetic Systems

Electromagnetic components tailored to the individual needs of advanced industries.

BINDER

ICS

Industrial Control Systems

Customised, mechatronic solutions designed to optimise automatic processes.

KUHNKE

IDS

Industrial Drive Systems

Electromagnetic brakes and clutches for the industrial drive technology.

BINDER

Division Automotive

PCS

Passenger Car Systems

Project solutions for specific customer applications in the automotive and special vehicle industries.

BINDER

ACS

Automotive Control Systems

Intelligent automotive control systems for comfort, safety, energy saving and functionality.

KUHNKE

CVS

Commercial Vehicle Systems

Individual energy-saving systems for commercial vehicles and off-highway applications.

LINNIG

HDS

Heavy Duty Systems

Customised project solutions for the commercial vehicles sector.

KENDRION

Preface *To all our shareholders and other stakeholders,*

Over the past years we have worked hard and consistently on gaining leading positions in electromagnetic niche markets. This has resulted in Kendrion's development into a highly focused, technologically advanced and innovative company that is active in many areas all over the world. In 2013, we were able to take a further step in this development after our acquisition of Kuhnke. The Kuhnke acquisition has enabled Kendrion to expand its strategic playing field for the coming years: Kendrion, currently the market leader in electromagnetic systems and components, has now laid the foundations for its expansion into the market for mechatronic systems and subsystems. Consequently, Kendrion intends to provide its customers continually increasing added value to further increase its appeal as a supplier. For this reason, our acquisition of Kuhnke was the highlight of 2013.

Conversely, a disappointment was the ruling on Kendrion's appeal the Court of Justice of the European Union issued in November 2013, in which the Court upheld the fine imposed on Kendrion in 2005 for an infringement by its former subsidiary Fardem Packaging B.V. As Kendrion had already formed a provision in 2011 for the fine in the event of the dismissal of its appeal, the company's strong financial position will remain unimpaired and will lay the foundations for further growth during the coming years.

2013 was still a difficult year for Kendrion when viewed from an economic perspective. Both organic growth and the result were under a degree of pressure, in particular during the first six months of the year. However, the situation improved during 2013 and, in part due to the launch of a number of important projects, we were able to record cautious organic growth during the second half of the year.

During the year under review we once again devoted a great deal of effort to the further strengthening of our internal organisation within the context of our 'Entering another league' Mid-term Plan. The Kuhnke acquisition also had consequences for this programme. Two new business units were formed at Kuhnke, and the company then devoted a great deal of effort to the further improvement of their power and entrepreneurship. Kendrion also formed a new business unit at the beginning of 2013, Heavy Duty Systems, which manufactures and distributes high-grade components for the global truck market. We decided that the increase in the number of business units to seven gave cause to a restructuring in which they were brought under two new divisions, the Industrial and Automotive Divisions. This new organisational structure increases Kendrion's opportunities for growth during the coming years.

Kendrion's business units cooperate intensively in technical issues. This cooperation is supported by the Kendrion Academy, which successfully began operations in 2013. Once again, Kendrion succeeded in expanding its engineering departments in 2013. We attach paramount importance to innovation: the company takes many innovative initiatives every year and its customers increasingly regard Kendrion as an innovative partner.

We also continue to assign priority to the expansion of the geographical spread of our operations. The opportunities for the expansion of Kendrion's US operations have increased on the acquisition of a number of important new projects. The Romanian plant of the newly-acquired Kuhnke company increases the opportunities available for high-grade production in low wage countries. Although the Asian market was not an easy market for Kendrion in 2013, new projects and the commissioning of a new plant for Kendrion Linnig in Nanjing (China) in 2014 are expected to offer new market opportunities.

We once again devoted a great deal of attention to sustainability and corporate social responsibility in 2013. These themes will become even more important to many of Kendrion's stakeholders – and certainly its customers – during the coming years. More information will be available in Kendrion's third CSR Report, which will be published in the spring of 2014.

Looking back on 2013, we are of the opinion that we have laid many of the foundations required for the company's further successful development in the future. Moreover, Kendrion expects that the economic recovery will continue during the coming years. Kendrion's confidence in its opportunities is reflected in the title of the company's latest Mid-term Plan: Kendrion is now 'Designed to grow'.

For this reason, we welcome this opportunity to express our gratitude to our employees, management and stakeholders for their hard work, support and commitment.

Kendrion also wishes to express its particular gratitude to Mr Van Kesteren, who resigned at the end of 2013, for his great contribution to the development of Kendrion in his role as Chairman of the Supervisory Board during the past more than nine years.

Kendrion is and will remain an ambitious company and can achieve its goals only when it continues to combine all its forces in the future.

Piet Veenema
CEO

Kendrion at a glance

Key figures

EUR million, unless otherwise stated

Share information

Normalised net profit per share (EUR) [3, 4]

2012	1.16	
2013	1.14	↓ (2%)

Operations

Revenue

2012	284.9	
2013	354.0	↑ 24%

Operating result before amortisation (EBITA) [2, 3]

2012	22.3	
2013	23.9	↑ 7%

Operating result before depreciation and amortisation (EBITDA) [3]

2012	32.7	
2013	36.9	↑ 13%

Normalised net profit [3, 4]

2012	13.6	
2013	14.3	↑ 5%

EBITA [2, 3, 9]/invested capital [10] (ROI)

2012	12.4%	
2013	10.8%	↓ (13%)

Net investments

2012	18.7	
2013	18.5	↓ (1%)

Depreciation and amortisation

2012	12.7	
2013	16.0	↑ 26%

Solvency (total equity/ balance sheet total)

2012	44.8%	
2013	40.1%	↓ (11%)

Working capital [5] in % of revenue [6]

2012	11.9%	
2013	10.2%	↓ (14%)

EUR million, unless otherwise stated	2013	2012
Net profit	16.7	18.0
Organic growth [1]	(1.2%)	(4.1%)
Total equity	134.1	103.1
Net interest-bearing debt	49.0	21.3
Net interest-bearing debt / equity (gearing)	0.37	0.21
Net interest-bearing debt [7] / operating result before depreciation and amortisation (EBITDA) [3, 9]	1.22	0.65
Operating result before amortisation (EBITA) [2, 3] / net finance costs [8]	5.6	6.6
Outstanding shares at year-end (x 1,000)	12,962	11,655

Realisation of targets

Organic growth [1]	
Target	> 10% per year
Actual	(1.2%)

Return on Sales (ROS) [2, 3]	
Target	> 10.0%
Actual	6.8%

Return on invested capital (ROI) [2, 3, 9, 10]	
Target	> 17.5%
Actual	10.8%

Solvency	
Target	not below 35%
Actual	40%

Ratio of interest-bearing debt and EBITDA [3, 7, 9]	
Target	< 3.00
Actual	1.22

Free cash flow [3, 4, 11]	
Target	healthy free cash flow in relation to organic growth in % of net profit
Actual	82%

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

[1] *Organic growth is excluding revenue Kendrion (Shelby) Inc. in 2012 and excluding revenue Kuhnke in 2013.*

[2] *EBITA excluding amortisation related to acquisitions (part of other intangible assets).*

[3] *Excluding release earn-out Kendrion (Shelby) Inc. in 2012 and excluding release earn-out, acquisition and integration costs related to Kuhnke and partial release provision for EC fine in 2013.*

[4] *Excluding non recurring tax gain and tax on restructuring and integration costs of Kuhnke in 2013.*

[5] *Working capital is excluding EC fine payable in 2014.*

[6] *Revenue 2013 is including full year Kuhnke.*

[7] *Excluding EC fine payable.*

[8] *Financing costs excluding accrued interest EC fine.*

[9] *EBITA and EBITDA in 2013 is including full year Kuhnke.*

[10] *Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash, current tax liabilities, trade payables and other payables (2013 including EC fine).*

[11] *Before cash flow relating to acquisitions.*

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 even more of a global player. Within this context, the USA and especially China 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 and mechatronic 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 sustainability and of Kendrion's 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;
- Corporate Social Responsibility and sustainability.

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 related 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 relatively 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 two divisions with seven 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 attaches great importance to a balanced spread between its automotive and industrial operations as these activities are beneficial to each other and jointly increase Kendrion's level of expertise. For this reason Kendrion intends to improve this spread and has expanded its strategic objectives as follows:

- Vigorous growth in revenue in the company's core activities (in part by means of acquisitions);
- Primary focus on value-added acquisitions preferably in industrial operations;
- Great efforts to achieve continued growth in the USA and China;
- Acquisitions in Europe, provided that they strengthen Kendrion's technological and market position.

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 Americas and Asia as the most important geographic markets. In Europe, the importance of countries in Eastern Europe needs to increase. Eastern Europe offers opportunities in terms of production locations and markets, as is demonstrated by the operating companies in the Czech Republic and Romania. The Americas and Asia 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.

Kendrion strives to achieve a balanced customer base in which, in principle, no customer generates more than 5% of the company's total revenue.

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 American and Asian continents. However, Kendrion is also still interested in opportunities in Europe, in particular in Germany, as shown by the acquisition of Kuhnke in May 2013. Kendrion intends to achieve further growth, in particular by acquisitions in the industrial segments. Acquisition targets need to offer good returns in terms of their EBIT and ROI, preferably at levels similar to or above Kendrion's returns, but at least leading to improvement of the earnings per share. The smooth and careful integration of acquisitions is then essential.

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 second Kendrion Symposium, which Kendrion organised in Villingen (Germany) in November 2013. Kendrion also made use of the services of an external Innovation Board for the provision of advice and support to the company. Kendrion has also developed an Intellectual Property Strategy and devotes continually increasing efforts to the development of knowledge management.

Corporate Social Responsibility (CSR) and sustainability
Pursuant to Kendrion's mission CSR and sustainability are intrinsic, integral elements of the company's operations. This form of entrepreneurship pivots on the creation of multiple values (People, Planet and Profit). Sustainability is already at the core of many of the company's products and innovations. Kendrion intends to secure a sustainable and 'green' environment for the generations to come for so far as this is within the company's control. Kendrion intends to enhance its sustainability strategy and bring the strategy further into line with the company's overall strategy, for example in terms of the use of materials and the product portfolio. Some of relevant

global trends such as climate change, scarcity of resources, sustainable energy and population growth offer also opportunities for Kendrion. The product portfolios of Kendrion's divisions, especially the Automotive Division, already include many products that meet customer requirements for energy savings and lower emissions. In the longer term these can make an essential contribution to the creation of value for all Kendrion's stakeholders and the attraction of motivated employees. Kendrion introduced its first product with the greensigned logo in 2013.

Strategic objectives

Some time ago, Kendrion stated its target of increasing revenue to EUR 450-500 million in 2015. Since the company acquired Kuhnke in May 2013, revenue has increased to roughly EUR 400 million on an annual base, around EUR 250 million of which is generated by automotive operations (i.e. cars, buses and trucks). The combined revenue of the industrial business units totals approximately EUR 150 million. Further organic growth is expected for the coming years, where Kendrion's automotive activities, in particular, will be the driving force in both Europe and the United States.

Financial objectives

- Annual organic growth in revenue of at least 10%;
- Growth of the company, including acquisitions, to annual revenues of about EUR 450-500 million in 2015;
- Return on Sales (EBITA margin) in excess of 10%;
- Return on investment (ROI), inclusive of goodwill, in excess of 17.5%;
- 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 (summary of non-financial press releases)

4 February 2013

Appointment of Frank Sonnemans as new CFO of Kendrion N.V.

The Supervisory Board of Kendrion N.V. intends to nominate Mr Frank Sonnemans for appointment by the General Meeting of Shareholders of Kendrion N.V. to be held on 15 April 2013, as new CFO and member of the Executive Board of Kendrion N.V. Frank Sonnemans will commence his work for Kendrion N.V. on 18 February 2013.

7 May 2013

Kendrion announces acquisition of Kuhnke and offering of new ordinary shares

Kendrion reached agreement on 6 May 2013 with the shareholders and management of Kuhnke on its acquisition of Kuhnke AG. Kuhnke had revenue of EUR 110 million in 2012 and approximately 1,100 employees. Kuhnke has branches in Malente (Germany) and Sibiu (Romania), and sales offices in various locations including Kristianstad (Sweden).

In conjunction with the acquisition, Kendrion announces an accelerated bookbuild offering of, when taken together with ordinary shares to be issued to Kuhnke shareholders, up to 1,165,521 new ordinary shares.

7 May 2013

Kendrion N.V. successfully completes equity offering

Kendrion N.V. has successfully raised EUR 19.3 million through the accelerated bookbuild offering of new ordinary shares announced earlier today. The shares have been issued at a price of EUR 18.40 per share.

30 May 2013

Opinion of the Advocate General published in relation to Kendrion's appeal to the Court of Justice against the fine imposed by the European Commission

On 16 November 2011, the General Court of the European Union in Luxembourg delivered its judgement against the fine imposed by the European Commission in the amount of EUR 34 million (excluding interest) for infringement of Article 81 paragraph 1 of the EC Treaty by its former subsidiary Fardem Packaging B.V. At that time the Court ruled that the fine is to be upheld in full. Kendrion N.V. decided in January 2012 to lodge an appeal with the Court of Justice of the European Union.

The opinion of the Advocate General is that the fine for Kendrion in the amount of EUR 34 million should be upheld. She is furthermore of the opinion that the proceedings at the Court have taken an inordinately long time and that Kendrion has the possibility, if desired, to instigate a separate claim for damages. She recommends that the Court of Justice should not itself proceed to reduce the fine as requested by Kendrion.

21 August 2013

Mr Henk ten Hove appointed member of Supervisory Board

Kendrion announces 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 2013.

Mr Ten Hove has also been appointed a member of the Kendrion Remuneration Committee.

26 November 2013

Judgement published in relation to Kendrion's appeal to the Court of Justice against the fine imposed by the European Commission

The final judgement of the Court of Justice has been published today. The Court of Justice ruled, fully in line with the advice of the Advocate General, that the fine for Kendrion in the amount of EUR 34 million should be upheld. Furthermore, the Court of Justice is of the opinion that the proceedings at the General Court have taken an inordinately long time and that Kendrion has the possibility, if desired, to instigate a separate claim for damages.

The Court of Justice did not reduce the fine itself, as requested by Kendrion.

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 2013, 12,962,276 shares had been issued.

On the balance sheet date the company owned 7,789 shares.

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

Movements in the share price from 2 January 2013 to 31 December 2013

Movements in the number of outstanding shares	Ordinary shares entitled to dividend	Repurchased shares	Total number of issued shares
At 1 January 2013	11,639,375	15,839	11,655,214
Issued shares	1,165,521	–	1,165,521
Issued shares (share dividend)	133,113	–	133,113
Issued registered shares (share plan)	8,428	–	8,428
Delivered repurchased shares	8,050	(8,050)	–
At 31 December 2013	12,954,487	7,789	12,962,276

Other information

In EUR, unless otherwise stated	2013	2012	2011
Number of shares x 1,000 at 31 December	12,962	11,655	11,492
Market capitalisation at 31 December (EUR million)	309.2	186.5	189.6
Enterprise value (EV) (EUR million)	358.1	207.9	215.5
Highest share price in the financial year	23.90	20.50	18.99
Lowest share price in the financial year	16.24	14.80	13.25
Share price on 31 December	23.85	16.00	16.50
Average daily ordinary share volume	11,278	11,199	17,489
EBITDA multiple (over EV)	9.71	6.35	5.39
Result per share	1.33	1.55	(1.79)
Normalised result per share	1.14	1.16	1.79
Share price earnings ratio	20.92	13.79	9.27

Shareholder		Date of report
Delta Lloyd Deelnemingen Fonds N.V.	10.71%	19-12-2013
Delta Lloyd N.V.	9.49%	6-5-2011
Project Holland Beheer B.V.	6.75%	5-11-2013
Invesco Limited	6.03%	27-9-2013
Janivo Beleggingen B.V.	5.88%	4-10-2011
Darlin N.V.	5.09%	1-11-2006
Jan Plas S.A.	5.02%	2-4-2009
J.N.A. van Caldenborgh	5.00%	4-3-2010
Menor Investments B.V.	4.77%	15-11-2013
T. Rowe Price Associates, Inc.	4.65%	27-9-2013
Total	63.39%	

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 shareholders as shown in the table left, possessed an interest of more than 3% on 31 December 2013.

Parcom Capital (ING) sold off its shareholding in a number of tranches, and on 5 November 2013 notified the company that it no longer held shares in Kendrion.

Other movements in the size of the interests of Kendrion's major shareholders also took place during the course of 2013. 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.

The Kuhnke takeover resulted in a sub 10% share issue on 7 May 2013. A total of 1,165,521 shares were issued, via an accelerated book-building process and with the support of major shareholders, at a price of EUR 18.40.

New legislation (the Corporate Governance Act, implementing the recommendations of the Corporate Monitoring Committee (the Frijns Committee)) entered into force on 1 July 2013. This Act introduced the obligation on shareholders to disclose a substantial holding of 3% or more, as well as the obligation to disclose gross short positions. A regulation was introduced on the same date enabling the identification of shareholders holding 0.5% or more of the issued share capital in certain circumstances. Kendrion has not yet made use of this option to identify its shareholders.

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. The results from this evaluation were discussed during the General Meeting of Shareholders on 16 April 2012.

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

The Executive Board shall, in line with the dividend policy and with the approval of the Supervisory Board, submit a proposal to the shareholders for the payment of a dividend of 50% of the normalised net profit of 2013. The dividend is equivalent to an amount of EUR 7.15 million. The number of outstanding shares entitled to dividend at 31 December 2013 was 12,954,487 and, consequently, the dividend amounts to EUR 0.55 per ordinary share with a nominal value of EUR 2.00 each.

Financial calendar

Thursday, 27 February 2014	Publication of the 2013 full-year figures
Monday, 17 March 2014	Record date General Meeting of Shareholders
Monday, 14 April 2014	General Meeting of Shareholders
Wednesday, 16 April 2014	Ex-dividend date
Tuesday, 22 April 2014	Dividend record date
Wednesday, 23 April – Wednesday, 7 May 2014, 3 pm	Dividend election period (stock and/or cash)
Thursday, 8 May 2014	Determination stock dividend exchange ratio
Thursday, 8 May 2014	Publication of the results for the first quarter of 2014
Monday, 12 May 2014	Cash dividend made payable and delivery stock dividend
Thursday, 21 August 2014	Publication of the results for the first six months of 2014
Thursday, 6 November 2014	Publication of the results for the third quarter of 2014
Thursday, 26 February 2015	Publication of the 2014 full-year figures
Monday, 13 April 2015	General Meeting of Shareholders

A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 14 April 2014 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 2014 (before start of trading), on the basis of the volume-weighted average price of all ordinary shares in Kendrion traded on 30 April and 2, 5, 6 and 7 May 2014, 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 12 May 2014.

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.abnamro.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. The plan does not extend to the Executive Board. In addition, the CEO Division Automotive, 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 these share plans a total of 8,428 shares were awarded in 2013. For central administration and handling purposes it has been decided to issue new – registered – shares and to terminate the delivery of repurchased shares for the share plans reviewed in this section as from 2012.

A bonus scheme in shares was granted to the members of the Executive Board for 2013. More information about the shares granted to the members of the Executive Board is enclosed on pages 136, 137 and 145. A comprehensive description of the bonus scheme for 2013 and onwards is included in the remuneration policy section on pages 70-72.

Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading. These regulations govern the Supervisory Board, Executive Board, the CEO Division Automotive, the 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.

Liquidity providing

In 2013, SNS Securities N.V. acted as a liquidity provider for Kendrion N.V. As such, SNS Securities acts as the counterparty for buy or sell orders of which the bid and ask prices are set within a range around the last executed price. Relatively small (retail) buy and sell orders can then be conducted via the liquidity provider, which results in a fairer and more orderly market.

Analysts

The following stock exchange analysts actively monitor the Kendrion share:

ABN AMRO Bank N.V.	Maarten Bakker
ING Bank N.V.	Tijs Hollestelle
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

Members of the Supervisory Board

H. ten Hove (61)
Mr Ten Hove was appointed Chairman of the Supervisory Board as from December 2013. The Extraordinary General Meeting of Shareholders had appointed Mr Ten Hove as member of the Supervisory Board as from 19 August 2013. Mr Ten Hove is member of the Remuneration Committee of Kendrion.
Mr Ten Hove is member of the Supervisory Board of Rabobank Vaart en Vechtstreek, member of the Supervisory Board of SPG Prints and Unica Groep B.V. and Chairman of the Economic Board of the Zwolle region. He is the former CEO of Wavin N.V.
Mr Ten Hove is a Dutch national.
He does not possess any shares in Kendrion.

R.L. de Bakker (63)
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 in the General Meeting of Shareholders of 2011 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 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 and Chairman of the Supervisory Board of the Florence 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.

From left to right: **H. ten Hove, H.J. Kayser, R.L. de Bakker, M.E.P. Sanders** and **S.J. van Kesteren**

M.E.P. Sanders (60)
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. In 2012 the General Meeting of Shareholders reappointed Ms Sanders for a four-year term until 2016. She is Chair of the Remuneration Committee of Kendrion.
Ms Sanders is Chair of the Supervisory Board of Hoens Broadcast Facilities B.V., of the Warande Foundation and Chair of the Advisory Board of Difrax Beheer B.V. Ms Sanders is member of the Supervisory Board of Stern Groep N.V. 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 (53)
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. The General Meeting of Shareholders held on 15 April 2013 reappointed Dr Kayser for a four-year term until 2017.
He is a member of Kendrion's Audit Committee. Dr Kayser is Head of Corporate Strategies of Siemens AG. He formerly was the CEO of 3W Power Holdings SA, AEG Power Solutions BV, and Kuka AG.
He held several (international) management positions with Siemens AG and McKinsey & Company. Dr Kayser is a German national. He does not possess any shares in Kendrion.

S.J. van Kesteren (72)
Mr Van Kesteren was Chairman of the Supervisory Board and member of the Remuneration Committee until December 2013. After nine years as a member of the Supervisory Board, Mr Van Kesteren stepped down on 31 December 2013.

Report of the Supervisory Board

Annual Report

We hereby present you the Annual Report for 2013 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 147-151 of this Report.

The Supervisory Board and the Executive Board held extensive discussions on the Annual Report for 2013 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 14 April 2014 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

Supervisory Board

The Supervisory Board is comprised of four members. In accordance with the rotation schedule, a proposal to reappoint Mr Van Kesteren and Dr Kayser as a member of the Supervisory Board for a further one-year term and a four-year term respectively was submitted to the General Meeting of Shareholders held on 15 April 2013. This proposal was adopted. Kendrion began the search for a new Member and Chairman in 2013. This resulted in the Supervisory Board's submission of a proposal to the Extraordinary General Meeting of Shareholders held on 19 August 2013 for the appointment of Mr Ten Hove as a member of the Supervisory Board for a term of four years. This proposal was adopted. The Supervisory Board appointed Mr Ten Hove Chair of the Supervisory Board as from 1 December 2013. Mr Van Kesteren stepped down from the Supervisory Board at the end of December 2013.

Following the acquisition of Kuhnke in May 2013, a proposal was submitted to the Extraordinary General Meeting of Shareholders held on 19 August 2013 to appoint the former Chairman of the Kuhnke AG Supervisory Board, Mr Kirchner, as member of Kendrion's Supervisory Board. However, prior to the Extraordinary General Meeting of Shareholders Mr Kirchner decided to withdraw his nomination for health reasons. Consequently, this item was removed from the agenda. Kendrion and the sellers of Kuhnke agreed that a new nomination would not be submitted. Instead, and within the context of Kuhnke's efficient integration in Kendrion, consultations will be held with Kuhnke's former CEO and former Chairman of the Supervisory Board until the end of 2015.

All members of the Supervisory Board comply with best practice provision III.3.4 of the Netherlands Corporate Governance Code and the Netherlands Management and Supervision Act (which prescribes the maximum number of positions an individual may hold on the Supervisory Boards of Dutch entities).

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

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

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 and Dutch legislation) 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 company's website.

New legislation has entered into force to provide for the balanced participation of men and women in the management and supervision of 'large' public and private limited liability companies. Balanced participation is deemed to exist when at least 30% of the seats are held by men and at least 30% by women. Kendrion's Executive Board and Supervisory Board do not achieve this gender balance. The imbalance in the Executive Board is in part due to the limited number of members. 25% of the seats on the Supervisory Board are held by women (1 out of 4). Although Kendrion attaches great importance to diversity and wishes to increase the percentage of women in the company's senior management, Kendrion is of the opinion that continuity in and the relevant experience of the members of the Supervisory Board and Executive Board is also of great importance and that the current membership of the Supervisory Board and Executive Board is reasonable when viewed from this perspective.

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 Supervisory Board has taken notice of the conflict of interest regulations laid down by the Netherlands Management and Supervision Act and shall act accordingly.

Executive Board

On 16 November 2012 it was announced that the CFO, Mr Ris, had decided to continue his career elsewhere. Mr Ris remained in his position at Kendrion until 28 February 2013. The Supervisory Board would like to thank Mr Ris for his great contribution and efforts over the course of many years. The Supervisory Board began to search for a new CFO immediately after Mr Ris' announcement and called on an experienced and reputable international executive search consultancy firm for assistance. The Supervisory Board was gratified that it was able to find a suitable candidate in such a short time and was pleased to submit a proposal to the General Meeting of Shareholders held on 15 April 2013 for Mr Sonnemans' appointment to the position of CFO for a four-year period, which was adopted.

Evaluations

Several meetings of the Supervisory Board, not attended by the Executive Board, discussed the performance of the Supervisory Board, its Committees and its members, the performance of the Executive Board and its members and an evaluation of the remuneration policy governing the Executive Board. 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. This revealed a number of issues to be addressed, including the attention to post-acquisition evaluations and the need for even deeper and effective discussions of strategic issues. For 2014, the Supervisory Board has specified the following spearheads for its duties: the supervision of the integration of Kuhnke, further organic growth outside Europe – in particular in the USA and China –, CSR and of management development.

The issues requiring attention last year included the further development of CSR, visits to sites and meetings with (the second tier) management. The first of these issues was addressed by carrying out a review of the main targets for 2013 and 2014: a further review of the long-term objectives will be carried out in 2014. The Supervisory Board also introduced a long-term variable remuneration policy for the members of the Executive Board which included a substantial number of performance criteria related directly to sustainability issues. The Supervisory Board addressed the second issue by visiting the Kuhnke plants in Malente, Germany and Sibiu, Romania. The Supervisory Board invited members of the Executive Committee and the IT Director to its meetings to discuss developments in the relevant business units and in the ERP HORIZON project.

The Supervisory Board also held consultations with the external auditor, in part attended by the Executive 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 36 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. In 2012, KPMG was reappointed for a further period of two years from 2012 (for the 2012 and 2013 financial years). Pursuant to new legislation, the auditor's audit services must be segregated from the auditor's consulting services. Kendrion complies with this regulation. This legislation also prescribes the rotation of audit firms after a maximum of eight years, whereby a transitional period of three years is permitted. Kendrion has decided to begin preparations for the transfer to a new auditor during the course of 2014.
The Supervisory Board, following recommendations from the Audit Committee and the Executive Board, will submit a proposal to the General Meeting of Shareholders to be held on 14 April 2014 for the appointment of KPMG as the auditor for a one-year period for the 2014 financial year.

Meetings

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

The Supervisory Board paid a working visit to the Kendrion Kuhnke plants in Malente, Germany and Sibiu, Romania. A delegation of the Supervisory Board was also pleased to attend the second Kendrion Symposium held on 7 November 2013 in Villingen, Germany, and welcomed the opportunity this offered for informal contacts with customers, employees and other stakeholders.

In 2014, the regular issues on the agenda for the Supervisory Board's meetings will be supplemented with a special theme for each meeting. These special issues include innovation, CSR, management development and organic growth in the USA and China. Business Unit Managers will also be invited to a meeting to discuss the progress in their business unit.

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 2013, 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, tax position, risk management, claims, compliance, treasury activities, the consequences of the new Accountancy Profession Act, the procedure for the selection of a new future audit firm and insurances. The external auditors joined the meetings in which the yearly figures of 2012 and the half-year figures of 2013 were discussed. The members of the Committee attended all meetings, sometimes by telephone.

Remuneration Committee
In 2013, the Remuneration Committee was comprised of Ms Sanders (Chair) and Mr Van Kesteren. Mr Ten Hove also joined the Remuneration Committee on his appointment in August 2013.

The Remuneration Committee held two meetings in 2013. The meetings were attended by members of the Executive Board. During the meetings the bonus systems were discussed, as well as the expected outcome of the variable remuneration for 2013. The Committee also reviewed, together with a reputable international HR consultant, the latest developments in and standards for variable remunerations within stock listed companies of the nature of Kendrion.
The discussions also extended to the remuneration package of the general

management. In conclusion, the Committee prepared a remuneration package for Mr Sonnemans as Kendrion's new CFO. All members of the Committee attended the meetings.

Highlights supervision

The discussions between the Executive Board and the Supervisory Board are always open. Proposals are discussed in a critical but constructive manner, and based on the transparent provision on information.

One meeting was devoted especially to evaluating and discussing the company's strategy on the mid-term, including the acquisition strategy and growth outside Europe. During this meeting the Supervisory Board also scrutinised the business' principles, risks and opportunities in greater detail. Intensive discussions were held on the markets, acquisition targets and the geographical focus. During one of its other meetings, the Supervisory Board also held in-depth discussions on the specific strategy to be adopted in China.

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.

The Audit Committee and the Supervisory Board devoted comprehensive attention to the organisation's internal risk management and control systems, including the degree of flexibility. In one meeting, the overview of internal control issues from 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 very limited number of relatively minor issues and that almost all issues reported in the previous management letter had been addressed. More information is enclosed in the risk management section on pages 36 and following of this Annual Report.

The Supervisory Board was closely and actively involved in the entire process leading to the acquisition of Kuhnke in May 2013, as well as in the financing of the acquisition including the issue of shares via an accelerated book-building process on 7 May 2013. The Supervisory Board also held in-depth discussions on the advantages and disadvantages of the acquisition and the potential risks, based on which the Supervisory Board gave its approval for the acquisition and share issue. The Supervisory Board drew attention to the need for an appropriate and rapid integration of the company and to the differences between the corporate cultures. The Supervisory Board received periodic progress reports on the integration and invited Kuhnke's interim integration manager to one of its meetings.

The Supervisory Board kept close track of developments relating to 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. An oral hearing by the Court of Justice was held on 5 February 2013. The Supervisory Board was extremely disappointed with the Court of Justice's ruling of 26 November 2013, which recommended that the fine be upheld in its entirety. This ruling was fully in line with the Advocate-General's recommendation of 30 May 2013. The ruling also stated that Kendrion can claim compensation for the failure to adjudicate within a reasonable time by the initiation of separate proceedings before the Court. The Supervisory Board and Executive Board have reviewed this issue, in part on the basis of external legal advice, and have jointly decided to initiate these proceedings even though the outcome is uncertain.

In 2013, following the approval of Mr Van Kesteren's appointment by the General Meeting of Shareholders held on 15 April 2013 for a one-year term, the Supervisory Board conducted an intensive search for a new Chairman of the Supervisory Board. This search was carried out with the assistance of an external expert. The Supervisory Board was gratified that the Extraordinary General Meeting of Shareholders held on 19 August 2013 adopted its proposal to appoint Mr Ten Hove as member of the Supervisory Board for a four-year term. The Supervisory Board subsequently appointed Mr Ten Hove Chairman of the Supervisory Board as from December 2013.

The Supervisory Board was updated from time to time on the progress of the ERP HORIZON project. In one meeting, the responsible IT Director was present to provide a status update. The Supervisory Board is satisfied that the implementation to date complies with the overall time plan and that the associated costs do not significantly deviate from the specified budget.

The Supervisory Board held extensive discussions on the design of the organisational and management structure, in part in view of the appointment of a new Business Unit Manager for Passenger Car Systems, the split to create two divisions – the Industrial and Automotive Divisions – and the creation of seven business units following the acquisition of Kuhnke. The Supervisory Board requested continual attention to the management positions and any vacancies that arise.

The Supervisory Board and the Executive Board discussed the dividend proposal that will be put on the agenda of the General Meeting of Shareholders to be held on 14 April 2014 (see page 15).

The Supervisory Board recognises the importance of Kendrion's corporate social responsibility and advocates a strong focus on the company's social and environmental standards governing its processes, and the relationship between the overall strategy and sustainability. The Supervisory Board reviewed the achievements of 2013 and endorsed the CSR Board's plans for 2014. More information about Kendrion's CSR activities is enclosed on pages 30 and 31 and will be provided in the CSR Report to be published around the end of March 2014.

The Supervisory Board is periodically updated on the latest developments in the relevant legislation and corporate governance regulations.

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 70-72, 136-137 and 145-146, and can also be reviewed in the remuneration report of the Supervisory Board as published on Kendrion's website.

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 145-146).

The Supervisory Board has received confirmation from the auditor that the figures on which the 2013 bonus for the Executive Board is based are derived from the audited financial statements, and that the calculation of the bonus has been checked.

Share plans

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. The plan does not extend to the Executive Board. In addition, the CEO of the Automotive Division, 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 these share plans a total of 8,428 registered shares were issued in 2013.

Profit appropriation

Kendrion recorded a net profit of EUR 16.7 million over 2013.

Normalised net profit before non-recurring items over 2013 was EUR 14.3 million.

The Executive Board shall, in line with the dividend policy and with the approval of the Supervisory Board, submit a proposal to the shareholders for the payment of a dividend of 50% of the normalised net profit of 2013. The dividend is equivalent to an amount of EUR 0.55 per share entitled to dividend. A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 14 April 2014 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 wishes to thank both Kendrion's customers and shareholders for their trust and support and the company's management and all other staff for their contribution and efforts in 2013.

The Supervisory Board also wishes to express its gratitude to Mr Van Kesteren, its strong and supportive Chairman during the past nine years. We are grateful for his wisdom and his contribution to Kendrion's development into the leader in its markets.

Supervisory Board
H. ten Hove, Chairman
R.L. de Bakker, Vice-Chairman
M.E.P. Sanders
H.J. Kayser

Zeist, 26 February 2014

Members of the Executive Board

P. Veenema (58)
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. and member of the Supervisory Board of N.V. Holding Westland Infra

F. Sonnemans (52)
Position: Chief Financial Officer
Nationality: Dutch
Joined Kendrion: 2013
Appointment to current position: the General Meeting of Shareholders held on 15 April 2013 appointed Mr Sonnemans for a four-year term until 2017. Mr Sonnemans is the successor of Mr E. Ris who held the position of CFO until 28 February 2013.

F. Sonnemans (left), **P. Veenema** (right)

Report of the Executive Board Highlights

- Vigorous expansion of a focused company with a clear profile;
- Acquisition of Kuhnke, on 14 May 2013, with an annual turnover of approximately EUR 110 million and 1,100 employees;
- Successful issue of 1,165,521 shares on 7 May 2013, resulting in a capital contribution of EUR 21.1 million to cover a portion of the financing of the Kuhnke acquisition;
- Broadening of the company's core activities, furthered by the Kuhnke acquisition, to encompass more mechatronic (sub-)systems;
- Broadening of Kendrion's geographic spread with the new manufacturing operations in Romania (in part as a result of the Kuhnke acquisition);
- Changes to the organisational structure on the split of Kendrion's operations into two divisions (Industrial and Automotive), each with a number of business units;
- Satisfactory net profit of EUR 16.7 million (normalised EUR 14.3 million) in view of the market conditions and the steps taken within the organisation;
- Decline in organic revenue of about – 5% in the first half of 2013 (due to the continuing difficult market conditions);
- Organic growth of approximately 3% in the second half of the year (due to the launch of new projects and the improving market conditions);
- Decline of normalised EBITA (as a % of revenues) of 6.8% (2012: 7.8%) largely due to the consolidation of Kuhnke;
- First steps taken in streamlining the newly-acquired Kuhnke's organisation and reducing the company's cost levels; efficient integration process;
- Strong financial position, with a solvency of 40.1% (total equity EUR 134.1 million) and acceptable bank debts (net debt EUR 49.0 million) at the end of 2013;
- Satisfactory free cash flow (normalised) of EUR 11.7 million, especially in view of the high level of investments in 2013;
- Disappointing outcome of the European industrial bag cartel case dating from 2005: ruling upholds Kendrion's fine of EUR 43.4 million, including interest (no impact on profit as Kendrion formed a provision for this amount in 2011);
- Further steps in outlining the company's strategy (the new Mid-term Plan, 'Designed to grow') for the expansion of Kendrion's leading global market positions and the achievement of the company's turnover target of EUR 450-500 million in 2015;
- Full focus on enhancing the company's engineering capabilities at operating companies outside Germany;
- Focus on the successful development of new innovations, first full year of the Kendrion Academy with several projects to support innovation in the future;
- Second Kendrion Symposium in November 2013, with more than 200 participants;
- Publication of the second official CSR Report in April 2013, further roll-out of the CSR programme; introduction of the Greensigned brand for first Kendrion product;
- Further successful roll-out and implementation of IFS' ERP software at Industrial Magnetic Systems in Germany, Passenger Car Systems in Austria and Commercial Vehicle Systems in Germany and India;
- Launch of restyled website (www.kendrion.com).

Organisational structure

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

Division Industrial

- *Industrial Magnetic Systems:* electromagnetic components tailored to the individual needs of advanced industries;
- *Industrial Control Systems:* customised mechatronic solutions designed to optimise automatic processes;
- *Industrial Drive Systems:* electromagnetic brakes and clutches for the industrial drive technology.

Division Automotive

- *Passenger Car Systems:* project solutions for specific customer applications in the automotive and special vehicle industries;
- *Automotive Control Systems:* intelligent automotive control systems for comfort, safety, energy saving and functionality;
- *Commercial Vehicle Systems:* individual energy-saving systems for commercial vehicles and off-highway applications.
- *Heavy Duty Systems:* customised project solutions for the commercial vehicles sector.

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 CEOs of the divisions, 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 CEO Division Automotive, the Business Unit Managers and the Chief Technology Officer – together the Executive Committee – takes all significant decisions concerning the strategy and direction of the 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 business units and their 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, group taxation, risk management, corporate communications and investor relations, facility management, insurance, IT, human resources management, Corporate Social Responsibility, legal affairs and corporate governance.

More information about the business units is enclosed on pages 55 and following of this Annual Report.

Targets and objectives

Continued focus on key issues

2013 was a very important year for Kendrion. Kendrion was confronted with stagnating global markets, in particular in the first half of the year, which resulted in a slight – 1.2% decline in organic revenue. The Automotive Division recorded the largest fall – 1.8%, and the Industrial Division a decline of – 0.4%. Economic conditions improved gradually later in the year. Conversely, the scope of Kendrion's operations increased substantially during the year following the acquisition of Kuhnke in mid-May 2013. All in all, the objectives Kendrion formulated in 2009 once again demonstrated their value in 2013.

These objectives are:

- 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;
- Management development.

Kendrion can conclude that the specific steps taken to attain these objectives achieved good results in 2013.

Actively respond to developments in all key markets

In 2013, Kendrion once again succeeded in strengthening the engineering staff in its divisions and business units to ensure that the company can continue to accommodate developments in its key markets and respond to customer problems in the appropriate manner. Kendrion assigns top priority to local empowerment and engineering. The company also allocated time and energy to market intelligence, in particular within the marketing departments of Kendrion's business units. In 2013, and for the second consecutive year, Kendrion employed its 'treasure mapping' tool for assessments of potential new projects prior to the decision-making on their acceptance. This new tool is used for annual critical evaluations of the existing portfolio of potential projects: it enables the company to set aside projects that are not assigned top priority and focus on the really promising prospects and projects.

Increase flexibility of staffing and costs

As recent experience has revealed, flexibility in all areas and at all levels is essential to Kendrion's development and growth. Kendrion is convinced that the companies which are most successful in adapting to rapidly changing circumstances have the best prospects for the future. This resulted in Kendrion's decision – taken many years ago – to devote a great deal of effort to the incorporation of flexibility in its total cost structure (staffing costs and other operating expenses) and continually assesses every opportunity and option available for the achievement of this objective. In 2013, Kendrion also reviewed the introduction of new flexibility instruments, a move that was necessary due to the increasing rates for temporary employees in Germany following the introduction of new legislation in November 2012. Discussions on these instruments were held with a number work councils in Germany and agreement was reached on their introduction. In addition, Kendrion's suppliers need to be managed in the manner that enables them to respond rapidly to developments in the company's market segments. For this reason, Kendrion is making considerable efforts to select the appropriate strategic suppliers for the longer term required to increasing flexibility in the future. The company monitors the flexibility of each division and business unit actively.

Further globalisation
The world is Kendrion's marketplace. Kendrion succeeded in starting up new projects in the Americas that will result in vigorous growth in the business of its existing operating companies in the coming years, in particular of Kendrion (Shelby) Inc. Kendrion's acquisition of Kuhnke has increased its manufacturing capabilities in Eastern Europe (Romania). Kendrion also took new sales initiatives in Italy following the expansion of the local sales operations for the Industrial Drive Systems business unit. The acquisition of Kuhnke also created new sales opportunities in Sweden.

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. 2013 was the second year of the operations of the Kendrion plant in Pune, India. Although the local economic conditions were unfavourable, the company was nevertheless able to acquire a number of new projects of various customers during the year: as a result, the prospects for the company's operations are favourable for the coming years. Kendrion intends to achieve further organic growth in China.
The Chinese company was unable to achieve its target in full in 2013, although it did succeed in acquiring a number of new projects. Consequently, Kendrion has adopted a new strategy for China which is based on the enhancement of local empowerment and the reduction of the company's dependency on Kendrion's European engineering capabilities.

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, beginning with paying innovation the attention it deserves. Kendrion has implemented an organisational structure designed to ensure continued innovation within the company. The Innovation Board, Innovation Calendar, Kendrion Day, Kendrion Symposium and the appointment of dedicated Innovation Managers at the Kendrion business units all promote the adoption of an innovative attitude that results in each business unit's introduction of several new innovations every year.

2013 was the first year of the operations of the newly-founded Kendrion Academy, which is responsible for fundamental research projects in the electromagnetic engineering field and for making and maintaining contacts with major universities and high schools. In 2013, the Passenger Car Systems business unit formed a special department entrusted with the creation of new technical opportunities to cater for the needs of the rapidly changing automotive industry.

The entire range of initiatives Kendrion has taken has enhanced its reputation as an innovative company. In September 2013, the Industrial Magnetic Systems business unit received the Kendrion Innovation Award for the most innovative business unit in recognition of its development of a new process technology for the textile market.

Kendrion is seeing increasing evidence that the company is recognised by its customers as an innovative partner. For this reason Kendrion will continue to seek new ways to increase its potential for innovation in the coming years.

Improve sustainability
Sustainability is at the core of many of the company's products and innovations. Kendrion and its highly motivated staff utilise the specific expertise and experience available within the company in innovative projects focused on increasing safety and achieving substantial reductions of emissions and fuel consumption. Kendrion is inspired by its ambition to secure a sustainable and 'green' environment for generations to come, fully appreciating and assuming its responsibility for achieving this objective. Kendrion installed an internal CSR Board, which coordinates action plans to further improve the sustainability of the company, its internal processes and supply chain. Kendrion intends to enhance its sustainability strategy and bring the strategy further in line with the company's overall strategy, for example in terms of the use of materials and the product portfolio. Kendrion introduced its first product with the greensigned logo in 2013. See also pages 30 and 31 of this report for more information on Kendrion's CSR targets and objectives.

Further improve working capital management
Kendrion continued to focus on the optimisation of working capital management in 2013. This resulted in an improvement in the underlying working capital positions. Kendrion's substantial efforts in the fourth quarter were rewarded with a significant improvement in most business units' working capital as compared to earlier quarters. As a result, Kendrion's net working capital was reduced from 11.9% to 10.2% of revenues. Kendrion's recently-acquired Kuhnke companies also addressed the optimisation of their working capital throughout the year.

Continue to strengthen risk management
Kendrion's risk management encompasses many issues and is fully embedded in the company's operations. More information is available on pages 36 and following.
Risk management continued to receive full attention in 2013, both in terms of strategic risks and financial reporting, the extension of the internal audit programme and

Kuhnke's integration, including alignment with the Kendrion risk management programme. This will continue in 2014.

Management development

Good management, expertise and motivation are of essential importance to the future. For this reason Kendrion assigns high priority to management development, both to ensure that important management positions are filled as soon as possible and that staff are offered the maximum opportunity to develop their career within the company. Kendrion's corporate management development programme is designed to achieve these objectives. More information is enclosed on pages 32-35 of this report.

Financial

Kendrion's financial targets will remain unchanged during the coming years. The target stipulates the achievement of organic growth of at least 10%. Kendrion forecasts further organic growth for both divisions in 2014, due both to the various new projects and the improved economic outlook.
This growth should also lead to a further increasing return on sales, although Kendrion does not expect that the target of 10% will yet be met in 2014. This is due mainly to the time required to bring the newly-acquired Kuhnke operations to the profit level targets set for the other Kendrion companies.

Mid-term Plan

Kendrion has always devoted a great deal of attention to Mid-term Plans. The new Mid-term Plan 2014-2016 – now 'Designed to grow' – focuses largely on building on Kendrion's improved opportunities for growth in mechatronic solutions and applications. The acquisition of Kuhnke and the new divisional structure have resulted in a substantial increase in Kendrion's technical possibilities and capabilities. Kendrion will also continue to focus on issues including flexibility, sales/marketing and the company's geographical spread.

Pursuant to standard practice, the Mid-term Plan is based on targets for the coming years, which are specified in consultation with the Executive Committee.
The operating companies employ these targets to prepare their individual Mid-term Plans. The Division and Business Unit Managers then use these individual plans to prepare an overall plan for their division or 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 (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 also 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 components and systems 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.

CSR Board and programme

In 2011, the Executive Committee decided to give further shape to Kendrion's CSR activities by measures including the appointment of a CSR Board. The Board is comprised of representatives from the business units and a number of corporate departments. The Board formulated a CSR ambition statement (published on Kendrion's website) and specified the key issues, targets and key performance indicators (KPIs) for 2013. The key issues include working conditions standards (including, but not limited to, health and staff satisfaction), community investment, chain responsibility and energy reduction, business ethics, knowledge-sharing and communication. Kendrion achieved a vast majority of its targets for 2013. Kendrion has specified a new set of targets for 2014, most of which focus on the further developing of the key issues addressed in 2013. Kendrion is incrementally aligning its overall strategy to sustainability and to CSR issues and targets, as is demonstrated by the further studies on the use of materials and the introduction of a 'greensigned' logo for some Kendrion products. The Kendrion Kuhnke operating companies will be incorporated in the CSR programme in 2014, and will also be assigned two representatives on the CSR Board.

CSR Report

Kendrion published its 2012 Corporate Social Responsibility Report, based on the General Reporting Initiative (GRI) guidelines level B, in early April 2013. The Report has been published on Kendrion's website. Kendrion's performance in 2013 will be explained and described in more detail in the next CSR Report, which will be published at the end of the first quarter of 2014. Hard copies of the Report are available for interested parties.

CSR Award

The first Kendrion CSR Award, also selected by the company's senior management, was presented to Kendrion (Pune) in India. Kendrion (Pune) won the award in recognition of its fuel-saving fan clutch technology project and its offers of Kendrion scholarships to support Indian students in need of financial assistance.

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. A similar Code of Conduct was introduced for Kendrion's suppliers in the course of 2012.

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.
No irregularities were reported in 2013.

Personnel

A number of important reforms were implemented in 2013. Kendrion's worldwide growth in its organisation and the Kuhnke takeover resulted in an increase in the number of the company's staff to approximately 2,800 employees (including about 100 temps). This resulted in the need to implement some changes to Kendrion's organisational structure.

Kendrion has created two divisions, Division Automotive and Division Industrial. Bernd Gundelsweiler has been appointed manager of the Division Automotive and Mr Piet Veenema (CEO Kendrion N.V.) the interim manager of the Division Industrial. Three new business units were formed, increasing the total to seven. The business units, which are located worldwide, have been brought under the two divisions.

Kendrion is a decentralised organisation. Responsibilities are assigned as low as possible within the organisation, and local entrepreneurship is encouraged. This ensures that Kendrion can respond rapidly to the continually changing market and special customer requirements. Moreover, this enables Kendrion to promote creativity, innovation and offer all business units an opportunity to develop their full potential. Kendrion Group Services (Financial Controlling, Treasury, Group Taxation, Legal Affairs, Human Resources, Technology and Innovation, Information Technology, Corporate Social Responsibility, Investor Relations and Facility Management) plays an important role in the facilitation and supervision of the operations, especially in times of Kendrion's growth.

In 2013, Kendrion once again demonstrated that the company's entire organisation can deal with challenges by adopting a results-oriented and efficient approach. The flexibility provided by the use of temporary employees has enabled the company to adopt an appropriate response to economic fluctuations. 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. Unfortunately, regulations introduced by some countries, including Germany, discourage the deployment of temporary employees. Kendrion is holding continual discussions with the works councils at several German plants on measures that could be implemented to retain the necessary flexibility. Tariff changes in Germany have resulted in the need for compensation for the deployment of temporary employees.

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 by the HR department in Villingen, Germany. These duties primarily relate to the (development of) senior management, and to the improvement of opportunities for recruitment. The HR department also focused on closer cooperation between the operating companies to improve exchanges and enable colleagues to benefit from each other.

Kendrion, like many other companies, was still affected by a shortage of skilled engineers. Kendrion's operating companies further extended regional activities that are intended to enhance their appeal as local employers. The companies' presence and marketing at schools and universities and their PR activities were intensified, in part via close cooperation with the Kendrion Academy.

Bond with the employees

Kendrion's Executive Committee devotes 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 nterviews. Kendrion's corporate magazine 'Magnetised', for all staff, is published three times a year.

In general, Kendrion has – although on occasion difficult issues need to be discussed – a good relationship with the works councils and the unions.

Staff loyalty

As Kendrion's employees are the company's most valuable asset, Kendrion has implemented a variety of staff loyalty measures at all its plants all over the world. These measures range from individual support to specific programmes and opportunities to the benefit of all Kendrion employees.

Family and career

Kendrion continually strives to improve the compatibility of its employees' careers and their families. The company has, for example, introduced flexible working hours for employees who need to care for family members. Kendrion offers individualised work schedule solutions to its German employees with young children who need day care. Kendrion is endeavouring to ensure that employees do not need to decide between 'children or Kendrion', but can decide on 'children and Kendrion'.

Health management

Kendrion has also introduced a number of programmes to promote the health of its employees. These include free fruit, company medical officer consultations, flu vaccinations, company sport groups, anti-smoking courses and ergonomic workplace solutions.

Kendrion's corporate culture includes the celebration of the company's successes with a special 'Thank you!' to Kendrion's employees. These successes are celebrated by organising events such as annual Christmas parties, football tournaments, barbecues and other activities. Kendrion is of the opinion that these events offer company staff a great opportunity to meet each other away from work and to get to know each other better in a relaxed atmosphere.

Number of employees

Kendrion has approximately 2,800 employees (including 100 temporary employees) in fifteen countries.

Compensation

Kendrion offers its employees attractive compensation terms that are in line with the local market and based on job-specific requirements. 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 performance targets. As from 2014, these also include CSR and innovation targets. Kendrion has implemented a share scheme for senior management.

Over 1,300 of the contracts of employment in Germany and Austria are governed by or follow the collective bargaining agreements for the metal industry in the respective countries.

Awards

At the end of 2013, the Chinese Suzhou labor security bureau conducted an audit and evaluation of Kendrion (Suzhou) Co. Ltd. This was followed by the award of AA level credible employer certification to Kendrion (Suzhou) Co. Ltd – the second company in Suzhou (more than 10 million inhabitants) to have received this certification.

Globalisation and technical advancements result in more intense competition. Kendrion is aware that the company will be able to achieve the desired growth and obtain and maintain an advantageous market position solely when it continually encourages the company's innovative spirit and its technical capacities. Kendrion's organisation of the company structure provides for continual innovation. The introduction of the 'Kendrion Innovation Award' is one measure that has been implemented to promote the company's innovative spirit. Kendrion's senior management selects the winner of this annual award. This year's award was not presented to a single product, but rather to an innovative production method which the Industrial Magnetic Systems business unit developed for its mechatronic assembly of components for textile machines.

The first Kendrion CSR Award, also selected by the company's senior management, was presented to Kendrion (Pune) in India. Kendrion (Pune) won the award in recognition of its fuel-saving fan clutch technology project and its offers of Kendrion scholarships to support Indian students in need of financial assistance.

Management development

Good management, expertise and motivation are 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. Two three-day modules are organised each year. The subjects covered by the programme are communication and leadership, sales and marketing, strategy, production and logistics, HR and project management. The programme also constitutes an important platform for exchanges of experience between the (senior) management, and for the further expansion of collaboration between the various operating companies. Eleven members of staff graduated in 2013.

Kendrion implemented a new 'Kendrion High Potential Programme' in 2012. This three-year programme is divided into several learning modules. Kendrion selected fifteen high-potential employees from all over the world with the objective of training tomorrow's generation of managers. The first learning module began in January 2013. New candidates will join the programme each year.

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.

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

Other employees are also offered training and education opportunities.

The Kendrion Academy was founded last year. The Academy's objective is to further enhance the company's innovative capacity, disseminate technical knowledge among the company's employees and strengthen its ties with universities.

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.
The need to say farewell to temporary or permanent employees, for example due to the economic situation, can have a great impact for the people involved and their families. Kendrion acts in accordance with the prevailing local conditions and circumstances and with respect for the individual concerned. This has, unfortunately, been necessary at companies including Kuhnke, Malente, which was compelled to take its leave of a group of staff in support positions. Fair agreements on a social plan were reached with the works council. The relocation of the operations of Linnig Inc., in Atlanta, also resulted in a number of redundancies. The company strived to arrive at appropriate solutions for the staff involved.

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. Kendrion attaches importance to the creation of diversity in nationalities, cultures and gender. This diversity also promotes intercultural experience, which is highly compatible with the current internationalisation trend. It is important that Kendrion is a versatile company which reflects society. For this reason any form of preference or discrimination must be taboo.

The importance Kendrion attaches to a good social policy is also demonstrated by the company's accession to the UN Global Compact that includes labour principles relating to the working conditions of employees. Labour standards, including health & safety promotion, education, absenteeism and staff satisfaction, are also key elements of the Corporate Social Responsibility efforts, as defined by the CSR Board. Kendrion's CSR Board also includes delegates from HR departments. Reference is also made to the CSR Report as published on the website of Kendrion. CSR activities also contribute to making Kendrion an attractive employer for (potential) employees.

Personnel: key figures	2013	2012
Total number of employees at 31 December	2,860	1,630
Number of women in permanent employment	1,247	559
Number of men in permanent employment	1,219	838
Number of employees with a fixed-term contract	394	233
Number of permanent and temporary employees at 31 December (FTE)	2,756 [1]	1,632
Number of direct employees (FTE)	1,504	790
Number of indirect employees (FTE)	1,165	752
Number of temporary employees (FTE)	87	90
Average age of women	40.7	42.8
Average age of men	40.9	40.5
Average age of all employees	40.8	41.5
Average number of years' service	10.1	10.3
Average rate of absenteeism per employee (%)	2.8	2.6
Influx percentage (%)	18	16
Departure percentage (%)	14	16
Wage costs per FTE (EUR)	44,567	46,584
Training costs (as a % of wage costs)	0.8	0.9

[1] *Total number of employees at 31 December 2013 includes 1,051 Kuhnke employees (FTE).*

Risks and risk management

Background

Kendrion promotes local entrepreneurship at its companies and, consequently, offers scope to the managements 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's risk-reward appetite is periodically evaluated by the Executive Board and shared with and discussed by the Executive Committee. The Executive Board balances business opportunities with the expectations of shareholders, employees, regulators and other stakeholders. The risk-reward appetite can be specified in the following terms:

Risk category	Strategic objectives	Kendrion's risk-reward appetite
Strategic risks	Profitable growth and satisfactory free cash flow	**Moderate:** strike appropriate balance between risk and reward
	Customer intimacy	
	Balanced spread of activities, both geographically and between markets	
	Solid financial position	
Operational risks		**Moderate:** align targets and the related costs, focus on sustainable profit maximisation
Financial reporting risks		**Low:** full compliance with financial reporting rules and regulations, transparency
Compliance risks		**Low:** full compliance with the relevant legislation, regulations and political environments

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.

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 2013

Enterprise Risk Management

Strategic & Business Risk Management
- Quarterly evaluation per business unit
- Yearly strategic update

Operational Risk Management
- Quality systems
- Safety & health; environment
- Hedging against commodity price risk
- Monitoring & hedging financial market 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
- Anti-Bribery & Corruption
- 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. In Germany, the Code of Conduct is incorporated in each employment contract. A Supplier Code of Conduct has also been introduced to address the above themes.

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 2013, 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.

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 and Controllers of the operating companies and, ultimately, to Kendrion's CFO. 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.

Planning and control cycle

Insight into Kendrion's performance is obtained from the monthly reports of the current figures submitted by all the operating companies, weekly cash forecasts and daily consolidated turnover reports. 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 reporting 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 and Executive Committee 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 CEO of the Automotive Division, 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

In 2012, the Executive Board conducted a risk survey with the Senior Management (about 40 officers) which reviewed 40 potential risks that could confront Kendrion in relation to the company's strategic objectives. The results from this survey were discussed by each business unit to determine the top 10 risks confronting the relevant business unit (in terms of the greatest impact, likelihood and vulnerability). Each business unit will evaluate its top 10 risks at periodic intervals. Quarterly meetings are held with the business units' managements to review their main risks. More information is enclosed in the following section on strategic and business risks.

Operational risk management

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

Financial reporting risk management

The Controllers' regular duties include the structured management of financial reporting risks. Pursuant to this duty the Controllers periodically monitor the organisation's implementation of and compliance with control measures, i.e. monitor the use of control measures as an 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. Kendrion has developed an internal audit programme (KiC: Kendrion-in-Control) for an assessment of the effectiveness of the companies' control framework. Operating companies with an annual revenue of more than EUR 15 million are audited at least once a year and operating companies with an annual revenue of less than EUR 15 million at least once every three years. The audits encompass the revenue and accounts receivable, the purchases and accounts payable, inventories, fixed assets, human resources and tax compliance reporting cycles. These audits are supervised by Kendrion N.V. Controllers with the assistance of staff from Group Companies or external audit firms, depending on the available capacity. This organisation guarantees the internal auditors' independence.

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.

Kendrion has also adopted an Anti-Bribery and Corruption (AB&C) policy which has resulted in the implementation of procedures for the mitigation of the relevant risks. This policy encompasses issues including the periodic performance of risk assessments, due diligence, communication and training.

Strategic and business risks

Kendrion's strategic and business risks identified are reviewed below. The most important risks selected are:

- Excessive focus on short-term rather than on long-term objectives;
- 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;
- Unsuccessful integration of acquired companies.

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

	Profitable growth	Customer intimacy	Balanced spread	Solid financial position
Short-term focus	●	●	●	
Volatile economy, adaptation	●	●	●	●
Technological substitution	●	●		
Shift in customer preferences	●	●		
Customer dependency	●		●	
Attraction and retention of qualified staff	●	●	●	
Information Systems	●	●		
Unsuccessful integration of acquired companies	●	●		●

Short-term focus

The company could focus excessively on short-term results rather than aiming for long-term profitable growth. Measures implemented to achieve a rapid improvement in results could jeopardise Kendrion's strategic and market position. An economic downturn could lead to a reduction in the number of qualified staff, limit capital and innovation expenditure and, in the longer term, result in slower growth, lower profitability and a reduced free cash flow, a weaker position relative to customers and an inability to act at a global level. The impact could be high: the likelihood and vulnerability are moderate. For this reason the company holds regular reviews of the balance between long and short term effects. The frequency of these reviews is increased in times of difficult economic conditions. Kendrion has a solid financial position and has sufficient financial resources to continue its investments in growth, both in terms of competent staff and appropriate production equipment.

Volatile economy, adaptation

A lack of adaptation to deteriorating economic conditions could be detrimental to Kendrion's financial results and the company's ability to achieve its strategic goals. The likelihood is high and the vulnerability is moderate.

Kendrion both expects and experiences greater volatility in economic development. 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 financial 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 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 further 20% 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. Any such decision to implement cost-reduction measures is taken only once the decline has been assessed as structural. Moreover, the results can decline incrementally and in specific business areas, when adaptation such as redundancy expenses will be required.

In addition to the increased focus on flexibility, Kendrion's medium to longer-term 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. Within this context it should be noted that Germany discourages the hiring of temporary staff by the imposition of penalty rates when temporary employees are hired for longer than three months. In 2013, Kendrion implemented what is referred to as a 'flexible working time account' at the various main plants in Germany. This new account increases flexibility in working hours, which can be increased or decreased on the basis of the prevailing capacity requirements.

All accounts receivable departments and purchasing departments devote specific attention to the financial position of the company's customers and suppliers. Kendrion has a good track record to date.

Technological substitution/shift in customer preferences

Kendrion could be unable to offer its markets or customers the solution they need, either due to technological substitutes available from other suppliers or the company's inability to meet the customer's needs. This is a particularly important issue for the Automotive Division (Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems).
The impact on profitable growth and customer intimacy could be high: the likelihood and vulnerability are moderate. In view of the pressure imposed on prices in this competitive market special, high technological solutions are essential to appropriate opportunities for profitability.

Kendrion is an innovative player in the field of electromagnetic and mechatronic 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 has put the enhancement of the company's innovative capacity high on the agenda. Kendrion uses a number of tools to strengthen innovative development in the business units. In 2013, these included:

- An Innovation Board comprised of German and Dutch professors in various fields of expertise;
- Innovation Managers at each business unit;
- Innovation Calendar, requiring the business units to develop new ideas at fixed times during the year;
- An annual Innovation Award;
- Treasure Mapping (prioritisation of the most promising projects);
- Innovation Cells (multi-disciplinary 'pressure cooker' groups) for the development of new solutions in a relative short period of time;
- The Kendrion Academy to enhance cooperation with knowledge institutes and universities, develop focused engineers and form partnerships for the development of new technological solutions.

Customer dependency

Kendrion has a wide range of customers in various markets and, consequently, the company's dependency on a small number of customers is low. The situation is slightly different for Passenger Car Systems and Automotive Control Systems. These business units have about 90 customers, of which the top 10 generate 76% of the revenue. Losing one of these customers would have a high impact and, in the absence of compensatory measures, would be detrimental to these business units' growth objective and profitability. The likelihood is low to moderate as Kendrion is a technologically advanced player which offers customer solutions: the vulnerability is high, since virtually no counter measures are available. Kendrion endeavours to ensure that individual customers do not generate more than 5% of Kendrion's total revenue. Each of the Continental Group and Daimler generate about 8% of Kendrion's total revenue (common rail diesel valves), whilst Volkswagen Group generates some 7%. Kendrion is actively pursuing the reduction of single customer dependency by the award of projects from other customers.

Attraction and retention of qualified staff

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

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

- The Kendrion Executive Programme for Senior Management at the Rotterdam School of Management, which provides high-quality management training;
- The HIPO programme for high potentials (see page 34);
- The management development programme;
- Apprentice programmes at several companies;
- Maintenance of good contacts with education institutes;
- Further increase of Kendrion's appeal on the creation of the Kendrion Academy.

Non-performing Information Systems (IS)

Inadequate IS (including the infrastructure) and/or the implementation of new systems could have a big impact on the company's business processes and, consequently, the results. The likelihood and vulnerability are low to moderate as an adequate range of mitigating actions have been taken.

This risk has received significant management attention during the year under review due to the ongoing replacement of the existing ERP applications within the Group.

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

- The arrangements for IS decision-making and the decisions that can be made at each level (central or local);
- IT governance for system and data responsibility;
- 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 in 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 IT department in Villingen, Germany. This department coordinates the service level agreements with suppliers such as network providers, security providers, maintenance companies and suppliers of hardware and networks for the entire group. Kendrion works with highly skilled IT staff and reputable external IT suppliers.
The servers are well protected against outsiders, fire and unauthorised access. Appropriate procedures have also been implemented for regular backups and disaster recovery 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. In the years since 2011, all companies in the various business units in Europe, the Americas and Asia have been integrated in the Kendrion IT Services infrastructure and server farms, including Villingen (Germany) and Kendrion (Shelby) Inc., USA. The recently acquired Kuhnke companies in Malente (Germany) and Sibiu (Romania) will be integrated in 2014.

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 2011, Kendrion's Executive Committee decided to invest in a new ERP software application. Following the migration of the Passenger Car Systems business unit's plants in Germany and Austria, the Commercial Vehicle Systems business unit's plants in Germany, India and USA, Industrial Drive Systems in Germany and Industrial Magnetic Systems in Germany were successfully migrated to the new ERP platform in 2012 and 2013.
The implementation schedule has been prolonged to the end of 2014 to include Kendrion (Shelby) Inc., USA and Kendrion Kuhnke. These two companies are scheduled to migrate to the new ERP platform in 2014.

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 2011, such as the recruitment of a dedicated Program Director and the appointment of Information Managers for each business unit, have paid off. Milestones, the various audits and deliverables that have also been agreed and laid down in the contract with IFS (the ERP software supplier) will reduce the risk of cost overruns.

Unsuccessful integration of acquired companies

Kendrion may not be able to achieve the strategic objectives and operating efficiency targets it has specified for an acquisition in full. The integration of the operations of an acquired entity is accompanied by inherent risks. The acquired company or Kendrion may be confronted with unfavourable customer or key personnel responses to the acquisition. Resistance at management and/or employee level could be detrimental to the achievement of the envisaged synergy. The existing management could also need to devote an excessive amount of attention and energy to the integration process and, as a result, be distracted from the core business.

Kendrion strives to mitigate integration risks by giving careful consideration to the preparation and planning phase – including the identification of possible obstacles, in part based on previous experience and information obtained during the due diligence process – the preparation of a communication plan for employees, customers and other stakeholders of the two companies, and the specification of explicit objectives and targets for the financial, legal and operational integration processes.

Kendrion N.V. staff supervise the financial and legal integration within the Kendrion Group. This integration begins on the acquisition date and includes the acquired company's integration in the various reporting and control cycles, the chart of accounts, rules and regulations for management, code of conduct, risk management procedures, financing arrangements, treasury and cash management procedures, etc. The division or business unit management is usually responsible for the operational integration. In this first instance this operational integration relates to the communications with customers and suppliers. The process then continues with the gradual transition to the Kendrion business model, redeployment of key personnel to combine strengths to achieve the envisaged synergy and utilise the potential benefits from the acquisition relating to technological know-how, production facilities, distribution, cross-selling opportunities and coordinated sourcing, etc.

Kendrion called on the services of a dedicated onsite integration manager for Kuhnke. The manager was responsible for the restructuring of the support organisation and the smooth integration of the support staff in two business units, Industrial Control Systems and Automotive Control Systems, in a manner that achieved a seamless fit with the existing Kendrion business model.

Other important risks

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

Strategic risks

Project management

Adequate project management is essential if new products are to enter the production phase with success, and the risks associated with inadequate project management can exert a significant effect on the results. 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 suppliership. In general, the majority of the development costs are borne by the customer, either in instalments during the development phase or as part of the selling price per unit. However, in spite of the compensation for the costs incurred, there is a risk that engineering hours allocated to a customer do not generate new revenue when the customer ultimately decides not to select Kendrion's product.

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

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

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

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

Operational risks

Commodity markets

Kendrion's results could suffer from the reduced availability of raw materials and fluctuations in the price of raw materials. Steel and copper are Kendrion's most important raw materials, followed by permanent magnets. Raw materials are purchased from reputable suppliers. Steel is Kendrion's number-one raw material, although a large proportion is contained in purchased components such as turning parts. When feasible, Kendrion concludes fixed price arrangements with steel suppliers. These prices also govern a large number of Kendrion's component suppliers. When the copper price risk is not passed on to the customer, Kendrion usually fixes the purchase price for the next four quarters on a rolling basis. Kendrion monitors developments in the prices for permanent magnets closely: prices increased eight-fold in 2011, due to China's strategy of controlling the scarcity of rare earth materials. During the course of 2012 and 2013, prices declined back to the level prior to mid-2011. Kendrion has concluded agreements with the majority of customers buying components containing permanent magnets which provide for automatic price adjustments that are based on movements in permanent magnet prices.

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

Product liability

Claims under product liability can be detrimental to Kendrion's operations and operating results due to the resultant damage to the company's reputation. In addition to all quality requirements and procedures, Kendrion has taken out liability insurance at group level for its operating companies to reduce the financial risks arising from possible claims under product liability. The amount and scope of the cover are comparable to those of other companies in Kendrion's sectors: the cover is benchmarked 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

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.

Financial risks

Treasury

Please refer to pages 120 and following of the financial statements for an outline of Kendrion's financial market risks and the policy to mitigate these risks or their impact.

Tax

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

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

As was the case in earlier years, group companies were visited to assess the quality of their internal control environment and financial reporting. All internal audits are supervised by Group Controllers in Zeist, the Netherlands, to provide assurances for the independence of the internal audit team. The internal audit programme and audit scope are reviewed at periodic intervals and improved on the basis of recent developments and new requirements. Group companies of a limited size are also included in the internal audit programme.

In 2013, the internal audits encompassed more than 80% of the value of the relevant reporting cycles. The overall results from the audits conducted in 2013 were again satisfactory, although the master data management in Kendrion's IFS ERP system exhibits some general room for improvement. Measures to improve the process will be implemented during the first quarter of 2014. Although Kendrion (Shelby) Inc.'s internal control environment is satisfactory, some improvements to their ERP system's automated processes will take place with the implementation of Kendrion's IFS ERP system in 2014.

In 2013, internal audits were also conducted at Kuhnke's two locations in Malente (Germany) and in Sibiu (Romania). Although the audits revealed that the internal controls at these locations have yet to achieve the same (high) level of comparable Kendrion locations, the overall results were satisfactory. This conclusion is in line with the limited findings that the external auditors reported in their management letter.

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

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.

Changes in the group

On 14 May 2013, Kendrion acquired 100% of the shares in Kuhnke AG with main locations in Malente (Germany), Sibiu (Romania) and sales offices in various countries, including Kristianstad (Sweden). On 30 September 2013, Kendrion divested Kuhnke's non-strategic French subsidiary, Kuhnke Pneumatics SARL, with revenues of EUR 0.7 million from 15 May 2013 to 30 September 2013. In 2012, Kuhnke recorded revenues of EUR 110 million and had approximately 1,100 employees.

Financial results

In the year under review, net profit – as compared on a normalised (recurring) basis – increased to EUR 14.3 million, which is EUR 0.7 million (5%) higher than the previous year. The normalisations in 2013 related to the acquisition and integration costs of Kuhnke (net effect EUR 1.6 million) and an adjustment to the provision for the EC fine (release of EUR 0.8 million). In 2012, EUR 4.4 million was normalised in connection with the release of the earn-out for Kendrion (Shelby) Inc.

Net return as a percentage of sales reduced slightly, due to Kuhnke's lower profitability. An improvement of the former Kuhnke companies' ratios is expected in 2014, following the restructuring that began in 2013 and improved efficiencies.

Normalised net profit

EUR million	2013	2012
Net profit	16.7	18.0
Release earn-out Kendrion (Shelby) Inc.	–	(4.4)
Net acquisition costs and other expenses	1.8	–
Tax gain Kuhnke acquisition structure	(1.6)	–
Release earn-out Kuhnke	(4.4)	–
Restructuring and integration costs of Kuhnke net of tax	2.6	–
Release provision for EC fine, including legal expenses	(0.8)	–
Normalised net profit	14.3	13.6

EUR million	2013	2012
Revenue	354.0	284.9
Normalised net profit	14.3	13.6
Net return as %	4.0%	4.8%
EBITA return on investments	10.8% [1]	12.4%

[1] *Including pre-acquisition EBITA of Kuhnke.*

Revenue

In 2013, revenue increased by 24% from EUR 284.9 million to EUR 354.0 million. When Kuhnke is excluded, organic revenue fell slightly by 1.2% from EUR 284.9 million to EUR 281.4 million, mainly as a result of EUR 2.9 million unfavourable currency translation effects.

Organic revenue of both divisions fell slightly, by 0.4% in the Industrial Division and 1.8% in the Automotive Division. Revenue improved step by step during the year due to the launch of new products, notably by Kendrion (Shelby) Inc., and to the effect of the gradual improvement in market conditions in the second half of the year observed initially by the Industrial Division and later by the Automotive Division.

Developments in organic revenue in the quarters of the year (compared to last year) were as follows:

1st quarter: (8)%
2nd quarter: (3)%
3rd quarter: 0%
4th quarter: 7%

The Kuhnke acquisition had only a moderate impact on Kendrion's geographical spread. Europe's contribution to revenue increased from 70% to 75%, with increased revenues in Germany and 'Other European Countries', as virtually all Kuhnke's current customers are located in Europe. Consequently, the contribution made by the rest of the world fell to 25%, notwithstanding the additional contribution from new projects in North America. Kendrion retains its strategy to further strengthen the company's presence in the Americas and Asia.

Revenue by customer location

EUR million	2013	Share	2012	Share	Growth
Germany	173.6	49%	138.9	49%	25%
Other European countries	91.2	26%	60.6	21%	51%
Asia	32.0	9%	32.9	12%	(3%)
The Americas	54.2	15%	49.8	17%	9%
Other countries	3.0	1%	2.7	1%	14%
Total	354.0	100%	284.9	100%	24%

Developments in the divisions and business units

Industrial Division

The Industrial Division – which accounts for 36% of Kendrion's total turnover – increased its revenues to EUR 128 million, an increase of 27% from the EUR 101 million in the previous year. Industrial Control Systems, which was acquired on 14 May 2013 with the Kuhnke acquisition, contributed revenue of EUR 28 million. Consequently, organic revenue in 2013 was in line with the previous year (– 0.4%).

The market conditions for the Industrial Division improved slightly in the second half of the year, in part due to new product development. As a result, the Division recorded a 3% growth in organic revenue in the second half of the year as compared to the same period in 2012. Industrial Control Systems was integrated rapidly into the Kendrion organisation, in part as a result of the good cooperation with Industrial Magnetic Systems. The income generated by new projects, the status of the Division's order book and the investments in future operations give cause to optimism about the Division's prospects for the future.

Industrial Magnetic Systems observed an improvement in its markets during a year in which revenue grew steadily. Total revenue increased by 5%, with favourable growth in its main market, Germany, including a large contribution due to the recovery in the textile machine sector. Good growth was achieved in the power switches industry in the USA as well as in China, where the localisation of products continued to accelerate.

Industrial Magnetic Systems has a broad customer portfolio. The top 10 customers generate 29% of the total revenue. The 2013 revenue generated by the largest customer amounted to only 4% of the business unit's revenue and less than 1% of Kendrion's total revenue.

The business unit's strong performance and new product launches towards the end of the year give confidence for the future. In 2013, interesting projects were launched in the USA (consumer market and energy systems) and in Germany (ski lift industry, textile machines) that, in combination with further scheduled product launches in Europe and the USA, such as faster rotary solenoids for mail-sorting machines, are expected to generate additional revenue in 2014. Work began on the preparations for a new combined plant in Sibiu, Romania, which will make use of Industrial Control Systems' expertise.

Industrial Control Systems, the new industrial business unit created following the Kuhnke acquisition, developed according to plan and got off to a strong start at Kendrion. The business unit, which was acquired on 14 May 2013, has generated revenue of EUR 28 million since the acquisition date. In addition to the revenue generated in its main market, Germany, favourable developments were also recorded with customers active in high-technology operations in the Scandinavian and North American markets. Growth in 2013 was, in particular, due to the sharp increase in sales to the aircraft interior sector following the developments in aircraft oxygen supply units, as well as to the good growth in sales to the textile machine industry.

The top 10 customers generate 34% of the business unit's revenue: the revenue generated by the largest customer was 11% of the business unit's revenue and less than 1% of Kendrion's total revenue.

Industrial Control Systems is working on a large number of promising projects in all technical areas, some of which will begin to contribute to revenues in 2014. These products include motorised locking units for appliances, safety controls for machines and isolated valves for analytical equipment. In 2014, the existing Industrial Control Systems production in Sibiu, Romania, will be expanded and combined with Industrial Magnetic Systems production in a strong, focused industrial plant.

Industrial Drive Systems experienced a challenging year, mainly due to lower revenues in German machine manufacturing – where the forecast upswing of the industry began to be manifested by no earlier than in the fourth quarter – and to lower export orders. Although the business unit recorded further growth in China, its overall revenues fell by 6%. The company acquired several interesting international customers, and also made significant investments in new activities that are designed to achieve further growth in revenue during the coming years and in the launch of manufacturing operations in China. A new sales office was opened in Italy.

The top 10 customers generate 62% of the business unit's revenue: the remaining 38% is spread fairly evenly over a wide range of customers. The revenue generated by the largest customer was 25% of the business unit's revenue and 3% of Kendrion's total revenue.

The business unit further enhanced its position as the European market leader in permanent magnet brake technology. Industrial Drive Systems recently began to focus on the market for spring applied brake solutions. These brakes are the dominant solutions in Asia and the USA and also account for a reasonable share of the European market. The business unit developed an innovative spring applied brake (KOBRA) that offers many customer benefits and which was launched in November 2013. New projects were acquired in China, including the development of a safety brake for a leading global lift manufacturer.

Automotive Division

The Automotive Division – which accounts for 64% of Kendrion's total turnover – increased its revenues to EUR 226 million, an increase of 23% from the EUR 184 million in 2012. This increase included a contribution of EUR 45 million from Automotive Control Systems, which was acquired on 14 May 2013 with the Kuhnke acquisition. Organic revenue fell slightly by 1.8% due to difficult economic circumstances and unfavourable currency translation effects.

New product launches, in combination with a recovery in the market conditions towards the end of the year, resulted in a 4% growth in organic revenue in the second half of the year – a significant improvement from the 6% fall in the first six months of 2013. The launch of a number of major automotive projects in the USA and Germany required more time than expected and, as a result, was more costly than had been forecast. Strong management efforts succeeded in achieving significant improvements in costs and efficiencies. The Division acquired a significant amount of new business during the year, which will support further growth in the future.

Kendrion endeavours to ensure that individual customers do not generate more than 5% of Kendrion's total revenue. Continental generates about 8% of Kendrion's total revenue, whilst the Volkswagen Group (including Audi, Porsche and Škoda) generates some 7%. The dependency on individual large customers is higher in Passenger Car Systems and Automotive Control Systems than in the other Kendrion business units. The top 10 customers generate 76% of the combined revenue of the two business units.

Passenger Car Systems was affected by the downturn in the automotive market during the year. Market conditions began to improve towards the end of the year, when the strong fourth quarter with a good contribution from plants in the USA and the Czech Republic limited the annual decline in organic revenue to only 1% as compared to 2012. This decline for the year was not uniform over 2013: revenue fell by 7% in the first half of the year, but then increased by 7% in the second half of the year as compared to the corresponding periods in 2012.

Several initiatives were taken during the year, including two major product launches in the USA relating to pulsed valves for gasoline systems and park brake systems. Revenues developed in accordance with plan, although achieving the production lines' full efficiency took more time and funds than had been forecast. Other activities included the further expansion of the active damping systems production capacity at the business unit's Czech plant and the increased mass production of a range of serial engine management production lines. These developments compensated part of the fall in demand for diesel common rail products. The plant in Austria significantly extended the mass production of switching electromagnets for lighting applications in 2013. In China, the launch of stroke solenoids compensated for a phased-out customer project only in part.

At the beginning of 2012, Kendrion reported new projects amounting to EUR 295 million which had been acquired in 2011, equivalent to an average additional revenue of EUR 30 – 40 million per annum. In 2012, the business unit acquired new revenue of EUR 250 million, equivalent to an average additional revenue of EUR 25 – 35 million per annum. In 2013, Passenger Car Systems acquired new projects with a total estimated revenue of EUR 300 million, equivalent to an average additional revenue of EUR 30 – 40 million per annum. In the coming five years, revenue of approximately EUR 200 million will be phased out.

Automotive Control Systems, the new automotive business unit created following the Kuhnke acquisition, got off to a hesitant start due to the start-up of a major new project (seat valves) that took more time and was more complex than had been expected and which, consequently, was detrimental to the results recorded for 2013. The close cooperation between Kuhnke and Kendrion experts resulted in a significant improvement by the end of the year. The business unit, which was acquired on 14 May 2013, has generated revenue of EUR 45 million since the acquisition date. The Automotive Control System's electronic, electromechanical and acoustic technologies are of the level required to cater for future automotive trends.

The weak automotive market also impacted the performance of Automotive Control Systems, as a result of which revenues fell somewhat short of plan. Acoustic control systems' development was good during the year, and the business unit attracted several new customers. Electronics' operations succeeded in acquiring further electronic fuel pump control unit projects.

In addition to the implementation of measures designed to increase the business unit's efficiency, in the coming years Automotive Control Systems will also focus on the further enhancement of the autonomy of the Romanian plant that is of considerable value to both the business unit and to the entire Kendrion group.

The trend towards more electronic units and sensors in vehicles continues at a strong pace. Automotive Control Systems' wide range of technologies and thorough engineering know-how both lay firm foundations for the fulfilment of many future potential customer needs.

Commercial Vehicle Systems achieved flat growth in 2013, with growth in Germany, Mexico and Brazil that was offset by lower revenues in China due to the reduction in volumes with the business unit's main customer. Following a 6% decline in revenues in the first half of the year the business recovered in the second half of the year, with a 3% decline in the third quarter and 16% increase in the fourth quarter, due to the global bus market's ability to maintain its momentum in the second half year.

For efficiency reasons the North American production plant in Atlanta was closed during the course of the year following the transfer of its production to sister companies in Shelby, USA and Toluca, Mexico. Brazil expanded its market operations into new products for air-conditioning units for Tier-1 customers. The business unit has a strong position in the global market by virtue of its product range of components for engine-cooling systems and air-conditioning. It has an extensive network of agents and is market leader in the luxury touring cars segment, with a broad customer portfolio. The top 10 customers account for 55% of the business unit's revenue. The largest customer generates 20% of the business unit's revenue, equivalent to 2% of Kendrion's total revenue.

Commercial Vehicle Systems launched a growth plan for its Chinese operations in 2013, with a number of changes to the business unit's organisation and the commissioning of a new plant in 2014. The business unit is also currently working on the localisation of production processes and material supplies.

Heavy Duty Systems was created as a new business unit at the beginning of 2013, with plants in Markdorf, Germany; Pune, India and Shelby, USA. The business unit focuses primarily on innovative high-quality electromagnetic systems and components for the truck market.

In 2013, the business unit's performance was below expectations, with a 7% decline in organic revenue as compared to the previous year due to the weak truck market and the lower performance of the lighting business in the USA that reduced sales. The business unit responded by reducing its costs and implementing other measures to increase results.

India succeeded in gaining a broader market share following the acquisition of new customers and projects. Nevertheless, revenues were comparable to those of 2012 due to the sharp downturn in the second half of the year caused by the weak Indian economy. The supply chain was localised by switching to a local supply base for materials.

The top 10 customers account for 53% of the business unit's revenue. The largest customer generates 11% of the business unit's revenue, equivalent to less than 1% of Kendrion's total revenue.
Further growth in 2014 will come from the newly launched fan clutches for truck applications.

Added value

In 2013, added value amounted to EUR 170.9 million, excluding the release of the EUR 4.4 million earn-out provision relating to the Kuhnke acquisition. Kuhnke contributed EUR 34.3 million (47.3% of revenues) via its Industrial Control Systems and Automotive Control Systems business units. On a comparable basis, the added value of EUR 136.6 million (48.5% of revenues) was in line with 2012 (EUR 136.4 million, 47.9% of revenues).

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

In 2013, the overall situation for the Group's raw materials was relatively stable for all main raw materials, with a slight decline in the copper and steel prices agreed for 2013. Although the prices for permanent magnets continued to decline, this had virtually no effect on added value as material clauses in the contracts concluded with most customers have corrected for price variations since mid-2011.

Staff costs and other operating expenses

Staff costs, including costs for temporary employees, amounted to EUR 108.6 million, as compared to EUR 79.8 million in the previous year.

The increase in staff costs was largely due to:

- The acquisition of Kuhnke on 14 May 2013, which increased staff costs by EUR 24.6 million;
- Annual salary increases;
- Additional staff recruited for the launch of large new automotive projects (Passenger Car Systems in the USA and Automotive Control Systems in Germany);
- Further investment in engineering and in divisional staff in Automotive.

The staff costs as compared to added value and revenue increased for the aforementioned reasons. The ratios also increased on the acquisition of the Kuhnke companies, as these companies have proportionally more staff costs than the other Kendrion companies. An improvement of the former Kuhnke companies' ratios is expected in 2014, following the restructuring that began in 2013.

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

Staff costs	2013	2012
In relation to revenue	30.7%	28.0%
In relation to added value[1]	63.5%	58.5%

[1] *Added value excluding release earn-out (in 2013 Kuhnke and in 2012 Kendrion (Shelby) Inc.).*

Other operating expenses for 2013, excluding Kuhnke, amounted to EUR 22.3 million. This included EUR 1.3 million for the Kuhnke acquisition costs and the release of EUR 0.8 million from the provision for the EC fine. When these non-recurrent effects are not taken into account then other operating expenses amounted to EUR 21.8 million, 9% below the level in 2012. The other operating expenses for Industrial Drive Systems increased slightly as planned, largely due to expenses relating to the spring applied brake development project. Commercial Vehicle Systems reported other operating expenses in line with 2012. All other business units reported lower operating expenses, due to strict cost control in response to pressure on revenues.

Net financing costs

Net financing costs amounted to EUR 5.2 million, including unfavourable currency exchange differences of EUR 0.3 million (2012: EUR 0.3 million). Finance charges, excluding the currency results, increased by EUR 0.3 million as compared to 2012. The Kuhnke acquisition had the largest impact on financing costs due to the additional debt funding (EUR 0.7 million) and accrued interest on its pension liabilities (EUR 0.2 million). The accrued interest on the provision for the EC fine was EUR 1.0 million (2012: EUR 1.5 million). Average (gross) debt levels, excluding cash and deposits, amounted to EUR 65 million in 2013. The average interest charge on borrowings in 2013 was 3.4% (2012: 3.0%).

More information on available credit lines and conditions is enclosed on pages 113 and 114 of the financial statements.

FTE (at 31 December)	2013	2012
Direct staff	1,504	790
Indirect staff	1,165	752
Temporary employees	87	90
Total number of FTE at 31 December	2,756	1,632

Income tax

The effective income tax rate for 2013 is – 6.4%. The tax charge was favourably influenced by the following:

- The financing structure of the Kuhnke acquisition and further measures implemented to improve the tax position in the Netherlands resulted in the deferred tax assets in the Netherlands increasing by EUR 2.7 million in 2013 (2012: EUR 1.3 million);
- The favourable allocation of the results in the Kuhnke tax entity created an additional tax loss carry-forward that in turn created an additional deferred tax asset of EUR 1.0 million;
- The EUR 4.4 million release of the earn-out provision for Kuhnke is a non-tax item.

The tax charge was unfavourably influenced by non-deductible acquisition expenses in Germany amounting to EUR 1.0 million.

When the above items are not taken into account the effective tax rate would have been approximately 21% (2012: 19%, normalised).

More information about the effective tax rate is enclosed on page 135 of the financial statements.

Tax paid in 2013 amounted to EUR 2.5 million. The difference from the tax charge in the profit and loss account is largely due to the aforementioned favourable effects on the deferred tax assets of EUR 3.7 million.

Net income and earnings per share

EUR million	2013	2012
Net income attributable to equity holders of the company	16.7	17.9
Release earn-out Kendrion (Shelby) Inc.	–	(4.4)
Net acquisition costs and other expenses	1.8	–
Tax gain Kuhnke acquisition structure	(1.6)	–
Release earn-out Kuhnke	(4.4)	–
Restructuring and integration costs of Kuhnke net of tax	2.6	–
Release provision for EC fine	(0.8)	–
Adjusted net income attributable to equity holders of the company	14.3	13.5
Normalised earnings per share (EPS)	1.14	1.16

Net income

Net income attributable to equity holders of the company has been adjusted for the acquisition costs, restructuring and integration costs, a non-recurrent tax benefit, the release of an earn-out provision relating to the Kuhnke acquisition and for the EUR 0.8 million release from the provision for the EC fine. The normalisations for non-recurrent items have then been applied to determine the dividend proposal. Kendrion proposes an optional dividend of 50% of the normalised net result, equivalent to EUR 0.55 per share entitled to dividend.

Financial position and working capital

Total assets increased by almost EUR 104 million to EUR 334.8 million. The Kuhnke acquisition, including goodwill, accounted for EUR 99 million of this increase as per the acquisition date. The identifiable assets of Kuhnke are specified in note 20 of the financial statements. The capital expenditure on software and plant and equipment was high in 2013,

Condensed statement of financial position

Assets

EUR million	31 December 2013	31 December 2012
Property plant and equipment	80.5	61.8
Intangible assets		
■ Goodwill	87.1	57.5
■ Acquisition related (purchase price allocation)	27.3	13.1
■ Software	6.3	3.9
■ Development costs	0.2	–
Deferred income tax	15.1	10.5
Other	0.5	0.7
Non-current assets	**217.0**	**147.5**
Inventories	46.9	35.2
Income tax	3.3	3.0
Trade and other receivables	49.6	34.5
Cash	18.0	9.9
Current assets	**117.8**	**82.6**
Balance sheet total	**334.8**	**230.1**

and exceeded depreciation by almost EUR 5 million. The high capital expenditure on software was due to the ongoing ERP HORIZON project. The capital expenditure on plant and equipment was, in particular, influenced by the large investments in a production line for a new diesel project at Passenger Car Systems in Germany that will generate revenues as from 2015. Recognised deferred taxes increased by EUR 3 million, excluding Kuhnke, due to previously unrecognised carry forward tax losses in the Netherlands and the USA. Cash balances were high at the end of the year and were influenced by seasonal patterns. The value of the intangible assets (excluding Kuhnke) relating to the acquisition was decreased due to amortisation charges.

Goodwill payments were made for the Linnig Group in 2007 (now Commercial Vehicle Systems), Tri-Tech in 2008 (now Kendrion (Mishawaka) LLC), Magneta in 2010 (now Kendrion (Aerzen) GmbH), FAS Controls, Inc. (now Kendrion (Shelby) Inc.) at the end of 2011, and Kuhnke in 2013. Intangible assets relating to these acquisitions consist largely of the calculated fair value of customer relations and technology. The annual amortisation charge of these intangibles will amount to EUR 3.6 million in 2014. More information is enclosed on pages 103 and following.

The year-end solvency ratio decreased to 40.1% (year-end 2012: 44.8%), due to the balance sheet increase on the acquisition of Kuhnke.

Working capital

After adjustment for the EC fine payable, net working capital as a percentage of revenue decreased by 1.7% to 10.2%. On the basis of the fourth quarter revenues, the average performance of all working capital items improved as compared to last year.

The days inventory outstanding decreased significantly from 49 to 44 days. This was largely due to Kuhnke's on average higher stock turnover rate as compared, in particular, to the Kendrion Group's industrial activities that have relatively high stock levels resulting from the large diversity in products. Days receivables outstanding decreased by 2 days to 41 days, while days trade payables outstanding increased by 1 day.

The year-end provision for trade receivables increased by EUR 0.5 million to EUR 0.7 million.

Deferred income tax assets

EUR million	2013	2012
Valued tax losses carried forward		
German income tax (15.8%)	37.3	34.3
German trade tax (12.2%)	4.6	3.7
Dutch income tax (25.0%)	16.4	8.6
Other	3.5	2.2
Total	61.8	48.8
Tax value of recognised loss carry-forwards	11.7	8.9
Tax value temporary variances	3.4	1.6
Deferred income tax assets	15.1	10.5

More detailed information is enclosed on pages 106-109 of the financial statements.

Net working capital 31 December

EUR million	2013	2012
Inventories	46.9	35.2
Trade and other receivables, tax receivable	52.9	37.5
Trade and other payables, tax payables[1]	59.2	38.8
Net working capital	40.6	33.9
As % of revenue[2]	10.2%	11.9%

[1] *Payables is excluding EC fine payable in 2014.*

[2] *Revenue is including total revenue Kuhnke in 2013.*

Net debt

Net debt increased by EUR 27.7 million during 2013. Free cash flow before acquisitions was EUR 8.7 million. The cash portion of the dividend was EUR 4.3 million. Cash-out for the Kuhnke acquisition was EUR 38.3 million, while the net cash receipts from the issue of new shares in May amounted to EUR 19 million.

In addition, Kuhnke's balance sheet contained a number of loans which amount to EUR 12.8 million and have been transferred to or refinanced by Kendrion. These loans relate, in particular, to a mortgage loan on Kuhnke's land and buildings in Northern Germany (EUR 6.5 million), a number of financial leases (EUR 1.5 million), loans from the former shareholders (EUR 3.0 million) and other loans and facilities (EUR 1.8 million). More information on the terms and conditions is enclosed on pages 113 and 114 of the financial statements.

Net interest bearing debt

EUR million	2013	2012
Non-current borrowings	58.4	25.8
Non-current mortgage loan	6.2	–
Current borrowings	2.4	5.4
Cash and cash equivalents	18.0	9.9
Net interest bearing debt at 31 December	49.0	21.3
12 months EBITDA[2]	39.6	32.7
Debt cover [2]	1.22	0.65
Debt cover[1, 2] (net bank debt including EC fine payable)	2.18	1.97

[1] *The debt cover covenant calculation in the syndicate banking arrangement excludes the mortgage loan.*

[2] *Excluding release earn-out Kendrion (Shelby) Inc. in 2012 and excluding release earn-out, net acquisition costs and other expenses, restructuring and integration costs of Kuhnke and release provision for EC fine and including total EBITDA Kuhnke in 2013.*

Credit facilities in place

EUR million	Actual
■ Working capital facility	35.0
■ Acquisition facilities	100.0
■ EC fine facility	48.5
■ Mortgage loan	6.2
■ Other loans and facilities, including financial leases	5.0

Free cash flow

In 2013, the free cash flow generated before non-recurring items was satisfactory at EUR 11.7 million (2012: EUR 9.7 million), as compared to EUR 14.3 million normalised net profit. The main reasons for the gap between free cash flow and net profit were the capital expenditure on equipment and software that exceeded depreciation by EUR 5.5 million. Working capital, excluding the non-cash movement from the EC fine provision of EUR 43.4 million to short-term liabilities, improved by EUR 2.8 million and, as a result, compensated the high capital expenditure in part. Both divisions made a satisfactory contribution to the overall free cash flow, including the Kuhnke companies.

Contingent liabilities

Information about contingent liabilities is enclosed on page 129 of the notes to the financial statements.

Normalised free cash flow

EUR million	2013	2012
Reported free cash flow	(29.6)	9.0
Acquisition of subsidiaries	38.3	0.7
Net acquisition costs and other expenses paid	1.2	–
Restructuring and integration costs of Kuhnke paid	1.8	–
Normalised free cash flow	11.7	9.7

Credit facility compliance

		Actual
Debt cover (Net bank debt[1]/12 months EBITDA[2])	‹ 3.0	1.08
Interest cover (12 months EBITDA[2]/Net finance charges[3])	› 4.0	11.74

[1] *Non-current borrowings is excluding mortgage loans.*

[2] *Excluding release earn-out Kendrion (Shelby) Inc. in 2012 and excluding release earn-out, net acquisition costs and other expenses, restructuring and integration costs of Kuhnke and release provision for EC fine and including total EBITDA Kuhnke in 2013.*

[3] *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 and total interest Kuhnke in 2013.*

Invested capital 31 December

EUR million	2013	2012
Balance sheet total	334.8	230.1
Less: non-interest bearing debt[1]	59.2	38.8
Less: freely available cash	18.0	9.9
Less: deferred income tax	15.1	10.5
Invested capital	242.5	170.9

[1] *Non-interest bearing debt is excluding EC fine.*

The growth in invested capital in 2013 was impacted as follows:

EUR million	
Higher net working capital	6.7
Higher property, plant and equipment plus software and development costs	21.2
Higher goodwill and acquisition related intangible assets	43.8
Other impacts	(0.1)

Directors' declaration

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

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

Report of the Executive Board Executive Committee

Standing from left to right: **Robert Lewin,** Business Unit Manager Industrial Control Systems**, Norman Graf,** Business Unit Manager Industrial Magnetic Systems, **Frank Sonnemans,** Chief Financial Officer, **Piet Veenema,** Chief Executive Officer, **Erik Miersch,** Business Unit Manager Commercial Vehicle Systems.

Sitting from left to right: **Heinz Freitag,** Chief Technology Officer, **Michael Bernhard,** Business Unit Manager Industrial Drive Systems **Bernd Gundelsweiler,** CEO Division Automotive.

Not present: **Torsten Komischke,** Business Unit Manager Automotive Control Systems.

The Industrial Division, formed following the acquisition of Kuhnke AG in May 2013, consists of the three Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems business units.

The Industrial Division's main objectives are to identify customer requirements and preferences, whereby the Division maintains a strong customer focus and possesses the competences required to serve as a technology and innovation leader. The Industrial Division, with a balanced niche product and customer portfolio, develops and produces electromagnetic and mechatronic systems and components and at a global base of thirteen sales and production plants and within a worldwide distribution network. The most important industrial markets are Germany, Italy, Sweden, USA and China. The Industrial Division is characterised by its thousands of customers, of which only a few are large customers in terms of their turnover of several million euros. The Industrial Division focuses on environmentally friendly (energy saving) applications and technologically-demanding process automation products.

Developments per business unit – 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, 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, Stoll, Schmersal and Rational.

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 in 2013

2013 was a year in which turnover grew steadily. Industrial Magnetic Systems observed hesitancy on the part of several customers, which deferred their investments and new product launches. This in turn resulted in a delay in some of the business unit's forecast and scheduled projects. The localisation of products is continuing to accelerate, in particular to Asia.

Industrial Magnetic Systems focused specifically on innovation project development and the preparations for the market launch of new applications and technologies. The business unit perceives excellent prospects for growth in these markets during the coming years.

Industrial Magnetic Systems continued to concentrate competences at its plants during the year, a concentration which was supplemented by the company's future network partners. Preparations were begun for the construction of a plant in Romania, which will make use of the expertise possessed by Industrial Control Systems, Sibiu, Romania.

The business unit worked successfully on developing the management team in all relevant areas and has a strong and stable organisation and management team. In April 2013, the IT system IFS was implemented in the German companies.

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 also important countries for the business unit. Special attention was devoted in the year under review to market development in the USA and technology transfer from Europe to the USA.

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 market.

Outlook for 2014

A number of new product launches are scheduled for Europe and the USA in 2014. The business unit forecasts growth in turnover from sales of these new products and from new customers. The business unit will also strengthen its operations in preparation for future growth and for the partial transition from a systems component supplier to a solution provider. Several activities initiated in cooperation with the business unit's customers are intended to promote this transition.

Industrial Magnetic Systems' plants will be expanded with the completion of the new plant in Sibiu in 2014. The business unit's German production operations will focus on high-grade products and logistically demanding processes. This will offer the business unit new opportunities for the provision of support to its current and new customers on the basis of a broad product range which also includes simpler applications.

The strategic development of networks is a further key focus in 2014. The business unit has selected strategic partners for its production, engineering, innovation processes and sales activities. These networks will promote the expansion of the business unit's knowledge and the acceleration of its operations, whilst simultaneously retaining the flexibility required for rapid responses and any adjustments that may be necessary.

Developments per business unit – **Industrial Control Systems**

Profile

Industrial Control Systems develops, manufactures and distributes controllers and actuators based on fluid, solenoid, and control technologies. The business unit's main markets are the machinery and appliances, medical and analytical equipment, aircraft interior and energy generation/distribution sectors. Industrial Control Systems focuses on the development and supply of highly innovative and technologically demanding products to these specific markets.

Industrial Control Systems develops customer-specific products at target cost that offer the business unit's customers a competitive edge. Industrial Control Systems' core area of engineering expertise encompasses the combination of various technologies to create mechatronic modules and the provision of customer advice on alternative actuator solutions.

Industrial Control Systems' head office is located in Malente (Germany), and the business unit has production facilities in Malente and Sibiu (Romania). Industrial Control Systems, as part of a centralised sales organisation in Germany, has sales engineers in Sweden and Spain. The business unit is also active in the US market. Industrial Control Systems has distributors all over the world who primarily provide services for spare parts and serve small businesses.

Industrial Control Systems' major customers are Oerlikon Textile, Heidelberger Druckmaschinen, Fresenius Medical Care, Dräger, Philips Medical, Sirona, Perkin Elmer, Electrolux and BE Aerospace.

The business unit supplies its products to a total of 2,500 customers all over the world. The main market is Germany, followed by Scandinavia and North America.

Objectives and strategy

Industrial Control Systems will achieve consistent sales growth by intensifying its acquisition of new customer-specific projects that will enable the business unit to draw on its strengths. Industrial Control Systems' focus on its core competencies not only enables the business unit to provide added value and fulfil its unique selling points but also enables the business unit to offer to improve the added value its products provide the customers. Industrial Control Systems' reduction of development times, technological integration processes and engineering at target cost will enhance the business unit's position in the market, increase its penetration of and access to markets, and will create additional value for both Industrial Control Systems and the business units' customers.

Industrial Control Systems' new role in the Kendrion Group, with an extended geographical spread, will enhance the business unit's position with existing customers and improve its attractiveness for new business relationships.

Industrial Control Systems strives to continually improve its financial position by reducing costs and expanding its operations at Sibiu's production facility. Industrial Control Systems will also need to reorganise the sales force to provide for future growth. Distribution via third parties will play a lesser role than marketing via the Industrial Magnetic Systems and Industrial Drive Systems business units' existing sales organisations.

Developments in 2013

Turnover and profit were satisfying. All market segments made an approximately equal contribution to the result.

Although Kendrion's takeover of Kuhnke was the major event in 2013, Industrial Control Systems was also confronted with many other challenges. Firstly, the business unit needed to further improve its relationship with the recently sold Kuhnke Pneumatics in Limena, Italy. Secondly, the complete production unit (organised in the separate entity Kuhnke Supply Chain) needed to be integrated into Industrial Control Systems at the beginning of 2013.

Other major activities were the MBO for Kuhnke Pneumatics in Brécé (France).

All the above changes in Industrial Control Systems' international organisation were implemented to align the product portfolio and to concentrate the business unit's operations on more profitable and more promising niche markets.

The sales operations in Industrial Control Systems' niche markets are dependent on the close integration of project management and Research & Development. For this reason the sales organisation has been centralised at the head office in Malente.

Market and market position

Industrial Control Systems' markets are widely distributed in terms of both industry segments and, increasingly, their geographical spread. In addition to the turnover generated in the business unit's main market, Germany, favourable developments were recorded with customers active in high-technology areas in Scandinavia and North America markets.

The machinery controls business was supplemented with a US customer. Turnover generated by the aircraft interiors business increased sharply in the USA, and a US customer with Singapore operations developed into a main customer.

Outlook for 2014

Industrial Control Systems will conduct further sales campaigns in niche markets including fuel cell valves, infrared heater controls, fluid modules for analytical instruments and aircraft oxygen supply units.

The business unit intends to implement further cost improvement measures in 2014 to increase profits in future years. Turnover will increase slightly and contribute to improvement in margins.

The business unit will complete certain investment projects that will begin to generate its initial turnover in 2014. These projects include motorised locking units for appliances, safety controls for machines and isolated valves for analytical equipment.

The business unit intends to split off Industrial Control Systems' production in Sibiu (Romania) from Automotive Control Systems' production. The Industrial Control Systems production and Industrial Magnetic Systems production will then be combined in a strong, focused industrial plant. Major customers will visit the plant in Sibiu in 2014 to explore the transfer of the production of further components to Industrial Control Systems. The extension to the existing building will be ready by mid 2014.

The important ERP integration project (IFS) will be completed in the second half-year of 2014.

Developments per business unit – **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). It also has production locations in Aerzen (Germany) for small permanent magnet brakes and clutches and in Suzhou (China) for the production of a number of products for the Asian and global market, as well as a sales and service organisation in Bradford (United Kingdom). In 2013, Industrial Drive Systems expanded a sales office in Turin (Italy). The sales for the Italian market, which carries one of the highest potentials in the European market, will be executed exclusively from the new office. 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 more than 800 customers.

The business unit's major customers include Siemens, U-Shin, Bosch, Lenze and Schottel. Industrial Drive Systems was proud to welcome new customers including SEW, Schindler, Schneider Electric and ebm-papst in 2013.

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 several key markets, namely industrial automation and more and more on the elevator business. These are the markets where the most important developments are foreseen in the global industry. Industrial Drive Systems' technology will focus on the production of high-efficient technology lead functionalities including intelligent brakes and clutches, friction materials and new magnetic solutions.

Developments in 2013

Industrial Drive Systems in Villingen, Germany, is the first company to have developed a safety brake which offers dual benefits to the environment – lower energy consumption during use and a minimum ecological footprint throughout the entire value creation process. These efforts have resulted in the impressive KOBRA (Kendrion Optimised Brake) spring-applied brake – the pioneering product of Kendrion's greensigned strategy.

2013 was focused on the official launch of the KOBRA spring-applied brake for the SPS/IPC/DRIVES at the end of November in Nuremberg, Germany. The launch was a success, in part due to the adoption of a professional marketing concept.

The main technical features of the new KOBRA series are its modular design, significantly longer life-cycle with lower power consumption and its performance spectrum that is many times greater than the spectrum of products offered by the competition. This also demonstrated that the business unit's engineers are experts in the development of market-ready visions and new technologies, and also excel in their response to customer requirements.

During the preparations for the product launch of this energy-saving brake Industrial Drive Systems designed its special greensigned label – the business unit's contribution to the reduction of CO_2 emissions.

Industrial Drive Systems also began cooperating with the Institute for Production Technologies in Karlsruhe, Germany, which will be of benefit to the business unit's lean production programme.

A full analysis of Industrial Drive Systems' production operations was carried out with the lean production programme and, following an evaluation of the results, work on the implementation of the first operational measures began in October 2013. The business unit's order management was tailored to the market requirements for increased flexibility in variants and lot sizes, thereby increasing production output.

A significant product improvement was also implemented in the permanent magnet brake line, which resulted in improvements to productivity and quality assurance.

A new milestone for Industrial Drive Systems' global presence was achieved in China on the development and production of a safety brake for a leading global elevator manufacturer. The production lines for this safety brake were designed at the industrial engineering centre in Germany. All requirements for the production sites and maintenance were produced and installed in China. This contributes to the ultimate achievement of local-for-local production and also demonstrates that Industrial Drive Systems is ready for the Asian market.

The business unit's Italian ambitions for its market are reflected in its new local sales office for national customers. Italian customers are particularly interested in KOBRA spring-applied brake and permanent magnet brakes.

Product innovations in new magnet technologies such as condition monitoring have now entered the concept phase. The work to date has also identified realistic approaches for further product innovations during the coming years. Research projects initiated with well-known universities demonstrate that Industrial Drive Systems is working on the fulfilment of customer needs for quality and the optimisation of performance.

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 worldwide 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.

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 2013.

Outlook for 2014

Kendrion's Industrial Drive Systems forecasts a slight upturn of the market in 2014.

Discussions with potential KOBRA brake customers are in progress. The Villingen production plant will begin the production of series products before the end of the second quarter of 2014.

In addition, Industrial Drive Systems will be able to begin its active marketing of the KOBRA series in the Asian market. Increased sales of PE brakes are forecast, as the business unit expects that it will be able to acquire new customers outside the energy sector.

In Italy, the business unit intends to acquire new customers and increase its market position.

Endeavours will continue to establish a self-sufficient sales and production location in the USA.

In 2014, new technologies and condition monitoring development projects will be carried out in the form of joint projects with well-known customers. The first negotiations are already in progress.

Industrial Drive Systems' ultimate objective is to increase its technology expertise and, as a result, enhance its market leadership.

The Automotive Division, formed following the acquisition of Kuhnke in May 2013, consists of the Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems business units.

The Automotive Division's main objectives are to identify customer requirements and preferences, whereby the Division maintains a strong customer focus and possesses the competences required to serve as a technology and innovation leader. The Automotive Division, which has a balanced niche product and customer portfolio, develops and produces electromagnetic and mechatronic systems and components within an international development network and at a global base of twelve production plants. The automotive industry – encompassing the passenger car, bus and truck segments – is changing rapidly due to the increasing demand for environmentally friendly vehicles, downsizing, fuel efficiency and the strict emissions requirements. These customer needs and expectations confront the market with major challenges.

Developments per business unit – 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 with a global acting network and has production facilities in Germany, Austria, the Czech Republic, 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 or clutch systems and advanced valve technology (common rail / gasoline valves, active damping systems, motor management). 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 2013

The preparations for and the installation of the equipment at the business unit's Austrian and US plants needed for the new product launches were completed successfully in 2013. These plants began the mass production of switching electromagnets for lighting and pulsed valves for gasoline systems. All the products in this range comply with the safety requirements for lighting and fuel efficiency, as well as with the environmental protection requirements governing gasoline internal combustion engines. The business unit´s product portfolio is tailored precisely to current market trends. A further enlargement of the active damping systems production capacity at the business unit's Czech plant and the increased mass production of a range of serial engine management production lines compensated part of the fall in demand for Kendrion's diesel common rail products.

The business unit also acquired new customers in the medium and heavy duty segments and adapted its technology to the stringent truck business requirements. New developments in the customer-specific project business resulted in an improvement in the business unit's market position.

Passenger Car Systems strengthened its international position on the launch and initiation of the production of stroke solenoids for two customers at the business unit's Chinese plant and on the acquisition of new business for the business unit's US operations. All departments are fully staffed and ready to tackle new challenges.

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, Stanadyne, Automotive Lighting and ZF. 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.

Further growth in the worldwide electromagnetic component market is expected due to new applications in human/machine interface, enhanced valve technology, 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 2014

Passenger Car Systems will expand its electromagnetic portfolio with new product launches this year and is also exploring further opportunities for new niche business. The production and new development of units and applications will serve the global market. Passenger Car Systems' flexibility will enable the business unit to respond immediately to market demands and to provide optimum service to its customers all over the world.

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

Developments per business unit – **Automotive Control Systems**

Profile

The Automotive Control Systems business unit develops and manufactures electronic, electromechanical and acoustic control products. Automotive Control Systems' competence and experience in these technologies has resulted in its status as an acknowledged partner of the business unit's customers. Automotive Control Systems' products meet the comfort, safety and environment needs of a wide range of automotive applications. These products are manufactured by and distributed from the business unit's German and Romanian plants. All products comply with the automotive industry's quality standards specified in ISO/TS 16949 and ISO 14001.

Objectives and strategy

Automotive Control Systems' electronic, electromechanical and acoustic control technologies are of the level needed to cater for future automotive trends. This good technological position will need to be deployed in the cross-technology projects required to achieve an improvement in results. Close cooperation with the Romanian plant, which exhibits an excellent performance, has to date enabled the business unit to meet the supply needs of customers in the various markets.

The continuing trend towards globalisation will result in the strategic need for a physical presence in promising markets. For this reason Automotive Control Systems will strive to achieve further improvements in its utilisation of the Kendrion Group's operations throughout the world. The first steps towards the achievement of this goal were taken in 2013.

Automotive Control Systems will further increase the autonomy of its Romanian location, in particular in the performance of its purchasing, quality control and laboratory tasks. The business unit will also begin to supply its customers directly from Romania.

The enhanced autonomy of the Romanian plant will improve the efficiency of the Malente head office. The reorganisation which began in 2013 will concentrate on the quality management sector.

Automotive Control Systems' mission is to focus on niche products and emphasise its unique selling points, with the ultimate objective of achieving balanced growth and satisfactory results.

Developments in 2013

Automotive Control Systems' development was shaped by three key issues in 2013. Firstly, Kuhnke Supply Chain GmbH & Co. KG was integrated in the business at the beginning of 2013, a process which not only involved the employees in Malente but also linked the Romanian plant to Kuhnke's Automotive sales organisation. Secondly, seat valve production was ramped up during the year, an achievement that was possible only with outstanding efforts and investments. Thirdly, but not least, the Kendrion Group's acquisition resulted in the initiation of the necessary and ongoing organisational changes in the middle of 2013.

Although the general conditions were less than perfect, all the technology sectors were able to continue their development and are currently processing attractive customer projects and project requests.

A particularly striking development took place in acoustic control systems. The business unit succeeded in convincing new customers of the benefits of acoustic control, who then enthusiastically embraced the technology on which internal and external sound optimisation is based. Electro-mechanics also succeeded in improving sales of seat valves. Automotive Control Systems promoted the proprietary development of active linear sensors, which resulted in the first inquiries for passenger car and commercial vehicle projects.

The electronics operations succeeded in acquiring further electronic fuel pump control unit projects. However, the electronics segment is also confronted with fiercer competition. Increasing pressure on margins in this segment compelled the business unit to formulate a new strategic orientation.

The growing markets in the USA and China resulted in Automotive Control Systems' expansion of its presence in these regions. In 2013, this was manifested by the business unit's acquisition of a new partner for electronic control unit production in the USA, and by the preparations for the utilisation of Kendrion's Suzhou plant for Automotive Control Systems' sales operations in 2014.

Market and market position

Following the downturn in the European automotive market in 2012 and at the beginning of 2013, the economy recovered and sales picked up during the following months of 2013. Sales are now slightly above the level before the downturn, although there are substantial differences between the various European countries.

The Chinese and US markets, in contrast, continue to boom. As German automotive manufacturers have an excellent market position in China and USA, they also have an above average share of the growth in these markets.

Automotive Control Systems supplies, either directly or indirectly, its products to successful German automotive manufacturers including Volkswagen, Audi and Daimler. As a result, the favourable developments in the market are reflected by increased customer demand for a wide range of the business unit's products.

The trend towards more electronic units and sensors in vehicles continues at an unabated pace. OEMs are following up the developments in electric mobility. Automotive Control Systems' wide range of technologies also offers the business unit an excellent point of departure for the fulfilment of many potential future needs.

However, globalisation resulted in competition becoming fiercer in 2013. Customer purchasing organisations respond to the globalisation trend by increasingly procuring their products from local sources, a move that results in the need for Automotive Control Systems to expand its local presence in the promising markets.

Outlook for 2014

In addition to the implementation of the organisational changes required to increase the business unit's efficiency, Automotive Control Systems will focus on addressing customer projects and inquiries. The competitive constraints referred to above will compel the business unit to acquire products/projects with unique selling points that justify appropriate sound revenues and results. The business unit's active marketing efforts and focus on promising customers and markets will promote growth in the short and medium term.

The integration of Automotive Control Systems in the Kendrion Group will continue in 2014. The creation of a standardised and uniform IT landscape will optimise processes between the Kendrion business units. This will ultimately provide opportunities for cross business unit projects and the exploration of new niche markets.

Developments per business unit – **Commercial Vehicle Systems**

Profile

Commercial Vehicle Systems has a leading position in the development and production of components and cooling systems for buses, trucks, off highway applications and special vehicles. The main product portfolio includes fan clutches for engine cooling systems, modules with optimised fan and clutch, compressor clutches for vehicle air-conditioning and air pressure, torsional vibration dampers for crankshaft applications, fan clutches with angle gear box for bus engine cooling applications, pneumatic and hydraulic clutches, brakes and belt tensioners.

Commercial Vehicle Systems' customers include major OEMs in the global transportation market and all first-tier suppliers of air-conditioning systems, agricultural vehicles, railed vehicles as well as the manufacturers of special vehicles such as snow groomers and refuse collection trucks.

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

Commercial Vehicle Systems' products help to reduce the fuel consumption of commercial vehicles and, consequently, contribute to lower vehicle emissions. Commercial Vehicle Systems' range of technical solutions has resulted in the business unit achieving a position as an electromagnetic solution and problem solver in a range of applications and in specific niches and markets over the world. This has in turn enabled the business unit to achieve steady growth in recent years. The business unit has supplemented its niche strategy with the development of applications for volume production and new segments.

Objectives and strategy

Commercial Vehicle Systems' organic growth over the past ten years has been built on the business unit's objective of supplying customers all over the world and doing business with all OEMs in Asia, the

Americas and Europe. Commercial Vehicle Systems initiated its development into a global commercial vehicle market organisation several years ago.
The business unit's objective is to become the leading supplier of electromagnetic solutions for the commercial vehicle market within the medium-term future. The targets specify excellent organic growth and returns.

Developments in 2013

Commercial Vehicle Systems' initiated a growth plan for its Chinese operations in 2013. The business unit implemented a number of changes to its organisation and will relocate to a new plant in Nanjing in the first half of 2014. The preparations for this relocation project and the localisation of production processes and material supplies in China are currently in progress.

Commercial Vehicle Systems has transferred its North America production to the plant in Shelby, North Carolina. Production levels are stable and the business unit perceives excellent prospects for growth in this market and region. Commercial Vehicle Systems' Toluca plant in Mexico has developed into a supply base for the Kendrion Shelby (USA) plant (machined parts) and is a key supplier to Mexican customers for engine cooling and air condition system suppliers, or OEMs.

In South America, Commercial Vehicle Systems achieved improvements that enabled the business unit to expand its market position in new products for air-conditioning Tier 1 customers during the course of 2013. Commercial Vehicle Systems perceives excellent opportunities for growth, and will develop its business in the coming years to acquire a leading position in its market segments.

The Indian plant in Pune, supervised by Commercial Vehicle Systems, experienced a downturn in the second half of the year due to the weak Indian economy. Commercial Vehicle Systems succeeded in its ramp up of specific phases in fan clutch production for truck applications. Commercial Vehicle Systems is continuing the development of further customer applications and has succeeded in gaining a broader market share following the acquisition of new customers. Commercial Vehicle Systems continued its implementation and introduction of a local supply base on the localisation of material in India.

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. In 2013, the business unit once again achieved a steady production output in the bus and truck market, with high sales largely due to the organisation in Germany. Kendrion was awarded new product projects for customers that will be launched in 2014 (including in Germany, Korea and Russia).

Outlook for 2014

In 2014, Commercial Vehicle Systems forecasts growth driven by market developments. The additional sales in 2014 will be achieved by the implementation of sales initiatives based on the business unit's established product range.
The first results from a new development in Commercial Vehicle Systems' R&D projects are now available for a new product which will be launched in early 2015.

Further activities are in progress on the development of new products to supplement Commercial Vehicle Systems' existing range and provide for an expansion of its market segments within the medium term.

The high production volumes have resulted in the implementation of a project organisation responsible for all the work in the truck business. This project management approach has now been adopted throughout Commercial Vehicle Systems, and continual improvements will be implemented in 2014.

Commercial Vehicle Systems will participate in trade fairs in China, the USA and Europe in 2014, including the IAA Nutzfahrzeuge in Hannover, Germany, in September 2014.

Developments per business unit – **Heavy Duty Systems**

Profile
Heavy Duty Systems is a leading provider of custom control flow valves and coils, pressure switches, circuit breakers, mechanical switches and lighting applications to automotive heavy truck, recreational vehicle, engine and industrial markets. Heavy Duty Systems' US plant in Shelby also serves as a platform for the Automotive Division's Passenger Car Systems and Commercial Vehicle Systems business units in their assumption of a pivotal role in the manufacture and distribution of a wide range of Kendrion products for US markets including the construction, agriculture, heavy truck, diesel engine, passenger car and light truck market segments.

The business unit develops, manufactures and markets innovative high-quality electromagnetic systems and components for customers all over the world. The portfolio includes all major OEMs in the global truck market and Tier 1 suppliers including Caterpillar, Delphi, International Truck & Engine, Ford Motor Co., General Motors, Chrysler LLC, Polaris Industries, Volvo & Mack Truck, Eaton, Harley-Davidson, Freightliner, Kennworth/Peterbilt and Kohler.

Heavy Duty Systems has its head office (including production, R&D, sales and accounting) in Shelby, USA, and has an additional production plant in Pune (India). In 2013, Commercial Vehicle Systems was responsible for the supervision of this Indian plant. Since 1973, the plant in Shelby has been a privileged partner for Heavy Duty Systems' customers in the technological, manufacturing and quality control advancements achieved by the business unit.

Objectives and strategy
The business unit's objective is to integrate and grow within the Kendrion Automotive business and to evolve from a local niche player into a global company. The enlargement of the product and customer portfolio plays an important role in the achievement of Kendrion's ambition.
The targets specify strong organic growth and returns.

In addition to serving its current customer base, Heavy Duty Systems prepared and commissioned two production lines for Passenger Car Systems and assumed the responsibility for the complete business of the closed Commercial Vehicle Systems plant in Atlanta, USA.

Developments in 2013
In 2013, the business unit achieved stable production levels in the truck market, with high sales of pressure switches, valves, circuit breakers and flashers. Sales of lighting products for off-highway vehicles fell on the loss of a major project to a competitor.
Heavy Duty Systems launched its local project business with new product initiatives at the business unit's customers once it had deployed additional team members in the sales and development departments.

Heavy Duty Systems began the production of fan clutches for truck applications following the successful customer release of the plant. Development work on additional customer applications is currently in progress. Heavy Duty Systems completed its implementation and introduction of a local supply base on the basis of localisation and the utilisation of the affiliated Mexican Commercial Vehicle Systems' machining plant.

Market and market position
Although Heavy Duty Systems is still a niche player in the USA, the business unit has formulated ambitious objectives that will enable its plants to achieve steady growth. Organic growth will be driven by the expansion of existing business and the hosted operations for the other business units. The localised empowerment approach and implementation of the project business organisation creates the conditions to be met for new project developments. Kendrion is convinced that the company is in the right position to expand its share of the market.

Outlook for 2014
In 2014, Heavy Duty Systems forecasts further growth driven by market developments. The additional sales in 2014 will be achieved as a result of the serial production of the newly- launched fan clutches for truck applications.

Further projects currently under preparation will be launched in the coming years.
A project business organisation has been implemented to carry out the work required for the new business.

Corporate governance

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

Kendrion is characterised by a transparent and efficient corporate governance structure that lays down the relationship between the shareholders, Supervisory Board, its Committees, 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 2013 12,962,276 ordinary shares had been issued, of which 14,617 are registered shares, and of which 7,789 shares are held by the company. These own shares were purchased for the variable remuneration package for the members of the Executive Board and, in the past, for the senior management's share plan. 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 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.

Pursuant to new legislation that entered into force on 1 July 2013, shareholders individually or jointly representing at least 3% of the issued share capital are entitled to submit a request to the Executive Board or Supervisory Board for the inclusion of items on the agenda of the General Meeting of Shareholders. This had previously been 1% (or individually or jointly representing at least EUR 50 million of the issued share capital). During the General Meeting of Shareholders held on 18 April 2011, on the occasion of an amendment of the Articles of Association, 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. This issue will be placed on the agenda for the General Meeting of Shareholders to be held in 2014. 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.

New legislation (the Corporate Governance Act, implementing the recommendations of the Corporate Monitoring Committee (the Frijns Committee) entered into force on 1 July 2013. This Act introduced the obligation on shareholders to disclose a substantial holding of 3% or more, as well as the obligation to disclose gross short positions. A regulation was also introduced on the same date enabling the identification of shareholders holding 0.5% or more of the issued share capital. Kendrion has not yet made use of this option to identify its shareholders.

Shareholders representing 76.8% of the total issued share capital attended or were represented at the General Meeting of Shareholders held in the year under review on 15 April 2013. Shareholders representing 27.2% of the total issued share capital attended or were represented at the Extraordinary General Meeting of Shareholders held on 19 August 2013.

Executive Board

In 2013, Kendrion was managed by an Executive Board with two members (the CEO and CFO) and was supervised by the Supervisory Board. Mr Ris stepped down as CFO on 28 February 2013. The General Meeting of Shareholders held on 15 April 2013 appointed Mr Sonnemans as the new CFO for a period of four years, in accordance with the Corporate Governance Code. 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 CEO of the Division Automotive, 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 and to limit or exclude pre-emptive rights of existing shareholders in the period until 15 October 2014. This authority relates to a maximum of 10% of the issued share capital at the time of issue. The Executive Board decided to exercise this authority and, with the Supervisory Board's approval, issued 1,165,521 ordinary shares, with the exclusion of pre-emptive rights, on 7 May 2013 at a price of EUR 18.40. These shares were issued via an accelerated book-building process.

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 15 October 2014. 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 Chairman of the Supervisory Board, Mr Van Kesteren, stepped down as Supervisory Director at the end of December 2013. The Extraordinary General Meeting of Shareholders held on 19 August 2013 appointed Mr Ten Hove as member of the Supervisory Board for a period of four years. The Supervisory Board appointed Mr Ten Hove Chairman as from December 2013. Following the acquisition of Kuhnke in May 2013, a proposal was submitted to the Extraordinary General Meeting of Shareholders held on 19 August 2013 to appoint the former Chairman of the Kuhnke Supervisory Board, Mr Kirchner, as member of Kendrion's Supervisory Board. However, prior to the Extraordinary General Meeting of Shareholders Mr Kirchner decided to withdraw his nomination for health reasons. Consequently, this item was removed from the agenda. Kendrion and the sellers of Kuhnke agreed that a new nomination would not be submitted. Instead, and within the context of Kuhnke's efficient integration in Kendrion, consultations will be held with Kuhnke's former CEO and former Chairman of the Supervisory Board until the end of 2015.

The Supervisory Board has established two Committees, an Audit Committee and a Remuneration Committee. The Committees are responsible for 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.
New legislation has entered into force to provide for the balanced participation of men and women in the management and supervision of 'large' public and private limited liability companies. Balanced participation is deemed to exist when at least 30% of the seats are held by men and at least 30% by women. Kendrion's Executive Board and Supervisory Board do not achieve this gender balance.
The imbalance in the Executive Board is in part due to the limited number of members. 25% of the seats on the Supervisory Board are held by women (1 out of 4). Although Kendrion attaches great importance to diversity and wishes to increase the percentage of women in the company's senior management, Kendrion is of the opinion that continuity in and the relevant experience of the members of the Supervisory Board and Executive Board is also of great importance and that the current membership of the Supervisory Board and Executive Board is reasonable when viewed from this perspective.

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.commissiecorporategovernance.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 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.

Remuneration policy

General
Kendrion's current remuneration policy was discussed by and adopted at the General Meeting of Shareholders in 2010 and 2013. 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 2013. Information about the remuneration received by the individual members of the Executive Board and the Supervisory Board is also enclosed in the financial statements (pages 145-146).

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

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

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

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.

The existing variable remuneration policy shall be supplemented with a share match.

Element	**Fixed**	**Variable**			
	Base salary	Annual incentive		Long-term incentive	
Way of payment	Cash	Performance related restricted shares (1/3 cash)		3-year performance related share match	
Performance measure	Not applicable	■ Net profit		■ Relative TSR (AScX/SDAX)	Total 50%
		■ ROI		■ Sustainability criteria	Total 50%
		■ Free cash flow	Total 50%		
		■ Non-financial performance, including sustainability	Total 50%		
Pay-out at minimum performance	100%	0%		0%	
Target pay-out	100%	CEO: 40% of gross fixed remuneration		–	
		CFO: 35% of gross fixed remuneration		–	
Maximum pay-out	100%	CEO: 50% of gross fixed remuneration		50% of annual variable remuneration invested in shares	
		CFO: 50% of gross fixed remuneration		50% of annual variable remuneration invested in shares	

As stated above, 2/3 of the annual variable remuneration is invested in shares. Kendrion will, depending on the long-term performance criteria, increase the number of shares awarded pursuant to the above by 50% net (a matching ratio of 1:2). The performance criteria are the relative Total Shareholders Return (TSR) and a group of sustainability criteria, both of which will be assigned a weighting of 50%. The performance period shall be of a term of three years, which begins at the time of the award of the annual variable remuneration. This performance period is in line with the provisions of the Netherlands Corporate Governance Code. Consequently the award, where relevant, is made after a period of three years.

The shares awarded pursuant to the annual variable remuneration are governed by a vesting period of three years (including the year over which the performance is measured) and a holding period of two years.
The shares awarded pursuant to the share match are governed by a holding period of two years, which begins at the time of the award.

The relative TSR performance criterion for the share match is achieved when Kendrion's TSR score is higher than the average of the AScX and the German Small Cap Index, the SDAX. The sustainability criteria are (i) energy/CO_2 reduction, (ii) waste & recycling, (iii) employee satisfaction and (iv) management development / succession planning. Each of these sustainability criteria is assigned an equal weighting of 25%.

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

Pensions and risk premium
Pursuant to the policy, the company bears the cost of the contributions for the old-age pension and risk premiums for partner pension and disability of the members of the Executive Board to a maximum of 25% of the pension base. The pension base takes account for a maximum salary of EUR 300,000. No schemes have been agreed for the (voluntary) early retirement of the members of the Executive Board. The aforementioned elements remained unchanged in 2013.

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 provisions of the CFO's contract entitle the officer to severance pay of a maximum of one year's fixed gross salary should, following a change of control, the CFO terminate his contract because he is of the opinion that he cannot reasonably be expected to remain in his position and the Supervisory Board agrees with his standpoint.

Remuneration of the Supervisory Board
The remuneration received by the members of the Supervisory Board is comprised of a fixed remuneration that is independent of the results, whereby a distinction is made between the remuneration received by the Chairman and the other members of the Supervisory Board. Pursuant to this distinction the remuneration received by the Chairman is about one third higher than the remuneration received by the other members. The General Meeting of Shareholders held on 16 April 2012 resolved that the fixed remuneration of the Chairman of the Supervisory Board will amount to EUR 40,000 and each of the other members EUR 30,000, besides the remuneration of EUR 5,000 for the membership of one of the Committees of the Supervisory Board, as determined in 2009. In addition to this fixed remuneration, the members also receive a contribution towards their expenses.

Prospects

Kendrion was confronted with the effects of the worldwide economic crisis in 2012 and 2013. Consequently, Kendrion also benefited from the improvement in the economic conditions that began in 2013 and, as a result, recorded organic growth of just over 3% in the second half of the year. Kendrion, notwithstanding these economic developments in recent years, continued to strengthen its internal organisation and implemented measures which resulted in the further development of the company's management resources and engineering capabilities. Kendrion also devoted a great deal of attention to the prudent integration of the newly acquired Kuhnke company. The Kuhnke acquisition gave cause to the implementation of a new divisional structure that, in particular, involved the recruitment of qualified management staff for the Automotive Division: the Division now has a management team of five, including the Division's CEO. All these measures were in line with the company's 'Entering another league' Mid-term Plan 2013-2015. Kendrion also devoted a great deal of effort to the other spearheads of its mid-term strategy, namely innovation, geographical expansion, cost flexibility and Corporate Social Responsibility. The updated strategy for 2014-2016 has been specified in Kendrion's latest Mid-term Plan 'Designed to grow'.

The economical developments in the second half of 2013 give cause to Kendrion's expectation of a further recovery of the economy in the company's home markets in 2014. The economy in the company's most important home market, Germany, exhibits moderate growth. Although the signs for the US market are favourable, the outlook for China remains uncertain.

Kendrion forecasts that the significant Automotive projects that were launched in the second half of 2013 will result in a further growth in revenue in 2014. The Industrial Division will launch new projects in Germany, China and the USA during 2014. Kendrion expects that the good performance of the German automotive industry will result in further growth in the Automotive Division's revenues. In addition, Kendrion expects that the contribution made by the Kuhnke operations will increase during the coming year, due both to 2014 being the first full year in which Kuhnke contributes to Kendrion's results and to the effects of the cost-saving measures that were implemented in 2013. However, in view of the remaining uncertainties Kendrion is unable to issue a precise forecast for 2014.

Kendrion expects that the price agreements concluded with suppliers will result in raw material prices remaining more or less stable in 2014.

In 2014, Kendrion expects that investments to be made during the year will be well above the level of depreciation charges. The majority of these investments relate to new production lines in the Division Automotive and to the ongoing ERP HORIZON project.

Financial statements
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Consolidated statement of financial position at 31 December

Note	EUR million	2013	2012
	Assets		
	Non-current assets		
1	Property, plant and equipment	80.5	61.8
2	Intangible assets	120.9	74.5
3	Other investments, including derivatives	0.5	0.7
4	Deferred tax assets	15.1	10.5
	Total non-current assets	**217.0**	**147.5**
	Current assets		
5	Inventories	46.9	35.2
	Current tax assets	3.3	3.0
6	Trade and other receivables	49.6	34.5
7	Cash and cash equivalents	18.0	9.9
	Total current assets	**117.8**	**82.6**
	Total assets	**334.8**	**230.1**

Note	EUR million	2013	2012
	Equity and liabilities		
8, 9	**Equity**		
	Share capital	25.9	23.2
	Share premium	74.4	59.9
	Reserves	17.1	2.1
	Retained earnings	16.7	17.9
	Total equity	**134.1**	**103.1**
	Liabilities		
10	Loans and borrowings	64.6	25.8
11	Employee benefits	18.0	7.1
	Government grants received in advance	0.1	0.1
13	Provisions	2.0	43.6
4	Deferred tax liabilities	11.0	6.2
	Total non-current liabilities	**95.7**	**82.8**
7	Bank overdraft	1.8	5.4
10	Loans and borrowings	0.6	–
	Current tax liabilities	1.0	0.7
14	Trade and other payables	101.6	38.1
	Total current liabilities	**105.0**	**44.2**
	Total liabilities	**200.7**	**127.0**
	Total equity and liabilities	**334.8**	**230.1**

Consolidated statement of comprehensive income

Note	EUR million	2013	2012
19	Revenue	354.0	284.9
21	Other income	4.6	5.1
	Total revenue and other income	**358.6**	**290.0**
	Changes in inventories of finished goods and work in progress	1.6	1.0
	Raw materials and subcontracted work	181.7	148.2
22	Staff costs	108.6	79.8
	Depreciation and amortisation	16.0	12.7
16,23	Other operating expenses	29.8	23.9
	Results before net finance costs	**20.9**	**24.4**
	Finance income	0.3	0.1
	Finance expense	(5.5)	(5.0)
24	**Net finance costs**	**(5.2)**	**(4.9)**
	Profit before income tax	**15.7**	**19.5**
25, 26	Income tax expense	1.0	(1.5)
	Profit for the period	**16.7**	**18.0**
	Attributable to:		
	Equity holders of the Company	16.7	17.9
	Minority interest	–	0.1
	Profit for the period	**16.7**	**18.0**

Note	EUR million	2013	2012
	Other comprehensive income		
	Remeasurements of defined benefit plans*	0.1	0.6
	Foreign currency translation differences for foreign operations	(2.5)	(0.8)
	Net change in fair value of cash flow hedges, net of tax	(0.3)	0.1
	Tax on other comprehensive income	(0.0)	(0.1)
	Other comprehensive income for the period, net of income tax	(2.7)	(0.2)
	Total comprehensive income for the period	**14.0**	**17.8**
	Total comprehensive income attributable to:		
	Equity holders of the Company	14.0	17.7
	Minority interest	–	0.1
	Total comprehensive income for the period	**14.0**	**17.8**
9	Basic earnings per share (EUR), based on weighted average	1.33	1.55
9	Diluted earnings per share (EUR)	1.33	1.55

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

Consolidated statement of changes in equity

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total	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, net of income tax	–	–	–	–	–	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

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 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	–	–	–	–	–	–	16.7	16.7	–	16.7
Other comprehensive income										
Remeasurements of defined benefit plans, net of income tax	–	–	–	–	–	0.1	–	0.1	–	0.1
Foreign currency translation differences for foreign operations	–	–	(2.5)	–	–	–	–	(2.5)	–	(2.5)
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.3)	–	–	–	(0.3)	–	(0.3)
Total other comprehensive income for the period	–	–	(2.5)	(0.3)	–	0.1	–	(2.7)	–	(2.7)
Total comprehensive income for the period	–	–	(2.5)	(0.3)	–	0.1	16.7	14.0	–	14.0
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares	2.7	21.3	–	–	–	–	–	24.0	–	24.0
Own shares sold	–	–	–	–	0.0	–	–	0.0	–	0.0
Share-based payment transactions	–	–	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Dividends to equity holders	–	(6.8)	–	–	–	–	–	(6.8)	–	(6.8)
Total contributions by and distributions to owners	–	–	–	–	–	17.9	(17.9)	–	–	–
Balance at 31 December 2013	25.9	74.4	(1.0)	(0.4)	(0.2)	18.7	16.7	134.1	–	134.1

Consolidated statement of cash flows

Note	EUR million	2013	2012
	Cash flows from operating activities		
	Profit for the period	16.7	18.0
	Adjustments for:		
	Net finance costs	5.2	4.9
	Income tax expense	(1.0)	1.5
	Depreciation of property, plant and equipment and software	13.0	10.4
	Amortisation of intangible assets	3.0	2.3
	Impairment of property, plant and equipment	0.0	0.3
	Change in fair value contingent consideration	(4.4)	(4.4)
		32.5	33.0
	Change in trade and other receivables	(1.6)	4.2
	Change in inventories	0.8	3.2
	Change in trade and other payables*	3.6	(3.9)
	Change in provisions*	(1.4)	(0.3)
		33.9	36.2
	Interest paid	(4.2)	(3.8)
	Interest received	0.3	0.1
	Tax paid	(2.5)	(4.1)
	Net cash flows from operating activities	**27.5**	**28.4**
	Cash flows from investing activities		
20	Acquisitions of subsidiaries, net of cash received	(38.3)	(0.7)
	Investments in property, plant and equipment	(15.2)	(17.0)
	Disinvestments of property, plant and equipment	0.3	0.3
	Investments in intangible fixed assets	(3.6)	(2.0)
	Disinvestments of intangible fixed assets	0.0	0.0
	(Dis)investments of other investments	(0.3)	0.0
	Net cash from investing activities	**(57.1)**	**(19.4)**

Note	EUR million	2013	2012
	Free cash flow	**(29.6)**	**9.0**
	Cash flows from financing activities		
	Proceeds from borrowings (non current)	29.0	–
	Repayment of borrowings (non current)	(3.0)	(9.0)
	Proeeds from borrowings (current)	0.6	–
	Proceeds from the issue of share capital**	19.0	–
	Dividends paid	(4.3)	(4.4)
	Change in shares held in own Company	0.0	0.1
	Net cash from financing activities	**41.3**	**(13.3)**
	Change in cash and cash equivalents	11.7	(4.3)
	Cash and cash equivalents at 1 January	4.5	8.9
	Effect of exchange rate fluctuations on cash held	0.0	(0.1)
7	Cash and cash equivalents at 31 December	16.2	4.5

* *Excluding the reclassification of the EC fine provision (EUR 43.4 million) to other payables (non-cash item).*

** *Excluding the proceeds of EUR 2.1 million relating to the equity instruments delivered to the selling shareholders of Kuhnke (non-cash item).*

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 2013 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 and mechatronic 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 2013.

The Company financial statements are part of the 2013 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 26 February 2014.

(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 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 and acquisitions of non-controlling interests

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by the Group entities, except for the change in accounting policy as explained in note c.

(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

2013

The Company reached an agreement with the owners of Kuhnke AG on the acquisition of the Kuhnke Group on 6 May 2013. Closing of this transaction ocurred on 14 May 2013.

2012

The Company reached an agreement with the owner of the minority interest of Kendrion (Linz) GmbH on the acquisition of the remaining 49% interest in the company as from 31 December 2012.

(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.

(b) Foreign currency

(i) Foreign currency transactions

Transactions expressed in non-euro zone currencies are translated into euros at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in non-euro zone currencies at the reporting date are translated into euros at the exchange rate at that date. Non-monetary assets and liabilities denominated in non-euro zone currencies that are measured at historical cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in 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 profit or loss, except loans considered to be part of the net investment, or qualifying cash flow hedges which are recognised directly in other comprehensive income.

(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 in equity.

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, a reasonable proportion of production overheads, and capitalised borrowing costs.

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

(ii) **Leased assets**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired by way of 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.

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

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

(v) **Recognition of transaction results**

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

(d) >> Intangible assets

(i) **Goodwill**

Goodwill that arises upon acquisition of 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 profit or loss.

(ii) **Research and development**

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

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

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

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

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

(iii) **Other intangible assets**

Other intangible assets, that are acquired by the Group and have finite useful lives, are stated at cost less accumulated amortisation (see below) and accumulated impairment losses (see note g). Based on the purchase price allocation of acquisitions, intangible assets 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 profit or loss on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Goodwill and other intangible assets with an indefinite useful life are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Financial instruments and other investments

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

Trade and other receivables

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

Recognised interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are carried at amortised cost with any difference between the initial carrying amount and the redemption amount, based on the effective interest method taken to 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 profit or loss. Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss. At 31 December 2013 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 profit or loss.

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 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, production or conversion costs and other costs incurred in bringing them to their current location and condition. The cost of inventories includes an appropriate share of overheads based on normal operating capacity.

(g) Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in 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 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 profit or loss 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 plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).
The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.
Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.
The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

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

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

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

The 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 statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, that can be measured reliably and it is probable that settlement of the obligation will involve an outflow of funds.

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

The unwinding of the discount is recognised as finance cost.

(k) Revenue

(i) **Goods sold and services rendered**

Revenue from the sale of goods is recognised in profit or loss 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 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 other income in 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 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 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 profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

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

(m) >> Income tax

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

Current tax is the expected tax, payable or receivable, on the taxable income for the year, using applicable tax rates enacted or substantially enacted 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 profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(o) >> Segment reporting

The Group 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.

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

However, and on the basis of the aggregation criteria of IFRS 8, these operating segments have been aggregated into two reportable segments: the Automotive Division and the Industrial Division. In accordance with IFRS 8, the Company also discloses general and entity-wide disclosures, including information about geographical areas and major customers of the Group in its entirety. More information on the reportable segments is enclosed in Note 19.

(p) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for the year ended 31 December 2013, 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) that are in effect for the year ended 31 December 2013 and which may be relevant and may have an impact on the financial statements, are as follows:

- **IAS 1:** Presentation of Financial statements. The amendments to IAS 1 require companies to aggregate 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 as two consecutive statements. The financial statements were not impacted by this amendment.

- **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. The financial statements were not impacted by this new standard.

- **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. The financial statements were not impacted by this amendment.

- **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. The financial statements were not impacted by 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. The financial statements were not impacted by this new standard.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are not in effect at 31 December 2013 and which may be relevant, are as follows:

- **IFRS 9:** Financial instruments. This new standard introduces new requirements for the classification and measurement of financial assets. Pursuant to IFRS 9 financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 is expected to come into effect for annual periods beginning on or after 1 January 2015, whereby early adoption permitted. The adoption of IFRS 9 is expected to have an negligible impact on the Group's financial assets and liabilities.

(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.

(x) **Contingent consideration**

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

(r) Financial risk management

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

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

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

The Executive Board bears the ultimate responsibility for the organisation and control of the Group's risk management framework. The Group's risk policy is designed to identify and analyse the risks confronting the Group, implement appropriate risk limits and control measures, and monitor the risks and compliance with the limits. The risk management policy and systems are evaluated at regular intervals and, 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 automotive group, accounted for 8% of the trade and other receivables at 31 December 2013. In 2012 the largest customer accounted for 11% of total receivables. Other customers accounted for 5% of the trade and other receivables at 31 December 2013. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

(iii) **Investments and financial instruments**

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

(iv) **Liquidity risk**

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

A summary of the credit lines available to the Group is enclosed in note 10 of these consolidated financial statements. The majority 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 90 million available within its existing credit facility on the financial position date.

(v) **Market risk**

The market risk is the risk of the deterioration of the Group's income due to movements in market prices, such as exchange rates and interest rates. The management of market risk exposure is intended to keep the market risk position within acceptable limits.

Derivatives are used to manage specific market risks. These transactions are carried out within the treasury framework adopted by the Executive Board. 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 in interest rates on borrowings is maintained on a fixed rate basis, taking into account any assets with exposure to changes in interest rates and expected short term free cash flow. The policy is implemented by making use of derivative financial instruments such as interest rate swaps and interest rate options.

The Group has currently interest swap contracts outstanding with a total underlying notional value of EUR 40 million in order to reduce interest rate risk exposure to increasing market rates. EUR 10 million of the contracts matures in 2014, while EUR 30 million matures in 2015.

(vii) **Currency risk**

The Group is exposed to exchange rate risks on sales, purchases, equity positions and loans expressed in currencies other than the euro. The Group companies are primarily financed in their own currency. The majority of the revenues and costs of the Group companies are realised in the euro zone, although exposure to foreign currencies is increasing due to increased activities, in particular in the USA and Asia. Approximately 80% of the cost base and revenues are realised in euros. Sales outside the euro zone are partly produced locally and partly exported from the euro zone. 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's operations in the USA purchase approximately 10% of the purchased goods and services in Euro's. Approximately 70% of the resulting exchange rate exposure is hedged for the next two quarters.

The Group also actively hedges intercompany loans in foreign currency with forward, swaps or back-to-back external or internal 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**

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

Copper constitutes the Group's main direct exposure to raw material price risks, since copper wire is an important component of electromagnets. Pursuant to the Group's policy, the sensitivity to copper prices is actively reduced both by concluding fixed-price purchase contracts in the normal course of business with copper wire suppliers and by including raw material clauses in sales contracts. As the 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 rare earth metals such as neodymium, used in permanent magnets which are used in some of the Group's products. Prices of these commodities have shown significant volatility since 2011. After an 800% price increase during 2011, prices have decreased back to the levels prior to the increase. 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 customers representing the majority of the sales volume in this respect, 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 for periods between six and twelve months. The Kendrion steel contracts also, in part, govern the purchasing from component suppliers.

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

(ix) Capital management

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

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

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

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

1 ## Property, plant and equipment

EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance at 1 January 2012	34.2	66.0	28.5	5.1	133.8
Acquired, other	2.0	4.9	3.6	10.7	21.2
Disposals	(0.3)	(2.7)	(0.7)	(4.3)	(8.0)
Currency translation differences	(0.0)	(0.0)	(0.1)	(0.0)	(0.1)
Balance at 31 December 2012	35.9	68.2	31.3	11.5	146.9
Balance at 1 January 2013	35.9	68.2	31.3	11.5	146.9
Acquired through business combinations	8.6	5.7	1.7	0.1	16.1
Acquired, other	2.6	10.7	3.0	8.4	24.7
Disposals	(0.8)	(0.9)	(0.3)	(9.5)	(11.5)
Currency translation differences	(0.1)	(0.3)	(0.0)	(0.2)	(0.6)
Balance at 31 December 2013	46.2	83.4	35.7	10.3	175.6
Depreciation and impairment losses					
Balance at 1 January 2012	16.9	40.9	20.8	0.0	78.6
Depreciation for the year	1.2	5.7	2.8	0.0	9.7
Impairment	–	0.2	0.1	–	0.3
Disposals	(0.3)	(2.5)	(0.7)	–	(3.5)
Balance at 31 December 2012	17.8	44.3	23.0	0.0	85.1
Balance at 1 January 2013	17.8	44.3	23.0	0.0	85.1
Depreciation for the year	1.6	7.1	2.9	0.1	11.7
Impairment	–	0.0	0.0	–	0.0
Disposals	(0.8)	(0.6)	(0.3)	–	(1.7)
Balance at 31 December 2013	18.6	50.8	25.6	0.1	95.1
Carrying amounts					
At 1 January 2012	17.3	25.1	7.7	5.1	55.2
At 31 December 2012	18.1	23.9	8.3	11.5	61.8
At 1 January 2013	18.1	23.9	8.3	11.5	61.8
At 31 December 2013	27.6	32.6	10.1	10.2	80.5

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	Development costs	Software	Other	Total
Cost					
Balance at 1 January 2012	57.8	–	4.4	20.7	82.9
Acquired, other	–	–	2.0	–	2.0
Disposals	–	–	0.0	–	0.0
Currency translation differences	(0.3)	–	0.0	(0.2)	(0.5)
Balance at 31 December 2012	57.5	–	6.4	20.5	84.4
Balance at 1 January 2013	57.5	–	6.4	20.5	84.4
Acquired through business combinations	30.6	0.1	0.2	17.5	48.4
Acquired, other	–	0.1	3.5	–	3.6
Disposals	–	–	(0.1)	–	(0.1)
Currency translation differences	(1.0)	–	(0.0)	(0.3)	(1.3)
Balance at 31 December 2013	87.1	0.2	10.0	37.7	135.0
Amortisation and impairment losses					
Balance at 1 January 2012	–	–	1.8	5.1	6.9
Amortisation for the year	–	–	0.7	2.3	3.0
Disposals	–	–	(0.0)	–	(0.0)
Balance at 31 December 2012	–	–	2.5	7.4	9.9
Balance at 1 January 2013	–	–	2.5	7.4	9.9
Amortisation for the year	–	0.0	1.3	3.0	4.3
Disposals	–	–	(0.1)	–	(0.1)
Balance at 31 December 2013	–	0.0	3.7	10.4	14.1

EUR million	Goodwill	Development costs	Software	Other	Total
Carrying amounts					
At 1 January 2012	57.8	–	2.6	15.6	76.0
At 31 December 2012	57.5	–	3.9	13.1	74.5
At 1 January 2013	57.5	–	3.9	13.1	74.5
At 31 December 2013	87.1	0.2	6.3	27.3	120.9

Depreciation, amortisation and impairment loss

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

EUR million	2013	2012
Depreciation and amortisation	16.0	12.7

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 2013 (EUR 3.5 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	2013	2012
Kendrion Linnig Group	27.6	27.6
Kendrion (Mishawaka) LLC	5.6	5.8
Kendrion (Aerzen) GmbH	7.1	7.1
Kendrion (Shelby) Inc.	16.2	17.0
Kendrion Kuhnke Automation	17.4	–
Kendrion Kuhnke Automotive	13.2	–
	87.1	57.5

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. 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	
	2013	2012	2013	2012	2013	2012
Kendrion Linnig Group	10.3%	10.8%	2.0%	2.0%	17.6%	20.0%
Kendrion (Mishawaka) LLC	12.1%	11.3%	2.0%	2.0%	48.4%	74.2%
Kendrion (Aerzen) GmbH	9.8%	11.9%	2.0%	2.0%	13.0%	9.7%
Kendrion (Shelby) Inc.	12.1%	10.6%	2.0%	2.0%	46.9%	33.0%
Kendrion Kuhnke Automation	10.5%	–	2.0%	–	16.9%	–
Kendrion Kuhnke Automotive	10.8%	–	2.0%	–	66.4%	–

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 25%. The cost of equity is based on a market risk premium of 6.5% for all cash generating units, a risk-free interest rate of approximately 3%, 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 3%, a credit margin of 3% and the local corporate income tax rates. All the post tax average cost of capital rates of the cash generating units containing goodwill approximated 7.9% to 8.7%, which rates were used for calculating the after tax cash flows.

Terminal value growth rate

All cash generating units with goodwill have five years of cash flows included in their discounted cash flow models. A 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 20% reduction in the expected EBIT levels would not lead to impairment. The same analysis was carried out for the discount rate. A 2.5% point increase in the discount rate 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 operating segments have been aggregated into two reportable segments, the Group chooses not to report on recoverable amounts on reporting entities.

3 >> Other investments, derivatives

Other investments in 2013 include recognised upfront and legal fees related to the facility agreement (see note 10). Kendrion amortises these costs over the remaining maturity of the facility. As these costs relate to the facility agreement as a whole and not to individual loans, these costs are not part of the effective interest rate of outstanding loans.

4 >> Deferred tax assets and liabilities

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

Germany

Tax assessments have been submitted for the German intermediate holding up to and including 2011, and for the German operating companies up to and including 2011. As from 2009, these years are still open for potential tax audits with the exception of Kendrion (Aerzen) GmbH which has been audited up to and including 2008.

For the German operating companies of Kuhnke tax assessments have been submitted up to and including 2012. For these companies the years up to and including 2011 have been audited and the tax assessments are final.

At 31 December 2013 the tax loss carry-forwards amounted to about EUR 5 million (‘Gewerbesteuer’) and EUR 37 million (‘Körperschaftsteuer’). These are recognised in full, resulting in deferred tax assets of EUR 6.5 million.

The Netherlands

Tax assessments have been submitted up to and including 2011. The years 2005 up to 2011 are still open for potential tax audits.
At 31 December 2013 the tax loss carry-forwards amounted to EUR 26 million. These are recognised in part, resulting in deferred tax assets of EUR 4.1 million.

The main element of the tax loss carry-forwards originates from 2007, 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	
	2013	2012	2013	2012	2013	2012
Property, plant and equipment	0.2	0.2	2.5	1.8	(2.3)	(1.6)
Intangible assets	0.9	0.7	7.7	3.7	(6.8)	(3.0)
Inventories	0.1	0.1	0.2	0.2	(0.1)	(0.1)
Employee benefits	0.5	0.4	0.1	–	0.4	0.4
Provisions	0.9	0.1	0.4	0.3	0.5	(0.2)
Other items	0.8	0.1	0.1	0.2	0.7	(0.1)
Tax value of recognised loss carry-forwards	11.7	8.9	–	–	11.7	8.9
Deferred tax assets/liabilities	15.1	10.5	11.0	6.2	4.1	4.3

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 nature, mostly over five years.

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

Movements in temporary differences during the financial year

Net, EUR million	At 1 January	Effect acquisitions		Recognised in income	Recognised in other comprehensive income	At 31 December 2013
Property, plant and equipment	(1.6)	(0.4)	(2.0)	(0.3)	–	(2.3)
Intangible assets	(3.0)	(4.7)	(7.7)	0.9	–	(6.8)
Inventories	(0.1)	–	(0.1)	0.0	–	(0.1)
Employee benefits	0.4	–	0.4	–	(0.0)	0.4
Provisions	(0.2)	0.8	0.6	(0.1)	–	0.5
Other items	(0.1)	0.4	0.3	0.4	–	0.7
Tax value of loss carry-forwards used	8.9	0.3	9.2	2.5	–	11.7
	4.3	(3.6)	0.7	3.4	(0.0)	4.1

Net, EUR million	At 1 January	Recognised in income	Recognised in other comprehensive income	At 31 December 2012
Property, plant and equipment	(1.6)	0.0	–	(1.6)
Intangible assets	(3.9)	0.9	–	(3.0)
Inventories	(0.2)	0.1	–	(0.1)
Employee benefits	0.6	(0.1)	(0.1)	0.4
Provisions	0.1	(0.3)	–	(0.2)
Other items	0.4	(0.5)	–	(0.1)
Tax value of loss carry-forwards used	8.1	0.8	–	8.9
	3.5	0.9	(0.1)	4.3

In 2013, the net amount from the movement in deferred tax assets and liabilities, presented as tax in the profit or loss, is EUR 3.4 million (2012: EUR 0.9 million).

Unrecognised deferred tax assets

At 31 December 2013, the Group had not valued tax losses of approximately EUR 10 million (2012: EUR 21 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	2013	2012
Raw materials, consumables, technical materials and packing materials	21.7	15.1
Work in progress	11.9	8.9
Finished goods	11.0	10.4
Goods for resale	2.3	0.8
	46.9	35.2

The inventories are presented after accounting for a provision for obsolescence amounting to EUR 4.3 million (2012: EUR 3.8 million). In 2013 the amount of the write down to net realisable value of the inventories was EUR 0.7 million (2012: EUR 0.5 million).

6 Trade and other receivables

EUR million	2013	2012
Trade receivables	43.7	31.2
Other taxes and social security	1.7	0.6
Other receivables	2.0	1.6
Derivatives used for hedging	0.1	–
Prepayments	2.1	1.1
	49.6	34.5

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	2013	2012
Bank balances	18.0	9.9
Bank overdrafts	(1.8)	(5.4)
Cash and cash equivalents in the statement of cash flows	16.2	4.5

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	
	2013	2012	2013	2012	2013	2012
At 1 January	11,639,375	11,445,133	15,839	47,392	11,655,214	11,492,525
Issued shares	1,165,521	–	–	–	1,165,521	–
Issued shares (share dividend)	133,113	155,675	–	–	133,113	155,675
Issued registered shares (share plan)	8,428	7,014	–	–	8,428	7,014
Delivered repurchased shares	8,050	31,553	(8,050)	(31,553)	–	–
At 31 December	12,954,487	11,639,375	7,789	15,839	12,962,276	11,655,214

Issuance of ordinary shares

In May 2013 the Company 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 2013 133,113 new shares were issued as share dividend. During 2013, the Company delivered 16,478 shares to the Executive Board and senior management as part of its share plan and remuneration packages. The Company purchased none of the Company's shares in 2013 (2012: none).

Ordinary shares

The authorised share capital consists of:

EUR million	2013	2012
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2013: 11,655,214 ordinary shares (2012: 11,492,525)	23.2	22.9
Balance at 31 December 2013: 12,962,276 ordinary shares (2012: 11,655,214)	25.9	23.2

Share premium

EUR million	2013	2012
Balance at 1 January	59.9	64.6
Dividend payment	(6.8)	(7.1)
Share premium on issued shares	21.3	2.4
Balance at 31 December	74.4	59.9

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 negative EUR 0.3 million (2012: EUR 0.1 million). The realisation of hedged transactions amounted to negative EUR 0.3 million (2012: EUR 0.3 million). The hedge reserve decreased with EUR 0.6 million due to valuation (2012: EUR – 0.2 million). There was no hedge ineffectiveness in 2013 (2012: 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 remuneration packages for the Executive Board. At 31 December 2013, the Company held 7,789 of the Company's shares (2012: 15,839). 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 2013, the result for 2012 was fully transferred in other reserves. Retained earnings in the 2013 financial statements consequently consist solely of the result for 2013.

Minority interests

Until 30 December 2012 the Company had one non 100%-subsidiary that was fully consolidated: Kendrion (Linz) GmbH (Austria).
On 31 December 2012, the Company acquired the remaining 49% interest in Kendrion (Linz) GmbH, increasing its ownership from 51 to 100%.

9 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2013 is based on the profit of EUR 16.7 million (2012: EUR 17.9 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2013: 12,514,000 (2012: 11,571,000).

EUR million	2013	2012
Net profit attributable to ordinary shareholders	16.7	17.9

Weighted average number of ordinary shares

In thousands of shares	2013	2012
Ordinary shares outstanding at 1 January	11,639	11,445
Effect of shares issued as share plan	8	7
Effect of own shares delivered	8	31
Effect of shares issued	1,166	–
Effect of shares issued as share dividend	133	156
Ordinary shares outstanding at 31 December	12,954	11,639
Weighted average number of ordinary shares	12,514	11,571
Basic earnings per share (EUR)	1.29	1.54
Basic earnings per share (EUR), based on weighted average	1.33	1.55

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2013 is based on the profit of EUR 16.7 million (2012: EUR 17.9 million) attributable to the holders of ordinary shares and the weighted average number of shares in issue during the year after adjustment for the effects of all dilutive potential ordinary shares 12,523,000 (2012: 11,577,000).

EUR million	2013	2012
Net profit attributable to ordinary shareholders	16.7	17.9
Effect of dilution	–	–
Net profit attributable to ordinary shareholders (diluted)	16.7	17.9

Weighted average numbers of ordinary shares (diluted)

In thousands of shares	2013	2012
Weighted average numbers of ordinary shares at 31 December	12,514	11,571
Weighted average numbers of ordinary shares at 31 December (diluted)	12,523	11,577
Diluted earnings per share (EUR), based on weighted average	1.33	1.55

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 accounting policies r.

EUR million	2013	2012
Non-current liabilities		
Banking syndicate loans	55.5	25.0
Mortgage loans	6.2	–
Financial lease liabilities	1.5	0.0
Other loans	1.4	0.8
	64.6	25.8

EUR million	2013	2012
Current liabilities		
Interest-bearing debts to credit institutions	0.6	–
	0.6	–

Financing conditions

At 31 December 2013, the Group had the following credit lines available:

- A EUR 183.5 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 and an availability period for new drawings until 17 January 2015;
  - EUR 60 million acquisition facility, with a commitment running until 17 January 2016 and an availability period for new drawings until 17 January 2015;
  - EUR 48.5 million guarantee facility. This facility was provided in connection with the fine imposed by the European Commission and will be converted in a EUR 43.5 million term loan facility upon payment of the fine;

- A EUR 6.2 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany, with a maturity until 2022.
- EUR 2.0 million in subsidised term loans with maturities ranging from 2014 to 2019;
- EUR 1.5 million in financial leases for various equipment in the Kuhnke facilities in Malente and Sibiu;
- EUR 1.5 million in other overdraft facilities.

At 31 December 2013, the total unutilised amount of the facilities was approximately EUR 90 million.

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 at year-end 2013.

The availability in the acquisition facilities will be reduced bi-annually with in total EUR 8 million when a minimum debt cover level is exceeded. The first reduction takes place on 21 January 2014. Upon conversion to the term loan, the guarantee facility is repayable in EUR 5.4 million installments bi-annually starting six months after the conversion.

Security provided

The Group has provided a mortgage on its premises in Malente, Germany regarding a EUR 6.2 million loan. The Group has provided security for a subsidised ERP (European Restructuring Programme) loan in Austria with an outstanding amount of EUR 0.6 million in the form of a pledge on specific machinery in Austria for which the loan was received. Furthermore the Group has provided a pledge on trade receivables for a EUR 1.5 million overdraft facility with a German bank. 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 accounting policies r for further details.

Financial lease liabilities

The financial lease liabilities are payable as follows:

EUR million	2013			2012		
	Minimum lease	Interest	Principal	Minimum lease	Interest	Principal
‹ 1 year	0.6	0.1	0.5	0.0	0.0	0.0
1 – 5 years	0.9	0.1	0.8	0.0	–	0.0
› 5 years	–	–	–	–	–	–
	1.5	0.2	1.3	0.0	0.0	0.0

The financial lease liabilities mostly relate to financial leases for various equipment in Malente and Sibiu (Kuhnke facilities).

11 » Employee benefits

EUR million	2013	2012
Present value of unfunded obligations	14.5	3.6
Present value of funded obligations	6.1	6.0
Fair value of plan assets	(4.8)	(4.4)
Recognised liability for defined-benefit obligations (see below)	15.8	5.2
Liability for long-service leave and anniversaries	2.2	1.9
Total employee benefits	18.0	7.1

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

EUR million	2013	2012
Recognised net liability for defined-benefit obligations at 1 January	5.2	6.6
Expense recognised in the income statement	0.7	0.5
Benefits paid by the plan	(0.9)	(0.4)
Other movements (including currency differences and employer contributions paid)	(0.2)	(0.9)
Actuarial (gains) losses	(0.1)	(0.6)
Acquired through business combinations	11.1	–
Recognised net liability for defined-benefit obligations at 31 December	15.8	5.2

Movement in plan assets

EUR million	2013	2012
Fair value of plan assets at 1 January	(4.4)	(3.8)
Contributions paid employer	(0.1)	(0.1)
Contributions paid participants	(0.1)	(0.1)
Payments made	0.1	0.0
Expected return on plan assets	(0.1)	(0.1)
Other movements	(0.2)	(0.3)
Fair value of plan assets at 31 December	(4.8)	(4.4)

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

EUR million	2013	2012
Current service costs	0.3	0.3
Interest on obligation	0.5	0.3
Expected return on plan assets	(0.1)	(0.1)
	0.7	0.5
Actual return on plan assets	(0.3)	(0.1)

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

EUR million	2013	2012
Interest expense	0.4	0.3
Staff costs	0.3	0.2
	0.7	0.5

Principal actuarial assumptions (expressed as weighted averages)

	2013	2012
Discount rate at 31 December	2.6%	3.1%
Future salary increases	0.4%	0.9%
Future pension increases	1.5%	1.1%

Historical information

EUR million	2013	2012	2011	2010	2009
Net liability for defined-benefit obligations	20.6	9.6	10.4	9.0	7.5
Fair value of plan assets	4.8	4.4	3.8	3.6	2.4
Deficit in plan	15.8	5.2	6.6	5.4	5.1

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	2013	2012
Bonds	2.7	2.7
Equity	0.9	1.0
Real estate	0.6	0.4
Government loans	0.1	0.1
Other	0.5	0.2
Total	4.8	4.4

Sensitivity analysis

	Defined benefit obligation	
EUR million	1 percent increase	1 percent decrease
Discount rate	(2.2)	2.6
Future salary growth	0.1	(0.1)
Future pension	1.8	(1.7)

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. 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. 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 2013 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, early-retirement and service anniversaries.

12 Share-based payments

At 31 December 2013, 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. Pursuant to this incentive programme a total of 2,064 shares were issued in 2013, resulting from shares granted in 2010.

Terms & conditions share programme (loyalty bonus)

Grant date	Number of instruments	Vesting conditions
Shares granted to key management in 2011	2,245	3 years of service
Shares granted to key management in 2012	3,201	3 years of service
Shares granted to key management in 2013	1,714	3 years of service
Total shares	7,160	

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	2013	2012
Balance at 1 January	43.6	46.4
Provisions made during the period	9.0	1.6
Provisions transferred during the period	(44.7)	(0.0)
Provisions released during the period	(5.9)	(4.4)
Balance at 31 December	2.0	43.6
Non-current part	–	43.6
	–	43.6

The provisions formed during the year under review consist of the contingent consideration of EUR 5.4 million arising from the acquisition of the Kuhnke Group on 14 May 2013 (see note 20), a restructuring provision of EUR 2.1 million, the accrued interest of EUR 1.0 million on the provision relating to the fine imposed by the European Commission and other provisions of EUR 0.5 million.

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 Company lodged an appeal against the fine in 2006. On 16 November 2011, the General Court of the European Union in Luxembourg ruled that the fine was to be upheld in full. 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. On 26 November 2013, the Court of Justice also ruled that the fine was to be upheld in full. On the issue of the final ruling the fine, including accrued interest, was reclassified to a current liability (trade and other payables) of EUR 43.4 million. The deviation of EUR 0.8 million between the provision and the actual amount to be paid (based on the final confirmation of the European Commission received in January 2014) results from the prudent calculation of the accrued interest from 2005.

The provisions released during the period also include the release of the earn-out provision of EUR 4.4 million relating to the acquisition of the Kuhnke Group. This release has been included in other income.

14 ## Trade and other payables

EUR million	2013	2012
Trade payables	36.6	23.5
Other taxes and social security contributions	2.8	2.1
Derivatives used for hedging	0.4	0.2
EC fine payable	43.4	–
Non-trade payables and accrued expenses	18.4	12.3
	101.6	38.1

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	
	2013	2012
Cash and cash equivalents	18.0	9.9
Other long term investments	0.5	0.7
Current income tax	3.3	3.0
Trade and other receivables	49.6	34.5
Total	71.4	48.1

The Group's most significant customer, a German automotive group, accounted for 8% of the trade and other receivables at 31 December 2013. In 2012 the largest customer accounted for 11% 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

Aging analysis of the trade and other receivables

EUR million	2013		2012	
	Gross	Provision	Gross	Provision
Within the term of payment	40.8	–	30.0	–
0 – 30 days due	6.6	–	3.8	–
31 – 60 days due	1.2	(0.1)	0.3	–
› 60 days due	1.7	(0.6)	0.6	(0.2)
Total trade and other receivables	50.3	(0.7)	34.7	(0.2)

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

At 31 December 2013 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 2013 are collectible. EUR 2.9 million of trade receivables are over 30 days overdue, of which EUR 0.7 million is provided for. The Group has written off less than EUR 0.1 million receivables in 2013 (2012: less than EUR 0.1 million), which are recognised under other operating expenses in the comprehensive statement of income.

Liquidity risk

The contractual terms of the financial obligations, including the estimated interest payments and repayment obligations, are set out below.

31 December 2013 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							
Banking syndicate loans	55.5	(57.2)	(0.8)	(0.9)	(55.5)	–	–
Finance lease liabilities	1.5	(1.7)	(0.2)	(0.3)	(0.5)	(0.7)	–
Bank overdrafts	1.8	(1.8)	(1.8)	–	–	–	–
Other loans and borrowings	8.2	(10.0)	(0.9)	(0.7)	(1.0)	(3.4)	(4.0)
Trade and other payables	101.2	(101.2)	(101.2)	–	–	–	–
Tax liabilities	1.0	(1.0)	(1.0)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.1	(0.1)	–	(0.1)	–	–	–
Forward exchange contracts	0.3	(0.3)	(0.3)	–	–	–	–
Total	169.6	(173.3)	(106.2)	(2.0)	(57.0)	(4.1)	(4.0)

31 December 2012 EUR million	Carrying amount	Contractual cash flows	0 – 6months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Non-derivative financial liabilities							
Banking syndicate loans	25.0	(26.9)	(0.3)	(0.3)	(0.6)	(25.7)	–
Finance lease liabilities	0.0	(0.0)	(0.0)	(0.0)	(0.0)	–	–
Bank overdrafts	5.4	(5.4)	(5.4)	–	–	–	–
Other loans and borrowings	0.8	(0.9)	(0.3)	(0.3)	(0.3)	–	–
Trade and other payables	37.9	(37.9)	(37.9)	–	–	–	–
Tax liabilities	0.7	(0.7)	(0.7)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.1	(0.1)	(0.1)	(0.0)	–	–	–
Forward exchange contracts	0.1	(0.1)	(0.1)	–	–	–	–
Total	70.0	(72.0)	(44.8)	(0.6)	(0.9)	(25.7)	–

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 and interest risks with derivatives, whereby the hedges have been designated as cash flow hedges. The following table lists the value of these derivatives at financial position date, and when the derivatives will influence profit or loss and cash flows.

Cash flow hedges (in 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.

2013 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.1)	(0.1)	–	(0.1)	–	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.3)	(0.3)	(0.3)	–	–	–	–
Total	(0.4)	(0.4)	(0.3)	(0.1)	–	–	–

2012 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.1)	(0.1)	(0.1)	–	–	–	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.1)	(0.1)	(0.1)	–	–	–	–
Total	(0.2)	(0.2)	(0.2)	–	–	–	–

Cash flow hedges (in statement of comprehensive income)

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

2013 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.1)	(0.1)	–	(0.1)	–	–	–
Forward exchange contracts					–	–	–
Assets	–	–	–	–	–	–	–
Liabilities	(0.3)	(0.3)	(0.1)	(0.1)	(0.1)	–	–
Total	(0.4)	(0.4)	(0.1)	(0.2)	(0.1)	–	–

2012 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	› 5 years
Interest rate swap contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.1)	(0.1)	(0.1)	–	–	–	–
Forward exchange contracts					–	–	–
Assets	–	–	–	–	–	–	–
Liabilities	(0.1)	(0.1)	(0.1)	–	–	–	–
Total	(0.2)	(0.2)	(0.2)	–	–	–	–

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 30 million. The aggregate fair value of the outstanding interest rate swaps at 31 December 2013 was negative EUR 0.1 million (2012: negative EUR 0.1 million).

The following table shows the interest rates prevailing at the financial position date for interest-bearing financial liabilities. The majority of all interest expenses relate to senior bank loans. The effective interest rate of these loans equalise the nominal interest rate. The EUR 6.2 million mortgage loan was acquired through business combinations in 2013 and initially recorded at fair value. The effective interest rate of the loan is 3.7%. Other loans are not provided at an upcount or discount and no incremental transaction costs were incurred when the loans were drawn.

					2013		2012
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	EURIBOR + 2.80%	2015	55.5	55.5	25.0	25.0
Mortgage loan	EUR	6.40%	2022	6.2	6.2	–	–
Other loans	EUR	3.50%	2019	2.0	2.0	0.8	0.8
Bank overdrafts	Various	Interbank + 2.60%	2016	1.8	1.8	5.4	5.4
Finance lease liabilities	EUR	3.00 - 6.50%	2017	1.5	1.5	0.0	0.0
Total interest-bearing debt				67.0	67.0	31.2	31.2

Sensitivity analysis interest

Financial assets and liabilities with a fixed interest rate are not recognised at fair value by processing the value changes in profit or loss. For this reason a movement in interest rates across the yield curve at 1 January 2013 would not have had a material influence on the 2013 result.

The Group has hedged a considerable part of the floating interest rate exposure by means of interest rate swaps. When taking into account these swaps and the loans with a fixed rate, in total EUR 39 million of the EUR 67 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 2014, will have an increasing effect on interest expenses in 2014 of maximum EUR 0.2 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was negative EUR 0.2 million at 31 December 2013 (2012: negative EUR 0.1 million).

A 10% point appreciation of the currencies listed below against the euro would increase shareholders' equity at 31 December 2013 and the result for 2013 by the amounts shown in the following table. The same analysis was performed at 31 December 2012. 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 2013 would have had an impact as is shown below.

31 December 2013	Equity	Result
US dollar	3.6	0.2
Czech krone	0.7	(0.2)
Swiss franc	0.2	0.0
Chinese yuan	1.0	0.0
Indian rupee	0.0	0.0
Rumanian ley	0.3	0.1

31 December 2012	Equity	Result
US dollar	3.3	0.1
Czech krone	0.6	(0.1)
Swiss franc	0.2	(0.1)
Chinese yuan	0.9	0.1
Indian rupee	0.0	0.1

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2013	At 31 December 2012	Average over 2013
Pound sterling	0.8337	0.8161	0.8472
Swiss franc	1.2276	1.2072	1.2273
Czech krone	27.4273	25.1509	25.9444
Chinese yuan	8.3491	8.2207	8.1745
US dollar	1.3791	1.3194	1.3294
Mexican peso	18.0731	17.1845	17.1051
Brazilian real	3.2576	2.7036	2.8614
Romanian ley	4.4710	4.4445	4.4168
Indian rupee	85.3679	72.5584	77.4833

Fair values of financial instruments

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

EUR million	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Loans and receivables (including current tax assets)	52.9	52.9	37.5	37.5
Cash and cash equivalents	18.0	18.0	9.9	9.9
Held to maturity investments	0.5	0.5	0.7	0.7
	71.4	71.4	48.1	48.1
Liabilities carried at amortised costs				
Banking syndicate loans	(55.5)	(55.5)	(25.0)	(25.0)
Mortgage loan	(6.2)	(6.2)	–	–
Other debts	(2.0)	(2.0)	(0.8)	(0.8)
Finance lease liabilities	(1.5)	(1.5)	(0.0)	(0.0)
Bank overdraft	(1.8)	(1.8)	(5.4)	(5.4)
Trade and other payables (including current tax liabilities)	(102.6)	(102.6)	(38.6)	(38.6)
	(169.6)	(169.6)	(69.8)	(69.8)
Liabilities carried at fair value				
Interest derivatives	(0.1)	(0.1)	(0.1)	(0.1)
Forward exchange contracts	(0.2)	(0.2)	(0.1)	(0.1)
	(0.3)	(0.3)	(0.2)	(0.2)

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

Interest rate used in measuring fair value

The interest rate used for discounting estimated cash flows, where applicable, is based on the swap curve at 31 December 2013, augmented by the prevailing credit mark-up, and is as follows:

	2013	2012
Derivatives	0.30%	0.30%
Leases	3.50%	2.50%
Banking syndicate loans	3.10%	2.50%
Mortgage loans	3.80%	–
Loans and receivables	3.50%	2.50%

Fair value hierarchy

The fair value calculation method of all assets and liabilities carried at amortised costs are categorised in level 2 of the fair value hierarchy.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

level 1 quoted prices (unadjusted in active markets for identical assets or liabilities);

level 2 inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2013				
Derivative contracts used for hedging	–	(0.3)	–	(0.3)
Contingent considerations	–	–	(1.0)	(1.0)
Total	–	(0.3)	(1.0)	(1.3)
31 December 2012				
Derivative contracts used for hedging	–	(0.2)	–	(0.2)
Contingent considerations	–	–	–	–
Total	–	(0.2)	–	(0.2)

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
Balance at 1 January 2013	–
Arising from business combinations	5.4
Change in fair value of contingent consideration	(4.4)
Balance at 31 December 2013	1.0

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 combinations.

Master netting

The Company has no master netting agreement in place. All derivative instruments are presented individually as either an asset or liability.

16 >> Operating lease agreements

Lease contracts in which the Group acts as lessee

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

EUR million	2013	2012
‹ 1 year	3.3	3.0
1 – 5 years	4.2	4.4
› 5 years	2.2	2.0
	9.7	9.4

In the 2013 financial year a charge of EUR 0.9 million was recognised in profit or loss in respect of operating leases (2012: 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 2013, the Group signed purchase contracts for property, plant and equipment totalling EUR 3.4 million (2012: EUR 3.7 million).

18 Contingent liabilities

Kendrion (Villingen) 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 (Villingen) 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 was expected in 2013, but was delayed for an unknown period. The ruling is now expected in 2014.

The former Managing Director of Kendrion (Sao Paulo) Sistemas Automotivos Ltda. decided to leave the company in August 2011. He has unexpectedly filed a claim at the local court for a total amount of BRL 3,435,683 (equivalent to EUR 1,054,665) in connection with employment law issues. Although the local court rejected all his claims in first instance, in appeal it was ruled that Kendrion has to pay BRL 300,000 (equivalent to EUR 92,092), excluding some social security payments. The former Managing Director has petitioned the court for permission to appeal at the highest labour court in Brazil, which was allowed. Kendrion has decided to form a provision of BRL 391,000 (EUR 120,027).

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	
	2013	2012	2013	2012	2013	2012
Revenue from transactions with third parties	46.2	39.0	228.1	163.3	13.9	20.2
Non-current assets	22.8	24.2	165.6	100.3	1.3	1.1
Deferred tax assets	2.0	1.4	8.6	6.4	0.3	0.3
Pensions	0.0	0.0	14.5	3.8	0.0	0.0

EUR million	Other European countries		Consolidated	
	2013	2012	2013	2012
Revenue from transactions with third parties	65.8	62.4	354.0	284.9
Non-current assets	12.2	11.4	201.9	137.0
Deferred tax assets	4.2	2.4	15.1	10.5
Pensions	1.4	1.4	15.9	5.2

Sales segmented by customer location

EUR million	2013	2012
Germany	173.6	138.9
Other European countries	91.2	60.6
Asia	32.0	32.9
The Americas	54.2	49.8
Other countries	3.0	2.7
Total	354.0	284.9

Information about reportable segments

Until 2012 Kendrion aggregated all operating segments into one 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.

EUR million	Automotive Division		Industrial Division		Corporate activities		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenue from transactions with third parties	226.1	184.0	127.9	100.9	–	–	354.0	284.9
Inter-segment revenue	0.1	0.0	0.2	0.5	–	–	0.3	0.5
EBITA	14.0	16.1	9.5	6.7	0.4	4.1	23.9	26.9
Reportable segment assets	200.3	153.8	110.3	65.0	24.2	11.3	334.8	230.1

Major customers

Two customers individually account for more than 5% of the company's total revenue. Both customers individually account for approximately 8% of total revenue.

20 Business combinations and acquisitions of non-controlling interests

2013

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 Kristianstad, Sweden. Kendrion and Kuhnke complement each other strategically with their respective competencies and positions in electromagnetic, electronic and mechatronic subsystems 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 seven and a half month leading up to 31 December 2013, Kuhnke contributed revenue of EUR 73 million to the Group's results. Its contribution to net profit during this period was EUR 0.4 million after deduction of the charges relating to the purchase price allocation and non-recurring integration and restructuring costs. Management estimates that if the acquisition had taken place on 1 January 2013, the consolidated revenue would have been EUR 398 million and the consolidated reported net profit would have been EUR 17.0 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 5.4 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. Based on the actual added value for 2013 EUR 4.4 million of the earn out provision resulting from this contingent consideration was released. The final settlement of the contingent liability with the former owners will take place during 2014.

Consideration transferred

EUR million	
Cash	44.3
Equity instruments	2.1
Contingent consideration	5.4
	51.8

Identifiable assets acquired and liabilities assumed

EUR million	Book value before acquisition	Fair value adjustments	Recognised at acquisition
Property, plant and equipment	15.4	0.7	16.1
Intangible assets	2.0	15.8	17.8
Deferred tax assets	1.5	–	1.5
Inventories	12.6	0.5	13.1
Trade and other receivables	14.3	–	14.3
Cash and cash equivalents	5.8	–	5.8
Loans and borrowings	(12.8)	–	(12.8)
Deferred tax liabilities	(0.4)	(4.7)	(5.1)
Employee benefits	(12.1)	–	(12.1)
Trade and other payables	(17.4)	–	(17.4)
Total identifiable net assets	8.9	12.3	21.2

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 15.1 million, of which EUR 0.8 million was expected to be uncollectible at the acquisition date.

Goodwill

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

EUR million	
Total consideration transferred	46.4
Contingent consideration	5.4
Fair value of identifiable net assets	(21.2)
Goodwill	30.6

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.

2012

On 31 December 2012, the Group acquired the remaining 49% interest in Kendrion (Linz) GmbH for EUR 0.7 million, increasing its ownership from 51 to 100%. The Group recognised a decrease in non-controlling interests of EUR 0.1 million and a decrease in other reserves of EUR 0.4 million.

21 Other income

EUR million	2013	2012
Release of unused provisions and accrued expenses	4.4	4.5
Net gain on disposal of property, plant and equipment	0.0	0.2
Other	0.2	0.4
	4.6	5.1

The release of unused provisions and accrued expenses includes the release of the earn out provision of EUR 4.4 million relating to the acquisition of the Kuhnke Group in 2013.

22 Staff costs

EUR million	2013	2012
Wages and salaries	85.2	64.3
Social security charge	15.2	9.4
Temporary personnel	4.5	4.0
Contributions to defined contribution plans	0.2	0.2
Expenses related to defined benefit plans	0.3	0.2
Increase in liability for long-service leave	0.3	0.1
Other costs of personnel	2.9	1.6
	108.6	79.8
Total number of employees and temporary workers at 31 December (FTE)	2,756	1,632

23 Other operating expenses

EUR million	2013	2012
Lease expenses	0.9	0.8
Increase in provision for doubtful debts	0.5	0.0
Premises costs	6.3	5.2
Maintenance expenses	3.5	2.6
Transport expenses	1.8	1.4
Consultancy expenses	5.9	4.1
Sales and promotion expenses	1.5	1.2
Car, travel and representation costs	3.7	3.1
Release of provision EC fine	(0.8)	–
Other	6.5	5.5
	29.8	23.9

Research & Development expenses (including staff and other operating expenses) for 2013 totalled EUR 19.4 million (2012: EUR 17.1 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	2013	2012
Interest income	0.3	0.1
Net exchange gain	–	–
Finance income	0.3	0.1
Interest expenses	(4.7)	(4.4)
Interest expenses related to employee benefits	(0.5)	(0.3)
Net exchange loss	(0.3)	(0.3)
Finance expense	(5.5)	(5.0)
Net financing costs	(5.2)	(4.9)

25 ## Income tax

Recognised in profit or loss

EUR million	2013	2012
Current tax charge on year under review	1.0	(1.5)
Total corporation tax expenses in profit or loss	1.0	(1.5)

26 ## Reconciliation with the effective tax rate

	Reconciliation with tax rate		Reconciliation with effective rate EUR million	
	2013	2012	2013	2012
Profit before income tax			15.7	19.5
Income tax expense at local corporation tax rate	25.0%	25.0%	3.9	4.9
Non-deductible expenses	4.5%	3.6%	0.7	0.7
Effect of tax rates in foreign jurisdictions	(1.8)%	1.4%	(0.3)	0.3
Tax exempt income	(16.6)%	(9.3)%	(2.6)	(1.8)
Change in unrecognised temporary differences	(1.3)%	(1.3)%	(0.2)	(0.3)
Recognition of previously unrecognised tax losses[1]	(17.2)%	(11.9)%	(2.7)	(2.3)
Current year losses for which no deferred tax asset is recognised	1.3%	–	0.2	–
Other movements	(0.3)%	0.2%	(0.0)	0.0
	(6.4)%	7.7%	(1.0)	1.5

[1] *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 and use of intellectual property. 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 154 and 155.

Transactions with managers in key positions

The remuneration of the Executive Board is as follows:

EUR thousand	2013	2012
Total remuneration	897.9	736.8
Pension and other expense	249.3	241.2

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

The General Meeting of Shareholders held in 2010 and 2013 decided that a variable bonus for the members of the Executive Board shall be awarded 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. 50% of the bonus will be comprised of financial performance criteria (net profit, ROI and free cash flow) and 50% will be comprised of individual (non-financial) performance criteria. The financial performance criteria are weighted more or less equally.

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.

The existing variable remuneration is supplemented with a share match. As stated above, 2/3 of the annual variable remuneration is invested in shares. Kendrion will, depending on the long-term performance criteria, increase the number of shares awarded pursuant to the above by 50% net (a matching ratio of 1:2). The performance criteria are the relative Total Shareholders Return (TSR) and a group of sustainability criteria, both of which will be assigned a weighting of 50%. The performance period shall be of a term of three years, which begins at the time of the award of the annual variable remuneration. Consequently the award, where relevant, is made after a period of three years.

The relative TSR performance criterion for the share match is achieved when Kendrion's TSR score is higher than the average of the AScX and the German Small Cap Index, the SDAX. The sustainability criteria are (i) energy/CO2 reduction, (ii) waste & recycling, (iii) employee satisfaction and (iv) management development / succession planning. Each of these sustainability criteria is assigned an equal weighting of 25%.

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 Supervisory Board has decided that, on the basis of the performance and relevant criteria in 2013, the CEO shall receive a bonus of 31% of his gross fixed remuneration and the CFO shall receive a bonus of 27.1% of his gross fixed remuneration. The CEO's gross bonus amounts to EUR 119,400 of which EUR 19,104 shall be paid in cash. EUR 38,208 is awarded conditionally in shares on the basis of the closing share price on 14 April 2014. The vesting period ends in 2015 and the holding period ends in 2017. The CFO's gross bonus amounts to EUR 81,375 of which EUR 13,020 shall be paid in cash. EUR 26,040 is awarded conditionally in shares on the basis of the closing share price on 14 April 2014. The vesting period ends in 2015 and the holding period ends in 2017.

The vesting and holding periods regarding bonuses awarded to the CEO and CFO in prior years at year-end can be specified as follows:

Description	Number of shares	Vesting period	Holding period
Shares granted to the CEO (bonus 2009)	2,750	N/A	April 2015
Shares granted to the CEO (bonus 2010)	3,263	End of 2012	End of 2014
Shares granted to the CEO (bonus 2011)	3,132	End of 2013	End of 2015
Shares granted to the CEO (bonus 2012)	512	End of 2014	End of 2016

Pensions

The Executive Board participates in the defined contribution plan of the Company in 2013. The contribution was EUR 71,700 for the CEO and EUR 62,700 for the CFO.

Transactions with shareholders

There were no transactions with shareholders.

28 >> Accounting estimates and judgements by management

The Executive Board discussed the selection and disclosure of the critical accounting policies for financial reporting and estimates as well as the application of these policies and estimates with the Supervisory Board.

In preparing the financial statements, the management is required under IFRS to make various judgements, estimates and assumptions 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 11%. 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

There are no post-balance sheet events.

Company balance sheet at 31 December

(before profit appropriation)

Note	EUR million	2013	2012
	Non-current assets		
	Property, plant and equipment	0.1	0.1
	Intangible assets	–	–
	Other investments, including derivatives	0.3	0.4
1.3	Financial assets	197.4	173.7
	Total non-current assets	197.8	174.2
	Current assets		
1.4	Receivables	0.6	0.7
	Cash and cash equivalents	0.0	0.3
	Total current assets	0.6	1.0
	Total assets	198.4	175.2
1.5	**Equity**		
	Share capital	25.9	23.2
	Share premium	74.4	59.9
	Reserves	17.1	2.1
	Retained earnings	16.7	17.9
	Total equity	134.1	103.1
1.6	Provisions	–	43.5
1.7	Loans and borrowings (current)	64.3	28.6
	Total equity and liabilities	198.4	175.2

Company income statement

Note	EUR million	2013	2012
1.11	Share in results of Group companies after tax	17.7	17.8
	Other results after tax	(1.0)	0.1
	Net profit	16.7	17.9

Notes to the company financial statements

1 ## Notes to the company financial statements

1.1 **General**

The Company financial statements are part of the 2013 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 2013	Total 2012
Carrying amount at 1 January	169.9	1.6	2.2	173.7	155.7
Results of Group companies	17.7	–	–	17.7	17.8
Movements in loans and borrowings	–	6.8	–	6.8	0.0
Movements in deferred tax assets	–	–	1.9	1.9	1.3
Other movements	(2.7)	–	–	(2.7)	(1.1)
Carrying amount at 31 December	184.9	8.4	4.1	197.4	173.7

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 154 and 155 of the Annual Report.

1.4 Receivables

EUR million	2013	2012
Receivables from Group companies	0.4	0.5
Prepayments and accrued income	0.2	0.2
	0.6	0.7

All receivables are due within one year.

1.5 Equity

EUR million	Share capital	Share premium	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total 2013	Total 2012
Balance at 1 January	23.2	59.9	–	(0.2)	2.3	17.9	103.1	90.0
Appropriation of retained earnings	–	–	–	–	17.9	(17.9)	–	–
Dividend payment	–	(6.8)	–	–	–	–	(6.8)	(7.1)
Own shares sold	–	–	–	0.0	–	–	0.0	0.1
Issue of ordinary shares	2.7	21.3	–	–	–	–	24.0	2.7
Share-based payment transaction	–	–	–	–	(0.2)	–	(0.2)	0.1
Other	–	–	–	–	(2.7)	–	(2.7)	–
Total recognised income and expenses	–	–	–	–	–	16.7	16.7	17.9
Balance at 31 December	25.9	74.4	–	(0.2)	17.3	16.7	134.1	103.1

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 12,962,276 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 remuneration package for the Executive Board. At 31 December 2013, the Company held 7,789 of its own shares (2012: 15,839).

1.5.5 **Other reserves**

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

1.5.6 **Retained earnings**

In 2013, the full result for 2012 was included in other reserves. Retained earnings consequently consist solely of the result for 2013.

1.6 Provisions

EUR million	2013	2012
Other provisions	–	43.5
	–	43.5

1.7 Loans and borrowings (current)

EUR million	2013	2012
Debts to suppliers and trade payables	0.3	0.4
Debts to Group companies	19.3	27.4
EC fine payable	43.4	–
Other debts	1.3	0.8
	64.3	28.6

1.8 Financial instruments

See note 15 to the consolidated financial statements for details on financial instruments.

1.9 **Staff costs**

EUR million	2013	2012
Wages and salaries	1.9	1.9
Social security charge	0.2	0.2
Pension costs	0.3	0.3
	2.4	2.4
Total number of employees and temporary workers at 31 December (FTE)	10	9

The Company has only defined contribution plans for its employees. The Company had 10 employees (FTE) at year-end 2013 (2012: 9).

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

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 17.7 million (2012: EUR 17.8 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			2013			2012
	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	93.5	276.0	369.5	88.0	186.0	274.0
Other assurance services	20.0	26.0	46.0	5.0	–	5.0
Tax advisory services	–	–	–	–	–	–
Other non-audit services	367.5	–	367.5	45.0	–	45.0
Total	481.0	302.0	783.0	138.0	186.0	324.0

The other fees in 2013 primarily relate to due diligence procedures, review of the Kuhnke 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 1,147,200 (2012: EUR 978,000). This remuneration is specified as follows:

EUR thousand				2013			2012
	P. Veenema	F. Sonnemans**	E. Ris*	Total	P. Veenema	E. Ris*	Total
Fixed remuneration	385.0	261.3	50.8	697.1	380.0	305.0	685.0
Variable remuneration	119.4	81.4	–	200.8	30.4	21.4	51.8
Total remuneration	504.4	342.7	50.8	897.8	410.4	326.4	736.8
Pension and other expenses	121.2	91.2	36.9	249.3	127.3	113.9	241.2
	625.6	433.9	87.7	1,147.2	537.7	440.3	978.0

The 2013 variable remuneration will be granted directly after the General Meeting of Shareholders to be held on 14 April 2014. 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 14 April 2014.

* *Resigned as per 28 February 2013.*

** *Started on 18 February 2013.*

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2013 amounts to EUR 163,000 (2012: EUR 150,000). This remuneration is specified as follows:

EUR thousand	2013	2012
Supervisory Board members:		
H. ten Hove*	13	–
S.J. van Kesteren**	45	45
R.L. de Bakker	35	35
M.E.P. Sanders	35	35
H.J. Kayser	35	35
	163	150

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 2013	31 December 2012
Executive Board	P. Veenema	36,281	32,918
	F. Sonnemans	–	–
	E. Ris	unknown	20,973
Supervisory Board		–	–

Zeist, 26 February 2014

Executive Board	*Supervisory Board*
P. Veenema	H. ten Hove
F. Sonnemans	R.L. de Bakker
	M.E.P. Sanders
	H.J. Kayser

* *Appointed as from 19 August 2013.*

** *Resigned as per 31 December 2013.*

Other information

To: the General Meeting of Shareholders of Kendrion N.V.

Independent auditor's report

Report on the audit of the financial statements

Our 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. (the Company) as at 31 December 2013, 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 (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

Our 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 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Our engagement

We have audited the accompanying financial statements 2013 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 2013, the consolidated statements of comprehensive income, consolidated statement of changes in equity and the consolidated statement of 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 2013, the Company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section *Our responsibility for the audit of the financial statements* of our report. We are independent of the Company within the meaning of the relevant Dutch ethical requirements as included in the 'Verordening op de gedrags- en beroepsregels accountants' (VGBA) and the 'Verordening inzake de onafhankelijkheid van accountants' (ViO) and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The key audit matters from our audit

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the Executive Board and the Supervisory Board but are not intended to represent all matters that were discussed with them.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Sensitivities with respect to the valuation of goodwill

Under EU-IFRS, the Company is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market conditions, particularly those in Germany and the USA.

As a result, our audit procedures included among others discussing the budget and Mid-term Plan with the Executive Board and reconciling the input used to determine the value in use with the budget and Mid-term Plan 2014 – 2016. Furthermore we involved a valuation expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular those relating to the assumed EBIT growth for the Cash Generating Units: Kendrion Linnig Group, Kendrion (Aerzen) GmbH, Kendrion Kuhnke Automation, Kendrion Kuhnke Automotive, Kendrion (Mishawaka) LLC and Kendrion (Shelby) Inc.

We also focused on the adequacy of the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, the assumptions that have the most significant effect on the determination of the recoverable amount of the cash-generating units.

The Company's disclosures about goodwill are included in Note 2.

Acquisition of Kuhnke AG has a significant effect on the financial statements

As described in Note 20, on 14 May 2013, the Company completed the acquisition of Kuhnke AG. We focused on this transaction because it is material to the financial statements as a whole. The determination of the assumptions that underlie the initial acquisition accounting and the useful lives associated with the acquired intangible assets involve significant management judgment. Our audit procedures included among others the evaluation of assumptions and methodologies used by the Company in determining the purchase price allocation. We performed certain audit procedures on the opening balance of Kuhnke and involved valuation experts in performing our procedures. We furthermore focused on the adequacy of the disclosure in Note 20.

Sensitivities with respect to the valuation of deferred tax assets
The Company has unused tax losses which can be carried forward. The Company's disclosures about the unused tax losses and related deferred tax assets are included in Note 4. The Company recognized deferred tax assets for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which unused tax losses can be utilized. Assessing the future taxable profit is complex and requires significant management judgment, in particular on the assumptions about the expected future market and economic conditions, mainly in Germany and the Netherlands.

Our audit procedures included evaluating the Executive Board's assumptions and estimates in relation to the likelihood of generating sufficient future taxable profits based on budgets, business cases, past experiences and discussions with the Executive Board. We further focused on the adequacy of the disclosure in Note 4.

Sensitivities in the determination of Earn Out liability
The Company has agreed an earn out scheme in relation to the Kuhnke acquisition as included in Note 13 and Note 20. The earn out liability is material to the financial statements as a whole and depends on meeting certain financial criteria. Assessing the amount of future earn out payments is complex and judgmental as it is based on expectations on future target margins which are affected also by future market or economical conditions. Our audit procedures included among others the evaluation of the assumptions and methodology used by the Company in determining the earn out liability. We performed audit procedures on the determination of the earn out liability as a part of the accounting for the acquisition as well as the subsequent valuation of the earn out liability. We verified that the earn out liability is based on the underlying agreement and is based on the expected future margin as per the initial recognition as well as per the balance sheet date. Furthermore we evaluated the reasonableness of the expected margin on which the earn out liability is based.

Going concern
The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless the Executive Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we concur with the Executive Board's use of the going concern basis of accounting in the preparation of the Company's financial statements.

The Executive Board has not identified a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither the Executive Board nor the auditor can guarantee the Company's ability to continue as a going concern.

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and fair presentation of these financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, The Executive Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibility for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Dutch Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Dutch Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We are required to communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Executive Board Report and the Supervisory Board Report and other information

Pursuant to the legal requirement under Part 9 of Book 2 of the Dutch Civil Code regarding our responsibility to report on the Executive Board Report and the Supervisory Board Report and the other information:

- We have no deficiencies to report as a result of our examination whether the Executive Board Report and the Supervisory Board Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the other information as required by Part 9 of Book 2 has been annexed.
- We report that the Executive Board Report and the Supervisory Board Report, to the extent we can assess, is consistent with the financial statements.

Arnhem, 26 February 2014

KPMG Accountants N.V.
M.J. De Vries RA

Provisions in the Articles of Association governing the appropriation of profit

Under article 35.1 and 35.2 of the Articles of Association of the Company, the Executive Board shall, with the approval of the Supervisory Board, determine which part of the profits is added to the reserves. The profit remaining after transfer to the reserves is available to the General Meeting of Shareholders. The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by the Executive Board at the date of each dividend payment.

Profit appropriation

Appropriation of net profit

EUR million	
Net profit	16.7

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 16.7 million will be added to the other reserves.

Post-balance sheet events

There are no post-balance sheet events.

Five-year summary

[1] 2009 EBITA and EBITDA excluding effect restructuring provision and costs related to the disposal of the Vink Group. EBITA excluding amortisation related to acquisitions.
[2] 2013 excluding EC fine payable. Relates to inventories, receivables minus non interest bearing debts.
[3] 2011 including Kendrion (Shelby) Inc.
[4] Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash, current tax liabilities, trade payables and other payables (2013 including EC fine).
[5] Before cash flow relating to acquisitions and disposals (2011 and 2013 excluding acquisition expenses).
[6] Excluding EC fine payable.
[7] Pro forma. Unaudited.
[8] 2011 EBITA and EBITDA are normalised (excluding EC fine and a.o. acquisition expenses).
[9] 2013 EBITDA is including full year Kuhnke.
[10] 2013 revenue is including full year Kuhnke.
[11] The results for 2011 have been negatively influenced by a non-recurring supplementary provision of EUR 39 million as a result of the judgement regarding the EC fine.

EUR million	2013	2012	2011 [11]	2010	2009
Kendrion N.V. consolidated					
Statement of comprehensive income conform financial statements					
Revenue	354.0	284.9	267.9	221.9	149.2
Organic growth	(1.2)%	(4.1)%	20.7%	42.9%	(27.0)%
Operating result (EBIT)	20.9	24.4	(11.5)	22.8	(5.0)
Operating result before amortisation (EBITA)[1]	23.9	26.7	(10.0)	24.2	(3.9)
Depreciation and amortisation	16.0	12.7	10.8	10.1	8.8
Operating result before depreciation and amortisation (EBITDA)	36.9	37.1	(0.7)	32.9	3.8
Profit for the period	16.7	18.0	(20.1)	16.6	4.0
Statement of financial position at 31 December conform financial statements					
Total assets	334.8	230.1	229.3	177.1	152.8
Total equity	134.1	103.1	91.7	114.5	96.1
Net interest-bearing debt	49.0	21.3	25.9	5.2	13.9
Working capital[2, 3]	40.6	33.9	35.8	26.0	21.7
Invested capital[4]	242.5	180.1	176.7	129.3	113.1
Statement of cash flows conform financial statements					
Net cash from operating activities	27.5	28.3	27.6	25.6	3.9
Net investments	18.5	18.7	13.5	8.9	5.9
Free cash flow[5]	10.6	9.7	14.6	17.4	(1.9)
Ratios – pro forma					
Solvency	40.1%	44.8%	40.0%	64.7%	62.9%
Net interest-bearing debt[6] / EBITDA[1, 8, 9] (debt cover)[7]	1.2	0.6	0.6	0.2	1.1
Net interest-bearing debt / equity (gearing)	0.4	0.2	0.3	0.1	0.1
EBITA[1, 8] / net finance costs (interest cover)[7]	4.6	5.5	12.1	8.1	1.6
Working capital[2, 3] in % of revenue[10]	10.2%	11.9%	12.1%	11.7%	14.5%
Market capitalisation as at 31 December	309.2	186.5	189.6	164.1	105.8
Net interest-bearing debt as at 31 December	49.0	21.3	25.9	5.2	13.9
Theoretic value of the organisation (Enterprise value)[7]	358.1	207.8	215.5	169.3	119.7
Number of employees at 31 December (FTE)[3]	2,669	1,542	1,534	1,218	1,027

Principal subsidiaries

At 31 December 2013

Industrial Division, Piet Veenema (acting)

Industrial Magnetic Systems

Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany	Norman Graf
Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany	Alfons Mattes
Kendrion (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion (Switzerland) AG, Hausen am Albis, Switzerland	Edgar Bruhin
Kendrion (Linz) GmbH, Linz, Austria	Erich Holzinger

Industrial Control Systems

Kendrion Kuhnke Automation GmbH, Malente, Germany	Robert Lewin
Kuhnke Production Romania S.R.L., Sibiu, Romania	Andra Boboc
Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden	Ronnie Jennerheim

Industrial Drive Systems

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Michael Bernhard
Kendrion (UK) Ltd., Bradford, United Kingdom	Peter McShane
Kendrion (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA	Corey Hurcomb
Kendrion (Aerzen) GmbH, Aerzen, Germany	Gregor Langer

Automotive Division, Bernd Gundelsweiler

Passenger Car Systems	
Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Bernd Gundelsweiler
Kendrion (Eibiswald) GmbH, Eibiswald, Austria	Martin Kollmann
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Vaclav Dostal
Kendrion (Suzhou) Co. Ltd, Suzhou, P.R. China	Jürgen Weisshaar
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Bernd Gundelsweiler (acting)

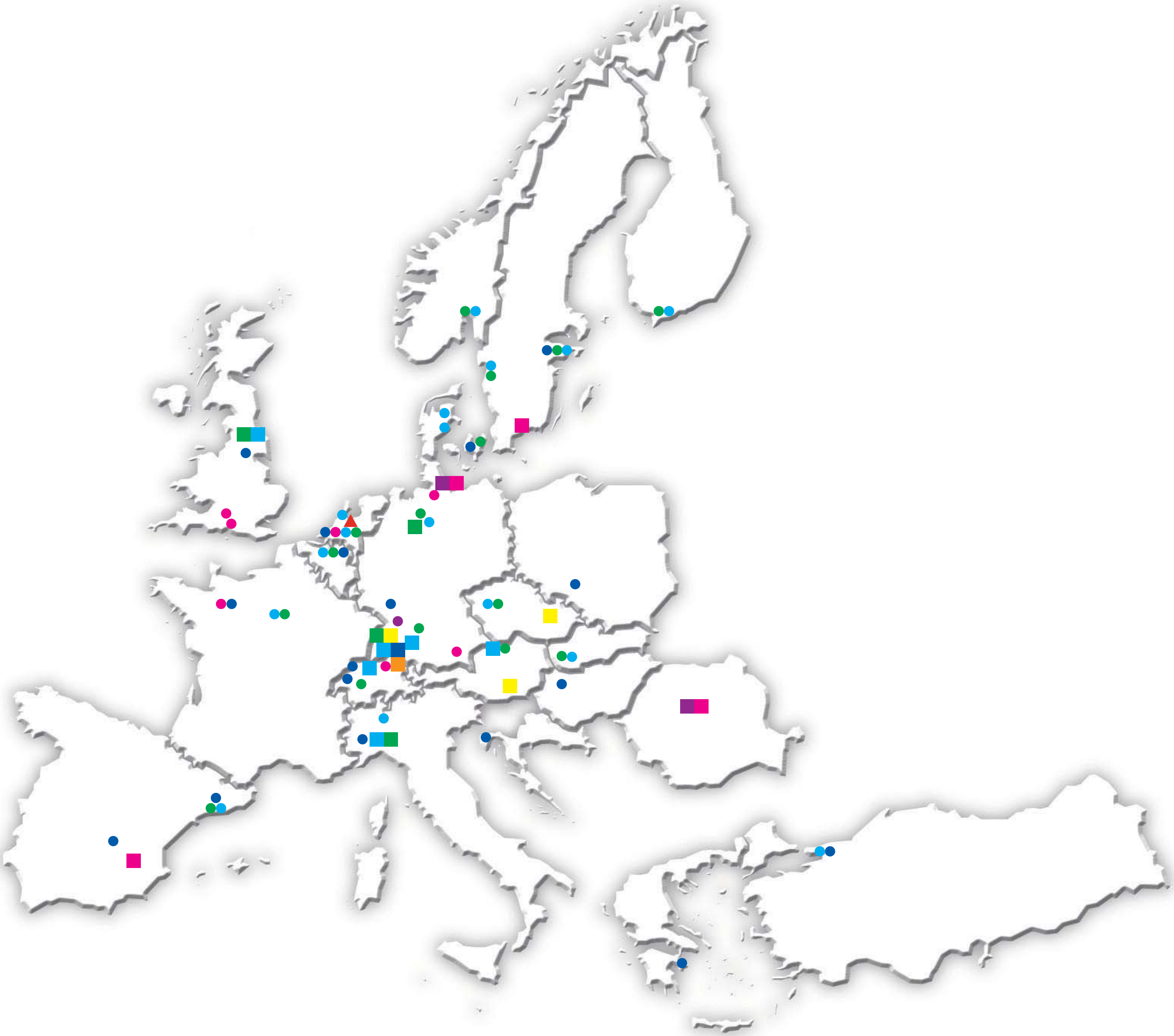
Automotive Control Systems	
Kendrion Kuhnke Automotive GmbH, Malente, Germany	Torsten Komischke
Kuhnke Production Romania S.R.L., Sibiu, Romania	Andra Boboc

Commercial Vehicle Systems	
Kendrion (Markdorf) GmbH, Markdorf, Germany	Erik Miersch
Kendrion (São Paulo) Sistemas Automotivos Ltda., Louveira, Brazil	Timo Mader
Linnig de México, S.A. de C.V., Mexicaltzingo, Mexico	Alexander Glaser
Kendrion Drive Tech. (Nanjing) Co., Ltd., Nanjing, P.R. China	Erik Miersch (acting)
Kendrion (Pune) Private Limited, Pune, India	Sameer Deshmukh
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Bernd Gundelsweiler (acting)

Heavy Duty Systems	
Kendrion (Markdorf) GmbH, Markdorf, Germany	Erik Miersch
Kendrion (Pune) Private Limited, Pune, India	Sameer Deshmukh
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Bernd Gundelsweiler (acting)

Academy	
Kendrion Academy GmbH, Villingen-Schwenningen, Germany	Sören Rosenbaum

A complete list of all subsidiaries is available from the Chamber of Commerce in Utrecht (number 30113646) and from the Company offices.



■ Industrial Magnetic Systems
■ Industrial Control Systems
■ Industrial Drive Systems
■ Passenger Car Systems
■ Automotive Control Systems
■ Commercial Vehicle Systems
■ Heavy Duty Systems
▲ Kendrion N.V.

□ Subsidiaries
○ Partners

Europe

■ Industrial Magnetic Systems
■ Industrial Control Systems
■ Industrial Drive Systems
■ Passenger Car Systems
■ Automotive Control Systems
■ Commercial Vehicle Systems
■ Heavy Duty Systems
▲ Kendrion N.V.

□ Subsidiaries
○ Partners

Rest of the world

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.

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.

Normalisation Figures from which non-recurring 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 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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