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KENDRION REALISES 9.8% EBITA MARGIN AND 16% PROFIT GROWTH IN SOLID FIRST HALF 2018

- Revenue growth in HY1 2018 of 2% to EUR 239.6 million (HY1 2017: EUR 235.6 million) and 3% at constant rates of exchange
- Normalised EBITA margin in HY1 2018 rises to 9.8% from 9.1% in HY1 2017
- Normalised net profit of EUR 15.8 million in HY1 2018 (HY1 2017: EUR 13.7 million)
- Additional simplification measures in Passenger Cars result in annualised savings of EUR 4.2 million, with corresponding one-off costs of EUR 5.9 million in HY1 2018
- Revenue in Q2 2018 increases by 1% to EUR 119.0 million (Q2 2017: EUR 117.3 million)
- Normalised EBITA growth of 7% to EUR 11.6 million in Q2 2018 (Q2 2017: EUR 10.8 million)
- Normalised EBITA margin increases to 9.7% in Q2 2018 from 9.2% in Q2 2017
- Kendrion announces Mid-Term Plan 2019 - 2023 with a Return on Investment target of at least 20% and an EBITDA margin of more than 15% by 2023

Key figures

(x EUR 1 million unless otherwise stated)	Q2 2018¹	Q2 2017^{2, 3}	Difference in %
Revenue	119.0	117.3	1%
EBITDA	17.4	16.5	5%
EBITA	11.6	10.8	7%
Net profit	7.7	6.8	14%
ROS	9.7%	9.2%	
(x EUR 1 million unless otherwise stated)	HY1 2018¹	HY1 2017^{2, 3}	Difference in %
Revenue	239.6	235.6	2%
EBITDA	35.1	32.7	7%
EBITA	23.5	21.4	10%
Net profit	15.8	13.7	16%
ROS	9.8%	9.1%	
¹ Normalised for HY1 2018 non-recurring restructuring costs of EUR 5.9 million (after tax EUR 4.2 million): Q1 2018: EUR 1.1 million (after tax EUR 0.8 million); Q2 2018: EUR 4.8 million (after tax EUR 3.4 million)			
² Normalised for HY1 2017 non-recurring restructuring costs of EUR 2.0 million (after tax EUR 1.5 million): Q1 2017: EUR 1.2 million (after tax EUR 0.9 million); Q2 2017: EUR 0.8 million (after tax EUR 0.6 million)			
³ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.			

Joep van Beurden, Kendrion CEO:

"We had a solid second quarter and first half of 2018. Normalised EBITA in the first six months totalled EUR 23.5 million. This is almost as high as our EBITA over the full year 2015 before we embarked on our "Simplify, Focus, Grow" strategy in May 2016. As a percentage of revenue our normalised EBITA was 9.8%.

Our three Industrial business units and the Commercial Vehicles business unit performed well. Industrial Control Systems and Industrial Drive Systems benefited from high activity levels combined with a leaner organisation. In August, our Industrial Magnetic Systems business unit acquired a minority stake in Newton CFV, entering a strategic partnership in the USA with this new company for the development and manufacturing of innovative constant flow valves for the food and beverages industry.

Following a detailed review of the performance of our Passenger Cars business unit, we have taken several measures in the second quarter in order to further streamline the Passenger Cars Research & Development organisation and to address pockets of inefficiency. Our goal is to further improve the focus on the multitude of opportunities we have in Passenger Cars. We expect to have implemented all the measures by the start of 2019.

Several of our Passenger Cars customers have a significant backlog in test and validation procedures to comply with the new Worldwide Harmonised Light Vehicles Test Procedures (WLTP) for diesel engines. Combined with lower sales of diesel cars, this meant that Passenger Cars saw lower-than-expected revenue growth in the second quarter. We expect that to remain the case for the second half of this year.

On 27 July 2018 we entered into a new five-year EUR 150 million financing agreement with a consortium of three lenders (ING Bank, Deutsche Bank and HSBC) to refinance our existing financing arrangement.

We are confident about our strong business fundamentals, R&D capabilities, customer relationships and growing project pipeline. We expect to deliver our targeted underlying EBITA margin of 10% as from the end of 2018.

Going forward we expect to attain a Return on Investment of at least 20% in 2023 and an EBITDA margin by 2023 of more than 15% driven by a lean and streamlined business operation and accelerating organic growth."

Progress in strategy

In May 2016 Kendrion initiated its strategy for 2016 - 2018 based on the "Simplify, Focus and Grow" pillars, with the aim to deliver sustainable profitable growth for the business.

Our simplification measures focus on complexity reduction and cost-efficiency. Additional simplification measures were taken in our Passenger Cars business unit to further streamline its R&D organisation and to address pockets of inefficiency. Regarding the Passenger Cars R&D organisation, we have decided to close our R&D centre in Ilmenau and are creating a dedicated centre of excellence for sound, software and electronics in Malente.

The cost reductions and restructuring measures implemented in HY1 resulted in one-off costs of EUR 5.9 million, with corresponding savings on an annualised basis of EUR 4.2 million that are expected to mostly take effect as from 1 January 2019. We now expect one-off costs of around EUR 7.0 million with corresponding savings of EUR 5.5 million on an annualised basis for the full year 2018, which is well ahead of our previous guidance.

With respect to growth, the investments for additional capacity in both China and permanent magnet brakes for robotics are on track. With these investments, Kendrion is well positioned to handle the strongly expanding pipeline in these areas in the years ahead.

Financial review

Revenue

Q2 2018

Revenue in the second quarter of 2018 was 1.4% higher (2.4% at constant exchange rates) at EUR 119.0 million compared to the second quarter of 2017 (EUR 117.3 million). The Industrial activities grew by 3.9% (4.4% at constant exchange rates), while growth in Automotive was flat (+1.2% at constant exchange rates).

HY1 2018

Our Industrial activities posted 5.3% growth (6.1% at constant exchange rates) in revenue in the first half of 2018, primarily as a result of growth in Industrial Control Systems. Revenue of the Automotive activities decreased slightly by 0.3% (1.8% growth at constant exchange rates), mainly due to a slower second quarter for Commercial Vehicles. This resulted in overall revenue growth of 1.7% (3.3% at constant exchange rates) in the first half of the year.

Results

Q2 2018

Normalised operating result before amortisation (EBITA) increased by 7% to EUR 11.6 million (Q2 2017: EUR 10.8 million). A lower profitability in Automotive was more than compensated by the Industrial activities where higher activity levels amplified the positive effect of our simplification measures. Despite the higher activity level and wage inflation, staff costs and operating expenses were 4% lower than last year. The normalised EBITA margin improved in line with the increased normalised EBITA from 9.2% in Q2 2017 to 9.7% in Q2 2018.

HY1 2018

Normalised EBITA in HY1 2018 increased to EUR 23.5 million (HY1 2017: EUR 21.4 million), an increase of 10%. Normalised EBITA margin was 9.8% (HY1 2017: 9.1%) driven by a broad based increase in profitability in our Industrial activities.

Normalised EBITA for the Industrial activities increased to EUR 11.7 million from EUR 8.5 million in the same period last year. This increase was especially driven by Industrial Control Systems' improved performance combined with the effect of simplification measures.

The Automotive activities posted normalised EBITA of EUR 11.5 million, compared to EUR 13.3 million in HY1 2017. The decline in profitability is primarily attributable to pockets of inefficiency within the Passenger Cars business unit that are being addressed.

Net finance costs of EUR 1.5 million in the first six months of 2018 were slightly below the same period last year.

Normalised income tax expenses for HY1 2018 stood at EUR 5.0 million (HY1 2017: EUR 4.4 million). The normalised effective tax rate in the first six months of 2018 was 23.9% (HY1 2017: 24.3%), a slight improvement compared to last year due to a different country mix.

Normalised net profit in HY1 2018 was EUR 15.8 million (HY1 2017: EUR 13.7 million). Basic earnings per share amounted to EUR 1.18 (HY1 2017: EUR 1.02). Including restructuring costs, net profit in HY1 2018 amounted to EUR 11.6 million.

Financial position

The net debt position was EUR 78.7 million at the end of the second quarter. Excluding the effects of the adoption of IFRS 16, net debt amounted to EUR 63.6 million. The increase of EUR 5.3 million from the end of the first quarter was due to the cash dividend payment of EUR 5.8 million and our share buyback programme that resulted in a cash outflow of EUR 6.6 million. Kendrion completed the share buyback programme through which 178,852 ordinary shares were repurchased to neutralise the dilutive effect of the 2017 final stock dividend and share-based incentive plans on 29 June 2018. This was partly offset by the free cash flow of EUR 6.3 million. Free cash flow in the first six months amounted to EUR 4.3 million.

Capital expenditure totalled EUR 13.3 million in the first half of 2018, ahead of the depreciation level. Investments for the full year 2018 are expected to be higher than the depreciation level, largely due to new automotive projects and the capacity expansion in permanent magnet brakes for robotics.

Kendrion's financial position is strong, with a solvency ratio of 47.1% at the end of June 2018. Excluding the effects of IFRS 16, the solvency ratio is 49.2%.

New financing agreement

Kendrion entered into a new five-year EUR 150 million financing agreement with a consortium of three lenders (ING Bank, Deutsche Bank and HSBC) to refinance its existing financing agreement on 27 July 2018. The new financing arrangement will provide Kendrion with sufficient flexibility to achieve its growth objectives, while at the same time reducing the overall financing costs.

Number of employees

The number of employees (FTEs) at the end of the second quarter amounted to a total of 2,596, including 126 temporary employees (Q2 2017: 2,627 employees, including 127 temporary employees).

Operational performance

Industrial activities

The Industrial activities consist of Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems.

The higher activity level in the first quarter of 2018 continued during the second quarter for Kendrion's Industrial activities, which account for 36% of revenue. Revenue increased by 5.3% to EUR 85.6 million in HY1 2018 compared to HY1 2017 (EUR 81.3 million). Growth in Industrial Control Systems was particularly strong driven by higher demand for power heat controllers and increased demand from several customers in the medical segment.

All three business units increased their EBITA margin in the first half of 2018. In the case of Industrial Control Systems, this was the result of higher activity levels combined with simplification measures while Industrial Drive Systems benefited from a positive product mix with further growth in permanent magnet brakes. Industrial Magnetic Systems posted modest growth as broad-based revenue strength was partly offset by the loss of some smaller customers due to the closure of its Swiss manufacturing operations last year and a weaker performance by a major textile customer.

Industrial saw its normalised EBITA margin improve to 13.7% (HY1 2017: 10.5 %).

Automotive activities

The Automotive activities consist of Passenger Cars and Commercial Vehicles.

Automotive activities, which account for 64% of Kendrion's revenue, posted a slight decrease in revenue of 0.3% to EUR 154.0 million in the first six months of 2018 (HY1 2017: EUR 154.3 million). Within the Automotive market, Passenger Cars continued to benefit from the ramp-up of the production of the active damping valves for ThyssenKrupp Bilstein. Slower sales of diesel cars combined with the significant test and validation effort experienced by several important automotive customers to comply with the new Worldwide Harmonised Light Vehicles Test Procedures (WLTP) meant that Passenger Cars saw lower than expected revenue growth and a decrease in profitability in the second quarter. We expect the revenue impact to persist in the second half of this year.

Commercial Vehicles had a solid first half of 2018 and continues to improve its position in the market. Revenue decreased somewhat due to the closure of the operations in India and Mexico combined with certain temporary and customer-specific operational issues. The outlook for Commercial Vehicles continues to be good.

Automotive saw its normalised EBITA margin decrease to 7.5% (HY1 2017: 8.6%).

Strategic update

In addition to announcing its first half 2018 results, Kendrion is today announcing its strategic update for 2019 - 2023. Over the past two years we have simplified and refocused the company. This has significantly increased our profitability and has placed us in a good position to benefit from important and long-term trends. We intend to remain focussed on this for at least the next five years.

The primary objective will be to continue to deliver sustainable profitable growth for the business. We will retain our focus on resources and investments in Passenger Cars, specifically in the areas of electrification, autonomous driving, safety and comfort, on permanent magnet brakes for robotics and in China where we see and tap into healthy growth opportunities. Through the combination of continued disciplined cost management and accelerating organic growth, we expect to realise an ROI of at least 20% by 2023, up from 15% over the Last Twelve Months as per June 2018, and an EBITDA margin by 2023 of more than 15%.

Outlook

The overall environment for the global economy remains positive going forward. Kendrion's key market, Germany is expected to continue to perform well, which is reflected in a healthy German machine building index. Despite the aforementioned diesel constraints in Germany, affecting Passenger Cars, we expect revenue to increase in 2018, driven primarily by growth in the Industrial activities.

Going forward, we remain confident about our business fundamentals, with our main objective being to deliver sustainable profitable growth for the business in the medium to long term. We reiterate our expectation to deliver an EBITA margin of 10% as from the end of 2018.

Post-balance sheet events

On 3 August Kendrion acquired a 30% minority stake in Newton CFV, Inc., entering a strategic partnership in the USA with this new company for the development and manufacturing of innovative constant flow valves for the food and beverages industry.

Audio webcast interim results 2018 and Capital Markets Day

Kendrion CEO Joep van Beurden and CFO Frank Sonnemans will present the interim results on Wednesday, 15 August 2018 at 11:00 a.m. CET followed by Capital Markets Day presentations. A live audio webcast will be available via the company website www.kendrion.com with playback facilities.

Profile of Kendrion N.V.

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

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

Declaration of the Board

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

Zeist, 15 August 2018

The Executive Board

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Annex 1 – Financial calendar 2018 - 2019

2018

Publication of HY1 2018 results	Wednesday, 15 August 2018	07.30 a.m.
Analysts' meeting / Capital Markets Day	Wednesday, 15 August 2018	11.00 a.m.
Publication of Q3 2018 results	Wednesday, 7 November 2018	07.30 a.m.
Analysts' call	Wednesday, 7 November 2018	11.00 a.m.

2019

Publication of FY 2018 results	Tuesday, 19 February 2019	07.30 a.m.
Analysts' meeting	Tuesday, 19 February 2019	11.00 a.m.
General Meeting of Shareholders	Monday, 8 April 2019	02.30 p.m.
Publication of Q1 2019 results	Tuesday, 7 May 2019	07.30 a.m.
Analysts' call	Tuesday, 7 May 2019	11.00 a.m.
Publication of HY1 2019 results	Tuesday, 13 August 2019	07.30 a.m.
Analysts' meeting	Tuesday, 13 August 2019	11.00 a.m.
Publication of Q3 2019 results	Tuesday, 5 November 2019	07.30 a.m.
Analysts' call	Tuesday, 5 November 2019	11.00 a.m.

ANNEX 2

KENDRION N.V.

**SEMI-ANNUAL
FINANCIAL STATEMENTS 2018
(UNAUDITED)**

Annex 2.1 – Consolidated statement of comprehensive income ¹

(EUR million)	Q2 2018	Q2 2017 ¹	half year 2018	half year 2017 ¹	full year 2017 ¹
Revenue	119.0	117.3	239.6	235.6	461.8
Other income	0.0	0.0	0.0	0.0	0.0
Total revenue and other income	119.0	117.3	239.6	235.6	461.8
Changes in inventories of finished goods and work in progress	(0.8)	(0.4)	(0.2)	(3.0)	(1.8)
Raw materials and subcontracted work	63.6	60.8	126.6	124.2	242.9
Staff costs	37.4	33.8	71.5	68.5	134.2
Depreciation and amortisation	6.4	6.5	12.8	12.9	25.7
Other operating expenses	6.2	7.4	12.5	15.2	31.6
Result before net finance costs	6.2	9.2	16.4	17.8	29.2
Finance income	0.0	0.0	0.0	0.0	0.1
Finance expense	(0.8)	(1.0)	(1.5)	(1.7)	(3.5)
Net finance costs	(0.8)	(1.0)	(1.5)	(1.7)	(3.4)
Profit before income tax	5.4	8.2	14.9	16.1	25.8
Income tax expense	(1.1)	(2.0)	(3.3)	(3.9)	(6.3)
Profit for the period	4.3	6.2	11.6	12.2	19.5
Other comprehensive income					
Remeasurements of defined benefit plans ²			-	-	0.6
Foreign currency translation differences for foreign operations ³			1.3	(4.7)	(7.6)
Net change in fair value of cash flow hedges, net of income tax ³			(0.7)	0.6	0.6
Other comprehensive income for the period, net of income tax			0.6	(4.1)	(6.4)
Total comprehensive income for the period			12.2	8.1	13.1
Basic earnings per share (EUR), based on weighted average	0.32	0.46	0.87	0.91	1.45
Basic earnings per share (EUR), based on weighted average (diluted)	0.32	0.46	0.87	0.91	1.44

¹ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

² This item will never be reclassified to profit or loss.

³ These items may be reclassified to profit or loss.

¹ Not adjusted for non-recurring items

Annex 2.2 – Consolidated statement of financial position

(EUR million)	30 June 2018	30 June 2017 ¹	31 Dec. 2017 ¹
Assets			
Non-current assets			
Property, plant and equipment	107.8	98.1	102.7
Intangible assets	117.2	121.0	117.9
Other investments	0.1	0.3	0.2
Deferred tax assets	11.9	14.7	12.5
Contract costs	0.4	-	0.5
Total non-current assets	237.4	234.1	233.8
Current assets			
Inventories	60.5	58.9	57.3
Current tax assets	1.1	1.2	1.0
Trade and other receivables	68.5	67.3	57.6
Cash and cash equivalents	13.9	13.7	7.6
Total current assets	144.0	141.1	123.5
Total assets	381.4	375.2	357.3
Equity and liabilities			
Equity			
Share capital	27.1	27.0	27.0
Share premium	39.8	49.6	49.6
Reserves	101.2	90.2	83.5
Retained earnings	11.6	12.2	19.5
Total equity	179.7	179.0	179.6
Liabilities			
Loans and borrowings	77.3	76.6	60.8
Employee benefits	18.9	21.3	19.1
Deferred tax liabilities	8.6	10.4	8.8
Total non-current liabilities	104.8	108.3	88.7
Bank overdraft	12.7	10.8	11.7
Loans and borrowings	2.6	2.9	2.8
Provisions	4.9	0.5	0.8
Current tax liabilities	2.5	1.6	1.4
Contract costs	8.2	8.0	8.5
Trade and other payables	66.0	64.1	63.8
Total current liabilities	96.9	87.9	89.0
Total liabilities	201.7	196.2	177.7
Total equity and liabilities	381.4	375.2	357.3

¹ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Annex 2.3 – Consolidated statement of cash flows

(EUR million)	half year 2018	half year 2017 ¹	full year 2017 ¹
Cash flows from operating activities			
Profit for the period	11.6	12.2	19.5
<i>Adjustments for:</i>			
Net finance costs	1.5	1.7	3.4
Income tax expense	3.3	3.9	6.3
Depreciation of property, plant and equipment and software	11.6	11.3	22.5
Amortisation of other intangible assets	1.2	1.6	3.2
Impairment of property, plant and equipment	0.0	0.1	1.0
Share-based payments	0.2	0.3	0.3
	29.4	31.1	56.2
Change in trade and other receivables	(10.6)	(13.1)	(4.9)
Change in inventories	(3.0)	(7.0)	(6.0)
Change in trade and other payables	1.0	2.2	2.0
Change in provisions	4.0	(0.8)	(2.1)
Change in contract liabilities	(0.3)	2.2	2.7
	20.5	14.6	47.9
Interest paid	(1.2)	(1.6)	(2.7)
Interest received	0.0	0.0	0.1
Tax paid	(1.7)	(1.8)	(3.8)
Net cash flows from operating activities	17.6	11.2	41.5
Cash flows from investing activities			
Investments in property, plant and equipment	(11.9)	(8.8)	(24.6)
Disinvestments of property, plant and equipment	0.2	0.3	0.6
Investments in intangible fixed assets	(1.6)	(2.5)	(4.5)
Disinvestments of intangible fixed assets	0.0	0.0	0.2
(Dis)investments of other investments	0.0	(0.0)	(0.0)
Net cash from investing activities	(13.3)	(11.0)	(28.3)
Free cash flow	4.3	0.2	13.2
Cash flows from financing activities			
Payment of lease liabilities	(1.1)	(1.0)	(2.2)
Proceeds from borrowings (non current)	14.5	1.3	-
Repayment of borrowings (non current)	-	-	(13.3)
Proceeds from borrowings (current)	0.0	0.0	0.0
Proceeds from the issue of share capital	0.0	0.0	0.0
Own shares bought	(6.6)	-	(4.5)
Dividends paid	(5.8)	(6.6)	(6.6)
Net cash from financing activities	1.0	(6.3)	(26.6)
Change in cash and cash equivalents	5.3	(6.1)	(13.4)
Cash and cash equivalents at 1 January	(4.1)	9.7	9.7
Effect of exchange rate fluctuations on cash held	0.0	(0.7)	(0.4)
Cash and cash equivalents at period end	1.2	2.9	(4.1)

¹ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Annex 2.4 – Consolidated statement of changes in equity

(EUR million)	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
Balance at 1 January 2017, as previously reported	26.8	56.4	11.6	(0.3)	-	68.7	14.9	178.1
Impact of change in accounting policy	-	-	-	-	-	(0.7)	-	(0.7)
Restated balance at 1 January 2017	26.8	56.4	11.6	(0.3)	-	68.0	14.9	177.4
Restated total comprehensive income for the period								
Restated profit or loss	-	-	-	-	-	-	19.5	19.5
Other comprehensive income								
Remeasurements of defined benefit plans	-	-	-	-	-	0.6	-	0.6
Foreign currency translation differences for foreign operations	-	-	(7.6)	-	-	-	-	(7.6)
Net change in fair value of cash flow hedges, net of income tax	-	-	-	0.6	-	-	-	0.6
Other comprehensive income for the period, net of income tax	-	-	(7.6)	0.6	-	0.6	-	(6.4)
Restated total comprehensive income for the period	-	-	(7.6)	0.6	-	0.6	19.5	13.1
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares	0.2	3.5	-	-	-	-	-	3.7
Own shares repurchased	-	-	-	-	(4.5)	-	-	(4.5)
Share-based payment transactions	0.0	0.2	-	-	-	0.2	-	0.4
Dividends to equity holders	-	(10.5)	-	-	-	-	-	(10.5)
Appropriation of retained earnings	-	-	-	-	-	14.9	(14.9)	-
Restated balance at 31 December 2017	27.0	49.6	4.0	0.3	(4.5)	83.7	19.5	179.6
(EUR million)	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
Balance at 1 January 2018	27.0	49.6	4.0	0.3	(4.5)	83.7	19.5	179.6
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	11.6	11.6
Other comprehensive income								
Foreign currency translation differences for foreign operations	-	-	1.3	-	-	-	-	1.3
Net change in fair value of cash flow hedges, net of income tax	-	-	-	(0.7)	-	-	-	(0.7)
Other comprehensive income for the period, net of income tax	-	-	1.3	(0.7)	-	-	-	0.6
Total comprehensive income for the period	-	-	1.3	(0.7)	-	-	11.6	12.2
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares	0.1	1.6	-	-	4.4	(0.4)	-	5.7
Own shares repurchased	-	-	-	-	(6.6)	-	-	(6.6)
Share-based payment transactions	0.0	0.2	-	-	0.2	0.0	-	0.4
Dividends to equity holders	-	(11.6)	-	-	-	-	-	(11.6)
Appropriation of retained earnings	-	-	-	-	-	19.5	(19.5)	-
Balance at 30 June 2018	27.1	39.8	5.3	(0.4)	(6.5)	102.8	11.6	179.7

¹ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Annex 2.5 – Reconciliation of normalised to reported 2018 figures

(x EUR 1 million)	HY1 2018	HY1 2017 ¹
Reported result before net finance costs	16.4	17.8
Reported amortisation	1.2	1.6
Reported operating result before amortisation (EBITA)	17.6	19.4
One-off costs related to simplifying measures in staff costs	5.9	1.9
One-off costs related to simplifying measures in other operating expenses	0.0	0.1
Normalised EBITA	23.5	21.4
Reported amortisation	(1.2)	(1.6)
Reported net finance costs	(1.5)	(1.7)
Normalised profit before income tax	20.8	18.1
Reported income tax expense	(3.3)	(3.9)
Impact one-off costs on income tax expense	(1.7)	(0.5)
Normalised profit for the period	15.8	13.7

¹ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Annex 2.6 – Risks and risk management

Pages 58 to 66 of Kendrion N.V.'s 2017 Annual Report include a review of the risks faced by the company in conducting its business operations.

Kendrion's approach to the company's risk management is categorised into the following groups:

- Strategic & Business Risk Management;
- Operational Risk Management;
- Financial Reporting Risk Management;
- Compliance & Regulatory.

In the 2017 Annual Report, the following risks were identified as the most important risks:

- Pressure from large customers and customer dependency;
- Increased competition;
- Non-performing Information Systems and cyber security;
- Technological substitution;
- Attraction and retention of qualified staff;
- Future product portfolio, including impact of megatrends;
- Volatile economic conditions.

In the course of HY2 2018 Kendrion will update its strategic and business risk assessment.

Annex 2.7 – Notes to the interim financial statements

1. Reporting entity

Kendrion N.V. (the "Company") has its registered office in Zeist, the Netherlands. The Company's interim financial statements for the first six months of 2018 covers the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in associates.

The Group's 2017 Annual Report is available on request from the Company's registered office at Utrechtseweg 33, Zeist, the Netherlands or on www.kendrion.com.

2. Declaration of Conformity

These interim financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34, Interim Financial Reporting. The interim report does not contain all the information required for annual financial statements and should be read in conjunction with the Group's 2017 consolidated financial statements.

These interim financial statements are authorised for issue by the Executive Board and the Supervisory Board on 14 August 2018.

3. Accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017, except for the changes below due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

Those new standards (IFRS 9, 15 and 16) are applied in these interim financial statements and are in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Financial instruments

The details of the changes in accounting policies are disclosed below and will amend accounting policy as per note (e), including any reference to other notes, of the Group's 2017 consolidated financial statements.

The Group calculates an impairment loss, in respect of a financial asset measured at amortised cost, as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate and shall reflect management best estimate of expected future cash flows.

The Group applies the hedge accounting requirements as per IFRS 9 in full. Therefore, the Group does not longer require to perform an onerous quantitative effectiveness assessment to demonstrate that the hedge in any period was highly effective, using the 80% - 125% bright line. As per 1 January 2018, the Group performs an effectiveness assessment that is only prospective, does not involve any bright lines and, depending on the circumstances, may also be qualitative. This approach can also require that the method for assessing effectiveness is changed in response to changes in circumstances, in which case the hedge documentation is updated but without resulting in discontinuation of the hedging relationship.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument;
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship;
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually

uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Revenue

The details of the changes in accounting policies are disclosed below and will replace accounting policy as per note (k)(i) of the Group's 2017 consolidated financial statements.

The Group recognises revenue at any time so that it reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. This involves five steps for recognition of revenue:

- I. Identification of the contract with the customer (I);
- II. Identification of performance obligations (II);
- III. Determination of transaction price;
- IV. Allocation of transaction prices to performance obligations; and
- V. Recognition revenue over time or at one point in time for each performance obligation in the amount of the allocated portion of the transaction price as soon as the agreed-upon good or service has been provided or the customer receives control over it.

The Group applied IFRS 15 as per 1 January 2018 using the modified retrospective approach applying one or more practical expedients. This means that the Group does not restate revenue for completed contracts that begin and end within the same reporting period or are completed contracts at the beginning of the earliest period presented.

Leases

The details of the changes in accounting policies are disclosed below and will replace accounting policy as per note (c)(ii) of the Group's 2017 consolidated financial statements. As per 1 January 2018 the Group assesses whether a contract is or contains a lease based on the definition of a lease as explained in note (c)(ii). Under IFRIC 4, the Group assessed a lease based on the assessment whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset(s); and
- The arrangement had conveyed the right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output; or
 - The purchaser had the ability or right to control the physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2018.

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases:

- "Right-of-use of assets" are part of financial statement caption "Property, plant and equipment". Depreciation and impairment is similar to measurement of owned assets; and
- "Lease liabilities" are part of financial statement captions non-current "Loans and borrowings" and current "Loans and borrowings". Interest is part of financial statement caption "Finance expense".

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

The Group elects not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease component as a single lease component for only the following class of underlying asset: plant and equipment, other fixed assets.

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

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

The Group decided to apply the recognition exemptions to short-term leases and low-value lease assets.

- Short-term lease exemption will be assessed and applied on individual lease asset basis if the lease term (non-cancellable period plus reasonably certain lease term modifications) is equal to or less than 12 months and the lease arrangement does not contain a purchase option; and
- Individual lease assets with a new value of EUR 5,000 or less (or any other foreign exchange equivalent) are considered to be low value assets. Therefore these assets are not recognised on-balance. Accordingly, the Group shall recognise lease payments associated with those leases as an expense.

Under IFRS 16, the Group continues to account for the sale-and-leaseback transactions occurred for properties in Prostějov (Czech Republic) and Engelswies (Germany). The Group recognised a right-of-use asset and a lease liability for the leaseback in the same way as for the other right-of-use assets and lease liabilities.

The Group applied IFRS 16 using full retrospective approach. Financial statements are drafted as if IFRS 16 had always been applied. This means that the Group applies the standard to all leases in which it is a lessee and restates its comparative information.

Restated consolidated financial statements

For the purpose of comparison the tables as disclosed in Annex 2.8 show the line items affected on the Group's consolidated interim financial statements as of 30 June 2017 and on the Group's consolidated financial statements as of 31 December 2017 by adopting IFRS 9 (retrospective), IFRS 15 (modified retrospective) and IFRS 16 (fully retrospective). The consolidated statement of financial position as of 1 January 2017 is also presented. Main impact on the Group's consolidated interim financial statements as of 30 June 2017 and on the Group's consolidated financial statements as of 31 December 2017 is due to application of IFRS 16.

4. Estimates

The preparation of the interim reports requires the Executive Board to make judgements, estimates and assumptions that affect the application of accounting principles, the reported value of assets and liabilities, and the size of the Group's income and expenditure. Note that the actual results may differ from these estimates.

Unless otherwise specified below, in the preparation of these interim financial statements, important opinions formed by management in applying the Group's accounting principles, and the main sources of estimation used are equal to the opinions and sources used in preparing the consolidated financial statements for the financial year 2017.

Application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018 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. In addition to what is disclosed in the consolidated financial statements for the financial year 2017 as critical judgements and estimates, the Executive Board makes critical judgements and estimates in terms of allocating transaction price to performance obligations (if any) and assessment of the lease term.

5. Financial risk management

The Group's objectives and policy relating to financial risk management are identical to the objectives and policy disclosed in the 2017 consolidated financial statements of the Group.

6. Segment reporting

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

(x EUR 1 million unless otherwise stated)	Industrial		Automotive		Corporate activities		Consolidated	
	HY1 2018	HY1 2017 ²	HY1 2018	HY1 2017 ²	HY1 2018	HY1 2017 ²	HY1 2018	HY1 2017 ²
Revenue from transactions with third parties	85.6	81.3	154.0	154.3	-	-	239.6	235.6
Inter-segment revenue	0.0	0.1	0.2	0.3	-	-	0.2	0.4
EBITA	11.5	7.0	5.8	12.8	0.3	(0.4)	17.6	19.4
EBITA margin	13.4%	8.6%	3.8%	8.3%	-	-	7.3%	8.2%
EBITA ¹	11.7	8.5	11.5	13.3	0.3	(0.4)	23.5	21.4
EBITA margin ¹	13.7%	10.5%	7.5%	8.6%	-	-	9.8%	9.1%
Reportable segment assets	134.7	126.7	231.7	231.2	15.0	17.3	381.4	375.2

¹ Normalised for non-recurring restructuring costs of EUR 5.9 million for HY1 2018 and of EUR 2.0 million for HY1 2017.

² Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

7. Seasonality of business operations

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

8. Main currencies

The table below shows the main exchange rates during the first half of 2018:

Value of EUR	At 30 June 2018	At 31 December 2017	Average over HY1 2018
Pound sterling	0.8861	0.8872	0.8807
Czech koruna	26.0200	25.5350	25.5578
Chinese yuan	7.7170	7.8044	7.7150
US dollar	1.1658	1.1993	1.2064
Romanian lei	4.6631	4.6585	4.6575
Swedish krona	10.4530	9.8438	10.1660

9. Property, plant and equipment

Capital commitments

As at 30 June 2018, the Group had agreements outstanding for the acquisition of property, plant and equipment in the amount of EUR 8.8 million (versus EUR 5.1 million as at 30 June 2017).

10. Impairment

During the first half of 2018, as well as in previous periods, Kendrion assessed whether there were indications during this period for impairments adjusting goodwill or other key assets, and the conclusion was that there was no need for impairment.

11. Deferred tax assets

As at 30 June 2018, deferred tax assets amounted to EUR 11.9 million, of which a total of EUR 4.9 million relates to the valuation of tax losses carried forward and can be specified as follows:

Germany	EUR 3.5 million
United States of America	EUR 0.6 million
The Netherlands	EUR 0.8 million

12. Equity

In May 2018, the optional dividend of EUR 0.87 per share was paid to shareholders. A total cash dividend was paid of EUR 5.8 million, and a total of 168,298 shares were issued. Kendrion completed the share buyback programme that was announced on 9 May 2018 in which 178,852 ordinary shares were repurchased.

The table below shows the number of outstanding shares as at 30 June 2018.

	Shares entitled to dividend	Shares owned by Kendrion	Total number of issued shares
At 1 January 2018	13,396,034	121,586	13,517,620
Issued shares (share dividend)	168,298	(117,567)	50,731
Issued registered shares (share plan)	6,514	-	6,514
Delivered shares	4,019	(4,019)	-
Repurchased shares	(178,852)	178,852	-
At 30 June 2018	13,396,013	178,852	13,574,865

13. Loans and borrowings

As at 30 June 2018, the Group had the following credit lines available:

- EUR 150.0 million revolving Credit Facility with a syndicate of three banks consisting of BNP Paribas, Deutsche Bank and ING Bank. The Credit Facility is committed until 15 August 2019 and includes an option (accordion option) to increase the facility with a maximum of EUR 75.0 million;
- EUR 15.1 million in leases for various buildings, equipment and vehicles;
- EUR 3.4 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 0.5 million in subsidised term loans with final maturity in 2019;
- EUR 0.7 million in other overdraft facilities.

As at 30 June 2018, the total unutilised amount of the credit facilities was approximately EUR 76 million.

Pursuant to the terms of the credit facility with the banking syndicate, the Group has agreed to financial covenants relating to the leverage ratio (interest-bearing debt / EBITDA) and interest coverage (EBITDA / interest costs). In accordance with these covenants, the leverage ratio should remain below 3.0, which can under certain circumstances be temporarily increased to a maximum of 3.5. The interest cover should always exceed 4.0. Both covenants are tested quarterly on a 12-month rolling basis. All covenant ratios were satisfied at 30 June 2018.

On 27 July 2018 Kendrion entered into a new five year EUR 150 million revolving credit facility with a consortium of three lenders (ING Bank, Deutsche Bank and HSBC) to refinance the majority of its existing financing arrangements. The arrangement includes an (accordion) option to increase the facility by a maximum of EUR 75 million and the possibility to attract additional alternative sources of debt funding in the future. The facility may be utilised for general corporate purposes, including the financing of acquisitions. Financial covenant agreed is a debt cover ratio of less than 3.0. Upon the realisation of an acquisition, the leverage ratio can be temporarily increased to 3.5. At the inception date of the new facility approximately EUR 75 million is utilised.

Securities issued

The Group has provided a mortgage on its premises in Malente, Germany regarding a EUR 3.4 million loan. No security is provided in relation to the EUR 150.0 million credit facility.

14. Taxes

The tax expense for the first six months was EUR 3.3 million, equivalent to a 22% effective tax rate.

15. Financial instruments

As at 30 June 2018 the value of the derivative instruments in the balance sheet is a EUR 0.6 million liability (31 December 2017: EUR 0.3 million asset).

There have been no material changes since the end of 2017 in terms of sensitivity to market risks (i.e. currency, interest and price).

16. Commitments, contingent assets and contingent liabilities

The adoption of IFRS 16 resulted in the recognition of operating lease commitments as liabilities on the balance sheet from the date of adoption. This resulted in a decrease in the value of operating lease commitments outstanding as disclosed in the 2017 Annual Report in note 16. Other than the change described above, there were no material changes to the Group's commitments, contingent assets and contingent liabilities in the first half of 2018 from those disclosed in note 17 and note 18 of our 2017 Annual Report.

17. Related parties

For the definition of "related parties", please refer to note 26 of the Group's Annual Report for the financial year 2017.

18. Post-balance sheet events

On 3 August Kendrion acquired a 30% minority stake in Newton CFV, Inc., entering a strategic partnership in the USA with this new company for the development and manufacturing of innovative constant flow valves for the food and beverages industry.

There were no other post-balance sheets events that have to be taken into account in the interim financial statements for the period ended 30 June 2018.

Annex 2.8a – Impact on interim financial statements adoption IFRS 9, IFRS 15 and IFRS 16

Consolidated statement of comprehensive income

Impact of changes in accounting policies

(EUR million)

	For the quarter ended 30 June 2017			For the period ended 30 June 2017			For the year ended 31 December 2017		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Revenue	117.3	-	117.3	235.6	-	235.6	461.8	-	461.8
Other income	0.0	-	0.0	0.0	-	0.0	0.0	-	0.0
Total revenue and other income	117.3	-	117.3	235.6	-	235.6	461.8	-	461.8
Changes in inventories of finished goods and work in progress	(0.4)	-	(0.4)	(3.0)	-	(3.0)	(1.8)	-	(1.8)
Raw materials and subcontracted work	60.8	-	60.8	124.2	-	124.2	242.9	-	242.9
Staff costs	33.8	-	33.8	68.5	-	68.5	134.2	-	134.2
Depreciation and amortisation	6.0	0.5	6.5	11.9	1.0	12.9	23.5	2.2	25.7
Other operating expenses	8.1	(0.7)	7.4	16.5	(1.3)	15.2	34.3	(2.7)	31.6
Result before net finance costs	9.0	0.2	9.2	17.5	0.3	17.8	28.7	0.5	29.2
Finance income	0.0	-	0.0	0.0	-	0.0	0.1	-	0.1
Finance expense	(0.8)	(0.2)	(1.0)	(1.4)	(0.3)	(1.7)	(3.0)	(0.5)	(3.5)
Profit before income tax	8.2	-	8.2	16.1	-	16.1	25.8	-	25.8
Income tax expense	(2.0)	0.0	(2.0)	(3.9)	0.0	(3.9)	(6.3)	0.0	(6.3)
Profit for the period	6.2	0.0	6.2	12.2	0.0	12.2	19.5	0.0	19.5
Other comprehensive income for the period, net of income tax				(4.1)	(0.0)	(4.1)	(6.4)	(0.0)	(6.4)
Total comprehensive income for the period				8.1	0.0	8.1	13.1	0.0	13.1

There is no material impact on the Group's basic or diluted earnings per share for the quarter ended 30 June 2017, for the period ended 30 June 2017 and for the year ended 31 December 2017.

Annex 2.8b – Impact on interim financial statements adoption IFRS 9, IFRS 15 and IFRS 16

Consolidated statement of financial position

Impact of changes in accounting policies

(EUR million)

	1 January 2017			30 June 2017			31 December 2017		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Property, plant and equipment	85.5	14.5	100.0	84.6	13.5	98.1	90.4	12.3	102.7
Deferred tax assets	16.0	0.2	16.2	14.5	0.2	14.7	12.3	0.2	12.5
Contract costs	-	-	-	-	-	-	-	0.5	0.5
Trade and other receivables	54.5	-	54.5	67.3	-	67.3	58.1	(0.5)	57.6
Other	191.1	-	191.1	195.1	-	195.1	184.0	-	184.0
Total assets	347.1	14.7	361.8	361.5	13.7	375.2	344.8	12.5	357.3
Retained earnings	14.9	0.0	14.9	12.2	0.0	12.2	19.5	0.0	19.5
Other	163.2	(0.7)	162.5	167.5	(0.7)	166.8	160.8	(0.7)	160.1
Total equity	178.1	(0.7)	177.4	179.7	(0.7)	179.0	180.3	(0.7)	179.6
Loans and borrowings	63.7	15.4	79.1	65.1	14.4	79.5	50.4	13.2	63.6
Deferred tax liabilities	10.9	0.0	10.9	10.4	0.0	10.4	8.8	0.0	8.8
Contract costs	-	5.8	5.8	-	8.0	8.0	-	8.5	8.5
Trade and other payables	68.4	(5.8)	62.6	72.1	(8.0)	64.1	72.3	(8.5)	63.8
Other	26.0	-	26.0	34.2	-	34.2	33.0	-	33.0
Total liabilities	169.0	15.4	184.4	181.8	14.4	196.2	164.5	13.2	177.7
Total equity and liabilities	347.1	14.7	361.8	361.5	13.7	375.2	344.8	12.5	357.3

Annex 2.8c – Impact on interim financial statements adoption IFRS 9, IFRS 15 and IFRS 16

Consolidated statement of cash flows

Impact of changes in accounting policies

(EUR million)

	For the period ended 30 June 2017			For the year ended 31 December 2017		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Profit for the period	12.2	0.0	12.2	19.5	0.0	19.5
<i>Adjustments for:</i>						
Net finance costs	1.4	0.3	1.7	2.9	0.5	3.4
Income tax expense	3.9	(0.0)	3.9	6.3	(0.0)	6.3
Depreciation of property, plant and equipment and software	10.3	1.0	11.3	20.3	2.2	22.5
Other	2.0	-	2.0	4.5	-	4.5
Changes in working capital excluding cash and debt	(16.5)	-	(16.5)	(8.3)	-	(8.3)
Interest paid	(1.3)	(0.3)	(1.6)	(2.2)	(0.5)	(2.7)
Interest received	0.0	-	0.0	0.1	-	0.1
Tax paid	(1.8)	0.0	(1.8)	(3.8)	0.0	(3.8)
Net cash flows from operating activities	10.2	1.0	11.2	39.3	2.2	41.5
Net cash from investing activities	(11.0)	-	(11.0)	(28.3)	-	(28.3)
Free cash flow	(0.8)	1.0	0.2	11.0	2.2	13.2
Payment of lease liabilities	-	(1.0)	(1.0)	-	(2.2)	(2.2)
Other	(5.3)	-	(5.3)	(24.4)	-	(24.4)
Net cash from financing activities	(5.3)	(1.0)	(6.3)	(24.4)	(2.2)	(26.6)
Change in cash and cash equivalents	(6.1)	-	(6.1)	(13.4)	-	(13.4)
Cash and cash equivalents at 1 January	9.7	-	9.7	9.7	-	9.7
Effect of exchange rate fluctuations on cash held	(0.7)	-	(0.7)	(0.4)	-	(0.4)
Cash and cash equivalents at period end	2.9	-	2.9	(4.1)	-	(4.1)

- The quarterly and interim results are not audited -