KENDRION

WE MAGNETISE THE WORLD

ANNUAL REPORT 2014

BINDER | LINNIG® KUHNKE

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ISIN code 0000383511
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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 2014 and
the CSR Report 2014.

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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 that are focused on specific market segments, namely the *Industrial Division's* Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems business units, and the *Automotive Division's* Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems business units.

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 Euronext's Amsterdam market.

Organisation

- Development, production and marketing of high-quality electromagnetic and mechatronic systems and components
- 2,700 employees (including about 80 temps) in 15 countries
- Revenue: approximately EUR 430 million
- Listed company on Euronext's Amsterdam Market

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. Electromagnetism will carry on being the dominant technology in our work in the years to come. But our basis of technical knowledge will also supply the foundation for our future growth into a mechatronic solution provider. We are gradually moving from our present role as a supplier of high-end electromagnetic components towards becoming a specialised supplier of mechatronic products. This tendency was clearly evident in our industrial activities and we acquired and developed several very interesting mechatronic projects in 2014. Kendrion intends to provide its customers with ever-increasing value to further boost its appeal as a supplier.

From an economic perspective, 2014 was better than recent years. Market conditions improved slowly, especially in the USA. Also German car manufacturers and the German machine equipment industry developed in the right direction. Kendrion was able to record a strong and satisfying organic growth in 2014, outstripping growth in our most important markets. The main driving forces for the company's organic growth in 2014 were the many new projects that started late 2013 and continued through the following year. This organic growth provided the sound basis on which we successfully achieved further improvement in our operating result and net profit. Strong free cash flow allowed us to strengthen our position as a financially sound and solid market player. However, we are also very much aware that there is still room to improve our operational and financial position even further in the years to come.

We devoted a great deal of effort in 2014 to further strengthening our internal organisation. This was also of course necessitated by our acquisition of Kuhnke in 2013, following which we established the new divisional structure of our automotive operations. The divisional staff offered its business units very strong support, creating increased business development activities. We have also recently strengthened management in the Industrial Division. The new organisational structure will increase Kendrion's opportunities for growth during the coming years.

Kendrion's business units cooperate intensively on technical issues. This cooperation is supported by the Kendrion Academy. We attach paramount importance to innovation: the company launches many innovative initiatives every year and its customers increasingly regard Kendrion as an innovative partner. The acquisition of Steinbeis Mechatronik GmbH in Ilmenau, Germany, at the end of 2014 was a good move in this regard. The company comprises a group of highly educated (electro)mechanical engineers who can support Kendrion in its research and engineering activities.

We also continue to assign priority to the expansion of the geographical spread of our operations. Under the working title 'Breaking out of Europe' we paid extra attention to sales, engineering and marketing activities in China and the USA. The outcome was the acquisition of several interesting new projects that will lead to further revenue growth in these countries over the coming years. Our new Automotive plant in Nanjing, China, was opened in the middle of 2014. In Romania, we increased the opportunities for high-grade production in low-wage countries by expanding our factory in Sibiu.

We devoted a great deal of attention to sustainability and corporate social responsibility in 2014, adopting a new three-year CSR programme called 'Taking Responsibility'. More information on this will be available in Kendrion's 2014 CSR Report, which will be published in the spring of 2015.

As Kendrion grows, so too does the realisation of how important it is to have a strong brand name. This is the reason we further improved our corporate visual identity and further extended our website in 2014. We shall carry on working to present a distinct profile of Kendrion in the future, with 'Taking Responsibility' the key words defining our CSR activities and 'Small Revolutions', our technological developments.

Looking back on 2014, we believe it was another important year in which the foundations were laid for the company's further successful development in the future. If the economy stays at the level it was in 2014, we are confident about our future opportunities. This is also reflected in the title of our latest Mid-term Plan, 'Designed to Grow'.

At the end of 2014, I announced that I would be leaving Kendrion in the summer of 2015. After 12 years as CEO of Kendrion and in view of the company's present position, I think it is a good moment to pass on the leadership to a successor. It has been a great pleasure to be part of the team that has developed Kendrion into a successful international niche player and to work for this wonderful company for all these years. Kendrion is well positioned and I expect it to develop successfully in the years to come.

We would like to express our gratitude once again to our employees, management and stakeholders for their hard work, support and commitment. Kendrion is and will remain an ambitious company and will be able to achieve its goals if 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]

2013	1.14	
2014	1.56	↑ 37%

Operations

Revenue

2013	354.0	
2014	428.9	↑ 21%

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

2013	23.9	
2014	32.9	↑ 38%

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

2013	36.9	
2014	49.3	↑ 34%

Normalised net profit [3, 4]

2013	14.3	
2014	20.2	↑ 41%

EBITA [2, 3, 7]/invested capital [9] (ROI)

2013	10.8%	
2014	13.0%	↑ 21%

Net investments

2013	18.5	
2014	20.0	↑ 8%

Depreciation and amortisation

2013	16.0	
2014	19.8	↑ 24%

Solvency (total equity/ balance sheet total)

2013	40.1%	
2014	46.0%	↑ 15%

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

2013	10.2%	
2014	10.5%	↑ 3%

EUR million, unless otherwise stated	2014	2013
Net profit	20.2	16.7
Organic growth [1]	8.6%	(1.2%)
Total equity	153.2	134.1
Net interest-bearing debt	83.0	49.0
Net interest-bearing debt / equity (gearing)	0.54	0.37
Net interest-bearing debt / operating result before depreciation and amortisation (EBITDA) [3, 7]	1.68	1.22
Operating result before depreciation and amortisation (EBITDA) [2, 3] / net finance costs [8]	13.9	11.7
Outstanding shares at year-end (x 1,000)	13,031	12,962

Realisation of targets

Organic growth [1]	
Target	> 10% per year
Actual	8.6%

Return on Sales (ROS)[2]	
Target	> 10.0%
Actual	7.7%

Return on invested capital (ROI) [2, 9]	
Target	> 17.5%
Actual	13.0%

Solvency	
Target	not below 35%
Actual	46%

Ratio of net interest-bearing debt and EBITDA	
Target	< 3.00
Actual	1.68

Free cash flow [10, 11]	
Target	healthy free cash flow in relation to organic growth in % of net profit
Actual	85%

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

[1] *Organic growth is excluding the impact from acquisitions on revenue.*
[2] *EBITA is excluding amortisation related to acquisitions (part of other intangible assets).*
[3] *Excluding release earn-out, net acquisition costs and other expenses, restructuring and integration costs of Kuhnke and 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 in 2013 is excluding EC fine payable.*
[6] *Revenue is including full year Kuhnke in 2013.*
[7] *EBITA and EBITDA are including full year Kuhnke in 2013.*
[8] *The net finance charges exclude foreign exchange differences, commitment fees and the amortisation of upfront fees, but includes total interest Kuhnke in 2013.*
[9] *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 is including EC fine).*
[10] *Free cash flow is excluding EC fine paid on 3 April 2014.*
[11] *Excluding 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 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. 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. The integration plans are typically developed before the acquisition decision.

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 third Kendrion Symposium, which Kendrion will organise again in Villingen (Germany) in March 2015. Kendrion also made use of the services of an external Business Development 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 has enhanced its sustainability strategy and has brought the strategy further into line with the company's overall strategy. Some of relevant global trends such as climate change, scarcity of resources, sustainable energy and population growth also offer 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.

Strategic objectives

Some time ago, Kendrion stated its target of increasing revenue to EUR 450-500 million in 2015. In 2014 revenue has increased to almost EUR 430 million, around EUR 280 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

27 February 2014
Kendrion decided to initiate proceedings in connection with the failure of the European Court to adjudicate within a reasonable time with respect to the EC fine proceedings.

15 August 2014
Kendrion reached agreement on a new EUR 150 million revolving credit facility to refinance most of its existing finance arrangements. The agreement has been entered into with ING Bank, Deutsche Bank and BNP Paribas, each participating to an equal extent.

21 August 2014
The Supervisory Board of Kendrion N.V. decided to propose appointing Deloitte, part of Deloitte Touche Tohmatsu Limited, as the company's new external audit firm. The proposal will be made to the General Meeting of Shareholders to be held on 13 April 2015. The proposed appointment is due to become effective for the 2015 financial year.

14 November 2014
Kendrion CEO Piet Veenema decided to leave Kendrion N.V. in the summer of 2015. Mr Veenema took his decision in close consultation with the Supervisory Board. Piet Veenema has worked for Kendrion for 22 years, the last 12 of them as CEO.

23 December 2014
Kendrion announced the acquisition of Steinbeis Mechatronik GmbH in Ilmenau, Germany, effective as from 5 January 2015. Steinbeis Mechatronik GmbH employs a staff of 14 and generates an annual revenue of EUR 1-2 million. It is an engineering and research company engaged in the development of innovative mechatronic products and will trade as Kendrion Mechatronics Center. It employs a team of experts specialising in electromagnetism, electronics and mechatronics and maintains close ties with the nearby Technical University of Ilmenau.

Kendrion at a glance

Information on Kendrion N.V. shares

» Share capital

The authorised share capital amounts to EUR 80,000,000 and is comprised of 40,000,000 ordinary shares with a nominal value of EUR 2.00. On 31 December 2014, 13,030,982 shares had been issued.

On the balance sheet date the company owned 4,657 shares.

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

Movements in the share price from 2 January 2013 to 31 December 2014

Movements in the number of outstanding shares	Ordinary shares entitled to dividend	Repurchased shares	Total number of issued shares
At 1 January 2014	12,954,487	7,789	12,962,276
Issued shares (share dividend)	58,596	–	58,596
Issued registered shares (share plan)	10,110	–	10,110
Delivered repurchased shares	3,132	(3,132)	
At 31 December 2014	13,026,325	4,657	13,030,982

Other information

In EUR, unless otherwise stated	2014	2013	2012
Number of shares x 1,000 at 31 December	13,031	12,962	11,655
Market capitalisation at 31 December (EUR million)	281.7	309.2	186.5
Enterprise value (EV) (EUR million)	364.7	358.1	207.9
Highest share price in the financial year	26.22	23.90	20.50
Lowest share price in the financial year	19.00	16.24	14.80
Share price on 31 December	21.62	23.85	16.00
Average daily ordinary share volume	21,704	11,278	11,199
EBITDA multiple (over EV)	7.40	9.71	6.35
Result per share	1.56	1.33	1.55
Normalised result per share	1.56	1.14	1.16
Share price earnings ratio	13.86	20.92	13.79

Shareholder		Date of report
Delta Lloyd Deelnemingen Fonds N.V.	10.71%	19 December 2013
Delta Lloyd N.V.	9.49%	6 May 2011
Project Holland Beheer B.V.	6.75%	5 November 2013
Invesco Limited	6.03%	27 September 2013
Janivo Beleggingen B.V.	5.88%	4 October 2011
Darlin N.V.	5.09%	1 November 2006
T. Rowe Price Associates, Inc.	5.04%	5 December 2014
Total	48.99%	

» (Former) 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 2014.

On 2 June 2014 Menor Investments B.V. notified that it holds 0.95% of the capital of Kendrion.

On 4 July 2014 Jan Plas S.A. notified that it holds 4.97% of the capital in Kendrion; on 23 December 2014 it notified that it holds 2.67% of the capital in Kendrion.

J.N.A. van Caldenborgh notified that he holds 2.89% of the capital in Kendrion on 21 November 2014.

Other movements in the size of the interests of Kendrion's major shareholders also took place during the course of 2014. 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.

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 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 net profit of 2014. The dividend is equivalent to an amount of EUR 10.1 million. The number of outstanding shares entitled to dividend at 31 December 2014 was 13,026,325 and, consequently, the dividend amounts to EUR 0.78 per ordinary share with a nominal value of EUR 2.00 each.

A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 13 April 2015 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 5 May 2015 (before start of trading), on the basis of the volume-weighted average price of all ordinary shares in Kendrion traded on 27, 28, 29 and 30 April and 4 May 2015, 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 7 May 2015.

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

The share plan for the top management 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 were 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 10,110 shares were awarded in 2014. For central administration and handling purposes it has been decided to issue new – registered – shares.

A bonus scheme in shares was granted to the members of the Executive Board for 2014. More information about the shares granted to the members of the Executive Board is enclosed on pages 133 -135 and 143. A comprehensive description of the bonus scheme for 2014 and onwards is included in the remuneration policy section on pages 69 -71.

Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading. These regulations govern the Supervisory Board, Executive Board, the CEOs of both Divisions, 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 2014, 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.	Johan van den Hooven
Theodoor Gilissen Bankiers N.V.	Tom Muller / Joost van Beek
The Idea Driven Equities Analyses company	Maarten Verbeek

Financial calendar

Thursday, 26 February 2015	Publication of the 2014 full-year figures
Monday, 16 March 2015	Record date General Meeting of Shareholders
Monday, 13 April 2015	General Meeting of Shareholders
Wednesday, 15 April 2015	Ex-dividend date
Thursday, 16 April 2015	Dividend record date
Friday, 17 April – Monday, 4 May 2015, 3 pm	Dividend election period (stock and/or cash)
Tuesday, 5 May 2015	Determination stock dividend exchange ratio
Thursday, 7 May 2015	Publication of the results for the first quarter of 2015
Thursday, 7 May 2015	Cash dividend made payable and delivery stock dividend
Thursday, 20 August 2015	Publication of the results for the first six months of 2015
Thursday, 5 November 2015	Publication of the results for the third quarter of 2015
Thursday, 25 February 2016	Publication of the 2015 full-year figures
Monday, 11 April 2016	General Meeting of Shareholders

Members of the Supervisory Board

H. ten Hove (62)
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 for a four-year term until 2017. 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. He is Chairman of the Economic Board of the Zwolle region and Chairman of the foundation which owns the shares of BDR Thermea. 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 (64)
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. At the General Meeting of Shareholders to be held on 13 April 2015, it will be proposed to reappoint Mr De Bakker for a period of two years until 2017. 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, a member of the Board of the Tom-Tom Continuity Foundation, Chairman of the Supervisory Board of the Florence Zorg Foundation and a member of the Board of Save the Children Nederland 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: **R.L. de Bakker, M.E.P. Sanders, H. ten Hove**, and **H.J. Kayser**

M.E.P. Sanders (61)
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 also serves as a member of the Board at a number of investment companies based in the Netherlands.
Ms Sanders is a Dutch national. She does not possess any shares in Kendrion.

H.J. Kayser (54)
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 Strategy 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.

Report of the Supervisory Board

» Annual Report

We hereby present the Annual Report for 2014 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 145 -149 of this Report.

The Supervisory Board and the Executive Board held extensive discussions on the Annual Report for 2014 and the preparation of the Annual Report, in part 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 account of the supervision and advice given by the Supervisory Board during the year under review.

The Supervisory Board recommends that the General Meeting of Shareholders to be held on 13 April 2015 adopts these financial statements and discharges the Executive Board and Supervisory Board of responsibility in respect of their respective managerial and supervisory obligations.

» Composition of the Supervisory Board and Executive Board

Supervisory Board

The Supervisory Board is comprised of four members. The membership of the Supervisory Board remained unchanged during the year under review. In accordance with the rotation schedule, and after due consideration also with regard to the resignation of the CEO in 2015, a proposal to reappoint Mr De Bakker as a member of the Supervisory Board for a further two-year term will be submitted to the General Meeting of Shareholders on 13 April 2015. The reason for the proposed two-year term is the fact that Mr De Bakker has already served 10 years in the post and that the Netherlands Corporate Governance Code lays down as best practice a maximum term of 12 years in total. The reappointment of Mr De Bakker for a two-year period will mean that the term of appointment of three members of the Supervisory Board will expire in 2017. The other two members can, however, be reappointed. This year, the Supervisory Board will consider to what extent the rotation schedule and appointment scheme can be optimised to ensure continuity.

All members of the Supervisory Board, including Mr De Bakker who has been proposed for reappointment, comply with the provisions of the Netherlands Corporate Governance Code and Management and Supervision Act which set out 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 profile of the Supervisory Board includes a statement (partly in connection with the diversity provisions of the Netherlands Corporate Governance Code and Dutch legislation) that endeavours shall be made to achieve 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 successful. The profile of the Supervisory Board is available on the company's website.

Legislation is in force that provides 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 seats on the boards are held by men and at least 30% by women. Kendrion's Executive Board and Supervisory Board fall short of this gender balance. The imbalance in the Executive Board is in part due to the limited number of members. Of the seats on the Supervisory Board, 25% are held by women. Although Kendrion attaches great importance to diversity, the company believes that continuity in and the relevant experience of the members of the Supervisory Board and Executive Board are also of major importance. The company is of the opinion that the current composition of the Supervisory Board (as well as the proposed reappointment of Mr De Bakker), 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 Kendrion's internal regulations, the Netherlands Corporate Governance Code and Dutch law. 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 Supervisory Board played a role.

Executive Board

On 14 November 2014, it was announced that the CEO, Mr Veenema, had decided to leave Kendrion N.V. in the summer of 2015. Mr Veenema has taken his decision in close consultation with the Supervisory Board. The Supervisory Board regrets that Mr Veenema is leaving but respects his decision. The Supervisory Board is grateful for his contribution over the years and for the excellent development of Kendrion under his leadership, during which time it has become the successful international niche player it is today. The time schedule agreed will enable a smooth leadership transition. The Supervisory Board started looking for a successor immediately after the resignation was announced.

Evaluations

In several meetings of the Supervisory Board, not attended by the Executive Board, the Supervisory Board discussed its own performance, its committees and its members and the performance of the Executive Board and its members. An evaluation of the remuneration policy governing the Executive Board was also made. These meetings also reviewed the requirements governing the Supervisory Board's profile, composition and competence. The Supervisory Board has specified the following major issues for it to deal with in 2015: the appointment of a new CEO; organic growth in China; the expansion strategy of the Industrial Division; and management development. The issues requiring attention in 2014 included post-acquisition evaluations and the need for even deeper and more effective discussions of strategic issues. The first of these issues will be further considered in 2015. The second issue was addressed in each meeting by increasing focus on the execution of the strategy, while one meeting was dedicated exclusively to a detailed discussion on midterm strategy. Other issues covered as topics of self-evaluation in 2014 were the integration of Kuhnke, organic growth outside Europe and management development including a succession table.

The Supervisory Board also held consultations with the external auditor, some of which were 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 a separated internal audit department. The Supervisory Board recommends that the Executive Board maintains the current situation in line with the Audit Committee's proposal. The Supervisory Board is of the opinion that the internal control procedures described in more detail on pages 35 and following of this Annual Report fulfil Kendrion's needs.

KPMG Accountants N.V. ('KPMG') was appointed Kendrion's auditor in 2005 and reappointed by the General Meeting of Shareholders in 2009 and 2012. Pursuant to 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 began preparations for the transfer to a new auditor during the course of 2014. The Supervisory Board submitted a proposal at the General Meeting of Shareholders held on 14 April 2014 to appoint KPMG as auditor for a one-year period covering the 2014 financial year. This proposal was adopted. On 21 August 2014, it was announced that the Supervisory Board, following recommendations from the Audit Committee and the Executive Board and after a careful selection process, will at the General Meeting of Shareholders on 13 April 2015 propose appointing Deloitte, a member of Deloitte Touche Tohmatsu Limited, as the company's new external audit firm for a term of three years (2015-2017).

Meetings

The Supervisory Board held meetings with the Executive Board on eight occasions. Company strategy, new divisional structure and the search for a new CEO for the Industrial Division were discussed. The development and results of the divisions and business units were monitored in relation to the agreed targets. Other issues on the agenda were the integration of Kuhnke, innovation, CSR, risk management, management development and the implementation of the new group-wide ERP project, HORIZON. Other important topics were the new financing package as well as the auditors' report and its recommendations. An extra meeting was held in the middle of the year about midterm strategy, including acquisition policy. All but one of the meetings were attended by all members of the Supervisory Board.

The Supervisory Board invited members of the Executive Committee, the CEO of the Automotive Division, the Managing Director of the Kendrion Academy, the CSR Coordinator and the new International Marketing & Corporate Communications Manager to its meetings to discuss developments and performance.

The Supervisory Board paid a working visit to the Kendrion Kuhnke plant in Malente, Germany.

Committees

The Supervisory Board set up two committees, an Audit Committee and a Remuneration Committee. Both Committees have been assigned the work of preparing the groundwork for the Supervisory Board's decision-making. The roles and responsibilities of the Committees are in accordance with the relevant provisions of the Netherlands Corporate Governance Code. The regulations of both Committees have been published on the Kendrion website.

Audit Committee

In 2014, the Audit Committee was comprised of Mr De Bakker (Chairman and financial expert as defined by 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 where issues were discussed, including the development in the results, control environment, tax position, risk management, contingency planning, compliance (including the introduction of a new anti-bribery policy), treasury activities, the procedure for the selection of a new future audit firm, refinancing, the dividend policy, the ERP HORIZON project, hedging and insurances. The Audit Committee has devoted extensive attention to the management letter and internal audit findings; and the way in which the limited number of small issues can be solved. The external auditors joined the meetings in which the yearly figures for 2013 and the half-yearly figures for 2014 were discussed. In this meeting, the auditor's report (including a.o. the key findings regarding goodwill, tax position and internal control) and the draft auditor opinion were extensively discussed. The members of the Committee attended all meetings, sometimes by telephone.

Remuneration Committee

In 2014, the Remuneration Committee was comprised of Ms Sanders (Chair) and Mr Ten Hove.

The Remuneration Committee held six meetings in 2014. The meetings were attended by members of the Executive Board. The bonus systems were discussed at the meetings, as was the expected outcome of the variable remuneration for 2014. The discussions also extended to the remuneration package for general management, as well as to management development. The Committee also covered the search for a new CEO for the Industrial Division and took the lead in the search for a new CEO of Kendrion. Both members of the Committee attended the meetings.

Highlights of 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 of information.

One meeting concentrated on evaluating and discussing the company's midterm strategy, including acquisition strategy and growth outside Europe (especially in the USA and China). The Supervisory Board also scrutinised the business' principles, risks and opportunities in greater detail at this meeting. Intensive discussions were held on markets, acquisition targets and geographical focus.

The financial results, 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-yearly and annual figures. The company's external auditor attended the meeting in which the half-yearly and annual figures were discussed.

The Supervisory Board also discussed and approved the agreement reached on a new EUR 150 million revolving credit facility to refinance the majority of the existing financing arrangements, as announced on 15 August 2014. The new facility covers a period of five years, with no repayments before final maturity. No specific securities were provided to the banks. The new arrangement will provide Kendrion with sufficient flexibility to achieve its ambitious growth objectives. The Supervisory Board is pleased with this result and is of the opinion that this credit facility gives the required scope and flexibility to execute the growth strategy in and outside Europe.

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. The auditor's overview of internal control issues was discussed at one meeting together with the results, progress and further improvements to the internal tests of the financial reporting systems. The Supervisory Board expressed its satisfaction that the management letter once again revealed only a very limited number of relatively minor issues and that issues reported in the previous management letter had been adequately addressed. More information on this is contained in the risk management section on pages 35 to 44 of this Annual Report.

The Supervisory Board closely monitored the integration of Kuhnke, acquired in May 2013. The Supervisory Board received periodic progress reports and visited the plant in Malente during the summer. The Supervisory Board is pleased that the integration of the company and the further optimisation of the operations in Germany and Romania was smooth and swift. Consultations were also held with the former Chairman of the Supervisory Board and the former CEO of Kuhnke. Settlement was reached on an outstanding issue regarding a quality claim.

The Supervisory Board was updated from time to time on the progress of the ERP HORIZON project. The Supervisory Board is satisfied that its implementation to date complies with the planned overall time frame and that the associated costs do not deviate significantly from the specified budget. All major operations have now implemented the new system; some smaller plants will follow in the course of 2015.

The Supervisory Board held extensive discussions on the design of the organisational and management structure, partly in view of the appointment of a new CEO for the Industrial Division. The Supervisory Board requested that continual attention be paid to management positions and any vacancies that arise. The Supervisory Board approved the takeover of Steinbeis Mechatronik GmbH in Ilmenau, Germany, after having received the relevant information on it. The acquisition is consistent with Kendrion's strategy as a niche player specialising in electromagnetic and mechatronic components. The acquisition of Steinbeis Mechatronik GmbH will enable Kendrion to further develop its research and development capabilities in mechatronics.

The Supervisory Board and the Executive Board discussed the dividend proposal that will be added to the agenda of the General Meeting of Shareholders to be held on 13 April 2015 (see page 12).

The Supervisory Board recognises the importance of Kendrion's corporate social responsibility and advocates focusing strongly on the company's social and environmental standards regarding its processes and on the relationship between the overall strategy and sustainability. The Supervisory Board reviewed the achievements of 2013 and endorsed the new CSR plan 'Taking Responsibility' which covers the years 2015 to 2017. More information about Kendrion's CSR activities can be found on pages 28 - 30 and additional details will be provided in the CSR Report to be published around the end of March 2015.

The Supervisory Board is periodically updated on the latest developments concerning 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 (including pensions) against information supplied by external experts to verify that it is in line with the company's objectives and growth, as well as the market and legislation.

Further explanation of the remuneration policy and a specification of actual remuneration is provided on pages 69-71, 133-135 and 143-144, and can also be found in the Remuneration Report of the Supervisory Board 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 of the Executive Board and the Supervisory Board is enclosed in the notes to the financial statements (pages 143-144).

The Supervisory Board has received confirmation from the auditor that the figures on which the 2014 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

The share plan for top management provides for the allocation of shares in Kendrion as payment in kind. Following the General Meeting of Shareholders each year, the number of shares awarded to Kendrion's senior management 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 were offered an opportunity to apply for a maximum of half their annual net cash bonus to be converted into shares. Kendrion doubles the number of shares after three years if officers are still employed by Kendrion and still possess the shares. Pursuant to these share plans a total of 10,110 registered shares were issued in 2014.

Profit appropriation

Kendrion recorded a net profit of EUR 20.2 million over 2014.

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 net profit of 2014. The dividend is equivalent to an amount of EUR 0.78 per share entitled to dividend. A proposal will be submitted to the shareholders during the General Meeting of Shareholders on 13 April 2015 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 is pleased with the development of the Company and the results achieved. We are grateful for the confidence of our customers worldwide and the trust of our shareholders.

The Supervisory Board wants to thank management and staff for their motivation, drive and effort.

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

Zeist, 25 February 2015

Members of the Executive Board

P. Veenema* **(59)**
Position: Chief Executive Officer
Nationality: Dutch
Joined Kendrion: 1993
Appointment to current position: 2003
Additional positions: member of the Supervisory Board of N.V. Holding Westland Infra

F.J. Sonnemans (53)
Position: Chief Financial Officer
Nationality: Dutch
Joined Kendrion: 2013
Appointment to current position: 2013

* *On 14 November 2014, it was announced that Mr P. Veenema had decided to leave the company in the summer of 2015.*

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

Report of the Executive Board Highlights

- Vigorous expansion of a focused company with a clear profile;
- Strong and satisfying 9% organic growth in 2014, outstripping growth in most important markets;
- Kendrion's Automotive Division concludes the biggest contract in its history involving the production of solenoid valves for the damper business. The total revenue during the project's lifetime will be at least EUR 300 million;
- Integration of Kuhnke (acquired in May 2013) into the Kendrion organisation successfully completed;
- Acquisition of Steinbeis Mechatronik GmbH, on 23 December 2014 (effective as from 5 January 2015), with an annual turnover of approximately EUR 1-2 million;
- Broadening of the company's core activities, with the Kendrion Academy launching several fundamental research projects in the electromagnetic and mechatronic fields;
- Newly formed Business Development Board, comprising external experts with wide experience of the company's markets and geographies;
- Announcement that Kendrion CEO Piet Veenema is to leave Kendrion in the summer of 2015;
- Adoption of a new three-year CSR programme, 'Taking Responsibility';
- Improvement of corporate visual identity and brand building, including the further extension of the website;
- Opening of a new Automotive plant in Nanjing, China;
- Increased opportunities for high-grade production in low-wage countries due to the expansion of Kendrion's factory in Sibiu, Romania;
- Extra attention to sales and marketing activities in China and the USA ('Breaking out of Europe');
- Implementation of the HORIZON ERP project according to plan, with implementations in Kendrion (Shelby) (USA) and Kuhnke (Germany and Romania); all major operations have now implemented the new system;
- Normalised net profit increase of 41% to EUR 20.2 million, driven by 9% organic growth, increased efficiency and full-year impact of Kuhnke;
- Increase in EBITA (as a % of revenue) to 7.7% (2013: 6.8%) with improvements in both divisions;
- Good financial position, with solvency of 46% (total equity EUR 153 million) and net debt of EUR 83.0 million at the end of 2014;
- Strong free cash flow (normalised) of EUR 17.1 million, especially in view of high investments;
- A new EUR 150 million revolving credit facility to refinance most of the existing finance arrangements (ING Bank, Deutsche Bank and BNP Paribas);
- 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.

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 and mechatronic solutions for advanced technologies;
- *Industrial Control Systems:* customised, mechatronic solutions designed to optimise automatic processes;
- *Industrial Drive Systems:* development and production of electromagnetic brakes and clutches for industrial applications.

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

The divisions and individual business units have a shared strategy and collaborate with the individual operating companies in a wide range of fields, such as engineering, project management, purchasing, production strategy, marketing and sales. The Executive Board, supported by the CEOs of the Divisions and the Business Unit Managers – 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 divisions and their business units 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 and coordinating activities 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, strategic marketing, Corporate Social Responsibility, legal affairs and corporate governance.

More information about the divisions and business units is enclosed on pages 55 - 65 and following of this Annual Report.

Continued focus on key issues

Kendrion had a good year in 2014. Economic circumstances worldwide slowly improved. This, combined with the start of new projects, resulted in organic growth for the company of 9%. The Automotive Division recorded the greatest organic growth (11%), while the Industrial Division realised organic growth of 5%. Further focus in 2014 was on the integration of Kuhnke (acquired in May 2013) into the Kendrion organisation. All in all, the objectives Kendrion formulated in 2009 demonstrated their value once again in 2014.

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 2014.

Actively respond to developments in all key markets

In 2014, new steps were taken to strengthen the engineering staff in the divisions and business units to ensure that the company could continue to take advantage of developments in its key markets and respond to customer problems in the appropriate manner. Kendrion assigns top priority to local empowerment and engineering. Therefore, engineering capacity was increased, especially in companies outside Germany, for example in the USA and the Czech Republic. The acquisition of Steinbeis Mechatronik GmbH was aimed at further strengthening Kendrion's mechatronic research and engineering capacity. The company once again allocated time and energy to market intelligence, in particular within the marketing departments of Kendrion's business units. Kendrion Group Services was strengthened by the appointment of an International Marketing & Corporate Communications Manager to direct this process further. Tools such as 'treasure mapping' continued to be used for the assessment of potential new projects prior to taking decisions on their adoption. The newly formed Business Development Board, comprising external experts with broad experience of the company's markets and geographies, will also contribute to Kendrion's future development.

Increase flexibility of staffing and costs

Flexibility in all areas and at all levels is essential to Kendrion's development and growth. Kendrion is convinced that companies which are most successful in adapting to rapidly changing circumstances have the best prospects for the future. This is why Kendrion devotes great effort to incorporating flexibility in its total cost structure (staffing costs and other operating expenses) and to continually assessing every available opportunity and option which can help achieve this objective. Kendrion works closely with its works councils to discover new ways to keep costs as flexible as possible. In addition, Kendrion's suppliers are managed in a manner that enables them to respond rapidly to developments in the company's market segments. It is for this reason that Kendrion is making considerable efforts to select strategic suppliers for the longer term who will ensure increased flexibility in the future. This was also an important issue in the Strategic Purchasing Board in 2014. The company actively monitors the flexibility of each division and business unit.

Further globalisation
The world is Kendrion's marketplace. New projects in the Americas, launched in 2013, resulted in vigorous growth at Kendrion (Shelby) Inc. Steps were taken to increase Kendrion's manufacturing capabilities in Eastern Europe (Romania), where a new production facility was build. Special attention was also paid to the Chinese market. A new plant was opened in mid-2014 in Nanjing to support Kendrion's automotive operations. Sales initiatives and efforts in both China and the USA (Kendrion's project 'Breaking out of Europe') led to new projects in these countries that will lead to further revenue growth in the years to come.

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. Adverse market conditions led to a difficult start for the third operational year of the Kendrion plant in Pune, India. However, it got up to speed following the country's elections. Again, a number of new projects for various customers were acquired in 2014. As a result, prospects for the company's operations are favourable for the coming years.

Enhance capacity for innovation
Kendrion has developed an organisational structure designed to ensure continued innovation within the company. The Kendrion Academy with its Curatorium, the Innovation Calendar and the regularly held Kendrion Days and Kendrion Symposia, together with the presence of dedicated Innovation Managers at the Kendrion business units, promote the adoption of an innovative attitude. This results in each business unit introducing several new innovations per year.

Kendrion is seeing evidence that the company is increasingly 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 sustainability in the company, its products, its internal processes and its supply chain. Kendrion formulated a new three-year sustainability strategy called 'Taking Responsibility' and has brought it further in line with the company's overall strategy. Kendrion introduced its first product with the greensigned logo in 2013 and added two new products to the line in 2014. See also pages 28 - 30 of this report for more information on Kendrion's Taking Responsibility Programme.

Further improve working capital management
Kendrion continued to focus on optimising working capital management in 2014. Kendrion's acquired Kuhnke companies also addressed the optimisation of their working capital throughout the year. 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 amounted to 10.5% of revenues.

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 35 and following. Risk management continued to receive full attention in 2014, both in terms of strategic risks and financial reporting, the extension of the internal audit programme and the alignment with the Kendrion risk management programme.

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 with highly qualified people 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. The High Potential (HIPO) Programme, which started in 2013, proved a success. A few HIPO participants had already moved to higher management positions by the end of 2014. More information can be found on pages 31 - 32 of this report.

Financial

Kendrion's financial targets will remain during the coming years. Organic growth of at least 10% is the objective. As long as economic market conditions remain unchanged, Kendrion forecasts further organic growth in the years to come for both divisions, as a result of various new projects. This growth should also lead to further increasing return on sales in future years, following on from the important profit improvements already realised during 2014. In particular, Kuhnke improved its profit level moving towards the 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 2015-2017 – under the name '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 and 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 division, business unit and local levels, as well as for their responsibilities. Kendrion can then determine, at an early stage, whether it is meeting 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.

Kendrion has an ambitious and clear strategy in relation to its desired market position and future growth. In brief, Kendrion wants to be the global innovation leader in its niche markets. The company carries out innovative projects in close consultation with its customers, an approach which Kendrion also feels contributes to the creation of added value. Kendrion has put enhancing its innovative capacity high on the agenda. This involves more than simply asking people to be innovative: in Kendrion's opinion, innovation is achieved by creating the appropriate conditions and scope for it, beginning with giving it the attention it deserves.

For this reason, Kendrion makes use of a number of tools to strengthen innovative development in its business. In 2014, these included:

- The establishment of a Business Development Board comprised of international experts in various fields;
- Innovation Managers within each business unit;
- An Innovation Calendar, requiring the divisions and their individual business units to develop new ideas at fixed times during the year;
- Annual Innovation Awards;
- 'Treasure Mapping Portfolio Management' (prioritisation of the most promising projects);
- Innovation Cells (multi-disciplinary 'pressure cooker' groups) for the development of new solutions in a relatively short period of time;
- The Technology Radar, this is Kendrion's 'in-house Wikipedia', where engineers can exchange information, share knowledge and easily get in contact with each other;
- 'Technology scouting', i.e. looking for new specialist technologies and developments around the globe and sharing this knowledge with other companies in the technology sector;
- The Kendrion Academy, which enhances cooperation with research centres and educational institutions, supports networking and communication between engineers, and forms partnerships for the development of new technological solutions. In 2014 the Kendrion Academy also conducted several fundamental research projects in the electromagnetic engineering field;
- The special department formed by the Passenger Car Systems business unit, entrusted with the creation and harnessing of new technical opportunities to address the needs of the rapidly changing automotive industry.

At the beginning of 2015, the Kendrion Academy was significantly strengthened by the acquisition of Steinbeis Mechatronik GmbH. This acquisition will enable Kendrion to further expand its research and development capabilities, especially in mechatronics, and further improve its customer service and its support for its own engineering centres. The Kendrion Academy and Steinbeis Mechatronik GmbH will merge under the new name Kendrion Mechatronics Center. The Curatorium of the Kendrion Academy will continue to act as the advisory board of this new entity.

As mentioned above, Kendrion also gives out annual Innovation Awards. In 2014 they were awarded as follows:

Best Enhanced Product Award 2014
The 2014 award went to the Automotive Control Systems business unit for a mechatronic subsystem for trailer chassis height adjustment, integrating solenoid valves, bistable solenoids, one DC motor, sensors and an electronic PCB in a single robust housing. The advantages are the variability in height of the chassis in driving mode, the variability in limits of the chassis height, the fast venting of the system, the reduction in air consumption due to the SW controlled dead times between valve-switching operations, the longer lifetime of the valve, the smaller size and reduced weight of the system. This mechatronic subsystem project is perfectly in line with Kendrion’s overall strategy and combines electromechanics, sensor technology, pneumatics, electronics and software.

Best Innovation Process Award 2014
The innovations developed by Kendrion's Industrial Control Systems business unit are marketed by so-called industry teams who develop specific campaigns. The business unit recognises that each market has its own requirements and rules, and that there is a need to consolidate market demands to get new leads and market new products. The way to innovation is a synthesis of market requirements, know-how and new ideas. The preparation and roll-out stages of the campaign, during which a multidisciplinary industry team develops a broad range of activities, form the heart of the innovation process. After the kick-off, the industry team continuously analyses, controls, adjusts and reports back on the progress of the campaign, thus ensuring that the product's market potential can be unlocked.

The wide range of initiatives Kendrion undertook throughout the year have all served to enhance its reputation as an innovation leader.

Taking Responsibility

Innovation and acceleration are the drivers of our industry. Passion for technology is the foundation of our company. Transparency, flexibility and attention to detail – this is how we engineer precision components – often small revolutions – for the world's leading innovators.

The culture that drives our innovation is the very same culture that defines our approach to corporate social responsibility (CSR). To Kendrion, social responsibility is not a separate pillar in its organisation, but an ambition which is integrated into everyday decision-making. At Kendrion, CSR is not just about being responsible; it is about actively taking responsibility.

The principle of taking responsibility is embedded in the company's culture of innovation. It is precisely what happens when smart and passionate engineers come together in a high-technology environment that is open to dynamic new ideas. In taking the company forward, they also focus on sourcing smart materials, introducing energy-efficient machinery, conducting business in a fair manner and creating growth opportunities for the company's employees. These are not just CSR issues; they are engineering challenges that are driving the company's business forward into the future.

In many places, being responsible is simply an obligation, a tactic to avoid falling behind. To Kendrion, Taking Responsibility is a strategy for staying ahead. After all, in an industry of innovation, taking responsibility is not just tactically smart. It is also smart business.

Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make ongoing organisational and technical improvements to environmental procedures. During the design and technical planning stages, Kendrion takes due account of the consequences for the environment. This not only enables the company to lower harmful emissions and reduce its environmental footprint, but also ensures that it can maintain its good reputation. As a company, Kendrion bears a social responsibility that makes it necessary to consider environmental issues when assessing processes. Commitment to these values, both now and in the future, is of great importance to both the individual Kendrion companies and the organisation as a whole. Within the individual Kendrion companies, the quality, environmental-management and safety systems tend to be combined into one single system that underpins the implementation of many different projects. Virtually all of Kendrion's operating companies comply with the most stringent quality and safety requirements. Kendrion's environmental management systems comply with the ISO 14001 standard.

CSR Board; the 'Taking Responsibility' programme

In 2011, the Executive Committee decided to give further shape to Kendrion's CSR activities with measures including the appointment of a special CSR Board. The CSR Board is comprised of ten enthusiastic representatives from the business units and a number of the corporate departments. In the course of 2014, the CSR Board, together with the Executive Committee, formulated a new three-year programme under the name 'Taking Responsibility'.

Kendrion attaches great importance to maintaining good relationships with the Group's customers, employees, suppliers, other business partners and the communities in which Kendrion is active. Cooperation and regular consultation are essential if Kendrion is to fulfil its ambitions. For this reason, the insights of various stakeholders were incorporated into the 'Taking Responsibility' programme. In a number of sessions, the programme was reviewed with these stakeholders, who were given the opportunity to give feedback, including on the issues that are most relevant in terms of sustainability. The relevant megatrends were also explored, such as the rapid growth of the world population, the increasing scarcity of natural resources, the transition to more sustainable energy, climate change, the increased transportation needs of people and goods and the availability of qualified employees.

Kendrion has defined six key priorities for its Taking Responsibility programme for the years 2015-2017, which are basically in line with the priorities that were pursued in the previous years. They are as follows:

- Environmental protection;
- Responsible use of resources in the supply chain;
- Good labour conditions;
- Fair business conduct;
- Sustainable products;
- Strong communities.

For each of these key issues, annual targets and key performance indicators (KPIs) apply. From 2015, there will be an even stronger emphasis on incorporating all CSR measures into the business processes. Ambitious goals have been set in the area of energy and CO_2 reduction. In addition, the plan is to launch pilot projects in the field of the circular economy. For further information, see the CSR Report 2014 which will be published at the end of March 2015.

» Results for 2014

The Kuhnke operating companies were fully incorporated into the CSR programme in 2014, and assigned two representatives on the CSR Board.

Kendrion achieved the vast majority of its targets for 2014, as can be seen in the CSR Report 2014.

Environmental protection
A number of energy-efficiency measures and investments were implemented at various plants in the Group. The first ISO 50001 certificate was granted to one of the Kendrion companies, and an LED light project has been commenced. These measures have already resulted in substantial savings to Kendrion's relative energy consumption and CO_2 emissions.

Responsible use of resources in the supply chain
During the past year, Kendrion emphasised the value of CSR in its supply chains by asking its suppliers to adopt the Kendrion Supplier Code of Conduct. Many CSR audits were carried out as well. A waste, recycling and hazardous materials handbook was rolled out in Kendrion’s major European plants. In conjunction with Ilmenau University of Technology in Germany, the Kendrion Academy started a pilot project to reduce the use of rare earth materials in one of Kendrion’s products.

Good labour conditions
Happy and healthy employees are essential to ensure future success. In 2014, Kendrion worked on this in a range of different ways, for example by offering opportunities for training and further education, health programmes, projects focused on work-life balance and team-building activities. Preparations were made for the roll-out of a Kendrion-wide employee satisfaction survey. Non-discrimination and diversity are key priorities that define Kendrion's approach to its employees. Various HR awards were granted to Kendrion companies, which shows that its efforts are being appreciated. See pages 31-34 for more information.

Fair business 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 key 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 behaviour, corporate social responsibility, accountability in general and the obligation to provide due care regarding health and safety, the environment and social interests. Kendrion promotes compliance with the Code of Conduct by continuously bringing the Code to the attention of current and new managers and staff. The provisions of the Code of Conduct pertaining to anti-bribery will be updated in 2015. A similar Code of Conduct was introduced for Kendrion's suppliers in the course of 2012. Kendrion has also adopted an Anti-Bribery & Corruption policy.

Sustainable products
Two new industrial products were added to the greensigned label. Only Kendrion products that meet stringent sustainability and environmental criteria are eligible to receive this label. The greensigned label helps Kendrion itself, the market at large and Kendrion's customers to become more

aware of Kendrion's strengths in this field. Downsizing is an important trend – there is a focus across the board on smaller engines, improved performance and lower CO_2 emissions. There is a strong public demand for environmental conservation. This is directly related to the finiteness of the world's natural resources. The industry needs to find new ways to keep mobility affordable. Consequently, fuel efficiency is another megatrend. Kendrion observes a shift in customer needs and requirements, which are increasingly focused on downsizing, fuel efficiency, environmental aspects, safety and comfort. Kendrion, as an innovative company focused on sustainability and environmental conservation, is in an excellent position to provide proactive support to customers in the form of ideas, solutions and state-of-the-art products.

Strong communities

Kendrion intends to engage in community investment initiatives as a means of promoting development and benefiting local stakeholders. The right approach to community investment can help establish mutually beneficial relationships between Kendrion and its local stakeholders and contribute to long-term improvements in the quality of life of local communities in a way that is both sustainable and supportive of the company's business objectives.

In 2014, for example, two new students joined the corporate community-investment programme in India, which gives students from disadvantaged backgrounds the opportunity to get a university degree and complete an internship at Kendrion's facility in Pune, India. In addition, various local charity fundraising activities were organised and employees actively participated in existing charity initiatives.

Kendrion believes that pursuing a transparent and fair tax policy is part of a sound community strategy. Its local sourcing policy also contributes to strengthening local communities.

>> UN Global Compact

Kendrion joined the UN Global Compact in September 2009. The UN Global Compact is the world's largest network initiative, bringing together businesses, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices. Kendrion fully endorses these principles.

>> CSR Report

Kendrion published its 2013 Corporate Social Responsibility Report, based on the General Reporting Initiative (GRI) guidelines, level B, in late March 2014. The Report has been published on Kendrion's website. Kendrion's performance in 2014 will be presented in more detail in the next CSR Report, which will be published at the end of the first quarter of 2015. Hard copies of the Report are available for interested parties.
In 2014, Kendrion ranked 42nd in the Transparency Benchmark of the Dutch Ministry of Economic Affairs, measuring the top 500 companies in the Netherlands. In 2013, Kendrion ranked 96th. The substantially higher ranking in 2014 demonstrates that significant progress has been made. In 2014, Kendrion also took the first steps towards reporting to the Carbon Disclosure Project.

>> CSR Award

After a pre-selection of five nominees, the second Kendrion CSR Award, awarded by the company's senior management during the Top Management Meeting in Charlotte, USA, in September 2014, was presented to Kendrion (Eibiswald) GmbH in Austria. Kendrion (Eibiswald) won the award in recognition of its thorough sustainability programme, including its achievements relating to environmental management. Kendrion (Eibiswald) was also the first company within the Group to receive an ISO 50001 certification. In addition, it received the so-called Daphne from the Austrian authorities, an award for pioneering companies in the area of energy efficiency.

Personnel

A number of important reforms were implemented in 2014. Despite Kendrion's worldwide sales growth, the number of the company's staff decreased by 2% to approximately 2,700 employees (including about 80 temps) located in 15 countries.

Kendrion is a decentralised organisation divided into the Division Industrial and the Division Automotive, each with its own business units (three and four respectively). Mr M. Zegger has been appointed CEO of the Division Industrial as from 1 February 2015. 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, Taxation, Legal Affairs and Compliance, Human Resources, Technology and Innovation, Information Technology, Corporate Social Responsibility, Investor Relations, Marketing and Communication and Facility Management) plays an important role in the facilitation and supervision of the operations, especially in times of Kendrion's growth.

In 2014, 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 possible variations in working hours and 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.

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 international 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. Another focus in 2014 was the incorporation of the new corporate design in HR-related areas such as adverts and other documents targeting employees and candidates. This was aimed at increasing the recognition of Kendrion's employer brand. The takeover of Steinbeis Mechatronik GmbH in Ilmenau, Germany, means that 14 skilled employees will become available for engineering projects.

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. Two members of staff graduated and twelve colleagues started their studies in 2014.

It is also important for Kendrion to build up the management generation of the future. This is why the company implemented the 'Kendrion High Potential Programme' in 2012. It is a modular training programme covering a period of three years. The first group of fifteen selected high-potential employees from all over the world will graduate in 2015 and the process of nominating a new group of high potentials has started.

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, 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 supported by various processes 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 individual training and education opportunities.

The Kendrion 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. In 2014, the Academy intensified cooperation with the business units and initiated a number of projects together with various universities. In 2015, the Academy will be merged with the former Steinbeis Mechatronik GmbH to form a new entity, Kendrion Mechatronics Center GmbH. The aim of the move is to increase the efforts further in this respect.

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. Since 2014, these have included CSR and innovation targets. Kendrion has also implemented a share scheme for senior management.

Over 1,400 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.

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 interviews. 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. In order to measure the company's staff satisfaction properly, it has been decided to launch a standard employee satisfaction survey gradually within the group through the course of next years. This forms part of Kendrion's long-term CSR programme, Taking Responsibility.

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.

Awards

Top Employer 2014
Kendrion is very pleased to have received the 'Top Nationaler Arbeitgeber 2014' award for its plants in Germany. Kendrion is one of the best employers in Germany according to a joint accolade from the news magazine 'FOCUS', 'XING', the leading social network in German-speaking countries, and 'kununu', Germany's largest employer rating portal.

Excellent young talent development
Kendrion Kuhnke in Malente, Germany, was given this award in September 2014 by the 'Bundesagentur für Arbeit' in the category, retraining.

AAA Award CHINA
At the end of 2014, the Chinese Suzhou labour security bureau conducted an audit and evaluation of Kendrion (Suzhou) Co. Ltd. This was followed by the award of AAA level credible employer certification to Kendrion (Suzhou). Only a few companies in Suzhou (which has more than 10 million inhabitants) have received this certification.

FamilyNET Award 2014
The compatibility of work and family (work-life balance) has long been on the agenda of Kendrion's operating companies. They are supported by both the Ministry of Finance and Economy and the employers' associations, Südwestmetall and Chemistry Baden-Württemberg, as part of the nationwide familyNET project. In June 2014, Kendrion's German companies were honoured for a second time with the familyNET award for outstanding family-friendly projects.

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.

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 various 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	2014	2013
Total number of employees at 31 December	2,808	2,860
Number of women in permanent employment	1,233	1,247
Number of men in permanent employment	1,215	1,219
Number of employees with a fixed-term contract	360	394
Number of permanent and temporary employees at 31 December (FTE)	2,713	2,756
Number of direct employees (FTE)	1,443	1,504
Number of indirect employees (FTE)	1,192	1,165
Number of temporary employees (FTE)	78	87
Average age of women	41.3	40.7
Average age of men	40.9	40.9
Average age of all employees	41.1	40.8
Average number of years' service	10.4	10.1
Average rate of absenteeism per employee (%)	2.3%	2.8%
Influx percentage (%)	13%	18%
Departure percentage (%)	15%	14%
Wage costs per FTE (EUR)	44,875	44,567
Training costs (as a % of wage costs)	0.8%	0.8%

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 Supervisory Board and 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 2014

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

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.

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, gifts, anti-bribery, 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. The paragraphs regarding anti-bribery in the Code of Conduct will be updated in 2015. A Supplier Code of Conduct has also been introduced to address the above themes in the supply chains.

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. Three irregularities were reported in 2014. Following investigation, two of these reports were deemed unfounded. The third issue (an accusation of unauthorised use of company assets) was confirmed true but had negligible financial impact and no operational impact. Adequate measures have been taken against the employee involved; also in order to prevent such incidents in the future.

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. Kendrion furthermore has implemented a global Standard Chart of Accounts, whereby all operating companies are required to make use of a single detailed accounting structure.

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 expected performance against 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 approval is also required for capital investments in excess of EUR 100,000.

Quarterly and monthly reports and meetings

Regular discussions in the monthly meetings between the Executive Board, the Division Management, 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 2014, the Executive Board together with the senior management of the divisions and business units conducted a risk survey which reviewed over forty potential risks that could confront Kendrion in relation to the company's strategic objectives.
The results of this survey were discussed with the Executive Committee to determine the most important risks which Kendrion could face (in terms of the greatest impact, likelihood and vulnerability). The risk assessment will be evaluated at periodic intervals in terms of relevance and mitigating actions. The following section contains more information 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. Operating companies with annual revenue of less than EUR 15 million are audited at least once every three years.
This will be increased to once every two years as from 2015. 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 and/or external audit firms. 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 legal and compliance 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. Kendrion has introduced an online compliance training, which will be compulsory for all staff working in purchasing, sales, management and for some other specific officers.

Strategic and business risks

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

- Volatile economic conditions;
- Competition;
- Technological substitution;
- Shifts in customer preferences;
- Customer dependency;
- Non-performing Information Systems and data security;
- Raw material prices and availability.

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
Volatile economic conditions	•	•	•	•
Competition	•	•		
Technological substitution	•	•		
Shift in customer preferences	•	•		
Customer dependency	•		•	
Information Systems	•	•		
Raw materials	•			•

Volatile economic conditions

Kendrion experiences greater volatility in economic development. 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 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 periodically carries out sensitivity analyses 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 to mitigate as much as possible a decline in revenue before incurring an operating loss and without redundancy expenses. However, structurally lower revenues will normally 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 strong focus on flexibility, Kendrion's medium to longer-term objective is to further 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.

Furthermore, Kendrion has a solid financial position and sufficient financial resources to continue its investments in growth, both in terms of competent staff and appropriate production equipment. 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.

Competition, technological substitution and shifts in customer preferences

Kendrion faces competition from peers, in some cases from competing technologies and on some occasions also from (potential) customers. If Kendrion were to lose its competitive edge in relation to these parties and competing technologies, it would lessen Kendrion's ability to achieve its profitability and growth targets. Furthermore, Kendrion could become unable to offer its markets or customers the solutions they need, due to the company's inability to meet customer requirements. This is a particularly important issue for the Automotive Division. 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 2014, these included:

- A Business Development Board comprised of international experts in various fields of expertise;
- Innovation Managers at each business unit;
- An 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, which furthers cooperation with knowledge institutes and universities, produces focused engineers and forms partnerships aimed at the development of new technological solutions. The Kendrion Academy has been significantly strengthened by the acquisition of Steinbeis Mechatronik GmbH as from 5 January 2015. This acquisition will enable Kendrion to further develop its research and development capabilities especially in mechatronics and further improve its services to customers and to its own engineering centres.

Kendrion's strategy to localise production as much as is feasible reduces its vulnerability to risks from competitive shifts resulting from exchange rate movements. Although Kendrion's main focus is on technological leadership, it also actively manages the cost price by exploiting low-cost production opportunities within the group as well as exploring alternative use of materials and sources.

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 relatively low. The customer concentration in the Automotive Division is higher than that in the Industrial Division. Losing one of the large customers in the Automotive Division would have a high impact and, in the absence of compensatory measures, would be detrimental to this division's growth objective and profitability. The likelihood of this happening is however low to moderate as Kendrion is a technologically advanced player which offers tailor-made customer solutions whose development times and costs are usually high. Kendrion endeavours to minimise its vulnerability by ensuring that single customers do not normally generate more than 5% of Kendrion's total revenues. Three customers (namely the Volkswagen Group, Continental and Daimler) generate between 5 and 10% of the consolidated revenues. Kendrion is actively pursuing the reduction of single customer dependency by securing projects from other customers.

Non-performing Information Systems (IS) and data security

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 has been taken. This risk has received significant management attention during the year under review due to the ongoing migration to a single common ERP application 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 (master data management);
- 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 (supplier portals).

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;
- Milestones and extensive cutover planning and reviews;
- Audits for important go/no-go decisions;
- Business case analysis – internal and external (benchmark against other companies);
- End user acceptance and training.

Infrastructure – Operating companies and Kendrion Group Services are supported by the group's central IT department in Villingen, Germany. This department sets and coordinates the service level agreements with suppliers such as application and 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 and international IT suppliers. The servers are well protected against outsiders, with firewall and unauthorised-access control. 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 Kendrion (Shelby) Inc. (USA), acquired by Kendrion in 2011 and the Kuhnke companies in Malente (Germany) and Sibiu (Romania) acquired by Kendrion in 2013.

Software application portfolio – Most operating companies use a standardised ERP system, 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. Since then the Passenger Car Systems business unit's plants in Germany, Austria, the Czech Republic and the USA, the Commercial Vehicle Systems business unit's plants in Germany and India, Industrial Drive Systems and Industrial Magnetic Systems in Germany all migrated to the new ERP system. With the implementation in 2014 of the acquired companies Kendrion (Shelby) Inc., USA and Kendrion Kuhnke in Germany and Romania, all larger companies have now successfully migrated to the new ERP platform and standard Kendrion template. The migration of the few remaining smaller entities will be finalised in 2015.

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, 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) reduce the risk of cost overruns.

Availability of raw materials and price fluctuations

Kendrion's results could suffer from the reduced availability of raw materials and fluctuations in their price. 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 of it is contained in purchased components such as turning parts. Where 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 quarters on a rolling basis.

Kendrion monitors developments in the prices for permanent magnets closely: prices increased eightfold in 2011 due to China's strategy of controlling the scarcity of rare earth materials. Since that date, prices have steadily declined and have reached the level they were prior to mid-2011. The agreements Kendrion has concluded with the majority of customers who buy components containing permanent magnets provide for automatic price adjustments based on movements in the price of permanent magnets.

As far as is feasible, Kendrion actively endeavours to increase the number of alternative sources for its most important raw materials. Obviously, Kendrion aims to minimise the effects of price fluctuations on the group's results. Whether or not this objective is feasible depends on contractual clauses and on the market. Raw materials are purchased separately by each business unit on the basis of their individual requirements but in accordance with the group policy reviewed quarterly by the Strategic Purchasing Board. This body was established to coordinate activities and exploit knowledge across business units and economies of scale.

Other important risks

Strategic	Operational	Financial
Project management	Product liability	Treasury
Intellectual property	Environmental liabilities	Tax
Attraction and retention of qualified staff		

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.

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 pages 31 - 32);
- The management development programme;
- Apprentice programmes at several companies;
- Maintenance of good contacts with education institutes;
- Further increase of Kendrion's appeal through the creation of the Kendrion Academy and the acquisition of Steinbeis Mechatronik GmbH;
- Various in house training programmes, like for example finance training for non financials.

Operational risks

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 118 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 the internal audit team in Zeist, the Netherlands, to guarantee the independence of the 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 2014, the internal audits encompassed more than 80% of the value of the relevant reporting cycles. The overall results of the audits conducted in 2014 were again satisfactory. The limited number of deficiencies revealed by the 2013 audits had been adequately addressed.

This conclusion is in line with the management letter, in which the external auditors reported a limited number of findings and no findings which qualified as significant. The internal audit of Kendrion (Shelby) Inc. revealed some shortcomings that have been adequately resolved by the company. These shortcomings would not have led to any material misstatements in the company's financial statements.
The design of Kendrion's internal audit programme, the transparent internal financial reporting system, a culture which promotes 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 23 December 2014, Kendrion signed the agreement governing the acquisition of Steinbeis Mechatronik GmbH in Ilmenau, Germany. Steinbeis Mechatronik GmbH is an engineering and research company engaged in the development of innovative mechatronic products and has a turnover of EUR 1-2 million. The acquisition became effective on 5 January 2015.

Financial results

In the year under review, net profit on a normalised (recurring) basis increased to EUR 20.2 million, which is EUR 5.9 million (41%) higher than in the previous year. No normalisations were applicable to the 2014 results. The normalisations in 2013 related to the acquisition and integration costs of Kuhnke (net effect EUR 1.6 million) and an adjustment connected with the provision for the EC fine (release of EUR 0.8 million).

Net return as a percentage of sales increased to 4.7% with a good contribution from the improvement in the former Kuhnke companies, which resulted from the planned restructuring and subsequent efficiency measures.

Normalised net profit

EUR million	2014	2013
Net profit	20.2	16.7
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	20.2	14.3

EUR million	2014	2013
Revenue	428.9	354.0
Normalised net profit	20.2	14.3
Net return as %	4.7%	4.0%
EBITA return on investments[1]	13.0%	10.8%

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

Revenue

In 2014, revenue increased by 21% from EUR 354.0 million to EUR 428.9 million. The increase included an unfavourable currency impact of EUR 1.3 million and was partly due to the full-year impact of Kuhnke which was acquired on 14 May 2013. After adjusting for the full-year impact of Kuhnke, organic revenue increased by 8.6%.

Both divisions showed good organic growth, which amounted to 5% in the Industrial Division and a strong 11% in the Automotive Division. Revenue developed positively throughout the year following the launch of new products, notably the new automotive projects in the USA in the second half year of 2013 and new mostly German projects in 2014. More stable market conditions also helped.

Developments in organic revenue in the quarters of the year (compared to last year) were respectively 6% (Q1), 11% (Q2), 10% (Q3) and 6% (Q4).

The Kuhnke acquisition had only moderate impact on Kendrion's geographical spread. Europe's contribution to revenue increased from 70% to 75% in 2013, 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 in 2013 to 25%. In 2014, several new projects led to strong growth in both North America and Asia, resulting in combined sales outside Europe of EUR 103 million (2013: EUR 89 million) which, due to the first full year inclusion of Kuhnke, is not yet visible in the percentage distribution of revenue by customer location. One of Kendrion's strategic spearheads is to further grow the company's presence in the Americas and Asia.

Revenue by customer location

EUR million	2014	Share	2013	Share	Growth
Germany	213.7	50%	173.6	49%	23%
Other European countries	112.0	26%	91.2	26%	23%
Asia	36.3	9%	32.0	9%	13%
The Americas	65.6	15%	54.2	15%	21%
Other countries	1.3	0%	3.0	1%	(56%)
Total	428.9	100%	354.0	100%	21%

Developments in the divisions and business units

Industrial Division

The Industrial Division – which accounts for 35% of Kendrion's total revenue – increased its sales to EUR 151 million, an increase of 18% up from the EUR 128 million in the previous year. This included the first full year of sales from Kuhnke's Industrial Control Systems business unit. Organic revenue growth in 2014 was 5%. Operating result before amortisation increased to EUR 12.9 million compared to EUR 9.5 million in 2013. This resulted in a higher EBITA margin of 8.6% (2013: 7.4%).

The overall market conditions for the Industrial Division improved compared to 2013. The Industrial Division developed well throughout the year, making good progress in revenues and profitability. It was especially important to the Industrial Division that the machine equipment market developed well. Industrial Drive Systems achieved a particularly strong performance. Further growth came from new mechatronic projects and from positive developments in China and the USA.

The Division has a very broad customer portfolio comprising thousands of customers with revenues that range from a few thousand euros to several million euros. The top 10 customers generate approximately 30% of the Division's revenue. The 2014 revenue generated by the largest customer amounts to only 3% of Kendrion's total revenue.

The income generated by new projects, the state of the Industrial Division's order book and investments in future operations are reason for optimism about the Division's prospects for the future.

Industrial Magnetic Systems saw an improvement in its markets during the year. The second quarter showed a temporary slowdown in customer activities, but the business picked up again in the second half of the year with new and promising project activities. Total revenue increased by 6%, with favourable growth in its main market, Germany, which included a large contribution from the machine sector and process automation customers. Good growth was also achieved in the power switches industry in the USA as well as in China, where the acquisition of new customer projects continued to accelerate. A new plant for high-volume production lines was opened in Sibiu (Romania). This will further improve cost efficiency with the partial transfer of production from Germany during 2014 and 2015.

The business unit's good performance and new product launches throughout the year are reason for confidence in the future. These are expected to generate additional revenue in 2015, in combination with further scheduled product launches in Europe, China and the USA.

Industrial Control Systems, the new industrial business unit created following the Kuhnke acquisition in May 2013, was rapidly integrated into the Kendrion organisation. This was not least the result of sound cooperation with the two other Industrial business units. Industrial Control Systems developed favourably in relation

to customers active in high-technology operations in the Scandinavian and North American markets. Overall growth in revenues amounted to 48%, driven by the full-year acquisition impact.
The alignment of the product portfolio with a discontinuation of several old product lines and the focus towards even more profitable and promising niche markets were important activities in 2014.
This together with difficult market conditions in the medical sector held back overall revenue and results development. Sales to the aircraft-interiors sector increased strongly following the growth in aircraft oxygen supply units.

In 2014, the existing Industrial Control Systems production in Sibiu, Romania, was expanded and combined with the new Industrial Magnetic Systems production plant in a strong, focused industrial facility.

Industrial Drive Systems experienced a strong year, mainly due to broad-based growth in German machine manufacturing. Overall revenue increased by 13%, further supported by good growth in China.
New sales activities in Italy had a very promising start. The company acquired several interesting international customers and also made significant investments in new activities, designed to achieve further growth in revenue during the coming years, and in the extension of manufacturing operations in China.

The business unit further enhanced its position as the European market leader in permanent-magnet brake technology. Industrial Drive Systems also recently began to focus on the market for spring-applied brake solutions. A wide range of customers has already been supplied with samples of the business unit's new KOBRA spring-applied brake. The further development of elevator brakes is one of the key focuses for further growth. This will continue in 2015. In 2014, Industrial Drive Systems started serial production of elevator brakes in Suzhou (China). A major order for a brake-clutch-combination was won and this will be fulfilled in 2015.

Automotive Division
The Automotive Division – which accounts for 65% of Kendrion's total turnover – increased its revenues to EUR 278 million, an increase of 23% up from EUR 226 million in 2013. This includes the first full year of sales from Kuhnke's Automotive Control Systems business unit, which was acquired on 14 May 2013.
New product launches in North America, Germany and China, in combination with a return to more favourable market conditions, resulted in a strong 11% growth in organic revenue, a significant improvement on the previous year.
Operating result before amortisation increased to EUR 20.7 million compared to EUR 14.0 million in 2013. This resulted in a higher EBITA margin of 7.4% (2013: 6.2%). Both German car manufacturers and the American truck market developed well. The biggest drivers for the strong organic growth in 2014, however, were the new projects that started in the second half of 2013 and in 2014. Strong management efforts succeeded in achieving significant improvements in costs and efficiency in most of the Division's plants. The strong profit improvement that was realised in the former Kuhnke automotive activities was also significant. However there is still room for further improvement here.

The Division acquired its largest order ever, involving active damping systems, and a significant amount of other new business in Germany, the USA and Asia during the year. This will lead to further growth in the coming years. The Division opened a new manufacturing plant in China in the middle of 2014.

Kendrion endeavours to minimise its vulnerability to customer dependency by striving to limit to no more than 5% the share of Kendrion's total output generated by individual customers. Currently three customers (Volkswagen, Continental and Daimler) generate between 5% and 10% of consolidated revenues. Kendrion is actively pursuing the reduction of single customer dependency by winning projects from other customers. The dependency on individual large customers is higher in the Automotive Division. The top 10 customers generate approximately 60% of the combined revenue of this Division.

Passenger Car Systems had a strong year with a revenue growth of 14% driven by the acquisition of new business and customers. The new automotive projects in North America relating to pulsed valves for gasoline systems and park brake systems performed well and contributed strongly to growth. Passenger Car Systems further strengthened its position in Europe with new business from Volkswagen involving high-pressure valves. New production capacities were installed in the Austrian plant: the developments included preparations for a new line for active damping systems. In China, the business unit gained new diesel common rail high-volume business.

In the period from 2011 to 2013, Kendrion reported in Passenger Car Systems new projects amounting to an estimated sales value in excess of EUR 800 million over the projects' lifetimes and equivalent to an average additional revenue of EUR 85 – 100 million per annum in the coming years. In 2014, new projects were acquired with a total estimated revenue of EUR 260 million, equivalent to an average of EUR 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, developed well throughout the year. Overall growth in revenues amounted to 71% driven by the full-year acquisition impact and organic growth. Overall growth was impacted by the end of a customer contract. The more positive market trends were reflected in the strong customer demand for many different products. This resulted in a significant improvement in profit, together with the positive results from improved efficiency and the restructuring efforts that were implemented according to plan and will be completed in 2015.

Sound-design technology continued to be an area where this business unit can make a difference and that made it possible to win new projects in 2014. The electronics unit acquired further electronic fuel-pump control-unit projects. Valve applications were also put in the spotlight for future business as were the internal development of sensor technologies.

In 2015, Automotive Control Systems will continue to focus on the further enhancement of the autonomy of the Romanian plant. This is of considerable value to both the business unit and to the entire Kendrion group.

Commercial Vehicle Systems achieved flat growth in 2014 with good progress in Germany, Mexico and particularly in China. Here, the introduction of Kendrion's first genset applications for fan drives marked the launch of another fuel-saving application on the power generators market. Market conditions in Brazil were more challenging, nevertheless the company gained new business and customers and expanded its market operations into new products for air-conditioning compressor clutches.

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

Heavy Duty Systems focuses primarily on innovative high-quality electromagnetic and electromechanical systems and components for the truck market, with plants in Shelby (USA), Markdorf (Germany) and Pune (India).

The business unit's performance increased in 2014 compared to the previous year, with revenue growth of 18%, good development in the North American heavy truck market and high sales in pressure switches, pressure regulating valves and transmission valves. The business unit will continue to support its lighting customers with service parts but, going forward, the business unit does expect the lighting business to continue its slow decline as new projects make use of lighting technology which is not central to Kendrion.

The plant in India achieved improved revenues and results which were significantly up on the year before and driven by new projects with existing and new customers. The Indian market continued to show further potential. The development of additional customer applications was ongoing and new customers led to a broader market share. The implementation and introduction of a local supply-base in India contributed to results. The phase of ramping up fan clutch production for truck applications aimed at customers in India was successful.

Added value

In 2014, added value amounted to EUR 204.6 million (2013: EUR 170.9 million, excluding the release of the EUR 4.4 million earn-out provision relating to the Kuhnke acquisition). The increase over last year was fully due to the first full-year inclusion of the Kuhnke acquisition and 9% organic revenue growth in 2014. The added value as a percentage of revenues remained stable at 48%.

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

In 2014, the overall situation in regard to 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 2014. Permanent magnet prices were also relatively stable.

Staff costs and other operating expenses

Staff costs, including costs for temporary employees, amounted to EUR 125.4 million, as compared to EUR 108.6 million in the previous year.

Apart from the additional staff required in connection with the strong increase in organic growth, the increase in staff costs was mainly due to the impact of the first full-year inclusion of Kuhnke which was acquired on 14 May 2013 and which increased staff costs by EUR 12 million. In addition, there was an impact from the annual salary increases and a further investment in engineering staff in both divisions.

The planned restructuring at Kuhnke as well as several other efficiency measures throughout Kendrion had a strong positive effect on staff costs. As a result of these efficiency measures, total staff costs as a percentage of revenues improved by 1.5%. A large part of this improvement was achieved in the second half of the year.

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

Staff costs	2014	2013
Staff costs	125.4	108.6
As % of revenue	29.2%	30.7%
As % of added value[1]	61.3%	63.5%

[1] *Added value excluding release earn-out Kuhnke (2013).*

Other operating expenses for 2014 amounted to EUR 29.9 million (2013: EUR 29.8 million). Adjusting for the EUR 2.1 million impact in 2013 of non-recurring costs related to the Kuhnke acquisition and the release from the provision for the EC fine, other operating expenses showed an underlying increase of EUR 2.2 million which was almost fully due to the full-year impact of Kuhnke. As a result of continued strict cost control and savings initiatives, the overall ratio of operating expenses as a percentage of revenues improved to 7.0% (2013: 8.4%).

FTE (at 31 December)	2014	2013
Direct staff	1,443	1,504
Indirect staff	1,192	1,165
Temporary employees	78	87
Total number of FTE	2,713	2,756

Net financing costs

Net financing costs amounted to EUR 4.6 million (2013: EUR 5.2 million), including favourable currency exchange results of EUR 0.4 million (2013: negative EUR 0.3 million). Excluding currency results, the financing costs therefore increased by EUR 0.1 million as compared to 2013.

Net financing costs included a one-off write-off amounting to EUR 0.7 million which relates to the unamortised portion of the capitalised transaction costs of the previous financing agreement that was replaced by the credit agreement concluded on 15 August 2014. The full-year impact of the Kuhnke acquisition further increased the financing costs by EUR 0.4 million in comparison to 2013. Lower bank guarantee fees (EUR 0.3 million), after the payment of the EC fine on 3 April 2014, together with lower average interest rates (EUR 0.7 million) had a positive impact on the net financing costs.

Average (gross) debt levels, excluding cash and deposits, amounted to EUR 95 million in 2014. The average interest charge on borrowings in 2014 was 2.7% (2013: 3.4%).

More information on the new revolving credit facility, available credit lines and conditions can be found on pages 112 -114 of the financial statements.

Income tax

The effective income tax rate for 2014 is 18.9% (2013: – 6.4%).

The effective tax rate in 2014 was positively influenced by further utilisation of previously unrecognised tax losses in the Netherlands (EUR 1.0 million). If this item were not taken into account, the effective tax rate for 2014 would have been approximately 23% (2013: 21%, normalised).

More information about the effective tax rate can be found on page 132 of the financial statements.

Tax paid in 2014 amounted to EUR 3.5 million. The difference between this and the tax charge in the profit and loss account is largely due to the usage of deferred tax assets relating to loss carry-forwards during 2014.

Net income

In 2014, no normalisation adjustments applied to net income.

In 2013, net income attributable to the company's equity holders was adjusted for one-off (non-recurring) items related to the Kuhnke acquisition and subsequent restructuring with a net impact of EUR 1.6 million, and for a EUR 0.8 million release from the provision for the EC fine.

Kendrion proposes an optional dividend of 50% of the net result, equivalent to EUR 0.78 per share entitled to dividend.

Financial position and working capital

Total assets decreased slightly to EUR 333.5 million (2013: EUR 334.8 million). Non-current assets increased by EUR 5.7 million. This was mainly caused by currency effects on goodwill denominated in USD (EUR 2.9 million) and capital expenditure on software, plant and equipment which exceeded depreciation by EUR 3.6 million. The higher capital expenditure on software was mainly due to the ongoing roll-out of the ERP software which went live in the Czech Republic, Kendrion (Shelby) and the Kendrion Kuhnke plants (Germany and Romania). Capital expenditure on plant and equipment relates for more than 80% to investments in production lines for new projects, such as production equipment for a High-Pressure Valve in Villingen (Germany) which ramped up in 2014, and to initial investments in a new line for an active damping system which is expected to become operational in Austria at the end of 2015.

Net income, earnings per share and dividend

EUR million	2014	2013
Net income attributable to equity holders of the company	20.2	16.7
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)
Adjusted net income attributable to equity holders of the Company	20.2	14.3
Normalised earnings per share (EPS)	1.56	1.14

Condensed statement of financial position

Assets

EUR million	31 December 2014	31 December 2013
Property, plant and equipment	83.1	80.5
Intangible assets		
■ Goodwill	90.5	87.1
■ Acquisition related	24.8	27.3
■ Software	8.1	6.3
■ Development costs	0.8	0.2
Other	0.9	0.5
Deferred income tax	14.5	15.1
Non-current assets	**222.7**	**217.0**
Inventories	49.0	46.9
Income tax	3.0	3.3
Trade and other receivables	49.2	49.6
Cash	9.6	18.0
Current assets	**110.8**	**117.8**
Balance sheet total	**333.5**	**334.8**

Cash balances decreased by EUR 8.4 million. This was mainly caused by improved possibilities to offset excess cash with outstanding loans under the new credit agreement. Other current assets increased by EUR 1.4 million as a result of higher inventories at year end.

Goodwill payments were made for the Linnig Group (now Commercial Vehicle Systems) in 2007, Tri-Tech (now Kendrion (Mishawaka) LLC) in 2008, Magneta (now Kendrion (Aerzen) GmbH) in 2010, FAS Controls, Inc. (now Kendrion (Shelby) Inc.) at the end of 2011 and Kuhnke AG (now Industrial Control Systems and Automotive Control Systems) in 2013.

Intangible assets relating to these acquisitions consisted largely of the calculated fair value of customer relations and technology. The annual amortisation charge relating to these intangibles amounted to EUR 3.4 million in 2014. More information can be found on pages 101 and following.

The year-end solvency ratio increased to 46.0% (year-end 2013: 40.1%), mainly due to the strong net profit development and positive translation effects on equity (EUR 5.7 million) which in turn were mainly a result of the stronger USD.

Working capital

After adjustment for the payable EC fine, net working capital as a percentage of revenue was in line with the previous year, at 10.5% of sales (2013: 10.2%). Inventory levels and especially receivables improved as a percentage of revenue. This was offset by a reduction in other payables due to lower customer prepayments and the EUR 1.0 million earn-out payment to Kuhnke shareholders.

The year-end provision for trade receivables decreased to EUR 0.4 million (2013: EUR 0.7 million).

Net debt

Net debt increased by EUR 34 million during 2014 to EUR 83 million. The payment of the EC fine on 3 April 2014 had the largest impact on reported debt (EUR 43.8 million). The free cash flow, before payment of the EC fine and payment of the EUR 1 million earn-out to former Kuhnke shareholders, amounted to EUR 17.1 million in 2014. Finally, the debt was impacted by the cash portion of the optional dividend which was EUR 5.7 million.

More information on the terms and conditions of the new revolving credit facility can be found on pages 112-114 of the financial statements.

Deferred income tax assets

EUR million	2014	2013
Valued tax losses carried forward		
German income tax (15.8%)	31.3	37.3
German trade tax (12.2%)	1.0	4.6
Dutch income tax (25.0%)	18.0	16.4
Other	3.0	3.5
Total	53.3	61.8
Tax value of recognised loss carry-forwards	10.6	11.7
Tax value temporary differences	3.9	3.4
Deferred income tax assets	14.5	15.1

More detailed information can be found on pages 105-107 of the financial statements.

Net working capital 31 December

EUR million	2014	2013
Inventories	49.0	46.9
Trade and other receivables, tax receivable	52.2	52.9
Trade and other payables, tax payables[1]	56.3	59.2
Net working capital	44.9	40.6
As % of revenue[2]	10.5%	10.2%

[1] *Payables is excluding EC fine payable in 2014.*
[2] *Revenue is including total revenue Kuhnke in 2013.*

Net interest bearing debt 31 December

EUR million	2014	2013
Non-current borrowings	80.5	58.4
Non-current mortgage loan	5.0	6.2
Current borrowings	7.1	2.4
Cash and cash equivalents	9.6	18.0
Net bank debt at 31 December	83.0	49.0
12 months EBITDA[2]	49.3	39.6
Debt cover[1, 2]	1.68	1.22
Debt cover[1, 2] (net bank debt including EC fine payable)	1.68	2.18

[1] The debt cover covenant calculation in 2013 in the syndicate banking arrangement excludes the mortgage loan.

[2] 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
Syndicated bank facilities	150.0
Mortgage loan	5.0
Other loans and facilities, including financial leases	5.0

Credit facility compliance

		Actual
Debt cover (Net bank debt/12 months EBITDA)	< 3.0	1.68
Interest cover (12 months EBITDA/Net finance charges[1])	> 4.0	13.87

[1] 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.

Invested capital 31 December

EUR million	2014	2013
Balance sheet total	333.5	334.8
Less: non-interest bearing debt[1]	56.3	59.2
Less: freely available cash	9.6	18.0
Less: deferred income tax	14.5	15.1
Invested capital	253.1	242.5

[1] Non-interest bearing debt is excluding EC fine in 2013.

The growth in invested capital in 2014 was impacted as follows:

EUR million	
Higher net working capital	4.3
Higher property, plant and equipment plus software and development costs	5.0
Higher goodwill and acquisition related intangible assets	0.9
Other impacts	0.4

Free cash flow

In 2014, the free cash flow generated, before acquisition payments and the payment of the EC fine, was strong at EUR 17.1 million (2013: EUR 11.7 million), as compared to EUR 20.2 million net profit. The main reasons for the gap between free cash flow and net profit were the capital expenditure on plant and equipment and software that exceeded depreciation by EUR 3.6 million and the increase in working capital following the growth in revenue level. These effects were partially offset by the annual EUR 3.4 million non-cash amortisation charge on the intangibles arising from acquisitions. Both divisions made a satisfactory contribution to the overall free cash flow.

Contingent liabilities

Information about contingent liabilities is enclosed on page 128 of the notes to the financial statements.

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.

Normalised free cash flow

EUR million	2014	2013
Reported free cash flow	(27.7)	(29.6)
Acquisition of subsidiaries	1.0	38.3
Net acquisition costs and other expenses paid	–	1.2
Restructuring and integration costs of Kuhnke paid	–	1.8
EC fine paid	43.8	–
Normalised free cash flow	17.1	11.7

Executive Committee

Standing from left to right: **Michael Bernhard**, Business Unit Manager Industrial Drive Systems, **Torsten Komischke**, Business Unit Manager Automotive Control Systems, **Norman Graf**, Business Unit Manager Industrial Magnetic Systems, **Bernd Gundelsweiler**, CEO Division Automotive, **Piet Veenema**, Chief Executive Officer, **Markus Kieninger**, Business Unit Manager Passenger Car Systems, **Erik Miersch**, Business Unit Manager Commercial Vehicle Systems, **Frank Sonnemans**, Chief Financial Officer.
Not present: **Robert Lewin**, Business Unit Manager Industrial Control Systems

Report of the Executive Board Industrial Division

The Industrial Division consists of three business units: Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems.

All the business units within the Industrial Division have similar economic characteristics that are translated into the financial objectives as described on page 10 of this annual report. These financial objectives are applicable to all the business units. The business units within the Industrial Division also show a number of similarities regarding their products, production processes and customers. Machines, techniques and employees are interchangeable between the business units that are part of the division. A good example is Industrial Magnetic Systems' new plant for high-volume production lines in Sibiu, Romania, which was developed using the skills and expertise of the Industrial Control Systems business unit.

The Industrial Division, with a balanced portfolio of niche products and customers, develops electromagnetic and mechatronic systems and components which are manufactured in production plants all over the world and marketed through a worldwide distribution network, with sales offices in many countries. The most important industrial markets are Germany, Italy, Sweden, the USA and China. The Industrial Division is characterised by its thousands of customers, of which only a few are classified as large customers, i.e. with a turnover of several million euros. The Industrial Division focuses on environmentally friendly (i.e. energy-saving) applications and sophisticated process automation solutions. Its main objective is to identify customer requirements and preferences in order to maintain a strong customer focus and possess the competencies required to serve as a technology and innovation leader.

Developments per business unit – Industrial Magnetic Systems

» Profile

The Industrial Magnetic Systems business unit develops and manufactures electromagnetic and mechatronic systems for industrial applications including mechanical engineering, energy distribution, process automation, doors and safety technology, agriculture equipment, medical equipment and the beverage industry. Both the customers and the 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 business unit's head office is located in Donaueschingen, Germany, and it has production facilities in Germany, Romania, the USA and China. In addition, it has sales organisations in the UK, Austria, Switzerland and Italy. The other major European markets are covered by sales partners and distributors.

Major customers include Euchner, Fresenius, Schindler, Siemens, Stoll, Schmersal and Rational.

» Objectives

Industrial Magnetic Systems is continuing to expand its position, transitioning from a player on the European market into a global player in specific market segments.

Industrial Magnetic Systems develops new project activities in its markets through its relationships with both customers operating on a global scale and those who have a strong position in local submarkets. The business unit's project activities have also enabled it to expand its operations to include the provision of modified products and services, which offers less risky opportunities to generate revenue, particularly in more difficult economic times. Over the next few years, Industrial Magnetic Systems will focus on those key markets within the industry globally in which the most significant developments are expected to occur.

Developments in 2014

Turnover in 2014 was stable. The second quarter saw a temporary slowdown of activities on the customer side, while in the fourth quarter, business started to pick up again, with new and promising project activities. The localisation of products, especially for the Asian market, continues to gather pace. But there is also an increasing focus on the US market.

Special focus was put on innovative project development and on preparing the market entry of new applications and technologies. Good opportunities can be identified for further growth in the upcoming years.

The concentration of competencies in the business unit's plants was expanded and supplemented by new network partners. The construction of a new building for an industrial plant in Romania has been completed and the first production line was already transferred to this facility in the fourth quarter of 2014.

Market and market position

Industrial Magnetic Systems' main market continues to be Germany, with its advanced and globally leading mechanical engineering and automation industries. The USA, China, France and Italy are the business unit's other key markets, whose significance is increasing. In the year under review, special attention was devoted to realising international project work. As part of this, Kendrion offered additional support to its customers wherever necessary.

The business unit focuses on niche markets with excellent growth figures that will become increasingly relevant in the future. These markets include energy, medical & pharma, transportation and safety, as well as agriculture.

Industrial Magnetic Systems' Chinese operations focus on customers and product applications that require a high level of technical know-how, product quality and reliability.

Outlook for 2015

Several new product launches are planned in Europe, China and the USA for 2015. Consequently, the business unit expects an increase in turnover driven by new products and customers. The business unit will also strengthen its activities to further boost growth, and partly move away from merely being a component supplier to focus increasingly on being a solution provider for mechatronic systems. Several related projects will enter into production in 2015.

In 2015, partly through the new plant in Sibiu, Romania, the Industrial Magnetic Systems business unit will focus even more on high-volume production, while production in Germany will be focused primarily on high-level products and logistically complex processes. Localised customer support will also be offered in China and the USA, providing new opportunities to support current customers as well as new ones with a broad product portfolio which may also include more simple applications.

Another key focus for the business unit in 2015 is to further increase the strategic development of networks. On the production, engineering and innovation level and even for its sales activities, the business unit has selected strategic partners to expand its knowledge and accelerate growth while keeping the flexibility to respond and adapt quickly to any external factors.

In summary, Industrial Magnetic Systems is expecting a fruitful year with an increase in turnover and profit provided the economy remains stable.

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 interiors, and energy generation and distribution sectors. It focuses on the development and supply of highly innovative and sophisticated products for these markets.

Industrial Control Systems develops customer-specific products at target cost that offer its customers a competitive edge. Its 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.

The business unit's head office is located in Malente, Germany, with production facilities in Malente and Sibiu, Romania. It has a centralised sales organisation based in Germany, with local 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 a spare-part service and predominantly cater to small businesses.

The main market is Germany, followed by Scandinavia and North America. The business unit's major customers are Oerlikon Textile, Heidelberger Druckmaschinen, Fresenius Medical Care, Dräger, Philips Healthcare, Sirona, PerkinElmer, Electrolux and B/E Aerospace.

Objectives

Industrial Control Systems aims to achieve consistent sales growth by increasing 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 create added value and deliver on its unique selling points, but also to keep improving the products it provides to its customers. Its reduction of development times, development of integrated manufacturing processes and focus on engineering to target cost will enhance its competitive position and will increase its penetration of, and access to, markets.

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

Distribution via third parties will be less important than marketing through the Industrial Magnetic Systems and Industrial Drive Systems business units' existing sales organisations.

Developments in 2014

All market segments made a roughly equal contribution to the result.

A major event in 2014 was the separation of Industrial and Automotive manufacturing in Sibiu, Romania. A new production facility for Industrial Magnetic Systems, with Romania's first solenoid assembly line, was inaugurated in September.

The introduction of the ERP (IFS) system at the end of the year was an important milestone. On the other hand, progress was made in the area of marketing. In addition to the ordinary marketing activities, Kuhnke's website content was integrated into the Kendrion website.

Realigning the product portfolio and concentrating the business unit's operations on even more profitable and promising niche markets was an important activity in 2014. Old product lines were discontinued and first samples of new product lines were presented to customers.

The production of chemical coating has been outsourced to an external provider in order to further streamline it. The transfer of production will be completed by late June 2015.

Cooperation within the Industrial Division has come to play a more significant role. To boost international sales revenues, two sales engineers have been hired, one based In Mishawaka, USA and one based in Hausen, Switzerland.

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 respect to customers that are active in high-technology areas in the Scandinavian and North American markets.

Turnover generated by the aircraft interiors sector in the USA will continue to increase.

Outlook for 2015

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

The product investment projects currently under way will be completed in 2015, with series production scheduled to begin for items including motorised locking units for appliances, safety controls for machines and isolated valves for analytical equipment. There are many opportunities to establish contracts for series production, which will have to be seized in the coming year.

A further investment in the Malente company premises in Germany is planned for 2015. Both the engineering workstations and the building interior as a whole will be modernised, resulting in shorter communication lines and more transparent engineering activities.

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

Profile

Industrial Drive Systems develops and manufactures electromagnetic brakes and clutches for drive technology that accelerate, decelerate, position, hold and secure movable drive components and loads. The product portfolio ranges from small permanent magnet brakes to high-performance permanent magnet brakes and spring-applied brakes, electronic devices as well as pneumatic couplings and brakes for marine applications. The primary applications for these products are robotics and process-automation technology, machine construction and production machines, machine control and elevator technology.

The business unit's head office is located in Villingen, Germany. Other production locations are Aerzen, Germany and the facility in Suzhou, China. The office in Bradford, United Kingdom, provides sales & service support for Industrial Drive Systems products.

Another sales office is located in Turin, Italy. All other major worldwide markets are covered by sales partners and distributors.

Major customers are Siemens, Bosch Rexroth, Lenze, Schottel, SEW and Schneider Electric.

Objectives

Industrial Drive Systems has set itself the goal of becoming a full-solution provider with a broad product portfolio.

The development of modular product families with a large number of reusable parts and replicable production processes will play a central role in optimising time-to-market. In order to serve its customers as quickly as possible without long delivery waits, the business unit relies on local-for-local production for the future. In this, a balance will be maintained between taking into account the best practices of the respective manufacturing country and ensuring the highest level of quality standards.

The products and processes are worked on jointly between the domains of development and industrial engineering in a central R&D department so as to achieve maximum process stability. A good example is the compact and efficient production cell for the new KOBRA brake. It will be possible to transfer the process one-to-one to other production facilities in the very near future, and the products can then be manufactured under the same conditions. A key priority for the next few years will be the development of intelligent braking and monitoring systems.

The highest quality standards, short lead times and local-for-local production, together with a modular product portfolio, will be the key factors ensuring the business unit's continued success in the near future.

Developments in 2014

2014 was the year in which Industrial Drive Systems provided a wide range of customers with its new KOBRA spring-applied brake, including the initial provision of samples so they could run stress and integration tests.

The customer project to reduce switching noise on elevator brakes was completed successfully and will lead to substantial advantages for the further development of elevator brakes. In 2014 the business unit started the serial production of elevator brakes in Suzhou, China.

The R&D department has started developing a new series of permanent magnet brakes for the Asian market, the Xtra line. At the same time, the business unit's Industrial Engineering team has begun laying down the groundwork so the production of these brakes can begin in the near future. Production of the items will take place in the plant in Suzhou, China.

Market and market position

Germany, with its advanced and market-leading mechanical engineering and automation industries, remains the business unit's key market. Kendrion's Industrial Drive Systems business unit is the worldwide market leader in permanent magnet brakes, and the new KOBRA spring-applied brake creates great opportunities to establish partnerships with major global players.

Customers have picked up on the added value of integrating a 'greensigned' brake in their own product, and presenting this to end users as a contribution to the worldwide effort to reduce carbon emissions which will also enable them to save costs.

In 2014, Industrial Drive Systems continued to achieve growth in Italy and Asia.

Outlook for 2015

Kendrion's Industrial Drive Systems business unit forecasts continuous growth in 2015.

The business unit will continue to carry out R&D activities to complete the KOBRA product family, the development of the new permanent magnet brake series for the Asian market and furthermore the integration of electronic systems relating to brakes and clutches. The Kuhnke acquisition has created opportunities for the business unit to develop these kinds of technologies and systems in-house, which will be a big benefit for Industrial Drive Systems' customers.

The business unit's objective with respect to small permanent magnet brakes is to keep finding new niches and applications in order to maintain the market position. Winning a big order for a brake-clutch combination, which will be carried out in 2015, was a great step in that direction.

The business unit will also focus on the elevator industry, with plans to expand its position in this market. A high priority will be given to business development in the USA and China. The ultimate objective of Industrial Drive Systems is to increase its technical expertise and, as a result, enhance its market leadership.

The Automotive Division operates in the passenger car market and the truck & bus markets and includes four business units – Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems.

All the business units within the Automotive Division have similar economic characteristics that are translated into the financial objectives as described on page 10 of this annual report. These financial objectives are applicable to all the business units. The business units within the Automotive Division also show a number of similarities regarding their products, production processes and customers. Machines, techniques and employees are interchangeable between the business units that are part of the division. For example, Passenger Car Systems has assisted Automotive Control Systems with several quality projects.

The main objectives of the Automotive Division are to identify customers' requirements and preferences while maintaining a strong customer focus. The separate business units serve their distinct market segments and employ their individual product portfolios with the aim of becoming the global technology and innovation leaders in the field of electromagnetics and mechatronics.

The Automotive Division has a balanced niche product and customer portfolio and develops and manufactures its products by way of an international development network and a worldwide base which includes twelve production plants.

The balanced presence throughout the world in all the major automotive centres enables the further business enlargement and growth of the company which remains attractive to customers, suppliers and employees. The Automotive Division's target is to satisfy the growing demands for environmentally friendly vehicles – to enable fuel efficient, safe and comfortable driving and fulfil the expectations of the customer.

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 which has a global network and 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. Since 2014, Passenger Car Systems has also been ISO 50001 certified for its energy management in Austria.

Objectives

Passenger Car Systems is continually expanding its market position by obtaining new customer orders that relate to new projects or to further applications and expand the current portfolio. 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, braking or clutch systems and advanced valve technology. 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 almost 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 and individual functions.

» Developments in 2014

The main objectives in 2014 for Passenger Car Systems were to extend existing niche positions by gaining new businesses and customers, and to expand the activities in the global network of locations in the North American, European and Chinese markets. Therefore, new production capacities were installed in the Austrian plant, including a new line for active damping systems. Passenger Car Systems further strengthened its position in Europe with new business for Volkswagen involving high pressure valves. In China, the business unit also gained new diesel common rail business at high volumes.

Besides the passenger car market, Passenger Car Systems achieved and successfully launched new business in the medium and heavy duty area and adapted its technology to meet the highly demanding requirements of the truck business.
The market position of customer-specific project business was enlarged with new developments in the area. The business unit´s product portfolio corresponds exactly with the current market trends and will be extended continuously in line with the requirements of the automotive sector.

» 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, Volkswagen, 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, electric and fuel-cell cars create new market opportunities that favour Passenger Car Systems.

» Outlook for 2015

Passenger Car Systems will expand its electromagnetic portfolio with new product launches this year and is exploring further new niche business. The production and new development of units and applications will be served by a global base.
The business unit´s flexibility will adapt immediately to market demands, in order to optimise its service to customers worldwide. New technologies and product innovations will open up new niche markets and create additional business. As a customer-orientated organisation with a strong focus on corporate social responsibility, Passenger Car Systems 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 sound-design products. Its competence and experience in these technologies mean Automotive Control Systems is an acknowledged partner of its customers. Its products cover the comfort, safety and environmental requirements of many different automotive applications. The manufacture of the products is carried out in conformity with the automotive industry's quality standards relating to ISO TS 16949 and ISO 14001. It takes place in the business units' plants in Germany and Romania and products are distributed from there to its global customer base, which include Volkswagen, Audi, Continental and Wabco.

Objectives

Automotive Control Systems' good technological reputation is being put to use in cross-technology projects in order to significantly improve the own-project situation and to support other business units with new technology know-how. By closely cooperating with the Romanian factory, the business unit managed to ensure perfect supplies to customers and markets.

Automotive Control Systems will further advance the autonomy of the Romanian location with particular regard to the self-reliant handling of purchasing, quality and laboratory work. The business unit will also start the gradual process of serving its customers directly from Romania.

Automotive Control Systems' restructuring efforts, in that respect, which started in 2013, will be finished in 2015. The business unit's mission is to focus on niche products and by doing so to underline its unique selling positions.

Development in 2014

Three core topics shaped Automotive Control Systems' development in 2014.

The first is the ongoing process of the integration of Kendrion Kuhnke into the Kendrion Group. The networking in all levels of the organisation is working. Sales and development teams have created the first synergies in project work. During the integration into the Kendrion Group, some organisational changes were decided upon. Most were implemented in 2014. The process will be completed in the course of 2015.

The second topic involved the settlement of a quality-related claim to the customer's full satisfaction. The claim concerned a new valve taken into production early 2013.

Another important topic in 2014 was the improvement of the project situation. A new sales strategy was developed and an active sales process implemented.

Sound-design technology continues to be an area that excites much emotion in customers. This made it possible to win promising new projects in 2014.

In the electro-mechanics section, seat valve applications are still in the spotlight for future business. But Automotive Control Systems has also pushed the development of sensor technologies, such as active linear sensors and PCB integrated pressure sensors.

The electronics unit acquired further electronic fuel pump control unit projects.

In 2014, Automotive Control Systems expanded its presence in China. An own Key Account Manager has been operating in this market since the beginning of the year and serves the business unit's local customers. Cooperation with Automotive Control Systems' new partner for electronic control unit production in the USA is running well.

Market and market position

As Automotive Control Systems delivers its products directly or indirectly to successful German automotive manufacturers, the positive market trends have been reflected in high customer demand for many different products. There is a prospective market, particularly in the sound technology field. One example of this is the interior and exterior sound design of electric vehicles – a field in which Automotive Control Systems has excellent chances to establish itself as the technology market leader. Another promising product field relates to PCB integrated pressure sensor technology which is behind many features of seat valve applications.

In the electronics field, Automotive Control Systems faces tough competition. Customers' purchasing organisations in the Chinese market increasingly procured products from local suppliers. The impact on Automotive Control Systems in this segment will be felt in 2015.

Nevertheless, the continued move towards more electronic units and sensors in vehicles means that the future prospects of Automotive Control Systems are good. Its wide range of technologies offers the best chances to keep up with future trends in the automotive sector.

Outlook for 2015

The integration of Automotive Control Systems in the Kendrion Group is nearly complete. The integration will give Automotive Control Systems the possibility of handling cross-business unit projects and finding cross-business unit project synergies.

In 2015, the autonomy of the Romanian plant will result in additional capacities for new projects at the Malente head office. This will in turn lead to the necessity of separating project development and serial order fulfilment processes.

The main theme for 2015 will be the new active sales and innovation approach together with active product marketing. Due to the competitive constraints mentioned earlier, Automotive Control Systems will focus on products and projects whose unique selling positions lead to sound revenues and results. Preparations for this work were made in 2014. This will lead Automotive Control Systems to additional sales opportunities and a broader customer base with solid growth and results in future years.

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 gearboxes for bus-engine cooling applications, pneumatic and hydraulic clutches, brakes and belt tensioners.

The customers consist of major OEMs in the global transportation market and Tier-One suppliers of air condition systems, agricultural vehicles, railed vehicles, as well as manufacturers of special vehicles, such as snow clearers and garbage-collection trucks.

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

Objectives

Commercial Vehicle Systems' products help reduce the fuel consumption of commercial vehicles and consequently lower vehicle emissions. In the field of technical solutions, various applications of the business unit's products have been established as electromagnetic answers and problem solvers for specific niches and markets throughout the world. These applications have shown continuous growth in recent years. In addition to the niche strategy, the business unit has developed applications for volume production and new segments.

Commercial Vehicle Systems' organic growth over the past ten years has been built on its objective to supply customers all over the world and do business with OEMs in Asia, North and South America and Europe. Over a period of several years, the business unit has been developing into a global organisation within the commercial vehicle market. Commercial Vehicle Systems' midterm objective is to become the leading supplier of electromagnetic solutions for the commercial vehicle industry.

Developments in 2014

In Asia, Commercial Vehicle Systems has implemented a strategy of operational growth in China. One of the measures implemented in 2014 was a new facility in Nanjing which opened in May. Relocation was completed successfully and the team is proud of the new site which provides state-of-the-art employee working conditions. The official opening ceremony was held in early August 2014.

The introduction of Kendrion's first genset applications of fan drives in China and India was another example of progress in Asia. These two new customer groups mark the start of the introduction by Commercial Vehicle Systems of another fuel-saving application to the power generators market.

In North America, Commercial Vehicle Systems has been focusing on the deliveries of material (machined parts) to the Kendrion plant in Shelby, North Carolina, USA, from the facility in Toluca, Mexico. The production level is stable and potential for growth in the North American business can be discerned. The business unit's position as a key supplier to Mexican customers in the field of engine cooling and to air-conditioning system suppliers and OEMs has been strengthened.

Commercial Vehicle Systems has also taken a major step in South America by defending and extending its market position in new products for air-conditioner Tier-One customers. In 2014, the business unit became the top supplier of air-conditioning compressor clutches in Brazil. Commercial Vehicle Systems will develop the business in the coming years to achieve a leading position in other market segments as well.

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 2014, Commercial Vehicle Systems again achieved a steady production level in the bus and truck market with high sales, driven particularly by the organisation in Germany. Kendrion has been awarded new projects involving products and customers, which will be launched in 2015. Customers include Evobus, Yutong, Thermoking and Hyundai.

Outlook for 2015

Development in 2015 is expected to ensure that the market share of the business unit Commercial Vehicle Systems is retained, with the product range remaining the same or even showing limited growth. Additional sales in 2015 will be driven by sales initiatives utilising the business unit's established and approved product range. Initial results of new developments in R&D projects are available in relation to new products which will be introduced into the market soon. The efforts of R&D and all the project teams led to technical communication with potential clients being launched and a new fan drive generation will be available for application towards the end of 2016. Further activities are in the pipeline aimed at developing new products in Commercial Vehicle Systems' existing and extended market segments in the midterm.

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

Profile

Heavy Duty Systems is a leading provider of custom control flow valves and coils, fan clutches, pressure switches, circuit breakers, mechanical switches and lighting applications to automotive heavy truck, recreational vehicle, engine and industrial equipment manufacturers and aftermarket service providers. Within the Automotive Division, Heavy Duty Systems' US plant in Shelby also serves as a platform for the Passenger Car Systems and Commercial Vehicle Systems business units.

The portfolio includes major OEMs in the global truck market and Tier-One Suppliers e.g. Caterpillar, Ashok Leyland, Delphi, Navistar, Volvo & Mack Truck and Eaton.

Heavy Duty Systems has its head office in Shelby (USA), and has additional facilities in Pune (India).

Objectives

The business unit's objective is to integrate and grow within the Kendrion Automotive Division 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.

Developments in 2014

In 2014, the Shelby Heavy Duty Systems business unit maintained stable production volumes in the heavy truck market with high sales in pressure switches, pressure regulating valves, transmission valves and circuit breakers and flashers. The business unit realised increased revenues in the valve product lines. Additionally, the fan clutch business achieved revenue growth due to a new application with a major chassis manufacturer for a recreational vehicle end-user. The lighting business for off-highway vehicles declined again in 2014 as many customers are transitioning from traditional lighting to new LED lighting for their vehicle applications. The Heavy Duty Systems business will continue to support its lighting customers with service parts, but going forward the business unit does expect its lighting business to slowly decline as new projects use different lighting technology.

The plant in India showed improvements in revenue and results. This was due to the improved economic situation resulting from the elections which took place in India. In addition, there have been new projects with existing and new customers, and the Indian market is showing further potential.
The development of additional customer applications is ongoing and new customers have led to a broader market share.
The implementation and introduction of a local supply base through localisation of material in India is being continued as a high priority. The phase of ramping up fan clutch production for truck applications aimed at customers in India has been successful.

A couple of significant internal initiatives were also implemented in 2014. The plating operation was discontinued and all plating activities for components produced in Shelby were outsourced to external plating vendors. In addition, IFS was launched in Shelby to replace the previous system.

Market and market position

Heavy Duty Systems in Shelby is primarily still a niche player in the North American market. Heavy Duty Systems in Pune is primarily a niche player in the truck market in India. During 2014, the business unit implemented ambitious objectives that will enable it to achieve steady growth within both these plants. The enlargement of the existing business will be the driver of organic growth. The localised empowerment approach and implementation of the project business organisation is enabling new project developments. Kendrion is convinced that the company is in the right position to expand its share of the market.

Outlook for 2015

The market development for 2015 is expected to bring further growth in the Shelby plant. There are new growth initiatives in place and new projects have been recently won which should lead to growth in both the pressure switch business and the fan clutch business.

Additionally, there are new projects being prepared for launch in 2016 and 2017, involving new products for customers.
The project business organisation is positioned to carry out operations for these new businesses.

Every year Kendrion states the outlines of the company's corporate governance structure in the Annual Report, and submits all substantial changes, if any, 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 2014 13,030,982 ordinary shares had been issued, of which 4,657 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 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.

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 was discussed at the General Meeting of Shareholders held in 2014, as a result whereof the 3% threshold will apply now. 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 68% of the total issued share capital attended or were represented at the General Meeting of Shareholders held in the year under review on 14 April 2014.

Executive Board

In 2014, Kendrion was managed by an Executive Board with two members (the CEO and CFO) and was supervised by the Supervisory Board. 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. Mr Veenema was appointed CEO in 2003 for an indefinite period of time. He has announced that he will resign in the summer of 2015. 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 currently supplemented by an Executive Committee, which is not mandated under the Articles of Association, comprised of the Executive Board, the CEOs of the Divisions and the Business Unit Managers. 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 14 October 2015. This authority relates to a maximum of 10% of the issued share capital at the time of issue.

In addition, the Executive Board has the authority to arrange for the company to acquire shares in its capital. This authority relates to a maximum of 10% of the issued share capital, and runs until 14 October 2015. Each year, the Executive Board places a request to be granted the authority for the issue and purchase of shares referred to above on the agenda of the General Meeting of Shareholders.

Supervisory Board

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

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

The Supervisory Board has established two Committees, an Audit Committee and a Remuneration Committee. The Committees are responsible for 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.

Legislation is in 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, who will resign in the summer of 2015. 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. Investor Relations presentations are published on the company's website. 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 2014. 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 133-135 and 143-144).

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 variable remuneration policy shall be 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. 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 2014. In accordance with new Dutch legislation, the tax deductible pension base will be reduced to a maximum of EUR 100,000 in 2015. The Supervisory Board is investigating the options for compensation and will implement its ultimate decision effective 1 January 2015.

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.

Resignation

The current CEO has announced that he will resign voluntarily in the summer of 2015. The Supervisory Board will decide on the financial settlement for the CEO resulting from his resignation. This will be in line with the agreed remuneration policy.

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	

No special payments in this respect are foreseen. The figures relating thereto, as well as the main points of the terms and conditions of the management agreement for a new CEO will be published in the 2015 Annual Report and 2015 Remuneration Report.

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 has worked hard and consistently over the past years 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. Electromagnetism will carry on being fundamental to future growth in the coming years and to the company increasingly becoming a mechatronic solution provider. This will be achieved by a gradual move from being a supplier of high-end electromagnetic components towards becoming a specialised supplier of mechatronic parts. This trend was especially clear in our industrial operations, where we acquired and developed several very interesting mechatronic projects in 2014. Kendrion's spearheads for the achievement of this objective are continuous innovation (Small Revolutions), geographical expansion (Breaking out of Europe) and cost flexibility. The acquisition of Steinbeis Mechatronik GmbH in Ilmenau, Germany, as from 5 January 2015 will strengthen Kendrion's research and engineering capabilities. Sustainability (Taking Responsibility) is also a key focus area for Kendrion; a new three-year programme was developed in 2014, focusing on issues such as environmental protection and the responsible use of resources in the supply chain. The strategy for the years 2015 to 2017 has been laid down in Kendrion's Mid-term Plan 'Designed to grow'. As was announced earlier, Kendrion aims to achieve revenue of between EUR 450-500 million in 2015.

The economic prospects for 2015 are moderately optimistic. Kendrion's most important home market, Germany, is expected to realise slight economic growth. The economic outlook for the company's operations in the USA is good, while economic development in China seems to be faltering.

Taking limited overall global economic growth as a starting point, Kendrion still expects its revenue to increase further in 2015. The Industrial Division forecasts that all three of its business units will achieve further revenue growth. This expectation is chiefly based on the projects acquired over the last year in particularly Germany and China. The Automotive Division forecasts further growth in three of its business units. Only the Automotive Control Systems business unit is expected to show a limited decrease in revenue in 2015, due to a number of products being discontinued in 2015 while new products are only set to be introduced in 2016. The forecast end result is that the Automotive Division will achieve overall growth, particularly in China and the USA.

Kendrion expects that investments in 2015 will be considerably in excess of depreciation charges. The majority of these investments relate to new projects.

Financial statements

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Consolidated statement of financial position at 31 December

Note	EUR million	2014	2013
	Assets		
	Non-current assets		
1	Property, plant and equipment	83.1	80.5
2	Intangible assets	124.2	120.9
3	Other investments, including derivatives	0.9	0.5
4	Deferred tax assets	14.5	15.1
	Total non-current assets	**222.7**	**217.0**
	Current assets		
5	Inventories	49.0	46.9
	Current tax assets	3.0	3.3
6	Trade and other receivables	49.2	49.6
7	Cash and cash equivalents	9.6	18.0
	Total current assets	**110.8**	**117.8**
	Total assets	**333.5**	**334.8**

Note	EUR million	2014	2013
	Equity and liabilities		
8, 9	**Equity**		
	Share capital	26.1	25.9
	Share premium	68.8	74.4
	Reserves	38.1	17.1
	Retained earnings	20.2	16.7
	Total equity	**153.2**	**134.1**
	Liabilities		
10	Loans and borrowings	85.5	64.6
11	Employee benefits	19.6	18.0
	Government grants received in advance	–	0.1
13	Provisions	0.4	2.0
4	Deferred tax liabilities	11.4	11.0
	Total non-current liabilities	**116.9**	**95.7**
7	Bank overdraft	6.5	1.8
10	Loans and borrowings	0.6	0.6
	Current tax liabilities	1.5	1.0
14	Trade and other payables	54.8	101.6
	Total current liabilities	**63.4**	**105.0**
	Total liabilities	**180.3**	**200.7**
	Total equity and liabilities	**333.5**	**334.8**

Consolidated statement of income and other comprehensive income

Note	EUR million	2014	2013
19	Revenue	428.9	354.0
21	Other income	0.2	4.6
	Total revenue and other income	**429.1**	**358.6**
	Changes in inventories of finished goods and work in progress	(1.4)	1.6
	Raw materials and subcontracted work	225.9	181.7
22	Staff costs	125.4	108.6
	Depreciation and amortisation	19.8	16.0
16,23	Other operating expenses	29.9	29.8
	Results before net finance costs	**29.5**	**20.9**
	Finance income	0.8	0.3
	Finance expense	(5.4)	(5.5)
24	**Net finance costs**	**(4.6)**	**(5.2)**
	Profit before income tax	**24.9**	**15.7**
25, 26	Income tax expense	(4.7)	1.0
	Profit for the period	**20.2**	**16.7**

Note	EUR million	2014	2013
	Other comprehensive income		
	Remeasurements of defined benefit plans*	(1.9)	0.1
	Foreign currency translation differences for foreign operations	5.7	(2.5)
	Net change in fair value of cash flow hedges, net of tax	0.0	(0.3)
	Tax on other comprehensive income	0.5	(0.0)
	Other comprehensive income for the period, net of income tax	4.3	(2.7)
	Total comprehensive income for the period	**24.5**	**14.0**
9	Basic earnings per share (EUR), based on weighted average	1.56	1.33
9	Diluted earnings per share (EUR)	1.55	1.33

* *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 equity
Balance at 1 January 2013	23.2	59.9	1.5	(0.1)	(0.2)	0.9	17.9	103.1
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	16.7	16.7
Other comprehensive income								
Remeasurements of defined benefit plans, net of income tax	–	–	–	–	–	0.1	–	0.1
Foreign currency translation differences for foreign operations	–	–	(2.5)	–	–	–	–	(2.5)
Net change in fair value of cash flow hedges, net of income tax	–	–	–	(0.3)	–	–	–	(0.3)
Total other comprehensive income for the period	–	–	(2.5)	(0.3)	–	0.1	–	(2.7)
Total comprehensive income for the period	–	–	(2.5)	(0.3)	–	0.1	16.7	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
Own shares sold	–	–	–	–	0.0	–	–	0.0
Share-based payment transactions	–	–	–	–	–	(0.2)	–	(0.2)
Dividends to equity holders	–	(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

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 equity
Balance at 1 January 2014	25.9	74.4	(1.0)	(0.4)	(0.2)	18.7	16.7	134.1
Total comprehensive income for the period								
Profit or loss	–	–	–	–	–	–	20.2	20.2
Other comprehensive income								
Remeasurements of defined benefit plans, net of income tax	–	–	–	–	–	(1.4)	–	(1.4)
Foreign currency translation differences for foreign operations	–	–	5.7	–	–	–	–	5.7
Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.0	–	–	–	0.0
Total other comprehensive income for the period	–	–	5.7	0.0	–	(1.4)	–	4.3
Total comprehensive income for the period	–	–	5.7	0.0	–	(1.4)	20.2	24.5
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares	0.2	1.4	–	–	–	–	–	1.6
Own shares sold	–	–	–	–	0.1	(0.1)	–	–
Share-based payment transactions	0.0	0.1	–	–	–	0.0	–	0.1
Dividends to equity holders	–	(7.1)	–	–	–	–	–	(7.1)
Total contributions by and distributions to owners	–	–	–	–	–	16.7	(16.7)	–
Balance at 31 December 2014	26.1	68.8	4.7	(0.4)	(0.1)	33.9	20.2	153.2

Consolidated statement of cash flows

Note	EUR million	2014	2013
	Cash flows from operating activities		
	Profit for the period	20.2	16.7
	Adjustments for:		
	Net finance costs	4.6	5.2
	Income tax expense	4.7	(1.0)
	Depreciation of property, plant and equipment and software	16.4	13.0
	Amortisation of intangible assets	3.4	3.0
	Impairment of property, plant and equipment	(0.0)	0.0
	Change in fair value contingent consideration	–	(4.4)
	Share-based payments	0.1	–
		49.4	32.5
	Change in trade and other receivables	2.5	(1.6)
	Change in inventories	(1.0)	0.8
	Change in trade and other payables*	(47.4)	3.6
	Change in provisions*	(1.6)	(1.4)
		1.9	33.9
	Interest paid	(4.7)	(4.2)
	Interest received	0.4	0.3
	Tax paid	(3.5)	(2.5)
	Net cash flows from operating activities	**(5.9)**	**27.5**

Note	EUR million	2014	2013
	Cash flows from investing activities		
20	Acquisition of subsidiary, net of cash received	(1.0)	(38.3)
	Investments in property, plant and equipment	(16.4)	(15.2)
	Disinvestments of property, plant and equipment	0.4	0.3
	Investments in intangible fixed assets	(4.2)	(3.6)
	Disinvestments of intangible fixed assets	0.2	0.0
	(Dis)investments of other investments	(0.8)	(0.3)
	Net cash from investing activities	**(21.8)**	**(57.1)**
	Free cash flow	**(27.7)**	**(29.6)**
	Cash flows from financing activities		
	Proceeds from borrowings (non current)	21.4	29.0
	Repayment of borrowings (non current)	(1.8)	(3.0)
	Proceeds from borrowings (current)	0.0	0.6
	Proceeds from the issue of share capital**	0.1	19.0
	Dividends paid	(5.7)	(4.3)
	Change in shares held in own Company	0.0	0.0
	Net cash from financing activities	**14.0**	**41.3**
	Change in cash and cash equivalents	(13.7)	11.7
	Cash and cash equivalents at 1 January	16.2	4.5
	Effect of exchange rate fluctuations on cash held	0.6	0.0
7	Cash and cash equivalents at 31 December	3.1	16.2

* *Excluding the reclassification of the EC fine provision of EUR 43.4 million to other payables in 2013 (non-cash item).*

** *Excluding the proceeds of EUR 2.1 million relating to the equity instruments delivered to the selling shareholders of Kuhnke in 2013 (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 2014 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) as adopted by the European Union (hereinafter referred to as EU-IFRS) per 31 December 2014.

The Company financial statements are part of the 2014 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 25 February 2015.

(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.

(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. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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

2014

The Company reached an agreement with the owners of Steinbeis Mechatronik GmbH on the acquisition of the company on 23 December 2014. Closing of this transaction occurred on 5 January 2015.

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 occurred on 14 May 2013.

(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 to the extent the hedges are effective.

(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

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 2014 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 2014, 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 2014 and which may be relevant and may have an impact on the financial statements, are as follows:

- **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 2014 and which may be relevant, are as follows:

- **IFRS 9:** Financial instruments. IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

- **IFRS 15:** Revenue from contracts with Customers. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(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 customer with the largest receivable outstanding, a German automotive group, accounted for 6% of the trade and other receivables at 31 December 2014. In 2013 the largest customer accounted for 8% of total receivables. Other customers individually accounted for 5% or less of the trade and other receivables at 31 December 2014. 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 BNP Paribas, Deutsche Bank and ING Bank on an equal basis. The Group had approximately EUR 65 million available within its existing revolving 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 more than 50% 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 72.5 million in order to reduce interest rate risk exposure to increasing market rates. EUR 10 million matures in the first quarter of 2015, EUR 20 million in the third quarter of 2015, EUR 12.5 million in the fourth quarter of 2016 and EUR 30 million in 2018.

(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. 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 also actively hedges intercompany loans in foreign currency with currency forwards, swaps or back-to-back 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 Strategic Purchasing 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 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
Balance at 1 January 2014	46.2	83.4	35.7	10.3	175.6
Acquired, other	2.1	14.5	4.7	4.0	25.3
Disposals	(0.1)	(1.8)	(0.4)	(8.9)	(11.2)
Currency translation differences	0.4	0.7	0.1	0.1	1.3
Balance at 31 December 2014	48.6	96.8	40.1	5.5	191.0
Depreciation and impairment losses					
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
Balance at 1 January 2014	18.6	50.8	25.6	0.1	95.1
Depreciation for the year	1.8	9.1	3.8	0.0	14.7
Impairment	–	(0.0)	–	–	(0.0)
Disposals	(0.0)	(1.7)	(0.2)	–	(1.9)
Balance at 31 December 2014	20.4	58.2	29.2	0.1	107.9
Carrying amounts					
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
At 1 January 2014	27.6	32.6	10.1	10.2	80.5
At 31 December 2014	28.2	38.6	10.9	5.4	83.1

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 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
Balance at 1 January 2014	87.1	0.2	10.0	37.7	135.0
Acquired, other	–	0.7	3.5	0.0	4.2
Purchase price allocation adjustment	0.5	–	–	–	0.5
Disposals	–	(0.2)	(0.0)	–	(0.2)
Currency translation differences	2.9	0.1	0.0	0.9	3.9
Balance at 31 December 2014	90.5	0.8	13.5	38.6	143.4
Amortisation and impairment losses					
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
Balance at 1 January 2014	–	0.0	3.7	10.4	14.1
Amortisation for the year	–	0.0	1.7	3.4	5.1
Disposals	–	–	(0.0)	–	(0.0)
Balance at 31 December 2014	–	0.0	5.4	13.8	19.2

EUR million	Goodwill	Development costs	Software	Other	Total
Carrying amounts					
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
At 1 January 2014	87.1	0.2	6.3	27.3	120.9
At 31 December 2014	90.5	0.8	8.1	24.8	124.2

EUR 0.5 million was added to goodwill in the measurement period. This was due to changes in the previous year's preliminary purchase price allocations.

The other intangible assets mainly comprise the carrying amount of customer relationships amounting to EUR 23.2 million. These customer relationships were acquired trough business combinations.

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	2014	2013
Depreciation and amortisation	19.8	16.0

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 2014 (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

Goodwill EUR million	2014	2013
Kendrion Linnig Group	27.6	27.6
Kendrion (Mishawaka) LLC	6.3	5.6
Kendrion (Aerzen) GmbH	7.1	7.1
Kendrion (Shelby) Inc.	18.4	16.2
Kendrion Kuhnke Automation	17.7	17.4
Kendrion Kuhnke Automotive	13.4	13.2
	90.5	87.1

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. 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	
	2014	2013	2014	2013	2014	2013
Kendrion Linnig Group	8.7%	10.3%	2.0%	2.0%	19.1%	17.6%
Kendrion (Mishawaka) LLC	11.2%	12.1%	2.0%	2.0%	20.3%	48.4%
Kendrion (Aerzen) GmbH	8.6%	9.8%	2.0%	2.0%	(9.2%)	13.0%
Kendrion (Shelby) Inc.	11.5%	12.1%	2.0%	2.0%	27.4%	46.9%
Kendrion Kuhnke Automation	8.6%	10.5%	2.0%	2.0%	15.7%	16.9%
Kendrion Kuhnke Automotive	8.8%	10.8%	2.0%	2.0%	5.2%	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%. All the post tax average cost of capital rates of the cash generating units containing goodwill approximated 7% to 8%, 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 growth rate of 2%.

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 the key assumptions. The following table shows the amount by which each of these two assumptions would need to change for the estimated recoverable amount to equal the carrying amount:

Change required for carrying amount to equal recoverable amount

	Discount rate (post tax)		Forecasted EBIT	
	2014	2013	2014	2013
Kendrion Linnig Group	10.3%	8.8%	(60%)	(56%)
Kendrion (Mishawaka) LLC	1.7%	2.6%	(23%)	(28%)
Kendrion (Aerzen) GmbH	2.6%	8.2%	(33%)	(70%)
Kendrion (Shelby) Inc.	2.7%	5.1%	(30%)	(55%)
Kendrion Kuhnke Automation	11.6%	4.9%	(67%)	(48%)
Kendrion Kuhnke Automotive	10.0%	11.3%	(58%)	(56%)

This table shows that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

3 >> Other investments, derivatives

Other investments in 2014 include financial derivatives and 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 2012, and for the German operating companies up to and including 2012. 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 2014 the tax loss carry-forwards amounted to about EUR 1 million ('Gewerbesteuer') and EUR 31 million ('Körperschaftsteuer'). These are recognised in full, resulting in deferred tax assets of EUR 5.1 million.

The Netherlands

Tax assessments have been submitted up to and including 2012. The years 2008 up to 2012 are still open for potential tax audits.

At 31 December 2014 the tax loss carry-forwards amounted to EUR 18 million. These are recognised in full, resulting in deferred tax assets of EUR 4.5 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.

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	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	0.2	0.2	3.5	2.5	(3.3)	(2.3)
Intangible assets	0.6	0.9	7.2	7.7	(6.6)	(6.8)
Inventories	0.3	0.1	0.2	0.2	0.1	(0.1)
Employee benefits	1.5	0.5	–	0.1	1.5	0.4
Provisions	0.5	0.9	0.1	0.4	0.4	0.5
Other items	0.8	0.8	0.4	0.1	0.4	0.7
Tax value of recognised loss carry-forwards	10.6	11.7	–	–	10.6	11.7
Deferred tax assets/liabilities	14.5	15.1	11.4	11.0	3.1	4.1

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	2014			
	At 1 January	Recognised in income	Recognised in other comprehensive income	At 31 December
Property, plant and equipment	(2.3)	(1.0)	–	(3.3)
Intangible assets	(6.8)	0.2	–	(6.6)
Inventories	(0.1)	0.2	–	0.1
Employee benefits	0.4	0.6	0.5	1.5
Provisions	0.5	(0.1)	–	0.4
Other items	0.7	(0.3)	–	0.4
Tax value of loss carry-forwards used	11.7	(1.1)	–	10.6
	4.1	(1.5)	0.5	3.1

Net, EUR million	2013					
	At 1 January	Effect acquisitions		Recognised in income	Recognised in other comprehensive income	At 31 December
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

In 2014, the net amount from the movement in deferred tax assets and liabilities, presented as tax in the profit or loss, is negative EUR 1.5 million (2013: EUR 3.4 million).

5 >> Inventories

EUR million	2014	2013
Raw materials, consumables, technical materials and packing materials	23.7	21.7
Work in progress	11.0	11.9
Finished goods	11.1	11.0
Goods for resale	3.2	2.3
	49.0	46.9

The inventories are presented after accounting for a provision for obsolescence amounting to EUR 6.1 million (2013: EUR 4.3 million). In 2014 the amount of the write down to net realisable value of the inventories was EUR 1.2 million (2013: EUR 0.7 million). The write down and reversals are included in cost of sales.

6 >> Trade and other receivables

EUR million	2014	2013
Trade receivables	44.8	43.7
Other taxes and social security	0.9	1.7
Other receivables	2.4	2.0
Derivatives used for hedging	–	0.1
Prepayments	1.1	2.1
	49.2	49.6

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	2014	2013
Bank balances	9.6	18.0
Bank overdrafts	(6.5)	(1.8)
Cash and cash equivalents in the statement of cash flows	3.1	16.2

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	
	2014	2013	2014	2013	2014	2013
At 1 January	12,954,487	11,639,375	7,789	15,839	12,962,276	11,655,214
Issued shares	–	1,165,521	–	–	–	1,165,521
Issued shares (share dividend)	58,596	133,113	–	–	58,596	133,113
Issued registered shares (share plan)	10,110	8,428	–	–	10,110	8,428
Delivered repurchased shares	3,132	8,050	(3,132)	(8,050)	–	–
At 31 December	13,026,325	12,954,487	4,657	7,789	13,030,982	12,962,276

Issuance of ordinary shares

In 2014 58,596 new shares were issued as share dividend. During 2014, the Company delivered 13,242 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 2014 (2013: none).

Ordinary shares

The authorised share capital consists of:

EUR million	2014	2013
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2014: 12,962,276 ordinary shares (2013: 11,655,214)	25.9	23.2
Balance at 31 December 2014: 13,030,982 ordinary shares (2013: 12,962,276)	26.1	25.9

Share premium

EUR million	2014	2013
Balance at 1 January	74.4	59.9
Dividend payment	(7.1)	(6.8)
Share premium on issued shares	1.5	21.3
Balance at 31 December	68.8	74.4

Translation reserve

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

Hedge reserve

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

The net movement was EUR 0.0 million (2013: negative EUR 0.3 million). The hedge reserve increased with EUR 0.4 million due to the realisation of hedged transactions (2013: EUR 0.3 million). The hedge reserve decreased with EUR 0.4 million due to valuation (2013: negative EUR 0.6 million). There was no hedge ineffectiveness in 2014 (2013: EUR 0.0 million).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for the remuneration packages for the Executive Board. At 31 December 2014, the Company held 4,657 of the Company's shares (2013: 7,789). 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 2014, the result for 2013 was fully transferred in other reserves. Retained earnings in the 2014 financial statements consequently consist solely of the result for 2014.

9 >> Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2014 is based on the profit of EUR 20.2 million (2013: EUR 16.7 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2014: 13,002,000 (2013: 12,514,000).

EUR million	2014	2013
Net profit attributable to ordinary shareholders	20.2	16.7

Weighted average number of ordinary shares

In thousands of shares	2014	2013
Ordinary shares outstanding at 1 January	12,954	11,639
Effect of shares issued as share plan	10	8
Effect of own shares delivered	3	8
Effect of shares issued	–	1,166
Effect of shares issued as share dividend	59	133
Ordinary shares outstanding at 31 December	13,026	12,954
Weighted average number of ordinary shares	13,002	12,514
Basic earnings per share (EUR)	1.55	1.29
Basic earnings per share (EUR), based on weighted average	1.56	1.33

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2014 is based on the profit of EUR 20.2 million (2013: EUR 16.7 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 of 13,012,000 (2013: 12,523,000).

EUR million	2014	2013
Net profit attributable to ordinary shareholders	20.2	16.7
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	20.2	16.7

Weighted average numbers of ordinary shares (diluted)

In thousands of shares	2014	2013
Weighted average numbers of ordinary shares at 31 December	13,002	12,514
Weighted average numbers of ordinary shares at 31 December (diluted)	13,012	12,523
Basic earnings per share (EUR), based on weighted average (diluted)	1.55	1.33

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	2014	2013
Non-current liabilities		
Bank syndicate loans	78.2	55.5
Mortgage loans	5.0	6.2
Financial lease liabilities	1.0	1.5
Other loans	1.3	1.4
	85.5	64.6

EUR million	2014	2013
Current liabilities		
Short-term portion loans	0.6	0.6
	0.6	0.6

Financing conditions

At 31 December 2014, the Group had the following credit lines available:

- A 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;
- A EUR 5.6 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 1.3 million in subsidised term loans with final maturity in 2019;
- EUR 1.0 million in financial leases for various equipment in the Kuhnke facilities in Malente and Sibiu;
- EUR 1.0 million in other overdraft facilities.

At 31 December 2014, the total unutilised amount of the facilities was approximately EUR 65 million.

Banking syndicate credit facility

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. The actual leverage ratio at year end was 1.7 and the actual interest coverage at year end was 13.9.

Security provided

The Group has provided a mortgage on its premises in Malente, Germany regarding a EUR 5.6 million loan. No security is provided in relation to the EUR 150.0 million credit facility.

Interest-rate sensitivity

Interest over the EUR 7.9 million loans not drawn from the EUR 150.0 million credit facility is based on a fixed term interest rate. All other interest payable on the Group's interest-bearing borrowings are based on a short term interest rate (mainly three months). 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	2014			2013		
	Minimum lease	Interest	Principal	Minimum lease	Interest	Principal
‹ 1 year	0.5	0.0	0.5	0.6	0.1	0.5
1 – 5 years	0.5	0.1	0.4	0.9	0.1	0.8
› 5 years	–	–	–	–	–	–
	1.0	0.1	0.9	1.5	0.2	1.3

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

11 » Employee benefits

EUR million	2014	2013
Present value of unfunded obligations	15.4	14.5
Present value of funded obligations	6.9	6.1
Fair value of plan assets	(5.0)	(4.8)
Recognised liability for defined-benefit obligations (see below)	17.3	15.8
Liability for long-service leave and anniversaries	2.3	2.2
Total employee benefits	19.6	18.0

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

EUR million	2014	2013
Recognised net liability for defined-benefit obligations at 1 January	15.8	5.2
Expense recognised in the income statement	0.7	0.7
Benefits paid by the plan	(0.9)	(0.9)
Other movements (including currency differences and employer contributions paid)	(0.2)	(0.2)
Actuarial (gains) losses included in OCI	1.9	(0.1)
Acquired through business combinations	–	11.1
Recognised net liability for defined-benefit obligations at 31 December	17.3	15.8

Movement in plan assets

EUR million	2014	2013
Fair value of plan assets at 1 January	(4.8)	(4.4)
Contributions paid employer	(0.1)	(0.1)
Contributions paid participants	(0.1)	(0.1)
Payments made	0.1	0.1
Expected return on plan assets	(0.1)	(0.1)
Other movements	0.0	(0.2)
Fair value of plan assets at 31 December	(5.0)	(4.8)

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

EUR million	2014	2013
Current service costs	0.3	0.3
Interest on obligation	0.5	0.5
Expected return on plan assets	(0.1)	(0.1)
	0.7	0.7
Actual return on plan assets	0.0	(0.3)

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

EUR million	2014	2013
Interest expense	0.4	0.4
Staff costs	0.3	0.3
	0.7	0.7

Principal actuarial assumptions (expressed as weighted averages)

	2014	2013
Discount rate at 31 December	1.9%	2.6%
Future salary increases	0.6%	0.4%
Future pension increases	1.4%	1.5%

Historical information

EUR million	2014	2013	2012	2011	2010
Net liability for defined-benefit obligations	22.3	20.6	9.6	10.4	9.0
Fair value of plan assets	5.0	4.8	4.4	3.8	3.6
Deficit in plan	17.3	15.8	5.2	6.6	5.4

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	2014	2013
Bonds	2.2	2.7
Equity	1.2	0.9
Real estate	0.7	0.6
Government loans	0.1	0.1
Other	0.8	0.5
Total	5.0	4.8

Sensitivity analysis

	Defined benefit obligation	
EUR million	1 percent point increase	1 percent point decrease
Discount rate	(2.4)	3.0
Future salary growth	0.2	(0.2)
Future pension	1.9	(1.8)

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 2014 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 2014, 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 2,245 shares were issued in 2014, resulting from shares granted in 2011.

Terms & conditions share programme (loyalty bonus)

Grant date	Number of instruments	Vesting conditions
Shares granted to key management in 2012	2,906	3 years of service
Shares granted to key management in 2013	1,714	3 years of service
Shares granted to key management in 2014	3,015	3 years of service
Total shares	7,635	

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	2014	2013
Balance at 1 January	2.0	43.6
Provisions made during the period	0.3	9.0
Provisions transferred/used during the period	(1.9)	(44.7)
Provisions released during the period	–	(5.9)
Balance at 31 December	0.4	2.0
Non-current part	–	–
	–	–

14 >> Trade and other payables

EUR million	2014	2013
Trade payables	36.1	36.6
Other taxes and social security contributions	2.7	2.8
Derivatives used for hedging	0.4	0.4
EC fine payable	–	43.4
Non-trade payables and accrued expenses	15.6	18.4
	54.8	101.6

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	
	2014	2013
Cash and cash equivalents	9.6	18.0
Other long term investments	0.9	0.5
Current tax assets	3.0	3.3
Trade and other receivables	49.2	49.6
Total	62.7	71.4

The customer with the largest receivables outstanding, a German automotive group, accounted for 6% of the trade and other receivables at 31 December 2014. In 2013 the largest customer accounted for 8% of total receivables. The geographical credit risk from the Group's direct customers is largely concentrated in Germany. However, as the Group's most important customers in the various segments of the German market are multinational or global players this reduces the Group's dependency on the German market.

Impairment losses

Aging analysis of the trade and other receivables

EUR million	2014		2013	
	Gross	Provision	Gross	Provision
Within the term of payment	40.7	–	40.8	–
0 – 30 days due	6.6	–	6.6	–
31 – 60 days due	0.8	–	1.2	(0.1)
> 60 days due	1.5	(0.4)	1.7	(0.6)
Total trade and other receivables	49.6	(0.4)	50.3	(0.7)

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 2014 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 2014 are collectible. EUR 2.3 million of trade receivables are over 30 days overdue, of which EUR 0.4 million is provided for. The Group has written off less than EUR 0.1 million receivables in 2014 (2013: 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 2014 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	78.2	(83.7)	(0.6)	(0.6)	(1.2)	(81.3)	–
Finance lease liabilities	1.0	(1.1)	(0.2)	(0.2)	(0.4)	(0.3)	–
Bank overdrafts	6.5	(6.5)	(6.5)	–	–	–	–
Other loans and borrowings	6.9	(8.1)	(0.5)	(0.5)	(1.0)	(3.6)	(2.5)
Trade and other payables	54.8	(54.8)	(54.8)	–	–	–	–
Tax liabilities	1.5	(1.5)	(1.5)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.3	(0.3)	–	(0.1)	(0.1)	(0.1)	–
Forward exchange contracts	0.1	(0.1)	–	(0.1)	–	–	–
Total	149.3	(156.1)	(64.1)	(1.5)	(2.7)	(85.3)	(2.5)

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)

It is not expected that the cash flows included in the maturity analysis should 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 flow statement)

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

2014 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	(0.3)	(0.3)	(0.0)	(0.1)	(0.1)	(0.1)	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.0)	(0.0)	–	(0.0)	–	–	–
Total	(0.3)	(0.3)	(0.0)	(0.1)	(0.1)	(0.1)	–

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)	–	–	–

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.

2014 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	(0.3)	(0.3)	(0.0)	(0.1)	(0.1)	(0.1)	–
Forward exchange contracts							
Assets	–	–	–	–	–	–	–
Liabilities	(0.0)	(0.0)	–	(0.0)	–	–	–
Total	(0.3)	(0.3)	(0.0)	(0.1)	(0.1)	(0.1)	–

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)	–	–

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 72.5 million. The aggregate fair value of the outstanding interest rate swaps at 31 December 2014 was negative EUR 0.3 million (2013: 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 5.6 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.

					2014		2013
	Currency	Nominal interest	Year of redemption	Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	IBOR + 1.5%	2019	78.2	78.2	55.5	55.5
Mortgage loan	EUR	6.4%	2022	5.9	5.6	6.2	6.2
Other loans	EUR	3.5%	2019	1.3	1.3	2.0	2.0
Bank overdrafts	Various	IBOR + 1.5%%	2016	6.5	6.5	1.8	1.8
Finance lease liabilities	EUR	3.0% - 6.5%	2017	1.0	1.0	1.5	1.5
Total interest-bearing debt				92.9	92.6	67.0	67.0

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 2014 would not have had a material influence on the 2014 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 50.5 million of the EUR 92.6 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 2015, will have an increasing effect on interest expenses in 2015 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 0.1 million at 31 December 2014 (2013: negative EUR 0.2 million).

A 10% point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2014 and the result for 2014 by the amounts shown in the following table. The same analysis was performed at 31 December 2013. 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 2014 would have had an impact as is shown below.

31 December 2014	Equity	Result
US dollar	3.9	0.0
Czech krone	0.7	(0.4)
Chinese yuan	1.2	(0.1)
Romanian ley	0.4	(0.1)
Swiss franc	0.1	(0.1)

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
Romanian ley	0.3	0.1

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2014	At 31 December 2013	Average over 2014
Pound sterling	0.7789	0.8337	0.8050
Swiss franc	1.2024	1.2276	1.2138
Czech krone	27.7350	27.4273	27.5411
Chinese yuan	7.5358	8.3491	8.1512
US dollar	1.2141	1.3791	1.3229
Mexican peso	17.8679	18.0731	17.6666
Brazilian real	3.2207	3.2576	3.1175
Romanian ley	4.4828	4.4710	4.4407
Indian rupee	76.7190	85.3679	80.9456
Swedish krone	9.3930	8.8591	9.0972

Fair values of financial instruments

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

EUR million	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Loans and receivables (including current tax assets)	52.2	52.2	52.9	52.9
Cash and cash equivalents	9.6	9.6	18.0	18.0
Held to maturity investments	0.9	0.9	0.5	0.5
	62.7	62.7	71.4	71.4
Liabilities carried at amortised costs				
Banking syndicate loans	(78.2)	(78.2)	(55.5)	(55.5)
Mortgage loan	(5.6)	(5.9)	(6.2)	(6.2)
Other debts	(1.3)	(1.3)	(2.0)	(2.0)
Finance lease liabilities	(1.0)	(1.0)	(1.5)	(1.5)
Bank overdraft	(6.5)	(6.5)	(1.8)	(1.8)
Trade and other payables (including current tax liabilities)	(56.3)	(56.3)	(102.6)	(102.6)
	(148.9)	(149.2)	(169.6)	(169.6)
Liabilities carried at fair value				
Interest derivatives	(0.3)	(0.3)	(0.1)	(0.1)
Forward exchange contracts	(0.1)	(0.1)	(0.2)	(0.2)
	(0.4)	(0.4)	(0.3)	(0.3)

The Group has no available-for-sale financial assets and all liabilities at fair value were designated as such upon initial recognition. The loans and receivables consist of the trade and other receivables, including the current tax assets in the statement of financial position. The held-to-maturity investments 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 2014, augmented by the prevailing credit mark-up, and is as follows:

	2014	2013
Derivatives	0.1%	0.3%
Leases	2.0%	3.5%
Banking syndicate loans	1.6%	3.1%
Mortgage loans	2.5%	3.8%
Loans and receivables	2.5%	3.5%

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 2014				
Derivative contracts used for hedging	–	(0.4)	–	(0.4)
Contingent considerations	–	–	–	–
Total	–	(0.4)	–	(0.4)
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)

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 2014	1.0
Settled	(1.0)
Balance at 31 December 2014	–

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	2014	2013
< 1 year	3.3	3.3
1 – 5 years	3.4	4.2
> 5 years	2.1	2.2
	8.8	9.7

In the 2014 financial year a charge of EUR 0.6 million was recognised in profit or loss in respect of operating leases (2013: EUR 0.9 million). The operating lease contracts are mostly related to buildings.

17 >> Capital commitments

During 2014, the Group entered into contracts to purchase property, plant and equipment in 2015 totalling EUR 4.7 million (2013: EUR 3.4 million for 2014).

18 >> Contingent liabilities

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	Germany		Other European countries		Asia	
	2014	2013	2014	2013	2014	2013
Revenue from transactions with third parties	285.6	228.1	69.2	65.8	18.9	13.9
Non-current assets	168.0	165.6	14.5	12.2	1.8	1.3
Deferred tax assets	7.4	8.6	4.8	4.2	0.2	0.3
Pensions	15.5	14.5	1.8	1.4	0.0	0.0

EUR million	The Americas		Consolidated	
	2014	2013	2014	2013
Revenue from transactions with third parties	55.2	46.2	428.9	354.0
Non-current assets	23.9	22.8	208.2	201.9
Deferred tax assets	2.1	2.0	14.5	15.1
Pensions	0.0	0.0	17.3	15.9

Sales segmented by customer location

EUR million	2014	2013
Germany	213.7	173.6
Other European countries	112.0	91.2
Asia	36.3	32.0
The Americas	65.6	54.2
Other countries	1.3	3.0
Total	428.9	354.0

Information about reportable segments

Kendrion has split all activities into two divisions: the Automotive Division and the Industrial Division.
Based on the division structure and the criteria of IFRS 8-Operating segments Kendrion has 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	Industrial Division		Automotive Division		Corporate activities		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013
Revenue from transactions with third parties	150.5	127.9	278.4	226.1	–	–	428.9	354.0
Inter-segment revenue	0.2	0.2	0.2	0.1	–	–	0.4	0.3
EBITA	12.9	9.5	20.7	14.0	(0.7)	0.4	32.9	23.9
Reportable segment assets	102.7	110.3	199.1	200.3	31.7	24.2	333.5	334.8

Major customers

Three customers (Volkswagen, Continental and Daimler) individually account for more than 5% of the company's total revenue. All of these customers individually account for approximately 5% -10% of total revenue.

20 >> Business combinations and acquisitions of non-controlling interests

2014

The Company reached an agreement with the owners of Steinbeis Mechatronik GmbH on the acquisition of the company on 23 December 2014. Kendrion obtained control over Steinbeis Mechatronik GmbH on 5 January 2015. From that date onwards the financial statements of Steinbeis Mechatronik GmbH will be consolidated by Kendrion. The total consideration transferred for this acquisition amounted to EUR 1.0 million.

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. 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).

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.

21 >> Other income

EUR million	2014	2013
Release of unused provisions and accrued expenses	0.0	4.4
Net gain on disposal of property, plant and equipment	0.0	0.0
Other	0.2	0.2
	0.2	4.6

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

22 » Staff costs

EUR million	2014	2013
Wages and salaries	98.8	85.2
Social security charge	18.4	15.2
Temporary personnel	4.4	4.5
Contributions to defined contribution plans	0.4	0.2
Expenses related to defined benefit plans	0.3	0.3
Increase in liability for long-service leave	0.1	0.3
Other costs of personnel	3.0	2.9
	125.4	108.6
Total number of employees and temporary workers at 31 December (FTE)	2,713	2,756

23 » Other operating expenses

EUR million	2014	2013
Lease expenses	0.6	0.9
Increase in provision for doubtful debts	0.0	0.5
Premises costs	7.3	6.3
Maintenance expenses	4.5	3.5
Transport expenses	2.1	1.8
Consultancy expenses	5.2	5.9
Sales and promotion expenses	2.7	1.5
Car, travel and representation costs	4.0	3.7
Release of provision EC fine	–	(0.8)
Other	3.5	6.5
	29.9	29.8

Research & Development expenses (including staff and other operating expenses) for 2014 totalled EUR 23.2 million (2013: EUR 19.4 million).

24 >> Net finance costs

EUR million	2014	2013
Interest income	0.4	0.3
Net exchange gain	0.4	–
Finance income	0.8	0.3
Interest expenses	(5.0)	(4.7)
Interest expenses related to employee benefits	(0.4)	(0.5)
Net exchange loss	–	(0.3)
Finance expense	(5.4)	(5.5)
Net financing costs	(4.6)	(5.2)

25 >> Income tax

Recognised in profit or loss

EUR million	2014	2013
Current tax charge on year under review	(4.7)	1.0

26 >> Reconciliation with the effective tax rate

	Reconciliation with tax rate		Reconciliation with effective rate EUR million	
	2014	2013	2014	2013
Profit before income tax			24.9	15.7
Income tax expense at local corporation tax rate	25.0%	25.0%	6.2	3.9
Non-deductible expenses	0.4%	4.5%	0.1	0.7
Effect of tax rates in foreign jurisdictions	0.0%	(1.8)%	(0.0)	(0.3)
Tax exempt income	(2.4)%	(16.6)%	(0.6)	(2.6)
Change in unrecognised temporary differences	0.4%	(1.3)%	0.1	(0.2)
Recognition of previously unrecognised tax losses[1]	(5.6)%	(17.2)%	(1.4)	(2.7)
Current year losses for which no deferred tax asset is recognised	0.8%	1.3%	0.2	0.2
Other movements	0.3%	(0.3)%	0.1	(0.0)
	18.9%	(6.4)%	4.7	(1.0)

[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 transactions are not further specified. For a list of the principal subsidiaries please refer to page 152 and 153.

Transactions with managers in key positions

The remuneration of the Executive Board is as follows:

EUR thousand	2014	2013
Total remuneration	1,028.7	897.9
Pension and other expense	165.6	249.3

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/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%.

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 2014, the CEO shall receive a bonus of 50% of his gross fixed remuneration and the CFO shall receive a bonus of 45% of his gross fixed remuneration. The CEO's gross bonus amounts to EUR 195,000 of which EUR 31,200 shall be paid in cash. EUR 62,400 is awarded conditionally in shares on the basis of the closing share price on 13 April 2015. The vesting period ends in 2016 and the holding period ends in 2018. The CFO's gross bonus amounts to EUR 137,700 of which EUR 22,032 shall be paid in cash. EUR 44,064 is awarded conditionally in shares on the basis of the closing share price on 13 April 2015. The vesting period ends in 2016 and the holding period ends in 2018.

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
Shares granted to the CEO (bonus 2013)	1,532	End of 2015	End of 2017
Shares granted to the CFO (bonus 2013)	1,044	End of 2015	End of 2017

The Supervisory Board will, prior to the announced resignation of the CEO in the summer of 2015, decide on the method of settling the provisionally awarded shares, the outlined share match and the applicable holding periods.

Pensions
The Executive Board participates in the defined contribution plan of the Company in 2014. The contribution was EUR 71,600 for the CEO and EUR 71,600 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 9-11%. 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.

Utilisation of tax losses

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

29 >> Post-balance sheet events

The Company reached an agreement with the owners of Steinbeis Mechatronik GmbH on the acquisition of the company on 23 December 2014. Kendrion obtained control over Steinbeis Mechatronik GmbH on 5 January 2015. From that date onwards the financial statements of Steinbeis Mechatronik GmbH will be consolidated by Kendrion. The total consideration transferred for this acquisition amounted to EUR 1.0 million.

Company balance sheet at 31 December

(before profit appropriation)

Note	EUR million	2014	2013
	Non-current assets		
	Property, plant and equipment	0.1	0.1
	Other investments, including derivatives	0.5	0.3
1.3	Financial assets	173.0	197.4
	Total non-current assets	173.6	197.8
	Current assets		
1.4	Receivables	0.5	0.6
	Cash and cash equivalents	0.0	0.0
	Total current assets	0.5	0.6
	Total assets	174.1	198.4
1.5	**Equity**		
	Share capital	26.1	25.9
	Share premium	68.8	74.4
	Reserves	38.1	17.1
	Retained earnings	20.2	16.7
	Total equity	153.2	134.1
1.6	Loans and borrowings (current)	20.9	64.3
	Total equity and liabilities	174.1	198.4

Company income statement

Note	EUR million	2014	2013
1.10	Share in results of Group companies after tax	21.5	17.7
	Other results after tax	(1.3)	(1.0)
	Net profit	20.2	16.7

Notes to the company financial statements

1 >> Notes to the company financial statements

1.1 General

The Company financial statements are part of the 2014 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 2014	Total 2013
Carrying amount at 1 January	184.9	8.4	4.1	197.4	173.7
Results of Group companies	21.5	–	–	21.5	17.7
Dividend payments by Group companies	(45.0)	–	–	(45.0)	–
Movements in loans and borrowings	–	(5.6)	–	(5.6)	6.8
Movements in deferred tax assets	–	–	0.4	0.4	1.9
Other movements	4.3	–	–	4.3	(2.7)
Carrying amount at 31 December	165.7	2.8	4.5	173.0	197.4

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 152 and 153 of the Annual Report.

1.4 Receivables

EUR million	2014	2013
Receivables from Group companies	0.3	0.4
Prepayments and accrued income	0.2	0.2
	0.5	0.6

All receivables are due within one year.

1.5 Equity

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Statutory reserve for participations	Other reserves	Retained earnings	Total 2014	Total 2013
Balance at 1 January	25.9	74.4	(1.0)	(0.4)	(0.2)	0.2	18.5	16.7	134.1	103.1
Appropriation of retained earnings	–	–	–	–	–	–	16.7	(16.7)	–	–
Foreign currency translation differences for foreign operations	–	–	5.7	–	–	–	–	–	–	–
Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.0	–	–	–	–	–	–
Dividend payment	–	(7.1)	–	–	–	–	–	–	(7.1)	(6.8)
Own shares sold	–	–	–	–	0.1	–	(0.1)	–	0.1	0.0
Issue of ordinary shares	0.2	1.4	–	–	–	–	–	–	1.6	24.0
Share-based payment transaction	0.0	0.1	–	–	–	–	0.0	–	0.1	(0.2)
Other	–	–	–	–	–	0.6	(2.0)	–	4.2	(2.7)
Total recognised income and expenses	–	–	–	–	–	–	–	20.2	20.2	16.7
Balance at 31 December	26.1	68.8	4.7	(0.4)	(0.1)	0.8	33.1	20.2	153.2	134.1

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 13,030,982 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 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.

1.5.4 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.

1.5.5 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 2014, the Company held 4,657 of its own shares (2013: 7,789).

1.5.6 Statutory reserve for participations

This reserve represents the undistributed profits of subsidiaries the free distribution of which the Company cannot procure. The statutory reserve for participations arises as a result of participations being valued by the equity method and is shown as the share in the undistributed results of the subsidiaries since they were first valued using the equity method. The amount of any dividend – from these subsidiaries – to which there is an entitlement on adoption of the financial statements is deducted from this reserve.

1.5.7 Other reserves

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

1.5.8 Retained earnings

In 2014, the full result for 2013 was included in other reserves. Retained earnings consequently consist solely of the result for 2014.

1.6 Loans and borrowings (current)

EUR million	2014	2013
Debts to suppliers and trade payables	0.4	0.3
Debts to Group companies	19.4	19.3
EC fine payable	–	43.4
Other debts	1.1	1.3
	20.9	64.3

1.7 Financial instruments

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

1.8 Staff costs

EUR million	2014	2013
Wages and salaries	2.2	1.9
Social security charge	0.1	0.2
Pension costs	0.3	0.3
	2.6	2.4
Total number of employees and temporary workers at 31 December (FTE)	11	10

The Company has only defined contribution plans for its employees. The Company had 11 employees (FTE) at year-end 2014 (2013: 10).

1.9 Commitments not appearing on the balance sheet

1.9.1 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.

1.9.2 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.

1.10 Share in results of Group Companies

This relates to the Company's share in the results of its associates, of which EUR 21.5 million (2013: EUR 17.7 million) relates to Group Companies.

1.11 **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	2014			2013		
	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	102.5	306.4	408.9	93.5	276.0	369.5
Other assurance services	–	–	–	20.0	26.0	46.0
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	367.5	–	367.5
Total	102.5	306.4	408.9	481.0	302.0	783.0

The other fees in 2013 primarily relate to due diligence procedures, review of Kuhnke purchase price allocation, assistance in the HORIZON ERP process and audit-related assignments.

1.12 **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 1,194,300 (2013: EUR 1,147,200). This remuneration is specified as follows:

EUR thousand	2014			2013			
	P. Veenema	F. Sonnemans	Total	P. Veenema	F. Sonnemans **	E. Ris *	Total
Fixed remuneration	390.0	306.0	696.0	385.0	261.3	50.8	697.1
Variable remuneration	195.0	137.7	332.7	119.4	81.4	–	200.8
Total remuneration	585.0	443.7	1,028.7	504.4	342.7	50.8	897.9
Pension and other expenses	83.7	81.9	165.6	121.2	91.2	36.9	249.3
	668.7	525.6	1,194.3	625.6	433.9	87.7	1,147.2

* *Resigned as per 28 February 2013.*
** *Started on 18 February 2013.*

The 2014 variable remuneration will be granted directly after the General Meeting of Shareholders to be held on 13 April 2015. 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 13 April 2015.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2014 amounts to EUR 150,000 (2013: EUR 163,000). This remuneration is specified as follows:

EUR thousand	2014	2013
Supervisory Board members:		
H. ten Hove*	45	13
S.J. van Kesteren**	–	45
R.L. de Bakker	35	35
M.E.P. Sanders	35	35
H.J. Kayser	35	35
	150	163

No loans, advances or related guarantees have been given to the Executive Board or Supervisory Board members.

* *Appointed as from 19 August 2013.*

** *Resigned as per 31 December 2013.*

Share ownership by the Executive Board and the Supervisory Board

		31 December 2014	31 December 2013
Executive Board	P. Veenema	41,808	36,281
	F. Sonnemans	–	–
Supervisory Board		–	–

Zeist, 25 February 2015

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

Other information

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

Independent auditor's report

Report on the audit of the Financial Statements 2014

Our opinion

We have audited the accompanying financial statements 2014 of Kendrion N.V. (the Company), based in Zeist. The financial statements include the consolidated and company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2014 and of its results 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 Netherlands Civil Code.
- the company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2014;
- the following consolidated statements for 2014: consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended; and
- the 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 2014;
- the company income statement for 2014; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

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 Responsibilities for the audit of the financial statements' section of our report.

We are independent of Kendrion N.V. in accordance with the *'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten'* (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the *'Verordening gedrags- en beroepsregels accountants'* (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from fraud or error and will be 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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement the materiality for the financial statements as a whole was set at EUR 1.8 million. The Group materiality is determined with reference to a benchmark of profit before income tax (7%) as we consider this benchmark to be most relevant given the nature and business of the Company. We have also taken into account misstatements and/or possible misstatements that are in our opinion material for the users of the financial statements for qualitative reasons.

We communicated to the Supervisory Board that uncorrected misstatements in excess of EUR 90,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the Group Audit

Kendrion N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Kendrion N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the entities. Decisive were the size and/or risk profile of the entities or operations. On this basis, we selected entities for which an audit had to be carried out on the complete set of financial statements or specific items.

Applying these scoping criteria led to a full scope audit for 12 entities. This resulted in coverage of 90% of total group revenue, 90% of group profit before income tax and 89% of total group assets. None of the remaining entities individually represents more than 3% of total group revenue, group profit before income tax or total group assets. For these remaining entities, we performed either specified audit procedures or analytical procedures to corroborate our assessment that there are no significant risks of material misstatement within these entities.

The group audit team sent detailed instructions to all entity auditors, covering the significant areas including the relevant risks of material misstatement and set out the information required to be reported back to the Group audit team. The Group audit team reviewed the audit files of the entity auditors for Kendrion Kuhnke Automation GmbH, Kendrion Kuhnke Automotive GmbH, Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH (all based in Germany) and Kendrion (Shelby) Inc. (USA). Telephone calls were also held with the auditors of these entities and the majority of the auditors of the other entities. During these site visits and telephone calls, the findings and observations reported to the group audit team were discussed in more detail, and any further work deemed necessary was then performed by either the group audit team or the entity auditor.

By implementing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sensitivities with respect to the valuation of goodwill

The annual impairment test was significant to our audit because the assessment process is complex and imposes estimates. The assumptions used in the calculation are sensitive for 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 calculations with the budget and mid-term plan 2015 – 2017. 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. For our audit we assessed the assumptions used, amongst others by comparing them to available market data, benchmark data for comparable companies and expected inflation rates. We also assessed the historical accuracy of management's estimates.

We also assessed the adequacy of the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, as included in Note 2 of the consolidated financial statements.

Sensitivities with respect to the valuation of deferred tax assets

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 estimates, 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 and business cases. In addition we assessed the historical accuracy of management's assumptions. We discussed the Company's tax position, the transfer pricing methodology applied and the assumptions used with Executive Board and with the Company's tax advisors. We included in our audit tax specialists to analyse and challenge the assumptions used to determine tax positions and we corroborated the assumptions used with supporting evidence such as relevant tax legislation, recent tax filings, tax memorandums prepared by the Company's tax advisors, correspondence with the tax authorities and the sensitivity analysis prepared by the Company.

We further assessed the adequacy of the disclosure in Note 4 of the consolidated financial statements.

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 the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Executive Board Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Executive Board is responsible and for such internal control as the Executive Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless the Executive Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our Responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

For a further description of our responsibilities in respect of an audit of financial statements, we refer to the website of the professional body for accountants in the Netherlands (NBA). www.nba.nl/standardtexts-auditorsreport

Report on other legal and regulatory requirements

Report on the Executive Board Report and other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the Executive Board Report and other information):

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

Appointment

We were appointed since 2005 for the first time as auditor of Kendrion N.V. and operated as auditor since then. We were re-appointed by the General Meeting of Shareholders on 14 April 2014 as auditor of Kendrion N.V. for the year 2014.

Arnhem, 25 February 2015

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	20.2

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 20.2 million will be added to the other reserves.

Post-balance sheet events

There are no post-balance sheet events.

Five-year summary

[1] *Relates to inventories, receivables minus non interest bearing debts (2013 is excluding EC fine payable).*
[2] *2011 is including Kendrion (Shelby) Inc..*
[3] *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 is including EC fine).*
[4] *Before cash flow relating to acquisitions and disposals (2011 and 2013 excluding acquisition expenses, and 2014 excluding EC fine payment).*
[5] *Pro forma. Unaudited.*
[6] *2011 EBITA and EBITDA are normalised (excluding EC fine and a.o. acquisition expenses).*
[7] *2013 EBITDA is including full year Kuhnke.*
[8] *2013 revenue is including full year Kuhnke.*
[9] *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, unless otherwise stated	2014	2013	2012	2011[9]	2010
Kendrion N.V. consolidated					
Statement of comprehensive income conform financial statements					
Revenue	428.9	354.0	284.9	267.9	221.9
Organic growth	8.6%	(1.2)%	(1.2)%	20.7%	42.9%
Operating result (EBIT)	29.5	20.9	24.4	(11.5)	22.8
Operating result before amortisation (EBITA)	32.9	23.9	26.7	(10.0)	24.2
Depreciation and amortisation	19.8	16.0	12.7	10.8	10.1
Operating result before depreciation and amortisation (EBITDA)	49.3	36.9	37.1	(0.7)	32.9
Profit for the period	20.2	16.7	18.0	(20.1)	16.6
Statement of financial position at 31 December conform financial statements					
Total assets	333.5	334.8	230.1	229.3	177.1
Total equity	153.2	134.1	103.1	91.7	114.5
Net interest-bearing debt	83.0	49.0	21.3	25.9	5.2
Working capital[1, 2]	44.9	40.6	33.9	35.8	26.0
Invested capital[3]	253.1	242.5	180.1	176.7	129.3
Statement of cash flows conform financial statements					
Net cash from operating activities[4]	38.9	30.5	28.3	27.6	25.6
Net investments	20.0	18.5	18.7	13.5	8.9
Free cash flow[4]	17.1	11.7	9.7	14.6	17.4
Ratios – pro forma					
Solvency	46.0%	40.1%	44.8%	40.0%	64.7%
Net interest-bearing debt / EBITDA[6, 7] (debt cover)[5]	1.7	1.2	0.6	0.6	0.2
Net interest-bearing debt / equity (gearing)	0.5	0.4	0.2	0.3	0.1
EBITA[6] / net finance costs (interest cover)[5]	7.1	4.6	5.5	12.1	8.1
Working capital[1, 2] in % of revenue[8]	10.5%	10.2%	11.9%	12.1%	11.7%
Market capitalisation at 31 December	281.7	309.2	186.5	189.6	164.1
Net interest-bearing debt at 31 December	83.0	49.0	21.3	25.9	5.2
Theoretic value of the organisation (Enterprise value)[5]	364.7	358.1	207.8	215.5	169.3
Number of employees at 31 December (FTE)[2]	2,713	2,756	1,632	1,695	1,376

Principal subsidiaries

At 31 December 2014

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
Kendrion Industrial (Sibiu) 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

* *Mr. M. Zegger has been appointed CEO of the Industrial Division effective 1 February 2015.*

Technology and Innovation

Kendrion Academy GmbH, Villingen-Schwenningen, Germany	Sören Rosenbaum
Kendrion Mechatronics Center GmbH**, Ilmenau, Germany	Sören Rosenbaum/ Jörg Rönnert

** *As per 5 January 2015.*

Automotive Division, Bernd Gundelsweiler

Passenger Car Systems

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany	Markus Kieninger
Kendrion (Eibiswald) GmbH, Eibiswald, Austria	Martin Kollmann
Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic	Václav Dostal
Kendrion (Shelby) Inc., Shelby, North Carolina, USA	Brian Jacobs
Kendrion Drive Tech. (Nanjing) Co., Ltd., Nanjing, P.R. China	Erik Miersch (acting)

Automotive Control Systems

Kendrion Kuhnke Automotive GmbH, Malente, Germany	Torsten Komischke
Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania	Andra Boboc

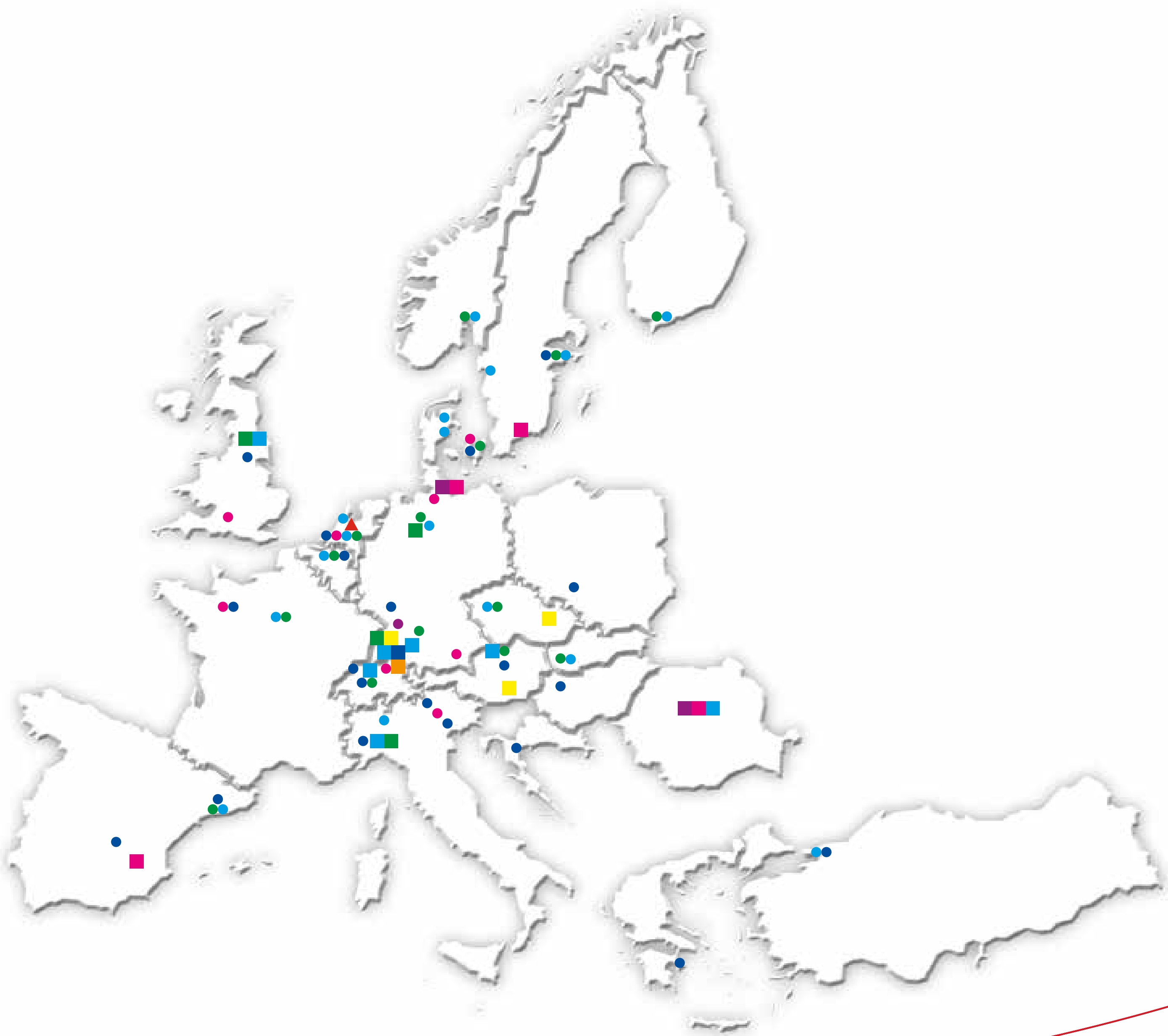
Commercial Vehicle Systems

Kendrion (Markdorf) GmbH, Markdorf, Germany	Erik Miersch
Kendrion (São Paulo) Sistemas Automotivos Ltda., Louveira, Brazil	Peter Ellner
Kendrion Toluca, 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	Brian Jacobs

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	Brian Jacobs

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.

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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