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Note	EUR million	2020	2019 ¹
Assets			
Non-current assets			
1	Property, plant and equipment	118.7	111.4
2	Intangible assets	158.1	115.5
3	Other investments, including derivatives	3.0	2.7
4	Deferred tax assets	19.2	14.5
5	Contract costs	0.6	0.7
Total non-current assets		299.6	244.8
Current assets			
6	Inventories	61.7	55.4
	Current tax assets	1.4	2.7
7	Trade and other receivables	53.4	47.1
8	Cash and cash equivalents	13.0	7.1
Total current assets		129.5	112.3
Total assets		429.1	357.1

Note	EUR million	2020	2019 ¹
Equity and liabilities			
Equity			
9, 10	Share capital	29.9	29.9
	Share premium	51.7	51.7
	Reserves	117.5	112.7
	Retained earnings	4.3	8.3
Total equity		203.4	202.6
Liabilities			
11	Loans and borrowings	104.2	48.9
12	Employee benefits	15.5	19.8
4	Deferred tax liabilities	15.9	10.6
14	Provisions	0.7	–
Total non-current liabilities		136.3	79.3
8	Bank overdraft	4.5	2.5
11	Loans and borrowings	7.5	3.1
14	Provisions	1.5	1.4
	Current tax liabilities	5.2	2.6
15	Contract liabilities	5.5	6.6
16	Trade and other payables	65.2	59.0
Total current liabilities		89.4	75.2
Total liabilities		225.7	154.5
Total equity and liabilities		429.1	357.1

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Note	EUR million	2020	2019 ¹	Note	EUR million	2020	2019 ¹
21	Revenue	396.4	412.4		Other comprehensive income		
23	Other income	0.3	–		Remeasurements of defined benefit plans ²	1.6	(1.3)
	Total revenue and other income	396.7	412.4		Foreign currency translation differences for foreign operations ³	(5.5)	(0.8)
	Changes in inventories of finished goods and work in progress	2.5	4.4		Net change in fair value of cash flow hedges, net of income tax ³	0.2	0.3
	Raw materials and subcontracted work	203.2	214.6		Other comprehensive income for the period, net of income tax	(3.7)	(1.8)
24	Staff costs	119.5	124.6		Total comprehensive income for the period⁴	0.6	6.5
	Depreciation and amortisation	30.1	26.2				
25	Other operating expenses	31.3	30.7				
	Result before net finance costs	10.1	11.9				
	Finance income	0.0	2.2	10	Basic earnings per share (EUR), based on weighted average	0.29	0.61
26	Finance expense	(4.1)	(2.8)				
	Share profit or loss of an associate	(0.3)	(0.3)	10	Basic earnings per share (EUR), based on weighted average (diluted)	0.29	0.61
	Profit before income tax	5.7	11.0				
27, 28	Income tax expense	(1.4)	(2.7)				
	Profit for the period	4.3	8.3				

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

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

³ These items may be reclassified to profit or loss.

⁴ All profits are attributable to owners of the company as non-controlling interest are not applicable.

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2019	27.1	39.8	6.1	(0.4)	(6.6)	102.3	13.8	182.1
	Restatement prior period ¹	–	–	–	–	–	(1.3)	–	(1.3)
	Restated balance at 1 January 2019	27.1	39.8	6.1	(0.4)	(6.6)	101.0	13.8	180.8
	Total comprehensive income for the period								
	Profit or loss	–	–	–	–	–	–	8.3	8.3
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	(1.3)	–	(1.3)
	Foreign currency translation differences for foreign operations	–	–	(0.8)	–	–	–	–	(0.8)
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.3	–	–	–	0.3
	Other comprehensive income for the period, net of income tax	–	–	(0.8)	0.3	–	(1.3)	–	(1.8)
	Total comprehensive income for the period	–	–	(0.8)	0.3	–	(1.3)	8.3	6.5
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	2.7	23.6	–	–	4.2	–	–	30.5
	Own shares sold	–	–	–	–	5.9	(2.3)	–	3.6
	Own shares repurchased	–	–	–	–	(7.2)	–	–	(7.2)
	Share-based payment transactions	0.1	0.0	–	–	–	0.0	–	0.1
9	Dividends to equity holders	–	(11.7)	–	–	–	–	–	(11.7)
9	Appropriation of retained earnings	–	–	–	–	–	13.8	(13.8)	–
	Balance at 31 December 2019	29.9	51.7	5.3	(0.1)	(3.7)	111.2	8.3	202.6

¹ 2019 figures restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Note	EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for own shares	Other reserves	Retained earnings	Total equity
	Balance at 1 January 2020	29.9	51.7	5.3	(0.1)	(3.7)	111.2	8.3	202.6
	Total comprehensive income for the period								
	Profit or loss	–	–	–	–	–	–	4.3	4.3
	Other comprehensive income								
12	Remeasurements of defined benefit plans	–	–	–	–	–	1.6	–	1.6
	Foreign currency translation differences for foreign operations	–	–	(5.5)	–	–	–	–	(5.5)
9	Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.2	–	–	–	0.2
	Other comprehensive income for the period, net of income tax	–	–	(5.5)	0.2	–	1.6	–	(3.7)
	Total comprehensive income for the period	–	–	(5.5)	0.2	–	1.6	4.3	0.6
	Transactions with owners, recorded directly in equity								
	Contributions by and distributions to owners								
9	Issue of ordinary shares	–	–	–	–	–	–	–	–
	Own shares sold	–	–	–	–	–	–	–	–
	Own shares repurchased	–	–	–	–	–	–	–	–
	Share-based payment transactions	–	–	–	–	0.3	(0.1)	–	0.2
9	Dividends to equity holders	–	–	–	–	–	–	–	–
9	Appropriation of retained earnings	–	–	–	–	–	8.3	(8.3)	–
	Balance at 31 December 2020	29.9	51.7	(0.2)	0.1	(3.4)	121.0	4.3	203.4

Note	EUR million	2020	2019	Note	EUR million	2020	2019
Cash flows from operating activities				Cash flows from investing activities			
		4.3	7.9	3	Acquisition of subsidiaries	(77.7)	–
	Profit for the period			1	Investments in property, plant and equipment	(12.9)	(15.5)
	Adjustments for:			1	Disinvestments of property, plant and equipment	0.4	0.4
26	Net finance costs	4.1	0.6	2	Investments in intangible fixed assets	(3.1)	(4.5)
	Share profit or loss of an associate	0.3	0.3	2	Disinvestments of intangible fixed assets	0.0	0.1
	Income tax expense	1.4	2.7		(Dis)investments of other investments	(0.9)	(0.4)
1,2	Depreciation of property, plant and equipment and software	25.7	24.0		Net cash from investing activities	(94.2)	(19.9)
2	Amortisation of other intangible assets	4.4	2.2		Free cash flow	(52.4)	21.0
1,2	Impairment of fixed assets	2.4	0.0		Cash flows from financing activities		
	Share-based payments	0.0	0.0	11	Payment of lease liabilities	(2.9)	(2.5)
		42.6	37.7	11	Proceeds from borrowings (non current)	59.4	–
	Change in trade and other receivables	(0.2)	7.4	11	Repayment of borrowings (non current)	–	(30.2)
	Change in inventories	6.9	7.3	11	Proceeds from borrowings (current)	0.2	0.2
	Change in trade and other payables	(0.2)	(0.1)	9	Proceeds from the issue of share capital	–	30.5
	Change in provisions	(2.0)	(1.6)	9	Own shares bought	–	(7.2)
	Change in contract liabilities	(1.1)	(1.6)		Dividends paid	–	(8.1)
		46.0	49.1		Net cash from financing activities	56.7	(17.3)
	Interest paid	(2.9)	(2.2)		Change in cash and cash equivalents	4.3	3.7
	Interest received	0.0	0.1		Cash and cash equivalents at 1 January	4.6	0.9
	Tax paid	(1.3)	(6.1)		Effect of exchange rate fluctuations on cash held	(0.4)	0.0
	Net cash flows from operating activities	41.8	40.9	8	Cash and cash equivalents at 31 December	8.5	4.6

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 Herikerbergweg 213, 1101 CN Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2020 comprise the Company and its subsidiaries (together also referred to as the 'Group'). The Group is involved in the design, manufacture and sale of high-quality electromagnetic systems and components.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements as of 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of the standards published by the International Accounting Standards Board (IASB) as adopted by the European Union (hereinafter referred to as EU-IFRS). The Company financial statements are integrated part of the 2020 financial statements of Kendrion N.V.

The financial statements were authorised for issue by the Executive Board on 18 February 2021.

(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 net total of plan assets and present value of the defined benefit obligations;
- the contingent consideration is stated at fair value.

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

In preparing these consolidated financial statements, the Executive Board has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Executive Board made critical judgements in the process of applying Group's accounting policies and have the most significant effect on the amounts recognised in the consolidated financial statements, see notes:

- note 2 – goodwill impairment testing;
- note 12 – measurement of defined benefit obligations.

Home	Consolidated statement of financial position	Consolidated statement of profit and loss and other comprehensive income	Consolidated statement of changes in equity	Consolidated statement of cash flows	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	Company balance sheet	Company income statement	Notes to the company financial statements
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Executive Board made estimations concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- note 2 – management forecast and growth rate of each cash-generating unit to determine whether goodwill is impaired;
- note 4 – utilisation of tax losses;
- note 4 – outcome of tax audits;
- note 6 – valuation of inventories;
- note 12 – salary and pension growth of defined benefit obligations;
- note 14 – provisions;
- Note 18 – leases.

Reference is made to those notes for steps taken by the Executive Board to make judgements, estimates and assumptions.

Correction of misstatements

IFRS 10 B86 required entities to eliminate full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group. Profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets are to be eliminated in full. 'During 2020, the Group discovered that the profit on inventory transactions between group companies had not been properly eliminated. As such the Inventory (Consolidated Statement of Financial Position) was overstated, as were the Changes in Inventories (Consolidated Statement of Comprehensive Income). As a result, the Profit for the period was understated. The Group voluntary opted to restate the 2019 figures retrospectively. This has been corrected by restating each of the affected financial statement lines items for prior periods. The following table summarise the impacts on the Group's consolidated financial statements:

	31-12-2019 Restated	31-12-2019	01-01-2019 Restated	01-01-2019
Consolidated Statement of Financial Position at 31 December				
Inventory	55.4	56.3	62.2	63.5
Total assets	357.1	358.0	374.0	375.3
Reserves	112.7	114.0	100.1	101.4
Retained earnings	8.3	7.9	13.8	13.8
Total equity and liabilities	357.1	358.0	374.0	375.3

	31-12-2019	31-12-2019
	Restated	
Consolidated Statement of Profit and Loss and Other Comprehensive Income		
Change in inventories of finished goods and work in progress	4.4	4.8
Income tax expense	(2.7)	(2.7)
Profit for the period	8.3	7.9
Total comprehensive income for the period	6.5	6.1
Basic earnings per share (EUR), based on weighted average	0.61	0.59
Basic earnings per share (EUR), based on weighted average (diluted)	0.61	0.59

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 entities within the Group.

(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 are currently 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
- if the business combination is realised 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.

If the excess is negative, a bargain purchase gain is recognised immediately in comprehensive income (hereafter also referred to as 'profit or loss'). The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities that 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 acquirees employees (acquirees awards) and relate to past services, then all or part of the amount of the acquirer's replacement awards is included when 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 acquirees 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 if 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 are changed, where necessary, to align them with the policies adopted by the Company.

(iii) 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 when 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 non-euro zone currencies that are measured at fair value are translated in euros at the exchange rates when the fair value was determined. Currency differences on foreign currency 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) Translation of foreign currency financial statements

Translation of foreign currency financial statements depends on the functional currency of the company concerned. The closing rate method is applied if the functional currency of the company is other than the euro. With this method, assets and liabilities of non-euro zone operations, including goodwill and fair value adjustments arising at the time 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 translation differences are recognised in other comprehensive income and accumulated in the translation reserve, which is a component of equity.

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On the partial or complete sale of a foreign operation, the related amount is transferred from the translation reserve to 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) Lease

The Group has applied IFRS 16 using the modified retrospective approach in the financial statements 2018. Therefore, the below policies are applicable from 1 January 2018, except when stated differently.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified assets for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into on or after 1 January 2018.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone process. However, the Group elects not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease component as a single lease component for only the following class of underlying asset: plant and equipment and other fixed assets.

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

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

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

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprise the initial amount of the lease liability adjusted for any lease payments made at or before the commencement data, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same bases as those of owned assets. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease liability might include:

- Fixed lease payments;
- Amounts expected to be payable under a residual value guarantee;
- Exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or in the Group's assessment of exercising a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

When there is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease, this is a lease modification and can result in a separate lease or a change in an existing lease.

If a lease modification qualifies as a change in the accounting for the existing lease then the Group shall remeasure the lease liability based on the present value of the revised lease payments using the interest rate implicit in the lease, if that rate cannot be readily determined, the Group uses the incremental borrowing rate at the effective date of the modification. When lease modifications fully or partially decrease the scope of the lease, the Group decreases the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference is recognised in profit or loss at the effective date of the modification.

(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 reliably measured. 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 an incurred charge in profit or loss.

(iv) Depreciation

Depreciation is charged to 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 using the straight-line method from the commencement date to the earlier of the end of the useful life or 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 a subsidiary is included in intangible assets. For the measurement of goodwill at initial recognition, see note b.

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 comprise expenditure on research and development and expenses for customer-specific applications, prototypes and testing. 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 if the related activity meets the recognition criteria for internally generated intangible assets as laid down in IAS 38.

Expenditure on research activities undertaken with the prospect 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 if the 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 when incurred.

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts, it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously and the financial assets and financial liabilities are with the same party.

Other investments

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. The associate Newton CFV is an equity-accounted investee.

Trade and other receivables

Trade and other receivables represent the Group's right to an amount of consideration that is unconditional. 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 profit or loss over the respective terms 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. They are measured at fair 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. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. At 31 December 2020, no embedded derivatives existed.

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

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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.

The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

(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

The Group recognises impairments for financial assets based on the 'expected credit loss' model. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group measures loss allowances at an amount equal to the lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, being the difference between the cash flows due to the entity in accordance to the contract and the cash flows that the Group expects to receive.

The Group makes use of the simplified method for trade receivables and contracts assets as set out in IFRS 9.

The expected credit losses for significant financial assets are determined on an individual basis. The remaining financial assets are assessed collectively in groups of assets that have similar credit risk characteristics.

All impairment losses are recognised in the consolidated statement of comprehensive income.

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 profit or loss. Impairment losses recognised in respect of cash-generating units are first allocated 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 determining 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. If 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 respectively 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 unpaid 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 incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or 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 as 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 relating 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

As only equity settled share-based payments are applicable only the accounting policy for these transactions has been included.

The fair value on the grant date of share-based payment awards made 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, so 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 fair value on the grant date of the share-based payment is measured to reflect such conditions, with no true-up for differences between expected and actual outcomes.

(v) Short-term employee benefits

A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Short-term employee benefits are expensed as the related service is provided.

(vi) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognised costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(j) Provisions

A provision is recognised in the statement of financial position if the Group has a present legal or constructive obligation as a result of a past event, that can be estimated 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.

Restructuring provisions

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(k) Revenue

(i) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration (net of discounts, rebates, returns and excluding VAT) to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Sale of goods and services

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 15 up to 90 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration (e.g. early payment discount, volume rebates), the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and or volume rebates and or early payment discount. These conditions might give rise to variable consideration.

Certain contracts provide a customer the right to apply an early payment discount when the consideration to which the Group is entitled is transferred to the Group before the contractual agreed credit terms. Those rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future early payment rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount

of variable consideration is primarily driven by the payment behaviour in the past and or any agreement with the customer when the consideration will be transferred.

Revenue from services is recognised over time based on the cost-to-cost method. Revenue from services mainly relates to repairs for customers.

The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities.

Contract assets

The Group recognises incremental costs of obtaining a contract and certain costs to fulfil a contract as an asset if the Group expects to recover those costs. Any capitalised contract costs assets will be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(I) Expenses

(i) Lease expenses – short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease terms of 12 months or less and lease of low-value assets. Individual lease assets with a new value of EUR 5,000 or less (or any other foreign exchange equivalent) are considered to be low value assets. The Group recognises the lease payments associated with these leases as an expense on straight-line basis over the lease term.

(ii) Net finance costs

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

Finance expense comprises 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 extent 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. The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

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 be reversed 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 temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

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 the intention is 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 if it is no longer probable that the related tax benefit will be realised.

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

Uncertain tax items for which a provision is made relate principally to the interpretation of tax legislation regarding arrangements entered into by the Group. Due to the uncertainty associated with such tax items, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly.

(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 defines and presents 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 engaging 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 8.12, these operating segments have been aggregated into two reportable segments: Automotive and Industrial. In accordance with IFRS 8, the Company also discloses general and entity-wide information, including information about geographical areas and major customers of the Group as a whole. More information on the reportable segments is provided in note 20.

(p) New standards and interpretations

A number of amendments to standards are effective, and have been endorsed by the European Union, for annual periods beginning on or after 1 January 2020 and therefore apply to the year ended 31 December 2020:

- Interest Rate Benchmark Reform, amendments to IFRS 9, IAS 39 and IFRS 7
- Several amendments to other IAS / IFRS standards

The amendments to IFRS 9, IAS 39 and IFRS 7 have effect on required disclosures in 2020. Further description is included in note 17. The other amendments do not have a significant impact on the Group's consolidated financial statements.

The following standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) are not effective at 31 December 2020 and are not expected to have a significant impact on the Group's consolidated financial statements:

- Classification of liabilities as current or non-current (amendments to IAS 1) (expected 2023)
- IFRS 17 Insurance Contracts (expected 2022)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (expected year unknown)
- IFRS 14 Regulatory Deferral Accounts (expected year unknown)

(q) Fair values

(i) Measurement of fair value

Several of the Group's accounting policies, as well as the information supplied by the Group, require the fair value of both financial and non-financial assets and liabilities to be determined. For valuation and information supplied, the fair value is measured using the methods below. 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 that 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, valuing 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 these assets.

(iv) 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 nature. 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 normal business operations, less the estimated costs of completion and the selling costs, plus a reasonable profit margin that 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 as 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, supplemented by a credit mark-up reflecting the credit worthiness of the Group.

Home	Consolidated statement of financial position	Consolidated statement of profit and loss and other comprehensive income	Consolidated statement of changes in equity	Consolidated statement of cash flows	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	Company balance sheet	Company income statement	Notes to the company financial statements
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(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 from information supplied 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. If 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, if 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, see the Report of the Executive Board.

(i) Credit risk

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

Home	Consolidated statement of financial position	Consolidated statement of profit and loss and other comprehensive income	Consolidated statement of changes in equity	Consolidated statement of cash flows	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	Company balance sheet	Company income statement	Notes to the company financial statements
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The credit policy includes an assessment of the creditworthiness of every new major customer before offering payment and delivery terms. This assessment includes external credit ratings or reports if they are available. The creditworthiness of major customers 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 accounted for 4% of the trade and other receivables at 31 December 2020. In 2019, the largest customer outstanding at 31 December 2019 accounted for 8% of total trade and other receivables. Other customers individually accounted for 4% or less of the trade and other receivables at 31 December 2020 (2019: 4%). 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 disclosed in note 11 of these consolidated financial statements. The majority of the available facilities are provided by a syndicate of lenders consisting of HSBC, 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 those relating to 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. If 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 flows. The policy is implemented by making use of derivative financial instruments such as interest rate swaps and interest rate options.

The Group has currently outstanding interest swap contracts with a total underlying notional value of EUR 75 million in order to reduce interest rate risk exposure to increasing market rates. EUR 15 million matures in 2021, EUR 20 million in 2022 and EUR 40 million matures in 2023.

(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. Sales outside the euro zone are partly generated locally and partly through exports from the euro zone. Most of these exports are realised in euros.

The Group's activities in the Czech Republic have the most significant currency exposure, since the majority of revenue is generated in euros and part of the costs are in Czech korunas. 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 35% for the next four quarters thereafter. Exchange rate risks are hedged with derivatives.

Other currencies are actively monitored and where needed exposure is hedged, however less structural exposure is identified.

The Group also actively hedges intercompany loans in foreign currencies 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 a 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 for the Group.

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 need 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 risks associated with rare earth metals such as neodymium, a component of permanent magnets, which are used in some of the Group's products. Prices of these commodities have shown significant volatility in the past. The Group closely monitors developments 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 context, to link sales prices to movements in 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, if feasible, reduced by means of raw material clauses with customers and by concluding fixed-price agreements with suppliers for periods of between six and twelve months. The Kendrion steel contracts also partly govern the purchasing from component suppliers. Raw materials are purchased separately by each business unit, but in accordance with the group policy reviewed periodically with the objective of further increasing and sharing knowledge on commodities and commodity markets between business units, reducing risks and/or prices.

(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 intends to distribute an annual dividend of between 35% and 50% of the net profit, taking into consideration 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.

(s) Government Grants

Grants that compensate the Group for expenses incurred are recognised in profit or loss as deduction on the related expense on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

1 Property, plant and equipment

EUR million	2020	2019
Property, plant and equipment owned	104.4	97.6
Property, plant and equipment right-of-use assets	14.3	13.8
Total	118.7	111.4

Property, plant and equipment owned

EUR million	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance as at 1 January 2019	56.0	134.7	54.1	16.3	261.1
Acquired, other	1.2	13.3	4.1	6.4	25.0
Disposals	(0.2)	(2.4)	(1.8)	(10.3)	(14.7)
Currency translation differences	0.1	(0.0)	0.0	0.0	0.1
Balance as at 31 December 2019	57.1	145.6	56.4	12.4	271.5
Balance as at 1 January 2020	57.1	145.6	56.4	12.4	271.5
Acquired through business combinations	8.4	3.3	1.8	1.6	15.1
Acquired, other	2.1	10.9	4.1	7.5	24.6
Disposals	(0.2)	(1.7)	(1.7)	(11.7)	(15.3)
Currency translation differences	(0.2)	(0.6)	(0.0)	(0.3)	(1.1)
Balance as at 31 December 2020	67.2	157.5	60.6	9.5	294.8
Depreciation and impairment losses					
Balance as at 1 January 2019	26.9	92.8	40.8	0.1	160.6
Depreciation for the year	2.3	11.0	4.8	–	18.1
Impairment	–	0.0	0.0	–	0.0
Disposals	(0.0)	(3.0)	(1.8)	–	(4.8)
Balance as at 31 December 2019	29.2	100.8	43.8	0.1	173.9
Balance as at 1 January 2020	29.2	100.8	43.8	0.1	173.9
Depreciation for the year	2.8	11.8	4.7	0.0	19.3
Impairment	–	(0.0)	0.0	0.4	0.4
Disposals	(0.2)	(1.8)	(1.2)	–	(3.2)
Balance as at 31 December 2020	31.8	110.8	47.3	0.5	190.4

Property, plant and equipment owned	Land and	Plant and	Other fixed	Under	
EUR million	buildings	equipment	assets	construction	Total
Carrying amounts					
As at 1 January 2019	29.1	41.9	13.3	16.2	100.5
As at 31 December 2019	27.9	44.8	12.6	12.3	97.6
As at 1 January 2020	27.9	44.8	12.6	12.3	97.6
As at 31 December 2020	35.4	46.7	13.3	9.0	104.4
Right-of-use assets					
EUR million	Land and	Plant and	Other fixed	Under	Total
	buildings	equipment	assets	construction	
Cost					
Balance as at 1 January 2019	15.3	0.1	2.2	–	17.6
Acquired, other	2.2	0.1	0.8	–	3.1
Disposals	0.0	–	(0.0)	–	(0.0)
Currency translation differences	0.0	0.0	(0.0)	–	0.0
Balance as at 31 December 2019	17.5	0.2	3.0	–	20.7
Balance as at 1 January 2020	17.5	0.2	3.0	–	20.7
Acquired through business combinations	0.8	–	0.0	–	0.8
Acquired, other	2.3	–	0.5	–	2.8
Disposals	(0.4)	(0.0)	(0.0)	–	(0.4)
Currency translation differences	(0.2)	(0.0)	(0.0)	–	(0.2)
Balance as at 31 December 2020	20.0	0.2	3.5	–	23.7
Depreciation and impairment losses					
Balance as at 1 January 2019	3.1	0.1	1.3	–	4.5
Depreciation for the year	1.7	0.0	0.7	–	2.4
Balance as at 31 December 2019	4.8	0.1	2.0	–	6.9

Right-of-use assets	Land and	Plant and	Other fixed	Under	Total
EUR million	buildings	equipment	assets	construction	
Balance as at 1 January 2020	4.8	0.1	2.0	–	6.9
Depreciation for the year	1.9	0.0	0.6	–	2.5
Balance as at 31 December 2020	6.7	0.1	2.6	–	9.4
Carrying amounts					
As at 1 January 2019	12.2	0.0	0.9	–	13.1
As at 31 December 2019	12.7	0.1	1.0	–	13.8
As at 1 January 2020	12.7	0.1	1.0	–	13.8
As at 31 December 2020	13.3	0.1	0.9	–	14.3

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

The estimated useful lives of the property, plant and equipment are as follows:

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

The Executive Board reviews at each reporting period the estimated useful lives of each asset with a definite useful life. During the current year, the Executive Board determined that the useful lives do not require to be revised.

2 Intangible assets

EUR million	Goodwill	Development costs	Software	Other	Total
Cost					
Balance as at 1 January 2019	92.1	4.9	23.4	40.4	160.8
Acquired, other	–	3.1	1.4	–	4.5
Disposals	–	(0.1)	–	–	(0.1)
Currency translation differences	0.5	0.0	(0.0)	0.2	0.7
Balance as at 31 December 2019	92.6	7.9	24.8	40.6	165.9

EUR million	Goodwill	Development costs	Software	Other	Total
Balance as at 1 January 2020	92.6	7.9	24.8	40.6	165.9
Acquired through business combinations	25.7	–	0.5	26.3	52.5
Acquired, other	–	0.9	1.5	0.7	3.1
Disposals	–	–	0.0	–	0.0
Currency translation differences	(2.3)	(0.0)	(0.0)	(0.4)	(2.7)
Balance as at 31 December 2020	116.0	8.8	26.8	67.2	218.8
Amortisation and impairment losses					
Balance as at 1 January 2019	–	0.7	16.8	27.2	44.7
Amortisation for the year	–	0.3	3.2	2.2	5.7
Impairment	–	–	–	–	–
Disposals	–	–	–	–	–
Balance as at 31 December 2019	–	1.0	20.0	29.4	50.4
Balance as at 1 January 2020	–	1.0	20.0	29.4	50.4
Amortisation for the year	–	0.7	3.2	4.4	8.3
Impairment	–	1.9	0.1	–	2.0
Disposals	–	–	–	–	–
Balance as at 31 December 2020	–	3.6	23.3	33.8	60.7
Carrying amounts					
At 1 January 2019	92.1	4.2	6.6	13.2	116.1
At 31 December 2019	92.6	6.9	4.8	11.2	115.5
At 1 January 2020	92.6	6.9	4.8	11.2	115.5
At 31 December 2020	116.0	5.2	3.5	33.4	158.1

Goodwill has an indefinite estimated useful life. The investments in software during 2020 of EUR 1.5 million (2019: EUR 1.4 million) mainly relates to various software upgrades. The other intangible assets mainly comprise the carrying amount of customer relationships (EUR 31.4 million). These customer relationships were acquired through business combinations.

Depreciation and amortisation

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

EUR million	2020	2019
Depreciation and amortisation	30.1	26.2

The estimated useful life of software is between three and eight years. The estimated useful life of other intangible assets is approximately between eight and nineteen years. The Executive Board reviews at each reporting period the estimated useful lives of each intangible asset with a definite useful life.

Impairment testing for cash-generating units containing goodwill

During 2020 Kendrion reduced the number of business units from four to three. The business units Industrial Magnetic Systems and Industrial Control Systems were combined into a new business unit Industrial Actuators and Controls as per 1 January 2020. The reason for this merger are the similarities regarding customers, products and production processes. In addition, the business unit Industrial Drive Systems was merged with the acquired INTORQ group into the business unit Industrial Brakes as per 1 April 2020. Reason to combine INTORQ and Industrial Drive Systems is again that both show similarities regarding customers, products and production processes. These newly formed business units have been identified as the smallest identifiable group of assets that generates cashflows that are largely independent of the cash inflows from other assets and thus a change was made to the CGU's. As a result, the goodwill of the former business units is accumulated within the new business units.

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs as follows.

Goodwill EUR million	2020	2019
Business Unit - Industrial Actuators and Controls	23.9	24.5
Business Unit - Industrial Brakes	32.8	7.1
Business Unit - Automotive Group	59.3	61.0
	116.0	92.6

Key assumptions and method of quantification

Pursuant to IAS 36, the Group has performed an impairment test with reference to the goodwill allocated to each individual cash-generating unit.

This test was carried out by discounting future cash flows ('value in use') 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 Group did not recognise any impairment of goodwill in this reporting period.

The cash flows for the first five years were based on budgets and mid-term plans drawn up by the local management and approved by the Executive Board. For the subsequent years, the residual value was calculated on the basis of the results in the last year of relevant forecasts, with a terminal growth rate of 1,5% taken into account. The forecasts took no account of tax considerations, i.e. were based on pre-tax cash flow. The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model was also pre-tax. Expansion investments were excluded from the calculations in the residual value. The expected growth in cash flows as a result of these expansion investments was also excluded. Key assumptions used in the

calculation of recoverable amounts concern discount rates, terminal value growth rates, EBITDA margin growth and revenue growth. Key assumptions are based on past experience, management assessment of revenue and external sources.

Key assumptions	Pre-tax discount rate		Terminal value growth rate	
	2020	2019	2020	2019
Business Unit - Industrial Actuators and Controls	10.1%	8.6%	1,5%	1.5%
Business Unit - Industrial Brakes	10.1%	8.5%	1,5%	1.5%
Business Unit - Automotive Group	9.9%	8.5%	1,5%	1.5%

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 debt leveraging compared to the market value of equity of 20%. All the post-tax weighted average cost of capital rates of cash generating units amount to approximated 8.0%, and these rates were used for calculating the post-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 long-term growth rate in perpetuity has been assumed on the basis of a growth rate of 1.5%.

Revenue and EBITDA margin

The revenue and EBITDA margin development of the cash generating units are based on the financial budgets for 2021 and the strategic business plans for the 4 years thereafter. The growth rates are based on the expectation of market developments and management's assessment of the project pipeline of the cash generating units. The average annual growth rates in the first 5 years range between 7% and 11% and the development of the EBITDA margin is in line with the long term group target of at least 15% by 2025. For the period after 2025 a growth rate equal to the expected long term inflation is taken into account for revenue and EBITDA.

Sensitivity to changes in assumptions

The recoverable amounts of all cash-generating units with goodwill exceed their carrying amounts. Management has carried out an analysis of sensitivity to changes in the key assumptions. Sensitivity analyses are performed based on a change in an assumption while holding other assumptions constant.

The following changes in assumptions are assessed:

- Increase of the discount rate (post-tax) by 2.0%;
- Decrease of terminal value growth rate by 1.0%;
- Decrease of average revenues growth by 3.0%;
- Decrease of average EBITDA growth by 10.0%.

Based on the sensitivity analyses performed it is concluded that any reasonable changes in the key assumptions would not require an impairment.

3 Other investments, including derivatives

EUR million	2020	2019
Equity-accounted investee	2.2	2.3
Other	0.8	0.4
	3.0	2.7

Equity-accounted investee relates to Kendrion Holding USA Inc.'s share in Newton CFV, Inc. On 3 August 2018 Kendrion Holding USA Inc. acquired 30% of all issued shares in Newton CFV, Inc. for an amount of EUR 2.6 million. The proportion voting rights held by Kendrion Holding USA Inc. is 30%. During 2020 an additional investment of EUR 0.3 million was effectuated.

Other investments in 2020 include financial derivatives and recognised upfront and legal fees related to the facility agreement (see note 11). 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 the following jurisdictions:

Germany

Tax assessments have been submitted for the German companies up to and including 2018. In 2020 tax audits started with regard to the assessment periods 2015-2018 with reference to our Northern Germany operating companies (tax assessment up to and 2014 are final) and assessment periods 2015-2018 with respect to our Southern Germany operating companies (tax assessments up to and 2014 are final).

At 31 December 2020, the tax loss carry forwards amounted to EUR 3.8 million (2019: EUR 8.9 million) (Trade Tax) and EUR 0 million (2019: 11.4 million) (Corporate Income Tax). These are recognised in full, resulting in deferred tax assets of EUR 0.5 million (2019: EUR 2.7 million).

United States of America

Tax assessments have been submitted up to and including 2019. The years 2017 up to 2020 are open for tax audits. At 31 December 2020, the tax loss carry forwards amounted to EUR 7.9 million (2019: EUR 3.8 million) (Corporate Income Tax) and EUR 4.2 million (2019: EUR 1.8 million) (State Tax). These are recognised in full, resulting in deferred tax assets of EUR 1.7 million (2019: EUR 0.8 million).

The Netherlands

Tax assessments have been submitted up to and including 2018. The years 2014 up to 2020 are still open for potential tax audits. At 31 December 2019, the tax loss carry-forwards amounted to EUR 2.5 million (2019: EUR 2.0 million). These are recognised in full, resulting in deferred tax assets of 0.6 million (2019: EUR 0.4 million). These tax loss carry-forwards originated in 2012 and 2019. The Dutch corporate income tax rate will not change in

the near future despite earlier communication that it would decrease from 25% in 2019 and 2020 to 21,7% in 2021. This means that deferred tax positions as per 31 December 2020 are revalued and had a positive impact of EUR 0.4 million on net deferred taxes as per 31 December 2020.

Uncertainty over income tax treatments

In 2016 a tax audit started for the years 2010-2014 for a German fiscal unity. For the outcome of this tax audit a liability was accounted for, amounting to EUR 4.9 million (2019: 2.4 million), which includes the estimated impact on subsequent years. This is compensated by assets totaling to EUR 2.4 million for Mutual Agreement Procedures in the Netherlands, UK and Czech Republic, effectively leading to a net position of EUR 2.5 million.

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	
	2020	2019	2020	2019	2020	2019
Property, plant and equipment	1.3	2.0	4.1	5.5	(2.8)	(3.5)
Intangible assets	6.6	2.8	11.2	4.7	(4.6)	(1.9)
Inventories	0.1	0.3	0.3	0.3	(0.2)	0.0
Employee benefits	1.8	1.8	–	–	1.8	1.8
Provisions	–	0.5	–	0.1	–	0.4
Other items	2.6	2.9	0.3	0.0	2.3	2.9
Tax value of recognised loss carry-forwards	6.8	4.2	–	–	6.8	4.2
Deferred tax assets/liabilities	19.2	14.5	15.9	10.6	3.3	3.9

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 longer than five years.

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 set off. 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 if the probability of future taxable profits improves. 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.

The tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position are reviewed each reporting date. These tax losses carry forward for which no deferred tax assets are recognised in the statement of financial position amount to EUR 0.1 million (expires in period 2024-2029) (2019: EUR 4.0 million).

Movement in temporary differences during the financial year

	2020			
	Recognised			At 31 December
	At 1 January	Recognised in profit or loss	in other comprehensive income	
Property, plant and equipment	(3.5)	0.7	–	(2.8)
Intangible assets	(1.9)	(2.7)	–	(4.6)
Inventories	0.0	(0.2)	–	(0.2)
Employee benefits	1.8	0.6	(0.6)	1.8
Provisions	0.4	(0.4)	–	–
Other items	2.9	(0.6)	–	2.3
Tax value of loss carry-forwards used	4.2	2.6	–	6.8
	3.9	(0.0)	(0.6)	3.3

	2019			
	Recognised			At 31 December
	At 1 January	Recognised in profit or loss	in other comprehensive income	
Property, plant and equipment	(3.2)	(0.3)	–	(3.5)
Intangible assets	(1.7)	(0.2)	–	(1.9)
Inventories	0.1	(0.1)	–	0.0
Employee benefits	1.6	(0.2)	0.4	1.8
Provisions	0.2	0.2	–	0.4
Other items	2.0	0.9	–	2.9
Tax value of loss carry-forwards used	4.0	0.2	–	4.2
	3.0	0.5	0.4	3.9

5 Contract costs

EUR million	2020	2019
Balance at 1 January	0.7	0.4
Costs to obtain a contract with customers	–	0.4
Amortisation	(0.1)	(0.1)
Other changes	–	–
Balance at 31 December	0.6	0.7

From time to time, the Group acquires contracts with customers, for which costs are made to acquire these contracts. Those costs are recognised as contracts costs. Contract costs are amortised on a systematic basis that is consistent with the Group's transfer of the related goods to the customer.

6 Inventories

EUR million	2020	2019 ¹
Raw materials, consumables, technical materials and packing materials	38.8	33.2
Work in progress	10.9	11.4
Finished goods	10.0	8,6
Goods for resale	2.0	2.2
	61.7	55.4

The inventories are presented after accounting for a provision of EUR 9.0 million (2019: EUR 9.2 million) for obsolescence. In 2020, the amount of the write-down to net realisable value of the inventories was EUR 1.7 million (2019: EUR 1.5 million). The write-down and reversals are included in cost of sales.

7 Trade and other receivables

EUR million	2020	2019
Trade receivables	47.2	42.9
Other taxes and social security	2.4	1.7
Other receivables	1.9	1.1
Derivatives used for hedging	0.6	0.3
Prepayments	1.3	1.1
	53.4	47.1

The credit and currency risks associated with trade and other receivables are disclosed in note 17, and in the financial risk management paragraph of note r. The provision for doubtful debts amounts to EUR 0.7 million (2019: EUR 0.5 million).

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

8 Cash and cash equivalents

EUR million	2020	2019
Bank balances	13.0	7.1
Bank overdrafts	(4.5)	(2.5)
Cash and cash equivalents in the statement of cash flows	8.5	4.6

The bank balances include EUR 0.7 million (2019: EUR 0.8 million) of cash that is held in countries where the Group faces cross-border foreign exchange controls and/or other legal restrictions that inhibit the Groups ability to make these balances available for general use by the Group. The other 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 17 and r.

9 Capital and reserves

Capital and share premium

	Shares entitled to dividend		Shares owned by Kendrion		Total number of issued shares	
	2020	2019	2020	2019	2020	2019
At 1 January	14,753,533	13,396,013	180,451	178,852	14,933,984	13,574,865
Issued shares	–	1,593,078	–	(235,592)	–	1,357,486
Issued shares (share dividend)	–	159,923	–	(159,923)	–	–
Issued registered shares (share plan)	2,654	1,633	(2,654)	–	–	1,633
Delivered shares	10,294	162	(10,294)	(162)	–	–
Repurchased shares	–	(397,276)	–	397,276	–	–
At 31 December	14,766,481	14,753,533	167,503	180,451	14,933,984	14,933,984

Issuance of ordinary shares

In 2020, in total 2,654 new shares were issued (2019: 1,754,634). During 2020, the Company delivered 12,848 shares to the Executive Board and senior management as part of its share plan and remuneration packages (2019: 1,795). The Company purchased 0 of its own shares in 2020 (2019: 397,276).

Ordinary shares

The authorised share capital consists of:

EUR million	2020	2019
40,000,000 ordinary shares of EUR 2.00	80.0	80.0
Issued share capital		
Balance at 1 January 2020: 14,933,984 ordinary shares (2019: 13,547,865)	29.9	27.1
Balance at 31 December 2020: 14,933,984 ordinary shares (2019: 14,933,984)	29.9	29.9

Share premium

EUR million	2020	2019
Balance as at 1 January	51.7	39.8
Dividend payment	–	(11.7)
Share premium on issued shares	–	23.6
Balance as at 31 December	51.7	51.7

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 hedge reserve increased by EUR 0.2 million due to the realisation of hedged transactions (2019: EUR 0.3 million increase). The hedge reserve increased by EUR 0.0 million due to valuation effects (2019: EUR 0.0 million decrease). There was no hedge ineffectiveness in 2020 (2019: no hedge ineffectiveness).

Reserve for own shares (treasury shares)

The reserve for the Company's own shares comprises the shares held by the Company for issuance of share dividend and the remuneration packages for the Executive Board. At 31 December 2020, the Company held 167,503 of its own shares (2019: 180,451).

Other reserves

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

Retained earnings

In 2020, the result for 2019 was fully transferred to other reserves. Retained earnings in the 2020 financial statements consequently consist solely of the result for 2020.

Dividends

The board of directors proposed dividends of 0.25 cents (2019: 0.87 cents) per qualifying ordinary share to be paid on 30 April 2020. However, due to the COVID-19 coronavirus pandemic, the board of directors decided on 7 April 2020 to cancel those proposed 2020 dividends, totalling EUR 3.7 million on qualifying ordinary shares, and not to declare any discretionary dividend payments during 2020. The board of directors believes that the headroom generated by this decision was prudent given the uncertainties arising from the COVID-19 pandemic.

After the reporting date, the following dividends were proposed by the board of directors. The dividends have not been recognised as liabilities and there are no tax consequences.

EUR million	2020	2019
0.40 cents per qualifying ordinary share (2019: 0.25 cents)	5.9	–

10 Earnings per share

Basic earnings per share

The calculation of the basic earnings per share at 31 December 2020 is based on the profit for the period of EUR 4.3 million (2019: EUR 8.3 million) attributable to the holders of ordinary shares and the weighted average number of shares outstanding during the year 2020: 14,764,000 (2019: 13,466,000).

EUR million	2020	2019 ¹
Net profit attributable to ordinary shareholders	4.3	8.3

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Weighted average number of ordinary shares

In thousands of shares	2020	2019 ¹
Issued ordinary shares at 1 January	14,934	13,575
Effect of shares issued	–	1,357
Effect of shares issued as share dividend	–	–
Effect of shares issued as share plan	–	2
Effect of own shares delivered and repurchased	–	–
Ordinary shares outstanding at 31 December	14,934	14,934
Weighted average number of ordinary shares entitled to dividend	14,764	13,466
Basic earnings per share (EUR), based on ordinary shares outstanding at 31 December	0.29	0.55
Basic earnings per share (EUR), based on weighted average	0.29	0.61

Diluted earnings per share

The calculation of the diluted earnings per share at 31 December 2020 is based on the profit of EUR 4.3 million (2019: EUR 8.3 million) attributable to the holders of ordinary shares and the weighted average numbers of shares during the year after adjustment for the effects of all dilutive potential ordinary shares of 14,765,000 (2019: 13,484,000).

EUR million	2020	2019 ¹
Net profit attributable to ordinary shareholders	4.3	8.3
Effect of dilution	(0.0)	(0.0)
Net profit attributable to ordinary shareholders (diluted)	4.3	8.3

Weighted average number of ordinary shares (diluted)

In thousands of shares	2020	2019 ¹
Weighted average number of ordinary shares entitled to dividend	14,764	13,466
Weighted average numbers of ordinary shares (diluted)	14,765	13,484
Basic earnings per share (EUR), based on weighted average (diluted)	0.29	0.61

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

11 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 rates, and the currency and liquidity risks borne by the Group, see note 17 and accounting policy r.

EUR million	2020	2019
Non-current liabilities		
Bank syndicate loans	85.0	35.0
Lease liabilities	12.9	12.3
Mortgage loans	0.8	1.6
Other loans	5.5	–
	104.2	48.9
Current liabilities		
Current portion lease liabilities	2.5	2.4
Current portion loans	5.0	0.7
	7.5	3.1

At 31 December 2020, the Group had the following credit lines available:

- EUR 150 million revolving Credit Facility with a syndicate of three banks consisting of HSBC, Deutsche Bank and ING Bank.
The Credit Facility is committed until 27 July 2023 and includes an option (accordion option) to increase the facility by a maximum of EUR 75.0 million and the possibility to attract additional alternative sources of debt funding;
- EUR 9.7 million other loans acquired through business combinations in 2020, with maturities in 2021 – 2026;
- EUR 15.4 million in leases for buildings, various equipment and vehicles;
- EUR 1.6 million mortgage loan for the premises of the Kuhnke facilities in Malente, Germany. The loan ultimately matures in 2022;
- EUR 5.7 million in other overdraft facilities.

At 31 December 2020, the total unutilised amount of the facilities was approximately EUR 65 million.

Banking syndicate credit facility

Pursuant to the terms of the credit facility and the agreed covenant relief with the banking syndicate, the Group has agreed to a financial covenant relating to the leverage ratio (interest bearing debt / EBITDA). In accordance with this covenant, the leverage ratio should remain below 4.70 at year-end 2020, below 5.80 per the end of Q1 2021, below 4.75 per the end of Q2 2021, below 3.90 per the end of Q3 2021 and below 3.25 at year-end 2021 and thereafter. After the covenant relief period the leverage ratio can be temporarily increased to a maximum of 3.75 under certain circumstances. This

covenant is tested quarterly on a 12-month rolling basis. The actual leverage ratio at year-end was 2.3 (2019: 1.1). In addition, the Group has agreed to a EUR 25 million minimum liquidity covenant during the period in which an increased leverage covenant is applicable. Other restrictions include a limit on capital expenditure in excess of the companies' FY 2021 budget. Provided that the leverage ratio remains below 3.25, the company has the right to request a termination of the waiver before 31 December 2021. Upon termination of the waiver period the additional restrictions will be lifted and conditions of the original credit agreement will apply.

Security provided

The Group has provided a mortgage on its premises in Malente, Germany for a EUR 1.6 million loan. A positive pledge is relevant in relation to the EUR 150 million revolving Credit Facility.

Interest-rate sensitivity

Interest on the EUR 1.6 million mortgage loan is based on fixed-term interest rates. Interest amounts payable on the EUR 150 million revolving Credit Facility are based on short-term interest rate (mainly three months). The other loans of EUR 9.7 million and leases of EUR 15.4 million both have fixed interest rates.

See note 17 and accounting policy r for further details.

Lease liabilities

The lease liabilities are payable as follows:

EUR million	2020	2019
< 1 year	2.5	2.4
1 - 5 years	10.9	9.5
> 5 years	2.0	2.8
	15.4	14.7

The lease liabilities mostly relate to leases for various buildings & vehicles.

Buildings

The Group leases properties for its offices and manufacturing facilities. Some lease arrangements contain conditions to revise the rentals based on changes of indices. The leases run for a period between 3 and 15 years. Majority of the leases include an option to renew the lease for an additional period after the contract term. Key assumption as applied by the Group is that all renewal options, which can be exercised within the mid-term plan period of five years and very likely to be exercised, are taken into consideration on top of the non-cancellable period of the lease.

Vehicles and equipment

The Group leases equipment with terms of two to five years. Based on experience the likelihood that these lease arrangements are extended for a substantial period (> three months) is remote. Due to this no periods after the non-cancellable period of the lease are taken into consideration.

12 Employee benefits

EUR million	2020	2019
Present value of unfunded obligations	12.5	15.7
Present value of funded obligations	1.3	1.4
Fair value of plan assets	(0.9)	(0.9)
Recognised net liability for defined benefit obligations	12.9	16.2
Liability for long-service leave and anniversaries	2.6	3.6
Total employee benefits	15.5	19.8

The table shows a reconciliation from the opening to the closing balances for the net defined benefit liability and its components:

EUR million	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2020	2019	2020	2019	2020	2019
Balance at 1 January	17.1	15.9	0.9	0.9	16.2	15.0
Included in statement of comprehensive income						
Current service cost	0.1	0.1	–	–	0.1	0.1
Past service cost	–	–	–	–	–	–
Interest cost (income)	0.1	0.2	0.0	0.0	0.1	0.2
	0.2	0.3	0.0	0.0	0.2	0.3
Included in OCI						
Remeasurement loss (gain):						
- Actuarial loss (gain) arising from:						
- Demographic assumptions	0.0	0.1	0.0	0.0	0.0	0.1
- Financial assumptions	0.2	1.7	–	–	0.2	1.7
- Experience adjustment	(2.5)	0.1	–	–	(2.5)	0.1
- Return on plan assets excluding interest income	–	–	–	–	–	–
Effect of movements in exchange rates	–	–	–	–	–	–
	(2.3)	1.9	0.0	0.0	(2.3)	1.9

EUR million	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2020	2019	2020	2019	2020	2019
Other						
Contributions paid by the employer	–	–	–	–	–	–
Benefits paid	(1.2)	(1.0)	(0.0)	(0.0)	(1.2)	(1.0)
	(1.2)	(1.0)	(0.0)	(0.0)	(1.2)	(1.0)
Balance at 31 December	13.8	17.1	0.9	0.9	12.9	16.2

The decrease of the defined benefit obligation, specifically the experience adjustment of EUR 2.5 million negative, mainly relates to the passing of a former board member of one of the operating companies.

Actuarial calculations of employee benefits have not been materially influenced by amendments based on historical experience or by variable assumptions. The change compared to last year mainly relates to the passing of a former board member that made up a large portion of the DBO in one of the Group companies.

The Group contributes to the following post-employment defined benefits plans in several countries, mainly in Germany. Below the characteristics of the major plans are included.

- A direct commitment in the form of capital has been agreed upon with the employees, who directly receive this commitment as an one-off payment upon retirement. An alternative version is a plan where the employees receive monthly payments instead of an one-off payment. The plans are reviewed on periodic basis.
- The DB plan entitles a retired employee to receive a monthly pension payment. The amount of these payments is based on individual contracts with the respective employee. The person has to be employed for a certain time. Each further year of employment the employee receives an amount in addition to the contractual fixed amount.

The defined benefit plans are administered by multiple pension funds which are legally separated from the Group. The board of the pension fund is required to act in the best interest of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the fund.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk.

The expenses relating to the defined benefit pension arrangements are included in the following line items of the statement of comprehensive income:

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

EUR million	2020	2019
Staff costs	0.1	0.1
Net finance costs	0.1	0.2
	0.2	0.3

Principal actuarial assumptions (expressed as weighted averages)

	2020	2019
Discount rate at 31 December	0.4%	0.4%
Future salary increases	1.9%	0.1%
Future pension increases	1.6%	1.6%

Composition plan assets

EUR million	2020	2019
Bonds	0.8	0.8
Equity	0.0	0.0
Real estate	0.0	0.0
Government loans	0.1	0.1
Other	0.0	0.0
Total	0.9	0.9

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Sensitivity analysis

EUR million	Defined benefit obligation	
	Increase	Decrease
Discount rate (0.5 percent)	(0.6)	0.7
Future salary growth (1.0 percent)	0.5	(0.5)
Future pension (1.0 percent)	1.1	(1.0)
Future mortality (1.0 percent)	(0.1)	0.1

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown. The method for preparing the sensitivity analyses did not changed from prior year.

Assumptions regarding future longevity have been based on published statistics and mortality tables.

At 31 December 2020, the weighted-average duration of the defined benefit obligation was 9.5 years (2019: 10.6 years). The expected payment for 2021 amounts to EUR 1.2 million (2019: EUR 1.3 million).

Liabilities arising from employee benefits

The pension plans included defined contribution plans as well as 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 in the statement of financial position represents the present value of the defined benefit obligation at the financial position date minus the fair value of the plan assets at this date. The discount rate methodology for accounting long-term employee benefits in accordance with IAS 19 is determined by the Executive Board. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The discount rate used to calculate the defined benefit obligation is based on the yield on AA-rated high-quality corporate bonds issued in Euros.

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. External 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.

The greater part of the defined benefit obligation at year-end 2020 relates to post employment arrangements in Germany, with a small part in Austria. The group companies account individually for the pension schemes. The individual group company is fully liable for its benefit obligation. A portion for the German group companies is reinsured. All pension arrangements accounted for as defined benefit obligations are not open for new participants (< 15% active participants).

Liabilities arising from employee benefits also include liabilities relating to long-service, early retirement and service anniversaries of EUR 2.6 million (2019: EUR 3.6 million) in Germany and Austria.

13 Share-based payments

At 31 December 2020, the Group had the following share-based payment arrangements.

Share plan for the Executive Board (equity settled)

Details of the remuneration of the Executive Board are provided in note 29.

Share plan for the Management Team (equity settled)

In 2020, 28,380 conditional performance shares were granted to the Management Team (2019: 14,177). The conditional performance shares granted will vest upon achievement of performance measured over a three-year period (2020-2022). The number of conditional shares granted is calculated on the basis of the average share price during Q4 2019, which amounts to EUR 19.96.

Loyalty bonus (equity settled)

Until 2018, the Company maintained a share incentive scheme, which entitled eligible employees to purchase shares in the Company for an amount up to 50% of their respective net cash bonuses. Employees who retain the shares purchases for a period of three years, and remain employed by the Company during this three year period, will be granted a number of shares equal to the number of shares purchased with their net cash bonus. Pursuant to this incentive scheme, 2,654 shares were allocated in 2020 (2019: 1,817). This number equals the number of shares purchased by eligible employees with their 2016 cash bonuses, and which were subsequently credited to their securities account after the general meeting of shareholders in 2017 (i.e. three-year vesting period 2017-2019). Expenses recognised in profit or loss for the shares amount to EUR 0.1 million (2019: EUR 0.1 million).

Terms & conditions of the share programme (loyalty bonus)

	Number of instruments	Vesting period
Shares purchased by eligible employees in 2020 with 2016 cash bonus and credited to their securities account after AGM in 2017 (share price on grant date EUR 30.30)	2,654	2017-2019
Shares to be purchased in 2021 by eligible employees with 2017 cash bonus and credited to their securities account after AGM in 2018 (share price on grant date EUR 33.65)	3,913	2018-2020
Total shares	6,567	

14 Provisions

EUR million	2020	2019
Balance at 1 January	1.4	2.2
Provisions made during the period	2.2	1.0
Provisions transferred/used during the period	(1.4)	(1.7)
Provisions released during the period	(0.0)	(0.1)
Balance at 31 December	2.2	1.4
Non-current portion	0.7	-

The provisions consist of a restructuring provision of EUR 0.5 million (2019: EUR 1.0) and a provision for the interest portion of the tax audits of EUR 0.8 million (2019: EUR 0.4). The remainder of the restructuring provision is expected to be used in the course of 2021, however the exact timing is not known yet. The amounts and timing of the outflows related to the tax audits are still uncertain.

15 Contract liabilities

EUR million	2020	2019
Balance at 1 January	6.6	8.2
Consideration received	–	–
Recognised as revenue in the period	(1.1)	(1.6)
Other changes	–	–
Balance at 31 December	5.5	6.6

The contract liabilities relate to long-term advance consideration received from customers for investments made in equipment in order to fulfil the obligations according to the contract. Considerations are received and based on a mark-up on top of contractual agreed piece price during a certain period of time. Recognition is consistent with the Group's transfer of the related goods to the customer and released to profit or loss on a systematic basis that is consistent with depreciation and amortisation of related equipment.

16 Trade and other payables

EUR million	2020	2019
Trade payables	44.0	41.3
Other taxes and social security contributions	2.8	1.2
Derivatives used for hedging	0.2	0.2
Non-trade payables	5.6	4.9
Accrued expenses	12.6	11.4
	65.2	59.0

17 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	2020	2019
Cash and cash equivalents	13.0	7.1
Other long-term investments	3.0	2.7
Current income tax	1.4	2.7
Trade and other receivables	53.4	47.1
Total	70.8	59.6

Impairment losses

Aging analysis of the trade and other receivables

EUR million	2020		2019	
	Gross	Provision	Gross	Provision
Within the term of payment	41.5	–	37.2	–
0 – 30 days due	8.0	–	7.1	–
31 – 60 days due	1.8	–	1.1	–
> 60 days due	2.8	(0.7)	2.2	(0.5)
Total trade and other receivables	54.1	(0.7)	47.6	(0.5)

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 2020 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 2020 are collectible. This system gives the same outcome as the cash shortfall model as described in IFRS 9. EUR 4.6 million of trade receivables are more as 30 days overdue, of which EUR 0.7 million is provided for. The Group has written off EUR 0.3 million receivables in 2020 (2019: EUR 0.3 million), which are recognised under other operating expenses in the statement of comprehensive income.

The customer with the largest trade receivables outstanding accounted for 4% of the trade and other receivables at 31 December 2020 (2019: 8%). 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.

Credit risk rating grades

The credit quality of the Group's financial assets, contract assets and financial guarantee contracts, as well as the Group's maximum exposure to credit risk by credit risk rating grades on the reporting date was as follows:

31 December 2020							2020
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk – Doubtful	Lifetime ECL	47.9	(0.7)	47.2
Contract costs	5	N/A	Low risk	Lifetime ECL	0.6	–	0.6
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	2.3	–	2.3
Other investments	3	N/A	Low risk	Lifetime ECL	0.8	–	0.8
					51.6	(0.7)	50.9

31 December 2019							2019
	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	7	N/A	Low risk – Doubtful	Lifetime ECL	43.4	(0.5)	42.9
Contract costs	5	N/A	Low risk	Lifetime ECL	0.7	–	0.7
Equity-accounted investee	3	N/A	Low risk	Lifetime ECL	2.3	–	2.3
Other investments	3	N/A	Low risk	Lifetime ECL	0.4	–	0.4
					46.8	(0.5)	46.3

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.

In response to the COVID-19 pandemic and its (potential) impact on global economies and supply chains, Kendrion has taken several steps to protect its liquidity position. Besides taking several measures to reduce costs, working capital and capital expenditure, Kendrion has reached an agreement with its banking syndicate on temporarily increased leverage covenants. The amended banking agreement allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from 31 December 2021 onwards. Although Kendrion currently operates well within its existing leverage covenants, the agreed covenant relief is designed to assure that Kendrion will continue to be able to invest in its longer-term growth opportunities, also in case of additional unforeseen circumstances as a result of COVID-19.

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

31 December 2020 EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
Non-derivative financial liabilities							
Bank syndicate loans	85.0	(88.5)	(0.7)	(0.7)	(1.4)	(85.7)	–
Lease liabilities	15.4	(17.3)	(1.4)	(1.4)	(2.8)	(8.2)	(3.5)
Bank overdrafts	4.5	(4.5)	(4.5)	–	–	–	–
Other loans and borrowings	11.3	(11.6)	(3.8)	(1.3)	(2.5)	(3.4)	(0.6)
Trade and other payables	70.7	(70.7)	(70.7)	–	–	–	–
Tax liabilities	5.2	(5.2)	(5.2)	–	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.2	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	192.3	(198.1)	(86.4)	(3.5)	(6.8)	(97.3)	(4.1)
31 December 2019							
EUR million	Carrying amount	Contractual cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
Non-derivative financial liabilities							
Bank syndicate loans	35.0	(36.2)	(0.2)	(0.2)	(0.3)	(35.5)	–
Lease liabilities	14.7	(16.2)	(1.3)	(1.3)	(2.7)	(7.1)	(3.8)
Bank overdrafts	2.5	(2.5)	(2.5)	–	–	–	–
Other loans and borrowings	2.3	(2.4)	(0.4)	(0.4)	(0.8)	(0.8)	–
Trade and other payables	65.6	(65.6)	(65.6)	–	–	–	–
Tax liabilities	2.6	(2.6)	(0.3)	(2.3)	–	–	–
Derivative financial liabilities							
Interest rate swap contracts	0.2	(0.3)	(0.1)	(0.1)	(0.1)	–	–
Forward exchange contracts	–	–	–	–	–	–	–
Total	122.9	(125.8)	(70.4)	(4.3)	(3.9)	(43.4)	(3.8)

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.

Cash flow hedges (in statement of cash flows)

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

2020 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	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–
Forward exchange contracts							
Assets	0.4	0.4	0.3	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	–	–	–	–
Total	0.2	0.1	0.2	–	(0.1)	(0.0)	–

2019 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	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	–	–
Forward exchange contracts							
Assets	0.3	0.3	0.2	0.1	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	(0.0)	–	–	–
Total	0.1	(0.0)	0.1	(0.0)	(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.

2020	Carrying	Contractual						
EUR million	amount	cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
Interest rate swap contracts								
Assets	–	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	–	–
Forward exchange contracts								
Assets	0.4	0.4	0.3	0.1	–	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	–	–	–	–	–
Total	0.2	0.1	0.2	–	(0.1)	(0.0)	–	–

2019	Carrying	Contractual						
EUR million	amount	cash flows	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
Interest rate swap contracts								
Assets	–	–	–	–	–	–	–	–
Liabilities	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	–	–	–
Forward exchange contracts								
Assets	0.3	0.3	0.2	0.1	–	–	–	–
Liabilities	(0.0)	(0.0)	(0.0)	(0.0)	–	–	–	–
Total	0.1	(0.0)	0.1	(0.0)	(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 75 million (2019: EUR 55 million). The aggregate fair value of the outstanding interest rate swaps at 31 December 2020 was EUR 0.2 million negative (2019: EUR 0.2 million negative).

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 equalises the nominal interest rate. The EUR 1.6 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. The other loans were acquired through business combinations in 2020 and initially recorded at fair value.

	Currency	Nominal interest	Year of redemption	2020		2019	
				Fair value	Carrying amount	Fair value	Carrying amount
Banking syndicate loans	EUR	IBOR + 1.7%	2023	85.0	85.0	35.0	35.0
Mortgage loan	EUR	6.4%	2022	1.6	1.6	2.4	2.3
Other loans	EUR	1.2-2.0%	2021-2026	9.7	9.7	–	–
Bank overdrafts China	CNY	PBOC +1.0%	2021	2.1	2.1	2.5	2.5
Bank overdrafts - other	Various	IBOR + 0.8%	2021	2.3	2.4	–	–
Lease liabilities	Various	2.0% - 7.8%	Various	15.5	15.4	14.7	14.7
Total interest-bearing debt				116.2	116.2	54.6	54.5

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 2020 would not have had a material effect on the 2020 profit for the period.

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 86.6 million of the EUR 100.8 million long-term and short-term loans, excluding lease liabilities, 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 2021, will have an increasing effect on interest expenses in 2021 of maximum EUR 0.1 million.

Exchange rate risk

The aggregate fair value of the outstanding forward exchange rate contracts concluded to hedge anticipated transactions was EUR 0.4 million positive at 31 December 2020 (2019: positive EUR 0.3 million).

A 10%-point appreciation of the currencies listed hereafter against the euro would increase shareholders' equity at 31 December 2020 and the result for 2020 by the amounts shown in the following table. 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 would have had an impact as is shown below.

31 December 2020	Equity	Result
US dollar	4.3	0.3
Czech koruna	0.9	(0.2)
Chinese yuan	2.9	0.7
Romanian lei	1.5	0.1
Indian rupee	0.4	0.1

31 December 2019	Equity	Result
US dollar	5.2	0.1
Czech koruna	0.7	(0.2)
Chinese yuan	1.3	0.2
Romanian lei	1.4	0.2

Principal exchange rates during the reporting period were as follows:

Applicable currency rates

Value of EUR	At 31 December 2020	At 31 December 2019	Average over 2020
Pound sterling	0.8990	0.8508	0.8855
Czech koruna	26.2419	25.4078	26.3852
Chinese yuan	8.0225	7.8205	7.8887
US dollar	1.2271	1.1234	1.1433
Romanian lei	4.8683	4.7830	4.8375
Swedish krona	10.0343	10.4468	10.4654

Fair values of financial instruments

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

EUR million	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised costs				
Receivables (including current tax assets)	54.8	54.8	49.8	49.8
Cash and cash equivalents	13.0	13.0	7.1	7.1
Held to maturity investments	3.0	3.0	2.7	2.7
	70.8	70.8	59.6	59.6
Liabilities carried at amortised costs				
Banking syndicate loans	(85.0)	(85.0)	(35.0)	(35.0)
Mortgage loan	(1.6)	(1.6)	(2.3)	(2.4)
Other loans	(9.7)	(9.7)	–	–
Lease liabilities	(15.4)	(15.4)	(14.7)	(14.7)
Bank overdraft	(4.5)	(4.5)	(2.5)	(2.5)
Trade and other payables (including current tax liabilities)	(75.9)	(75.9)	(68.2)	(68.2)
	(192.1)	(192.1)	(122.7)	(122.8)
Liabilities carried at fair value				
Interest derivatives	(0.2)	(0.2)	(0.2)	(0.2)
Forward exchange contracts	–	–	–	–
	(0.2)	(0.2)	(0.2)	(0.2)

The Group has no available for sale financial assets and all liabilities at fair value were designated as such upon initial recognition.

The loans and receivables consist of the trade and other receivables, including the current tax assets in the statement of financial position.

The forward exchange contracts and interest derivatives 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, augmented by the prevailing credit mark-up, and is as follows:

	2020	2019
Derivatives	0.0%	0.0%
Leases	1.7%	0.9%
Banking syndicate loans	1.7%	0.9%
Mortgage loans	1.2%	0.7%
Other loans	1.2%	0.7%

Fair value hierarchy

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The fair value calculation method of all assets and liabilities carried at amortised costs is 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 2020				
Derivative contracts used for hedging	–	0.2	–	0.2
Total	–	0.2	–	0.2
31 December 2019				
Derivative contracts used for hedging	–	0.1	–	0.1
Total	–	0.1	–	0.1

Master netting

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

18 Leases

The group leases buildings, cars, office equipment and forklifts. The lease term varies between 3 to 15 years. For buildings an option to renew the lease after the lease period is customary. Information about leases for which the Group is a lessee is presented on several places throughout the financial statement:

- total cash outflow for leases is included in the consolidated statement of cash flows for repayments of lease liabilities (EUR 2.9 million (2019: EUR 2.5 million)) and in note 26 for interest (EUR 0.6 million (2019: EUR 0.6 million));
- the carrying amount of right-of-use assets at the end of the reporting period by class of underlying assets, addition to these assets and the depreciation charge for these assets are included in note 1;
- interest expense on lease liabilities are included in note 25;
- expenses relating to short-term leases or low-value assets amount to EUR 0.2 million (2019: 0.2 million).

19 Capital commitments

As at 31 December 2020 the Group had capital commitments totalling to EUR 5.4 million (2019: EUR 4.3 million).

20 Contingent assets and liabilities

Contingent liabilities

The Group had guarantees in particular with regard to rentals, financing facilities and post employee benefits totalling to EUR 1.6 million (2019: EUR 1.5 million).

The Group has divested itself of a number of 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 warranties for potential (tax) claims relating to periods prior to the various divestment dates.

21 Operating segments

The Group, in accordance with IFRS 8, has included 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 ¹	
	2020	2019	2020	2019	2020	2019
Revenue from transactions with third parties	219.4	223.1	90.3	109.7	46.8	27.4
Other non-current assets	209.9	162.9	33.9	35.2	16.4	10.7
Deferred tax assets	9.3	8.4	4.7	3.1	2.1	0.0
Net liability for defined benefit obligations	12.2	15.3	0.7	0.9	–	–

EUR million	The Americas		Consolidated	
	2020	2019	2020	2019
Revenue from transactions with third parties	39.9	52.2	396.4	412.4
Other non-current assets	20.2	21.5	280.4	230.3
Deferred tax assets	3.1	3.0	19.2	14.5
Net liability for defined benefit obligations	–	–	12.9	16.2

Revenue segmented by customer location

EUR million	2020	2019
Germany	155.7	182.2
Other European countries	117.6	115.5
Asia	63.0	41.3
The Americas	58.0	71.6
Other countries	2.1	1.8
Total	396.4	412.4

¹ Mainly relates to China.

Information about reportable segments

Kendrion has split all activities over two segments: Automotive and Industrial. Based on the structure of the Group and the criteria of IFRS 8 – Operating segments, Kendrion has concluded that within this 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: Automotive and Industrial. The automotive activities focus on developing and manufacturing innovative high-quality electromagnetic components, solutions and applications for customers in the automotive industry. The industrial activities of the business units Industrial Brakes and Industrial Actuators and Controls focus on developing and manufacturing electromagnetic systems and components for industrial applications. These business units also have similar economic characteristics and display a number of similarities with respect to their technology, production processes, equipment and customers.

EUR million	Industrial		Automotive		Consolidated	
	2020	2019 ²	2020	2019 ²	2020	2019 ²
Revenue from transactions with third parties	190.3	153.6	206.1	258,8	396.4	412.4
Inter-segment revenue	0.0	0.0	0.1	0.1	0.1	0.1
EBITDA	26.3	17.1	13.9	21.0	40.2	38.1
EBITDA as a % of revenue	13.8%	11.1%	6.7%	8.1%	10.1%	9.2%
EBITA	17.8	10.4	(3.3)	3.7	14.5	14.1
EBITA as a % of revenue	9.3%	6.8%	(1.6)%	1.4%	3.7%	3.4%
EBITDA ¹	29.1	18.8	15.5	25.0	44.6	43.8
EBITDA as a % of revenue ¹	15.3%	12.2%	7.5%	9.7%	11.3%	10.6%
EBITA ¹	20.7	12.1	(1.8)	7.7	18.9	19.8
EBITA as a % of revenue ¹	10.9%	7.9%	(0.8)%	3.0%	4.8%	4.8%
Reportable segment assets	219.6	127.3	209.5	229.8	429.1	375.1
Reportable segment employees (FTE)	1,058	892	1,398	1,424	2,456	2,316

¹ Normalised for non-recurring costs of EUR 4.4 million for FY 2020 and of EUR 5.7 million for FY 2019.

² Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Major customers

Three customers (Volkswagen and ThyssenKrupp Bilstein in Automotive and Siemens in Industrial) individually account for more than 5% of the company's total revenue.

22 Business combinations and acquisitions of non-controlling interests 2020

Business combinations

On 5 November 2019 Kendrion announced that it entered into a definitive agreement to acquire 100% of the shares of the company INTORQ GmbH & Co. KG (hereinafter: INTORQ). This transaction was successfully completed on 8 January 2020, which also marks the date that Kendrion obtained control over INTORQ. From that date onwards the financial statements of INTORQ and its subsidiaries are consolidated by Kendrion and reporting in the Industrial segment. And as from 1 April onwards, INTORQ and IDS were included in a newly formed business unit Industrial Brakes (IB).

INTORQ manufactures spring-applied brakes and electromagnetic brakes and clutches for electrical drive technologies. INTORQ products are used in a diverse range of applications, including geared and servomotors, electric forklifts, wind turbines, cranes, hoists, elevators and escalators. INTORQ has production sites in Aerzen (Germany), Shanghai (China), Atlanta (the U.S.) and Pune (India) and produces approximately 1 million brakes and clutches per year. In 2019, INTORQ had annual revenues of around EUR 55 million and nearly 300 employees.

With its strong position in and deep knowledge of the spring-applied brake technology, proven product portfolio and successful and sizeable presence in Shanghai and Aerzen, INTORQ complements Kendrion's business unit Industrial Drive Systems (IDS) that has a strong position and broad product portfolio in permanent magnet brake technology. Both INTORQ and Kendrion are well-positioned to profit from growing end markets. The combination with INTORQ, creates a leading industrial brake company with a full range of high-quality industrial brakes in an expanded number of growth markets in Europe, China, the U.S. and India. Specific shared end-markets include electric motors, wind power and elevators. Complimentary markets include geared motors, forklifts, cranes and hoists.

From 8 January 2020, INTORQ contributed revenue of EUR 54 million to the Group's results. Its contribution to net profit during this period amounted to EUR 3.2 million after deduction of the charges relating to the purchase price allocation. Management considers the revenue and contribution to net profit in the period 1 January 2020 until 8 January 2020 neglectable.

Consideration transferred

The total consideration transferred amounted to EUR 64.8 million. This includes an amount of EUR 0.4 million which is payable as per 31 December 2021.

Identifiable assets acquired and liabilities assumed

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

	Carrying amount	Fair value adjustments	Recognised value
Intangible fixed assets	0.5	26.3	26.8
Property, plant and equipment	15.9	–	15.9
Deferred tax assets	0.3	4.5	4.8
Inventories	14.4	–	14.4
Trade and other receivables	7.3	–	7.3
Cash and cash equivalents	4.3	–	4.3
Deferred tax liabilities	(0.6)	(7.4)	(8.0)
Provisions	(0.1)	–	(0.1)
Loans and borrowings	(18.5)	–	(18.5)
Trade and other payables	(7.8)	–	(7.8)
Total identifiable net assets	15.6	23.5	39.1

Goodwill

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

Total consideration transferred	64.8
Fair value of identifiable net assets	(39.1)
Goodwill	25.7

The goodwill is mainly attributable to the assembled workforce, synergies expected to be achieved from tangible and well-identified cost savings including the integration of selected manufacturing sites in Europe, China and the U.S. and the value attributable to customers.

Acquisition related costs

The group incurred acquisition-related costs of EUR 1.8 million related to advisory fees, legal fees and due diligence costs. Of these costs, EUR 1.2 million were recognised in 2019 and EUR 0.6 million in 2020. The costs have been included in other operating expenses in the statement of comprehensive income.

Post acquisition

On 4 September 2020, Kendrion (Aerzen) GmbH merged with INTORQ GmbH & Co. KG (now Kendrion INTORQ GmbH) via a legal merger. Kendrion (Aerzen) GmbH was part of the business unit Industrial Brakes and was situated in Aerzen, Germany. The merger was part of the INTORQ integration plan. As a result of the merger Kendrion (Aerzen) GmbH ceased to exist.

2019

On 5 November 2019 Kendrion announced that it has entered into a definitive agreement to acquire INTORQ GmbH & Co. KG. The transaction is valued at an enterprise value of EUR 80 million (on a cash and debt free basis), representing a multiple of 10.4 times FY 2018/19 EBITDA, and 8.0 times FY 2018/19 EBITDA including expected run-rate cost synergies. INTORQ is headquartered in Aerzen (Germany). INTORQ has annual revenues of around EUR 57 million and nearly 300 employees. The closing of this transaction took place on 8 January 2020.

23 Other income

EUR million	2020	2019
Net gain on disposal of property, plant and equipment	0.0	–
Other	0.3	–
	0.3	–

24 Staff costs

EUR million	2020	2019
Wages and salaries	96.4	100.2
Social security charges	17.7	18.0
Temporary personnel	2.2	2.7
Contributions to defined contribution plans	0.5	0.3
Expenses related to defined benefit plans	0.1	0.1
Increase in liability for long-service leave	0.1	0.1
Other costs of personnel	2.5	3.2
	119.5	124.6
Total number of employees and temporary workers at 31 December (FTE)	2,456	2,316

The number of employees and temporary workers at 31 December 2020 (FTE) working in the Netherlands is 15 (2019: 11). The staff costs 2020 include EUR 1.5 million one-off costs related to the restructuring measures (2019: EUR 2.9 million) and EUR 1.1 million short-time work compensation for social security charges, from Governments in multiple countries.

25 Other operating expenses

EUR million	2020	2019
Increase in provision for doubtful debts	0.3	0.3
Premises costs	5.6	5.8
Maintenance expenses	6.1	6.1
Transport expenses	2.0	1.6
Consultancy expenses	6.9	7.2
Sales and promotion expenses	0.9	1.7
Car, travel and representation costs	1.4	2.8
Insurance	2.3	1.7
Impairment of fixed assets	2.4	0.0
Other	3.4	3.5
	31.3	30.7

Research & Development expenses (including staff and other operating expenses) for 2020 totalled EUR 28.9 million (2019: EUR 27.1 million) of which EUR 0.7 million is capitalised (2019: EUR 3.1 million).

The other operating expenses 2020 include EUR 2.9 million related to one-off costs (2019: EUR 2.9 million).

26 Net finance costs

EUR million	2020	2019
Interest income	0.0	0.1
Net exchange gain	–	2.1
Finance income	0.0	2.2
Interest expenses	(2.8)	(1.7)
Interest expenses related to lease liabilities	(0.6)	(0.6)
Interest expenses related to employee benefits	(0.1)	(0.2)
Net exchange loss	(0.6)	(0.3)
Finance expense	(4.1)	(2.8)
Net financing costs	(4.1)	(0.6)

The net exchange gain 2020 include EUR 0.0 million related to release currency translation reserve (2019: EUR 2.0 million).

The interest expenses 2020 include EUR 0.6 million one-off costs related to the impact of tax audits (2019: EUR 0.1 million).

27 Income tax

EUR million	2020	2019
Current tax charge on year under review	(1.4)	(2.7)
Total corporation tax expenses in the income statement	(1.4)	(2.7)

The income tax 2020 included EUR 0.2 million one-off costs related to the write-off tax receivable (2019: EUR 0.4 million impact tax audits).

28 Reconciliation of effective tax rate

	Reconciliation effective tax rate		Reconciliation in EUR million	
	2020	2019	2020	2019
Profit before income tax			5.7	11.0
Income tax expense at local corporation tax rate	25.0%	25.0%	1.4	2.7
Non-deductible expenses	16.0%	5.2%	0.9	0.6
Effect of tax rates in foreign jurisdictions	(3.9)%	0.2%	(0.2)	0.0
Tax exempt income	(0.3)%	(11.3)%	(0.0)	(1.2)
Changes in estimates related to prior years	(18.4)%	0.1%	(1.0)	0.0
Current-year losses for which no deferred tax asset is recognised	–	3.6%	–	0.4
Additional deductible items	1.4%	1.7%	0.1	0.2
Other movements	4.8%	0.4%	0.2	0.0
	24.6%	25.0%	1.4	2.7

The tax-exempt income mainly relates to the release of the translation reserve of a subsidiary.

The changes in estimates related to prior years mainly relate to the provision for the impact of tax audits.

29 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 are also obtained within the business units. Intercompany transactions are effectuated 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, see page 196.

Compensations of key management personnel

The remuneration of the Executive Board and Supervisory Board is as follows:

EUR thousand	2020	2019
Short-term benefits	1,453.7	1,049.9
Post-employment benefits	133.8	102.6
Other long-term benefits	–	–
Share-based payments	120.7	75.4
Termination benefits	–	–
	1,708.2	1,227.9

The total remuneration is included in staff costs (see note 23). For a description of the remuneration policy of the members of the Executive Board, see pages 85-99.

The CEO will, based on this performance, receive a variable remuneration of 65.2% of his gross fixed remuneration. The CEO's gross variable remuneration amounts to EUR 358,600 (2019: EUR 191,283) which will be paid in cash.

The CFO will, based on this performance, receive a variable remuneration of 38.1% of his gross fixed remuneration. The CFO's gross variable remuneration amounts to EUR 102,965 (2019: EUR 37,013) which will be paid in cash.

Members of the Executive Board have to invest at least 20% of the net amount of the pay-out of the short-term incentive earned until the required ownership level has been reached as prescribed under Kendrion's 'Share ownership guideline'.

The amount charged to the profit or loss regarding the long-term variable remuneration policy was EUR 120,780 (2019: EUR 75,373).

The vesting and holding periods for shares awarded to the CEO are specified as follows:

CEO (J.A.J. van Beurden)	Number of shares	Expiry vesting period	Expiry holding period
2020	16,533	Expiry performance period 2020-2022	End of 2024
2019	11,559	Expiry performance period 2019-2021	End of 2023
2018	6,960	Expiry performance period 2018-2020	End of 2022
2017*	3,383	End of 2019	End of 2021
2016*	3,970	End of 2018	End of 2020

* The long-term incentive scheme for the years 2016 and 2017 is subject to the terms of the remuneration policy applicable immediately prior to the Executive Board Remuneration Policy that was adopted in April 2018.

CFO (J.H. Hemmen)	Number of shares	Expiry vesting period	Expiry holding period
2020	6,769	Expiry performance period 2020-2022	End of 2024
2019	2,409	Expiry performance period 2019-2021	End of 2023
2018			
2017		Not applicable – effective date of appointment to the Executive Board 1 July 2019	
2016			

Pensions

The Executive Board participates in the defined contribution plan of the Company. For 2020, the contribution was EUR 31,949 (2019: EUR 31,238) for the CEO and EUR 25,905 (2019: EUR 12,664) for the CFO.

Transactions with shareholders

There were no transactions with shareholders.

Other related party transactions

As part of the INTORQ acquisition Kendrion also acquired a Related Party loan. The loan originally amounted to EUR 0.4 million, runs until June 2027 and has an interest percentage of 2%. As per 31 December 2020 the remaining outstanding amount is EUR 0.2 million. The loan is not secured.

30 Other notes

The subsidiary Kendrion Holding Germany GmbH, Villingen-Schwenningen, Germany included in these consolidated financial statements makes use of § 264(3) HGB (German Commercial Code). In accordance with that rule, the consolidated financial statements of Kendrion Holding Germany GmbH as of 31 December 2019 were not published. A complete list of all subsidiaries is available from the Amtsgericht in Freiburg im Breisgau (number HRB 704749) and from the Company offices. The following German legal entities are consolidated in these consolidated financial statements: Kendrion (Villingen) GmbH, Kendrion (Donaueschingen/Engelswies) GmbH, Kendrion (Markdorf) GmbH, Kendrion (Aerzen) GmbH, Kendrion Kuhnke GmbH,

Kendrion Kuhnke Automation GmbH, Kendrion Kuhnke Automotive GmbH, Kendrion FAS Controls Holding GmbH, Kendrion INTORQ GmbH and Ochrea Grundstücksverwaltungsgesellschaft mbh & Co Vermietungs KG.

The subsidiary Kendrion (UK) Ltd. (registration number 1124810), Bradford, United Kingdom included in these consolidated financial statements is exempt from the requirements of section 479A (audit of accounts) of the Companies Act 2006.

31 Post-balance sheet events

There were no post/balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2020.

COMPANY BALANCE SHEET AT 31 DECEMBER

(before profit appropriation)

Note	EUR million	2020	2019 ¹
	Fixed assets		
	Property, plant and equipment	0.8	0.9
	Intangible assets	0.0	0.0
	Other investments, including derivatives	0.7	0.3
1.3	Financial fixed assets	234.9	232.4
	Total non-current assets	236.4	233.6
	Current assets		
1.4	Receivables	1.0	0.5
	Cash and cash equivalents	0.0	0.0
	Total current assets	1.0	0.5
	Total assets	237.4	234.1
1.5	Equity		
	Share capital	29.9	29.9
	Share premium	51.7	51.7
	Legal reserves	5.1	12.1
	Other reserves	112.4	100.6
	Retained earnings	4.3	8.3
	Total equity	203.4	202.6
1.6	Current liabilities		
	Loans and borrowings	32.0	29.8
	Payables	2.0	1.7
	Total current liabilities	34.0	31.5
	Total equity and liabilities	237.4	234.1

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Note	EUR million	2020	2019 ¹
	Revenue	–	–
1.8	Other income	3.8	3.4
	Total revenue and other income	3.8	3.4
1.9	Staff costs	3.4	3.1
	Depreciation and amortisation	0.1	0.2
	Other operating expenses	1.2	1.9
	Result before net finance costs	(0.9)	(1.8)
	Finance income	0.1	0.1
	Finance expense	(1.0)	(1.3)
	Profit before income tax	(1.8)	(3.0)
	Income tax expense	1.6	0.1
	Profit for the period	(0.2)	(2.9)
	Share in results of Group companies after tax	4.5	11.2
1.10	Net profit	4.3	8.3

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
1 Notes to the company financial statements
1.1 General

The Company financial statements are part of the 2020 financial statements of Kendrion N.V. (the 'Company'). The Company is registered at the Chamber of Commerce in The Netherlands under number: 30113646.

1.2 Principles of valuation of assets and liabilities and determination of results

In selecting the principles employed in the company financial statements for the valuation of assets and liabilities and determination of results, 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 employed in the Company financial statements of Kendrion N.V. for the valuation of assets and liabilities and determination of results (the 'accounting policies') 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.

1.3 Financial fixed assets

EUR million	Interest in Group companies	Loans to Group companies	Deferred tax	Total 2020	Total 2019 ¹
Carrying amount at 1 January	231.9	–	0.5	232.4	224.1
Results of Group companies	4.5	–	–	4.5	11.2
Movements in loans and borrowings	–	–	–	–	–
Movements in deferred tax assets	–	–	1.6	1.6	0.1
Other movements	(3.6)	–	–	(3.6)	(3,0)
Carrying amount at 31 December	232.8	–	2.1	234.9	232.4

1.4 Receivables

EUR million	2020	2019
Receivables from Group companies	0.4	0.3
Prepayments and accrued income	0.6	0.2
	1.0	0.5

All receivables are due within one year.

¹ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

1.5 Equity

EUR million	Share capital	Share premium	Translation reserve	Hedge reserve	Reserve for participations	Reserve for own shares	Other reserves ¹	Retained earnings	Total 2020	Total 2019 ¹
Restated balance at 1 January	29.9	51.7	5.3	(0.1)	6.9	(3.7)	104.3	8.3	202.6	182.1
Appropriation of retained earnings	–	–	–	–	–	–	8.3	(8.3)	–	–
Foreign currency translation differences for foreign operations	–	–	(5.5)	–	–	–	–	–	(5.5)	(0.8)
Net change in fair value of cash flow hedges, net of income tax	–	–	–	0.2	–	–	–	–	0.2	0.3
Issue of ordinary shares	–	–	–	–	–	–	–	–	–	30.5
Own shares sold	–	–	–	–	–	–	–	–	–	3.6
Own shares repurchased	–	–	–	–	–	–	–	–	–	(7.2)
Share-based payment transactions	–	–	–	–	–	0.3	(0.1)	–	0.2	0.1
Dividend payment	–	–	–	–	–	–	–	–	–	(11.7)
Other	–	–	–	–	(1.7)	–	3.3	–	1.6	(2.6)
Total recognised income and expenses	–	–	–	–	–	–	–	4.3	4.3	8.3
Balance at 31 December	29.9	51.7	(0.2)	0.1	5.2	(3.4)	115.8	4.3	203.4	202.6

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 14,933,984 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 recognised capital.

1.5.3 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of associates outside the 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 Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

Home	Consolidated statement of financial position	Consolidated statement of profit and loss and other comprehensive income	Consolidated statement of changes in equity	Consolidated statement of cash flows	Notes to the consolidated financial statements	Company balance sheet	Company income statement
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1.5.5 Statutory reserve for participations

This reserve pertains to participating interests that are accounted for according to the equity accounting method. The reserve represents the difference between the participating interests' retained profit and direct changes in equity, as determined on the basis of the Company's accounting policies, and the share thereof that the Company may distribute. It is shown as the share in the undistributed results of the subsidiaries since they were first valued using the equity method. The amount of any dividend – from these subsidiaries – to which there is an entitlement on adoption of the financial statements is deducted from this reserve.

1.5.6 Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company shares that are held by the Company for the remuneration package for the Executive Board. At 31 December 2020, the Company held 167,503 of its own shares (2019: 180,451).

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 2020, the full result for 2019 was included in other reserves. Retained earnings consequently consist solely of the result for 2020.

1.6 Current liabilities

EUR million	2020	2019
Debts to Group companies	31.3	29.1
Lease liability	0.7	0.7
Trade payables	0.3	0.3
Other payables and accrued expenses	1.7	1.4
	34.0	31.5

1.7 Financial instruments

See note 17 to the consolidated financial statements for details on financial instruments.

1.8 Other income

EUR million	2020	2019
Management fee	3.8	3.4
Other	–	–
	3.8	3.4

1.9 Staff costs

EUR million	2020	2019
Wages and salaries	2.8	2.5
Social security charge	0.1	0.1
Pension costs	0.4	0.3
Other costs of personnel	0.1	0.2
	3.4	3.1
Total number of employees and temporary workers at 31 December (FTE)	15	11

The Company has only defined contribution plans for its employees.

1.10 Profit appropriation

Appropriation of net profit

EUR million	2020	2019 ¹
Net profit	4.3	8.3

The Executive Board has decided, with the approval of the Supervisory Board, that the net profit of EUR 4.3 million will be added to the other reserves.

1.11 Commitments not appearing on the balance sheet

1.11.1 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.

Kendrion NV has a guarantee which relates to the rent of the office in Amsterdam totalling to EUR 0.0 million.

1.11.2 Fiscal unity

The Company and its Dutch subsidiaries excluding Landfort II B.V. and Kendrion Marketing B.V. form a tax group 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 Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies.

1.12 Post-balance sheet events

There were no post-balance sheet events that have to be taken into account in the consolidated financial statements for the year ended 31 December 2020.

1.13 Fees to the auditor

With reference to Section 2:382a of the Netherlands Civil Code, the following fees have been charged by Deloitte Accountants B.V. and its member firms and affiliates in 2020 and 2019 to the Company, its subsidiaries and other consolidated entities:

EUR thousand	2020			2019		
	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte	Deloitte Accountants B.V.	Other Deloitte member firms and affiliates	Total Deloitte
Audit of financial statements	256.8	347.3	604.1	192.0	252.0	444.0
Other assurance services	30.1	–	30.1	29.6	–	29.6
Tax advisory services	–	–	–	–	–	–
Other non-audit services	–	–	–	–	–	–
Total	286.9	347.3	634.2	221.6	252.0	473.6

1.14 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 1,538,300 (2019: EUR 1,055,900). This remuneration is as follows:

EUR thousand	2020			2019		
	J.A.J. van Beurden	J. H. Hemmen	Total	J.A.J. van Beurden	J. H. Hemmen ¹	Total
Fixed remuneration	517.9	254.5	772.4	508.4	117.5	625.9
Short-term variable remuneration	358.7	102.8	461.5	191.3	37.0	228.3
Long-term variable remuneration	86.7	34.0	120.7	63.6	11.8	75.4
Total remuneration	963.3	391.3	1,354.6	763.3	166.3	929.6
Pension and other expenses	90.3	93.1	183.7	91.4	34.9	126.3
	1,053.9	484.4	1,538.3	854.7	201.2	1,055.9

¹ Appointed as of 1 July 2019.

The 2020 short-term variable remuneration will be paid in cash after income tax.

For more information on the long-term variable remuneration see pages 169-170.

Remuneration of the Supervisory Board

The total remuneration of current and former Supervisory Board members in 2020 amounts to EUR 170,000 (2019: EUR 172,000).

This remuneration is as follows:

EUR thousand	2020	2019
H. ten Hove	47	50
M.J.G. Mestrom	38	41
J.T.M. van der Meijs	38	41
E.M. Doll (appointed as of 24 June 2020)	28	–
T.J. Wünsche (stepped down as from 30 April 2020)	19	40
	170	172

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

Share ownership by the Executive Board and the Supervisory Board

		31 December 2020	31 December 2019
Executive Board	J.A.J. van Beurden	32,941	30,000
	J.H. Hemmen	2,241	872
Supervisory Board		–	–

Amsterdam, 18 February 2021

Executive Board

J.A.J. van Beurden
J.H. Hemmen

Supervisory Board

H. ten Hove
M.J.G. Mestrom
J.T.M. van der Meijs
E.M. Doll

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.

To the shareholders and the Supervisory Board of Kendrion N.V.

Independent auditor's report

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the accompanying financial statements 2020 of Kendrion N.V., registered in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2020.
2. The following statements for 2020: the consolidated statement of financial position, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2020.
2. The company profit and loss account for 2020.
3. The notes comprising a summary of the 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 "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Kendrion N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

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Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 1,200,000 (2019: EUR 1,200,000). Last year we used profit before tax in determining our materiality. Due to the effect of COVID-19 on the company's Profit Before Tax we deem this to be a less appropriate benchmark for this year's audit. We therefore utilized net assets and revenue in determining this year's materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Component audits are performed using materiality levels determined by the judgement of the group audit team, considering materiality for the consolidated financial statements as a whole and the reporting structure of the group. Component materiality did not exceed EUR 540,000.

We agreed with the Supervisory Board that misstatements in excess of EUR 60,000, 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.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and by the auditors of the components. We directed and supervised the work of our component auditors as part of the group audit. Our group audit mainly focused on significant group entities in terms of size and financial interest, significant risks or complex activities are present, leading to full scope audits performed for 15 components.

By performing 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 consolidated financial statements.

Due to COVID-19 and related travel restrictions we were unable to visit the components during our 2020 audit. To overcome this limitation, we intensified the contact with our component teams throughout the year

We have performed the following audit procedures:

- We performed audit procedures at group level in areas such as consolidation, reporting, accounting for the INTORQ acquisition, goodwill impairment testing and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.
- At group level, we have performed audit procedures regarding the corporate entities and we also performed full scope audit procedures on Kendrion (Shelby) Inc.
- For all other relevant foreign components, the group audit team provided detailed written instructions, which – in addition to communicating the requirements of component audit teams – detailed significant audit areas and information obtained centrally relevant to the audit of individual

components including awareness of risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included conference calls with component during all stages of the audit whereby fraud specialists accompanied the group engagement team at several preselected components, performing remote file reviews, attending closing meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed.

- We have performed review procedures or specific audit procedures at other group entities.

Audit coverage

Audit coverage of consolidated revenues	96%
Audit coverage of consolidated assets	94%

By performing 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 consolidated financial statements.

Scope of fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error. Non-compliance with law and regulation may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Consideration of fraud

In identifying potential risks of material misstatement due to fraud, we obtained an understanding of the group and its environment, including the entity's internal controls. We evaluated the Company's fraud risk assessment including the possible impact of this on the audit and made inquiries with management, those charged with governance and with others within the Company/Group, including but not limited to, e.g. General Counsel, Global Internal Audit & Risk Manager, Compliance Officer and Controllers. We evaluated several fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud. We involved our forensic specialists in our risk assessment, our communication with a number of component auditors and meeting with the entity's Global Internal Audit & Risk Manager. The level of involvement of our forensic specialists in the communication with our components auditors was determined based upon size and risk.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls, including evaluating whether there was evidence of bias by the Executive Board, the executive leadership team and other members of management, which may represent a risk of material misstatement due to fraud.

As part of our audit procedures to respond to these fraud risks, we evaluated the design and implementation of the internal controls relevant to mitigate these risks. We performed substantive audit procedures, including detailed testing of journal entries and evaluating the accounting estimates for bias (including retrospective reviews of prior year's estimates). We also incorporated elements of unpredictability in our audit. The procedures described are in line with the applicable auditing standards and are not primarily designed to detect fraud. Our procedures to address fraud risks did not result in a key audit matter.

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Consideration of compliance with laws and regulations

We assessed the laws and regulations relevant to the Company through discussion with relevant employees (like Chief Financial Officer, General and Legal Counsel and Global Internal Audit & Risk Manager), discussion with component teams and reading minutes of relevant meetings and reports of internal audit.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered law or regulation, adherence to (corporate) tax law and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements. In addition, we considered major laws and regulations applicable to listed companies.

Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to the Company's ability to continue its business, or to avoid material penalties (e.g. compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to (i) inquiry of management, the Supervisory Board, the Executive Board and others within the Company as to whether the Company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Because of the characteristics of fraud, particularly when it involves sophisticated and carefully organized schemes to conceal it, such as forgery, intentional omissions, misrepresentation and collusion, an unavoidable risk remains that we may not detect all fraud during our audit.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

In prior year, we included the valuation of goodwill and the general IT controls as separate key audit matters. These are also included in our 2020 report. For our 2020 report there are two new key audit matters, being bank covenants and the purchase price accounting for the INTORQ acquisition.

1. General IT controls

Description

Kendrion has operations in different countries that use one groupwide IT platform (excl. the newly acquired INTORQ entities), which is located and maintained in Villingen, Germany. In the last couple of years, management has been in the process of establishing a formal IT control framework and further enhancing the internal controls surrounding the overall IT environment. We consider Kendrion's IT landscape and general IT controls over financial reporting as our basis for designing audit procedures that are appropriate for our audit. We have included general IT controls as a key audit matter because the importance of these controls on the group's control environment.

How the key audit matter was addressed in the audit

We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes.

IT audit specialists have been deployed to assist us with testing the group's general IT controls.

Observation

We have shared our observations and recommendations in relation to general IT controls with management. In 2020, consistent with 2019, we were not able to rely on the general IT controls for our audit approach. Alternatively, we gained the required level of assurance from additional substantive audit procedures.

2. Goodwill impairment – Cash Generation Unit Automotive

Description

Goodwill represents 27% of the balance sheet and 57% of total equity. The goodwill related to the Cash Generation Unit (“CGU”) Automotive is 51% of the total goodwill.

The audit procedures carried out on the valuation of goodwill are regarded as a key audit matter due to the relative significance of the account as well as the deteriorated financial performance of the Automotive CGU over the last years and the impact that COVID-19 had on the automotive segment in 2020. As a result of deteriorated financial performance over the last years, the headroom (difference between the expected value of the future cash flows and the carrying amount) decreased. Reason for us to mark the valuation of the goodwill within Automotive as a key audit matter in our audit. Within the other CGU’s sufficient headroom exists.

In addition, the valuation of goodwill is susceptible to management judgment and estimates and is based on assumptions that are affected by future market and economic conditions.

The assumptions in relation to the expected future cash flows are predominantly based on the approved budget for 2021. For the period thereafter (2022-2025) the company prepared a midterm business plan. The results of the impairment analysis are most sensitive to:

- Revenue growth;
- EBITDA margin development; and
- WACC

How the key audit matter was addressed in the audit

Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the impairment analysis in relation to the valuation of the goodwill of the Automotive CGU. We have mainly adopted a substantive audit approach and did not rely on internal controls.

Our audit procedures have mainly focused on:

- Testing design and implementation of management’s process and control around the impairment analysis;
- Evaluate the impairment model used by the Company and verified the mathematical accuracy of this model;
- Obtaining and evaluating independent market research reports and comparing the general growth data to Kendrion’s expectations;
- Obtaining and evaluating the budget of 2021 and the midterm plan that are approved by the Supervisory Board;
- Assessment of the key assumptions in the impairment model and discuss the results thereof with the division management, Executive Board and the Supervisory Board;
- Assessment of the management estimate in relation to the budget of prior years based on the actual financial results (back-testing);
- Assessment of the methodologies, calculated WACC and the long-term growth percentage, using internal valuation experts;
- Reconciling the already contracted revenue to underlying source documents (like signed contracts) and challenge management on their expectation on the pipeline (i.e chance to win, production volumes of OEM’s and future sales price development);
- Assessment of the anticipated improvement in EBITDA in comparison to the realized EBITDA in 2020 and the expected improvement in the operations;
- The accuracy and completeness of the related disclosures in the annual report;
- Performing sensitivity analysis based upon different scenarios with respect to the revenue growth, EBITDA and WACC.

Observation

No impairment has been recognized in the annual report. Based on our procedures performed, we are of the opinion that the anticipated revenue growth in combination with an improvement in the EBITDA is ambitious, but in alignment with the strategic goals of Kendrion. We expect the Executive Board to be continuously alert on the actual realization of the assumptions included in the budget and projections. The WACC used by Kendrion is below the WACC as determined by our internal valuation specialists. Using a higher WACC and/or not realizing the target impacts the sensitivity significantly as further analyzed and disclosed by Kendrion as part of disclosure note 2 in the annual report.

Based on the procedures performed, we are of the opinion that the assumptions used by Kendrion in the calculations are acceptable and deem the related disclosures in the annual report sufficiently.

3. Purchase Price Allocation INTORQ acquisition

Description

On 8 January 2020, Kendrion completed the acquisition of INTORQ.

The total Purchase Price of INTORQ was EUR 80 million of which EUR 25.7 million was allocated as Goodwill. Due to its significance we have reported this as a key audit matter.

The acquisition has a number of implications for our audit. Firstly, auditing the determination of the purchase price, and the necessary "Purchase Price Allocation". In addition to auditing the transaction itself, we have to plan the nature, timing and extent of the audit of the INTORQ activities and entities in accordance with the audit standard (the so-called ISA 600-group audit).

How the key audit matter was addressed in the audit

Based on the requirements of IFRS 3, we audited the recognition of the acquisition for which we used a substantive approach. We inspected the Share Purchase Agreement and validated that the purchase price is paid to the seller. An important element in the "Purchase Price Allocation" is the identification and valuation of the acquired (intangible) assets and liabilities. We audited the identification of (intangible) assets and liabilities based on our knowledge of the operational activities of INTORQ and the reasons for the acquisition and used internal valuation experts to validate the valuation based on general accepted valuation models. We recalculated the amount of goodwill to be recognized and assessed the allocation to cash-generating units.

We also validated the sufficiency of the disclosures in the annual accounts in relation to the acquisition.

We further gained insights in the activities and business processes of INTORQ to enable detailed risk analyses. The audit procedures in relation to those risks are mainly performed on a substantive basis by component auditors in Germany and China. The component auditors tested the relevant internal controls within INTORQ. Relevant findings have been included in

a management letter. On group level, we additionally tested the design and implementation of internal control measures in relation to INTORQ focused on the consolidation and financial reporting.

Observation

Based on our materiality and procedures performed, we are of the opinion that the recognition of the acquisition of INTORQ is in line with the requirements of IFRS 3 and that the acquisition is adequately disclosed in the 2020 annual accounts in order to meet the information needs of the users.

4. Bank covenants

Description

In August 2020, Kendrion has reached an agreement on key terms with its banking syndicate to increase the leverage covenant for the quarters up to and including the fourth quarter of 2021. The agreement in principle allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from 31 December 2021 onwards. Although Kendrion currently operates well within its existing leverage covenants, we deem this to be key audit matter as there are relevant accounting and disclosure requirements related to this.

At the end of 2020, the leverage ratio (based on definitions in the existing loan documentation) was 2.3 against a permitted financial covenant level of 4.70.

How the key audit matter was addressed in the audit

Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the revised bank agreements. We have mainly adopted a substantive audit approach and did not rely on internal controls.

Our audit procedures have mainly focused on:

- Obtaining and evaluating the revised loan agreements;
- Evaluate the accounting treatment of the additional amendment fee paid to the lenders;
- Recalculated management calculation for the net debt to equity ratio and verified that the ratio is below the maximum agreed ratio per 31 December 2020;
- Verified that management operates in compliance with the revised agreement;
- Assess that the disclosure in footnote 11 is accurate and complete and in accordance with the revised loan agreement.

Observation

Based on the procedures performed, we are of the opinion that the accounting followed by Kendrion is in accordance with IFRS and deem the related disclosures in the annual report sufficiently insightful to point the users of the annual report to the existing covenants.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, the annual report contain other information that consists of:

- Report of the Executive Board.
- Report of the Supervisory Board.
- Remuneration Report.
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.
- Other Information as included in the annual report.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Executive Board, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Kendrion N.V. on April 13, 2015, as of the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding the Financial Statements

Responsibilities of management and the Supervisory Board for the financial statements

Management 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 Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

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

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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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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We communicate with the Executive Board and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, February 18, 2021

Deloitte Accountants B.V.

Initial for identification purposes:

B. Beemer

To the Shareholders and Supervisory Board of Kendrion N.V.

Assurance report of the independent auditor with respect to the 2020 Sustainability Information of Kendrion N.V.

Our conclusion

We have reviewed the Sustainability Information in the 2020 Annual Report of Kendrion N.V. based in Amsterdam. A review is aimed at obtaining a limited level of assurance.

Based on our procedures performed nothing has come to our attention that causes us to believe that the sustainability information does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year 2020 as included in the section 'reporting criteria' as disclosed in the chapter 'About the sustainability report' of the 2020 Annual Report.

The sustainability information consists of performance information regarding Energy consumption and CO₂-emission, Accidents and Lost Time Injuries, Illness rate and Number of Supplier audits in the sections 'Facts and Figures' on page 9 and 'Action on Sustainability' on pages 37 – 56 of the 2020 Annual Report (hereafter: "the KPIs").

Basis for our conclusion

We have performed our review on the sustainability information in accordance with Dutch law, including Dutch Standard 3000A 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This assurance engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of our report.

We are independent of Kendrion N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (VIO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. Kendrion NV is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are disclosed in the chapter 'About the sustainability report' of the 2020 Annual Report.

Responsibilities of the Executive Board and the Supervisory Board for the sustainability information

The Executive Board is responsible for the preparation of the sustainability information in accordance with reporting criteria as included in the section 'reporting criteria' and in the chapter 'About the sustainability report' in the 2020 Annual Report, including the identification of stakeholders and the definition of material matters. The choices made by the Executive Board regarding the scope of the sustainability information and the reporting policy are summarised in the chapter 'About the sustainability report' of the 2020 Annual Report.

The Executive Board is also responsible for such internal controls as the Executive Board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the reporting process of Kendrion N.V.

Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in assurance engagements with a limited level of assurance is therefore substantially less than the assurance obtained in an audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' (Regulations for professional accountants practices on assurance engagements) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our review engagement included:

- Reviewing the processes and systems for data gathering, including the aggregation of the five KPIs as included in the Integrated Report 2020;
- Performing analytical review procedures on the five selected KPIs;
- Inquiry with Corporate staff

We communicate with the Supervisory Board regarding, among other matters, the planned scope, timing and outcome of the review.

Eindhoven, 18 February 2021

Deloitte Accountants B.V.

B. Beemer

¹ 2016 excluding one-off costs relating to simplifying measures of EUR 5.7 million (after tax EUR 4.7 million), 2017 excluding one-off costs relating to simplifying measures of EUR 5.1 million (after tax EUR 3.8 million), 2018 excluding one-off costs relating to simplifying measures of EUR 8.8 million (after tax EUR 6.5 million), EUR 0.3 million finance expenses and EUR 2.0 million tax expenses for tax audit, 2019 excluding one-off costs relating to simplifying measures of EUR 2.9 million (after tax EUR 2.1 million), EUR 1,6 million claim settlement (after tax EUR 1.2 million), EUR 1.2 million acquisition costs (after tax 0.9 million), EUR 2.0 million positive release from currency translation reserve, EUR 0.1 million finance expenses and EUR 0.4 million tax expenses for tax audit and 2020 excluding one-off costs relating to simplifying measures of EUR 3.8 million (after tax EUR 2.9 million), EUR 0.6 million acquisition costs (after tax 0.4 million), EUR 0.6 million finance expenses for tax audit and EUR 0.2 million tax expenses relating to simplifying measures.

² Excluding accruals and provisions related to one-off costs.

³ Invested capital is property, plant and equipment, intangible assets, other investments and net working capital less goodwill and other intangibles related to acquisitions.

⁴ Excluding cash flows relating to acquisitions and disposals and excluding payments and receipts relating to one-off costs.

⁵ The net financing charges exclude foreign exchange differences, the commitment fees for unused facilities, the amortisation of upfront and legal fees and the interest on lease liabilities.

⁶ Restated due to retrospective correction of understated elimination of unrealized profit on inventory transactions between group companies as per 1 January 2020.

⁷ Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

EUR million, unless otherwise stated	2020	2019 ⁶	2018	2017 ⁷	2016
Statement of normalised comprehensive income					
Revenue	396.4	412.4	448.6	461.8	443.4
Organic growth	(3.9%)	(8.1)%	(2.9%)	4.2%	0.3%
Operating result before amortisation (EBITA) ¹	18.9	19.8	35.4	37.5	31.1
Depreciation of property, plant, equipment and software	25.7	24.0	23.1	22.5	20.3
Operating result before depreciation and amortisation (EBITDA) ¹	44.6	43.8	58.5	60.0	51.4
Net profit for the period before amortisation ¹	11.7	12.6	24.3	25.7	22.3
Statement of financial position at 31 December conform financial statements					
Total assets	429.1	357.1	375.3	360.2	347.1
Total equity	203.4	202.6	182.1	179.6	178.1
Net interest-bearing debt	103.2	47.4	80.5	70.6	54.0
Working capital ²	41.4	42.9	51.4	45.1	41.3
Invested capital ^{2, 3}	174.4	169.6	179.6	163.7	138.3
Statement of normalised cash flows⁴					
Net cash from operating activities	47.9	45.4	41.9	44.7	45.3
Net cash from investing activities	16.4	19.8	31.3	28.3	23.0
Free cash flow	31.5	25.5	10.5	16.4	22.3
Ratios					
Return on Sales (ROS) ¹	4.8%	4.8%	7.9%	8.1%	7.0%
Solvency	47.4%	56.7%	48.5%	49.8%	51.3%
Net interest-bearing debt / EBITDA ¹ (debt cover)	2.3	1.1	1.4	1.2	1.1
Net interest-bearing debt / equity (gearing)	0.5	0.2	0.4	0.4	0.3
EBITDA ¹ / net finance costs (interest cover) ⁵	17.0	29.9	36.6	35.6	24.5
Return on Investment (ROI) ^{1, 2, 3}	10.8%	11.7%	19.7%	22.9%	22.5%
Working capital ² in % of revenue	10.4%	10.4%	11.5%	9.8%	9.3%
Dividend payout ratio of net profit	50%	0%	52%	50%	53%
Market capitalisation as at 31 December	247.9	312.9	283.7	542.9	358.3
Net interest-bearing debt as at 31 December	103.2	47.4	80.5	70.6	54.0
Theoretic value of the organisation (Enterprise value)	351.1	360.3	364.2	613.5	412.3
Number of employees at 31 December (FTE)	2,456	2,316	2,465	2,645	2,578

At 31 December 2020

Industrial

Industrial Actuators and Controls (Robert Lewin)

Kendrion (Donaueschingen/Engelswies) GmbH, Donaueschingen, Germany
 Kendrion (Donaueschingen/Engelswies) GmbH, Engelswies, Germany
 Kendrion (China) Co. Ltd, Suzhou, P.R. China
 Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA
 Kendrion Industrial (Sibiu) S.R.L., Sibiu, Romania
 Kendrion (Linz) GmbH, Linz, Austria
 Kendrion Kuhnke Automation GmbH, Malente, Germany
 Kendrion Kuhnke (Sweden) AB, Kristianstad, Sweden

Managing Director

Robert Lewin
 Alfons Mattes
 Telly Kuo
 Corey Hurcomb
 Mihai Petculescu
 Christian Edelmaier
 Robert Lewin
 Ronnie Jennerheim

Industrial Brakes (Andreas Laschet)

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany
 Kendrion (UK) Ltd., Bradford, United Kingdom
 Kendrion (China) Co. Ltd, Suzhou, P.R. China
 Kendrion (Mishawaka) LLC, Mishawaka, Indiana, USA
 Kendrion INTORQ GmbH, Aerzen, Germany
 INTORQ (Shanghai) Co. Ltd, Shanghai, China
 INTORQ US Inc., Atlanta, US
 INTORQ India Private Limited, Pune, India

Managing Director

Ralf Wieland
 Peter McShane
 Telly Kuo
 Corey Hurcomb
 Lars Knoke
 Telly Kuo
 Olaf Detlef
 Aniket Gujrathi

Automotive (Ralf Wieland / Manfred Schlett)

Kendrion (Villingen) GmbH, Villingen-Schwenningen, Germany
 Kendrion Kuhnke Automotive GmbH, Malente, Germany
 Kendrion (Markdorf) GmbH, Markdorf, Germany

Managing Director

Ralf Wieland
 Ronny Splettstößer
 Manfred Schlett

Kendrion (Eibiswald) GmbH, Eibiswald, Austria
 Kendrion Automotive (Sibiu) S.R.L, Sibiu, Romania
 Kendrion (Prostějov) s.r.o, Prostějov, Czech Republic

Klaus Pichler
 Andra Boboc
 Tomas Soldan

Kendrion (Shelby) Inc., Shelby, North Carolina, USA
 Kendrion (China) Co. Ltd, Suzhou, P.R. China

Rhett Cathcart
 Telly Kuo

A complete list of all subsidiaries is available from the Chamber of Commerce in Utrecht (number 30113646) and from the Company offices. Kendrion N.V. has, directly or indirectly, a 100% interest in all subsidiaries, except for Newton CFV, Inc., as disclosed in note 3 of the Financial Statements.

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The scope of Kendrion’s CSR reporting is based on the information requirements of our key stakeholder groups. In order to ensure that Kendrion meets its information requirements towards its stakeholders, a materiality analysis was carried out in 2018, the outcome of which has been used as input for Kendrion’s sustainability program and the 2019-2023 target framework. In 2020, Kendrion commissioned the performance of a new materiality analysis. Kendrion selected relevant material themes and topics derived from Kendrion’s strategic plan, its activities and applicable laws and regulations. For a description of our materiality analysis, please refer to pages 38-39 of this Annual Integrated Report.

Kendrion makes use of the Global Reporting Initiative (GRI) reference claims for most of the general information and material topics, including: economic performance, anti-corruption, energy efficiency, emissions to air, occupational safety and health and non-discrimination and equal opportunities. This Annual Integrated Report references Disclosure 201-1 (a) from GRI 201: Economic performance 2016, Disclosure 205-3 from GRI 205: Anti-corruption 2016, Disclosure 302-1 (a, c, e-g) from GRI 302: Energy 2016, Disclosure 305-1 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 305-2 (a, d, f-g) from GRI 305: Emissions 2016, Disclosure 403-9 (a, d-g) from GRI 403: Occupational Health and Safety 2018, Disclosure 405-1 (a-i, b-i) from GRI 405: Diversity and Equal Opportunities 2016. For the material themes ‘responsible procurement practices’ and ‘training and education’, Kendrion has developed its own indicators,

Kendrion’s non-financial reporting includes only data from entities that are – directly or indirectly – wholly owned by Kendrion N.V., unless explicitly stated otherwise. Acquisitions are reported as from the effective date ownership is acquired.

During 2020, the internal management information system and internal controls for non-financial reporting were further improved.

Being transparent and accountable is fundamental to the way in which Kendrion operates. Kendrion adheres to a solid validation and reporting process supported by an appropriate control framework in order to safeguard the quality and accuracy of data collected. With a view to maintain the quality and consistency of the data reported, the reporting process and applicable definitions relevant to all non-financial data collected and subsequently consolidated, are recorded in an internal reporting manual. Internal control procedures safeguarding the quality and accuracy of non-financial data collected are part of Kendrion’s Risk Management Framework. Compliance with the internal reporting manual and the internal control procedures are reviewed by the Global Internal Audit and Risk Manager.

The sustainability figures and data presented in this Annual Integrated Report are not always fully comparable with those of other companies. This may be caused by differences in targets and definitions applied and the nature and spread of Kendrion’s activities making comparison with other industrial companies difficult. Information used was collected from the existing management and reporting systems. Any estimates or forecasts included are explicitly referred to as such. No significant changes with regard to our own operation locations and/or suppliers have taken place in 2020.

The non-financial information reported faithfully represents the outcome of systematic data collection and review.

The reported numbers for energy consumption, absolute and relative & CO₂ emissions, accidents, lost time injury, illness, supply chain management as described in the section

‘Sustainability’ on pages 41-49, have been subjected to a review by the external auditor Deloitte Accountants B.V. The auditor’s report with limited assurance on selected targets is included on pages 192-194.

For the reported numbers associated with relative energy consumption, relative CO₂ emission, accidents per 1,000 FTE, Lost Time Injuries (LTI), illness rate and audits performed at direct suppliers, Kendrion used the GRI Standards Specific Disclosures 302-1, 305-1, 305-2 and 403-2 respectively as described in the GRI referenced claim mentioned above. We report on the same indicators as in previous years and there are no material restatements on the information accordingly presented in previous years.

Definitions, reporting period and scope

Energy consumption and CO₂ emission

The information on energy consumption is based on the consumption of Kendrion’s production facilities (electricity, natural gas, fuel oil) in Germany, the Czech Republic, Austria, the USA, China, India and Romania. For greenhouse gas emissions, Kendrion applies the same reporting scope as for energy consumption, only operational control. In our calculations we only included CO₂ emissions, other emissions like CH₄, N₂O, HFCs, PFCs, SF₆ and NF₃ are not material for us and therefore not included. Internal and external transport under Kendrion’s control is limited, therefore transport emissions are excluded.

The relative energy consumption and CO₂ emissions are based on the added value of the relevant production facilities. The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus raw materials and subcontracted work.

The absolute and relative energy consumption and CO₂ emissions are reported for a 12-month period. Where information is timely available, the absolute and relative energy consumption and CO₂ emissions are reported for the period 1 January 2020 up to and including 31 December 2020. When reporting information takes longer to obtain, the absolute and relative energy consumption and CO₂ emissions are reported for the period from 1 December 2019 up to and including 30 November 2020. Comparative figures for previous years are calculated based on identical timeframes.

Calculation of the CO₂ emissions is based on the following conversion factors:

Electricity generated from renewable sources: 0

Electricity generated from non-renewable sources (average): 0.433 kg/kWh (2019: 0.443 kg/kWh)

Renewable gas for plants with carbon neutral contracts: 0

Natural gas for other plants (average): 0.145 kg/kWh (2019: 0.200 kg/kWh)

Fuel oil (average): 0.267 kg/kWh (2019: 0.200 kg/kWh)

Accidents and LTI

Kendrion reports the total number of work-related accidents during working time or on the way to or from work for its own employees and independent contractors under supervision of Kendrion. Only the accidents that the group entity had to report to an external institution are reported. As of 2017, Kendrion reports accidents from all group entities that caused an absence of more than three calendar days, not including the day of the accident. This definition is based on regulations applicable in Germany. In addition, Kendrion reports the absence resulting from work-related accidents. The Lost Time Injury (LTI) is time ('scheduled working days') that could not be worked (and is thus 'lost') as a consequence of an employee being unable to perform the usual work due to an occupational

accident ('at work accident' as well as 'way-to-work accident') or disease. In several locations, LTI is not recoded where there is no longer a wage continuation obligation for the employer pursuant to local regulation. Kendrion intends to align the LTI reporting across all locations so future reporting makes no difference in whether the salaries or wages were paid by Kendrion or by an external institution during that time.

A return to limited duty or alternative work for the same organisation does not count as 'lost days'. Counting of 'lost days' begins with the first scheduled working day of full absence (e.g. the day after the accident). A lost day counts as one full day regardless of whether the employee has a part-time or a full-time contract. Kendrion does not specify LTI data per region, worker type or gender as Kendrion considers this information not relevant to its current operations.

Illness rate

The reported illness rate is based on the total illness hours. The locations in Shelby and Atlanta reported 0% illness on a yearly basis since no registration of illness takes place. The total illness hours with and without wage continuation, cumulative divided by the total timetable hours, cumulative.

Supplier audits

As mentioned above, for reporting on the number of supplier audits (i.e. 'responsible procurement practices') Kendrion makes use of its own indicator. The supplier audits are internal audits by Kendrion employees based on an internal procedure that prescribes the collection of CR documentation of the relevant supplier in the case the supplier is ISO certified and the use of standardized self-assessment questionnaires in the case the supplier is not ISO certified.

Kendrion has not selected underlying performance indicators or GRI indicators for the following topics: 'non-discrimination and equal opportunities', 'market presence', 'responsible material consumption', 'environmental & energy management', 'human rights', 'effluents and waste management', 'customer privacy and data security', 'anti-competitive behaviour', 'biodiversity', 'responsible local citizenship', 'innovation', 'customer relationship and satisfaction', 'remuneration policy' and 'business ethics'. Following further engagement with Kendrion's stakeholders in the course of 2020, Kendrion will consider to what extent these material themes continue to be relevant to stakeholders and whether indicators on these topics should be developed.