



WE MAGNETISE THE WORLD

CSR REPORT 2015





CSR POLICY

- **INNOVATION AND ACCELERATION** – these are the drivers of our industry.
- **PASSION FOR TECHNOLOGY** – this is the foundation of our company.
- **TRANSPARENCY, FLEXIBILITY AND ATTENTION TO DETAIL** – this is how we engineer precision components for the world's leading innovators.

The culture that drives our innovation is the very same culture that defines our approach to Corporate Social Responsibility (CSR). To us, social responsibility isn't a separate pillar in our organisation, but an ambition integrated into our everyday decision-making.

At Kendrion, CSR is not just about being responsible; it is about taking responsibility.



TAKING RESPONSIBILITY

Taking responsibility is embedded into our culture of innovation. It is what happens when smart, enthusiastic engineers come together in a high-technology environment open to dynamic new ideas. Sourcing smart materials, adopting energy-efficient machinery, conducting business fairly and creating growth opportunities for our employees.

These aren't just CSR issues; they are engineering challenges that are accelerating our business into the future.

To many, being responsible is simply an obligation, a tactic to avoid falling behind. To us, taking responsibility is a strategy to stay ahead. After all, in an industry of innovation taking responsibility isn't just a smart move. It's also smart business.



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TRANSPARENCY BENCHMARK

Kendrion participates in the Dutch Ministry of Economic Affairs, Agriculture and Innovation's Transparency Benchmark, which monitors the Netherlands' 500 largest companies. Kendrion improved its ranking in each of the last 5 years. Kendrion was ranked number 37 in 2015.



PREFACE

We are pleased to present Kendrion's 2015 CSR Report to you. In publishing this fifth CSR Report we aim to demonstrate to our stakeholders that our commitment to sustainability and Corporate Social Responsibility (CSR) is of strategic importance to us.

We want to contribute, within the scope of our possibilities, to a sustainable society. This means we must focus continually on our use of materials, our products that we develop for our customers (for instance in terms of emissions, energy savings and safety) and the way in which we treat our employees. Global trends such as climate change, scarcity of resources, renewable energy and population growth also present Kendrion with opportunities and can create value for our stakeholders.

We are pleased to report that the majority of our 2015 targets were achieved. The highlights of the past year, the first year of the new CSR strategy 2015 - 2017 'Taking Responsibility', were:

- Development and sale of sustainable products;
- Substantial investments that should lead to further reductions in CO₂ emissions;
- Initiatives we took jointly with our supply chain partners;
- Efforts to maintain a healthy and safe working environment for our employees.

Thanks to the efforts of many employees across our business units, including the members of our CSR Board, we are continuing our efforts to achieve new, challenging but realistic targets for the coming years. This Report is intended to provide you with a balanced update both on these efforts, targets and results and the challenges and dilemmas we are facing.

This CSR Report has been compiled in accordance with the guidelines of the Global Reporting Initiative GRI G4 'core level'. A number of KPIs have been reviewed by an external auditor.

We are keenly aware that it will take time and effort to make our internal processes and the supply chain more sustainable. Wherever possible, Kendrion wants to work with its stakeholders and partners in the chain to achieve this. We hold regular meetings with our customers, suppliers, investors and staff with the intention of getting the best out of each other. We take our responsibility seriously.

We have observed that many of our customers are also working on sustainability developments and are formulating ambitious targets, in particular for reductions of emissions, energy conservation and safety. We are of the opinion that we are in an excellent position to supply our customers the high-grade products and services they need to achieve their targets.

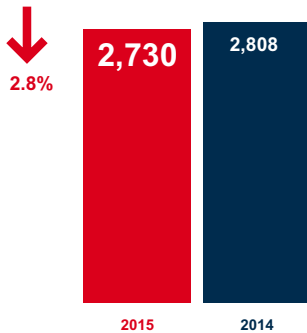
I hope that the readers of this report will appreciate the efforts we are making to fulfil our corporate social responsibility.

Joep van Beurden, CEO Kendrion N.V.

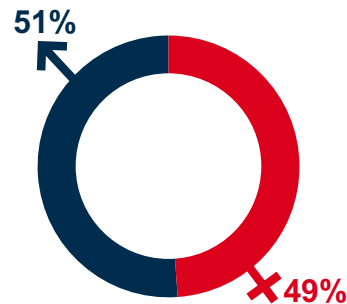
2015: SHORT & SIMPLE

PEOPLE

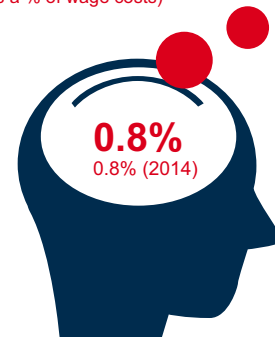
Total number of employees
(at 31 December)



Total number of employees by gender
(in %)

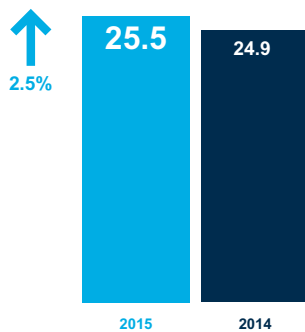


Training costs
(as a % of wage costs)

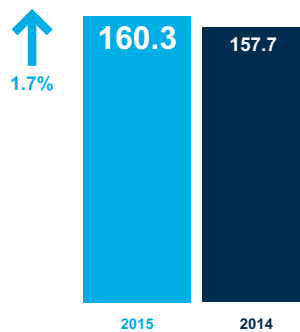


PLANET

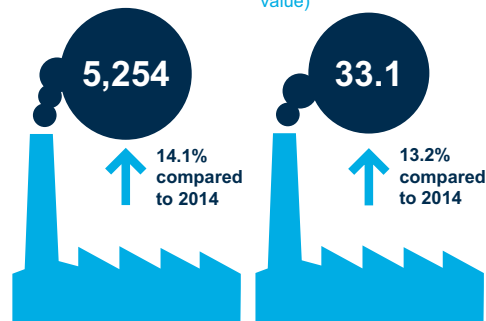
Absolute energy consumption
(in million kWh)



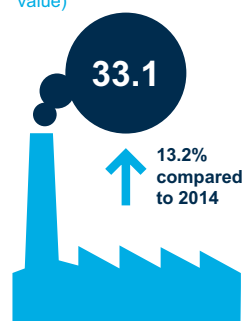
Relative energy consumption
(in tons kWh / million added value)



Absolute CO₂ emission*
(in tons kWh)



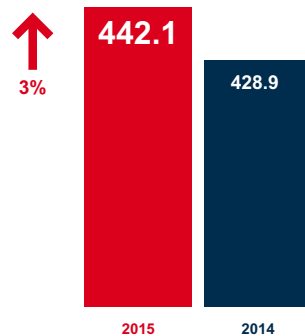
Relative CO₂ emission*
(in tons kWh / million added value)



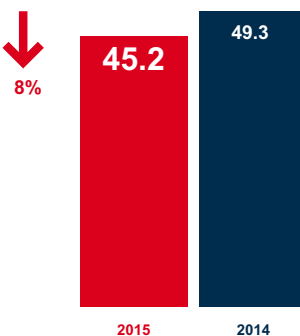
* All plants in Germany, Eibiswald (Austria) and Prostejov (Czech Republic).

PROFIT

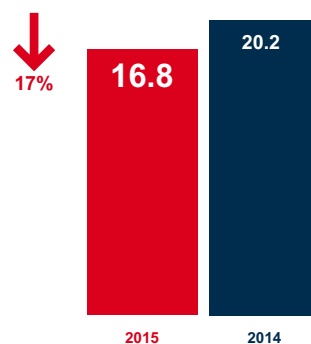
Revenue
(EUR million)



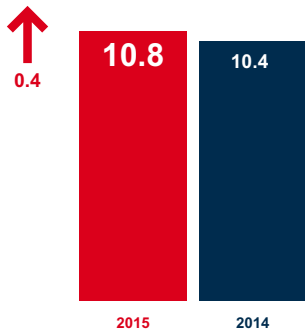
EBITDA
(EUR million)



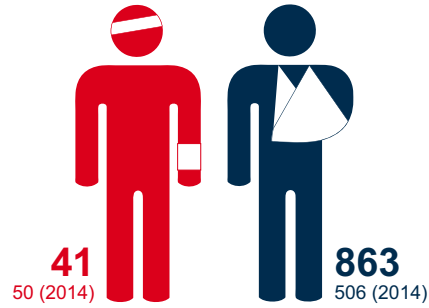
Net profit
(EUR million)



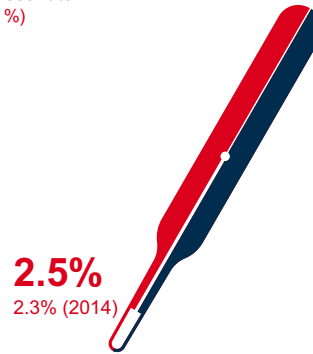
Average number of years' services
(in years)



Accidents and Lost Time Injuries
(LTI in days)



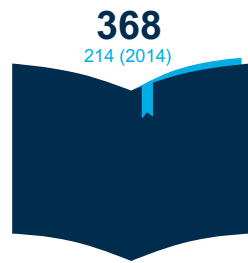
Illness rate
(in %)



Consumption of materials
(in tons, best estimate)



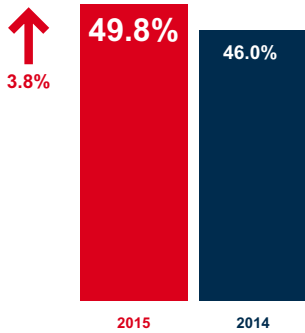
Acceptance of Supplier Code of Conduct



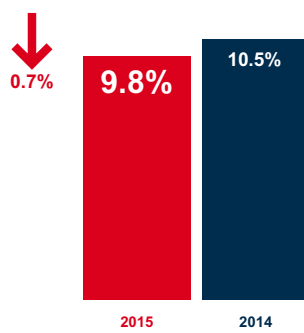
Number of supplier CSR audits
(in total)



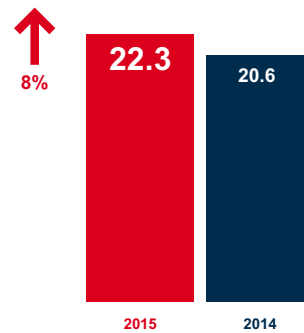
Solvency
(total equity/balance sheet total)



Working capital
(in % of revenue)



Investments
(EUR million)



OUR PROFILE

KENDRION develops, manufactures and markets high-quality electromagnetic and mechatronic systems and components for industrial and automotive applications.

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

Committed to the engineering challenges of tomorrow, taking responsibility for how we source, manufacture and conduct business is embedded into our culture of innovation.

Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, our expertise extends across Europe to the Americas and Asia. Created with passion and engineered with precision. Kendrion – we magnetise the world.

OUR ORGANISATION



KENDRION'S KEY INFORMATION

- Development, production and marketing of high-quality electromagnetic and mechatronic systems and components.
- 2,700 employees (including about 80 temps) in 15 countries.
- Revenue: approximately EUR 442 million.
- Listed company on Euronext's Amsterdam Market.

KENDRION'S SPEARHEADS

- Niche market leadership in selected business-to-business markets.
- Organic growth in its current operations.
- Utilisation of synergy in and between the business units (locally and internationally).
- Balanced spread of the operations.
- Targeted add-on acquisitions.
- Enhancement of its innovative capacity.
- Corporate Social Responsibility and sustainability.

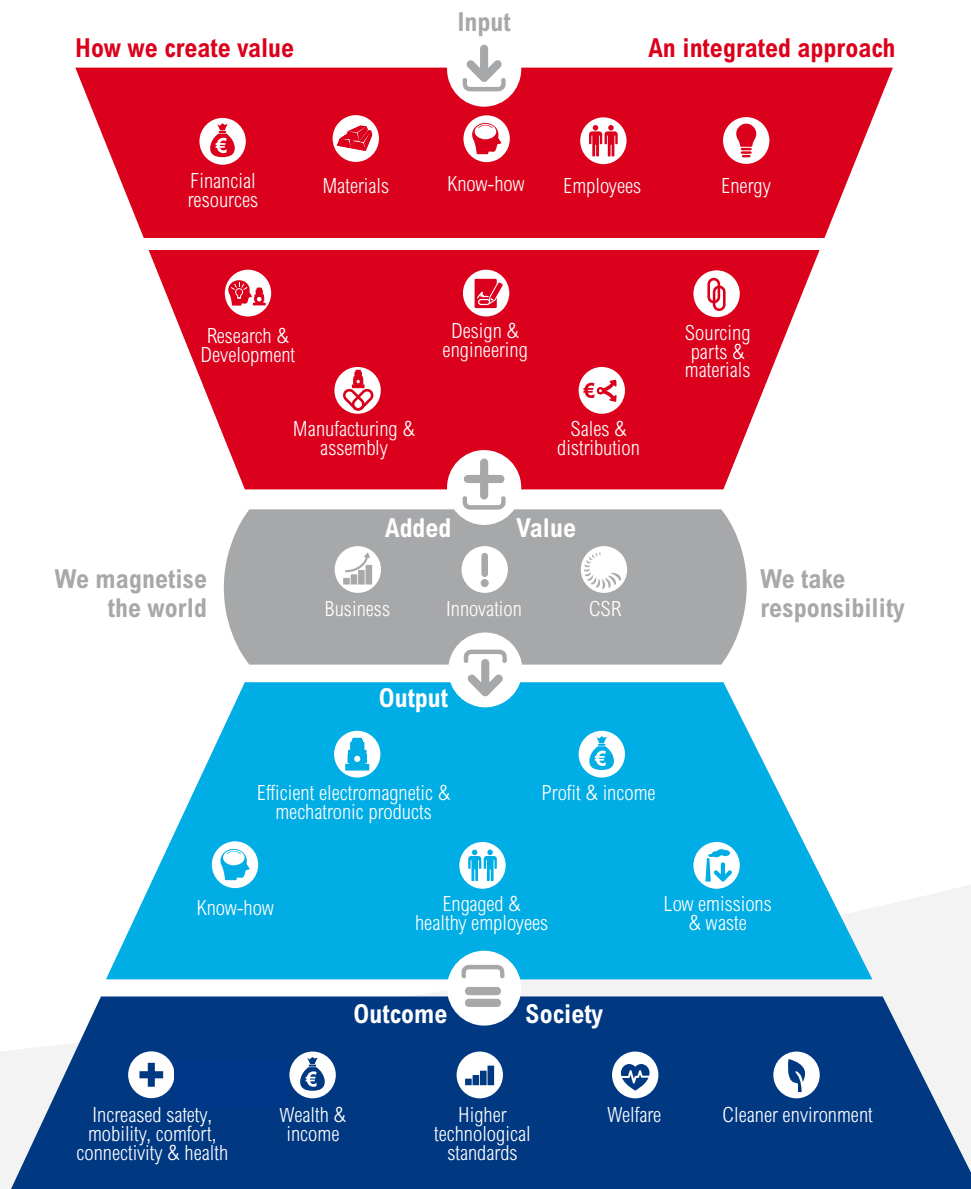
INTEGRATED THINKING, INTEGRATED REPORTING

Kendrion approaches the strategic targets, both financial and non-financial, on an integrated basis whenever possible. The environmental, social and other sustainability targets are treated as part of the ordinary business processes as much as possible. Reporting on all of these aspects of value creation by Kendrion has likewise become increasingly interlaced in the past few years. Kendrion already applies integrated reporting to a significant extent in its Annual Report, Annual Magazine and CSR Report. Kendrion is seeing a growing interest among stakeholders

to receive transparent information on social and environmental aspects as well. Legislation is also gradually being adapted in line with this. Kendrion will initiate a project in 2016 to further assess how Kendrion can best respond to this, to ensure that Kendrion is ready for the future.

In our integrated value creation model, we illustrate how and by what means we create value for our stakeholders, including our impact to society.

INTEGRATED VALUE CREATION MODEL



CSR STRATEGY 'TAKING RESPONSIBILITY'

**For Kendrion, Corporate Social Responsibility means:
The responsibility of an organisation for the impact of its decisions and activities on society and the environment, through transparent and ethical behaviour.**

It is Kendrion's **MISSION** that Corporate Social Responsibility (CSR) and sustainability are intrinsic, integral elements of Kendrion's operations. Kendrion wants to conduct business with consideration for climate effects and energy sources, with a feeling for people and the environment, and on the basis of a responsibility for the chain in which the company operates. This form of entrepreneurship pivots on the creation of multiple value – and consequently not just Profit, but also People and Planet.

TAKING RESPONSIBILITY – A STRATEGIC SPEARHEAD

Some of the relevant megatrends in the world are:

- A rapid growth of the world population, especially in emerging markets;
- Urbanisation;
- Increased mobility and connectivity needs of people and goods;
- An increasing scarcity of natural resources;
- The transition to more sustainable energy due also to climate change.

Some of these megatrends, such as the scarcity of natural resources and the reduced availability or substantially increased prices of energy sources, could in the longer term become a threat

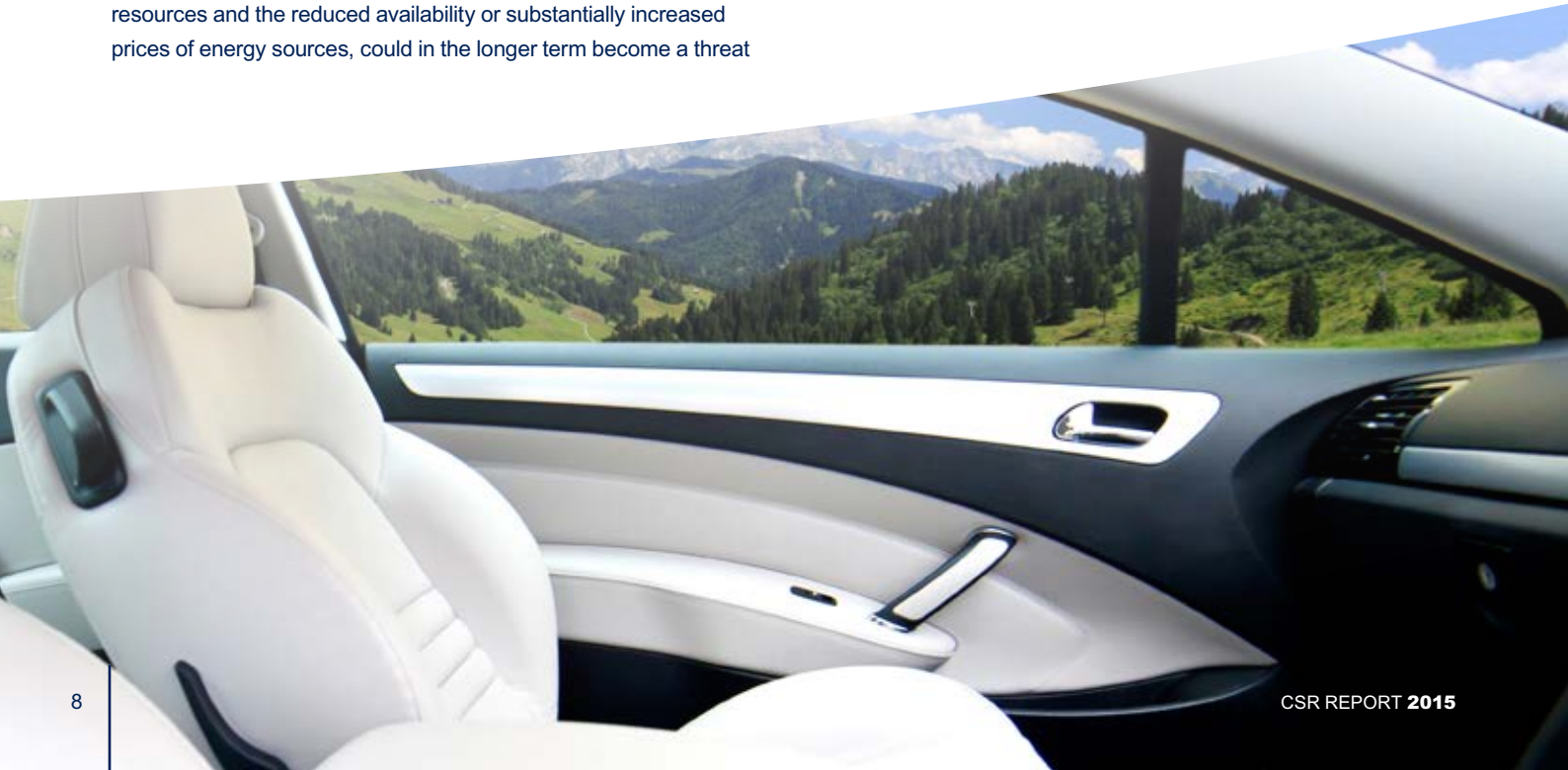
to the growth of Kendrion's business and therefore need to be addressed in a timely manner. These trends, however, also offer opportunities for Kendrion. Utilising such opportunities and using scarce energy and other natural resources in a responsible way will, in the long run, make an essential contribution to the creation of value for all Kendrion's stakeholders. Therefore, Kendrion has included sustainability and CSR as spearheads in the company's general strategic policy described on page 6 of this Report and referred to in more detail in the 2015 Annual Report on pages 6-7.

PROGRESS WITH THE CSR CYCLE

There is a desire to make further progress with the CSR cycle (see outline on the next pages) and move towards an even more strategic or proactive position.

CSR STRATEGY PERIOD 2015-2017

Kendrion adopted a CSR programme entitled 'Taking Responsibility' for the period 2015-2017. The programme not only aims to anchor further CSR and sustainability in the company's business processes but also to increase the commitment to sustainable products and services in line with the way customers respond to megatrends. This will require time. Plans include each business unit drawing up its own CSR programme as part of its mid-term plan and agreed budget. You can find more information about the Taking Responsibility programme in the various chapters of this Report.



KENDRION'S POSITION IN THE CSR CYCLE

The four CSR stages companies pass through



MATERIALITY ANALYSIS

This CSR Report focuses as much as possible on the issues which are most important to Kendrion, its employees and stakeholders; the key issues. More information of the (selection of) stakeholders can be found on pages 14 and 15 of this Report.

The selection of these key issues is based on a materiality analysis.

The materiality analysis is carried out with due regard for:

- The *nature* of Kendrion's activities and business processes;
- The demands made on Kendrion and its products by its customers in connection with sustainability in the short and long term (the *urgency*);
- Kendrion's potential *impact* and *influence* in the chain in the short and long term;
- The potential *benefit* for Kendrion;
- The *effort* it takes to implement measures in our business processes and activities, with a view to the other strategic spearheads;
- The *relevance* to stakeholders and the possible effect on them.

First of all, the CSR Board members were asked to classify issues which might be relevant using the criteria mentioned before. The results and the key issues identified were discussed and endorsed by the Executive Committee and the Supervisory Board of Kendrion N.V. The result was finally also discussed with a number of different stakeholders including investors, suppliers, staff and customers in individual meetings. Their feedback was also processed. The materiality analysis will be repeated and evaluated annually on the basis of the results obtained and will be adjusted where necessary.

OUTCOME OF THE MATERIALITY ANALYSIS

The outcome of the materiality analysis has been summarised into the following key issues.

- Sustainable products;
- Responsible use of resources in the supply chain;
- Sustainable operations;
- Environmental protection;
- Fair labour standards;
- Health & safety;
- Fair business conduct;
- Strong communities.

Next, specific targets and KPIs and relevant GRI indicators were formulated for those key issues. The key issues, KPIs and targets are evaluated annually on the basis of the results achieved and are adjusted where necessary. These evaluations also make use of the feedback Kendrion receives from its stakeholders. The specific targets and KPIs can be found in the various chapters of this Report. The material aspects mentioned in the GRI G4 guidelines can be found in the Index section at the end of this Report. The materiality analysis has not (only) been carried out on the basis of the material GRI aspects and associated indicators. Accordingly, GRI indicators have not (yet) been selected for all material issues. Going forward it will be possible to introduce, step by step, a clearer linkage in reporting, partly on the basis of stakeholder dialogue.

The outcome of the materiality analysis led to the selection of the following GRI G4 material aspects and indicators:

- Environmental – Energy (G4-EN3 and G4-EN4) and Emissions (G4-EN15 and G4-EN16);
- Social, Labor Practices and Decent Work - Occupational Health & Safety (G4-LA6);
- Social, Human Rights – Non-Discrimination (G4-HR3).

SMALL REVOLUTIONS

SMALL REVOLUTIONS – THEY ARE ALL AROUND US. THEY ARE HIDDEN INSIDE THE INTELLIGENT TECHNOLOGIES THAT DRIVE OUR EVERYDAY LIVES. THEY ARE THE COMPONENTS THAT POWER THE WORLD'S MOST ADVANCED SYSTEMS. THEY COMPRISE THE THOUSANDS OF SMART SOLUTIONS THAT HELP US DRIVE FASTER, FLY HIGHER AND PERFORM BETTER. SMALL REVOLUTIONS ARE ALL THE PRECISE LITTLE DETAILS THAT POSITIVELY AFFECT OUR LIVES.



CONQUERING THE CHINESE WIND TURBINE MARKET

When it comes to wind energy, China is the unrivalled global leader. And with the Chinese government's ambitious non-fossil fuel targets for 2020, Chinese wind energy capacity is estimated to triple in the coming decade. This growth will be fuelled by enormous new onshore and offshore wind farms, but also through upgrading of the country's current low- and medium-capacity wind turbines to higher capacity models upwards of 5 Megawatts (MW). And it's precisely the high-torch 5MW-plus wind turbine market where Kendrion excels.

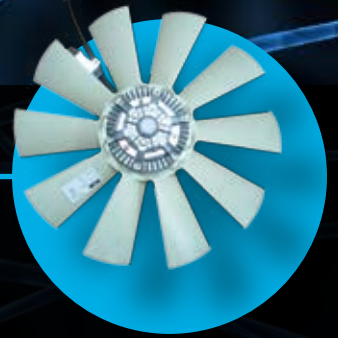
As the exclusive supplier of permanent-magnet brakes to the world's leading wind turbine makers, Kendrion Industrial Drive Systems is very much in the mix of China's wind energy revolution. One Kendrion product in particular, the Cold Climate Version (CCV) of its permanent-magnet brake, offers a solution to the increasingly complex challenges facing this market. Uwe Gnauert, Director Global Research & Development in Villingen, Germany: 'With its ability to reliably secure the angle and pitch of a turbine's rotor blades in any weather condition, Kendrion helps maximise the turbine's overall efficiency. Our permanent-magnet brakes are engineered to perform in the most extreme weather

conditions, between -40°C and $+70^{\circ}\text{C}$. In fact, with our patented technology we are the only company that can deliver on such a broad temperature range. For 5 MW wind turbines, a high-precision electromagnetic brake is essential. Our permanent-magnet brakes are safer, more reliable, more powerful, more compact and require less maintenance than the lower-capacity and industry standard spring-applied brakes.'

Turnover in permanent-magnet brakes has almost quadrupled in China since 2013.

Not surprisingly, Kendrion's turnover in permanent-magnet brakes has almost quadrupled in China since 2013. And Gnauert expects it to double again in the next five years, with growth fuelled both by China as well as the increased focus on wind energy in emerging markets such as India.

‘ENGINEERED IN GERMANY’ MAKES INDIAN TRANSPORT TRUCKS MORE FUEL-EFFICIENT



In Europe and the USA, commercial vehicles can reach upwards of 90 tonnes and travel long distances on well-paved roads. In India, however, transport trucks are much smaller but overloaded and have the time-consuming task of having to navigate poor roads. The result is enormous fuel inefficiency across the market. To help Indian OEMs tackle this problem, Kendrion introduced its electromagnetic fan clutch to the Indian market, cutting transport fuel consumption by 4% a year.

Kendrion expects to double its clutch sales in India by 2018.

The electromagnetic fan clutch is the latest example of how Kendrion is using German-engineered components to help Indian OEMs tackle their enormous transportation challenges. The electromagnetic fan clutch is a smart alternative to the standard bimetal clutch. It controls engine temperatures very precisely, reacts immediately to temperature changes and automatically turns on and off as needed but at the same time it is still easy to control. This ‘on-demand’ activation makes it possible to regulate truck engines more efficiently and, as a result, saves fuel.

EXPENSIVE FUEL

‘Fuel in India is expensive – often even more expensive than the drivers themselves,’ says Sameer Deshmukh, Managing Director of Kendrion (Pune) Private Limited. ‘Reducing fuel consumption is a very interesting argument for Indian vehicle manufacturers to adopt our clutch over the existing bimetal solution.’

NEGOTIATIONS WITH ALMOST ALL OF INDIA’S MAJOR OEMs

The electromagnetic clutch was designed at Kendrion’s headquarters in Germany, and was introduced to India in 2011 through Kendrion’s first customer Ashok Leyland, India’s second-largest maker of commercial vehicles. Part of the deal was to produce the fan clutch locally for the Indian market in order to save costs. Today, roughly 70% of the clutch components are produced in India, and Ashok Leyland uses the fan clutch in approximately 65% of its vehicles. Kendrion is currently in negotiation with almost all of India’s major OEMs concerning its engine-cooling portfolio. Backed by this growth, Kendrion expects to double its sales in India by 2018.

CSR ORGANISATION

COMMITMENT TOP MANAGEMENT

The CSR strategy, key issues and objectives are adopted by the Executive Committee. The CSR programme, Taking Responsibility, is also discussed during the annual Top Management Meeting (top 50). Each of our business units is requested to prepare an annual CSR plan, closely related to their own business and processes. CSR and sustainability objectives are included in the performance criteria governing the variable remuneration awarded to top management, including the Executive Committee.

The Supervisory Board recognises the importance of Kendrion's CSR programme and advocates a strong focus on the company's social and environmental standards governing its processes, and the relationship between the overall strategy and sustainability. The Supervisory Board reviewed the achievements and endorsed the CSR Board's plans.

CSR BOARD AND AMBASSADORS

A CSR Board gives further shape to Kendrion's CSR activities. The Board's members are representatives of the business units and departments and come from Austria, the Czech Republic, Germany and the Netherlands. The CSR Board had 11 members in 2015. Board members do their CSR work in addition to their regular Kendrion duties. Each member has their area of interest and is responsible for the fulfilment of plans in this field and for assisting the business units. In addition to the CSR Board, there are 'ambassadors' in all operating companies who support CSR

activities locally. The objective of the CSR Board and the ambassadors is to coordinate, communicate, enthuse and accelerate. The Board also perceives its duties as including the provision of transparent information about the stipulated CSR targets to the employees and external stakeholders and to communicate the progress in the achievement of the targets.

CODE OF CONDUCT

Kendrion has implemented a Code of Conduct in its organisation. The principles and best practices established in this Code reflect the main values that need to guide Kendrion's staff in the performance of their duties. The core themes include corporate social responsibility, the obligation for due care regarding safety and health, the environment, and social interests. Kendrion attaches great importance to the organisation's compliance with the Code of Conduct. Employees who observe a (suspected) irregularity are encouraged to enter into discussions with those directly involved or with their supervisor. When this is not feasible or fails to achieve results, then they have the opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their (legal) position according to the Kendrion whistleblowers policy.

Many requirements linked to the key CSR issues and the objectives are guaranteed by procedures in various areas. These include e.g. ISO norms, safety training and procedures, environmental plans and agreements on working pay and conditions.



CSR REPORTING FRAMEWORK

Kendrion focusses and reports on the following CSR issues and material themes:



CSR BOARD

Front row: Wencke Volkmann, Controlling (PC); Sören Rosenbaum, Managing Director Kendrion Mechatronics Center; Heinz Jankowski, Facility Manager (KGS) and Sven Weber, IT Manager (KGS).

Middle row: Rasmus Pichler, CSR Student; Martina Svobodová, Human Resources Manager (PC); Wijgert Gooijer, General Counsel and CSR Coordinator (Kendrion N.V.) and Stefan Teudt, Quality Manager (IDS).

Back row: Bertram Heimgartner, Project Manager (CV); Wilma Stuijver, Executive Assistant (Kendrion N.V.) and Josef Porta, Production Manager (PC).

Missing: Kathrin Grahl, Human Resources (ICS).



STAKEHOLDERS DIALOGUE

GENERAL

The selection of relevant stakeholders is partly based on questions such as who might be positively or negatively affected by the organisation's decisions or activities, who can help the organisation address specific impacts, who can affect the organisation's ability to meet its responsibilities and who in the value chain is affected?

Kendrion's relevant stakeholders are its customers, employees, suppliers, other business partners and the communities in which Kendrion is active. Kendrion attaches great importance to good relationships with its stakeholders.

Kendrion engages in transparent communications in a manner in which the company carries out CSR activities. Exchanges of ideas, the involvement of business relations and utilisation of the experience and networks of others will further Kendrion's CSR activities.

CUSTOMERS

A substantial number of Kendrion's customers are major Tier 1 suppliers and OEMs in the automotive sector or other large industrial companies. Some of these customers have implemented CSR and sustainability requirements for suppliers. Kendrion complies with their requirements, including their quality and environmental requirements, by an ample margin. Kendrion provides more insight into the company's CSR efforts to its customers. Accordingly, Kendrion highlighted its CSR policy in a wide range of material published in the course of 2015. Various business units engaged in constructive dialogue with important customers.

SUPPLIERS

Kendrion successfully introduced a Supplier Code of Conduct. A large number of main suppliers signed this Code of Conduct in the past years. Kendrion also integrates this Supplier Code of Conduct in supplier selection. Also a substantial number of CSR



Mark Hoekstra, coverage banker of BNP Paribas: 'Kendrion was the first of the corporate clients in my portfolio to actively approach me to engage in stakeholder dialogue on its sustainability programme. I was surprised by the transparent and pro-active way in which Kendrion works. In our view Kendrion is addressing the right themes. BNP Paribas has developed a unique CSR screening tool for an ESG check of all its corporate clients. Kendrion passed this assessment well.'

audits were performed. The aim is to continue Kendrion's dialogue with suppliers on their performance in this area, with a view to jointly pursuing improvements if necessary.

MANAGEMENT AND EMPLOYEES

Kendrion regards its employees as the company's greatest asset. The support of Kendrion's CSR policy by the company's employees is of essential importance. Kendrion devotes continual attention to CSR issues in the Magnetised international staff magazine and will continue to do so in 2016. Poster campaigns and idea boxes are also used to increase awareness and commitment. In the course of 2015, a special Taking Responsibility edition of the personnel magazine Magnetised was published.

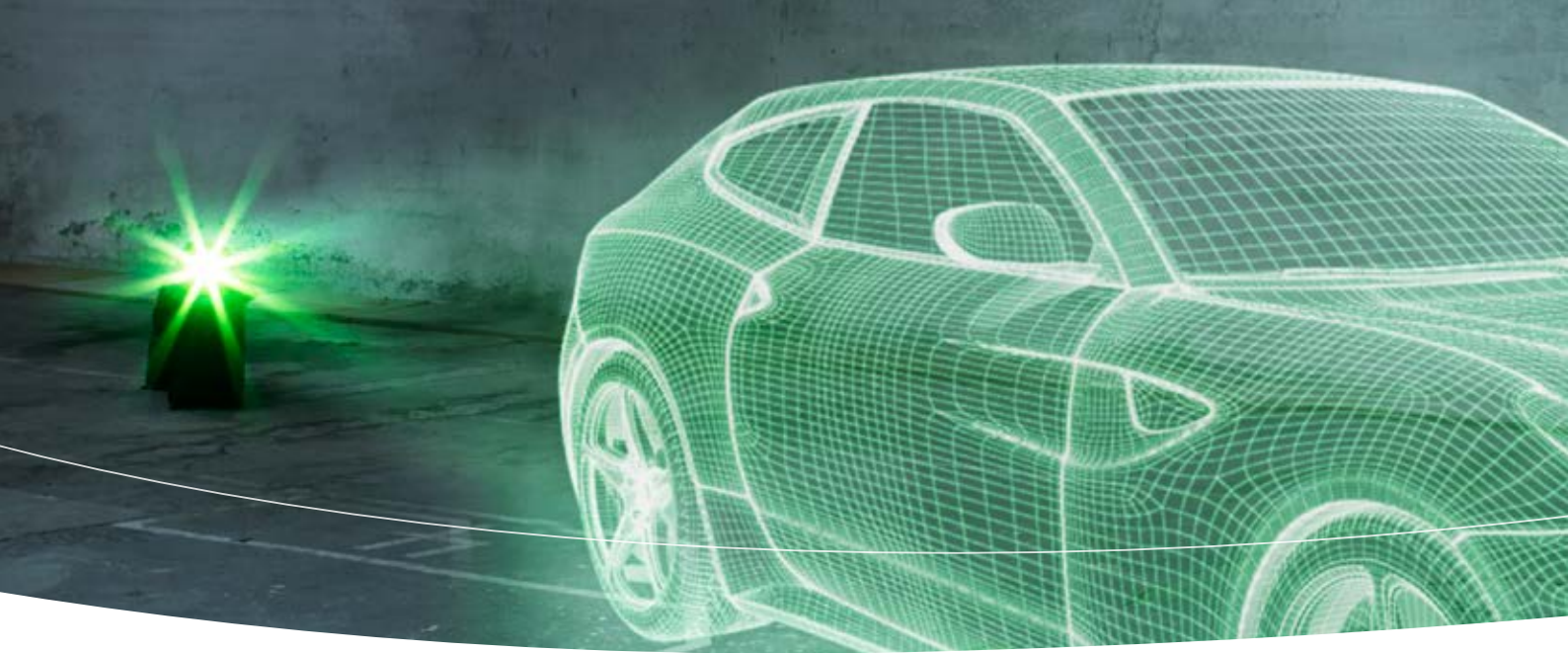
INVESTORS

Sustainability is also becoming an increasingly important issue for Kendrion's investors. Kendrion held discussions with a number of its major shareholders and banks. Kendrion presented its strategy, key

issues and objectives, and also discussed the investors' CSR and compliance policies within the context of their investments. These parties welcomed the sustainability and CSR efforts within Kendrion and emphasised, within the overall strategy, the need for a focus on adding value to the business, also via the sustainable product portfolio. In various roadshows, management also showed the relevance of sustainability for Kendrion to potential investors.

LOCAL COMMUNITIES

Kendrion is active in a number of countries in which, in a general sense, the standard of living, working conditions and human rights exhibit room for improvement. Kendrion endeavours to make a modest contribution to these improvements by including (mostly small scale) local community investment programmes. Kendrion appreciates the importance of good contacts with the local authorities.



SUSTAINABLE PRODUCTS

Target 2015

At least 2 more products with greensigned label

Continuation of study by Kendrion Mechatronic Center and R&D departments regarding sustainability in the supply chain

Result



Ambition 2016

At least 2 more Industrial products with greensigned label

Define criteria to measure sustainability of products

Ambition 2017 Taking Responsibility

Well developed and recognised sustainable product portfolio

Continuous optimisation of product portfolio to meet the (CSR) megatrends

MARKET TRENDS AND KENDRION PRODUCTS

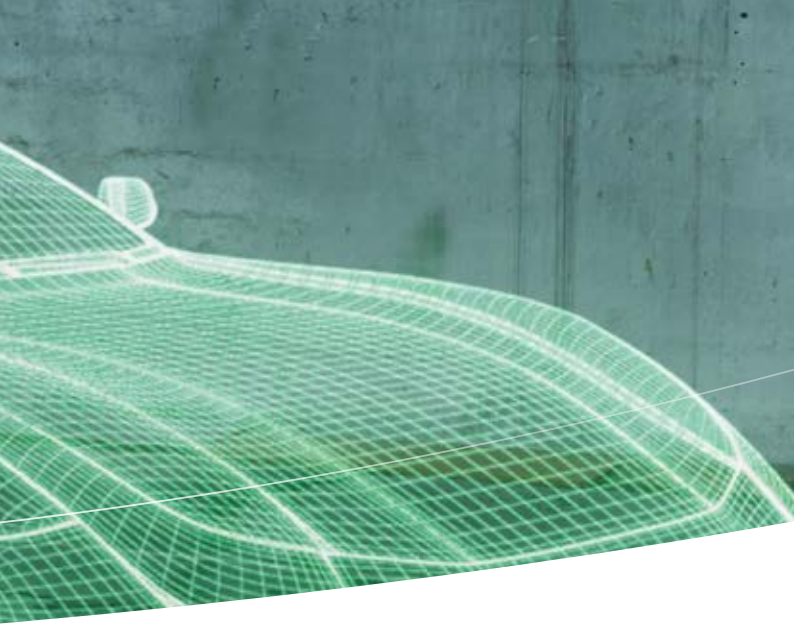
Sustainability is at the core of many of the company's products and innovations. Kendrion exploits the specific expertise and experience available within the company as a means of increasing safety and substantially reducing emissions and fuel consumption. Kendrion is inspired by the desire to secure a sustainable and 'green' environment for generations to come.

Kendrion currently estimates, on the basis of an internal product classification, that at least 20% of the Industrial products and at least 40% of the Automotive products contribute to energy savings or lower emissions for our customers or end users.

The megatrends referred to on page 8 can be interpreted in terms of a number of sub-trends. The scarcity of natural resources and climate change, for example, are resulting in the transition to more sustainable energy sources. Urbanisation and the rapid growth

of the population are leading to increased mobility needs for both people, energy and goods. Areas in which many people congregate are governed by increasingly stringent, building and transport system safety and environmental requirements. Population growth – and in some regions the ageing population – are accompanied by increasing healthcare requirements. These are accompanied by the trend towards continually smaller, lighter and faster products. The product portfolios of Kendrion's business units are tailored to these current trends.

At present, Kendrion is not (yet) applying group-wide criteria or targets in assessing whether products can be qualified as 'sustainable'. A start was made in 2015 on an analysis of whether such criteria or targets would be useful, for instance on the basis of Life Cycle Assessments. This analysis has not yet been completed.



In 2013, Kendrion introduced a greensigned logo for products for the Industrial business units. Two more products were granted the greensigned logo in 2014, followed by two more in 2015 as well; see also page 19 for more information.

AUTOMOTIVE MARKETS: FOCUS ON COMFORT, SAFETY AND ENVIRONMENT

ELECTRIC MOTORS AND COMBUSTION ENGINES

The rise of hybrid and fully electric cars is impressive and unstoppable. But there are still some major drawbacks. The battery is still very expensive, the distance covered on one charged battery is limited and the battery-charging infrastructure is not yet fully in place. This, added to the present decline in fuel prices, explains why the 'good old' internal combustion engine is still being developed at the same time and why new technologies are being introduced, for instance gasoline engines with variable valve lift technology and reductions in weight and CO₂ emissions.

SMALL AND COMPACT IN A HYBRID SOLUTION

Throughout the automotive sector there is a drive for small, compact cars. Preferably in combination with a hybrid solution (i.e. equipped with electrification of the powertrain and a high-voltage vehicle electrical system, including brake energy recuperation) and totally geared to complying with the Euro 6 emission standard. Fuel cell technology, based on the use of hydrogen, may well play a part in this trend towards electrification. It is hard to predict at this stage which powertrain technology will eventually come out tops.

PASSENGER CARS AND COMMERCIAL VEHICLES

For the passenger car markets, Kendrion Automotive is concentrating on fuel systems (diesel common rail, gasoline direct injection), active damping (chassis suspension), engine management (fuel efficiency, thermal management), sound systems (interior and exterior) and human machine interface solutions (comfort seats, active gas pedal).

The Commercial Vehicles business unit focuses on three product categories: Thermal Management (engine cooling, fan drives, thermal modules, angle gear boxes and compressor clutches for air-conditioning); Powertrain/Chassis (vibration absorbers, clutches for auxiliary devices, angle gear boxes and valves for powertrain applications) and Mobile & standard hydraulics (solenoids for hydraulic applications and valves).

Major customers in the Automotive markets are Volkswagen, Daimler, Continental, Delphi Europe, WABCO, Stanadyne, ThyssenKrupp, Chrysler, Automotive Lighting, ZF Friedrichshafen, EvoBus, Yutong, Hyundai KIA, Navistar, Ashok Leyland and Eaton.

CONNECTIVITY: WEALTH OF DATA

And there is more. Connectivity or 'the Internet of the car' is another major trend in automotive. A single car can generate a wealth of data which can be intelligently used for all kinds of purposes. Think traffic jams, the search for parking spots, speed, the relationship to other road users in the event of accidents, traffic violations and more. Using the benefits of car data generation and evaluation is only in its infancy.

DRIVER ASSIST SYSTEMS

Self-driving cars or autonomous driving is a serious development. Driver assist systems, such as lane departure, rear-view, distance, (emergency) braking and speed, are all steps towards this final goal. All these systems offer safety as well as comfort functionality. The car communicates with the driver through visual cues, sound or haptic signals. This development is a precursor to autonomous driving and will provide a strong impetus for Kendrion's business in the near future.



FOCUS ON INNOVATION

In this turbulent automotive sector, Kendrion focuses constantly on innovative solutions in electromagnetics and mechatronics. In close cooperation with customers, Kendrion's Automotive business units work meticulously on components and (sub-)systems that contribute to the customer's performance and success in the market. Kendrion offers a proven, global, state-of-the-art development and production network in which, for example, it integrates its advanced MagHyst® measuring technology for the validation of quality and performance.

INDUSTRY MARKETS: CLEAR CHOICES IN A RAPIDLY CHANGING ENVIRONMENT

POPULATION GROWTH

The growth of the world population, and therefore the demand for all kinds of products, is an unstoppable development. Mass migration and the emergence of megacities are important trends resulting from this development. In 1800 2% of the world population lived in cities. Two centuries on, this figure is 50% and the total number of people living in cities will increase to 70% of the world population by 2050. We can only begin to imagine the scale of the industrial smart solutions for transport, lighting, energy, infrastructure, comfort and safety that will be needed.

ENERGY EFFICIENCY

Growing inequality of income/capital, globalisation of crime and worldwide terrorism – the awareness of sharply increased risks stimulates the call for stricter safety requirements and the demand for products and systems which address this need. The effects and consequences of a growing world population, however, are even greater. Consider the aging of this expanding population and climatic changes due to increasing CO₂ emissions and resource depletion. These developments call for energy efficiency at the highest level and for more sustainable products and production methods.

FROM HEALTH CURE TO MASS PREVENTION

In health care, new treatments will improve the average life expectancy. Diagnostics will shift the health care focus from cure

LOCAL AND GLOBAL

Business intelligence assists Kendrion to understand the market and manage customer expectations. It also helps it to secure its position as global technology and innovation leader in the electromagnetic and mechatronic field with a balanced niche product and customer portfolio. Being very close to our customers and markets is key for us. At the same time, and based on this local-to-local approach, it's essential to have an international footprint. This facilitates knowledge transfer. In the Kendrion Mechatronics Center we have built a dedicated platform to share and further develop our fundamental technologies on a worldwide scale.

to mass prevention. And, on the downside, all these developments will inevitably result in higher costs for health care. In order to meet all the needs and demands these developments call for and in view of the drive for cost reduction and efficiency, the industry is changing rapidly. Production systems are becoming increasingly intelligent, e.g. by interconnecting all their elements. 'The Internet of Things' is certainly having an effect on industrial production.

MARKET SEGMENTS

Kendrion has a vital role to play in this development, which is known as Industry 4.0 or Smart Industry. Robotisation is an almost fundamental prerequisite for success in the intelligent factory. Kendrion produces the innovative brakes that robots are equipped with. Kendrion's Industrial Division has chosen to actively serve ten market segments. Industrial Magnetic Systems (IMS) concentrates on energy (generation and distribution), locking & safety (access control and fire protection) and process automation (logistics and manufacturing). Industrial Control Systems (ICS) serves customers in aerospace engineering, industrial appliances (kitchen and laundry), medical/analytical engineering and electrical automation (e.g. food and packaging). And Industrial Drive Systems (IDS) focuses on asynchronous motors, elevators and servomotors.

INDUSTRIAL CUSTOMERS

Large customers of the Industrial markets include Siemens, Schindler, B/E Aerospace, Stoll, Euchner, Oerlikon, Fresenius, Dräger and Perkin Elmer.



THE BREAKTHROUGH
Intelligent electronic solutions
provide energy savings

The Industrial Drive Systems business unit is particularly proud of the developments surrounding spring-applied brakes. Now there is also a version for servomotors which will be launched in 2016. Together with Kendrion's energy-saving module (ESM), the brakes can save up to 75% power consumption and CO₂. Thanks to its extremely compact design, the energy-saving module can be installed in very restricted spaces. Industrial Drive Systems is observing growing interest in the market as this add-on solution can also be adapted to existing systems.



THE NEW ROTARY SOLENOID

Optimise your system – Rotation Instead of Linear Movement

The Compact Rotary Solenoid CDR combines high compactness and short switching times with intelligent solenoid design. Due to its compact design the CDR is the ideal solution for a variety of applications. A highly reliable transmission of the rotary movement to the shaft is guaranteed in particular by the sensors responsible for the functional control. The rotary solenoid excels thanks to a potential switching time of 10 to 30 milliseconds and a rotation angle of up to 90°. The size, functions and technical parameters can be customised to individual requirements.

Moreover, the bistable design of the solenoid allows users to achieve energy savings of up to 80%. Due to its particularly environmentally friendly design, the solenoid has been added to the Kendrion greensigned series.

KENDRION
BE MOUNTED THE WORLD

greensigned[®]
BY KENDRION

Certification Pass
Compact rotary solenoid CDR

- up to 80% power savings due to bistable design
- compact size, less copper
Design for Recycling
- less waste due to very long lifecycle



THE LOCKING SOLENOID PLUG AND PLAY

Flexible, compact and reliable

The new locking solenoid excels due to its compact design and high reliability. Kendrion developed the new electromagnetic locking solenoid especially for applications used at alternating locations and therefore as self-sufficient as possible. The complete locking unit is based on a bistable electromagnet which can be operated by both a power supply and a battery. The locking bolt is kept in an open position by the force of a permanent magnet. When a current is applied, the magnet is triggered and locks by extending the bolt. The bolt can withstand lateral forces of 1500 N so it guarantees safe locking. Moreover, sensors for end position detection can further increase the safety. Depending on the application, the bistable design of the solenoid allows for energy savings of up to 80% as no energy is used in the open and closed position. As a result, this product deserves the greensigned logo.

KENDRION
BE MOUNTED THE WORLD

greensigned[®]
BY KENDRION

Certification Pass
Mobile locking solenoid LLB

- up to 80% power savings, 80.000 switching cycles until battery change
- less copper
widely recyclable
- less waste due to very long lifecycle



SUPPLY CHAIN MANAGEMENT

Target 2015	Result	Ambition 2016	Ambition 2017 Taking Responsibility
100% of main material suppliers sign Supplier Code of Conduct		100% of main material suppliers sign Supplier Code of Conduct	All material suppliers sign Supplier Code of Conduct
At least 5 CSR supplier audits per business unit		<ul style="list-style-type: none"> At least 3 CSR supplier audits per plant with more than 80 employees At least 1 CSR supplier audit per each other plant 	CSR audits fully integrated part of supplier audits
Integrate supplier CSR score in supplier requirements		CSR fully integrated in supplier selection process of each plant	
First results study permanent magnet reduction		First application of results of study permanent magnet reduction	

GENERAL; THE SUPPLY CHAIN

The chains in which Kendrion is active have an impact on people, the environment and society that cannot be specified in unequivocal terms. Kendrion's production processes are not polluting, in the sense that they do not result in large quantities of residual products with a great impact on the environment and which cannot be recycled. Nor do they result in large emissions of substances with an environmental impact. Many of Kendrion's products enable the company's customers to reduce the environmental impact of their products, for example in terms of emissions and energy consumption.

Kendrion wishes to play a significant role in the chain in which the company is active. However, in many instances Kendrion is a relatively minor link between. As a result, Kendrion's sphere

of influence is limited. In order to achieve the best results possible, it is of great importance that Kendrion continues the dialogue with its suppliers and, in the selection and assessment of suppliers, that it continues to consider their performance as regards sustainability.

Kendrion applies a local sourcing strategy whenever possible. The most frequently-used materials are steel, aluminium, copper and plastics. In many cases, semi-finished products are purchased on the basis of specifications of Kendrion or its customers, and only the final assembly takes place in Kendrion's plants.

SUPPLIER CODE OF CONDUCT

Major customers in the industrial sector or automotive industry regularly request Kendrion to sign their Supplier Code of Conduct. The customers introduce these Codes with the objective of giving



more shape to the chain's responsibility for CSR. Nevertheless, Kendrion has decided to develop an own Supplier Code of Conduct in 2012. Kendrion attaches great importance to responsible and honest operations throughout the supply chain. Consequently, this Code requires suppliers to assume their responsibility for issues including the environment, human rights, working conditions and fair trade. The suppliers are also requested to introduce rules of this nature further in the chain whenever possible. A copy of the Kendrion's Supplier Code of Conduct is available on Kendrion's website.

Kendrion has set a target stipulating that the Supplier Code of Conduct shall be accepted by all main material suppliers in all business units. All new material suppliers will be requested to conform with the Code, also by means of including the incorporation of the Supplier Code of Conduct in Kendrion's standard procurement terms and conditions. The term material suppliers refers to all suppliers who provided materials for production processes. The term main material suppliers refers to the largest suppliers with regard to procurement. This a floating list, which therefore needs to be reviewed every year to establish whether the main suppliers have signed.

Signed Supplier Code of Conduct	2015	2014
Total	368	214
Material suppliers top 20	14	15

There are no known cases of suppliers deliberately not wishing to sign the Code of Conduct, and no abuses have come to light as a result of the request to comply with it.

SUPPLIER SELECTION AND AUDITS

The extent to which a potential supplier addresses environmental and social issues and business ethics plays a role, in addition to standard criteria such as product quality, in the ultimate selection of suppliers. In 2013, Kendrion began to conduct CSR supplier audits to review whether the suppliers continue to comply with the required standards. Audits that result in unsatisfactory assessments and that reveal that the relevant supplier does not meet the minimum requirements for compliance with the Supplier Code of Conduct are followed

by a meeting to prepare a plan and review means of achieving rapid improvements. Failure to follow up the improvement plan or follow up the plan to an adequate extent can result in the termination of the relationship with the relevant supplier. All the circumstances in the specific case are taken into account when reaching any such decision, including the strategic importance of the supplier and the country in which the supplier is based.

Supplier audits	2015	2014
Total number of supplier audits	36	23

For 2015, the aim was to conduct at least five CSR supplier audits per business unit. The number of audits increased substantially in 2015 to 36, which means that the target has been achieved. The first audits outside Europe were also conducted, in the USA and India. The results of supplier CSR audits have in general been positive. Further stress will be laid on the willingness of suppliers to take CSR initiatives in relation to their own suppliers and human rights issues, or to join the UN Global Compact. Furthermore, the aim was to fully integrate the CSR audits in the regular supplier-audit process with regard to at least the main suppliers, and to fully include CSR in the regular-supplier selection process. This target has been achieved.

For 2016, the target is to have at least three audits per plant with more than 80 employees and at least one audit for all other plants that have their own suppliers.

LIFE CYCLE ASSESSMENT PILOT PROJECT

A Life Cycle Assessment (LCA) pilot project was launched at the operating company Kendrion (Aerzen) GmbH in Germany during 2014. The objective of the project was to calculate the environmental footprint of the company's various products and processes. The project has been finalised and the outcome has been analysed in 2015. Kendrion will not use the method at other plants, as the tool was too laborious. Kendrion will review in 2016 whether a different LCA method will be used for the most important products.

CONFLICT MINERALS

Under the Dodd-Frank Act the US Securities and Exchange Commission (SEC) requires US listed companies to disclose their use of conflict minerals (tin, tantalum, tungsten and gold and their derivatives) sourced in the Democratic Republic of Congo (DRC) and countries adjacent to the DRC.

This rule has been implemented due to the concern that the exploitation and trade in conflict minerals by armed groups is helping to finance conflicts in the DRC region. While it is not prohibited to use conflict minerals from the DRC, the idea is to encourage markets to create substitutes for materials or even a market for conflict-free minerals. Conflict minerals can be found in many common consumer products such as mobile phones and computers but also in industrial products.

Kendrion is not listed in the USA and is thus not under an obligation to issue a conflict mineral report. But, as (indirect) supplier of various listed US companies Kendrion has also been asked to provide information on the extent to which its products contain conflict minerals. Kendrion has decided to adopt a group-wide approach as much as possible to collect the relevant information from its suppliers. This is a burdensome process but Kendrion aims to serve its customers efficiently in this manner.

Kendrion does not add any conflict minerals from the DRC to its products during its own production process. In the event that it were reported that suppliers or sub-suppliers of Kendrion use such conflict minerals, Kendrion would undertake commercially reasonable efforts to gradually replace them in the supply chain and would ask its suppliers to do the same.

RARE EARTH METALS

In some of Kendrion's products, permanent magnets are used. The category of permanent magnets with the highest energy density contain a number of what are referred to as rare earth metals. These metals are not referred to as 'rare' because they are so scarce – they are more abundant than copper – but because of the small quantities of economically extractable resources.

Kendrion is primarily exposed to Neodymium, Praseodymium and Dysprosium, metals which are also used in products such as mobile telephones, electric cars (rechargeable batteries) and wind turbines. China is currently still the biggest producer of the world's rare earth metals. Western companies are (re)opening mines and starting production. However, the dependency on China will remain for several years.

Mining and refining rare earth metals are both difficult and highly energy-intensive. Moreover, they are often further complicated by

the mining and refining by-products that cause environmental pollution. A paradox lies in the fact that, for reasons including climate change and the need for alternative sources of energy, for example the use of wind turbines and electric cars is being encouraged whilst these products actually exacerbate the shortage of rare earth metals and the environmental pollution caused by their extraction. The recycling of rare earth metals is still in its infancy. Another paradox is that the use of permanent magnets in products increases their functionality, for example the torque. As a result, less material is required and the product is lighter – which in turn reduces energy consumption and emissions.

The majority of the permanent magnets are used by two business units, Industrial Drive Systems and Commercial Vehicles. The volumes are comparatively limited, but Kendrion cannot avoid the use of permanent magnets.

Unfortunately, Kendrion's relatively small position in this market does not enable the company to exert a great influence on the processes. However, when possible Kendrion does endeavour to limit the company's dependency on these metals by seeking alternative techniques or products and to look for industry initiatives in this respect.

The Kendrion Mechatronics Center initiated further research into replacing or optimising the use of rare-earth permanent magnets in 2014. The work was carried out jointly with the Commercial Vehicles business unit and the Technical University of Ilmenau in Germany. The first results became available in mid-2015 and revealed moderate possibilities. These will be further analysed and translated into concrete proposals during 2016.

OTHER MATERIALS

Few critical materials are used other than those referred to in this chapter. A number of further ideas were developed at a strategic level on the feasibility of reducing the use of certain potentially critical or expensive materials, or materials with a relatively high environmental or health impact, or replacing them with other materials. This is a continual process. This also led to the decision to dismantle a 'plating area' at one of Kendrion's operating companies in 2015.

Kendrion used the following raw materials in the manufacture of the company's products:

Consumption of materials (in tons, best estimate)	2015
Copper (incl. copper contained in coils)	1,893
Permanent magnets (rare earth + alloys)	36

TOOLKIT SUPPORTS CSR ACTIVITIES

SHARING AND LEARNING

INTERVIEW WITH RASMUS PICHLER AND BERTRAM HEIMGARTNER

Kendrion's CSR Board focuses on a number of key issues, such as supply chain management, CO₂ reduction and health & safety. One of the Board's objectives is continuous optimisation. The new CSR toolkit, developed by Rasmus Pichler and Bertram Heimgartner, supports the organisation in sharing information and learning from each other.

One complication of managing Corporate Social Responsibility across the whole group of Kendrion companies is making sure that all business units have the same information and are working towards the same goals. For this reason, the CSR Board decided to develop a company-wide toolkit which could serve as a reference and a database of ideas, and at the same time as a source of inspiration. The Board also decided that some help from a student specialising in CSR topics would be most welcome. It advertised the project on the job offer platform of Zeppelin University in Friedrichshafen. 'I was looking for an internship for some months,' says Bachelor student Rasmus Pichler. 'A friend of mine pointed the project out to me, and it appealed to me straight away. I read sociology, economics and politics and am particularly interested in CSR topics.'

STRUCTURING INFORMATION

Under the supervision of Bertram Heimgartner, Rasmus started making an inventory of what is happening within the different Kendrion operational companies with regard to CSR. Bertram Heimgartner: 'Kendrion is a decentralised company and up to a point all locations have their own entrepreneurial autonomy in deciding on their focus and approach. So basically, reviewing all CSR activities around the globe was obviously the best way to start the project.' Rasmus Pichler: 'After that I talked to CSR board members and visited several plants and locations. In a second phase, I analysed and structured all the information based on Kendrion's nine CSR issues. We also mapped out what is standard in the industry and what other companies do in this field. By adding benchmark information and ideas from outside the company, we hope to inspire people.'

IN-DEPTH LOOK

Bertram Heimgartner: 'Now that the basic work is done, we are ready to roll out this toolkit to all business units and locations. In a very practical way, we would like this to be a resource centre from

which Kendrion locations can download shared CSR documents for their own use. Take the supplier CSR supplier audit questionnaire, for example, which Rasmus also developed for us and on which he wrote his Bachelor thesis. This questionnaire, together with supporting documents such as a manual, is available to all locations.'

Rasmus enjoyed his time with Kendrion and the content of the project: 'It gave me the opportunity to gain an in-depth look into an industrial company that is very diverse in products and locations. I learnt a lot, especially about defining the audit process and structuring it for practical use in the business.' Bertram Heimgartner: 'Great teamwork. And we learnt as much from Rasmus as he learnt from us!'



'WE MADE A COMPLETE INVENTORY OF WHAT IS HAPPENING WITH REGARD TO CSR.'

Rasmus Pichler, CSR student



'WE ARE READY TO ROLL OUT THE CSR TOOLKIT TO ALL BUSINESS UNITS AND LOCATIONS.'

Bertram Heimgartner, CSR Board member on behalf of Commercial Vehicles



SUSTAINABLE OPERATIONS

Target 2015

Waste data plan and number of subtargets for all European plants and US plants

ISO 14001 for 2 locations of Industrial Magnetic System business unit

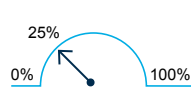
ISO 50001 at Kendrion (Villingen) GmbH, Germany and preparations for Kendrion Kuhnke (Malente, Germany)

ISO/TS 16949 at Kendrion (Markdorf) GmbH, Germany

Start preparation of annual CSR plan on business unit level

Start circular economy pilot project in both divisions

Result



Ambition 2016

Define and roll-out sub targets applicable for biggest plants

ISO 14001 for at least 2 more locations

ISO 50001 for at least 3 additional plants

Annual CSR plans at business unit level; integration in major business processes

At least 1 concrete circular economy pilot project or cooperation

Ambition 2017 Taking Responsibility

Waste data plan and subtargets implemented in all plants

ISO 14001 at all locations except for smaller (sales) offices

ISO 50001 at least at 5 plants

Annual CSR plans at business unit level; integration sustainability requirements in all major business processes



A CIRCULAR ECONOMY

Most current business models are based on a linear economy (take-make-dispose). Raw materials are extracted from natural resources, products are created for consumption and then thrown away. Business growth in this scenario is coupled with negative ecological impact. Models involving a circular economy build and retain value because they involve for example refurbishment or remanufacturing.

There are a couple of instances of circular economy within Kendrion's business at the moment. One good example is the way the Commercial Vehicles business unit collects used angle gearboxes from customers. The angle gear boxes are remanufactured at the plant and after being tested, they are sold again under warranty. The large solenoids that are sold by the Industrial Magnetic Systems business unit for the oil & gas industry are also collected and where possible remanufactured by Kendrion.

The regulations governing the automotive industry mean a large amount of recycling of cars and parts already takes place in the sector. Kendrion has little or no influence on this as the company is a relatively small player in the supply chain. Its products only account for a small part of a complete vehicle and the products themselves are made up of a number of materials. The logistical consequences and costs of retrieving parts, should parties further along the chain be open to the idea, are outweighed by the potential advantages. The same applies to a certain extent to products manufactured by the Industrial Division's business units. It is therefore not opportune at present to set targets independently in this area, not for Kendrion itself nor for the suppliers.

Kendrion is however convinced that circular business models represent a meaningful contribution to creating value and to reducing the production of waste and the exhaustion of natural resources. In this context, Kendrion considers it best to focus initiative on the end product. Kendrion is ready to join its partners in fleshing out this idea and intended to launch suitable pilot projects in this area. In 2015, various contacts were established with parties and stakeholders (including *MVO Nederland*) and Kendrion is aiming to increase awareness internally and externally. This has not yet led to projects that are suitable for Kendrion. Further efforts will be undertaken in 2016 to assess the role Kendrion might play in this regard. These processes will however take time.

WASTE & RECYCLING

Kendrion aims to minimise waste, with a view to its environmental and cost impact. All Kendrion companies which have been awarded ISO 14001 certification keep records of their production and processing of waste, such as oil, cleaning agents and packaging materials. Internal instructions at these companies are issued for the safe use of materials and the separated collection and disposal of waste. The companies work solely with certificated waste processors. As part of the certification process, each year new waste reduction measures must be implemented, and measures that reduce the use of dangerous goods are externally audited. Those measures can differ from plant to plant.

Kendrion worked hard on the streamlining of the data and database of waste and hazardous substances in recent years. This process takes time. As a result, the data for the largest European plants are processed and reported on a uniform basis. The objective was to gradually roll out this system across the group, also in the USA, in 2015. This has been achieved. Several sub targets have been developed and these will be further tested in 2016.

Kendrion has reviewed how the company can optimise the use and recycling of materials and reduce waste and waste costs even further. Kendrion's products are often integrated in larger systems by Tier 1 suppliers or OEMs. Partly for this reason, it is not possible for Kendrion to determine what proportion of the materials used is recycled. If recycling is at all possible for such systems, it does not relate to the parts supplied by Kendrion. Nor is Kendrion able to influence this in any way. However, Kendrion supports broader consultation in the chain on the possibility of developing new recycling options.

ISO CERTIFICATION

Within Kendrion, the quality, environmental and safety systems are usually combined in one system that forms the basis for the implementation of many projects. Virtually all of Kendrion's operating companies comply with the most stringent quality and safety requirements.

ISO certification overview 2015

Number of production plants	ISO 9001	ISO/TS 16949	ISO 14001	ISO 50001
20*	20	11	15	2

* Of which 12 Automotive.

Two German plants, Industrial Magnetic Systems in Donaueschingen and in Engelswies, completed the certification process for the environmental management system ISO 14001 in 2015. At least two more plants will follow in 2015.

ISO 9001 lays down general requirements for the company's quality management system, while ISO/TS 16949 has been developed specifically for the automotive industry and imposes the most stringent requirements on suppliers. The plant in Markdorf, Germany, has been successfully audited in 2015 and received its ISO/TS 16949 certificate.

Kendrion (Eibiswald) GmbH in Austria received, as the first Kendrion location, the ISO 50001 certificate in 2014. This ISO standard is focused on the reduction of organisations' energy consumption on the basis of a detailed insight into their energy consumption and use of energy. ISO 50001 also imposes requirements on the results from the organisation's management system, which must focus on continual improvements in its energy performance, the provision of the information and resources required to achieve the targets, and the provision of assurances for compliance with the relevant statutory requirements. Kendrion's plant in Villingen, Germany, gained this certificate in 2015. Kendrion intends to roll out the certification process to other companies during the following years; at least three other plants plan to gain the certificate in 2016.

BUSINESS PROCESSES

A number of measures related to this will be introduced from 2015. Parts of the measures related to the ISO 50001 certification process, independent of the certification process itself, has been implemented in various companies. This involved such things as requirements in the areas of sustainability, safety and ergonomics being laid down in relation to machines and production equipment ordered by Kendrion. Furthermore, each business unit started on drawing up its own annual CSR plan which will be integrated as much as possible with the regular budget and midterm business plan. The parts of the variable remuneration of top managers which relate to CSR objectives will eventually be able to be connected with the business units' individual CSR plans.

TOOLKIT

In the course of 2015, a Taking Responsibility toolkit has been prepared designed to offer business units and plant managers as much support as possible in this whole process. The toolkit includes as many potential measures and best practices as possible. In this way, Kendrion creates the right preconditions for the business units to become even more (pro)active in this area.

STANDARDS IN QUALITY, ENERGY AND THE ENVIRONMENT

SPEAKING THE UNIVERSAL ISO LINGO

INTERVIEW WITH RALF WIELAND AND HEINZ JANKOWSKI

Kendrion has a number of good reasons for implementing and applying ISO standards, the most important, of course, being the desired position in our specialised niche markets. There is no question about the relevance of complying with the standards, says Heinz Jankowski, responsible for facility management, environmental audit and energy management, and Ralf Wieland, now Business Unit Manager of Industrial Drive Systems and previously in charge of quality management and operations within the Automotive Division.

Ralf Wieland explains: 'In order to be accepted as a supplier, you need to comply with the standards in the business. Our customers in the automotive sector require us to implement these in our products, processes and production. Within the Kendrion Automotive world, a quality standard such as ISO/TS 16949 helps us develop a common language. As a decentralised company, each Kendrion location has its own speciality. At the same time we have to work with Key Performance Indicators that are valid throughout the world. These help us communicate within our company and are understood in the same way at all locations. In this respect, the standards are a great guideline and a common basis for communication.'

All Kendrion Automotive plants but one – Mexico will be certified in 2016 – have been certified according to ISO/TS 16949 which is the automotive-specific quality standard based on ISO 9001. This means that from a quality perspective Kendrion has also achieved and continues to show the highest levels.

MOTIVATIONS

Just as with quality, environmental and energy standards are the same and binding globally. 'But,' says Heinz Jankowski, 'each and every country has its own specialisms and interpretation of the standards. But in general, it's customer requirements that drive rational and commercial considerations to adhere to international standards. Government laws and rules have the same effect, especially where the environment and the use of energy are concerned. But there are also other motivations. Of course, being the international company that we are, we also have a strong social responsibility to use resources as intelligently and economically as we can and to reduce CO₂ emissions. And one final reason to adopt the standards in our processes is simply because we can earn money by doing this. Investing in low-energy ventilation, fuel-

efficient heating systems and LED lighting pays for itself in a relatively short time.'

TARGETS

Kendrion has many locations that are all at different maturity levels in applying CSR. Some of them are well-developed and have built up a wealth of knowledge. Others still have a lot to learn. Ralf Wieland: 'By building our internal network and spreading and sharing information on how we can improve our systems, we are becoming better all the time. This also enables us to make maximum use of the synergies within our network.'

At the same time, targets, as formulated in the CSR report, create a practical guideline for direct actions. Heinz Jankowski: 'Just as an example: we are aiming at reductions in relative energy consumption and CO₂ emissions of 25% by 2017, focusing particularly on our plant in Shelby, NC, USA, which uses about half of all the energy within Kendrion. We are very optimistic about the outcome.'



'WE ARE BECOMING BETTER ALL THE TIME.'

Ralf Wieland, Business Unit Manager Industrial Drive Systems



'STANDARDS FOR QUALITY, ENVIRONMENT AND ENERGY.'

Heinz Jankowski, Facility Manager



ENERGY & CO₂ REDUCTION

Target 2015

10% reduction of relative CO₂ emission and energy consumption compared to 2014 for biggest plants

Preparation for new energy systems in Malente, Germany, and Shelby, NC, USA

Preparations for heating & power unit in Engelswies, Germany

LED project roll-out to biggest plants in Europe

Result



Ambition 2016

10% reduction of relative CO₂ emission and energy consumption compared to 2014 for biggest plants

Start of installation of new energy systems at Malente, Germany, and Shelby, NC, USA

Full operation of heating & power unit in Engelswies

LED project roll-out to biggest plants in Europe, USA and China

Ambition 2017 Taking Responsibility

25% reduction of relative CO₂ emission and energy consumption compared to 2014 for biggest plants

Full operation of new energy systems at Malente and Shelby

LED project roll-out to all operational plants

OUR APPROACH

Kendrion bears and wishes to assume its responsibility for environmental issues. Kendrion endeavours to make efficient and less use of energy. This can represent a meaningful contribution to combating climate change and the exhaustion of fossil fuels. It can also lead to direct financial savings for the business.

Energy & CO₂ reduction therefore play an important part in Kendrion's sustainability programme. Targets have been formulated that apply throughout Kendrion as a whole. The management of the local businesses is responsible for contributing, insofar as they are able, to the attainment of these targets. Sometimes significant investments will be required that need to be approved by the Executive Board. The CSR Board provides (technical) support with a view to identifying potential savings and implementing improvement programmes. The Taking Responsibility Toolkit also includes a range of measures that can be adopted.

More specifically, work is underway on the following themes to achieve the targeted reductions:

- Investments in energy-efficient systems, such as heating & power systems and production lines;
- Energy management systems;
- ISO 50001 (energy management) and ISO 14001 (environmental management) certification;
- LED lighting projects;
- Contracts for supply of CO₂-neutral types of energy;
- Awareness campaigns for employees help them to be alert to potential energy savings at work;
- Gradual introduction of renewable energy resources.

The energy & CO₂ reduction targets are also part of the long-term variable remuneration of the Executive Board members. Every year, the performance achieved per plant is measured on the basis of detailed energy consumption figures and possible new or other measures are prepared for the next year.

PRODUCTION PROCESS

The environmental risks associated with Kendrion's production processes are generally relatively low. The processes require the use of relatively few substances with a potential environmental impact. Emissions of various substances are also limited. No or only very little water is required for the production process.

ENERGY CONSUMPTION

The energy consumption reduction programme in 2013 and 2014 focused on the company's five plants in Germany, the plant in Austria (Eibiswald) and the plant in the Czech Republic (Prostějov) representing approximately 80% of the group turnover. Kendrion gradually includes the energy data of other plants over the coming years, starting with the plants in the USA, China and Romania. In this chapter, the energy consumption of all entities within the new scope is presented separately. The consumption of power, fuel oil and natural gas in the last years can be presented as follows:

Energy consumption		2015, incl. Mishawaka, Shelby, Suzhou, Sibiu	2015	2014	Δ % (2015/2014)
Power	kWh	27,277,217	13,700,985	14,875,859	(8)
Fuel oil	kWh*	888,687	888,687	1,422,904	(38)
Natural gas	kWh	11,802,728	10,865,696	8,551,909	27
Total	kWh	39,968,632	25,455,368	24,850,672	2.5

* Conversion: 1 kWh = 0.099 ltr.

Energy consumption per EUR million added value

Energy consumption per EUR million added value		2015, incl. Mishawaka, Shelby, Suzhou, Sibiu	2015	2014	Δ % (2015/2014)
Power	kWh	137,039	86,263	94,386	(8.6)
Fuel oil	kWh	4,465	5,595	9,028	(38.0)
Natural gas	kWh	59,296	68,412	54,261	26.1
Total	kWh	200,800	160,270	157,675	1.7

This table shows that consumption of power and fuel oil has decreased in the past few years, while consumption of natural gas has risen. The reason is that the new combined heating and power systems commissioned in recent years use relatively more gas than electricity.

INVESTMENTS AND SAVINGS

Kendrion invested more than EUR 2 million (best estimate) in energy-efficient systems for the largest European plants during last years, with short payback periods. These investments include the installation of two new combined heating and power systems in Villingen, Germany, compressors and LED light projects. Several further projects in various plants are executed or still in progress. In combination, these projects will result in relatively substantial energy and CO₂ savings. An example is the implementation of energy and air pressure metering systems per production line in at least two new plants as part of the ISO 50001 certification.

In 2015, Kendrion once again devoted a great deal of effort to the reduction of production-line energy consumption in and around the workplace, for example by a more efficient use of equipment and of air-conditioning systems. LED lighting projects were also launched at a number of plants and will be expanded to several more plants in the course of 2016. A new poster campaign was started to raise further awareness among office employees and on the shop floor.

The investments in energy-efficient systems lead to substantial financial savings. For example the savings of the plant in Villingen, Germany amounted to at least EUR 1.1 million for the years 2012-2015. In the next years the estimated savings are at least EUR 0.5 million annually. The possibility to create direct and short-term financial benefits is an additional reason why this issue is material to Kendrion.

REDUCTION TARGETS FOR EMISSIONS

The CO₂ emissions (Scope 1 and 2 of the Greenhouse Gas Protocol) from the company's plants in Germany, the plant in Austria and the plant in the Czech Republic, as well as the plants in Suzhou (China), Sibiu (Romania), Shelby and Mishawaka (USA) can be presented as follows:

CO ₂ emissions*	2015, incl. Mishawaka, Shelby, Suzhou, Sibiu	2015	2014	Δ % (2015/2014)
Absolute emissions, tons	12,321	5,254	4,605	14.1
Relative emissions, tons / million EUR added value	61.9	33.1	29.2	13.2

The results from energy scans and other reviews of potential energy projects carried out at Kendrion plants contributed to the specification of more comprehensive targets for the reduction of the plants' energy consumption and CO₂ emissions in the past years. The target prescribed a 15% reduction of the total CO₂ emissions, in both absolute and relative terms, of the largest European plants and Kuhnke's German plant by the end of 2014 (as compared to 2012). This was an extremely ambitious target. The target has been achieved, also because of the investments described before. In line with the Taking Responsibility programme, the decision has been made to work with a new three-year objective. The objective is to achieve a 25% reduction in both relative energy use and CO₂ emissions compared to the end of 2014. The decision has been made to base the relative objective on the added value and no longer on the revenue. This will allow for a clearer picture. The use of CO₂ rose in both absolute and relative terms in 2015 compared with 2014. This was almost fully attributable to higher emissions in the two largest German plants, in Malente and Villingen, caused mainly by higher natural gas consumption due to the new combined heating and power systems. In 2016, a new contract will be entered into with a gas supplier that is aimed at ensuring supplies of CO₂-neutral gas.

Plans for further - sometimes high - investments have been made in the area of energy efficiency, especially at the Shelby plant in the USA and Malente in Germany. In addition, the roll-out of ISO 50001 certification and the LED project to various other large plants over the next years should result in further improvements. On that basis, Kendrion expects to achieve the three-year target referred to above by the end of 2017.

ALTERNATIVE ENERGY SOURCES

In Austria, our plant in Eibiswald uses a district heating system based on biomass and/or solar heat. In some of our German plants it is hard to install renewable energy sources in an efficient way but Kendrion will again look for further opportunities in 2016.

* The calculation of the CO₂ emissions is based on the following conversion factors:

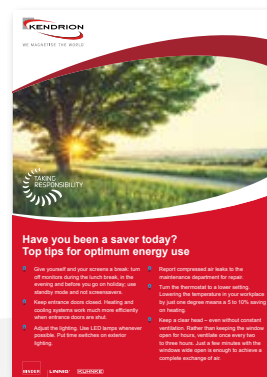
- Electricity generated from renewable sources 0.017 kg/kWh
- Electricity generated from non-renewable sources (average) 0.514 kg/kWh
- Fuel oil and natural gas (average) 0.200 kg/kWh

TRANSPORT

It is opportune to reduce travel and transport movements wherever possible. In most cases, the customers are responsible on the basis of agreed Incoterms for the transport of Kendrion's products. In that sense Kendrion has no direct influence on this. However, in Germany Kendrion does intend to gradually switch to an even more 'green' car fleet (of a moderate size), although the pace will be tempered by a number of current contracts. The lease car scheme applicable in Germany has been reviewed to assess options. This has resulted in the decision to offer German lease drivers the option of switching to lease cars with a smaller engine capacity and, consequently, lower emissions, whereby they will then be offered the opportunity of allocating a portion of the resultant difference in the purchase price to the purchase of extra features.

Kendrion has decided to focus in its Taking Responsibility programme on Scope 1 and Scope 2 of the Greenhouse Gas Protocol relating to the direct production process. On the basis of current estimates, this comprises the great majority of the CO₂ emissions. In preparation for a new programme containing targets for 2018 and beyond, Kendrion will seek to identify and assess emissions connected with travel and transports.

Kendrion complies with applicable regulations, like the EU Directive on Energy Efficiency (EED).



A SOLID BASE FOR PERSONAL AND PROFESSIONAL DEVELOPMENT

INTERVIEW WITH JÜRGEN WEISSHAAR

Corporate Social Responsibility within Kendrion is a company-wide topic. Its constituent parts are implemented at all locations across the globe but always wrapped up in a local cloak. One of these locations is Suzhou in China which is a good example of how CSR can be fully integrated in day-to-day business and processes.

In 2015, Kendrion Suzhou was awarded so-called 'AAAA' status by China's State Labour Bureau to identify the company's labour protection level. The highest grade applied is '5A' and each qualification requires many years of strictly following and obeying the labour law in all aspects, including compliance with rules, reliable records, absence of disputes and work satisfaction. Managing Director Jürgen Weisshaar: 'In 2015, we were awarded the '4A' certificate. It confirms that we are on the right track. The company is now aiming for the highest '5A' recognition. This is very useful for raising our reputation when hiring and attracting the best employees to join the company, and at the same time for improving our company's competitiveness in the market.'

KEY PERFORMANCE INDICATORS

'Energy saving, fuel efficiency and CO₂ reduction are among the most important Key Performance Indicators of our Suzhou plant. We support the 'Go green, go with public transport' campaign to promote awareness. After discussing environmental protection with our shuttle bus supplier, they agreed to change the shuttle buses from 'gasoline' to 'full electric'. And in 2015, we increased production capacity but managed to reduce electricity consumption.' According to Jürgen Weisshaar, sustainability is key in positive business development and continuous improvement of the company's performance. He says: 'Basically, we create a friendly and open working environment for our employees. And we provide attractive career opportunities within the company. So, our first consideration for open positions is to promote people internally. Key employees, for example, can benefit from a professional development plan which includes training at our headquarters or support for an MBA programme. Our long-term employees receive an annual service award from their third year of employment onwards.'

CONTINUOUS IMPROVEMENT

Other important topics in CSR are health and safety, working conditions, and training and education. Jürgen Weisshaar sums up what Kendrion Suzhou organises in each of these fields: 'We offer annual medical check-ups for every individual employee and membership of the local gym. We sometimes invite a professional coach to come in for 'office aerobics workouts'. We continuously work on the safety environment in production and provide frequent safety awareness training courses and campaigns. We make sure the working conditions are up-to-date. And last but not least, all our employees can apply for annual training opportunities for continuous knowledge improvement.'

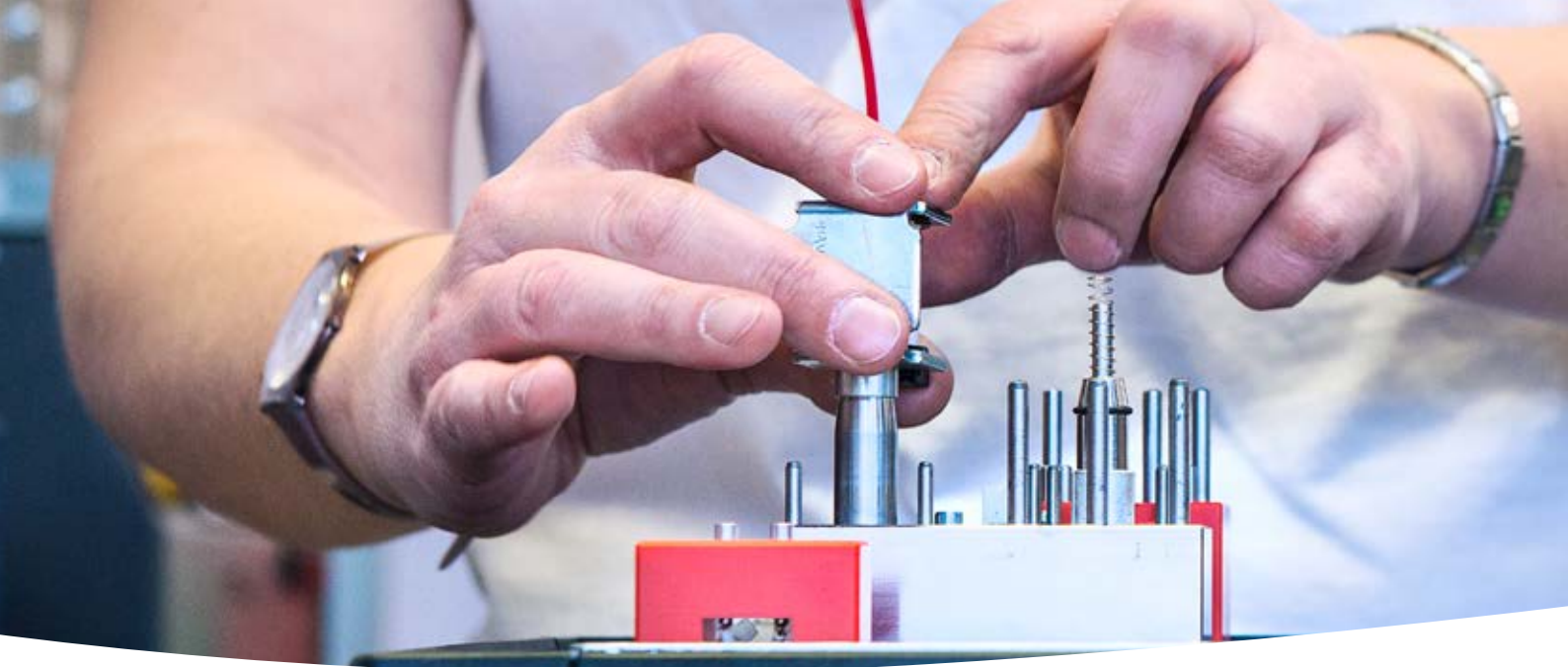
INSIDE AND OUTSIDE

Jürgen Weisshaar was recently made a Chinese Economy Innovation Leader. This award is presented to leaders in all kinds of industries in China who contribute to continuous improvement both economically and in many other ways. The criteria include creating an ever-improving work environment and an increasingly competitive business environment, improving working conditions and promoting new green technology. Jürgen Weisshaar was specially selected and nominated for this award by China's Economic Bureau in recognition of Kendrion's contribution to China: 'CSR is important in our company but we also try to be of influence in the outside world. That is why CSR is part of the agenda in our audit plans with the suppliers. We implement CSR during the audit and share our knowledge with suppliers to help them understand the principles and improve processes and conditions.'



'WE ARE NOW AIMING FOR HIGHEST '5A' RECOGNITION.'

Jürgen Weisshaar, Managing Director (on the right) and Cissy Hu, HR Manager



FAIR LABOUR STANDARDS

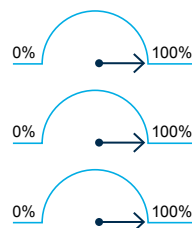
Target 2015

Staff satisfaction survey for 2 business units (in total covering at least 1/3 of all employees in the group)

CSR activities in bonus schedule of other key management

Review need for separate Human Rights policy

Result



Ambition 2016

- Staff satisfaction survey in at least 3 more major plants
- At least 70% score of survey for each plant

Measurement effectiveness of CSR criteria in bonus schedules

Review diversity policy

Ambition 2017 Taking Responsibility

- Staff satisfaction survey introduced in all plants (except for small locations)
- At least 75% score of survey for each plant

Effective diversity policy in the group

OUR APPROACH

Healthy and motivated employees are essential to ensure future success. That is why Kendrion focuses on good opportunities for training and development, good pay, staff satisfaction and a social policy to match. Non-discrimination and diversity are key priorities that define Kendrion's approach to its employees.

Kendrion is a decentralised organisation. Responsibilities are assigned as low as possible within the organisation, and local entrepreneurship is encouraged. Moreover, this enables Kendrion to promote creativity, innovation and offer all business units and their employees an opportunity to develop their full potential. Also Kendrion's Human Resources (HR) policy is decentralised, and local management bears the responsibility for the local

HR policy within the specified guidelines. A number of duties are coordinated at a central level by the international HR department in Villingen, Germany. These duties primarily relate to the (development of) senior management, the improvement of opportunities for recruitment and CSR topics. The HR department also focused on closer cooperation between the operating companies to improve exchanges and enable colleagues to benefit from each other's knowledge and skills.

The progress of the CSR targets is monitored by the (HR representatives in the) CSR Board together with the international HR department.



DILEMMA

The uncertainty concerning the future economic situation and the volatility in the markets mean Kendrion is forced to be flexible, also when it comes to labour costs. For this reason, Kendrion has attempted to maintain a core of temporary employees, and to build flexibility into contracts, so that changing circumstances can be responded to quickly. There is a tendency among the German government, trade unions and employees towards more certainty for employees. Kendrion is aiming for the optimum solution, taking due regard of all interests.

BOND WITH THE EMPLOYEES

Kendrion's Executive Committee devotes a great deal of attention to internal communication of its strategy, corresponding plans of action, and progress towards strategic goals. Many operating companies have implemented career development and training programmes designed to improve their staff's knowledge and skills. Kendrion's corporate magazine 'Magnetised' is published for all staff three times a year. Social events are organised regularly to strengthen the bond between employees.

EMPLOYEE REPRESENTATION

Works councils or employee representatives that have been installed at Kendrion's largest operating companies in Germany, Romania and Austria are, in accordance with the local labour legislation, involved in a wide range of employment, health & safety and social issues. About 60% of all Kendrion employees are represented by these works councils and employee representatives. Approximately 1,400 of the contracts of employment in Germany and Austria are governed by or follow the collective bargaining agreements for the metal industry in the respective countries. In general, Kendrion has a good relationship with the works councils and the trade unions.

FAMILY AND CAREER

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

REMUNERATION

Kendrion offers its employees attractive remuneration packages that are in line with the local market and based on job-specific requirements, without applying any differentiation between men and women.

Non-financial individual performance targets for the improvement of Kendrion's CSR have been set for both the CEO and CFO. The Supervisory Board of Kendrion decided that, for both the short-term and the long-term bonus of the CEO and CFO, a considerable proportion of the non-financial performance criteria will consist of CSR and sustainability targets. The fact that such targets now form an important component of the bonus scheme reflects the importance that the Supervisory Board and the Executive Board attach to this. More information on the remuneration of the members of the Executive Board is available in the Supervisory Board's Remuneration Report 2015 that has been published on Kendrion's website. CSR and sustainability targets are also included in the bonus scheme for the members of the Executive Committee. As from 2014, Kendrion included CSR performance criteria in the bonus schemes for other key management members as well.

TRAINING AND MANAGEMENT DEVELOPMENT

Good management, expertise and motivation are of essential importance for the future, and for this reason Kendrion assigns high priority to management development. The corporate management development programme is supported by the Kendrion Executive Programme, a customised, international modular programme in which the company collaborates with the Rotterdam School of Management. Two three-day modules are organised each year.

It is also important for Kendrion to develop talented employees for future management roles. This is why the company implemented the 'Kendrion High Potential Programme' in 2012. This is a modular training programme covering a period of three years. The first group of fifteen selected high-potential employees graduated in 2015 and a new group of high potentials has started. Taking Responsibility is part of the programme.

Managers participate in an individual development assessment. Kendrion has started to implement a web-based tool that will support top management succession planning and will become operational in the first half of 2016. In addition, the various business units have implemented training programmes at all levels in the organisation.

SOCIAL POLICY – DILEMMA

Kendrion is and wishes to remain a conscientious and reputable company. The need to say farewell to permanent or temporary employees, for example due to the economic situation or the loss of projects, can have a great impact for the people involved and their families. Kendrion acts in accordance with the prevailing local conditions and circumstances and with respect for the individual concerned. This has, unfortunately, been necessary at a few of the operating companies in 2015. Fair agreements were reached and employees were given help in finding other jobs wherever possible.

In 2014, Kendrion started the project 'promoting voluntary engagement of Kendrion employees' in Villingen, Germany. Volunteering and social engagement are accorded very high priority for Kendrion and the programme was adopted at some of Kendrion's sites in 2015.

Lukas Bremer,
trainee at Kendrion
Kuhnke, Malente,
Germany

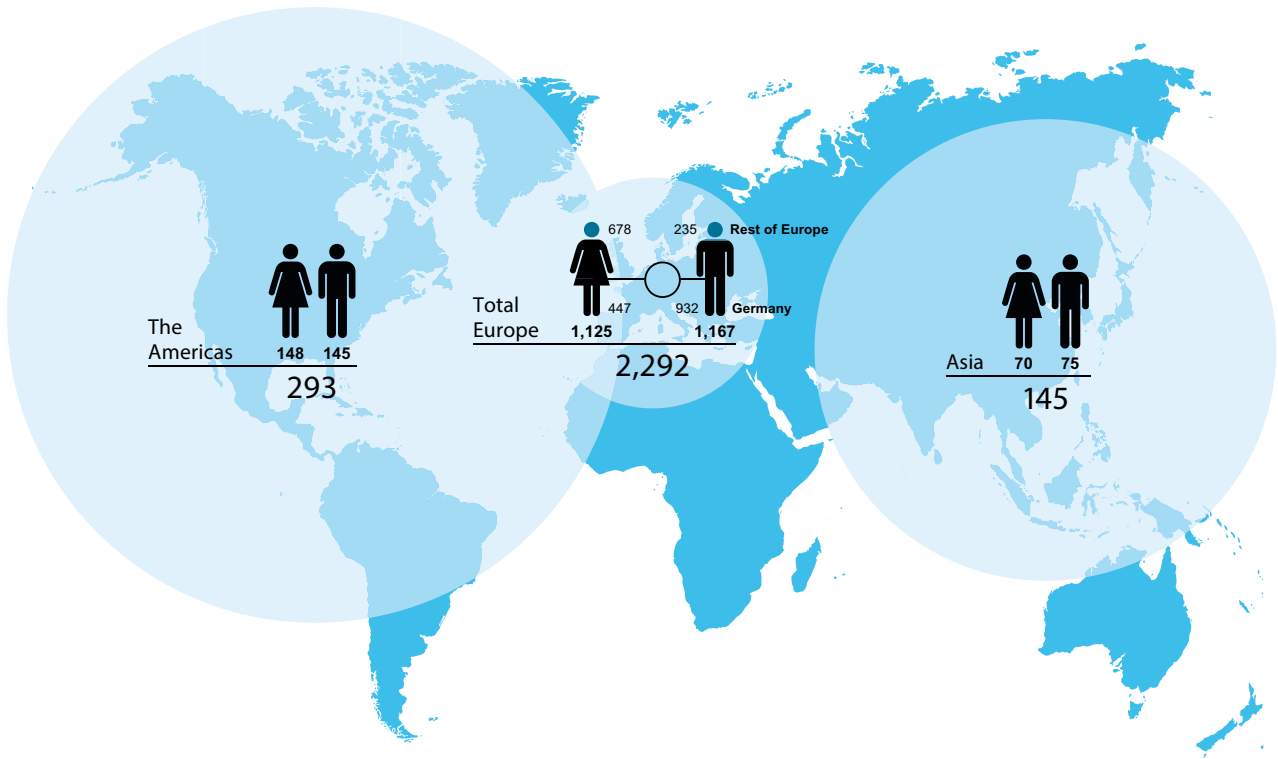


Helena Molčíková,
at Kendrion Prostějov,
Czech Republic



**PEOPLE ARE THE SINGLE MOST IMPORTANT
ASSETS OF KENDRION**

KENDRION STAFF WORLDWIDE



STAFF SATISFACTION

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

In order to measure the company's staff satisfaction properly, Kendrion expects to launch a group-wide employee satisfaction survey within the next few years. This forms part of Kendrion's long-term CSR Programme, 'Taking Responsibility'. In 2015, at least 60% of the total workforce already participated in staff satisfaction surveys. The aim for 2016 is a further increase in the number of participating group companies and to reach at least a 70% group-wide satisfaction score. The three-year Taking Responsibility plan aims at involving all operating companies in the process and this will also create good benchmark opportunities.

HR AWARDS

Awards AAAA Award CHINA

The Chinese Suzhou labour security bureau awarded Kendrion (Suzhou) Co. Ltd. in 2014 the AAA level credible employer certification in 2014. Only a few companies in Suzhou (which has more than 10 million inhabitants) have received this certification. In 2015, the Suzhou plant was able to further improve and was awarded one more 'A', receiving the AAAA status. The company received this standard for being a harmonious and social company without employee complaints, no labour issues and positive employee survey results.

FamilyNET Award 2015

The compatibility of work and family (work-life balance) has long been on the agenda of Kendrion's operating companies. They are supported by both the Ministry of Finance and Economy and the employers' associations, Südwestmetall and Chemistry Baden-Württemberg, as part of the nationwide familyNET project. Kendrion's South German companies were honoured to be awarded the familyNET award for outstanding family-friendly projects for a third time in 2015.

DIVERSITY AND DISCRIMINATION

Kendrion's Code of Conduct expressly states that the company does not tolerate discrimination by gender, race, religious denomination, remuneration or any other means when hiring new staff or in dealings with staff in positions of equal importance. Kendrion promotes the formation of a workforce and lower and middle management that reflects the composition of the local population as closely as possible. The company's home market, Germany, and also the USA, have, in particular, implemented detailed and stringent anti-discrimination legislation. Anti-discrimination officers have been appointed where necessary. Kendrion strives to create a corporate culture that does not tolerate discrimination.

No reports of incidents of discrimination were made in 2015.

Kendrion attaches importance to the achievement of diversity in nationalities and cultures. This diversity promotes intercultural experience that is highly compatible with the current internationalisation trend. In 2015, Kendrion had employees of at least 40 nationalities.

51% of all Kendrion's employees are women. The percentage of women in key management positions of the company's operating companies increased to 8.5% but is still relatively low. Kendrion advocates the appointment of more women to company management positions as the company is convinced that this will ultimately lead to more balanced considerations and improved processes and results. When recruiting staff for management positions, Kendrion expressly endeavours to search for women by means which include intensive contacts with universities. However, the number of women who are following or have followed a technical education and are available for management positions in the company is low. This is a problem confronting many high-tech companies, in particular in Germany, which cannot readily be addressed by Kendrion in autonomy. Kendrion intends to review the diversity policy in 2016 to see where further improvements can be made.

Personnel: key figures	2015	2014
Total number of employees at 31 December	2,730	2,808
Number of women in permanent employment	1,192	1,233
Number of men in permanent employment	1,239	1,215
Number of employees with a fixed-term contract	299	360
Number of permanent and temporary employees at 31 December (FTE)	2,658	2,713
Number of direct employees (FTE)	1,360	1,443
Number of indirect employees (FTE)	1,212	1,192
Number of temporary employees (FTE)	85	78
Average age of all employees	41.8	41.1
Average number of years' service	10.8	10.4
Influx percentage (%)	12%	13%
Departure percentage (%)	15%	15%
Average rate of absenteeism per employee (%)	2.5%	2.3%
Wage costs per FTE (EUR)	47,440	43,817
Training costs (as a % of wage costs)	0.8%	0.8%

HEALTH & SAFETY, TRAINING & EDUCATION, WORKING CONDITIONS

GLOBAL GUIDELINES, LOCAL ACTIONS

INTERVIEW WITH THOMAS FRITZ

People are Kendrion's most important asset. Our Corporate Social Responsibility policy therefore includes a number of HR-related topics. Thomas Fritz, HR Manager, reports on how Kendrion manages to combine the best global guidelines and local actions.

EMPLOYEE SATISFACTION

The effects of Kendrion's efforts aimed at sustainable employability are monitored by means of an employee satisfaction survey which is an important resource for remedial actions. Following its launch at the bigger locations in Markdorf, Villingen and Malente (all Germany), in time it will eventually be rolled out to all locations. Several locations implemented their own survey years ago but in the future will probably tie in with the overall survey. This makes internal benchmarking possible and helps us to realise HR sustainability goals.

TRAINING AND EDUCATION

Training and education is a spearhead of our HR policy. At the management level, Kendrion organises the Kendrion Executive Programme. For high-potential talents, it runs the HIPO programme. And in 2015, the company started its own Trainee Programme. Thomas Fritz: 'On the one hand, we offer technology-oriented programmes providing selected employees with an overview of Kendrion's expertise, position and performance in this field. On the other hand, we have business-oriented programmes which provide a deep insight for the right people into the products, processes and value propositions of our business units. Finally, personal development and training is open to every Kendrion employee. The company welcomes anyone with plans or ideas for a personal course or training programme. Our goal is to make sure that our people are the best: sustainable, committed and happy.'

CORPORATE VERSUS LOCAL

Kendrion is a decentralised organisation. Applying the overall global Kendrion CSR framework as a guideline, most plants use adjusted tools and have a cultural focus on realising corporate goals at local level. Thomas Fritz says: 'This makes sense, simply because a topic such as health & safety requires different approaches in different countries. Safety at work, including optimising workplaces, distributing information and implementing the 5S working method, is based on a corporate approach that we can organise internally. Prevention and sick leave, however, are strongly related to local

circumstances, laws and cultures. In China, for instance, the company provides health checks and healthy food. In a country like Germany, this is the individual's own responsibility, partly covered by health insurance companies. In Germany, we support breast cancer checks and stop-smoking courses. In Austria, the Czech Republic and Romania, we have Sports and Health Days. In the USA, we offer similar programmes. The overall objective is sustainable employability; the actual action programmes are set against the local background and are adapted to the local situation. Actions and allocated budgets are local but maximising returns, of course, is a Kendrion-wide goal.'



'OUR GOAL IS TO MAKE SURE THAT OUR PEOPLE ARE THE BEST: SUSTAINABLE, COMMITTED AND HAPPY.'

Thomas Fritz, HR Manager



HEALTH & SAFETY

Target 2015	Result	Ambition 2016	Ambition 2017 Taking Responsibility
Less accidents than in 2014		Less accidents than in 2015 compared to 2014	0 accidents
Absenteeism rate on comparable level and not above 4% in each plant		Absenteeism rate on comparable level and not above 4% in each plant	Absenteeism rate on comparable level and not above 4% in each plant
Increase efficient health activities; international HR workshop			
5S system for clean working space fully implemented in 2 more plants		5S system fully implemented in 2 more plants	5S system fully implemented in all operational plants

OUR APPROACH

Kendrion regards a healthy and safe working environment as one of the rights of its employees. Virtually all of Kendrion's operating companies comply with the most stringent quality and safety requirements. The requirements include the appointment of safety officers and the periodic training of employees in health & safety issues.

Owing to the decentralised organisation, all of the companies are largely themselves responsible for the organisation concerning health & safety, except for a few centrally-coordinated procedures. In addition, best practices are shared, for instance through workshops. Two HR members of staff serve on the CSR Board who provide support for the companies.

Accidents and absenteeism are monitored on a local level and centrally on a monthly basis.

ACCIDENTS / LOST-TIME-INJURIES

Kendrion's continual attention to the safety of the production processes has enabled the company to keep the number of accidents relatively limited in the past years. The total number of accidents and Lost-Time-Injuries (LTI) at Kendrion in the last years is shown in the tabel on page 39.

The total number of accidents was 41, which is a substantial decrease compared to the number in 2014. No fatal accidents occurred in the years 2011 – 2015 at work. Kendrion however does not consider this number of accidents to be satisfactory and reducing this figure must consequently be given increased attention because safety is a priority. Further analyses of the nature of these accidents and their circumstances did reveal that there were no indications of shortcomings in the safety or working conditions of the employees. Kendrion's objective is to further reduce the total number of accidents at its plants, ultimately bringing it down to zero.

Accidents and LTI (days)	2015	2014	Δ % (2015/2014)
Number of accidents	41	50	(9)
LTI (days)	863	506	357

Accidents by type	2015	2014	Δ % (2015/2014)
Number of accidents at work	29	42	(13)
Number of accidents on way to work	12	8	4
Total	41	50	(9)

The achievement of this objective is measured on a monthly basis and furthered by an evaluation of the cause of every accident to review the feasibility of implementing improvements in safety procedures, working methods and production lines. The work included the implementation in 2015 of the 5S philosophy whose objective is clean and safely organised workplaces in substantially all plants, except for some smaller sales entities.

The LTI rate was unfortunately up on 2014 as a result of a few cases concerning employees who were absent for extended periods following accidents.

ABSENTEEISM

Kendrion's overall absenteeism rate was 2.5% in 2015, which is low for the company's type of industrial operations and geographical spread, and comparable to last year. The objective is to retain the rate at approximately the same level in future years, whereby the rate should not be above 4% for each individual plant. This target was achieved in 2015 in almost all plants. A low absenteeism rate is indicative of healthier employees and an agreeable working environment. A lower rate also results in less stress for the colleagues of employees on sick leave and lower costs for the company.

Absenteeism rate

2015	2014	2013
2.5%	2.3%	2.8%

Kendrion shall also endeavour to achieve this objective by adopting an individual approach. When the absenteeism rate of specific departments or employees is relatively high Kendrion conducts individual discussions with those directly involved and implement measures designed to ensure that the employees recover as quickly as possible and return to work.

An international HR workshop has been organised in 2015 during which specific attention has been paid to work-life balance and stress factors.

HEALTH PROGRAMMES

Many Kendrion companies have implemented programmes to promote their employees' health. Examples are free weekly basket of fresh fruit and mineral water and free stop smoking courses. Kendrion promotes the roll-out to other plants in the coming years. This is also the case with an initiative in which employees are offered an opportunity to receive an influenza vaccination during working hours.

In 2015, employees at various plants were able to participate in an annual health day that offered them a general health check (blood pressure, diabetes, etc.). Other examples of measures include training courses designed to avoid back complaints, ergonomic advice and grants to attend a gym at various locations. In addition to the aforementioned initiatives, Kendrion also frequently organises social events such as sport activities designed to strengthen the relationships with and between its employees. These programmes will be continued and extended where needed in 2016.





BUSINESS ETHICS PROGRAMME

Target 2015	Result	Ambition 2016	Ambition 2017 Taking Responsibility
100% acceptance of revised Code of Conduct	0% → 100%	100% acceptance of Code of Conduct	100% acceptance of Code of Conduct
Roll-out competition regulation training	0% → 100%	Full and efficient functioning of compliance programme	Full and efficient functioning of compliance programme
Introduce third party risk assessment tool	0% → 50% → 100%	Implementation third party risk assessment tool	Third party risk assessment tool fully implemented at all plants
		Introduce external whistleblower hotline	External whistleblower hotline fully implemented at all plants

OUR APPROACH

Kendrion believes it is very important that all activities at the company are conducted with integrity and aims to foster and promote a culture in which this is a given. Besides the 'tone at the top', Kendrion has a set of internal policies and procedures in place which contribute to ensuring this ethical culture – these are detailed below.

The necessary actions in this area, as well as the targets and results, form part of the discussions with the Compliance Officer and the Executive Board, as well as the Audit Committee of the Supervisory Board of Kendrion N.V.

GOVERNANCE – INTERNAL CODES AND PROCEDURES

Code of Conduct

Kendrion has implemented a Code of Conduct in its organisation that applies to all Kendrion staff. The principles and best practices established in this Code reflect the main values that need to guide

Kendrion's staff in the performance of their duties. The core themes include market position, authorities, corporate social responsibility, accountability in general, and the obligation for due care regarding safety and health, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by continually bringing the Code to the attention of (new) managers and staff in their own language. In several countries, the Code has been part of the employment contract, and / or the employees sign for acceptance and compliance. In 2015, a new Code was designed to place even more emphasis on anti-bribery and corruption. The revised Code was implemented group-wide in 2015.

Anti-Bribery & Corruption policy (AB&C) and Competition compliance policy

Kendrion is committed to combating corruption in all forms, including extortion and bribery. Kendrion's Code of Conduct devotes specific attention to this issue. Corruption obstructs or impedes economic development and results in an unequal distribution of wealth. In addition, involvement in corruption can result in damage to and the



loss of the reputation of Kendrion, the management and employees. They are not allowed to request or suggest, seek or offer, accept or pay any form of bribe in either monetary or any other form.

In view of the importance of combating corruption and the increasing attention to its prevention, the company has decided to adopt a proactive approach to bringing the employees' attention to this issue. An AB&C policy was implemented. This policy has resulted in measures including the performance of further risk analyses and due diligence of business ethics when entering into new business relations.

Kendrion also introduced a competition compliance policy in 2015. It is aimed at making employees aware of restrictions with a view to competition when dealing with suppliers, competitors and customers. Infringement of competition regulations is detrimental to the operation of the market and can lead to damage or losses for Kendrion and its employees. A training course dealing with competition issues was developed in 2015.

An online compliance training course was developed in 2014. It deals with Kendrion's policy and guidelines regarding gifts and hospitality, political and charitable donations and bribery and corruption. Several hundred employees followed the course in 2015. From time to time, Kendrion organises workshops for management to discuss developments or dilemmas.

Other internal regulations

Kendrion has implemented internal regulations to prevent insider trading. In addition, the Executive Board and the Supervisory Board are governed by restrictions on trading in other listed companies. Kendrion's Compliance Officer is entrusted with the supervision of compliance with the regulations. Kendrion has implemented a structured risk management framework. Comprehensive information is available in the 2015 Annual Report. In 2016, Kendrion will review whether a group-wide privacy policy is required in the light of new regulations in various jurisdictions.

AUDIT AND ADVICE

The increasing complexity of the business and the regulations governing it has led to the decision to introduce in 2015 a new legal & compliance plan that will describe the legal & compliance checks necessary in various situations. The plan includes the possibility of obtaining internal and external (legal) advice, as well as the introduction of a new guideline on the implementation of third-party due diligence. An online tool for third-party due diligence screening has been selected and will be rolled out in 2016.

A legal & compliance audit plan has also been drawn up which will form the basis for audits of all operating companies to be carried out every three years.

However, these and all other measures do not provide any guarantee that no cases of corruption will arise. If there is any case of fraud, or any suspicion of fraud, then Kendrion will respond appropriately via the investigation protocol the company has developed for this purpose.

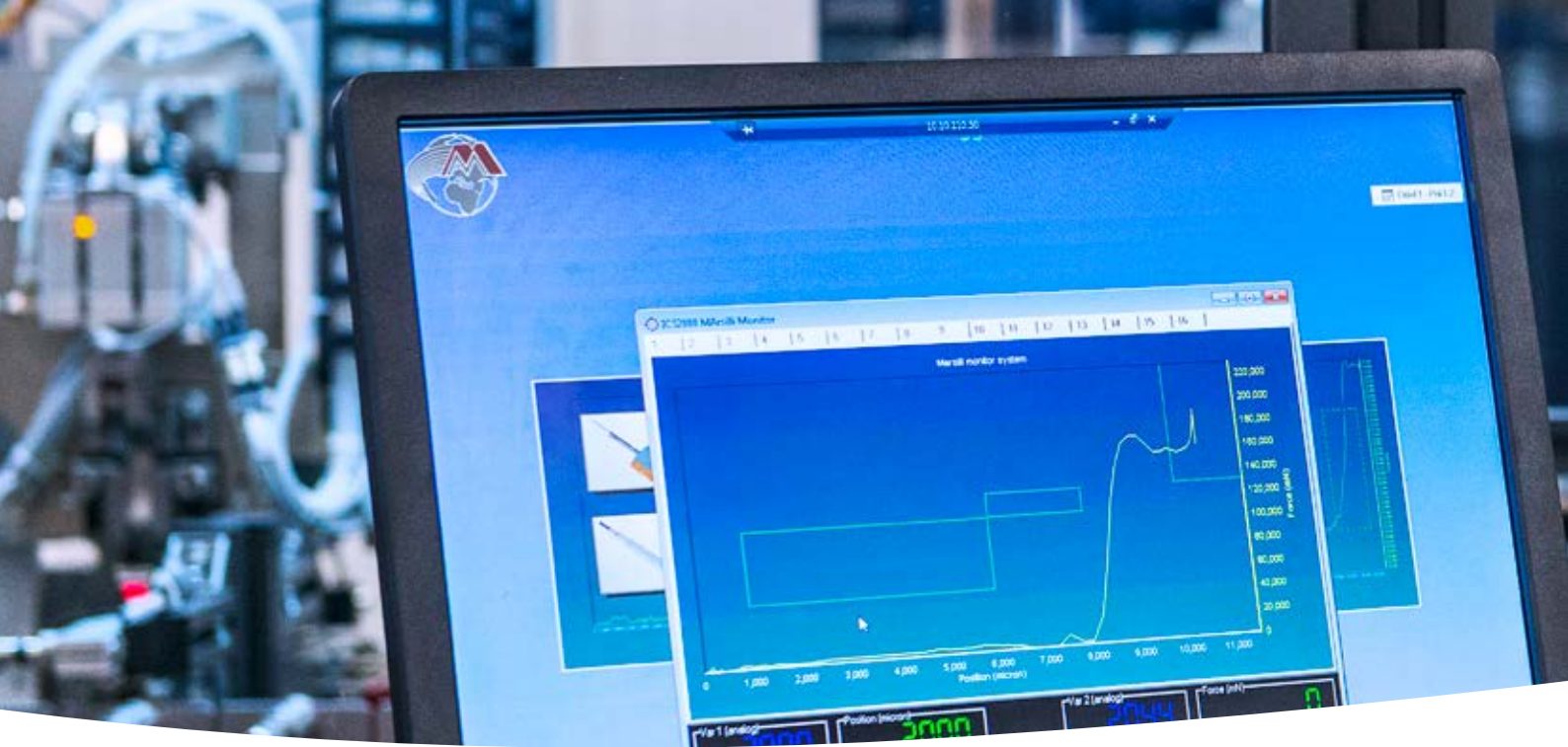
REPORTING MECHANISMS

Whistleblower's Charter

Employees who observe a (suspected) irregularity are encouraged to enter into discussions with those directly involved or with their supervisor. When this is not feasible or fails to achieve results, then they may make use of the procedure laid down in the Whistleblower's Charter. The Whistleblower's Charter offers Kendrion's employees an opportunity to report irregularities or suspicions of irregularities to the management without jeopardising their (legal) position. Any such report gives cause to an internal investigation. Within this context, Kendrion has also appointed Confidential Counsellors whom employees can contact to make confidential reports of (suspicions of) irregularities.

One irregularity was reported in 2015 by an external person involving the sale of materials by an employee for his own personal benefit. This was further investigated by external forensic experts. The issue had no material financial impact and no operational impact. Adequate measures have been taken against the employee involved and additional internal control measures have been introduced in order to prevent such incidents in the future.

An external hotline for whistleblowers' reports will be introduced in 2016. This will give employees an additional means of submitting such reports in their own language or via a computer.



COMMUNITY INVESTMENT

Target 2015

Keep at least 6 students in India project; continuation of apprenticeships

Result



Ambition 2016

Keep at least 6 students in India project; continuation of apprenticeships

Ambition 2017 Taking Responsibility

First students graduated and offered employment contract

OUR APPROACH

Kendrion intends to engage in community investment efforts as a means of promoting development and benefiting local stakeholders. An appropriate approach to community investments can help in establishing mutually beneficial relationships between Kendrion and its local stakeholders and in contributing toward long-term improvements in the quality of life of local communities in a manner that is both sustainable and supports the company's business objectives. At present, the local management bears the responsibility for determining and evaluating the degree to which Kendrion companies are involved in community investment projects, as they are in the best position to determine the optimum means of providing local communities any necessary support.

HUMAN RIGHTS

Kendrion holds it to be important that human rights and the related international regulations are respected throughout the chain. This is

why the subject is covered in the Supplier Code of Conduct and in the CSR audits of Kendrion's suppliers. The need for a separate human rights policy was reviewed in 2015. It was decided to not develop such a separate policy and to maintain an integrated approach.

SPONSORING AND CHARITABLE DONATIONS

Kendrion introduced a sponsor and donation policy for all local operating companies that can assist managers in reaching appropriate decisions on these investments. The objective is to arrive at more strategic choices with an impact and to link to strategic issues relating to the business, such as education. An increasing participation of the employees, many of whom originate from the local communities, will then be of importance. Kendrion was responsible for more than 30 sponsoring activities and donations to charitable funds in 2015, including local Red Cross organisations, support for a number of scientific activities and education for children.



INTERACTION AND VOLUNTEERS

Kendrion promotes interaction with the company's environment by means of including initiatives such as 'Girls days' and open days for schoolchildren and family days in various plants. Kendrion also organises regular meetings for its retired employees. In 2014, Kendrion's site in Villingen, Germany started an initiative to highlight and raise awareness of employee volunteer work: volunteers@kendrion. Volunteering and social engagement are accorded very high priority for Kendrion and the programme was adopted at some of Kendrion's sites worldwide in 2015.

CORPORATE COMMUNITY INVESTMENT PROJECT IN INDIA

Kendrion is active in a number of countries which are developing rapidly but still exhibit substantial inequalities in the inhabitants' standards of living and opportunities. Kendrion does not neglect these issues. One example is India, where Kendrion began a greenfield operation in Pune in 2011. Kendrion is convinced that especially economic activity can contribute greatly to further growth.

Kendrion started in 2012 a project to enable deprived young people in India to follow a technical education together with the College of Engineering in Pune. The college is an autonomous institute of the government of Maharashtra, the province where Pune is located.

Since then, scholarships have been awarded to poor students of the Electrical, Electronics or Mechanical Engineering faculty who have good study results and an interest in electromagnetism. At least half of the selected students is female, as girls and women are at an even bigger structural disadvantage. The selected students have the opportunity to do summer apprenticeships at the Kendrion

plant in Pune. The intention is to offer some of them a job after graduation. Kendrion was able to increase the number of scholarships to eight in 2015.

DILEMMA

Sometimes, because of commercial conditions or market developments, the decision has to be taken to make some employees who work in a local operating company redundant. In a small number of cases, the closure or relocation of production facilities may be necessary. The employment opportunities in the communities concerned can then be reduced, with all the inevitable impact of this. The individual employee's interest in permanent employment needs to be weighed against the company's interest in its continuity. Kendrion therefore does not take such decisions lightly, and always takes them with due regard for the applicable local social regulations and circumstances.

TAX POLICY

Kendrion strongly believes that pursuing a transparent and honest tax policy is a part of doing business. This is in line with the group's Code of Conduct. In addition, the interests of all relevant stakeholders – a.o. customers, local communities, governmental institutions, shareholders – need to be balanced with this. It received the no. 1 ranking in the Dutch Tax Transparency benchmark for small cap companies and ranked no. 6 among all listed companies.

Tax payments can contribute to local development. In this respect, Kendrion does not only pay a substantial amount of corporate income tax in the countries where it does business, but is subject to several other taxes such as VAT, pay-as-you-earn tax deductions (withholding tax), payroll taxes and property taxes. Kendrion believes it has an obligation to pay the amount of tax legally due in any territory.

At the same time, it is in the interest of the company's continuity and its financial results to optimise its tax position. This too is part of sound business operations. Kendrion also has a responsibility in this respect to its shareholders to enhance shareholder value. The commercial needs of Kendrion however remain paramount and all tax planning is undertaken in this context. All transactions must have a business purpose and/or commercial rationale: 'tax follows business'. In addition, consideration is also given to the reputation of Kendrion and to its corporate and social responsibilities.

Another important aspect of Kendrion's tax policy is to effectively manage risk and to comply with all applicable tax laws, rules, regulations and disclosure requirements. The aim is to comply with the letter as well as the spirit of the law. Kendrion makes use of the services of accredited tax advisers at both local and group levels and has included tax compliance in its internal audit programme. It goes without saying that in cases where (the interpretation of) the tax law is unclear, the optimal and most legally defensible position is taken. If necessary and feasible, tax authorities will be consulted in advance for additional certainty. Kendrion's aim in this is to be open and transparent towards all authorities and to act with total integrity. Compliance with all anti-bribery legislation is safeguarded.

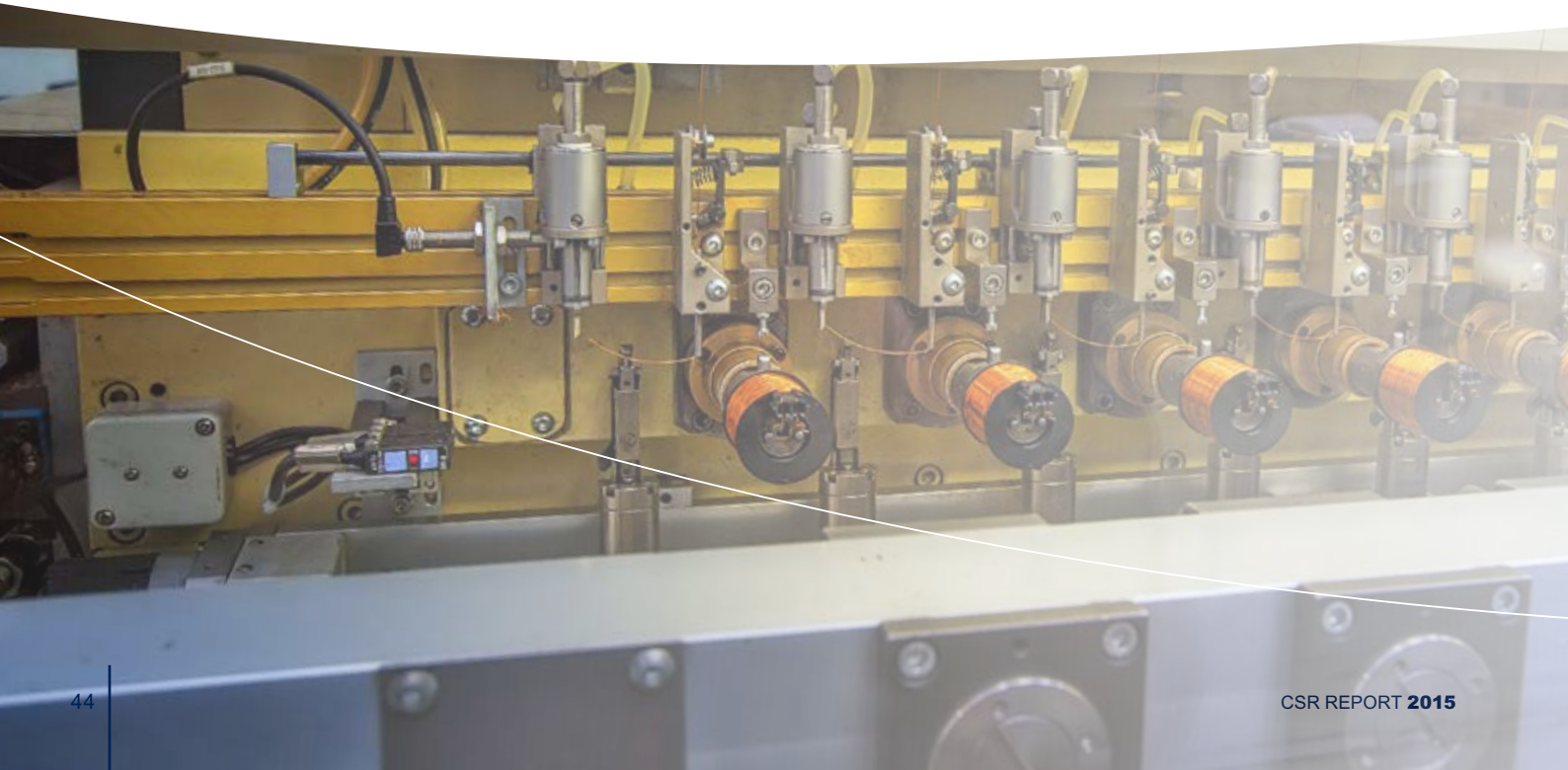
Transactions conducted between group companies located in different countries are conducted in line with the OECD Guidelines for Multinational Enterprises and other local transfer-pricing regulations. The company uses the Master File concept for transfer-pricing purposes to ensure that coherent and up-to-date principles are applied.

Kendrion is aware of the ongoing OECD BEPS developments in areas including treaty abuse, transfer pricing and country-by-country reporting. Given that Kendrion's tax position corresponds to the geographical spread of the operations and that no aggressive tax structures are employed involving the movement of funds through secrecy jurisdictions (tax havens), the company believes that the impact of these developments is limited. Furthermore, even though Kendrion understands the tendency to use country-by-country reporting to gain more insight into local tax contributions, it has been decided, from the viewpoint of overall competitiveness, not to introduce this particular kind of reporting at this stage.

Kendrion endorses the OECD Guidelines for Multinational Enterprises.

UN GLOBAL COMPACT

Kendrion joined the UN Global Compact in September 2009. The UN Global Compact is the world's largest network initiative that unites companies, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices.



KENDRION COMMUNITY PROGRAMME **OFFERING CHANCES** FOR THE **FUTURE**

INTERVIEW WITH SAMEER DESHMUKH AND STUDENT MRUNALI MANE

The Kendrion Community Programme in India is in its fourth year. So far eight students have been given the opportunity to participate and prepare for their working life with the support of Kendrion. One of them is third-year mechanical engineering student Mrunali Mane.

Kendrion India's Managing Director Sameer Deshmukh is enthusiastic as regards the progress of the programme: 'The students we started with are now graduating. Apart from financially supporting our students, we want them to get involved in Kendrion. By working on projects in our plant here in Pune twice a year, they get an idea of what the industry and working life are about. And they acquire basic knowledge on aspects of the electromagnetic technology, such as tribology and measuring. Job prospects for our participants are very good. It's not easy to gain access to the state college we work with. It makes tough demands on the motivation and drive of the candidates; we're talking high quality education. Our third-year students – Mrunali is one of them – are excellent and have the right work attitude. We would definitely like to take them on after their graduation.'

SUPPORT

Mrunali Mane is 20 years old and a third-year mechanical engineering student. She is very pleased that Kendrion is helping her to progress in life: 'My family – my parents and a younger brother and sister – comes from a village about 300 kilometres from Pune. My father is a farmer and cannot really afford a proper college education for his children. In my first year, Kendrion interviewed students who were eligible for participation in the Kendrion Community Programme. I was very happy to be selected. The company supports me in my studies and I go there for internships twice a year, two weeks in summer and two weeks in winter. I have one more year to go and so far I have done well with a 93-94% performance rate, also thanks to the support of Kendrion.'

A close-up portrait of a young woman with dark hair, wearing a gold bindi on her forehead and gold hoop earrings. She is looking directly at the camera with a neutral expression. She is wearing an orange garment.

**'KENDRION SUPPORTS
ME IN MY STUDY AND I GO
THERE FOR INTERNSHIPS.'**

Mrunali Mane, student in Pune, India

KENDRION TAKING RESPONSIBILITY AWARD 2015

Kendrion presented its third Taking Responsibility Award at the Top Management Meeting held in Olomouc, Czech Republic, in September. The Executive Board established the Award to stress the importance of putting CSR and sustainability into practice in Kendrion's operating companies.

After a preselection round, four nominees were in the running for the Taking Responsibility Award 2015:

- Industrial Drive Systems for its energy saving module (ESM) which is an intelligent electronic solution to reducing the power consumption of electromagnetic brakes;
- Kendrion Prostějov, Czech Republic, for its overall approach;
- The Commercial Vehicles Systems business unit for its bundle of CSR activities at the locations in Pune, India, Nanjing in China, Louveira in Brazil, Toluca in Mexico, Shelby in the USA and Markdorf in Germany;
- Kendrion (Automotive) Sibiu for its overall CSR approach.

Representatives of the four nominees all reported on their efforts and activities. The majority vote of the business units and the Executive Committee went to Kendrion Prostějov for its holistic approach to CSR topics such as the environment, working conditions, supply chain management, health management and safety, work/life balance, involvement of disabled employees and community investment. Second place went to Kendrion (Automotive) Sibiu in Romania for its overall CSR approach adapted to its level of development and socio-economic context.

Václav Dostal, Managing Director of Kendrion Prostějov, proudly accepted the Kendrion Taking Responsibility Award 2015 on behalf of his dedicated team. Kendrion hopes that this Taking Responsibility Award and the presentations illustrating the type of activities and results that can be achieved will boost all CSR-related efforts within the whole Group.



From left to right: Martina Svobodová, Michal Dubrava, Václav Dostal, Adéla Smékalová, Antonín Hamala, Tomáš Soldán, Martin Kopecký, Lenka Vybíralová, Roman Pliska, and Ivana Pospíšilová.

SOUND ACTUATORS BRING ACOUSTIC EMOTION INTO THE ELECTRIC VEHICLE INDUSTRY



For all their advantages, hybrid cars and electric vehicles have one serious safety disadvantage: silence. Between 0 and 30 km/h, electric cars and hybrids make literally no noise. This poses a problem for pedestrians, cyclists and even animals, which can't hear the cars approaching. But it is also an issue for the drivers, whose driving behavior is influenced by engine noises. For drivers, the revving of an engine is both a navigation device and offers a sense of control.

Sound design is a powerful tool for brand emotion in the automotive industry.

EUROPEAN LEGISLATION

To address this problem, in 2014, the European Parliament approved legislation that will make acoustic alerting systems mandatory in all new electric and hybrid vehicles by 2019. With its electrodynamic structure-borne sound actuator, Kendrion is already providing original automotive makers (OEMs) with a highly precise and highly sophisticated acoustic solution. Kendrion's sound system not only offers a wide range of customised engine sounds, but it also produces an array of signals.

POWERFUL TOOL FOR BRAND EMOTION

'While safety is driving the industry, sound design is also a powerful tool for brand emotion,' says Uwe Dettmann, Head of Kendrion's sound design technology. 'Our sound engineers

are able to precisely replicate basically any engine sound, as well as produce a large array of original, customised and brand-specific sounds. Our automotive partners understand the potential of sound in creating a harmonised brand experience. Our actuator is a superior alternative to loudspeakers,' says Michael Richter, Kendrion Sound Engineer. 'A loudspeaker is moved by a piston-like membrane, or a cone. With our system the membrane uses a seismic suspension voice-coil drive to bend soundwaves. It is an entirely new system that can be completely integrated into the vehicle's surface. In other words, there is no cone or loudspeaker opening. In fact, you can't actually see Kendrion's sound actuator. The sound simply emanates from underneath the dashboard (interior) or the bumper (exterior). In terms of sound quality, Kendrion's sound actuator distributes sound more widely than a typical loudspeaker, which means it offers a more evenly distributed sound field. Moreover, as a closed system, it is dust-tight and waterproof, making it virtually maintenance-free for commercial operators.'

EXPLORING NEW MARKETS

Kendrion is now exploring new markets where high-quality, low-cost and compact sound actuators are prevalent. Campers, buses, airplanes and trains, for example, all vehicles that require reliable and durable sound actuators are for public announcements.

ABOUT THIS REPORT

This CSR Report 2015 is the fifth CSR Report published by Kendrion. It covers the period of 1 January 2015 – 31 December 2015. This CSR Report, in combination with the 2015 Annual Report and the corporate website, has been compiled in accordance with the guidelines of the Global Reporting Initiative GRI G4 'core level'. The GRI-index can be found pages 50-51 of this Report and on Kendrion's corporate website.

The KPIs on energy, carbon emissions, number of accidents, LTI rate, number of supplier audits and number of signed Supplier Code of Conduct have been reviewed by an external auditor.

This CSR Report encompasses all the Kendrion group companies in 2015 as listed on pages 142-143 of Kendrion's 2015 Annual Report. In a number of instances the information provided in this Report relates solely to part of the operations. When this is the case, it is stated explicitly. This is due either to the operations not being carried out or the reliability of the data does not yet match with Kendrion's requirements.

For the quantitative information on energy consumption, absolute and relative CO₂ emissions, accidents and lost time injuries, acceptance of Supplier Code of Conduct and number of supplier audits, Kendrion used the GRI G4 Specific Standard Disclosures G4-EN3, G4-EN5, G4-EN15, G4-EN16, G4-LA6 and G4-SO9.

The information on accidents, lost time injuries and information on suppliers includes all group entities. The information on energy (G4-EN3 and G4-EN5) is based on the consumption of Kendrion's production facilities (electricity, gas, oil) in Germany, the Czech Republic, Austria and as of 2015, also in the USA, Suzhou (China) and Romania. For Greenhouse Gas emissions (G4-EN15 and G4-EN16) Kendrion applies the same reporting scope as for energy. Internal and external transport under control of Kendrion is very limited, therefore transport emissions are not included.

The relative energy consumption and CO₂ emission are based on the added value of the relevant locations. The added value is the revenue plus other income, minus the changes in inventory and work in progress and minus the raw materials. Kendrion reports the total number of work related accidents during working time or on the way to or from work for own employees and for external employees over which Kendrion has oversight. Only the accidents that have been reported to an external institution are reported.

Furthermore Kendrion reports the absence resulting from work related accidents of own employees. The LTI is time ('scheduled work days') that could not be worked (and is thus 'lost') as a consequence of a worker being unable to perform the usual work because of an occupational accident ('at work accident' as well as 'way-to-work accident) or disease. There is no difference, if the salaries resp. 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. The count of 'lost days' begins with the first scheduled work day of full absence (e.g. the day after the accident). A lost day counts as one full day regardless if 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 for its current operations. Kendrion is evaluating the definition of the LTI rate to enable better benchmarking.

For reporting on the number of signed Supplier Code of Conduct and number of supplier audits, Kendrion makes use of GRI indicator G4-SO9 in connection to number of suppliers that signed the Supplier Code of Conduct and underwent a supplier audit. The supplier audits are internal audits by Kendrion employees based on interview questionnaires. For more information on the scope of the Code of Conduct and related audits Kendrion refers to its website (Code of Conduct). The 'percentage of main suppliers that signed the Supplier Code of Conduct' is based on the 20 biggest suppliers in terms of procurement value (in euros).

During 2015, the internal management information system for CSR reporting was further improved. It is designed to provide for the collection and consolidation of relevant CSR information from all Kendrion's operating facilities. This is required for the preparation of reliable periodic internal and external Reports about the KPIs. Kendrion realises that the figures and data presented in this Report are not always fully comparable with those of other companies. There are two reasons for this. Companies do not always select the same KPIs or apply the same definitions for them. Secondly the nature and spread of Kendrion's activities mean that one-on-one comparisons with other industrial companies are not easy to make. But where possible Kendrion stated the own prior-year figures and data, to make internal progress visible. Other information used in this Report was collected from the existing management and financial reporting systems. Any estimates or forecasts included in the Report are explicitly referred to as such.

ASSURANCE REPORT

ASSURANCE REPORT OF THE INDEPENDENT AUDITOR WITH RESPECT TO THE CSR REPORT 2015 OF KENDRION N.V.

To: The stakeholders of Kendrion N.V.

We have performed a limited assurance engagement on the Key Performance Indicators Energy consumption, Absolute- and Relative CO₂-emissions, Accidents and Lost Time Injuries, Acceptance of Supplier Code of Conduct and Number of Supplier audits, as listed in the section “Short & Simple” of the CSR Report 2015 of Kendrion N.V. (hereafter: “the KPIs”).

In addition we have reviewed whether the CSR Report 2015 (‘Report’) has been prepared in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI G4 Core option) with the objective to issue an assurance report that provides limited assurance.

LIMITATIONS IN OUR SCOPE

The Report contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information.

MANAGEMENT’S RESPONSIBILITY

Management of Kendrion N.V. is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines GRI G4 Core option, including the identification of the stakeholders and the determination of material subjects. The disclosures made by management with respect to the scope of the Report are included in the paragraph ‘About this Report’.

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express a conclusion on the Report based on our review. We conducted our review in accordance with Standard 3810N “Assurance engagements relating to sustainability reports”. This requires that we comply with ethical requirements and that we plan and perform our work to obtain limited assurance about whether the Report is free from material misstatement.

A review is focused on obtaining limited assurance. The procedures performed in obtaining limited assurance are aimed at the plausibility of information which does not require the same exhaustive gathering of evidence as in engagements focused on reasonable assurance. The procedures performed consisted primarily of making inquiries of management and others within the Company, as appropriate, applying analytical procedures and evaluating the evidence obtained. Consequently, a review engagement provides less assurance than an audit.

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

PROCEDURES PERFORMED

Our main procedures included the following:

- Performing an external analysis and obtaining an understanding of the sector, relevant sustainability issues, relevant laws and regulations and the characteristics of the organisation;
- Evaluating the design and implementation of the systems and processes for data gathering, and processing of information as presented in the KPIs;
- Reviewing internal and external documentation to determine whether the information as included in the KPIs, including the presentation and assertions made in the report, is substantiated adequately;
- Performing analytical review procedures;
- Interviewing management and relevant staff responsible for the KPIs at group level;
- Assessing whether the Report has been prepared in accordance with the Sustainability Reporting Guidelines GRI G4 Core option of the Global Reporting Initiative.

CONCLUSION

Based on our procedures performed, nothing has come to our attention that causes us to conclude that the Report and the assurance KPIs have not been prepared in all material respects in accordance with the Sustainability Reporting Guidelines (GRI G4 Core option) of the Global Reporting Initiative.

Amsterdam, 31 March 2016
Deloitte Accountants B.V.

B.E. Savert

GRI INDEX

GENERAL STANDARD DISCLOSURES

General Standard Disclosures	Page Number (or Link)
STRATEGY AND ANALYSIS	
G4-1	3 CSR
ORGANIZATIONAL PROFILE	
G4-3	6 CSR
G4-4	6 CSR
G4-5	6, 52 CSR
G4-6	6 CSR, 142-145 Annual Report
G4-7	6 CSR, 9 Annual Report
G4-8	6 CSR, 17-18 CSR, 49-53 Annual Report
G4-9	4-6 CSR, 41 and 47 Annual Report, 62 Annual Report
G4-10	35-36 CSR
G4-11	33 CSR
G4-12	20-22 CSR
G4-13	9 Annual Report, 41-43 Annual Report. No significant changes in 2015.
G4-14	26, 28-29, 40-41 CSR; 32, 34, 39, Annual Report
G4-15	44 CSR, UN Global Compact, OECD Guidelines for Multinational Enterprises
G4-16	n.a.
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES	
G4-17	48 CSR, 142-143 Annual Report
G4-18	9 CSR
G4-19	9 CSR
G4-20	48 CSR, the material aspects are material to all group companies, although for Energy and Emissions the plants described on page 29 CSR are most relevant.
G4-21	48 CSR (no selected GRI Aspects that are material outside the organisation)
G4-22	29, 48 CSR. Restatements are not applicable.
G4-23	29, 48 CSR
STAKEHOLDER ENGAGEMENT	
G4-24	14-15 CSR
G4-25	14 CSR
G4-26	9, 14-15 CSR
G4-27	9, 14-15 CSR
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G4-28	48 CSR
G4-29	8 April 2015
G4-30	Annual; 3, 48 CSR
G4-31	52 CSR
G4-32	48-49 CSR
G4-33	3, 48-49 CSR
GOVERNANCE	
G4-34	16, 54-56 Annual Report; 3, 9 CSR
ETHICS AND INTEGRITY	
G4-56	33-35 Annual Report; 40-41 CSR

SPECIFIC STANDARD DISCLOSURES

DMA and Indicators	Page Number (or Link)	Identified Omission(s)	Reason(s) for Omission(s)	Explanation for Omission(s)	External Assurance
CATEGORY: ENVIRONMENTAL					
MATERIAL ASPECT: ENERGY					
G4-DMA	28 CSR				
G4-EN3	28-30 CSR	Data regarding renewable sources and sold energy.	The information is currently unavailable.	The underlying data are currently not available. It will be considered if and when to report these in the future.	yes, 49 CSR
G4-EN5	28-30, 48 CSR, energy used inside organisation				yes, 49 CSR
MATERIAL ASPECT: EMISSIONS					
G4-DMA	28 CSR				
G4-EN15	28-30 CSR	GWP data	The information is currently unavailable.	The underlying data are currently not available. It will be considered if and when to report these in the future.	yes, 49 CSR
G4-EN16	28-30 CSR	GWP data	The information is currently unavailable.	The underlying data are currently not available. It will be considered if and when to report these in the future.	yes, 49 CSR
CATEGORY: SOCIAL					
SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK					
MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY					
G4-DMA	38-39 CSR				
G4-LA6	38-39 CSR	Info per regio and gender.	The information is currently unavailable.	The data per regio and gender is in the view of Kendrion currently not relevant.	yes, 49 CSR
SUB-CATEGORY: HUMAN RIGHTS					
MATERIAL ASPECT: NON-DISCRIMINATION					
G4-DMA	36 CSR				
G4-HR3	36 CSR				

COLOPHON

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Any questions or comments about this report or Kendrion's CSR activities can be raised with:

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www.kendrion.com

More information about Kendrion and the company's strategy, results and products is available from Kendrion's website. Kendrion's 2015 Annual Report and 2015 Annual Magazine have also been published on the website.



THE NEXT BIG THING: THE **HYDROGEN** **CAR?**



The combustion engine is facing growing competition, forcing OEMs to invest heavily in its continued development. Hybrid and fully electric cars are ready to play their part and claim their share of the market. All car producers have successfully launched new e-drive models. Hydrogen cars are a relatively new phenomenon; car manufacturers inside and outside Europe are working meticulously on their development and market introduction. Hydrogen could turn out to be a very interesting alternative: filling up in five minutes, a travelling distance of more than 500 kilometres on one full tank, zero emissions. The only emission is water in the form of vapour. Electricity is generated as a result of the chemical reaction between hydrogen and oxygen from ambient air. The absence of an adequate distribution network of hydrogen filling stations is a problem but many countries are already working on this. Hyundai and Toyota are the trendsetters but all the major European brands are investing in the development of hydrogen cars.

Kendrion is involved in the development of the hydrogen technology for two big car OEMs. This opens up opportunities for combining high-end technology development and engineering with a wide product range and a number of very interesting application possibilities, such as pneumatic valves, hydraulic valves and more. The integration of mechatronics and variable valve lifting, engine and thermal management will offer new growth options in the future.

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