



WE MAGNETISE THE WORLD



GREEN SIGNED TO GROW

CSR REPORT 2013



green signed[®]
by KENDRION

KUHNKE

LINNIG

BINDER

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This logo was introduced in 2012 for all Kendrion's CSR communications.

This CSR Report is printed on environmental friendly paper.

Greensigned to grow

This CSR Report has been given the title 'Greensigned to grow'. This title refers to the title given to Kendrion's Mid-term Plan for 2014-2016 'Designed to grow'. Kendrion's operations are increasingly organised to achieve sustainability, and many of our products are designed specifically to meet the sustainability targets set by the company's customers and end users. Moreover, pursuant to Kendrion's ambition the company intends to achieve even more, to achieve further growth: not just in terms of its results, revenue and geographical spread, but also – and emphatically – in terms of its sustainability performance. This ambition is reflected in the CSR Report's title, 'Greensigned to grow'.

In order to further intensify this ambition, Kendrion has introduced a logo with the name 'greensigned by Kendrion'. KOBRA, a new spring-applied brake launched by the Industrial Drive Systems business unit, was awarded this logo in recognition of its compliance with a number of sustainability criteria applicable to industrial products in this category. That's why KOBRA is also visualised on the cover.



Preface



We are pleased to present Kendrion's 2013 CSR Report to you. In publishing this third 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 and energy savings, 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 a vast majority of our targets that we had set ourselves in this area were achieved in 2013. The highlights during the past year included the introduction of our company greensigned logo, the reductions in CO₂ emissions achieved in our largest European plants, the presentation of the first Kendrion CSR Award and the steps we and our suppliers together took in CSR. Thanks to the efforts of many employees across all our businesses, sustained efforts are already underway to achieve new, realistic targets for this year. We will update you on these efforts in this

Report. During the course of 2014, we also intend to devote attention to more long-term strategic targets, when continued reductions of the regular energy consumption will remain a key issue.

Kendrion cannot work miracles by itself. We are keenly aware of the fact that further 'greening' of our internal processes and of the chain will take time and effort. Wherever possible, Kendrion wants to work with its stakeholders and partners in the chain to achieve this. We hold periodic meetings with our customers, suppliers, investors and staff with the intention of getting the best out of each other.

We have observed that many of our customers are 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.

We hope that the readers of this Report will appreciate the efforts we are making in fulfilling our corporate social responsibility.

Piet Veenema, CEO Kendrion N.V.

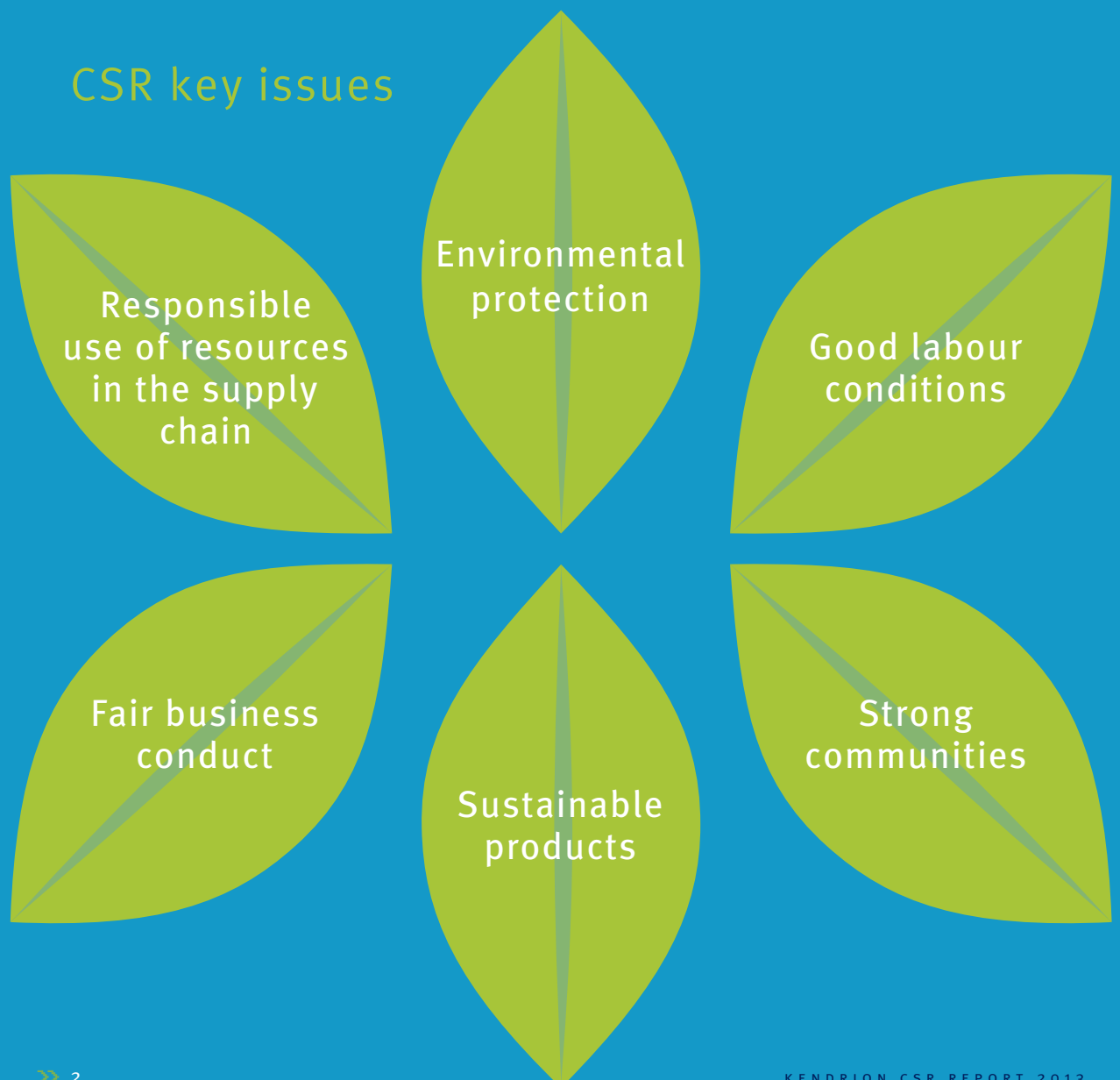
CSR policy What & how

WHAT

CSR mission

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.

CSR key issues



HOW



Stakeholders
dialogue



Supply chain
management



High quality
business
processes
& waste
treatment



Energy & CO₂
reduction



Fair labour
standards



Health & safety



Business ethics
programme



Sustainable
products



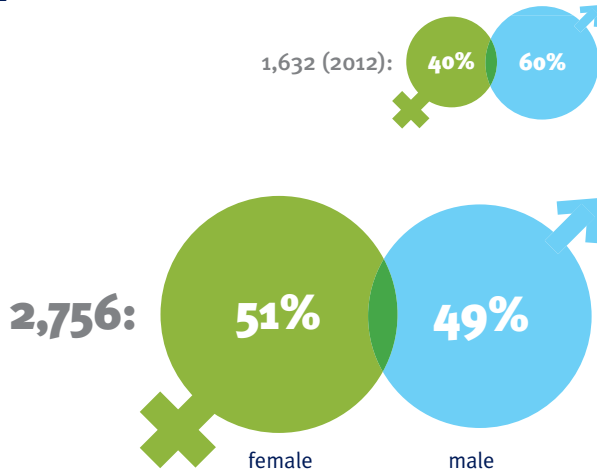
Community
investment

CSR

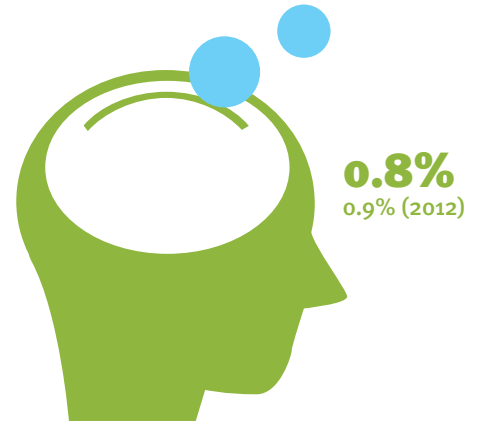
Short & simple

PEOPLE

Number of employees (fte)

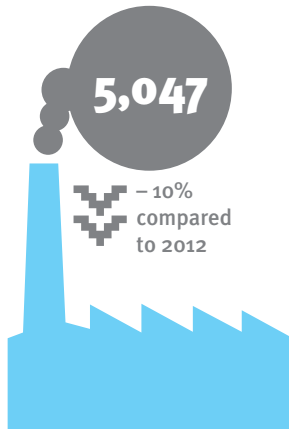


Training costs
(as a % of wage costs)

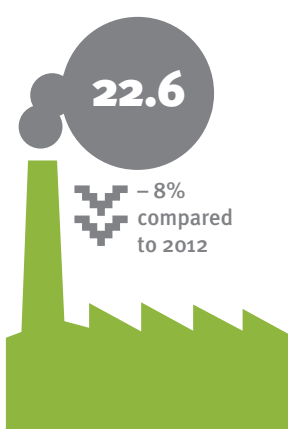


PLANET (excluding Kuhnke)

Absolute CO₂ emission*
(tons)



Relative CO₂ emission*
(t/million turnover)



Energy consumption*

Power: KWH 10,730,518
Power KWH/million turnover: 48,119

- 6.2% compared to 2012

Fuel oil: 100,292 liter
Fuel oil ltr/million turnover: 449

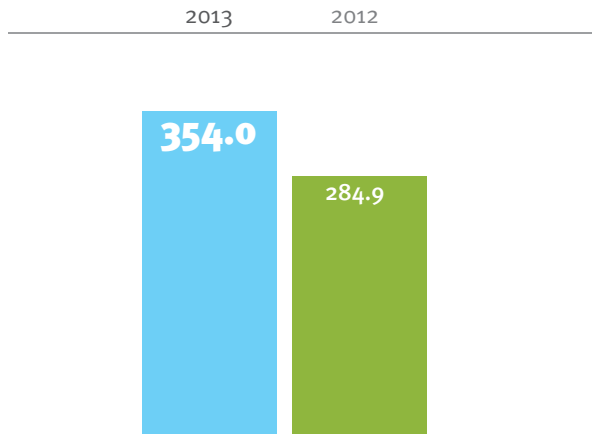
- 4.7% compared to 2012

*Five plants in Germany: Aerzen, Donaueschingen, Engelswies, Markdorf, Villingen and Eibiswald (Austria) and Prostejov (Czech Republic).

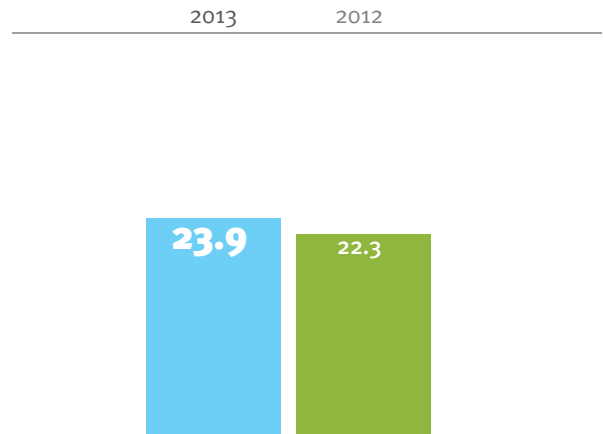
PROFIT

Normalised for non-recurring items

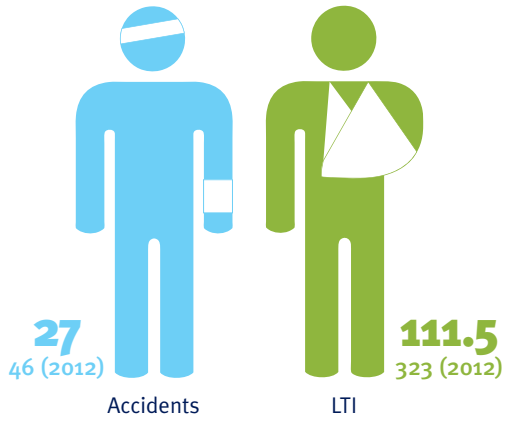
Revenue
(EUR million)



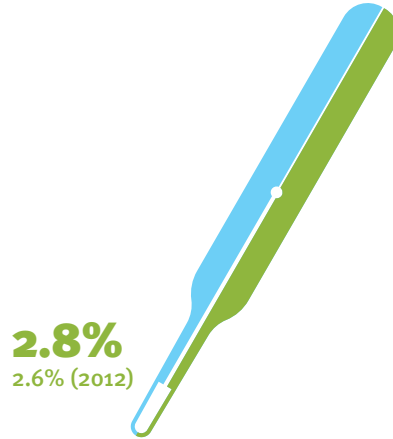
EBITA
(EUR million)



Accidents and Lost Time Injuries (days)



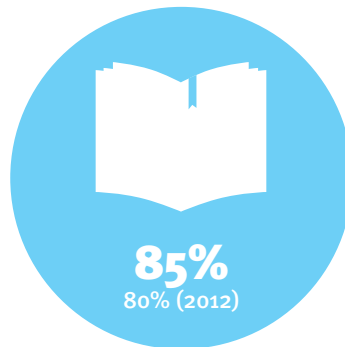
Illness rate



Consumption of materials (in tons, best estimate)

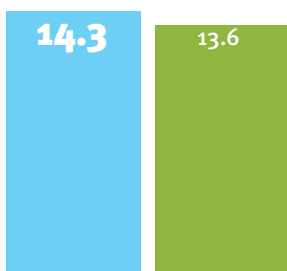


Acceptance of Supplier Code of Conduct



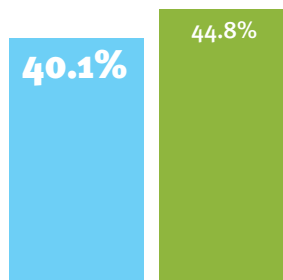
Net profit (EUR million)

2013 2012



Solvency

2013 2012



Organisation

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



Profile

KENDRION N.V., a solution provider, develops, manufactures and markets innovative high-quality electromagnetic and mechatronic systems and components for customers all over the world. Kendrion's operations are carried out by two divisions with in total seven business units focused on specific market segments, namely in the *Division Industrial* the business units Industrial Magnetic Systems, Industrial Control Systems and Industrial Drive Systems, and in the *Division Automotive* the business units Passenger Car Systems, Automotive Control Systems, Commercial Vehicle Systems and Heavy Duty Systems.

KENDRION has leading positions in a number of business-to-business niche markets. Germany is Kendrion's main market, although other countries are becoming increasingly important.

Kendrion's activities

KENDRION develops advanced electromagnetic and mechatronic solutions for industrial and automotive applications. These are used by customers all over the world in systems such as lifts, doorlocking systems, industrial robots, medical equipment, electrical switchbox systems, diesel and gasoline engines, air-conditioning installations, motor cooling systems and beverage dispensers. Kendrion's key customers include a.o. Bosch, Continental, Daimler, Delphi, Evobus, Hyundai, Siemens, ThyssenKrupp Bilstein, Volkswagen, Wabco, Yutong and ZF.

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

Division Automotive

PCS



Passenger Car Systems

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

BINDER

ACS



Automotive Control Systems

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

KUHNKE

CVS



Commercial Vehicle Systems

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

LINNIG

HDS



Heavy Duty Systems

Customised project solutions for the commercial vehicles sector.

KENDRION

Mission

KENDRION is committed to being a leading international company that uses its existing know-how, innovative capabilities and commercial strengths to provide solutions to the company's industrial and automotive customers. In doing so Kendrion intends to be a transparent, flexible and reliable company where entrepreneurial zeal is combined with clear profit targets. Kendrion seeks to further strengthen its position as a fast-growing high-tech company.

Strategy

KENDRION'S policy is focused on the creation of sustainable added value and the achievement of appealing return on investment for the company as a whole. This is based on a powerful focus on a number of selected operations and on profitable growth achieved both organically and via acquisitions. Kendrion's spearheads are:

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

Organisation

Organisational structure

Kendrion's headquarter is in Zeist, the Netherlands. Kendrion has operations in fourteen other countries: Austria, Brazil, China, the Czech Republic, Germany, India, Italy, Mexico, Romania, Spain, Sweden, Switzerland, the UK and the USA. Kendrion is a strongly focused company with one main objective: the development, manufacture and sales of innovative high-quality electromagnetic and mechatronic systems and components. The operations are organised into two divisions and seven market-focused business units:

>> Division Industrial

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

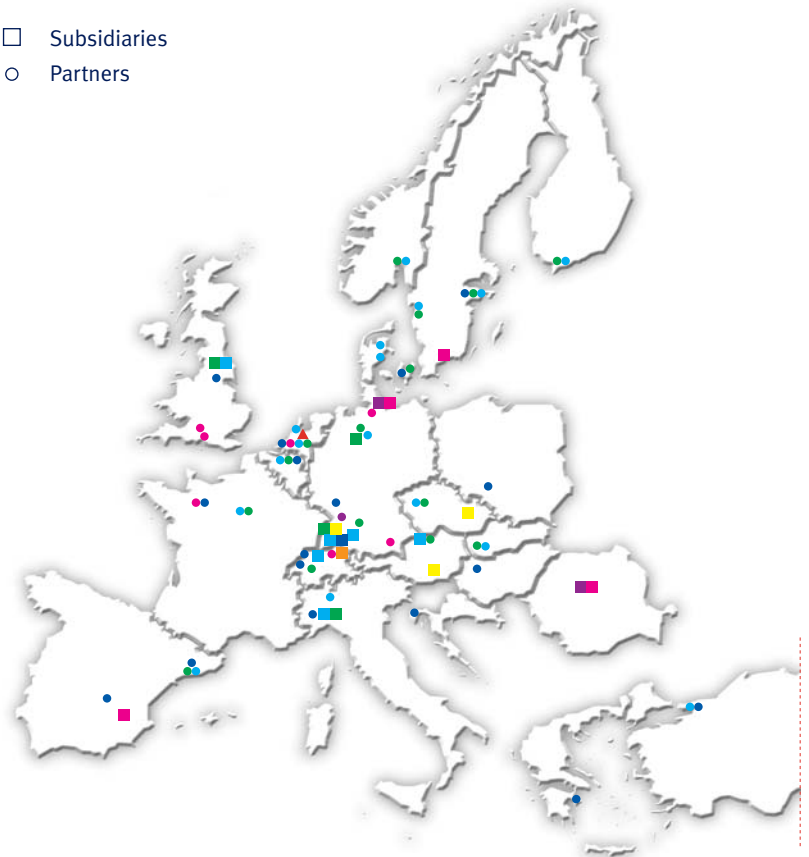
>> Division Automotive

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

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

EUROPE

- | | |
|-------------------------------|----------------|
| ■ Industrial Magnetic Systems | □ Subsidiaries |
| ■ Industrial Control Systems | ○ Partners |
| ■ Industrial Drive Systems | |
| ■ Passenger Car Systems | |
| ■ Automotive Control Systems | |
| ■ Commercial Vehicle Systems | |
| ■ Heavy Duty Systems | |
| ▲ Kendrion N.V. | |



>> Management

In 2013, Kendrion was managed by an Executive Board of two members.

The Executive Board was comprised of Mr Piet Veenema (58) and CFO Mr Frank Sonnemans (52), appointed on 15 April 2013. Mr Veenema joined Kendrion in 1993 and is CEO since 2003. Both members are Dutch nationals.

The Executive Board is supported by the CEO Division Automotive, the Business Unit Managers and the Chief Technology Officer, together the Executive Committee.



EXECUTIVE COMMITTEE

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

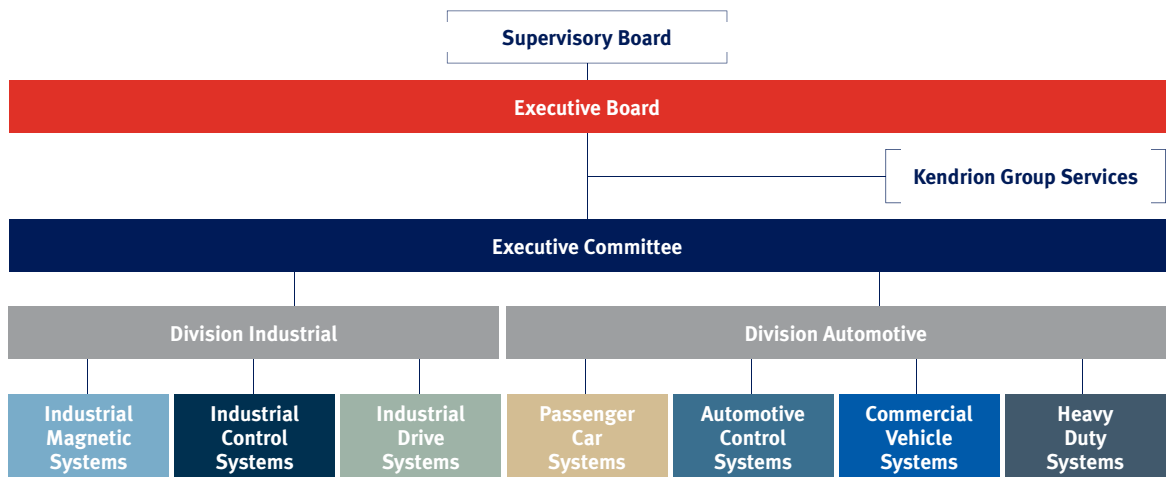
Sitting from left to right: Heinz Freitag, Chief Technology Officer, Michael Bernhard, Business Unit Manager Industrial Drive Systems Bernd Gundelsweiler, CEO Division Automotive.

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

REST OF THE WORLD



ORGANISATIONAL CHART



>> Supervision

Kendrion has a Supervisory Board currently comprised of four members. Mr Ten Hove is the Chairman as of December 2013. Mr Van Kesteren was Chairman of the Supervisory Board until December 2013. After nine years as a member of the Supervisory Board he stepped down on 31 December 2013.

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 of 2013 and endorsed the CSR Board's plans for 2014.

The roles and responsibilities of the Executive Board, the Supervisory Board and its Committees and the General Meeting of Shareholders are in accordance with the relevant provisions of Dutch law, the Netherlands Corporate Governance Code and the Articles of Association of Kendrion N.V. More information on corporate governance, including the regulations of these corporate bodies, has been published on Kendrion's website.

Past years' CSR highlights



2005

Introduction
Code of Conduct



2009

Participation
UN Global Compact



2011

Installation
Kendrion CSR Board



Organisation

CSR mission and strategy

>> Sustainability megatrends

Some of the relevant megatrends in the world are:

- A rapid growth of the world population, especially in emerging markets;
- An increasing scarcity of natural resources;
- The transition to more sustainable energy;
- Urbanisation;
- Climate change;
- Increased transportation needs of people and goods; and
- Scarcity of highly educated (technical) people, especially in Germany.

>> CSR mission

For Kendrion, Corporate Social Responsibility means: the responsibility of an organisation for the impacts 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.

>> CSR strategy

Kendrion has included sustainability and CSR as spearheads in the company's general strategic policy described on page 7 and referred to in more detail in the 2013 Annual Report on pages 10 – 12. Kendrion has formulated the following general CSR strategy, based on its mission, overall strategy and the effects of the megatrends.

Some of the megatrends, such as the scarcity of natural resources and the reduced availability or greatly 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 also offer opportunities for Kendrion, however. 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 CSR and sustainability play an important role in the Kendrion strategy.



2012



2013

Publication
first CSR Report

Introduction
Supplier Code
of Conduct

First Kendrion
CSR Award
for Kendrion (Pune), India

Introduction
greensigned logo
for KOBRA

Kendrion's customers are formulating more and more sustainability targets and, as a result, expect increasingly more from their suppliers. This is also in part the reason why Kendrion's Automotive Division and Industrial Division took the carefully considered decision to participate in a number of submarkets that accommodate these trends. 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. More information is enclosed in the 'Sustainable products' section.

Transparency and supply chain responsibility are both important issues in the chain and, consequently, are also of great importance to Kendrion – for example with respect to the use of materials. For this reason, Kendrion attaches great importance to good relationships with the company's customers, employees, suppliers, other business partners and the communities where Kendrion is active. Cooperation and consultations are essential if Kendrion is to fulfil its ambitions. Kendrion has interpreted these needs for its company processes in the terms explained herein.

The key issues for Kendrion's own business processes were identified by reference to the nature of Kendrion's activities and Kendrion's potential impact and influence in the chain in the near term and the long term. Next, specific targets and KPIs were formulated for those key issues. The key issues, KPIs and targets were discussed and endorsed by the Executive Committee and the Supervisory Board, and are evaluated annually on the basis of the results achieved and where necessary adjusted as proposed by the CSR Board. These evaluations also make use of the feedback Kendrion receives from its investors, suppliers, staff and customers during the meetings held.

>> **Key issues**

The key issues for Kendrion's business processes, also considering the megatrends, include:

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

>> **Ambition**

Kendrion has formulated targets for 2014 that follow on from the key issues and the targets for previous years. Kendrion will make great efforts to ensure that the Kuhnke operating companies that were acquired in May 2013 are fully integrated into the current CSR programme.

Kendrion also intends to adopt an incremental approach to the incorporation of sustainability at even more strategic levels. In other words, how can Kendrion align its core business and products more closely with sustainability in terms of its use of materials, its footprint and product proposition in its markets? And how can the company maximise its CSR effectiveness and achieve the greatest impact with its relatively limited capacity and resources? For this reason, during the course of 2014 a number of company bodies will continue their studies of the CSR position Kendrion will need to have acquired in a number of years' time. The outcome from these studies will serve as the basis for the definition of further long-term strategic targets. Kendrion also intends to prepare for integral reporting guideline initiatives and, in addition, intends to further enhance the company's collection of CSR KPI data and their publication in external reports.

Organisation

CSR Board

» CSR Board

The Executive Committee decided to give further shape to Kendrion's CSR activities by appointing a CSR Board in 2011. The Board's members are representatives from the business units. The CSR Board had nine members in 2013. Two new members representing the former Kuhnke companies joined the CSR Board at the beginning of 2014.

» Objectives

The objective of the CSR Board is to coordinate, communicate, enthuse and accelerate. The CSR Board is empowered to structure and plan all Kendrion's CSR activities. 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. The Board endeavours to make the employees aware of CSR and to generate their enthusiasm for addressing CSR issues within the context of their day-to-day work and responsibilities. Kendrion intends to adopt a practical, realistic and relevant approach.

» Activities

The Board met five times in 2013. The CSR Board gave further consideration to the CSR themes of greatest relevance to Kendrion and jointly adopted a number of realistic targets for 2013 and 2014. A number of KPIs have been defined as specifically as possible and are used to assess the extent to which these targets are achieved. A number of targets are of a qualitative rather than quantitative nature. Each member of the CSR Board bears the responsibility for the fulfilment of the plans in his or her 'field'.

CSR BOARD MEMBERS

From left to right: Wijgert Gooijer, Company Secretary and CSR Coordinator (Kendrion Group Services); Andreas Herzfeld, Team Leader Human Resources (IMS); Wolfgang Mayer, Head of Quality Department (CVS); Volker Buhl, Sales Manager (IMS); Josef Porta, Production Manager (PCS); Kathrin Grahl, Human Resources (ICS); Bertram Heimgartner, Head of Commercial Department (CVS); Wilma Stuiver, Executive Assistant (Kendrion Group Services); Wencke Volkmann, Controlling (ACS); Beate Hermannstädter, Marketing Coordinator (IDS) and Heinz Jankowski, Facility Manager (Kendrion Group Services).





Stakeholders dialogue

>> General

Kendrion attaches great importance to good relationships with its customers, employees, suppliers, other business partners and the communities in which Kendrion is active. Kendrion engages in transparent communications in a manner in which the company carries out CSR activities. Exchanges of ideas, the involvement of business relations in the implementation of initiatives and the utilisation of the experience and networks of others will further the implementation and integration of Kendrion's CSR policy within the company. The selection of stakeholders was 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?

>> Customers and suppliers

A substantial number of Kendrion's customers are major Tier 1 or 2 suppliers and OEMs in the automotive sector or other large industrial companies. Some of these customers have implemented company Supplier Codes of their own. Kendrion complies with their requirements, including their quality and environmental requirements, by an ample margin.

Kendrion started to provide more insight into the company's CSR efforts to its customers. Accordingly, we highlighted our CSR policy in a wide range of material published in the course of 2013, such as brochures, presentations and other correspondence. Compared to know-how, product properties and pricing, sustainability sometimes does not yet have a major role in the business processes of customers, but its importance is growing. In 2013, various business units engaged in constructive dialogue with a number of important customers, including Siemens and Fresenius, to discuss the company's CSR efforts in more detail. The customers we consulted on our CSR strategy largely responded favourably.

We successfully introduced a Supplier Code of Conduct at many of our suppliers in 2012. A further large number of main suppliers signed this Code of Conduct in 2013. The goal for 2014 and following years is to fully integrate this Supplier Code of Conduct in supplier selection, and 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. Kendrion makes major investments in the development, training, health and safety of its employees. These themes are also discussed frequently with the works councils.

The support of Kendrion's CSR policy by the company's employees is of essential importance. As in past years, Kendrion devoted continual attention to CSR issues in the Magnetised international staff magazine in 2013 and will continue to do so in 2014.

IT ONLY GETS HIGHER...

The reliability of the solenoid is the most important feature in elevator technology. Low-noise switching and high forces are also properties that both increase convenience and underline the safety of the system.

Kendrion has been optimising its braking solenoids for elevator construction for over fifty years. A new milestone was achieved in 2013 in China with a new development project and production contract for a safety brake for a leading global elevator manufacturer. Elevator technology is part of the Industrial Drive Systems and Industrial Magnetic Systems business unit.



>> Investors

Sustainability is also becoming an increasingly important issue for Kendrion's financiers. Kendrion intends to conduct an open dialogue with these financiers. Kendrion held discussions with a number of its major shareholders and banks in the bank consortium. Kendrion presented its strategy, key issues and objectives, and also discussed the shareholders' CSR policy within the context of their investments. These parties welcomed the increased focus on sustainability and CSR within Kendrion. One of the recommendations was to aim for even greater cooperation in the chain and in industry in general, which would enable us, as a relatively small player, to exert greater influence on processes, for instance in the area of substitution of materials and recycling, as well as sustainable energy sources. These action points have once again been incorporated in the definition of the key issues for Kendrion in 2014.

Kendrion maintains good relations with the Dutch Association of Investors for Sustainable Development (VBDO – Vereniging van Beleggers voor Duurzame Ontwikkeling).

>> 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 means of including (mostly small scale) local community investment programmes. Kendrion appreciates the importance of good contacts with the local authorities. These contacts are important for reasons including the safety of the production facilities, accessibility, ties with the employees and the enhancement of local communities.

More information about stakeholder engagement is enclosed in the various sections of this Report.



Supply chain management

Target 2013	Result	Ambition 2014
All new material suppliers sign Supplier Code of Conduct (CoC)		100% of new material suppliers sign Supplier CoC
All existing main material suppliers commit to Supplier CoC		100% of main material suppliers sign Supplier CoC
5 CSR supplier audits per business unit		<ul style="list-style-type: none"> ■ 5 CSR supplier audits per business unit ■ Fix framework for score and relation to other supplier requirements

>> 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 Corporate Social Responsibility. Kendrion also 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. Nevertheless, Kendrion has decided to develop an in-house Supplier Code of Conduct. 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 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. This is particularly applicable to German and other European suppliers. More than 85% of the main material suppliers have signed the Supplier Code of Conduct. 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 sign it. It is intended to roll out this Supplier Code of Conduct to all main material suppliers within the Group in 2014.

>> 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. Kendrion also began to conduct CSR supplier audits to review whether the suppliers continue to comply with the required standards. These standards were specified in more detail in 2013. Following further audits in 2014, they will be evaluated to assess their effectiveness. 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.

For 2014, the aim is to make compliance with the Supplier Code of Conduct a part of supplier audits, at a minimum of five suppliers per business unit, in a more structured way. Initially this takes the form of drawing up an inventory. Through open discussion, the state of affairs at these suppliers will be discussed and any difficulties will be identified. Where possible, an action plan will be formulated together.

» 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 (other than CO₂). 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. A Life Cycle Assessment pilot project is scheduled to be launched at the operating company Kendrion (Aerzen) GmbH in Germany during the first half of 2014. The objective of the project is to calculate the environmental footprint of the company's various products and processes. Once the results of the pilot project have been analysed, an assessment will be conducted to determine whether the method can also be used at other plants.

Kendrion is not aware of any specific collaborative arrangements within the chain in which the company operates that are focused on responsible chain management. However, Kendrion does organise meetings with major customers and suppliers to discuss this issue. Kendrion is also a participant in the UN Global Compact and a member of the APM anti-counterfeiting association, an organisation that promotes honest trade and combats brand piracy.

» Conflict minerals

Under the Dodd-Frank Act the US Securities and Exchange Commission (SEC) requires 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. All listed US companies must file their first audited report over the 2013 calendar year.

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.

As (indirect) supplier of many 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 and to use the EICC supplier form 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. A category of permanent magnets 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 Neodym 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 producer of more than 90% of the world's rare earth metals. China has conducted a restrictive export policy in recent years, in part due to the national demand for these metals. This has resulted in a shortage in the international market and, in turn, in extremely sharp price increases in 2011. Western companies are currently (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. Unfortunately, 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.

Kendrion does procure most of its needs via brokers and traders and not directly from the Chinese producers. 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.

The majority of the permanent magnets are used by two business units, Industrial Drive Systems and Commercial Vehicle Systems. In the Commercial Vehicle Systems business unit, a project has been started to replace the permanent magnets with another technique for some applications. This has not, as yet, resulted in specific options. In 2013, Kendrion planned further studies of the feasibility of limiting the dependency on permanent magnets, together with the Kendrion Academy. These will continue in 2014.

» Other materials

The most recent assessments have revealed that few critical materials are used other than those referred to in this chapter. In 2013, 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. Specific examples are the substitution of certain sprays or cleaning agents in the production process. This has also resulted in the decision to endeavour to dismantle what is referred to a 'plating area' at one of Kendrion's operating companies in 2014, and to relocate this non-core activity elsewhere.

In 2013 and 2012, Kendrion used the following raw materials in the manufacture of the company's products:

Consumption of materials (in tons, best estimate)	2013	2012
Copper	1,400	1,550
Steel	1,800	1,200
Aluminium	350	400
Permanent magnets	50	40

Kendrion also procures machined parts. Machined parts, which are comprised of a large number of components, are the main raw material. The steel content in these machined parts is estimated to account for about 30% of the cost. The remainder is comprised of the added value provided by the supplier. A special project to reduce the amount of copper used in each part of certain applications has been launched at one of our business units.



High quality business processes & waste treatment

Target 2013	Result	Ambition 2014
Development waste plan (data collection and measurement of some types of waste)		<ul style="list-style-type: none"> Waste data plan for all European plants Preparations for inclusion of US plants
Paper reduction projects		20% reduction of paper use in the Kendrion group at end of 2015
Start ISO 14001 for plant Brazil and IDS Villingen, Germany		<ul style="list-style-type: none"> ISO 14001 in two locations of the business unit Industrial Drive Systems Preparations for two other locations of Industrial Magnetic Systems ISO 50001 at Kendrion (Eibiswald), Austria

>> Waste

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, packaging materials and inks and toners. 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.

Although they do not have a major impact on the amount of waste due to the relatively low quantities used, a number of small-scale initiatives were taken in 2013 to reduce the consumption of printing ink and paper.

Kendrion worked hard on the streamlining of the data and database of waste and hazardous substances in 2012 and 2013. This process takes time. As a result, the data for the largest European plants are processed and reported on a uniform basis. The objective is to gradually roll out this system across the entire group, also in the USA.

Kendrion has reviewed how the company can optimise the use and recycling of materials and reduce waste and waste costs even further. A further study was carried out at a number of local operating companies for the development of a 'paperless office' proposition, for example in part based on e-invoicing and e-order projects. Kendrion has set a target prescribing a 20% reduction in the group's consumption of paper in 2015 compared to 2013.

Kendrion's products are often integrated in larger systems by Tier 1 or 2 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.

Kendrion considers a healthy and safe working environment part of the rights of its employees. 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

Kendrion's environmental management systems at nine plants comply with the ISO 14001 standard.

The preparations for the award of this certification included mapping the potential environmental impact of the relevant plant's operations. The ISO 14001 certificate confirms that the plant complies with all the relevant environmental legislation. A number of annual environmental targets are also set for each of these plants.

This system includes the appointment of a number of Safety Officers and the organisation of training programmes to increase the employees' awareness of environmental issues. All procedures are laid down in writing. Audits of the system are conducted at regular intervals.

Eleven of Kendrion's plants have been awarded ISO EN 9001 certification. Six plants have been awarded ISO TS 16949 certification. ISO EN 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.

One plant, the operating company in Brazil, completed the certification process for ISO 14001 in 2013. More plants will follow in 2014, including Industrial Drive Systems in Villingen and Aerzen, Germany.

Preparations are also underway for the ISO 50001 certification of Kendrion's operating company in Austria. ISO 50001 is a relatively new international energy management standard. This 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. Once Kendrion (Eibiswald) GmbH has been awarded this certification in 2014 Kendrion intends to roll out the certification process to other companies during the following years.

QUALITY IN PRODUCTION

Kendrion complies with the most stringent quality requirements for its production processes.

The highly reliable production is performed under clean-room conditions if required for the project.





Energy & CO₂ reduction

Target 2013	Result	Ambition 2014
10% reduction in absolute and relative CO ₂ emission for biggest European plants		15% reduction of absolute and relative CO ₂ emission compared to 2012 for biggest European plants (including Kuhnke)
Further energy reduction initiatives		<ul style="list-style-type: none"> ■ Energy scans in US plants and Kuhnke plants; ■ Second combined heating / power unit in Villingen, Germany

>> General

Kendrion bears and wishes to assume its responsibility for environmental issues. Kendrion endeavours to make efficient and less use of energy, and encourages the company's employees to make continuously improvements to environmental procedures.

>> 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.

>> Energy consumption

The energy consumption reduction programme in 2013 focused on the company's five plants in Germany, the plant in Austria (Eibiswald) and the plant in the Czech Republic (Prostejov).

The consumption of power, fuel oil and natural gas in 2011, 2012 and 2013 can be presented as follows:

Energy consumption		2013	2012	2011
Power	kWH	10,730,518	11,604,604	12,194,528
Fuel oil	ltr	100,292	106,529	127,724
Natural gas	m ³	650,704	552,775	409,685

Energy consumption per EUR million turnover		2013	2012	2011	Δ % (2013/2012)
Power	kWH	48,119	51,279	51,238	(6.2)
Fuel oil	ltr	449	471	537	(4.7)
Natural gas	m ³	2,958	2,442	1,721	21.1

The 2013 target specified a 10% reduction per EUR million turnover. The target was achieved. As the new combined heating and cooling system at the plant in Villingen, Germany, is fired by natural gas, it is self-evident that the plant's natural gas consumption increased in 2013.

» Investments

Kendrion invested more than EUR 1.7 million in energy-efficient systems for the largest European plants during the period from 2011 to 2013. These investments include the installation of a new combined heating and cooling system in Villingen, Germany. Several further, smaller projects in various plants are 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 Eibiswald, Austria. In 2013, Kendrion devoted a great deal of effort to the reduction of energy consumption in and around the workplace, for example by switching off computers and equipment rather than leaving them in standby mode and the carefully considered use of air-conditioning systems. Posters and other tools were developed to help achieve this. LED lighting pilot projects also began at a number of plants.

» 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 can be presented as follows:

CO ₂ emissions		2013	2012	2011	Δ % (2013/2012)
Absolute emissions	tons	5,047	5,548	5,618	(10)
Relative emissions	t / million turnover	22.6	24.5	23.2	(8)

The target specified for the plants in Germany stipulates an at least 10% reduction of CO₂ emissions (Scope 1 and 2 pursuant to the Greenhouse Gas Protocol) per EUR million turnover in 2013 (absolute and relative). The target has been achieved for the absolute reduction. The target for the relative reduction of emissions was achieved almost in its entirety. A relatively larger proportion of the turnover of the relevant plants was generated from products manufactured in the clean rooms of Kendrion's Passenger Car Systems business unit: production in these clean rooms consumes more energy than in any other facility.

The results from energy scans carried out at other Kendrion plants in 2013 contributed to the specification of more comprehensive targets for the reduction of the plants' energy consumption and CO₂ emissions for the years after 2013. The target prescribes 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 is an extremely ambitious target. After this target was set, Kendrion's European electricity supplier recently notified the company that changes it has been compelled to make in the sources of its power deliveries will result in a substantial increase in CO₂ emissions per MW as from 2014. This is due to the fact that in the past the supplier's deliveries used to include electricity generated by German nuclear power stations. These are scheduled to close within the near future. At the moment the supplier does not have sufficient access to alternative sources of clean energy to absorb this shortfall and, as a result, is temporarily compelled to fall back on coal-fired power stations. Kendrion had concluded a long-term contract with this supplier. Kendrion is currently discussing this issue with the supplier.

RENEWABLE ENERGIES

Kendrion manufactures electromagnetic components for energy technology that are applied in particularly the field of wind power stations. Especially for the field of energy technology, Kendrion provides magnet brakes that are robust, low-maintenance and enable exceptionally low energy consumption.



»» Transport

It is opportune to reduce travel and transport movements wherever possible. In most cases, our customers are responsible on the basis of agreed Incoterms for the transport of our products. In that sense we have 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) from 2013, 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. The lease terms and conditions applicable in other countries will be reviewed during the course of 2014.

The number of (individual) video conference options will also be expanded to reduce travel.

»» Biodiversity

For as far as is known Kendrion does not have any locations adjacent to protected areas or areas of high biodiversity. Some of the land (and the groundwater) on the site of the Kendrion (Shelby) Inc. plant in Shelby, North Carolina, USA, became polluted by the operations of its legal predecessors. A clean-up and control programme at the site has been implemented. This programme is being carried out under the responsibility and management of one of Kendrion (Shelby) Inc.'s former owners and in close cooperation with the local environmental authorities. An external study has not revealed any hazards to public health. An external study has also established that the company's current operations are not polluting for humans or the environment.

HAVE YOU SAVED TODAY?

An awareness campaign, supported by posters reminds employees of the importance of saving energy on the shop floor.



Kendrion's Industrial Drive Systems business unit launched KOBRA, its first greensigned label product, at the SPS IPC Drives Trade Fair held at the end of November last year. The feedback and responses were promising and the sales leads generated during the trade fair are expected to result in the first orders in 2014. Michael Bernhard, Industrial Drive Systems' Business Unit Manager, is already reviewing opportunities for the expansion of the greensigned label to include more 'green' Kendrion products.



Market introduction KOBRA and greensigned Back in a big, sustainable way

‘This was Kendrion’s first product introduction in this form,’ Michael Bernhard explains. ‘Kendrion had always developed or optimised applications in close cooperation with the relevant customer, for example on the basis of a letter of intent or even a contract. On launching KOBRA, Kendrion not only introduced a revolutionary new product but also launched a completely new umbrella brand: greensigned. Kendrion was convinced, on the basis of its experience, that there would be a market for this product. Consequently – and in contrast to the past – Kendrion decided to take the initiative in its development. The business unit obtained feedback well before the official market launch by inviting a group of selected customers to a meeting to state their views and opinions. These meetings discussed the technical details, the properties and specifications of the product and the greensigned concept as such. The feedback was very favourable and encouraging. Industrial Drive Systems concluded that the time was ripe for the introduction at SPS IPS Drives.’

» New solution

Industrial Drive Systems’ eye-catching and very apt (green!) stand targeted a variety of market segments ranging from OEMs and resellers right through to end users – and certainly drew a lot of attention! After taking stock of the results, Michael Bernhard and his team were able to boast of some 120 serious sales leads: more than ever before. ‘Industrial Drive Systems began to contact

and visit these potential customers in mid-January. The first interested companies have received samples and prototypes, and the business unit has received numerous requests for information: 60% of these are from new contacts. The company had completely lost the spring-applied brake market. Following the company’s response to this situation – don’t copy an existing product, but develop a completely new solution that offers technical benefits and which provides sustainability and environmental added value – Kendrion is now definitely back in a big way.’



» Stringent criteria

‘Green’ can certainly be referred to as a global, irreversible megatrend. In product development, energy efficiency, recyclability, CO₂ reduction and extended life cycles are rapidly becoming standard requirements. Kendrion, with its wide range of strategic products, is at the heart of a number of these developments. ‘The greensigned label will help Kendrion, the market and its customers to become aware of Kendrion’s strength in this field. Kendrion’s greensigned products meet stringent sustainability and environmental criteria. Companies assuming their corporate social responsibility not only strive to market ‘green’ products, but also strive to ensure that their production facilities meet the expectations and demands of the stakeholders and the general public. Greensigned offers them part of the answer.’





Fair labour standards

Target 2013	Result	Ambition 2014
Increase staff satisfaction; introduction survey		Staff satisfaction survey extended to two other business units
Introduction CSR in bonus of members Executive Committee		Introduction of CSR activities in bonus of other key management

>> Introduction

Kendrion's worldwide growth in its organisation and the Kuhnke takeover resulted in an increase in the number of the company's staff to approximately 2,800 employees (including about 100 temps). This resulted in the need to implement some changes to Kendrion's organisational structure. Kendrion is a decentralised organisation. Responsibilities are assigned as low as possible within the organisation, and local entrepreneurship is encouraged. This ensures that Kendrion can respond rapidly to the continually changing market and special customer requirements.

In 2013, Kendrion once again demonstrated that the company's entire organisation can deal with challenges by adopting a results-oriented and efficient approach. The flexibility provided by the use of temporary employees has enabled the company to adopt an appropriate response to economic fluctuations. In view of the uncertainties about the future economic circumstances, maintaining the flexibility of costs – including personnel costs – will continue to be of great importance in the coming years. Regulations introduced by some countries, including Germany, discourage the deployment of temporary employees. Kendrion is holding continual discussions with the works councils at several German plants on measures that could be implemented to retain the necessary flexibility while also maintaining sufficient security for the employees.

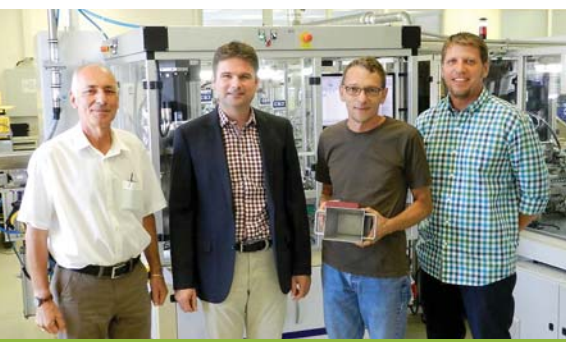
KENNI

At Kendrion we value innovative employee ideas. The idea forum 'KENNI' encourages employees to actively engage in the development and improvements of all aspects of their work. Here Martin Kolmann, Managing Director of Kendrion (Eibiswald) GmbH in Austria gives a special award to one of the employees, Christian Tengg.

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

>> 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 searching for the optimum situation, taking due regard of all interests.



STARTING A SUCCESSFUL FUTURE AT KENDRION

The green light has been given for ten trainees and seven students from Baden-Württemberg Cooperative State University to start professional training for a successful future at Kendrion. These junior employees will complete their education at one of four locations in southern Germany (Villingen-Schwenningen, Donaueschingen, Engelswies or Markdorf). Kendrion provided vocational training in industrial engineering and mechatronics in 2013. The first two years of training will be organised in conjunction with Continental Automotive. The students started the dual course in industrial engineering and mechatronics in October 2013. In addition, three students from Furtwangen University will begin a work-study trainee programme at the Villingen plant during the winter semester. We are really pleased with this breath of fresh air at Kendrion and would like to wish all our newcomers a great start.

From left to right, standing: Raphael Binefeld, Marius Wanzek, Kevin Lauble and Sebastian Weißer. Sitting: Jan Elias Steffen, Tim Schneider and Martin Schulz.



>> Bond with the employees

Kendrion's Executive Committee devotes a great deal of attention to the communication of the strategy and the plans of action resulting from the strategy. This ensures that the employees are provided with a clear insight into what is expected of them, and consequently are able to make an active contribution to the achievement of growth. Kendrion's corporate magazine 'Magnetised', for all staff, is published three times a year.

>> Employee representation

Works councils or employee representatives that have been installed at Kendrion's largest operating companies in Germany, the Czech Republic and Austria are, in accordance with the local labour legislation, involved in a wide range of employment, health & safety and social issues. About 70% of all Kendrion employees are represented by these works councils and employee representatives. Collective bargaining agreements govern the terms and conditions of about 60% of Kendrion's employees. Stringent requirements are also imposed on labour relations in countries and states in which collective bargaining agreements or written contracts of employment are not customary. In general, Kendrion has a good relationship with the works councils and the trade unions, although on occasion difficult issues need to be discussed.

>> Staff loyalty

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

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

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

» Remuneration

As from 2012 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 as from 2013, for both the short-term and the long-term bonus, 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 2013 that has been published on Kendrion's website.

CSR performance criteria have not been incorporated in the senior management's remuneration system up to 2012, as Kendrion is of the opinion that this is feasible solely following the full implementation of an internal management system for the collection and evaluation of CSR information. From 2013, CSR and sustainability targets were also included in the bonus scheme for the members of the Executive Committee. As from 2014, Kendrion intends to include CSR performance criteria in the bonus schemes for other key management members.

» Training and management development

Good management, expertise and motivation are of essential importance to the future, and for this reason Kendrion assigns high priority to management development. The corporate management development programme is supported by the Kendrion Executive Programme, a customised, international modular teaching programme in which the company collaborates with the Rotterdam School of Management. The programme also constitutes an important platform for exchanges of experience and for the further expansion of collaboration. Eleven members of staff graduated in 2013.

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

Almost every year a group of non-financial managers follows a course in finance. This course, which is also customised, covers issues of importance to Kendrion, such as risk management, sales, investment decisions and planning and control. In addition, the various business units have implemented training programmes at all levels in the organisation. Kendrion's management development endeavours to find an appropriate equilibrium between the transfer of internal knowledge and the recruitment of external knowledge.

The Kendrion Academy was founded in 2013. The Academy's objective is to further enhance the company's innovative capacity by promoting and running research projects in Kendrion related fields, disseminate technical knowledge among the company's employees and strengthen its ties with universities.

KENDRION EXECUTIVE PROGRAMME GRADUATES

In April 2013, module 6 of the Kendrion Executive Programme (KEP) took place at the Rotterdam School of Management in Rotterdam, the Netherlands. This particular module was all about 'Change Leadership'. Bernd Gundelsweiler, CEO Division Automotive, acted as the module sponsor. This sixth and final module was attended by a total of 18 managers, 11 of whom graduated from the programme and received their diploma on the day.

From left to right, standing: Arnold Herberg, Frank Zelano, Laurent Lebas, Michael Bernhard, Mike Günther, Piet Veenema (CEO), Alexander Glaser and Gerald Puchner
Kneeling from left to right: Peter Födisch, Ralf Vosseler, Armin Beck and Harald Burkart



» Awards

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

An evaluation carried out in 2013 resulted in the presentation of the German ‘TOP National Employer’ Award to Kendrion in January 2014. This Award is conferred by the ‘FOCUS’ news magazine, ‘XING’, the leading social network in German-speaking countries, and ‘kununu’, Germany’s largest employer rating portal. Kendrion is proud to have received these Awards.

» Social policy

The need to say farewell to permanent or temporary employees, for example due to the economic situation, can have a great impact for the people involved and their families. Kendrion acts in accordance with the prevailing local conditions and circumstances and with respect for the individual concerned. This has, unfortunately, been necessary at companies including Kuhnke, Malente, which was compelled to take its leave of a group of staff in support positions. Fair agreements on a social plan were reached with the works council. The relocation of the operations of Linnig Inc., in Atlanta, USA in 2013, also resulted in a number of redundancies. The company strived to arrive at appropriate solutions for the staff involved.

The importance Kendrion attaches to a good social policy is also demonstrated by the company’s accession to the UN Global Compact that includes labour principles relating to the working conditions of employees. Labour standards, including health & safety promotion, education, absenteeism and staff satisfaction, are also key elements of the CSR efforts.

» Staff satisfaction

Annual staff-satisfaction surveys are conducted pursuant to the plans of the Passenger Car Systems business unit in Villingen, Germany and Eibiswald, Austria. These surveys are based on the staff’s labour performance (as determined by factors including bonus payments and overtime), participation in social events, the absenteeism rate and the percentage of employees terminating their contract of employment.

A pilot trial project carried out in 2013 reviewed the feasibility of conducting staff-satisfaction surveys on a more individual basis, including individual satisfaction with the balance between work and private life. The first survey was conducted at Kendrion’s plant in Markdorf, Germany. The survey was developed in cooperation with an international consultancy firm. The response to the survey was high, at 80%. The answers served as input for the formulation of plans for action that will be discussed in more detail by the relevant departments. Kendrion intends to roll out this survey, in consultation with the relevant works councils, at other plants of at least two business units in 2014.

The IG Metall trade union conducted a survey of metal engineering companies throughout Germany in 2013. The return rate and outcome for Kendrion’s companies – whereby the results from the plant in Donaueschingen, in particular, were representative – were favourable.

THE DYNAMICS OF DIVERSITY

Kendrion wants to hire the best people, irrespective of gender, origin, age, ethnicity or nationality. Diversity – that’s the concept we’re talking about here – is at the heart of our company. For this reason, measures have been taken to anchor this principle firmly in Kendrion’s company structure.

‘The principle of equal opportunities is sacrosanct at Kendrion,’ says Andreas Herzfeld, member of the CSR Board. ‘And looking at the company as a whole, we can definitely say that we have a good mix of nationalities, of young and old, of men and women and of people of different origins. Our biggest challenge is finding women to fill management positions. We are a highly technology-oriented company and it is not easy to find female managers with the right qualifications and ambitions in the technical areas in which we operate. This situation can, of course, partly be explained by the overwhelming predominance of male students choosing to study technical subjects. But we are optimistic that this will change in the future.’

» 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. The German legislation includes the appointment of Anti-discrimination Officers, who can be consulted by employees with questions or concerns or who are the subject of discrimination. Kendrion strives to create a corporate culture that does not tolerate discrimination. No reports were made to these Anti-discrimination Officers in 2013.

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 2013, Kendrion had employees of at least 35 nationalities.

Approximately 51% of all Kendrion's employees are women. The number of women in management positions of the company's operating companies is however 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 including 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 is also closely following the political developments in this issue at both a national and European level.

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

» Human rights

Kendrion's Code of Conduct explicitly stipulates that the company should respect fundamental human rights and, more concrete, that Kendrion has to protect local employees for possible human right abuses and that Kendrion shall not tolerate human rights abuses within its sphere of influence. In the Code of Conduct it is also described that Kendrion shall not employ child labour or prisoner labour and that the company shall not make use of any other form of forced or compulsory labour.

FORMAL DIVERSITY PROCEDURES

Kendrion strives for the best quality and is proud of the diversity within the company that results from this approach. Andreas Herzfeld: 'As a company we reflect the global diversity in gender, origin, ethnicity and age. This brings in different backgrounds and different ways of working and thinking, thereby creating a dynamic work environment. Our Code of Conduct and our whistleblower procedures help to safeguard and anchor this approach in a more formal way. But it all starts with ourselves and our own positive and tolerant attitude towards different people and different backgrounds. Diversity requires an active contribution from every one of us. That is why anyone at Kendrion can also turn to the Kendrion Confidential Counsellors if problems – such as harassment or discrimination – occur.'

The Supplier Code of Conduct contains similar clauses. The Code of Conduct prescribes compliance with the relevant legislation. Local managers shall ensure that Kendrion complies with this principle when hiring new employees. Kendrion has not received any reports of any human rights abuses in 2011, 2012 or 2013 within the company or at its suppliers.

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

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



Health & safety

Target 2013	Result	Ambition 2014
Less accidents than in 2012		Less accidents than in 2013
Absenteeism rate on comparable level and no plant above 5%		Absenteeism rate on comparable level and not above 4% for direct and not above 3% for indirect personnel in each plant
Increase health activities		Increase health activities in China and USA

‘WE ARE THE CHAMPIONS, MY FRIENDS. AND WE’LL KEEP ON FIGHTING TILL THE END...’

These famous lines describe the atmosphere at the Kendrion sports day held on 6 September 2013 in Prostejov, Czech Republic. On this day, every employee who had accepted the invitation to the event became a champion in their own right. A total of 24 teams competed for the medals in a number of team sports (football, volleyball, floorball, etc.). In addition, a considerable number of employees showed their skills in other disciplines such as archery and shooting. A sunny day full of team-building experiences culminated in an award ceremony during which Managing Director Vaclav Dostal presented the participants with awards including medals, diplomas and gifts.

Kendrion regards a healthy and safe working environment as one of the rights of its employees. Kendrion’s quality, environmental management and safety systems are usually combined in one system which 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. The requirements laid down by the ISO 14001 standard (applicable to most of the larger plants) include the appointment of safety officers and the periodic training of employees in health & safety issues.

» 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 limited in the past years. The total number of accidents and Lost-Time-Injuries (LTI) at Kendrion in the last years was:

Accidents	2013	2012
Number of accidents	27	46
LTI (days)	111.5	323

No fatal accidents occurred in the years 2011 – 2013.



Almost half of the accidents occurred at one plant in Germany. Further analyses of the nature of these accidents and their circumstances did not reveal any clearly demonstrable reason for the relatively high number; it is a coincidence. There were no indications of shortcomings in the safety or working conditions of the employees.

Kendrion's objective is to further reduce in the total number of accidents, ultimately bringing it down to zero. The achievement of this objective will be 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.

>> Absenteeism

	2013	2012
Absenteeism rate	2.8%	2.6%

Kendrion's overall absenteeism rate was 2.8% in 2013, which is very low for the company's type of industrial operations and geographical spread. The objective is to retain the rate at approximately the same level in future years, whereby the rate for direct employees should not be above 4% and for indirect employees not above 3% for each individual plant. 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.

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.

HEALTHY FOOD

Kendrion (Eibiswald) GmbH, Austria, set up the 'Kendrion eats with relish project' in 2013 to raise awareness among its employees of the consequences that personal eating habits can have on each individual's overall environment.

>> Health programmes

Many Kendrion companies have implemented programmes to promote their employees' health. A variety of plants that account for approximately 70% of all Kendrion's employees offer a free weekly basket of fresh fruit and mineral water. Many Kendrion employees are offered free stop smoking courses. Kendrion shall promote 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 2013, employees at various plants in Germany and China (Suzhou) 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 and parties designed to strengthen the relationships with and between its employees. These programmes will be continued in 2014.

Our plant in Eibiswald, Austria, launched a special 'healthy food' campaign.





Business ethics programme

Target 2013	Result	Ambition 2014
100% acceptance Code of Conduct		100% acceptance Code of Conduct
Development compliance training		Roll-out compliance training and audits

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.

>> 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, and the actions they need to take in a variety of situations. The core themes include market position, authorities, corporate social responsibility, accountability in general, and the obligation for due care regarding safety and health, the environment, and social interests. Kendrion promotes compliance with the Code of Conduct by continually bringing the Code to the attention of (new) managers and staff in their own language.

The contents of the Code of Conduct are derived from the ten principles of the UN Global Compact. A number of operating companies have incorporated the Code of Conduct in their employees’ contracts of employment following the requisite consultations with the local works councils.

Whistleblower’s Charter

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 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 which is carried out under the responsibility of the Executive Board and in accordance with a standard procedure. In 2013, no irregularities were reported within the context of the Whistleblower’s Charter. Within this context, Kendrion has also appointed Confidential Counsellors whom employees can contact to make confidential reports of (suspicions of) irregularities. Employees can also discuss dilemmas with these counsellors.

» Anti-Bribery & Corruption policy (AB&C)

Kendrion is committed to combating corruption in all forms, including extortion and bribery. 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. Kendrion's Code of Conduct devotes specific attention to this issue. The Code of Conduct states that employees and managers shall always implement sound business practices. 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. All payments Kendrion makes, either directly or indirectly or currently or subsequently, relating to a customer order may benefit solely the relevant customer and no other parties other than legitimate intermediaries. The same rules, in reverse, are applicable to the parties who mediate in contracts on Kendrion's behalf for the procurement, manufacture or assembly of products. Any irregularities may be reported pursuant to the Whistleblower's Charter. No irregularities were reported in 2013. The policy stipulating the provision of the Code of Conduct and Whistleblower's Charter to all employees in their individual language remains in full force.

In view of the importance of combating corruption and the increasing attention to its prevention in the relevant legislation and from the investigative authorities, the company has decided to adopt a proactive approach to bringing the employees' attention to this issue, in particular in those countries in which Kendrion is active and corruption is frequent. An AB&C policy was implemented at the end of 2011. 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. The legislative systems in the various countries where Kendrion operates require that Kendrion takes appropriate measures to combat the risk of corruption. One of these measures is the performance of risk analyses. For this reason Kendrion carried out such an analysis. The issues discussed included country-specific risks, the market situation, selection of and relations with suppliers, due diligence before entering into business relationships, the giving and receiving of gifts, internal controls, internal culture, competition and sanctions regimes. No abuses have come to light. The outcomes of the risk analysis were processed and a number of recommendations were made, including the organisation of a compliance workshop for managers. The company developed the compliance workshop in 2013. This will be rolled out further in 2014. In this way, Kendrion remains active in further eradicating the risks of corruption. However, these 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 we have developed for this purpose.

» Other internal regulations

Regulations to prevent insider trading

Kendrion has implemented internal regulations to prevent insider trading. These regulations govern the Supervisory Board, Executive Board, Innovation Board, the CEO of the Automotive Division, the Business Unit Managers and their Controllers, and a number of other employees. In addition, the Executive Board and the Supervisory Board are governed by restrictions on trading in other listed companies. Kendrion has also designated a number of consultants affiliated with the company as insiders. Kendrion's Compliance Officer is entrusted with the supervision of compliance with the regulations.

Rules and Regulations; Letters of Representation

Kendrion employs Rules and Regulations and Letters of Representation. The Rules and Regulations constitute rules of behaviour governing all Kendrion Managing Directors. All Kendrion companies are requested to sign a Letter of Representation report once a quarter and pursuant to a bottom-up procedure. In signing this letter each Managing Director and Controller confirms that the financial information they have reported is correct and complete. An audit programme supports the financial reporting cycle. These measures will further reduce the risk of fraud and corruption within the company.

» Compliance

Kendrion did not receive any fines or non-monetary sanctions for non-compliance with the legislation and regulations in 2011, 2012 or 2013. There were no legal actions relating to unfair competition, cartel or monopoly practices in the last years.

Kendrion N.V. received a fine in 2005 from the European Commission of an amount of EUR 34 million for infringement of article 81 of the EC Treaty by its former subsidiary Fardem Packaging B.V. Kendrion N.V. lodged an appeal with the Court of Justice of the European Union. Kendrion was extremely disappointed with the Court of Justice's ruling of 26 November 2013, which decided that the fine must be upheld in its entirety. The ruling also stated that Kendrion can claim compensation for the failure to adjudicate within a reasonable time by the initiation of separate proceedings before the Court. Kendrion N.V. itself had no involvement in prohibited agreements.

» Investor relations

In its business enterprise, Kendrion makes use of providers of equity and providers of loan capital. Equity is held by shareholders listed on NYSE Euronext's Amsterdam market. On 31 December 2013, 63% of share capital lay with ten major shareholders. More information on the share capital of Kendrion N.V. can be found on pages 14-16 of the Annual Report 2013 and on the website of Kendrion. A bank syndicate consisting of Rabobank, ING Bank and Deutsche Bank provided credit lines of EUR 183.5 million in total. More information regarding credit lines, financial covenants and interest can be found on pages 113-114 of the Annual Report 2013.

Kendrion attaches great importance to maintaining appropriate communications with financial stakeholders and other interested parties such as investors, capital providers and analysts to provide them with a good insight into the developments at Kendrion. Price-sensitive information is disclosed in public announcements, including financial reports which are released on a quarterly basis. These announcements can be found on Kendrion's website as well. Transparency should lead to healthy pricing and support sufficient liquidity.

Kendrion has set a number of ambitious targets and wants to realise an attractive return for its shareholders, supported by a suitable dividend policy. More information about these goals and dividend policy is shared on page 47 of this Report and in the Annual Report 2013.

» Risk management framework

Kendrion has implemented a structured risk management framework which encompasses the various elements of risk management and the relationship between these elements. The framework extends to Strategic & Business Risk Management, Operational Risk Management, Financial Reporting Risk Management and Compliance & Regulatory issues. The quality of the risk management framework is founded on integrity, business ethics and the staff's expertise, the management style and the manner in which powers and responsibilities are delegated and monitored. Comprehensive information is available in the 2013 Annual Report, pages 36 – 45.

UN Global Compact



Kendrion joined the UN Global Compact in September 2009. The UN Global Compact is the world's largest network initiative that unites companies, UN organisations and civil society in support of ten principles encompassing human rights, labour, the environment and sound business practices. Kendrion endorses these principles. This is a further example of Kendrion's objective of being a company that all stakeholders can be proud of, in particular regarding the company's social and ethical principles and the manner in which these principles are implemented in everyday practice.

The Ten Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Creating a sustainable society involves much more than improving energy efficiency and reducing CO₂ emissions: It is a dynamic and complex entirety of interacting and interwoven elements. Sustainability targets can be achieved solely by adopting a holistic approach. Passenger Car Systems, in Eibiswald, Austria, took the lead and intends to serve as a source of inspiration for the entire Kendrion group.



The holistic approach of Passenger Car Systems

New challenges every day

Martin Kollmann, Managing Director, and Josef Porta, Production Manager, at Kendrion Passenger Car Systems' plant in Eibiswald in Austria are convinced that all companies – in the Kendrion group and in the general business community – can make a contribution to a truly sustainable society. The authorities in every country are introducing more stringent legislation in response to public demand for a new approach to the use of resources, the environment, the reduction of CO₂ emissions and the treatment of employees. At the same time, a continually increasing number of companies are exhibiting an intrinsic motivation to adopt a new attitude towards their customers, employees and the environment. In other words, sustainability – in all its manifestations – is hot.

>> Five pillars

'Passenger Car Systems' holistic approach is based on five pillars,' Martin Kollmann and Josef Porta explain. 'The first, developing and producing green products, is the result of our external and market orientation. The other four pillars, which have a strong internal focus, are energy efficiency & reduced CO₂ emissions, supply chain responsibility, labour standards and community investments. This holistic approach enables Passenger Car Systems to reflect on its position in the market, the Kendrion brand and its approach from a number of angles. It serves as an umbrella for all Passenger Car Systems' specific and highly diverse actions, ranging from equal pay for men and women, increasing awareness of the need for a healthy diet at work and home right through to online environmental management and the optimisation of packaging sizes for overseas transports. The transparency of Passenger Car Systems' communication

of results and progress is of paramount importance: It promotes the generation of employee support and encourages employees to submit ideas.'

>> Commitment

Martin Kollmann and Josef Porta conclude that the strong commitment to the environment that is further enhanced by the accompanying increases in productivity: 'The hard figures justify environmental measures: yes, they do cost money – but they also bring in money. When viewed from this perspective, investing in the environment is a highly rational and commercially viable approach. For example, Kendrion Eibiswald has invested some EUR 100,000 in the optimisation of facilities including electricity, heating, water and waste. The savings achieved by these investments amount to EUR 135,000 a year!' Kendrion Passenger Car Systems, which Josef Porta represents on the CSR Board, is pleased to share its ideas with other companies in the group to ensure that all business units are kept fully informed and avoid the risk of reinventing the wheel. 'Passenger Car Systems is certain that all Kendrion companies will ultimately set the same course, although each business unit and even plant will need to decide on its specific areas and issues.'

>> Improvements

'It's very inspiring to view Kendrion from this perspective and realise that we, as a company, bear a corporate social responsibility. Once seized by this ambition new opportunities for improvement and new challenges become apparent every day. Passenger Car Systems in Eibiswald is very proud to be the first Kendrion company to implement a new environmental management system and to receive ISO 50001 certification.'



Sustainable products

Target 2013	Result	Ambition 2014
Greensigned label introduction		More products with greensigned label
Study improvement sustainability in supply chain (permanent magnets e.g.)		Continuation of study by Kendrion Academy and R&D departments

ENERGY TECHNOLOGY

Kendrion manufactures electromagnetic components for energy technology that are used especially in the fields of high voltage, circuit and high-speed breakers.

Large strokes in order to interrupt the contact safely and within a very short time are the main requirements that must be met by electro single-stroke solenoids in energy technology. A long lifecycle and high holding forces are further challenges to which single-stroke solenoid in energy technology must rise.



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, fully appreciating and assuming its responsibility for achieving this objective.

>> Market trends

The trends referred to on page 11 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 transportation needs for both people 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 the business units are tailored precisely to the current trends in Kendrion's customers' markets. A number of the submarkets targeted by Kendrion's business units are focused on these specific trends, such as the Industrial Division's safety technology, renewable energy, explosion-proof technology and medical engineering, and the Automotive Division's fuel efficiency, motor management, sound design and fire-protection technologies. This enables Kendrion to create both added value and competitive advantages for its customers in a changing landscape that is governed by increasingly stringent standards, for example for emissions and safety. More information about these submarkets and the unique properties of Kendrion's technologies and products is available in the 'Industries' section of Kendrion's website.

The majority of Kendrion's products play a critical role in the systems and products of the company's customers and end users, including systems and products such as lift braking systems, vehicle clutch systems, industrial robots, medical equipment and fast trigger solenoids for high voltage circuit breakers. For this reason quality and functionality are essential for all Kendrion products. This is in turn the reason why many projects have a lead time of a number of years, when large amounts of time and funds are invested in the development and testing of products in cooperation with the customer. Kendrion is renowned for the company's technological know-how, innovative strength and high quality. Specific protocols have been implemented for dealing with quality issues raised by customers. Kendrion agrees on guarantee schemes with the company's customers. The company's suppliers also undergo comprehensive screening to verify compliance with Kendrion's stringent quality standards. Despite the stringent internal and external quality standards for our products, it can never be completely ruled out that quality problems may arise.

>> Green logo

In 2013 we were carrying out investigations into whether a green logo could be introduced for one or more products of our business units. Key aspects of this are that the right criteria were adopted, and that a transparent system is introduced that tests our products against these criteria before a green logo is assigned. The introduction of a green logo must not only take place for marketing reasons; it also has to be apparent to customers and other third parties that the products in question provide a clear added value in the area of sustainability. This resulted in the introduction of the greensigned label for the KOBRA. More information is provided on page 25 of this Report.

AGRICULTURAL TECHNOLOGY

Kendrion manufactures electromagnetic components for agricultural technology that are used particularly for agricultural and milking machines. In order to meet the high requirements, Kendrion offers special solenoid solutions for agriculture technology. Special materials and processes for surface treatment have been used to fulfil the particular environmental requirements.




'Green' is a precondition in the automotive sector: if you're not green, you're out. Kendrion responds rapidly, effectively and proactively to sectoral developments and offers the market a remarkable range of energy-saving and CO₂ emission reduction products.



Kendrion and the automotive sector

Ideas, solutions and state-of-the-art products



'Before zooming in on Kendrion and reviewing the company's contribution to developments in the automotive industry, it will be worthwhile to take a closer look at some megatrends,' says Bernd Gundelsweiler, CEO of Kendrion's Automotive Division. 'Downsizing is an important trend – smaller engines, improved performance and lower CO₂ emissions. There is a strong general public demand for environmental conservation. This is directly related to the world's finite natural resources. The industry needs to find new ways to keep mobility affordable. Consequently, fuel efficiency is another megatrend. Kendrion observes a shift in customer needs and requirements, which are increasingly focusing on downsizing, fuel efficiency, environmental aspects, safety and comfort.'

>> Solutions

Kendrion's business units Commercial Vehicle Systems and Passenger Car Systems, address the automotive industry's need for environmental conservation. Commercial Vehicle Systems' work on sustainability and environmental issues focuses on the thermal management of bus and truck engines. Bernd Gundelsweiler: 'Take Kendrion's fan clutches, for example. This technical solution provides the capacity required to prevent overheating in the specific environmental circumstances and for the specific engine load. A fan doesn't need to run at full speed when it's not necessary. Kendrion's variable fan clutch enables truck and bus OEMs, such as Ashok Leyland, to offer their customers enormous fuel savings.'

>> Taken for granted

Kendrion Automotive Division's business unit Passenger Car Systems focuses on gasoline and diesel fuel systems. Kendrion's US company, Kendrion (Shelby) Inc., manufactures a spill valve for gasoline direct injection engines (pressure ranges up to 270 bar) that reduces fuel consumption and emission levels. 'The business unit's European plants manufacture high-pressure and low-pressure valves for common rail systems that comply with the Euro 5 & 6 standards and, as a result, make a large contribution to environmental conservation. Kendrion also markets a wide range of products for engine management, such as valves that open and close oil feeds, variable camshaft timers and switching valves for turbochargers. The automotive sector does not regard the environmental properties of Kendrion's products as a unique selling proposition: they're a precondition that is taken for granted. Companies that do not develop and supply green products are out. It's as simple as that.'

>> Added value

Bernd Gundelsweiler sees that companies throughout the automotive industry are beginning to formulate CSR targets. 'Kendrion, as an innovative company focused on sustainability and environmental conservation, is in an excellent position to provide proactive support to customers in the form of ideas, solutions and state-of-the-art products. 'In the past, Kendrion might have been the champion in the background, but now the company is certainly moving into the foreground and is confidently demonstrating the added value it offers to Kendrion's customers. More importantly, Kendrion's customers are allowing the company to move to the foreground. Kendrion is on the right track.'



Community investment

Target 2013	Result	Ambition 2014
More students in India project		6 in 2014; first apprenticeships started

>> General

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 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.

>> Sponsoring

Kendrion carried out more than thirty sponsoring activities in 2013, including the sponsoring of local Red Cross organisations, support for a number of scientific activities, education for children, cultural and music events, art expression and local sports clubs.

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.

Several business units have decided to donate funds which in previous years were spent on Christmas gifts to various local charities, in which employees are also involved. In 2014, Kendrion's site in Villingen, Germany will be preparing an initiative to highlight and raise awareness of employee volunteer work.

Kendrion introduced a sponsor 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.

>> 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. We are convinced that especially economic activity can contribute greatly to further growth.

Kendrion has assessed the feasibility of a project to enable deprived young people in India to follow a technical education. As a result, a memorandum of understanding has been signed between Kendrion and the College of Engineering in Pune. The college is an autonomous institute of the government of Maharashtra, the province where Pune is located.

Scholarships will be granted 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 should be female, as girls and women are at an even bigger structural disadvantage. The selected students will also have the opportunity to do

summer apprenticeships at our plant in Pune. The intention is to offer some of them a job after graduation. This project is coordinated locally by our Plant Manager Sameer Deshmukh.

Kendrion raised the necessary funds for this project by holding a CSR lottery throughout the group in the period before Christmas 2013. Kendrion was able to double the number of scholarships to four in 2013. The target for 2014 is to raise the number to six. Kendrion is glad that it can contribute to the development of these students.

>> Support of local economies

Kendrion offers its employees good terms of employment which are always assessed against local benchmarks. Kendrion has implemented a local sourcing strategy when the nature of the products and the quality of the suppliers permit procurement in the region.

Kendrion has not introduced a specific policy for the recruitment of (some of) the senior management from the local community. However, the local management must possess extensive knowledge of the local market conditions, culture and language. For this reason, in many instances the ideal manager will have been born or living for a long time in the region in which Kendrion's company is located.

Kendrion N.V. became a participant in the Utrechtse Ondernemers Academie ('Utrecht Academy of Entrepreneurship') in the Netherlands in 2013. This Academy helps starting and young innovative companies that are based in the region where Kendrion has its head office to develop their operations at both national and international level. Kendrion's staff make use of their own knowledge and expertise in providing these companies the high-grade support they need. This assistance is beneficial to the region's economic growth.

Kendrion has not received any significant financial assistance from the authorities. However, in certain instances Kendrion companies do receive grants from local authorities for substantial investments in production equipment and personnel. The authorities are prepared to grant these subsidies since these investments are indirectly beneficial to the local economy and employment where the companies are located.

>> Taxes

Kendrion believes that pursuing a transparent and fair tax policy is part of any sound CSR strategy. Tax payments can contribute to local development. Further 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 complies with local laws relating to taxes and, if necessary and feasible, it consults tax authorities in advance for additional certainty. Transactions conducted between group companies located in different countries are subject to the arm's-length principle, in accordance with local transfer pricing rules. Kendrion uses the services of accredited tax advisers at both the local and group levels and has included tax compliance in its internal audit programme. The company does not employ any aggressive tax structures involving the movement of funds through tax havens.

>> 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. Kendrion consults with the relevant trade unions and works councils in an endeavour to arrive at reasonable solutions.

Kendrion CSR Award 2013

Target 2013

First Kendrion CSR Award at Top Management Meeting

Reached



Target 2014

Second Kendrion CSR Award

LOTTERY TICKETS FOR A BRIGHTER FUTURE!

Kendrion is fully committed to living up to its social responsibility for 'people, planet and profit'. A key component of our company-wide CSR policy involves helping underprivileged Indian students complete their education in mechanical engineering at the College of Engineering, Pune (India) to become electromagnetics professionals. To help our students in India, Kendrion organised a lottery in December 2013. 'Sustainable' prizes – including a solar backpack, DVDs, laptop sleeves and drinking bottles – were awarded to ten lucky colleagues in the Czech Republic, Austria, Switzerland, Germany, India and the Netherlands. Around 600 tickets were sold altogether – enough to help build a life for a couple of new students!



At the Top Management Meeting held mid-September in Sibiu, Romania, Kendrion gave its first CSR Award. With the Award, the Executive Board stresses the importance of putting our corporate social responsibility into practice in our operating companies.

There were three nominees for this first CSR Award: Industrial Magnetic Systems (IMS) (the Donaueschingen and Engelswies sites in Germany), Passenger Car Systems (especially the Eibiswald site in Austria) and Heavy Duty Systems in India. After an introduction by CSR Coordinator Wijgert Gooijer emphasising the business relevance of the topics in question, the representatives of the three nominees gave enthusiastic accounts of their efforts and activities.

IMS explained the valuable steps IMS has made in the areas of energy and CO₂ reduction, safety standards and community/employee investment. Martin Kollmann, Managing Director of the Eibiswald plant, demonstrated the highly structured working methods employed by management and employees in dealing with resources, environmental challenges and employee behaviour. The installation of environmental management software in Eibiswald was a noteworthy part. Kendrion (Pune) in India, in turn, focused on the significant fuel efficiency improvements which fan clutch technology is able to offer customers and the community investment project set up to help poor Indian students complete studies in technical subjects.

Most of the votes of the business units and the Executive Committee went to Kendrion (Pune) in India, although it was a close call, with PCS, in particular, only slightly behind. Sameer Deshmukh, Managing Director of the Pune plant, proudly received the first Kendrion CSR Award for his dedicated team.

We hope the introduction of the CSR Award and the presentations of various initiatives which have led to tangible results will boost all CSR-related efforts within Kendrion. A second CSR Award will be given in 2014.

Wijgert Gooijer (left) congratulates Sameer Deshmukh (right).



Financial key figures

EUR million, unless otherwise stated

Revenue		
2012	284.9	
2013	354.0	↑ 24%

Net investments		
2012	18.7	
2013	18.5	↓ (1%)

Operating result before amortisation (EBITA) ^{2,3}		
2012	22.3	
2013	23.9	↑ 7%

Depreciation and amortisation		
2012	12.7	
2013	16.0	↑ 26%

Operating result before depreciation and amortisation (EBITDA) ³		
2012	32.7	
2013	36.9	↑ 13%

Solvency (total equity/balance sheet total)		
2012	44.8%	
2013	40.1%	↓ (11%)

Normalised net profit ^{3,4}		
2012	13.6	
2013	14.3	↑ 5%

Working capital ⁵ in % of revenue ⁶		
2012	11.9%	
2013	10.2%	↓ (14%)

EBITA ^{2,3,8} /invested capital ⁹ (ROI)		
2012	12.4%	
2013	10.8%	↓ (13%)

Normalised net profit per share (EUR) ^{3,4}		
2012	1.16	
2013	1.14	↓ (2%)

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

Solvency	
Target	not below 35%
Actual	40%

Free cash flow ^{3,4,10}	
Target	healthy free cash flow in relation to organic growth in % of net profit
Actual	82%

Return on Sales (ROS) ^{2,3}	
Target	> 10.0%
Actual	6.8%

Ratio of interest-bearing debt and EBITDA ^{3,7,8}	
Target	< 3.00
Actual	1.22

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

Return on invested capital (ROI) ^{2,3,8,9}	
Target	> 17.5%
Actual	10.8%

- ¹ Organic growth is excluding revenue Kendrion (Shelby) Inc. in 2012 and excluding revenue Kuhnke in 2013.
- ² EBITA excluding amortisation related to acquisitions (part of other intangible assets).
- ³ Excluding release earn-out Kendrion (Shelby) Inc. in 2012 and excluding release earn-out, acquisition and integration costs related to Kuhnke and partial release provision for EC fine in 2013.
- ⁴ Excluding non recurring tax gain and tax on restructuring and integration costs of Kuhnke in 2013.
- ⁵ Working capital is excluding EC fine payable in 2014.
- ⁶ Revenue 2013 is including full year Kuhnke.
- ⁷ Excluding EC fine payable.
- ⁸ EBITA and EBITDA in 2013 is including full year Kuhnke.
- ⁹ Total invested capital is property, plant and equipment, intangible assets, other investments and current assets less cash, current tax liabilities, trade payables and other payables (2013 including EC fine).
- ¹⁰ Before cash flow relating to acquisitions.

About this Report

This CSR Report 2013 is the third CSR Report published by Kendrion. Kendrion intends to publish an annual CSR Report within three months of the end of each financial year. This Report is intended for all Kendrion's internal and external stakeholders, including investors, societal organisations, financiers, employees, customers, suppliers and other interested parties. The Report endeavours to provide a full and transparent insight into Kendrion's Corporate Social Responsibility (CSR) efforts in 2013. The majority of the new targets formulated in this Report relate to the 2014 calendar year.

This CSR Report encompasses all the Kendrion group companies in 2013, except for the companies of the former Kuhnke group, acquired in May 2013. In a number of instances the information provided in this Report relates solely to part of the operations. When this is the case, which is stated explicitly in the Report, this is due either to the operations not being carried out at all locations or to the lack of full information from other group companies at the time this Report was prepared.

The contents of this Report, including the key issues, Key Performance Indicators (KPIs) and targets formulated in the Report, were drawn up after comprehensive discussions with the Kendrion CSR Board. These discussions, which gave consideration to the CSR issues of greatest relevance to Kendrion and assigned priorities, were based on the nature of the company and its operations, as well as the perceptions (when known) of stakeholders including investors, suppliers, customers and employees. The underlying wish was to formulate realistic, feasible targets for this reporting year that can be refined incrementally in the coming years.

In the course of 2012, an internal management information system was implemented, 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 periodic internal and external Reports about the KPIs. We realise 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 we have stated our own prior-year figures and data, so that internal progress is 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.

This CSR Report has not been reviewed by an external auditor. Kendrion will consider to call on the services of an external auditor after the full implementation of the Kuhnke companies in the CSR programme in 2014 again.

This CSR Report, in combination with the 2013 Annual Report and the corporate website, has been compiled in accordance with the guidelines of the Global Reporting Initiative (GRI) and complies with GRI's 3.1 Level B requirements (self declared). The CSR Report and the accompanying GRI-index can be found on the corporate website (www.kendrion.com).

Kendrion participates in the Dutch Ministry of Economic Affairs, Agriculture and Innovation's Transparency benchmark, which monitors the Netherlands' 500 largest companies. In 2011, Kendrion ranked 137th, in 2012, Kendrion rose to rank 97 and in 2013 ranked 91.

More information about Kendrion and the company's strategy, results and products is available from Kendrion's website (www.kendrion.com). Kendrion's 2013 Annual Report and 2013 Annual Magazine have also been published on the website.

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