



WE MAGNETISE THE WORLD



# SUSTAINABLE BUSINESS SOCIAL AND RESPONSIBLE

KENDRION CSR REPORT 2012

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BINDER



100 YEARS OF  
ELECTROMAGNETISM

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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.

# Preface

We are pleased to present Kendrion's 2012 CSR Report to you. In publishing this second report we aim to demonstrate to our stakeholders that our commitment to sustainability and Corporate Social Responsibility 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, particularly in the longer term, create value for our stakeholders.

I am pleased to report that almost all targets that we had set ourselves in this area were achieved in 2012. 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.

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 hope that you will enjoy reading this report and appreciate our efforts.



Piet Veenema, CEO Kendrion N.V.



# Profile & Organisation



WE MAGNETISE THE WORLD

Development, manufacturing and marketing of high-quality electromagnetic systems and components

■ Listed company on NYSE Euronext's Amsterdam Market

Revenue: approximately EUR 300 million

■ 1,600 employees (including 100 temps) in 12 countries



**Industrial Magnetic Systems**  
Electromagnetic components tailored to the individual needs of advanced industries.



**Industrial Drive Systems**  
Electromagnetic brakes and clutches for the industrial drive technology.



**Passenger Car Systems**  
Project solutions for specific customer applications in the automotive and special vehicle industries.



**Commercial Vehicle Systems**  
Individual energy-saving systems for commercial vehicles and off-highway applications.



## Profile

**KENDRION N.V.**, a solution provider, develops, manufactures and markets innovative high-quality electromagnetic systems and components for customers all over the world. Kendrion's operations are carried out by four business units focused on specific market segments, namely *Industrial Magnetic Systems*, *Industrial Drive Systems*, *Passenger Car Systems* and *Commercial Vehicle 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 solutions for industrial applications. These are used by customers all over the world in systems such as lifts, door-locking systems, industrial robots, medical equipment, electrical switchbox systems, diesel and gasoline engines, air-conditioning installations, motor cooling systems and beverage dispensers. Kendrion's key customers include a.o. Bosch, Continental, Daimler, Delphi, Eaton, Evobus, Hyundai, Siemens and Yutong.

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

## **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.

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## **Strategy**

**KENDRION**'s policy is focused on the creation of sustainable added value and the achievement of appealing return on investment for the company as a whole. This is based on a powerful focus on a number of selected operations and on profitable growth achieved both organically and via acquisitions. Kendrion's objective is to evolve from a European player into even more of a global player. Within this context, the USA, China and India are important countries for further growth. Kendrion intends to achieve this objective by building up and expanding its leading market positions in selected niche markets in terms of both revenue and added value.

**KENDRION** utilises its existing know-how, innovative capacity and commercial strengths to offer solutions to a wide range of customers, whereby the company shall focus on the further expansion in the fields of applications for electromagnetic systems and components.

**KENDRION**, characterised by its transparency, flexibility and local entrepreneurship, is driven by challenging but realistic targets. In addition, Kendrion intends to be and remain a company that appeals to its employees, customers and shareholders. Kendrion is aware of the importance of sustainability and of Kendrion's social responsibility, and for this reason the social and environmental standards governing all processes are continually being made more stringent.

**KENDRION**'s spearheads are:

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

**KENDRION** has always paid considerable attention to Mid-term Plans. The new Mid-term Plan 2013-2015, which continues as 'Entering another league', focuses in particular on strengthening Kendrion's internal organisation to improve its leading position as component supplier in clearly defined niche markets in the years ahead. More information about the new Mid-term Plan, 'Entering another league', is available on page 27 of the 2012 Annual Report.

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# Kendrion at a glance

## Key figures

EUR million, unless otherwise stated

### Operations

Revenue		
2011	267.9	
2012	284.9	↑ 6%

Operating result before amortisation (EBITA) <sup>2,3</sup>		
2011	30.7	
2012	22.3	↓ (27%)

Operating result before depreciation and amortisation (EBITDA) <sup>3</sup>		
2011	40.0	
2012	32.7	↓ (18%)

Normalised net profit <sup>3</sup>		
2011	20.5	
2012	13.6	↓ (34%)

EBITA <sup>2,3</sup> /invested capital <sup>5,6</sup> (ROI)		
2011	22.2%	
2012	12.4%	↓ (44%)

Net investments		
2011	13.5	
2012	18.7	↑ 38%

Depreciation and amortisation		
2011	10.8	
2012	12.7	↑ 18%

Solvency (total equity/balance sheet total)		
2011	39.2%	
2012	44.8%	↑ 12%

Working capital in % of revenue <sup>4</sup>		
2011	11.8%	
2012	11.9%	↑ 1%

### Share information

Normalised net profit per share (EUR) <sup>3</sup>		
2011	1.79	
2012	1.16	↓ (35%)

### Other information

In EUR, unless otherwise stated	2012	2011	2010
Number of shares x 1,000 at 31 December	11,655	11,492	11,316
Market capitalisation at 31 December, EUR million	186.5	189.6	164.1
Enterprise value (EV) EUR million	207.9	215.5	169.3
Highest share price in the financial year	20.50	18.99	15.10
Lowest share price in the financial year	14.80	13.25	8.82
Share price on 31 December	16.00	16.50	14.50
Average daily ordinary share volume	11,199	17,489	13,642
EBITDA multiple (over EV)	6.35	5.39	5.10
Result per share	1.55	(1.79)	1.47
Normalised result per share	1.16	1.79	1.30
Share price earnings ratio	13.79	9.27	9.93

## Realisation of targets

Organic growth <sup>1</sup>		Solvency		Free cash flow <sup>3, 7</sup>	
Target	> 10% per year	Target	not below 35%	Target	healthy free cash flow in relation to organic growth in % of net profit
Actual	(4.1%)	Actual	45%	Actual	71%
Return on Sales <sup>2, 3</sup> (ROS)		Ratio of interest-bearing debt and EBITDA <sup>3</sup>		Dividend distribution	
Target	> 10.0%	Target	< 3.00	Target	between 35-50% of net profit
Actual	7.8%	Actual	0.65	Actual	50% of normalised net profit
Return on invested capital <sup>2, 3, 5, 6</sup>					
Target	> 17.5%				
Actual	12.4%				

EUR million, unless otherwise stated	2012	2011
Net profit	18.0	(20.1)
Organic growth <sup>1</sup>	(4.1%)	20.7%
Net interest-bearing debt	21.3	25.9
Net interest-bearing debt / equity (gearing)	0.21	0.28
Net interest-bearing debt <sup>5</sup> / operating result before depreciation and amortisation (EBITDA) <sup>3</sup>	0.65	(0.07)
Operating result before amortisation (EBITA) <sup>2, 3, 8</sup> / net finance costs	6.6	15.3
Outstanding shares at year-end (x 1,000)	11,655	11,493

<sup>1</sup> Organic growth is excluding revenue Kendrion (Shelby) Inc. (formerly named FAS Controls, Inc.) in 2012.

<sup>2</sup> EBITA excluding amortisation related to acquisitions (part of other intangible assets).

<sup>3</sup> Excluding EC fine and a.o. acquisition expenses in 2011 and excluding release earn-out Kendrion (Shelby) Inc. in 2012.

<sup>4</sup> Working capital and revenue are excluding Kendrion (Shelby) Inc. in 2011.

<sup>5</sup> Net interest-bearing debt and invested capital is excluding Kendrion (Shelby) Inc. in 2011.

<sup>6</sup> Total invested capital is property, plant and equipment, intangible assets and current assets less the current tax liabilities, trade payables and other payables.

<sup>7</sup> Before cash flow relating to acquisitions.

<sup>8</sup> Financing costs excluding accrued interest EC fine.

# Kendrion at a glance

## Organisational structure

Kendrion N.V.'s headquarter is in Zeist, the Netherlands. The company has operations in Germany, Austria, Switzerland, Italy, the Czech Republic, the UK, USA, China, Mexico, Brazil and India. Kendrion has a total of approximately 1,600 employees (including 100 temporary employees). Kendrion N.V. is a Dutch public company. Its shares are listed on NYSE Euronext's Amsterdam market. Kendrion N.V. does not have a (central) works council.

### >> Business units

Kendrion is a strongly focused company with one main objective: the development, manufacture and sales of innovative high-quality electromagnetic components and systems. The operations are organised into four market-focused business units:

- *Industrial Magnetic Systems*: electromagnetic components tailored to the individual needs of advanced industries;
- *Industrial Drive Systems*: electromagnetic brakes and clutches for the industrial drive technology;
- *Passenger Car Systems*: project solutions for specific customer applications in the automotive and special vehicle industries;
- *Commercial Vehicle Systems*: individual energy-saving systems for commercial vehicles and off-highway applications.

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.

- Industrial Magnetic Systems
- Industrial Drive Systems
- Passenger Car Systems
- Commercial Vehicle Systems
- ▲ Kendrion N.V.
- Subsidiaries
- Partners





## >> Management

In 2012, Kendrion was managed by an Executive Board comprised of two members and was supervised by the Supervisory Board.

The Executive Board was comprised of two Directors: the CEO, Mr Piet Veenema (57), and the CFO, Mr Eiko Ris (54). Mr Ris left Kendrion as per 28 February 2013. A proposal will be submitted to the General Meeting of Shareholders to be held on 15 April 2013, to appoint Mr Frank Sonnemans (51) as CFO for a four-year term.

The Executive Board is supported by the Vice-President Automotive, the Business Unit Managers and the Chief Technology Officer – together the Executive Committee. The Executive Board takes all significant decisions concerning the strategy and direction of the electromagnetic operations as a whole including the allocation of resources to the individual operating companies.

Kendrion strongly encourages motivated local entrepreneurship. The individual business units have a shared strategy and the Vice-President Automotive, the Business Unit Managers and the Managing Directors of the individual operating companies collaborate in a wide range of fields, such as engineering, project management, purchasing, production strategy, marketing and sales.

A number of responsibilities are entrusted to Kendrion Group Services, such as financing and cash management, reporting and controlling, taxation, risk management, corporate communications and investor relations, facility management, insurance, IT, human resources management, Corporate Social Responsibility, legal affairs and corporate governance.

### REST OF THE WORLD



## >> Supervisory Board

The Supervisory Board currently has four members.

**Mr S.J. van Kesteren** (71) is the Chairman of the Supervisory Board since 2005. Mr Van Kesteren is a Dutch national.

**Mr R.L. De Bakker** (62) was appointed a member of the Supervisory Board in June 2005. He is Vice-Chairman of the Supervisory Board. Mr De Bakker is a Dutch national.

**Ms M.E.P. Sanders** (59) was appointed a member of the Supervisory Board in April 2005. Ms Sanders is a Dutch national.

**Dr H.J. Kayser** (52) was appointed to the Supervisory Board during the Extraordinary General Meeting of Shareholders held in July 2009. Dr Kayser is a German national.

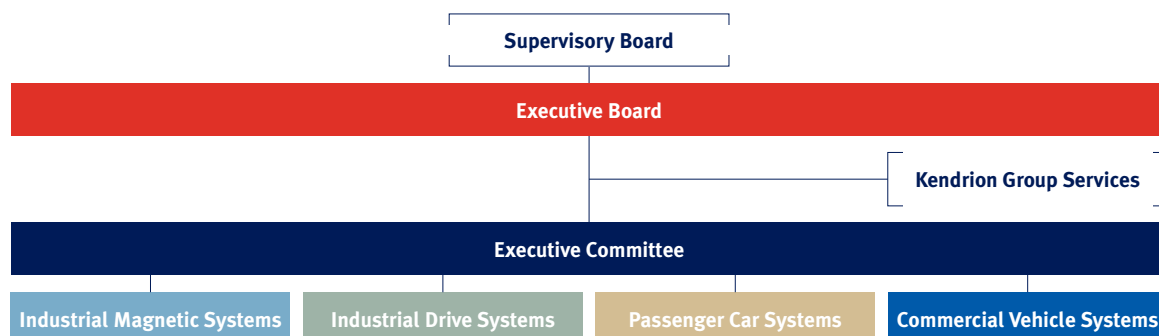
The members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board has established two Committees, an Audit Committee and a Remuneration Committee. The Committees are responsible for making the preparations for the decision-making by the Supervisory Board. The profile of the Supervisory Board includes a statement (in part in view of the diversity provisions of the Netherlands Corporate Governance Code) that endeavours shall be made to achieve a mixed composition in terms of age and experience and that preferably at least one woman shall be a member of the Supervisory Board. These endeavours have been achieved. The Supervisory Board's supervision extends to the Corporate Social Responsibility issues of relevance to the company.

The Supervisory Board recognises the importance of Kendrion's Corporate Social Responsibility 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 2012 and endorsed the CSR Board's plans for 2013.

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.

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## ORGANISATIONAL CHART



# CSR Highlights 2012

- Low absenteeism rate of 2.6%;
- Introduction of Management Development Plan for High Potentials;
- Launch of Kendrion Academy;
- Health & safety campaigns;
- Introduction sponsor policy;
- Special CSR edition of staff Magazine Magnetised;
- Environmental awareness campaign;
- Corporate community investment project started in India: scholarships for poor Indian students;
- Supplier Code of Conduct introduced in all business units;
- New combined heating and cooling systems put into use in Villingen, Germany;
- Anti-corruption risk assessment executed;
- Structural stakeholder dialogue initiated;
- CSR data collection information system implemented;
- New waste and recycling initiatives.

# About this Report

This CSR Report 2012 is the second CSR Report to be published by Kendrion. Kendrion had previously drawn up two UN Global Compact progress Reports which were published on the company's website. Kendrion intends to publish an annual CSR Report within four 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 response to the 2011 CSR Report was favourable. In part, the format of this second CSR Report reflects comments on the first report from investors, the Association of Investors for Sustainable Development VBDO and employees. The Report endeavours to provide a full and transparent insight into Kendrion's Corporate Social Responsibility (CSR) efforts.

The Report reviews the results for the 2012 calendar year (in some instances in comparison with figures available for 2011), unless stated otherwise. The majority of the new targets formulated in this Report relate to the 2013 calendar year.



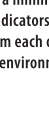
This CSR Report encompasses all the Kendrion group's member companies in 2012. Kendrion had one 51% participating interest, which company is also incorporated in the Report. In a number of instances the information provided in this Report relates solely to part of the operations. When this is the case, 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 (see page 14). 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 and the business units' progress for submission to the CSR Board. 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. We will investigate the possibilities for increasing external comparability. 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 company's internal management system for the periodic collection and consolidation of the appropriate CSR information in 2013 again.

This CSR Report, in combination with the 2012 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 Level B requirements (self declared).

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	Profile Disclosures 	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	
	Disclosures on Management Approach 	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach disclosed for each Indicator Category	
	Performance Indicators & Sector Supplement Performance Indicators 	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: social, economic, and environment.**		Report fully on a minimum of any 20 Performance Indicators, at least one from each of: economic, environment, human rights, labor, society, product responsibility.***		Respond on each core and Sector Supplement* indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

\* Sector supplement in final version

\*\* Performance Indicators may be selected from any finalized Sector Supplement, but 7 of the 10 must be from the original GRI Guidelines

\*\*\* Performance Indicators may be selected from any finalized Sector Supplement, but 14 of the 20 must be from the original GRI Guidelines

The CSR Report and the accompanying GRI-index can be found on the corporate website ([www.kendrion.com](http://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. Kendrion is of the opinion that this is a good development and score in the light of the relatively small size of the company and the relatively short period in which the company has devoted structural, specific attention to CSR and transparency issues.

More information about Kendrion and the company's strategy, results and products is available from Kendrion's website ([www.kendrion.com](http://www.kendrion.com)). Kendrion's 2012 Annual Report and 2012 Annual Magazine have also been published on the website.

# What we want

## CSR mission and strategy

### >> Sustainability mega forces and trends

Some of the relevant major trends in the world are:

- A rapid growth of 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.

Some of these trends, such as the scarcity of natural resources, 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. CSR and sustainability play therefore an important role in the Kendrion strategy.

### >> CSR mission

It is Kendrion's mission that Corporate Social Responsibility (CSR) and sustainability are intrinsic, integral elements of Kendrion's local operations. For Kendrion, CSR means conducting 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 formulated the following general CSR strategy, based on its mission, overall strategy and the mega trends listed above.

Sustainability is at the core of many of the company's products and innovations. Kendrion and its highly motivated staff exploit 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.

Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make continual organisational and technical improvements to environmental procedures. During the design phase and technical planning Kendrion takes due account of the consequences for the environment. This relates not only to the reduction of harmful emissions and the achievement of a lower environmental impact, but also to the retention of the company's good reputation. As a company Kendrion bears a social responsibility that necessitates attention to environmental issues when assessing processes.

Transparency and chain responsibility are important issues for Kendrion. 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.

As a first step, the CSR Board organised a number of workshops with the support of an external CSR consultant, with a view to translating the general strategy into specific targets and initiatives. 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, maximally 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.

## MAGNETISING GIRLS' DAY

In spring 2012, eleven very interested, technically inclined girl students from in and around Eibiswald, Austria visited our local plant.

Our Managing Director Martin Kollmann welcomed the girls, introduced Kendrion and told them what they could expect from this Girls' Day 2012. Naturally, he also informed them about job opportunities at Kendrion. A tour around the grounds showed the girls how electromagnets are made. With some help the girls produced their own electromagnetic based application, with which they could play a very special game of ninepins. At the end of an exciting day the girls were in for a surprise when they received the ninepins games as a present from Kendrion to take home.



### >> Key issues

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

- Environment (energy and emission reduction);
- Supply chain responsibility;
- Labour standards (including, but not limited to health & safety);
- Community investment;
- Business ethics; and
- 'Green' products.

### >> Ambition

Kendrion wants to pursue sustainability at an even more strategic level. 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 equally, how can the company maximise its CSR effectiveness and achieve the greatest impact with its limited capacity and resources. In addition, Kendrion would like to prepare for integrated reporting guideline initiatives. Kendrion will start to explore these possibilities in 2013. This will of course take time and it is not possible at present to state when the results of these studies will be available. The outcome of these studies will provide a basis for defining further long-term targets at a strategic level.

# What we do

## CSR Board and activities

### >> Installation CSR Board

At the beginning of 2011, Kendrion felt a need to structure the CSR activities further and to expand these activities. The Executive Committee decided to give further shape to Kendrion's CSR activities, by appointing a CSR Board. The Board was chaired by the CFO in 2012. The Board's other members are representatives from all business units. The Board's work is coordinated by Kendrion's Corporate Secretary. The CSR Board currently consists of a total of nine members, who are presented throughout this Report. Mr Piet Veenema, CEO of Kendrion N.V., is the new sponsor of the CSR Board on behalf of the Executive Committee.

### >> 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, to communicate the progress in the achievement of the targets to them and to inform them about the actions taken to further their achievement. 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. This will result in increased CSR efforts with the ultimate objective of increasing the added value for Kendrion, the employees, the environment and society.

### >> Activities

The CSR Board met seven times in 2012. The CSR Board gave further consideration to the CSR themes of greatest relevance to Kendrion and jointly adopt a number of realistic targets for 2012 and 2013. A number of Key Performance Indicators (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. Kendrion intends to give shape to CSR in a practical, realistic and relevant manner.

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### INTERNATIONAL HR MEETING

The first international HR meeting took place in Villingen, Germany on 16 and 17 October 2012. All staff members working in the HR departments all over the world came together and got to know each other personally during an intensive workshop. Part of the workshop was devoted to CSR topics such as diversity and employee satisfaction.





# How we do it

## Business ethics

Target 2012	Result	Ambition 2013
■ Risk assessment bribery & corruption risks	✓ Achieved	Development compliance workshop

### » 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 circumstances and 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 German 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 2012, no irregularities were reported within the context of the Whistleblower's Charter.

### » AB&C policy

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 purchase, procurement, manufacture or assembly of products. Any irregularities may be reported pursuant to the Whistleblower's Charter. No irregularities were reported in 2012. Although in the strict sense there were no issues of fraud or corruption, in 2012 Kendrion had to immediately dismiss one manager who contravened the internal regulations concerning the way business assets are handled. As a result of this case, Kendrion has taken additional measures in the operating company concerned to prevent any recurrence of this in future.

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.

### >> Risk assessment

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 an even more 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 (anti-bribery & corruption 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 in late 2012 and early 2013, by means of interviews with all key managers from all of the countries where Kendrion operates. 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 are currently being processed, and a number of recommendations will be made, including the organisation of a compliance workshop for managers. 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. The company has planned to develop a compliance workshop in the course of 2013.

### >> Other internal regulations

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.

### Quality, environmental management and safety systems

The quality, environmental management and safety systems are usually combined in one system that forms the basis for the implementation of many projects. Virtually all Kendrion's operating companies comply with the most stringent quality and safety requirements. Kendrion's environmental management systems used by these operating companies comply with the ISO 14001 standard.

### 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 Vice-President Automotive, 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.



*For me, it is essential to do business honestly and transparently in every respect, with due regard for people and the environment. Not because of rules and regulations, but because I firmly believe this produces the best results for everyone.*

*It is a pleasure to contribute to this together with the members of the CSR Board and many others within the company, and to work towards a culture in which this has become second nature.*

## WIJGERT GOOIJER

THE NETHERLANDS — COMPANY SECRETARY /

CSR COORDINATOR

KENDRION N.V.

### **Rules and Regulations**

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.

### **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. The risk management process is based on the generally-accepted COSO Enterprise Risk Management Framework. Comprehensive information is available in the 2012 Annual Report, pages 33-41.

### **>> Compliance**

Kendrion did not receive any fines or non-monetary sanctions for non-compliance with the legislation and regulations in 2010, 2011 or 2012. There were no legal actions relating to unfair competition, cartel or monopoly practices in 2010, 2011 or 2012.

On 16 November 2011, the General Court of the European Union in Luxembourg delivered its judgement in the case brought by Kendrion N.V. against the fine imposed on 30 November 2005 by the European Commission in the amount of EUR 34 million for infringement of the EC Treaty by its former subsidiary Fardem Packaging B.V., established in Edam, the Netherlands. The General Court ruled that the fine is to be upheld in full. The judgement of the General Court has hardly any impact on the operational activities of Kendrion and does not influence its ability to meet its financial covenants and obligations. Kendrion N.V. has decided to lodge an appeal with the Court of Justice of the European Union. In the opinion of Kendrion N.V., such an appeal has a serious chance of success. On 5 February 2013, an oral hearing was held before the court in Luxembourg. The advice of the Advocate General will be published at the end of May 2013. Hopefully, the final verdict will come before the end of this year. Kendrion wishes to emphasise that Fardem Packaging B.V. operated as an independent enterprise at all times. Kendrion N.V. itself had no involvement in prohibited agreements.

Kendrion complies with the applicable statutory and regulatory requirements and treaties and individual social and environmental agreements. Kendrion joined the UN Global Compact in 2009.

# How we do it

## Stakeholders

### Stakeholders' dialogue

Target 2012	Result	Ambition 2013
■ Start-up CSR dialogue with investors	✓ Achieved	Dialogue with extended group of (potential) investors
■ Communication campaign for employees and management	✓ Special CSR edition Magnetised, posters and presentations	Continuous communication flow

#### >> General

Transparency and chain responsibility are important issues for Kendrion. Kendrion attaches great importance to good relationships with the group's customers, employees, suppliers, other business partners and the communities in which Kendrion is active. Cooperation and consultations are essential if Kendrion is to fulfil its ambitions. Kendrion intends to engage in transparent communications in a manner in which the company carries out CSR activities. Kendrion is convinced that a good dialogue with the various stakeholders will be conducive to the achievement of continual progress. 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?

On behalf of the Executive Board, the CFO in particular was involved in various forms of stakeholder dialogue.

Important means of furthering the achievement of these objectives include an up-to-date CSR section on Kendrion's website and the publication of this annual CSR Report in accordance with the Global Reporting Initiative (GRI) guidelines (more information is available at [www.globalreporting.org](http://www.globalreporting.org)).

Kendrion focused extensively on communication in 2012, both internally and externally. Read more on this below.

#### >> 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. This is also revealed by the many audits conducted by the customers. Kendrion holds continual discussions with the company's customers about the results from these audits. 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 2012, such as brochures, presentations and other correspondence. CSR was also discussed during the regular contacts with a selection of Kendrion's key customers. The customers we consulted on our CSR strategy largely responded favourably.

### COMMUNICATION IS KEY

One of the 2012 issues of the staff magazine Magnetised was fully devoted to CSR.



The efforts undertaken in the chain are appreciated. The degree of interest in this subject differs from customer to customer. Compared to know-how, product properties and pricing, sustainability sometimes does not yet have a major role in their own business processes, but its importance is growing.

Kendrion intends to assume even more responsibility for the chain in which the company operates. In 2013 the business units will engage in constructive dialogue with several important customers to discuss the CSR efforts in more detail. Kendrion successfully introduced a Supplier Code of Conduct at many of its suppliers in 2012. The goal for 2013 and following years is to fully integrate this Supplier Code of Conduct in supplier selection, and to continue our dialogue with suppliers on their performance in this area, with a view to jointly pursuing improvements if necessary.



***In recent years, dealing sustainably with the environment and resources and dealing fairly with each other has increased in importance in all areas in an attempt to manage existing social and environmental problems.***

*Poverty, raw material consumption and climate change are global topics which require a quick solution. However, despite the magnitude of these tasks, it is clear that every one of us can make a contribution both professionally and privately.*

*Working in the CSR team has motivated me to do something actively about these problems because even 'little' things count. In my private life, for example, I have switched to a green electricity supplier, I only use energy-saving light bulbs and, since very recently, I actively keep fit at a gym thanks to Kendrion's health management.*

*In my professional life, I am now more conscious about how I use resources. Even quite simple things, such as switching off the monitor during longer breaks or in the evening, or switching off the printer during holidays, all help to save energy.*

## **>> 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 active in a number of operating companies. The support of Kendrion's CSR policy by the company's employees and their enthusiastic cooperation is of essential importance. In 2012 the new CSR plans were discussed with representatives of the works councils of the German locations, with a focus on the employees and the intention to conduct an employee survey. The plans were welcomed in this forum.

Posters were also developed in 2012 for Kendrion's production locations, drawing attention to the importance of energy savings or providing health tips.

As in past years Kendrion devoted continual attention to CSR issues in the Magnetised international staff magazine in 2012 and will continue to do so in 2013. A special CSR edition of Magnetised was issued in the summer. It is available for viewing on Kendrion's website under News/Staff magazine Magnetised. Kendrion had intended to develop a CSR intranet page offering employees more information about the company's CSR policy, the many CSR activities and tips in 2012. This was not achieved. This target is set again.

The company's largest plants and most of its staff are located in South Germany. As a result, and in part due to the relevant German legislation, the majority of the CSR initiatives have been or are being taken in this region. However, Kendrion is of the intention to ensure that all its companies all over the world make a contribution to CSR. For this reason presentations have been held for almost all management teams in the countries in which Kendrion is active. The objective was to ensure that each Kendrion company continuously takes new initiatives, for example relating to energy conservation, business ethics or health programmes. This has been well received, although the number of new initiatives differ from plant to plant due to local (economic) circumstances and business priorities.

## **BEATE HERMANNSTÄDTER**

GERMANY — MARKETING COORDINATOR

INDUSTRIAL DRIVE SYSTEMS

## » Investors

Sustainability is also becoming an increasingly important issue for Kendrion's financiers, both shareholders and providers of loan capital. Kendrion intends to conduct an open dialogue with these financiers. After our first CSR Report was issued in 2012, we conducted talks with Delta Lloyd, one of our major shareholders, and Rabobank, one of the banks in our bank consortium. We presented our strategy, key issues and objectives, and also discussed their own CSR policy in connection with 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 been incorporated in the definition of the key issues for Kendrion in 2013 and beyond.

## I'LL BE BACK ON TIME IN PROSTĚJOV

During a ceremony in the Kolářovy Sady Park in Prostějov (Czech Republic) on 22 June 2012 Kendrion handed over a so-called 'Přijdu Včas' clock as a sponsor gift to the local community.

The *I'll be back on time* project aims to support the safety and protection of children in playgrounds where most of the clocks are installed. The clocks have a button that can be pressed in case of danger or emergency, bringing the police swiftly to the scene. We are very pleased that our company participated in the project which contributes to better protection for our children.



Kendrion maintains good relations with the Dutch Association of Investors for Sustainable Development (VBDO – Vereniging van Beleggers voor Duurzame Ontwikkeling), with which it discusses developments in the field of sustainability from time to time. Kendrion greatly appreciates this relationship.

Kendrion has given a presentation at the CSR Communication and Reporting seminar, which was organised by Royal HaskoningDHV, VBDO and GRI and took place at the AEGON head office in the Netherlands.

## » 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. In 2012, a corporate community project was started in India.

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

# How we do it

## Products

Sustainability is at the core of many of the company's products and innovations. Kendrion and its highly motivated staff exploit 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. Kendrion installed an internal CSR Board, which coordinates action plans to further improve the sustainability of the company, its internal processes and supply chain in 2013 and the coming years. These improvements will also extend to a more strategic level (see also pages 28 and 29 of the 2012 Annual Report for more information).

### >> Market trends

The product portfolios of the business units are tailored precisely to the current trends in Kendrion's customers' markets (which are also based on the major worldwide trends described on page 12), i.e. motor management, downsizing, switchable units, high speed, health care, comfort, safety, fuel efficiency and the reduction of CO<sub>2</sub> and other emissions. This enables Kendrion to create added value as well as competitive advantages for its customers in a changing landscape governed by increasingly stringent standards in the field of emissions and safety.

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. If there are complaints from our customers, we choose to always first solve the problem that has arisen. If the quality problem has arisen due to a shortcoming in our own production, Kendrion accepts its responsibility for this. Kendrion has taken out substantial product liability insurance with recall cover.

### >> Green logo

In 2013 we are carrying out investigations into whether a green logo can be introduced for one or more products of our business units. Key aspects of this are that the right criteria are adopted, and that a transparent system is introduced that tests our products against these criteria before a green logo is assigned. The possible 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.



***Since becoming a member of the CSR Board, I am more sensitive than I used to be to energy, health and environmental topics.***

*The urgent need to do something together is becoming increasingly clear. Everyone can accomplish something either privately or within the company. The installation of a solar system at home, for example, helps us to save 1,500 litres of heating oil each year and reduce CO<sub>2</sub> emissions. Small everyday things have a huge impact if everyone does them.*

*'CSR starts on a personal level for each of us'*

**VOLKER BUHL**

GERMANY — SALES MANAGER

INDUSTRIAL MAGNETIC SYSTEMS



### Optimised cooling of gensets

Gensets, machines used to generate electricity, require a considerable amount of fuel to drive the generator and cool the engine. Kendrion's new generation fan clutches are perfect for use in gensets with outputs ranging from 20 kW to 1,200 kW and substantially reduce fuel consumption, noise and CO<sub>2</sub> emissions. Thanks to the reduced number of revolutions per minute (rpm), the operating costs of Kendrion's fan clutch are generally much lower. The clutch is suitable for use in power plants, cranes (RTG, Straddle Carrier) and construction machinery.



### High Torque permanent magnet brake

The new Kendrion permanent magnet brake type is ideal for servomotor applications and helps reduce the losses in the magnetic circuit. For the same axial force the magnet volume can be decreased by about 23%. As a result, energy savings can be achieved by reducing the nominal power of the built-in coil by approximately 20%. This brake design provides a larger friction radius which in turn generates a higher torque. This means downsizing can save up to 30% material costs. What's more, the lower inertia of the armature system makes motors more dynamic while consuming less energy when accelerating.



### Linear actuator for driver assistance systems

Car manufacturers equip their products with more and more technology, assisting the driver with fuel-saving innovations such as speed limit recognition and gear shift indicators. In line with this development, Kendrion has developed a smart linear actuator for applied intuitive human machine interfaces. Extensive prototype testing has shown that reductions in fuel consumption and CO<sub>2</sub> emissions are indeed possible. With its special design, the hybrid actuator needs less expensive resources like rare earth and copper than conventional solutions while delivering a better performance.



### Power-saving holding magnet for fire doors

Door holding magnets are used to keep fire doors open or closed in the event of a fire or other emergency. Door holding magnets are more and more used as part of addressable loop systems which include detectors, sounders and other controller modules. While traditional magnets need to be continuously supplied with current to keep the doors open, Kendrion now introduces a totally new concept: the permanent door holding magnet. This holding magnet does not consume any energy at all, which saves costs and the environment. A short battery-driven current impulse is all it takes to actuate the magnet and close the fire doors.



# How we do it

## Our staff – Labour standards

Target 2012	Result	Ambition 2013
■ CSR targets in bonus for CEO and CFO	✓ Achieved	CSR targets in bonus for Executive Committee
■ Employee survey	Employee survey postponed	Employee survey pilot in Markdorf, Germany



**Those of us working in Human Resources benefit particularly from a number of the topics dealt with by the CSR Board.**

*Nowadays, when searching for qualified staff, we look more and more at the question of work-life balance, health management, diversity, staff development and employee satisfaction not forgetting the areas of environmental management and awareness and the company's social commitment. I am very pleased that we have been able, specifically as a result of our CSR activities, to develop the existing foundations even further, such as free health checks in Asia, but also a globally harmonised staff development process. I have noticed that although we are already very active in the social area, at the same time there is a lot still to be done – and this starts on a personal level for each one of us.*

**ANDREAS HERZFELD**

GERMANY – TEAM LEADER HR

KENDRION (DONAUESCHINGEN/  
ENGELSWIES) GMBH

**>> Introduction**

Kendrion's Human Resources (HR) policy is decentralised, and local management bears the responsibility for the local HR policy within the specified guidelines. A number of duties are coordinated at a central level. These duties primarily relate to the (senior) management, a group of about 40 managers and to increase recruitment opportunities.

Kendrion takes many initiatives to promote itself as an appealing employer in the region, such as publications in regional newspapers and magazines, as well as open days for schoolchildren, family days, and the provision of traineeships. Kendrion also organises fairly regular meetings for its retired employees.

Kendrion, like many other companies, was affected by a shortage of skilled engineers. However, the company took innovative countermeasures to resolve this problem. In 2012, Kendrion began to reach appropriate candidates via new recruitment channels such as social networks. Kendrion was also active in cross-border recruitment and successfully cooperated in an initiative with the Federal State of Baden-Wurtemberg (Germany), the location of the heart of several of Kendrion's engineering centres.

In 2012, Kendrion's operating companies further extended their regional activities intended to enhance their appeal as local employers. The companies' presence at schools and universities and their PR activities were intensified.

One important event was the international HR meeting held in October 2012, which was attended by HR colleagues from all locations and offered them the first opportunity to meet each other in person. Issues discussed at this meeting included diversity and staff satisfaction.

**>> Bond with the employees**

Kendrion's success is determined by the quality of both the company's organisation and employees. An explicit strategy and, on the basis of the strategy, feasible and challenging targets, open and honest labour relations and short lines of communication create a strong bond between Kendrion and its employees.

Many operating companies have implemented career development and training programmes designed to improve their staff's knowledge and skills. Employees

receive guidance in forms such as annual performance appraisal interviews. Kendrion's corporate magazine 'Magnetised', for all staff, is published three times a year.

### >> Remuneration

Kendrion offers its employees good terms of employment that are in line with the market and are always assessed against local benchmarks. A bonus scheme has been implemented for the management that is based on the company's performance (operating result and free cash flow) and on individual long-term and short-term performance targets. Kendrion has implemented a share scheme for senior management.

CSR was not a criterion included in the CEO and CFO bonus schemes in the years up to 2011. However, 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 targets for 2012 have been met. The Supervisory Board of Kendrion has decided (provided this is approved by the General Meeting of Shareholders on 15 April 2013) that 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 precise criteria of the bonus schemes of the CEO and CFO will not be made public because of their competitive sensitivity. 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.

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 are also included in the bonus scheme of the members of the Executive Committee.

### EFFORT AND RELAXATION

Kendrion wants its employees to enjoy their work, and to enjoy working with their colleagues. Team-building activities play an important part in this respect.

### >> Social policy

Kendrion is and wishes to remain a conscientious and reputable company. Kendrion intends to be a versatile and flexible company for its employees, a company where pleasure in entrepreneurship is combined with clear result targets.

Kendrion's HR policy endeavours to ensure that the composition of the company's personnel, including the lower and middle management, reflects the geographical spread of Kendrion's operations. Kendrion attaches importance to the creation of diversity in nationalities, cultures and gender. This diversity also promotes intercultural experience, which is highly compatible with the current internationalisation trend. It is important that Kendrion is a versatile company which reflects society. For this reason any form of preference or discrimination must be taboo.



<b>Personnel: key figures</b>	<b>2012</b>	<b>2011</b>
Total number of employees at 31 December	1,630	1,629
Number of women in permanent employment	559	571
Number of men in permanent employment	838	801
Number of employees with a fixed-term contract	233	257
Number of temporary employees (FTE)	90	162
Number of permanent and temporary employees at 31 December (FTE)	1,632	1,695
Number of direct employees (FTE)	790	809
Number of indirect employees (FTE)	752	725
Average age of women	42.8	41.0
Average age of men	40.5	40.0
Average age of all employees	41.5	40.4
Average number of years' service	10.3	9.4
Average rate of absenteeism per employee (%)	2.6	2.9
Wage costs per FTE (EUR)	46,584	48,035
Training costs (as a % of wage costs)	0.9	0.7

## » Training and management development

The quality of the management is assured by internal and external training programmes, and solely highly educated managers are recruited.

Good management is 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. Each year two modules of three days are organised. The subjects covered by the programme are communication and leadership, sales and marketing, strategy, production and logistics, HR and project management. The programme also constitutes an important platform for exchanges of experience between the (senior) management, and for the further expansion of collaboration between the various operating companies. More than 20 managers graduated in the years up to 2012 inclusive.

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.

A new and special programme for selected high potential managers started in 2012. The development of the managers is followed by means such as annual performance appraisal interviews where the managers' targets and duties are reviewed and the managers receive feedback on their performance. In addition, managers participate in an individual development assessment.

Other employees are also offered opportunities to follow relevant courses and training programmes. These employees discuss their training wishes and options with their direct supervisors once a year. An evaluation carried out on the completion of courses or training programmes reviews whether the study met expectations. Certified training agencies are engaged whenever possible. Consequently, the employee training offered by the company is based on an individual approach. Villingen's Passenger Car Systems business unit (Germany) documents this process in full. The process was rolled out to other business units and plants in 2012.

Kendrion intends to strike out in new innovation directions. The measures implemented to promote innovation include the foundation of the Kendrion Academy in 2012. The Academy aims to further enhance the company's innovative capacity, spread technical knowledge among our employees and strengthen our ties with universities.

### >> 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.

Staff satisfaction	2012	2011	2010
Points (maximum 100 points)	93.75	87.50	93.75

A pilot project scheduled for 2012 to review the examination of staff satisfaction on a more individual basis, including the individual's work/life balance, was postponed until 2013 and will be done in our plant in Markdorf, Germany. Should this pilot project be a success then a further rollout could take place in consultation with the relevant works councils.

### >> Work life balance

Kendrion continues to implement a wide range of measures that are not only beneficial to Kendrion but are also intended to guarantee the retention and satisfaction of the company's talented and ambitious professionals. One important element of these measures is the work-life balance: the combination of professional and personal life in an effective, productive and healthy manner. Kendrion intends, whenever possible, to promote the company employees' achievement of an appropriate balance between their jobs and family lives.

### >> Diversity, discrimination and human rights

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 2011 or 2012.

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 2012, Kendrion had employees of at least 35 nationalities.

### DR WILHELM BINDER DAY

Kendrion was proud to give account of its CSR-related efforts at the Dr Wilhelm Binder Day on 22 November 2012 in Villingen, Germany, which was attended by more than 300 customers and other contacts.



Approximately 35% of all Kendrion's employees is 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 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. The selection process for a new CFO did not identify any women who fitted the profile drawn up by the Supervisory Board. 25% of the seats on the Supervisory Board are held by women (1 out of 4), a proportion in accordance with the existing profile. Although Kendrion attaches great importance to diversity and intends 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 existing Supervisory Board is currently of greater importance than taking the opportunity offered by the two scheduled (re)appointments to increase the number of women.

### » 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% employment 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.

### » 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. The Code of Conduct prescribes compliance with the relevant legislation. Local (HR) 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 2010, 2011 or 2012 within the company or at its suppliers.

### » 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.

# How we do it

## Our staff – Health & safety

Target 2012	Result	Ambition 2013
<b>Accidents</b>		
Decrease number of accidents and LTI rate	✓ Partly achieved	Decrease number of accidents and LTI rate
<b>Absenteeism</b>		
Keep on same low level	✓ 2.6% (2011: 2.9%)	Keep on same low level
<b>Health</b>		
Health awareness campaign	✓ Achieved	Continuation campaign

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 eight 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	2012	2011
Number of accidents	46	37
LTI (days)	323	359

No fatal accidents have occurred in 2010, 2011 and 2012.

Kendrion's objective is to achieve a further reduction in the total number of accidents. 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

Absenteeism rate	2012	2011
Absenteeism rate	2.6%	2.9%

Kendrion's overall absenteeism rate was 2.6% in 2012, which is very low for the company's type of industrial operations and geographical spread (average: 5%). The objective is to retain the rate at approximately the same level in future years. A low absenteeism rate is indicative of healthier employees and an agreeable

### ARE YOU FIT?

The health of our employees is important to us. Raising awareness helps. A health campaign was started in 2012, supported by posters.





## 'WORK IN PROGRESS'

EIBISWALD, AUSTRIA 2012

**CSR has become part of my daily business, and if you go through every stage of the production with your eyes open, you can see how much potential still exists.**

*The following activities have already been implemented:*

- ✓ *Toxic hazardous materials have been replaced by substitutes.*
- ✓ *Installation of a variable speed compressor, which has an integrated heat recovery system reducing electricity and heating costs.*
- ✓ *Installation of lighting loops allowing the lighting to be adapted to shift operation.*
- ✓ *Installation of compressed air loops allowing every machine to be included individually in the compressed air supply network.*
- ✓ *Introduction of 5S method allowing us to improve safety, operating sequences, tidiness/cleanliness and the quality of the product.*
- ✓ *Installation of information boards in production to provide employees with information about: quality, safety, environmental protection and production.*
- ✓ *Project 2013 'Optimisation of office workplaces' aim: to reduce energy consumption and paper consumption.*
- ✓ *'Kendrion is becoming smoke-free' campaign (lung function test, health impacts of consuming tobacco, monthly meetings and support).*
- ✓ *Annual employee satisfaction survey ('treasure hunting at Kendrion') and implementation of any measured resulting from the survey.*
- ✓ *'KENNI' employee suggestions for improvement scheme.*

## JOSEF PORTA

AUSTRIA — PRODUCTION MANAGER

KENDRION (EIBISWALD) GMBH

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.

### >> 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 are offered a free weekly basket of fresh fruit and mineral water. Three of Kendrion's plants in Germany that account for almost half of all Kendrion's 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 2012, 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 2013. Our plant in Austria will launch a 'healthy food' campaign.

# How we do it

## Environment – Energy & CO<sub>2</sub>

### CO<sub>2</sub> emission reduction of biggest European plants

Target 2012	Result	Ambition 2013
■ > 3% absolute emission reduction	1.3% absolute emission reduction	> 10% absolute emission reduction
■ > 3% emission reduction per million turnover	5.6% emission per million turnover increase	> 10% emission reduction per million turnover

#### >> General

As a company Kendrion bears and want to bear a (social) responsibility that necessitates attention to environmental issues. Involvement, both now and in the future, is of great importance. Kendrion endeavours to reduce waste and make efficient use of energy, and encourages the company's employees to make continuously organisational and technical improvements to environmental procedures.

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 Kendrion's operating companies comply with the most stringent quality and safety requirements.

#### >> ISO certification

Kendrion's environmental management systems at eight 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.

At least two plants will complete the certification process for ISO 14001 in 2013. These are the operating companies in Brazil and IDS in Villingen, Germany. Preparations are also underway for ISO 15001 certification, a new energy standard, for several German plants.

#### HAVE YOU SAVED TODAY?

An awareness campaign was started in 2012, supported by posters reminding employees of the importance of saving energy on the shop floor.





## » 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 programme (targets for energy consumption and the relevant progress reports for the years to 2012 inclusive) focused on the company's five plants in Germany, the plant in Austria (Eibiswald) and the plant in the Czech Republic (Prostejov). Since 2012, information has been collected about other plants and reviewed with the local management to assess targets for the relevant plant. New Group targets, including the other plants, will be set for the period after 2013.

The consumption of power, fuel oil and natural gas in 2010, 2011 and 2012 can be presented as follows:

Energy consumption		2012	2011	2010
Power	kWH	11,604,604	12,194,528	11,333,342
Fuel oil	ltr	106,529	127,724	109,094
Natural gas	m <sup>3</sup>	552,775	409,685	385,950

Energy consumption per EUR million turnover		2012	2011	Δ % (2012/2011)	2010
Power	kWH	51,279	51,238	(0.1)	57,530
Fuel oil	ltr	471	537	(12.3)	554
Natural gas	m <sup>3</sup>	2,442	1,721	41.9	1,959

## » Investments

In 2011 and 2012, Kendrion invested more than EUR 1.5 million in energy-efficient systems for the largest European plants. These investments include the installation of a new combined heating and cooling system that provides both the power required for the production lines and the necessary heating in the winter and cooling in the summer. Several further, smaller projects in various plants are in progress. In combination, these projects will result in relatively substantial energy and CO<sub>2</sub> savings. An example is the implementation of energy and air pressure metering systems per production line in Eibiswald, Austria. We worked hard in 2012 to reduce energy consumption in and around the work place, for instance by switching off the stand-by mode of computers and equipment and a conscious use of aircosystems. Posters and other tools were developed to help achieve this. The target was at least 3% in 2012 and more than 10% in 2013 per EUR million turnover. The target for 2012 has not been achieved. This is due to the fact that the new combined heating and cooling system in Villingen, Germany, was not yet operational for the whole of 2012. As the new system uses natural gas, it is only logical that the consumption of natural gas increased in 2012. Furthermore, a relatively bigger part of the turnover in the relevant plants was produced in the clean rooms of our Passenger Car Systems business unit. Production in these clean rooms requires more energy than in any other facility. Finally, the average temperature in Europe was lower than in the year before. Given the current developments we are, however, convinced that we will reach the overall target for 2013.

## » Reduction targets for emissions

The CO<sub>2</sub> emissions (Scope 1 and 2 of the Greenhouse Gas Protocol) from the company's five plants in Germany, the plant in Austria and the plant in the Czech Republic can be presented as follows:

CO <sub>2</sub> emissions		2012	2011	Δ % (2012/2011)	2010
Absolute emissions	t	5,548	5,618	(1.3)	5,655
Relative emissions	t / million turnover	24.5	23.2	5.6	32.8



## ENERGY AND CO<sub>2</sub> REDUCTION CUTTING DOWN ON ENERGY

*'I feel my main duty is to create awareness about our energy consumption and the related costs'*

*I started an inventory of the heating and power systems in use, of our present energy consumption and future needs. On the basis of these facts I explored possible solutions, brought the costs into focus and managed the implementation of a new Combined Heat and Power (CHP) system: 'We spent about EUR 1 million on energy here. By generating heat and power with an integrated system we now save 15% in costs and reduce our CO<sub>2</sub> emissions by 15% as well. At the same time we increase our reliability because we have doubled the systems. This guarantees continuity.'*

### Advantages

*The Kendrion plant in Villingen, Germany uses the heat it generates for heating and climate control purposes in winter and for cooling purposes in summer. The running time of the system is ten years, the return on investment three years. Heinz Jankowski: 'We are now looking at other locations, such as Donaueschingen, Engelswies and Markdorf. After that we will successively visit all Kendrion plants worldwide. We follow the same procedure everywhere, but naturally we decide on different solutions depending on local circumstances and requirements. So far we have always chosen to install a locally adapted CHP system because of its many advantages.'*

### Awareness

*Huge systems, high costs, big investments. But, says Heinz Jankowski, energy reduction is not just a company responsibility. It all starts with such simple things as closing windows, switching off lights and turning down the central heating: 'And that is within everybody's reach. It's all just a matter of becoming aware of what each one of us can do individually.'*

The target specified for the four largest plants in Germany stipulates an at least 10% reduction of CO<sub>2</sub> emissions (Scope 1 and 2 pursuant to the Greenhouse Gas Protocol) per EUR million revenue in 2013. A number of supplementary investment proposals have been submitted to provide for the achievement of this target.

We managed to keep absolute CO<sub>2</sub> emissions on a comparable level to 2011. This is reasonable considering the increased consumption of energy as explained above. Our relative CO<sub>2</sub> emission increased because of a lower turnover in the plants in question. Given the measures taken, we are convinced that the overall targets for 2013 will be reached.

Energy scans to be carried out at other Kendrion plants in 2013 may result in defining more comprehensive targets for the reduction of their energy consumption and CO<sub>2</sub> emissions for the period after 2013.

Data relating to indirect CO<sub>2</sub> emissions and other emissions are not being collected at present.

### >> 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. We do intend to gradually green our (moderate) own car fleet in Germany from 2013. The lease car scheme applicable in Germany, in the first instance, will be reviewed to achieve further greening of the car fleet. The number of video-conference options will also be expanded to reduce travel. We currently do not collect data on travel and the associated indirect emissions.

### >> 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. Work is currently in progress on the implementation of a clean-up and control programme at the site. 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.

## HEINZ JANKOWSKI

GERMANY — FACILITY MANAGER

KENDRION GROUP SERVICES

# How we do it

## Environment – Materials and waste

Target 2012	Result	Ambition 2013
■ Streamline waste data collection on group level	✓ Achieved for biggest European plants	Set group targets for reduction and substitutions, start study replacement permanent magnets, smaller projects (cell phones collection, paperless office concepts)

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

Consumption of materials (in tons, best estimate)	2012	2011
Copper	1,550	1,600
Steel	1,200	1,000
Aluminium	400	300
Permanent magnets	40	25

The increased amount of steel and aluminium used is attributable to the growth in the group's revenue, including at Kendrion (Shelby) Inc. The increase in permanent magnets is due to higher volumes of (partly new) parts that contain permanent magnets. 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.

### » Rare earth metals

In some of Kendrion's products, permanent magnets are used. 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.

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 company shall also endeavour to limit its dependency on the Chinese producers when this is feasible.

Permanent magnets are used in 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. The project is still in the test phase, so no definitive answer can be given to the question of whether and when this will lead to a reduction in the use of permanent magnets. In the Industrial Drive Systems business unit, ideas are being developed for more studies into the replacement of permanent magnets in its products.



***My work on the CSR Board gives me the opportunity to participate actively at inter-divisional level in environmental issues.***

*I am specifically responsible for the topic of waste management and recycling.*

*Waste arises as result of our products and production processes. The materials include for example scrap metal, packaging and plastic waste, printer cartridges and paper.*

*We log and record each of these types of waste so that we have a clear overview. After this, we can carry out targeted reductions and identify potential savings.*

*The Kendrion philosophy is to operate as sustainably as possible and therefore to achieve a positive contribution to environmental conservation which extends well beyond the statutory requirements.*

*I really enjoy being able to help shape these processes.*

## **>> Critical materials**

In 2013, further ideas will be developed on the strategic level concerning the possibility 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. It should be noted that based on our current assessment, not many critical materials are used except those referred to in this section.

## **>> 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, inks, toners and packaging materials. Internal instructions at these companies are issued for the safe use of materials and the separated collection and disposal of waste. The companies work solely with certificated waste processors. In some instances materials such as empty toner cartridges are supplied to charitable organisations. 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 2012 to reduce the consumption of printing ink and paper. These measures were very easy to implement and play a role in creating the employees' awareness of the need to reduce waste. We worked hard in 2012 to streamline data and the data base on waste and hazardous substances. This process takes time. As a result, the data for the largest European plants are now processed and reported on a uniform basis. The objective is to gradually roll out this system across the entire group.

## **WOLFGANG MAYER**

GERMANY — HEAD OF QUALITY DEPARTMENT

COMMERCIAL VEHICLE SYSTEMS

In 2013, in cooperation with the relevant managers, it will be reviewed how Kendrion can optimise the use and recycling of materials, and the reduction of waste and waste costs even further. A further study will be conducted at two local operating companies to develop a 'paperless office' proposition. In addition, we will team up with an external party to collect employees' old mobile phones in order to enable the materials they contain to be recycled.

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.

### >> Water

Kendrion requires little water for its products processes. For this reason the company has decided, for the timebeing, not to collect water consumption data for these reports or to formulate separate reduction targets.

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## WATER FOR THE VILLAGE

Some time ago Kendrion Linnig India observed that the 700 students of the local primary school had no provision at the school for drinking water. Kendrion India approached the Principal of the school, evaluated the facts and decided to provide the water tank that was needed. Employees from Kendrion Linnig India from all levels were involved in this initiative – from evaluating the genuineness of the requirement and the procurement of the water tank to the installation of the water tank on the top floor of the school. In this way we could help satisfy a basic need of the students from the local community.



# How we do it

## Supply chain responsibility

Target 2012	Result	Ambition 2013
<ul style="list-style-type: none"> <li>■ Introduction Supplier Code of Conduct for &gt; 10 of 25 most important suppliers per business unit</li> </ul>	<ul style="list-style-type: none"> <li>✓ Achieved</li> </ul>	<ul style="list-style-type: none"> <li>■ Roll-out Supplier Code of Conduct</li> <li>■ Start up CSR discussions with &gt; 5 suppliers per business unit</li> </ul>



***My involvement in the CSR Board has become an important part of my work for Kendrion. It makes me very happy and proud to be a member and to contribute in this way to a better world.***

*Being in charge of the sustainable advancement of our supply chain, I can report that we have successfully introduced a Supplier Code of Conduct. Our Supplier Code of Conduct describes a holistic approach that covers issues such as respect for the environment and human rights as well as the rejection of child labour and discrimination. Consequently, we ask our suppliers to assume responsibility themselves in a similar way further down the chain. Another project that I personally consider to be both outstanding and very promising is the scholarship initiative that Kendrion is launching in India. I am convinced that this initiative will enable us to offer good opportunities and benefits not only to the stipendiaries themselves but also to their communities as a whole.*

### >> 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, for example, the copper and steel suppliers and the customers. As a result, Kendrion's sphere of influence is sometimes limited. Nevertheless, Kendrion has decided to develop an in-house Supplier Code of Conduct. This Code of Conduct will request suppliers to assume their responsibility for issues including the environment, human rights, working conditions and fair trade. The suppliers will also be 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 introduced in all business units during the course of 2012. All new suppliers will be requested to conform with the code by means of including the incorporation of the Supplier Code of Conduct in Kendrion's standard procurement terms and conditions. The 2012 target stipulated that at least 10 of the 25 most important suppliers of each of the four business units shall have accepted Kendrion's Supplier Code of Conduct. This target has been achieved. This particularly concerned German or other European suppliers. Around 80% of the main 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 suppliers within the Group in 2013.

### BERTRAM HEIMGARTNER

GERMANY — HEAD OF COMMERCIAL DEPARTMENT  
COMMERCIAL VEHICLE SYSTEMS

## CHAIN REACTION

Whether the issue is human rights, scarcity of raw materials or the environment, we are convinced that cooperation in the chain will deliver the best possible result.



## Some guidelines of our Supplier Code of Conduct

We expect our suppliers to recognise human rights and ensure that they are not involved in human rights abuses.

The minimum employment age may not be below the age established for completing compulsory education and under no circumstance be below 15. Any form of exploitation and employment under harmful working conditions for juvenile workers is prohibited.

In terms of engagement (hiring), employment as well as remuneration, our suppliers must ensure that nobody is discriminated based on sex, age, race, religion, social background or other factors.

Our suppliers shall provide their employees with a safe and hygienic workplace without health hazards.

Our suppliers shall carry out continuous measures to reduce the use of resources and improve energy efficiency. Waste and emissions must be checked, reduced to a minimum and appropriately transported and disposed of.

Our suppliers must declare not to tolerate any form of corruption or bribery, or to engage in this in any manner.

Each and every business activity of our suppliers must be subject to the rules of fair competition. The relevant antitrust laws and laws against unfair competition are to be observed.

### >> Supplier selection and audits

The extent to which a potential supplier addresses CSR, environmental issues and business ethics plays a role, in addition to standard criteria such as product quality, in the ultimate selection of suppliers. Kendrion also conducts incidental supplier audits to review whether the suppliers continue to comply with the required standards. Audits that result in unsatisfactory assessments can, in the extreme case, result in the termination of the relationship with the relevant supplier. These audits did not as yet encompass CSR issues. However, an audit which reveals that a supplier does not comply with the Supplier Code of Conduct gives cause to a meeting to review means of achieving rapid improvements.

For 2013, the aim is to make compliance with the Supplier Code of Conduct a component 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.

# How we do it

## Community investment

Target 2012	Result	Ambition 2013
<ul style="list-style-type: none"> <li>■ Start corporate project in India</li> </ul>	<ul style="list-style-type: none"> <li>✓ Scholarship project for poor students started</li> </ul>	Increase number of students, with help of our employees
<ul style="list-style-type: none"> <li>■ Introduction of sponsor policy</li> </ul>	<ul style="list-style-type: none"> <li>✓ Achieved</li> </ul>	

### CREATING EQUAL OPPORTUNITIES

The signing of a Memorandum of Understanding with the College of Engineering in Pune, India, marked the start of the Kendrion corporate community project which aims to enable poor young people in India to get an education.

The photo shows Mr. Sameer Deshmukh, MD of Kendrion Linnig India (third from left), and Dr. Anil Sahasrabudhe, Director of COEP (fourth from left).



### >> 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 30 sponsoring activities in 2012, 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 at the biggest plants in Germany. Kendrion also organises regular meetings for its retired employees.

Kendrion introduced a sponsor policy for all local operating companies in 2012 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

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

The first students have been selected. Fundraising activities for this project will be organised by and for our employees in the group. Kendrion strives to increase the number of scholarships each year. We are glad that we can contribute to the developments 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.

Although their actual indirect economical impact is difficult to quantify, Kendrion's products do make a contribution to the development of the local infrastructure in the regions in which the company's plants are located and/or supply their products. For example, the company supplies important components for high-voltage power grids, cars, buses and trucks, high-speed trains and off-road vehicles.

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.

#### » 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. Kendrion therefore does not take such decisions lightly, and always takes them with due regard for the applicable local social regulations and circumstances.



*Enjoyment in my work, responsibility, working well with others and opportunities for development are important to me, and I find these things at Kendrion.*

*I'm pleased that I can contribute to ensuring that my colleagues can enjoy these benefits as well, including through my role on the CSR Board.*

**WILMA STUIVER**

THE NETHERLANDS — EXECUTIVE ASSISTANT  
KENDRION N.V.

**Contact information**

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

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**Organisation**

Wiggert Gooijer and Wilma Stuiver

**Concept and realisation**

C&F Report Amsterdam B.V.

# 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.

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## 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

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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.

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