

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

Independent auditor's report

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the accompanying financial statements 2019 of Kendrion N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2019.
2. The following statements for 2019: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2019.
2. The company profit and loss account for 2019.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

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

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

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Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 1,200,000 (2018: EUR 1,900,00). In previous years, the materiality was based on profit before tax, applying a percentage of 7.5%. In 2019, taking into account the economic circumstances and the reduced profitability, we have considered alternative benchmarks and reduced our materiality to EUR 1.2 million. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 60,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

Our group audit mainly focused on significant group entities in terms of size and financial interest or where significant risks or complex activities are present, leading to full scope audits performed for 13 components.

We have performed the following audit procedures:

- At group level, we have performed audit procedures regarding the corporate entities and we also performed full scope audit procedures on Kendrion (Shelby) Inc. Furthermore, we performed audit procedures at group level in areas such as consolidation, reporting, goodwill and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.
- For all relevant foreign components, the group audit team provided detailed written instructions, which – in addition to communicating the requirements of component audit teams – detailed significant audit areas and information obtained centrally relevant to the audit of individual components including awareness of risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included procedures such as visiting components and component teams in Germany and the United States, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed. For smaller components we have performed review procedures or specific audit procedures.
- Performed review procedures or specific audit procedures at other group entities.

Considering their share in consolidated revenue, 88% of the components is subject to audit procedures.

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

Scope of fraud and non-compliance with laws and regulations

In accordance with Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error.

Inherent to our responsibilities for the audit of the financial statements, there is an unavoidable risk that material misstatements go undetected, even though the audit is planned and performed in accordance with Dutch law. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Also, we are not responsible for preventing and cannot be expected to detect non-compliance with all laws and regulations. Our audit procedures differ from those performed as part of a specific forensic or legal investigation, which often have a more in-depth scope.

In identifying potential risks of material misstatement due to fraud and non-compliance with laws and regulations, we evaluated the group's risk assessment, had inquiries with management, those charged with governance and others within the group.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls. Furthermore, we identified and considered the fraud risk related to the overstatement of revenue, through recognizing revenue transactions that do not meet the revenue recognition criteria, which is considered a fraud risk as management may override key controls or exercise undue influence on others to record improper or fictitious manual revenue journal entries.

As part of our audit procedures to respond to these fraud risks, we evaluated the internal controls relevant to mitigate these risks and performed supplementary substantive audit procedures, including detailed testing of journal entries and supporting documentation in relation to post-closing adjustments. Data analytics, including testing journal entries based on certain risk-based characteristics, is part of our audit approach to address fraud risks. We refer to the audit procedures as described in the separate Key Audit Matter in addressing risks in connection with the valuation of goodwill.

Resulting from our risk assessment procedures, and whilst realizing that the effects from non-compliance could considerably vary, we considered adherence to (corporate) tax law and financial reporting regulations and the requirements under Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. Apart from these, the group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance through imposing fines or litigation.

As required by auditing standards, we designed and performed audit procedures that address the risk of non-compliance with these laws and regulations. Our procedures included inquiries of management, those charged with governance and others within the group and we inspected (board) minutes, correspondence with relevant authorities and lawyers' letters. We also remained alert to indications of (suspected) non-compliance throughout the audit, both at component and group levels.

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

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior year, we included IFRS 16 as a separate key audit matter because the standard was applied for the first time. In 2019, we do not consider it necessary to include a separate key audit matter on this subject.

Key audit matter – Valuation of goodwill

Goodwill represents 26% of the balance sheet and 46% of total equity. In accordance with IFRS management is required to perform a yearly impairment test to ensure that Kendrion's goodwill is not carried at a value exceeding its recoverable amount. The audit procedures carried out on the valuation of goodwill are regarded as a key audit matter due to the relative significance of the account as well as the deteriorated financial performance of the Group in 2019. In addition, the valuation of goodwill is susceptible to management judgment and estimates and is based on assumptions that are affected by future market and economic conditions.

How the key audit matter was addressed in the audit

We have addressed the goodwill valuation by testing the assumptions, discount rates, methodologies and financial data used. Considering the degree of judgment and management estimate incorporated in the valuation of goodwill, we have involved a valuation specialist to assist us. Specific focus was given to the sensitivity in the available headroom of cash-generating units (CGUs) where a reasonably possible change in the underlying assumption could cause the carrying amount to exceed its recoverable amount. This specifically concerned the CGUs that operate within the automotive segment. We have also assessed management's internal controls with regard to the annual goodwill impairment test.

Observation

The company has disclosed the key assumptions, sensitivities and conclusions from the impairment test in note 2. Our procedures did not result in reportable findings.

Key audit matter – General IT controls

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

How the key audit matter was addressed in the audit

We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes. IT audit specialists have been deployed to assist us with testing the group's general IT controls.

Observation

We have shared our observations and recommendations in relation to general IT controls with management. In 2019, consistent with 2018, we were not able to rely on the general IT controls for our audit approach. Alternatively, we gained the required level of assurance from additional substantive audit procedures.

Report on the other information included in the Annual Report

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

- Report of the Executive Board.
- Report of the Supervisory Board.
- Remuneration Report.
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.
- Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

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

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

Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

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

Description of responsibilities regarding the Financial Statements

Responsibilities of management and the Supervisory Board for the financial statements

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

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

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

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Amsterdam, 17 February 2020

Deloitte Accountants B.V.

B.E. Savert